As Filed with the Securities and Exchange Commission on January 11, 2021

Registration No. 333-250868

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# Amendment No. 3
# to
# Form F-1
# REGISTRATION STATEMENT
***UNDER***
***THE SECURITIES ACT OF 1933***

# VERSUS SYSTEMS INC.

**(Exact Name of Registrant as Specified in its Charter)**

**Not Applicable**
**(Translation of Registrant's Name into English)**

| British Columbia | 7374 | Not Applicable |
|---|---|---|
| (State or other Jurisdiction of Incorporation or Organization) | (Primary Standard Industrial Classification Code Number) | (I.R.S. Employer Identification Number) |

**1558 West Hastings Street**
**Vancouver BC V6G 3J4 Canada**
**(604) 639-4457**
**(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)**

**Matthew Pierce**
**Versus Systems Inc.**
**6701 Center Drive West, Suite 480**
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**(310) 242-0228**
**(Name, address, including zip code, and telephone number, including area code, of agent for service)**

***Copies of all communications, including communications sent to agent for service, should be sent to:***

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**Approximate date of commencement of proposed sale to the public**: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ☒

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933.

Emerging growth company ☒

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 7(a)(2)(B) of the Securities Act ☐

**CALCULATION OF REGISTRATION FEE**

| Title of Each Class of Securities to be Registered | Proposed Maximum Aggregate Offering Price[1] | Amount of Registration Fee[1] |
|---|---|---|
| Units[2] | $ 13,950,000[3] | $ 1,521.94 |
| Common Shares, no par value per share, included in the units[4] | —[6] | —[6] |
| Warrants to purchase Common Shares, included in the units[5] | —[6] | —[6] |
| Common Shares issuable upon exercise of the Warrants included in the units[4][5] | $ 27,900,000[3] | 3,043.89 |
| Representative's Warrant to purchase Common Shares[7] | N/A | N/A |
| Common Shares issuable upon exercise of Representative's Warrant[4] | $ 1,674,000 | 182.63 |
| Total | $ 43,524,000 | $ 4,748.46[8] |

(1) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended (the "Securities Act").
(2) Each unit consists of one common share, no par value per share, one Unit A Warrant to purchase one common share, no par value per share, and one Unit B Warrant to purchase one common share, no par value per share.
(3) Includes units and common shares and/or warrants to purchase common shares the underwriters have the option to purchase to cover over-allotments, if any.
(4) Pursuant to Rule 416 under the Securities Act, the securities being registered hereunder include such indeterminate number of additional common shares as may be issued after the date hereof as a result of stock splits, stock dividends or similar transactions.
(5) The warrants are exercisable at a per share price equal to 100% of the public offering price.
(6) Included in the price of the units. No fee required pursuant to Rule 457(g) under the Securities Act.
(7) In accordance with Rule 457(g) under the Securities Act, because the Registrant's common shares underlying the Warrants and Representative's warrants are registered hereby, no separate registration fee is required with respect to the warrants registered hereby.
(8) Previously paid.

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state or other jurisdiction where the offer or sale is not permitted.**

**PRELIMINARY PROSPECTUS** **SUBJECT TO COMPLETION** **DATED JANUARY 11, 2021**

# 672,269 Units

# VERSUS SYSTEMS INC.


We are offering 672,269 units, with each unit consisting of one of our common shares, no par value per share, and two warrants, which we refer to in this prospectus as the Unit A Warrant and the Unit B Warrant, each to purchase one of our common shares at an assumed public offering price of US$11.90 per unit (based upon the last reported sale of our common stock on the OCTQB on December 21, 2020). The common shares and the warrants comprising the units are immediately separable and will be issued separately in this offering. The warrants included in the units are exercisable immediately and have an exercise price equal to US$11.90 per common share (100% of the public offering price of one unit). The Unit A Warrants will be listed for trading as described below and will expire five years from the date of issuance. We do not intend to list the Unit B Warrants for trading on any stock market or exchange and such warrants will expire 12 months from the date of issuance.

The recent market price of our common shares used throughout this prospectus may not be indicative of the final offering price for each unit being offered. The final public offering price of the units and the exercise prices of the warrants included in the units will be determined through negotiation between us and the underwriters based upon a number of factors, including our history and our prospects, the industry in which we operate, our past and present operating results, the previous experience of our executive officers and the general condition of the securities markets at the time of this offering.

The units will not be issued or certificated. Purchasers will receive only common shares and warrants. The common shares and warrants may be transferred separately, immediately upon issuance. The offering also includes the common shares issuable from time to time upon exercise of the warrants.

Our common shares are presently quoted on the Canadian Securities Exchange, or the CSE, under the symbol “VS” and on the OTC Markets Group Inc. OTCQB quotation system, or the OTCQB, under the symbol “VRSSF,” or under the symbol “VRSSD” until January 12, 2021 due to our recent reverse share split. Our common shares and Unit A Warrants have been approved for listing on The Nasdaq Capital Market under the symbols “VS” and “VSSYW,” respectively. On December 21, 2020, the last reported sale price for our common shares on the CSE was C$15.15 and on the OTCQB was US$11.90. There is no established public trading market for the warrants. No assurance can be given that a trading market will develop for the Unit A Warrants on The Nasdaq Capital Market. Quotes for our common shares on the CSE or the OTCQB may not be indicative of the market price on The Nasdaq Capital Market.

We are an “emerging growth company” as that term is used in the Jumpstart Our Business Startups Act of 2012 and a “foreign private issuer” under applicable Securities and Exchange Commission rules and, as such, we have elected to comply with certain reduced public company reporting requirements for this prospectus and future filings. See “Prospectus Summary – Implications of Being an Emerging Growth Company and a Foreign Private Issuer.”

The actual offering price per unit was negotiated between the representative of the underwriters and us at the time of pricing. The market price of our common shares is only one of several factors that was considered in determining the actual offering price. See “Underwriting — Market Information.”

**Investing in our securities involves a high degree of risk. See "Risk Factors" beginning on page 10 of this prospectus for a discussion of information that should be considered in connection with an investment in our securities.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

| | Per Unit[(1)] | Total |
|---|---|---|
| Public offering price | US$ | US$ |
| Underwriting discounts and commissions[(2)] | US$ | US$ |
| Proceeds to us, before expenses | US$ | US$ |

(1) The public offering price and underwriting discount in respect of the Units corresponds to (i) a public offering price per common share of US$11.90 and (ii) a public offering price per warrant of US$0.001. Each unit consists of one common share and two warrants, each to purchase one common share.
(2) See "Underwriting" for a description of compensation payable to the Underwriters.

We have granted a 30-day option to the representative of the underwriters to purchase additional common shares to be offered by us in the offering (up to 15% of the common shares sold in the primary offering of units), solely to cover over-allotments, if any.

The underwriters expect to deliver our shares and warrants to purchasers in the offering on or about , 2021.

**Lake Street**

The date of this prospectus is , 2021.

**TABLE OF CONTENTS**

## ABOUT THIS PROSPECTUS

The registration statement as of which this prospectus forms a part that we have filed with the Securities and Exchange Commission, or SEC, includes exhibits that provide more detail of the matters discussed in this prospectus.

You should read this prospectus and the related exhibits filed with the SEC, together with the additional information described under the heading "Where You Can Find Additional Information."

**You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized anyone to provide you with information different from, or in addition to, that contained in this prospectus or any related free writing prospectus. This prospectus is an offer to sell only the securities offered hereby but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date. Our business, financial condition, results of operations and prospects may have changed since that date.**

We are not offering to sell or seeking offers to purchase these securities in any jurisdiction where the offer or sale is not permitted. We have not done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. Persons outside the jurisdiction of the United States who come into possession of this prospectus are required to inform themselves about and to observe any restrictions relating to this Offering and the distribution of this prospectus applicable to that jurisdiction.

Unless the context otherwise requires, the terms " our company," "Company, ""we," "us" and "our" refer to Versus Systems Inc. and our subsidiaries.

All service marks, trademarks and trade names referred to in this prospectus are the property of their respective owners. Solely for convenience, the trademarks and trade names in this prospectus are referred to without the ®, © and ™ symbols, but such references should not be construed as any indicator that their respective owners will not assert, to the fullest extent under applicable law, their rights thereto.

We publish our consolidated financial statements in Canadian dollars. In this prospectus, unless otherwise specified, all monetary amounts are in United States dollars, all references to "$" and "C$" mean Canadian dollars and all references to "US$," "USD" and "dollars" mean United States dollars.

This prospectus includes our audited annual consolidated financial statements as well as our unaudited condensed consolidated interim financial statements, or the Financial Statements. Our audited consolidated financial statements for the years ended December 31, 2019 and 2018 were prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB, the independent, private-sector body that develops and approves IFRS, and Interpretations issued by the International Financial Reporting Interpretations Committee, or IFRIC. None of the financial statements were prepared in accordance with generally accepted accounting principles in the United States.

Unless indicated otherwise, our financial information in this prospectus has been prepared on a basis consistent with IFRS as issued by the International Accounting Standards Board. In making an investment decision, investors must rely on their own examination of our results and consult with their own professional advisors.

The share and per share information in this prospectus reflects the one-for-16 reverse stock split of our outstanding common shares that became effective on December 15, 2020.

Unless otherwise indicated, information contained in this prospectus concerning our industry and the markets in which we operate is based on information from independent industry and research organizations, other third-party sources (including industry publications, surveys and forecasts), and management estimates. Management estimates are derived from publicly available information released by independent industry analysts and third-party sources, as well as data from our internal research, and are based on assumptions made by us upon reviewing such data and our knowledge of such industry and markets, which we believe to be reasonable. Although we believe the data from these third-party sources is reliable, we have not independently verified any third-party information. In addition, projections, assumptions and estimates of the future performance of the industry in which we operate and our future performance are necessarily subject to uncertainty and risk due to a variety of factors, including those described in "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements." These and other factors could cause results to differ materially from those expressed in the estimates made by the independent parties and by us.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements. These statements involve risks known to us, significant uncertainties, and other factors which may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by those forward-looking statements.

Some of the statements under "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business," and elsewhere in this prospectus constitute "forward-looking statements" that represent our beliefs, projections and predictions about future events. From time to time in the future, we may make additional forward-looking statements in presentations, at conferences, in press releases, in other reports and filings and otherwise. Forward-looking statements are all statements other than statements of historical fact, including statements that refer to plans, intentions, objectives, goals, targets, strategies, hopes, beliefs, projections, prospects, expectations or other characterizations of future events or performance, and assumptions underlying the foregoing. The words "may," "could," "should," "would," "will," "project," "intend," "continue," "believe," "anticipate," "estimate," "forecast," "expect," "plan," "potential," "opportunity," "scheduled," "goal," "target," and "future," variations of such words, and other comparable terminology and similar expressions and references to future periods are often, but not always, used to identify forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements about the following:

- our prospects, including our future business, revenues, expenses, net income, earnings per share, gross margins, profitability, cash flows, cash position, liquidity, financial condition and results of operations, backlog of orders and revenue, our targeted growth rate, our goals for future revenues and earnings, and our expectations about realizing the revenues in our backlog and in our sales pipeline;
- the potential impact of COVID-19 on our business and results of operations;
- the effects on our business, financial condition and results of operations of current and future economic, business, market and regulatory conditions, including the current economic and market conditions and their effects on our customers and their capital spending and ability to finance purchases of our products, services, technologies and systems;
- the effects of fluctuations in sales on our business, revenues, expenses, net income, earnings per share, margins, profitability, cash flows, capital expenditures, liquidity, financial condition and results of operations;
- our products, services, technologies and systems, including their quality and performance in absolute terms and as compared to competitive alternatives, their benefits to our customers and their ability to meet our customers' requirements, and our ability to successfully develop and market new products, services, technologies and systems;
- our markets, including our market position and our market share;
- our ability to successfully develop, operate, grow and diversify our operations and businesses;
- our business plans, strategies, goals and objectives, and our ability to successfully achieve them;
- the sufficiency of our capital resources, including our cash and cash equivalents, funds generated from operations, availability of borrowings under our credit and financing arrangements and other capital resources, to meet our future working capital, capital expenditure, lease and debt service and business growth needs;
- the value of our assets and businesses, including the revenues, profits and cash flows they are capable of delivering in the future;
- the effects on our business operations, financial results, and prospects of business acquisitions, combinations, sales, alliances, ventures and other similar business transactions and relationships;
- industry trends and customer preferences and the demand for our products, services, technologies and systems; and
- the nature and intensity of our competition, and our ability to successfully compete in our markets.

These statements are necessarily subjective, are based upon our current plans, intentions, objectives, goals, strategies, beliefs, projections and expectations, and involve known and unknown risks, uncertainties and other important factors that could cause our actual results, performance or achievements, or industry results, to differ materially from any future results, performance or achievements described in or implied by such statements. Actual results may differ materially from expected results described in our forward-looking statements, including with respect to correct measurement and identification of factors affecting our business or the extent of their likely impact, the accuracy and completeness of the publicly-available information with respect to the factors upon which our business strategy is based, or the success of our business. Furthermore, industry forecasts are likely to be inaccurate, especially over long periods of time.

Forward-looking statements should not be read as a guarantee of future performance or results and will not necessarily be accurate indications of whether, or the times by which, our performance or results may be achieved. Forward-looking statements are based on information available at the time those statements are made and management's belief as of that time with respect to future events and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that may cause actual results, our performance or achievements, or industry results to differ materially from those contemplated by such forward-looking statements include, without limitation, those discussed under the caption "Risk Factors" in this prospectus.

## PROSPECTUS SUMMARY

*This summary highlights principal features of this offering and certain information contained elsewhere in this prospectus. This summary does not contain all of the information you should consider before investing in our securities. You should read this entire prospectus carefully, including the information presented under "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes appearing elsewhere in this prospectus, before making an investment decision.*

## OUR BUSINESS

### Overview

We offer a proprietary business-to-business software platform that allows video game publishers and developers, as well as other interactive media content creators, to offer in-game prizing and rewards based on the completion of in-content challenges. The prizes or rewards offered are specific to each player or viewer based on a variety of user- and content-based characteristics, including age, location, game played and challenge undertaken. Our platform facilitates several types of single player prize challenges that includes a wide range of prize types, including coupons, sweepstakes-style prizes, consumer packaged goods ("CPG") and downloadable content ("DLC").

We believe our platform is mutually-beneficial across three target groups. By providing in-content prizes or rewards, content providers gain increased and longer interaction by users or viewers with the media experience they offer. Consumer brands offering in-content prizes or rewards see a prolonged and increased interest from players and consumers who view their goods as a positive "win" within their viewing experience rather than as a distraction from the content they are watching as is typically the case with traditional in-content advertising. Players and consumers who are offered prizes or rewards have an increased desire to interact with such content, which increases the value of the content as a supplier of prizing opportunities, of the brands that offer the prizes, and of the experience itself as an interactive and desirable challenge.

We market our platform and its benefits to two industry segments: the owners or developers of consumer brands and their marketing and advertising professionals and the media content creators, owners and platforms. To the owners or marketers of consumer brands, we sell the opportunity to place their products as prizes or rewards in selected on-line games, media or content and we share a certain percentage of the gross receipts we receive from such customers with the owners of the media in which the prizes or rewards are offered. Our current agreements with the owners or marketers of consumer brands provide that we are paid a fee to place their ads in content, the amount of which is based either on the number of ads placed or upon the performance of those ads relative to the brand's goals.

To content creators, owners and platforms, which currently include primarily video game developers and computer hardware manufacturers, we sell the opportunity to include our proprietary platform in their content or hardware and to use such platform as a basis for selling advertising to popular consumer brands. Our current agreements with content or game owners, including HP, Kast and Animoca Brands, provide that from 50% to 60% of advertising revenue will be kept by, or shared with, the publisher or developer, with the remaining 50% to 40% of gross receipts belonging to us. HP, our largest customer having accounted for 99.9% and 99.8% of our total net revenues during the nine-months ended September 30, 2020 and the year ended December 31, 2019, respectively, installs our platform in its OMEN and Pavilion brands of personal computers that are manufactured primarily for gamers and general use as a means of increasing usage and desirability of those computers by consumers.

Our platform allows consumers to become active advertising participants by seeking to claim the brand's prizes or rewards as victories won through interactions with a variety of media experiences. Users are no longer "just" winning a game or streaming their favorite film. These interactions now bestow bragging rights on the consumers that extend past the media's original purpose, resulting in winning real world goods and gaining access to experiences.

According to a 2018 study by the University of California, Los Angeles Center for Management of Enterprise in Media, Entertainment and Sports, the introduction of rewards benefits content providers, brands and players in the following perspectives, leading to:

- 34% more play time;
- 77% more live viewers;
- 97% higher satisfaction while interacting with a virtual entertainment experience (i.e., video games);
- 10% increase in audience - 10% of players are new players, downloading the game for the first time because of prizes; and
- 4+ hours of additional engagement per week.

Our technology facilitates advertising as a narrative, not as a distraction. By creating an environment that makes brands part of a desired experience - winning prizes or rewards - we empower content providers and brands to engage consumers more effectively and for more extended periods of time.

**Our Strengths**

While we believe our overall value is generated from our ability to directly increase player and viewer engagement, we see the following as our core strengths:

- ***Choice and Earned-Rewards is a Better Model for Players***. While we sell our ad units to agencies, brands and companies that seek to reach media players and viewers, our primary goal will always be to make games and media experiences more fun. Our objective is to build ad units that do not increase viewer/player churn, but in fact increase player engagement. We believe our focus on how the player views the experience - offering them choice and an opportunity to both earn the reward and achieve the gratification of a successful win - will be the key differentiator in the in-game and in-app advertising market. While other competitors in the advertising industry may have more reach at the moment, we believe the increasing numbers of players who want the superior experience of rewards rather than banner ads, commercials and un-skippable videos will ultimately win out.

- ***Our Team is Diverse, Accomplished and Effective.*** We have brought together experts in the game industry, software development, advertising, product design and development, and corporate finance. Our Executive Chair, Keyvan Peymani, was the Head of Startup Marketing for Amazon Web Services, and our advisory board includes the former Vice President of Revenue for Activision Blizzard, the Chief Executive Officer of Radley Media, and a number of veterans of the global gaming industry. Our designers and engineers have built hundreds of successful products from games and apps, including the NFL.com fantasy football platform. We are curious, creative, community-oriented problem solvers who have come together to make a world-class software solution. As a result, we have won multiple awards as one of the best places to work in Los Angeles, and one of the best places to work anywhere for millennial women. We are extremely proud of our team and our culture. We believe it allows us to hire, retain, promote and develop the very best talent.

- ***Our Technology is Robust, Scalable and Flexible.*** We have architected a platform that will allow any content publisher to integrate real-world prizes into their system, and allow any brand or agency to place their products, discounts, codes and coupons into an earned-rewards framework. We have software development kits that are compatible with millions of games and apps, as well as ways to work with iOS and Android devices, PCs, consoles, Apple TVs, and other peripherals. The back end of our platform is built in Elixir by some of the world-experts in that language. The Elixir back end allows the type of massively scalable system that will be required for AAA games and app partners with millions of users. The strengths of the code base are its ability to manage huge numbers of concurrent users with localized failure - such that if there is an issue with a single player's match it does not affect larger portions of the system. We can add new features, new games and entire new verticals easily. We can also adapt to changing regulatory environments around prizing, sweepstakes, privacy and other issues by managing our geofencing for where any given prize is offered. Our Dynamic Regulatory Compliance system is the direct result of years of thoughtful system architecture and development - an achievement that we believe sets us apart from competitors.

- ***Our IP portfolio is Strong and Growing***. We have been issued two key patents from the U.S. Patent and Trademark Office (USPTO) with dozens of granted claims around how to offer players prizes in-game at scale. We have been awarded claims covering how to maintain and promote competitive balance in multiplayer games, how to use multi-factor tests to serve up only relevant prizing on a per-player basis, how to use a player's location, game and age to determine eligibility for certain kinds of prizes in certain kinds of single player games, competitive games, tournaments, and synchronous and asynchronous matches. We have several other patent filings in various stages of review at the USPTO and we are working with our technology and legal teams to develop new and defensible IP in this space. We want to be the only real solution for global in-game and in-app rewards.

- ***The Support of Our Partners Helps us Grow***. Our rewards platform is currently deployed in all HP OMEN and HP Pavilion Gaming laptops and desktop computers in the U.S., and we launched our platform with HP in China in August 2020. Our multi-year agreement with HP is to bring rewards to all their players worldwide as a way to differentiate HP hardware and to engage with a massive global audience. Beyond HP, we are also partnered with Animoca Brands, a developer of on-line and mobile games that have been downloaded hundreds of millions of times. We have also partnered with Ludare, a licensed mobile game developer that makes licensed games for titles in the *Men In Black* series. Beyond gaming, we are working with Kast, a video-sharing application with millions of viewers, and are developing partnerships in the fitness/health and wellness industries. As we grow our user base, we believe we will become more desirable for brand and advertising partners and we expect to increase our transactional revenues exponentially while staying on a capital-efficient low-cost trajectory.

**Our Growth Strategy**

While other forms of advertising technology focus mostly upon increasing monetization only for the advertiser, we believe we change the universe of beneficiaries significantly. Our approach creates simultaneous wins for content providers, brands and consumers. We believe today's audiences not only seek engagement, but are also consummate purveyors of media, with no shortage of content choice. We recognize that keeping engagement high is the key to changing the negative association of traditional media advertising. By creating a prizing opportunity, brand introductions mean a chance to win rather than switching to another tab, source or device while waiting for selected content to return.

Our growth strategy can be summarized into three areas: grow the audience, grow the prize provider pool, and then constantly iterate and improve.

The key elements of our long-term growth strategy include:

- ***Increase Applications and Verticals***. To grow our user base, we will seek to increase the number of games, applications and content providers that have integrated our platform across an increasing number of industries. Part of that process will involve making our platform easier to integrate into a wide variety of media, which we are doing, but the rest is putting our value proposition in front of a larger group of game and app developers. Integrating into new categories and industries allows us a greater pool of potential applications with which to integrate, and therefore a greater pool of potential users. We intend to focus on gaming, streaming media, and health & wellness applications, but may seek to expand to other verticals as opportunities arise. We believe this will significantly grow our user base.

- ***Integrate Into More Devices and Software Languages***. Our platform is currently available in applications running on laptops and desktops, as well as in mobile devices powered by iOS and Android operating systems through a series of software development kits (SDKs) that we have created. We strive to make our rewards platform available to, and compatible with, all kinds of devices. The current engineering roadmap includes additional support for the tens of millions of console gaming systems like the new Xbox and PlayStation consoles. We are also developing features for a number of wearable devices that are in the marketplace, which we believe will increase our user base in the health & wellness vertical.

- ***Develop a Global Reach***. The United States is one of the world's largest gaming markets, with nearly $37 billion in annual revenue according to a Newzoo 2020 Global Games Report. We intend to deepen our penetration of the U.S. market. However, we believe there is significant opportunity for expansion of our offerings into the rest of the world, starting with Asia and Europe. In August 2020, our platform became available for the first time in China, and we plan to expand in Asia and move into Europe in 2021. Because our platform is built to optimize value for a player based on his or her location, we believe we are uniquely positioned to offer location-specific rewards and prizes for players all over the world. As we move into new geographies, we believe we will gain new players and new brands and prize providers that can offer real, local value.

- ***Add More Prizing Partners***. Increasing the number of prize providers - the largest growth area for our company - and the one that will be the most lucrative - is at the center of our growth strategy. We have built out a sales team and we are adding both salespeople and sales assets to pursue both agencies and individual vendors who may want to use our platform to promote their businesses. At the same time, we are also working to make our tools easier for prizing partners to use - including building functionality for businesses that use e-commerce platforms such as the Shopify platform, and for others who want to self-direct their prizing campaigns.

- ***Constantly Improve Outcomes***. We are dedicated to improving the quality of the outcomes for our partners. We have developed a number of tools to evaluate the efficacy of each advertising campaign, and part of our value to our brand partners is providing them with anonymized but actionable information on each of their campaigns on our platform. Our analytics are focused on response rates, transaction rates, customer acquisition cost, and many other aspects of the step-by-step funnel from activation to registration, all the way through to lifetime customer value. We continually review outcomes and if there is a way to improve the transaction rate - to get winners, players or viewers to engage with our brand partners while retaining our core goal of making the media more fun - then we will make the necessary changes to improve those outcomes. This core tenet of our approach requires dedication to research, player and user outreach, surveys, and constant design improvements. We believe this strategy will produce yields in loyalty, affinity and Return on Ad Spend (ROAS) for our partners, which will drive future growth.

- ***Grow Revenues and Market Share***. We are always looking for opportunities to grow through selective acquisitions and while much of our current roadmap is devoted to organic growth, we are also aware of a number of potential partnerships through which we may gain market share through inorganic growth via selective acquisition. Performance marketing is a growing field, as is interactive media advertising, and there may be opportunities to grow our sales team, our service offerings or our reach through acquisition.

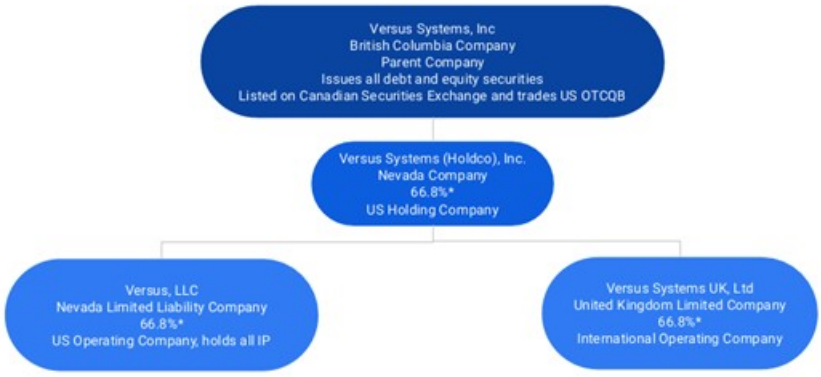
**Corporate History and Structure**

We were formed by way of an amalgamation under the name McAdam Resources Inc. in the Province of Ontario on December 1, 1988 and subsequently extraprovincially registered in British Columbia on February 2, 1989. We changed our name to Boulder Mining Corporation on May 9, 1995 in Ontario and on September 25, 1996 in British Columbia. We continued into British Columbia on January 2, 2007 and concurrently changed our name to Opal Energy Corp. We changed our name to Versus Systems Inc. on June 30, 2016.

On June 26, 2016, we acquired a 37.5% ownership interest in Versus LLC, a privately-held limited liability company organized under the laws of the state of Nevada and then engaged in our current line of business, from existing members (the "Selling Members") in consideration of a cash payment of CDN$1,962,722 (US$1,500,000). On June 30, 2016, we and the Selling Members exchanged 100% of their ownership units in Versus LLC for 8,950.05 common shares of Versus Systems (Holdco) Inc. (formerly known as "Opal Energy (Holdco) Corp.", hereafter referred to as "Holdco"). Consequently, Versus LLC became a wholly-owned subsidiary of Holdco. This share exchange resulted in a reduction of our ownership interest in Holdco from 100% to 38.2%. In addition, we acquired full voting control over all of the Holdco shares held by the Selling Members in exchange for granting them the right to exchange their Holdco shares for such number of our common shares 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 CDN$3.20 per share until June 30, 2019. Thereafter, we acquired additional shares of Holdco from the Selling Members through multiple shares purchase transactions and increased our ownership interest in Holdco to 66.8% on June 21, 2019.

Versus Systems UK Ltd. was formed under the Companies Act 2006 in the United Kingdom on July 26, 2019 and is wholly owned by Holdco.

The following diagram illustrates our current corporate structure:



**Risks Associated With Our Business**

Our ability to execute our business strategy is subject to numerous risks, as more fully described in the section captioned "Risk Factors" immediately following this prospectus summary. You should read these risks before you invest in our common stock and warrants. In particular, risks associated with our business include, but are not limited to, the following:

- We have a relatively limited operating history and limited revenues to date and thus are subject to risks of business development and you have no basis on which to evaluate our ability to achieve our business objective.
- We are a holding company and depend upon our subsidiaries for our cash flows.
- Future acquisitions or strategic investments could disrupt our business and harm our business, results of operations or financial condition.
- We may require additional funding for our growth plans, and such funding may result in a dilution of your investment.
- We may not have sufficient capital to fund our ongoing operations, effectively pursue our strategy or sustain our growth initiatives.
- Changes in our relationships with our most significant customer, HP, including the loss or reduction in business from HP, could have an adverse impact on us.
- Our operations are significantly dependent on changes in public and customer tastes and discretionary spending patterns. Our inability to successfully anticipate customer preferences or to gain popularity for games may negatively impact our profitability.
- If we fail to keep up with industry trends or technological developments, our business, results of operations and financial condition may be materially and adversely affected.
- If we cannot continue to develop, acquire, market and offer new products and services or enhancements to existing products and services that meet customer requirements, our operating results could suffer.
- We make significant investments in new products and services that may not achieve expected returns.
- If we fail to retain existing users or add new users, our results of operations and financial condition may be materially and adversely affected
- Our insurance coverage may not adequately protect us against all future risks, which may adversely affect our business and prospects.
- Changes in laws or regulations, or a failure to comply with any laws and regulations, may adversely affect our business, investments and results of operations.
- Our executive officers, directors, security holders and their respective affiliates may have competitive pecuniary interests that conflict with our interests.
- Public health epidemics or outbreaks, such as COVID-19, could materially and adversely impact our business.
- Our business may be harmed if our licensing partners, or other third parties with whom we do business, act in ways that put our brand at risk.
- If we fail to keep our existing users highly engaged, to acquire new users, to successfully implement an award-prizes model for our user community, our business, profitability and prospects may be adversely affected.
- Our failure to protect our intellectual property rights may undermine our competitive position.
- Our business is highly dependent on the proper functioning and improvement of our information technology systems and infrastructure. Our business and operating results may be harmed by service disruptions, or by our failure to timely and effectively scale up and adjust our existing technology and infrastructure.

**Reverse Stock Split**

On December 8, 2020, our board of directors approved a one-for-16 reverse stock split of our common shares. Pursuant to applicable rules of the CSE, the reverse share split became effective on December 15, 2020. The conversion or exercise prices of our issued and outstanding convertible securities, stock options and warrants were adjusted accordingly. All share and per share amounts and the corresponding conversion price or exercise price data presented in this prospectus gives effect to such reverse stock split of our outstanding common shares.

**Our Corporate Information**

We operate through our majority-owned subsidiary, Versus LLC, a Nevada limited liability company that was organized on August 21, 2013. Our principal executive offices in Canada are located at 1558 Hastings Street, Vancouver, British Columbia V6G 3J4 Canada, and our telephone number is (604) 639-4457. Our principal executive offices in the United States are located at 6701 Center Drive West, Suite 480, Los Angeles, CA 90045, and our telephone number at that address is (424) 226-8588. Our website address is *www.versussystems.com*. The information on or accessed through our website is not incorporated in this prospectus or the registration statement of which this prospectus forms a part.

**Implications of Being an Emerging Growth Company and a Foreign Private Issuer**

We are an "emerging growth company," as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. As such, we are eligible for exemptions from various reporting requirements applicable to other public companies that are not emerging growth companies, including, but not limited to, presenting only two years of audited financial statements in addition to any required unaudited interim financial statements with correspondingly reduced "Management's Discussion and Analysis of Financial Condition and Results of Operations" disclosure in this prospectus, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation, and an exemption from the requirements to obtain a non-binding advisory vote on executive compensation or golden parachute arrangements.

In addition, an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. This provision allows an emerging growth company to delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to avail ourselves of this provision of the JOBS Act. As a result, we will not be subject to new or revised accounting standards at the same time as other public companies that are not emerging growth companies. Therefore, our consolidated financial statements may not be comparable to those of companies that comply with new or revised accounting pronouncements as of public company effective dates.

We will remain an emerging growth company until the earliest of: (i) the last day of the fiscal year following the fifth anniversary of the consummation of this offering; (ii) the last day of the fiscal year in which we have total annual gross revenue of at least $1.07 billion; (iii) the last day of the fiscal year in which we are deemed to be a "large accelerated filer" as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended, or the Exchange Act, which would occur if the market value of our common shares held by non-affiliates exceeded $700.0 million as of the last business day of the second fiscal quarter of such year; or (iv) the date on which we have issued more than $1.0 billion in non-convertible debt securities during the prior three-year period.

In addition, upon consummation of this offering, we will report under the Exchange Ac, as a non-U.S. company with foreign private issuer status. As a foreign private issuer, we may take advantage of certain provisions in the Nasdaq Listing Rules that allow us to follow Canadian law for certain corporate governance matters. See "Management—Foreign Private Issuer Status." Even after we no longer qualify as an emerging growth company, as long as we qualify as a foreign private issuer under the Exchange Act, we will be exempt from certain provisions of the Exchange Act that are applicable to U.S. domestic public companies, including:

- the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations in respect of a security registered under the Exchange Act;
- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time;
- the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q containing unaudited financial and other specified information, or current reports on Form 8-K, upon the occurrence of specified significant events; and
- Regulation Fair Disclosure, or Regulation FD, which regulates selective disclosures of material information by issuers.

| OFFERING | |
|---|---|
| **Securities offered by us:** | 672,269 units each consisting of one common share and two warrants, a Unit A Warrant and a Unit B Warrant, each to purchase one common share. Both warrants included within the units are exercisable immediately and have an exercise price equal to US$11.90 per common share (100% of the public offering price of one unit). The Unit A Warrants will expire five years from the date of issuance. The Unit B Warrants will expire 12 months from the date of issuance. The common shares and each of the warrants comprising the units are immediately separable upon issuance and will be issued separately in this offering. The 672,269 unit amount referenced above is based on the units being sold at an assumed offering price of US$11.90 per unit, the closing price of our common shares on the OTCQB on December 21, 2020, and such unit amount will change if the unit price is less than US$11.90 in such manner to maintain the gross proceeds at approximately US$8.0 million. For instance, if the unit price is US$11.00 per unit, the number of units to be sold in the offering will be 727,273. |
| **Assumed Public Offering Price:** | US$11.90 per unit, which is the closing price of our common shares on the OTCQB on December 21, 2020. |
| **Common shares outstanding before the offering:** | 9,375,778 common shares. |
| **Common shares to be outstanding after the offering:** | 11,451,856, which (i) includes 136,870 common shares (the "Exchange Shares") to be issued by us at the closing of this offering in respect of the exchange (the "Debt Exchange") of outstanding promissory notes in the principal amount of US$1,500,000, plus accrued interest thereon, for units that are comprised of the same securities that are being offered in this offering, valued at an amount equal to the purchase price of the units offered by us in this offering, which is assumed to be US$11.90 per unit, and (ii) excludes 1,344,538 common shares issuable upon exercise of the warrants sold in this offering and any securities that would be issued if the underwriters' over-allotment option is exercised. |
| **Overallotment option:** | We have granted the representative of the underwriters a 30-day option to purchase up to 100,841 additional common shares at an assumed public offering price of US$11.90 per common share, solely to cover over-allotments, if any. |
| **Use of Proceeds:** | We intend to use the net proceeds of this offering for the repayment of indebtedness and for general working capital purposes. See "Use of Proceeds." |
| **Risk Factors:** | Investing in our securities is highly speculative and involves a high degree of risk. You should carefully consider the information set forth in the "Risk Factors" section beginning on page 10 before deciding to invest in our securities. |
| **Trading Symbol:** | Our common shares are currently quoted on the CSE under the trading symbol "VS" and on the OTCQB under the trading symbol "VRSSF, " or under the symbol "VRSSD" until January 12, 2021 due to our recent reverse share split of our common shares. Our common shares have been approved for listing on The Nasdaq Capital Market under the symbol "VS" and our Unit A Warrants have been approved for listing on The Nasdaq Capital Market under the symbol "VSSYW". We do not intend to list the Unit B Warrants on any stock market or exchange. |
| **Lock-up:** | We and our directors, officers and certain of our principal shareholders have agreed with the underwriters not to offer for sale, issue, sell, contract to sell, pledge or otherwise dispose of any of our common shares or securities convertible into common shares for a period of 90 days after the date of this prospectus. See "Underwriting" section on page 92. |

The 11,451,856 common shares to be outstanding after this offering is based on 9,375,778 shares outstanding as of September 30, 2020, plus (i) 1,266,939 issued subsequent to September 30, 2020, and (ii) 809,139 shares to be issued at the closing of the offering, including the Exchange Shares, based upon an assumed public offering price of US$11.90 per unit, the closing price of our common stock on the OTCQB on December 21, 2020. The 11,451,856 common shares to be outstanding after this offering excludes (i) 1,344,538 shares issuable upon exercise of the warrants sold in the offering and 273,740 shares issuable upon exercise of the warrants to be issued in the Debt Exchange, and (ii) the following:

- 3,412,050 common shares issuable upon exercise of outstanding warrants at September 30, 2020 with a weighted average exercise price of $5.31;
- 1,331,966 common shares reserved for issuance upon the exercise of outstanding stock options at September 30, 2020 with a weighted average exercise price of $4.64 issued pursuant to our 2017 Stock Option Plan;
- 309,548 common shares issuable upon conversion of outstanding Versus Systems (Holdco) shares; and
- 80,673 common shares issuable upon exercise of warrants to be issued to the underwriters in connection with this offering.

Unless otherwise stated, all information in this prospectus assumes no exercise of the underwriters' over-allotment option to purchase additional common shares.

## SELECTED SUMMARY HISTORICAL FINANCIAL INFORMATION

The following tables set forth a summary of our historical consolidated financial data as of and for the periods indicated. We have derived the summary consolidated statements of operations and comprehensive loss data for the years ended December 31, 2019 and 2018 from our audited consolidated financial statements, which were prepared in accordance with IFRS, and are included elsewhere in this prospectus. We have derived the summary consolidated statements of operations and comprehensive loss data for the nine months ended September 30, 2020 and 2019 and the consolidated balance sheet data as of September 30, 2020 from our unaudited interim consolidated financial statements included elsewhere in this prospectus. You should read this data together with our consolidated financial statements and related notes included elsewhere in this prospectus and the information in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations." The summary consolidated financial data included in this section are not intended to replace the consolidated financial statements and related notes and is qualified in their entirety by our consolidated financial statements and related notes included elsewhere in this prospectus. Our consolidated financial statements have been prepared in accordance with IFRS and are presented in Canadian dollars except where otherwise indicated. Our historical results are not necessarily indicative of the results to be expected for any other period and our interim results are not necessarily indicative of the results to be expected for the full year ending December 31, 2020.

| | Nine Months Ended September 30, | | Year Ended December 31, | |
|---|---|---|---|---|
| **(in C$, except share and per share data)** | **2020** | **2019** | **2019** | **2018** |
| | **(unaudited)** | | | |
| **Consolidated Statements of Operations and Comprehensive Loss Data:** | | | | |
| **Revenues** | | | | |
| Revenue | $ 1,368,924 | $ 654,324 | $ 664,922 | $ 1,620 |
| **Expenses** | | | | |
| Amortization | 246,802 | 252,838 | 327,221 | 29,642 |
| Amortization of intangible assets | 1,314,342 | 2,379,591 | 2,530,590 | 2,965,035 |
| Consulting fees | 511,815 | 625,560 | 814,128 | 1,177,405 |
| Foreign exchange loss (gain) | 210,419 | 53,868 | 38,797 | 147,273 |
| Employee benefit and other expense | 773,270 | 856,347 | 669,586 | 1,305,652 |
| Interest expense | 179,386 | 128,333 | 225,334 | 77,669 |
| Interest expense on lease obligations | 63,500 | 81,940 | 104,384 | - |
| Professional fees | 873,872 | 320,093 | 445,603 | 621,979 |
| Salaries and wages | 1,953,921 | 2,178,669 | 3,252,789 | 2,074,554 |
| Sales and marketing | 230,952 | 657,582 | 787,398 | 199,412 |
| Share-based compensation | 1,161,925 | 577,987 | 839,249 | 651,316 |
| | (6,151,280) | (7,458,484) | (9,370,157) | (9,248,487) |
| | | | | |
| Finance expense | (293,583) | (193,811) | - | 1,219 |
| Loss on disposal of marketable securities | (508,050) | - | - | - |
| Other expense | (80,085) | 299 | (257,448) | (125,903) |
| **Loss and comprehensive loss** | $ (7,032,998) | $ (7,651,996) | $ (9,627,605) | $ (9,373,171) |
| | | | | |
| **Loss and comprehensive loss attributable to:** | | | | |
| Shareholders | $ (5,649,107) | $ (3,918,329) | $ (6,869,121) | $ (4,631,477) |
| Non-controlling interest | (1,383,891) | (3,733,667) | (2,758,484) | (4,741,694) |
| | $ (7,032,998) | $ (7,651,996) | $ (9,627,605) | $ (9,373,171) |
| | | | | |
| Basic and diluted loss per common share attributable to Versus Systems Inc. | $ (0.62) | $ (0.60) | $ (0.98) | $ (0.86) |
| | | | | |
| **Weighted average common shares outstanding** | 9,072,768 | 6,561,903 | 7,032,150 | 5,398,326 |

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| **(in C$)** | **(unaudited)** | |
| **Consolidated Balance Sheet Data:** | | |
| Cash | $ 21,954 | $ 99,209 |
| Property and equipment | 702,196 | 948,998 |
| Intangible assets | 2,339,052 | 2,780,347 |
| Total assets | 3,315,678 | 4,042,354 |
| Current liabilities | 4,554,952 | 1,303,778 |
| Non-current notes payable | 3,873,863 | 4,814,767 |
| Total liabilities | 9,018,259 | 6,912,572 |
| Total liabilities and equity | 3,315,678 | 4,042,354 |

## RISK FACTORS

*An investment in our securities carries a significant degree of risk. You should carefully consider the following risks, as well as the other information contained in this prospectus, including our historical financial statements and related notes included elsewhere in this prospectus, before you decide to purchase our securities. Any one of these risks and uncertainties has the potential to cause material adverse effects on our business, prospects, financial condition and operating results which could cause actual results to differ materially from any forward-looking statements expressed by us and a significant decrease in the value of our common shares and warrants. Refer to "Cautionary Note Regarding Forward-Looking Statements."*

*We may not be successful in preventing the material adverse effects that any of the following risks and uncertainties may cause. These potential risks and uncertainties may not be a complete list of the risks and uncertainties facing us. There may be additional risks and uncertainties that we are presently unaware of, or presently consider immaterial, that may become material in the future and have a material adverse effect on us. You could lose all or a significant portion of your investment due to any of these risks and uncertainties.*

### Risks Related to Our Business

***We have a relatively limited operating history and limited revenues to date and thus are subject to risks of business development and you have no basis on which to evaluate our ability to achieve our business objective.***

Because we have a relatively limited operating history and limited revenues to date, you should consider and evaluate our operating prospects in light of the risks and uncertainties frequently encountered by early-stage operating companies in rapidly evolving markets. These risks include:

- that we may not have sufficient capital to achieve our growth strategy;
- that we may not develop our product and service offerings in a manner that enables us to be profitable and meet our customers' requirements;
- that our growth strategy may not be successful; and
- that fluctuations in our operating results will be significant relative to our revenues.

Our future growth will depend substantially on our ability to address these and the other risks described in this section. If we do not successfully address these risks, our business could be significantly harmed. To date, we have had minimal revenues. Even if we do achieve profitability, we cannot predict the level of such profitability. If we sustain losses over an extended period of time, we may be unable to continue our business.

***We are a holding company and depend upon our subsidiaries for our cash flows.***

We are a holding company. All of our operations are conducted, and almost all of our assets are owned, by our subsidiaries. Consequently, our cash flows and our ability to meet our obligations depend upon the cash flows of our subsidiaries and the payment of funds by these subsidiaries to us in the form of dividends, distributions or otherwise. The ability of our subsidiaries to make any payments to us depends on their earnings, the terms of their indebtedness, including the terms of any credit facilities, of which there are currently none, and legal restrictions. While there are no restrictions on the ability of our subsidiaries to make any payments to us, such restrictions may arise in the future. Any failure to receive dividends or distributions from our subsidiaries when needed could have a material adverse effect on our business, results of operations or financial condition.

***Future acquisitions or strategic investments could disrupt our business and harm our business, results of operations or financial condition.***

We may in the future explore potential acquisitions of companies or strategic investments to strengthen our business. Even if we identify an appropriate acquisition candidate, we may not be successful in negotiating the terms or financing of the acquisition, and our due diligence may fail to identify all of the problems, liabilities or other shortcomings or challenges of an acquired business.

Acquisitions involve numerous risks, any of which could harm our business, including:

- straining our financial resources to acquire a company;
- anticipated benefits may not materialize as rapidly as we expect, or at all;
- diversion of management time and focus from operating our business to address acquisition integration challenges;
- retention of employees from the acquired company;
- cultural challenges associated with integrating employees from the acquired company into our organization;
- integration of the acquired company's accounting, management information, human resources and other administrative systems;
- the need to implement or improve controls, procedures and policies at a business that prior to the acquisition may have lacked effective controls, procedures and policies; and
- litigation or other claims in connection with the acquired company, including claims from terminated employees, former shareholders or other third parties.

Failure to appropriately mitigate these risks or other issues related to such strategic investments and acquisitions could result in reducing or completely eliminating any anticipated benefits of transactions, and harm our business generally. Future acquisitions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, amortization expenses or the impairment of goodwill, any of which could have a material adverse effect on our business, results of operations or financial condition.

***We may require additional funding for our growth plans, and such funding may result in a dilution of your investment.***

We attempted to estimate our funding requirements in order to implement our growth plans. If the costs of implementing such plans should exceed these estimates significantly or if we come across opportunities to grow through expansion plans that cannot be predicted at this time, and our funds generated from our operations prove insufficient for such purposes, we may need to raise additional funds to meet these funding requirements.

These additional funds may be raised by issuing equity or debt securities or by borrowing from banks or other resources. We cannot assure you that we will be able to obtain any additional financing on terms that are acceptable to us, or at all. If we fail to obtain additional financing on terms that are acceptable to us, we will not be able to implement such plans fully if at all. Such financing even if obtained, may be accompanied by conditions that limit our ability to pay dividends or require us to seek lenders' consent for payment of dividends, or restrict our freedom to operate our business by requiring lender's consent for certain corporate actions.

Further, if we raise additional funds by way of a rights offering or through the issuance of new shares, any shareholders who are unable or unwilling to participate in such an additional round of fund raising may suffer dilution in their investment.

***We may not have sufficient capital to fund our ongoing operations, effectively pursue our strategy or sustain our growth initiatives.***

Our remaining liquidity and capital resources may not be sufficient to allow us to fund our ongoing operations, effectively pursue our strategy or sustain our growth initiatives. The report of our independent registered public accountants on our financial statements for the years ended December 31, 2019 and 2018 stated that our negative cash flows from operations, inability to finance our day-to-day operations through operations and expectation of further losses indicates that a material uncertainty exists that may cast significant doubt on our ability to continue as a going concern. If we require additional capital resources, we may seek such funds directly from third party sources; however, we may not be able to obtain sufficient equity capital and/or debt financing from third parties to allow us to fund our expected ongoing operations or we may not be able to obtain such equity capital or debt financing on acceptable terms or conditions. Factors affecting the availability of equity capital or debt financing to us on acceptable terms and conditions include:

- our current and future financial results and position;

- the collateral availability of our otherwise unsecured assets;
- the market's, investors' and lenders' view of our industry and products;
- the perception in the equity and debt markets of our ability to execute our business plan or achieve our operating results expectations; and
- the price, volatility and trading volume and history of our common shares.

If we are unable to obtain the equity capital or debt financing necessary to fund our ongoing operations, pursue our strategy and sustain our growth initiatives, we may be forced to scale back our operations or our expansion initiatives, and our business and operating results will be materially adversely affected.

***Changes in our relationships with our most significant customer, HP, including the loss or reduction in business from HP, could have an adverse impact on us.***

For the nine-month period ended September 30, 2020 and the year ended December 31, 2019, one customer, HP, represented 99.9% and 99.8%, respectively, of our total net revenues. Until such time, if ever, that we are able to diversify our customer base and add additional significant customers, the loss of HP as a customer would materially impair our overall consolidated financial condition and our consolidated results of operations. Our contractual relationships with customers, including HP, generally are terminable at will by the customers on short notice and do not require the customer to provide any minimum commitment. Our customers could choose to divert all or a portion of their business with us to one of our competitors, demand rate reductions for our services, require us to assume greater liability that increases our costs, or develop their own prizing or rewards capabilities. Failure to retain our existing customers or enter into relationships with new customers could materially impact the growth in our business and our ability to meet our current and long-term financial forecasts.

***Our operations are significantly dependent on changes in public and customer tastes and discretionary spending patterns. Our inability to successfully anticipate customer preferences or to gain popularity for games may negatively impact our profitability.***

Our success depends significantly on public and customer tastes and preferences, which can be unpredictable. If we are unable to successfully anticipate customer preferences or increase the popularity of the games that have embedded at our platform, the per capita revenue and overall customer expenditures may decrease, and thereby negatively impact our profitability. In response to such developments, we may need to increase our marketing and product development efforts and expenditures, we may also adjust our product pricing, we may modify the platform itself, or take other actions, which may further erode our profit margins or otherwise adversely affect our results of operations and financial condition. In particular, we may need to expend considerable cost and effort in carrying out extensive research and development to assess the potential interest in our platform and to remain abreast with continually evolving technology and trends.

While we may incur significant expenditures of this nature, including in the future as we continue to expand our operations, there can be no assurance that any such expenditures or investments by us will yield expected or commensurate returns or results, within a reasonable or anticipated time, or at all.

***If we fail to keep up with industry trends or technological developments, our business, results of operations and financial condition may be materially and adversely affected.***

The gaming industry is rapidly evolving and subject to continuous technological changes. Our success depends on our ability to continue to develop and implement services and solutions that anticipate and respond to rapid and continuing changes in technology and industry developments and offerings to serve the evolving needs of our customers. Our growth strategy is focused on responding to these types of developments by driving innovation that will enable us to expand our business into new growth areas. If we do not sufficiently invest in new technology and industry developments, or evolve and expand our business at sufficient speed and scale, or if we do not make the right strategic investments to respond to these developments and successfully drive innovation, our services and solutions, our results of operations, and our ability to develop and maintain a competitive advantage and continue to grow could be negatively affected. In addition, we operate in a quickly evolving environment in which there currently are, and we expect will continue to be, new technology entrants. New services or technologies offered by competitors or new entrants may make our offerings less differentiated or less competitive, when compared to other alternatives, which may adversely affect our results of operations. Technological innovations may also require substantial capital expenditures in product development as well as in modification of products, services or infrastructure. We cannot assure you that we can obtain financing to cover such expenditures. Failure to adapt our products and services to such changes in an effective and timely manner could materially and adversely affect our business, financial condition and results of operations.

***If we cannot continue to develop, acquire, market and offer new products and services or enhancements to existing products and services that meet customer requirements, our operating results could suffer.***

The process of developing and acquiring new technology products and services and enhancing existing offerings is complex, costly and uncertain. If we fail to anticipate customers' rapidly changing needs and expectations, our market share and results of operations could suffer. We must make long-term investments, develop, acquire or obtain appropriate intellectual property and commit significant resources before knowing whether our predictions will accurately reflect customer demand for our products and services. If we misjudge customer needs in the future, our new products and services may not succeed and our revenues and earnings may be harmed. Additionally, any delay in the development, acquisition, marketing or launch of a new offering or enhancement to an existing offering could result in customer attrition or impede our ability to attract new customers, causing a decline in our revenue or earnings.

***We make significant investments in new products and services that may not achieve expected returns.***

We have made and will continue to make significant investments in research, development and marketing for existing products, services and technologies, including developing new Software Development Kits (SDKs) for console gaming, wearables, smart TV systems, AR/VR, new feature sets for our core products, and entirely new products and platforms that we are developing for specific customers, as well as new technology or new applications of existing technology. Investments in new technology are speculative. Commercial success depends on many factors, including but not limited to innovativeness, developer support, and effective distribution and marketing. If customers do not perceive our latest offerings as providing significant new functionality or other value, they may reduce their purchases of our services or products, unfavorably affecting our revenue and profits. We may not achieve significant revenue from new product, service or distribution channel investments, or new applications of existing new product, service or distribution channel investments, for several years, if at all. New products and services may not be profitable, and even if they are profitable, operating margins for some new products and businesses may not be as high as the margins we have experienced historically. Furthermore, developing new technologies is complex and can require long development and testing periods. Significant delays in new releases or significant problems in creating new products or offering new services could adversely affect our revenue and profits.

***If we fail to retain existing users or add new users, our results of operations and financial condition may be materially and adversely affected***

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

- users increasingly engage with competing products;
- we fail to introduce new and improved products or if we introduce new products or services that are not favorably received;

- we are unable to successfully balance our efforts to provide a compelling user experience with the decisions made by us with respect to the frequency, prominence, and size of ads and other commercial content that we display;
- there are changes in user sentiment about the quality or usefulness of our products or concerns related to privacy and sharing, safety, security, or other factors;
- we are unable to manage and prioritize information to ensure users are presented with content that is interesting, useful, and relevant to them;
- there are adverse changes in our products that are mandated by legislation, regulatory authorities, or litigation, including settlements or consent decrees;
- technical or other problems prevent us from delivering our products in a rapid and reliable manner or otherwise affect the user experience;
- we adopt policies or procedures related to areas such as sharing our user data that are perceived negatively by our users or the general public;
- we fail to provide adequate customer service to users, developers, or advertisers; or
- we, our software developers, or other companies in our industry are the subject of adverse media reports or other negative publicity.

If we are unable to build and/or maintain relationships with publishers and developers, our revenue, financial results, and future growth potential may be adversely affected.

***Our insurance coverage may not adequately protect us against all future risks, which may adversely affect our business and prospects.***

We maintain insurance coverage, including for fire, acts of god and perils, terrorism, burglary, money, fidelity guarantee, professional liability including errors and omissions and breach of contract, commercial property, commercial general liability, cyber events including incident response costs, legal, forensic and breach management costs, cyber-crimes, system damage, rectification costs, business interruption and reputational harm, as well as directors' and officers' liability insurance and employee health and medical insurance, with standard exclusions in each instance. While we maintain insurance in amounts that we consider reasonably sufficient for a business of our nature and scale, with insurers that we consider reliable and credit worthy, we may face losses and liabilities that are uninsurable by their nature, or that are not covered, fully or at all, under our existing insurance policies. Moreover, coverage under such insurance policies would generally be subject to certain standard or negotiated exclusions or qualifications and, therefore, any future insurance claims by us may not be honored by our insurers in full, or at all. In addition, our premium payments under our insurance policies may require a significant investment by us.

To the extent that we suffer loss or damage that is not covered by insurance or that exceeds our insurance coverage, the loss will have to be borne by us and our business, cash flow, financial condition, results of operations and prospects may be adversely affected.

***Changes in laws or regulations, or a failure to comply with any laws and regulations, may adversely affect our business, investments and results of operations.***

We are subject to laws and regulations enacted by national, regional and local governments. In particular, we are required to comply with certain SEC and other legal requirements. Compliance with, and monitoring of, applicable laws and regulations may be difficult, time consuming and costly. Those laws and regulations and their interpretation and application may also change from time to time and those changes could have a material adverse effect on our business, investments and results of operations. In addition, a failure to comply with applicable laws or regulations, as interpreted and applied, could have a material adverse effect on our business and results of operations.

***We are dependent upon our executive officers and directors and their departure could adversely affect our ability to operate.***

Our operations are dependent upon a relatively small group of individuals and, in particular, our executive officers and directors. We believe that our success depends on the continued service of our executive officers and directors. We do not have key-man insurance on the life of any of our directors or executive officers. The unexpected loss of the services of one or more of our directors or executive officers could have a detrimental effect on us.

***Our executive officers, directors, security holders and their respective affiliates may have competitive pecuniary interests that conflict with our interests.***

We have not adopted a policy that expressly prohibits our directors, executive officers, security holders or affiliates from having a direct or indirect pecuniary or financial interest in any investment to be acquired or disposed of by us or in any transaction to which we are a party or have an interest. We do not have a policy that expressly prohibits any such persons from engaging for their own account in business activities of the types conducted by us. Accordingly, such persons or entities may have a conflict between their interests and ours.

***Public health epidemics or outbreaks, such as COVID-19, could materially and adversely impact our business.***

In December 2019, a novel strain of coronavirus (COVID-19) emerged in Wuhan, Hubei Province, China. While initially the outbreak was largely concentrated in China and caused significant disruptions to its economy, it has now spread to several other countries and infections have been reported globally. Because COVID-19 infections have been reported throughout the United States, certain federal, state and local governmental authorities have issued stay-at-home orders, proclamations and/or directives aimed at minimizing the spread of COVID-19. Additional, more restrictive proclamations and/or directives may be issued in the future.

To protect the health and well-being of our employees and customers, we have implemented work-from-home requirements, made substantial modifications to employee travel policies, and cancelled or shifted marketing and other corporate events to virtual-only formats for the foreseeable future. While we continue to monitor our circumstances and may adjust our current policies as more information and public health guidance become available, these precautionary measures could negatively affect our sales and marketing efforts, delay and lengthen our sales cycles, or create operational or other challenges, any of which could harm our business and results of operations.

While we believe we have not been significantly adversely impacted by COVID-19 to date, we believe COVID-19 continues to present the potential for adverse risks to our company. The potential impacts of COVID-19 on our business, financial condition, and results of operations include, but are not limited to, the following:

- There may be a decrease in the willingness or ability of certain of our customers or partners to move forward with integrations of our platform into their products or media due to restructurings or cutbacks within their organizations or because their business, financial condition or operations have been adversely impacted by COVID-19.

- Our customers could potentially be negatively impacted by the outbreak, which may reduce their budgets for online advertising and marketing in 2020, 2021 and perhaps beyond. As a result, our revenue, gross profit and net income may be negatively impacted in 2020, 2021 and perhaps beyond.

- The situation may worsen if the COVID-19 outbreak continues. Our customers may request additional time to pay us or fail to pay us on time, or at all, which may require us to record additional allowances.

- The global stock markets have experienced, and may continue to experience, significant volatility from the COVID-19 outbreak, which may adversely affect our ability to raise funds in the capital markets.

- If one or more of our employees or customers becomes ill from coronavirus and attributes their infection to us, including through exposure at one of our offices or facilities, we could be subject to allegations of failure to adequately mitigate the risk of exposure. Such allegations could harm our reputation and expose us to the risks of litigation and liability.

The ultimate impact of the COVID-19 pandemic on our operations is unknown and will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the COVID-19 outbreak, new information which may emerge concerning the severity of the COVID-19 pandemic, and any additional preventative and protective actions that governments, or we, may direct, which may result in an extended period of continued business disruption, reduced customer traffic and reduced operations. Any resulting financial impact cannot be reasonably estimated at this time but could have a material adverse impact on our business, financial condition and results of operations.

***Our business may be harmed if our licensing partners, or other third parties with whom we do business, act in ways that put our brand at risk.***

We offer a business-to-business software platform that allows video game publishers and developers, as well as other interactive media content creators, to offer in-game prizing and rewards, based on the completion of in-content challenges. We anticipate that our business partners shall be given access to sensitive and proprietary information or control over our intellectual property in order to provide services and support to our teams. These third parties may misappropriate our information or intellectual property and engage in unauthorized use of it or otherwise act in a way that places our brand at risk. The failure of these third parties to provide adequate services and technologies, the failure of third parties to adequately maintain or update their services and technologies or the misappropriation or misuse of this information or intellectual property could result in a disruption to our business operations or an adverse effect on our reputation, and may negatively impact our business.

***If we fail to keep our existing users highly engaged, to acquire new users, to successfully implement an award-prizes model for our user community, our business, profitability and prospects may be adversely affected.***

Our success depends on our ability to maintain and grow the number of users playing our partners' games and other media and keeping our users highly engaged. Of particular importance is the successful deployment and expansion of our award-prizes model to our gaming community for purposes of creating predictable recurring revenues.

A decline in the number of our users may adversely affect the engagement level of our users, the vibrancy of our user community, or the popularity of our award-prizes model, which may in turn reduce our monetization opportunities, and have a material and adverse effect on our business, financial condition and results of operations. If we are unable to attract and retain users, our revenues may decline and our results of operations and financial condition may suffer.

***Our failure to protect our intellectual property rights may undermine our competitive position.***

We believe that our patents, copyrights, trademarks and other intellectual property are essential to our success. Please see "Business—Intellectual Property" for more details. We depend to a large extent on our ability to develop and maintain the intellectual property rights relating to our existing portfolio of prizing, promotion and financial technologies that enable brands to reach the rapidly-growing competitive gaming audience of players, spectators and broadcasters. We have devoted considerable time and energy to the development and improvement of our portfolio of prizing, promotion and financial technologies intellectual property.

We rely primarily on a combination of patents, copyrights, trademarks and trade secrets laws, and contractual restrictions for the protection of the intellectual property used in our business. Nevertheless, these provide only limited protection and the actions we take to protect our intellectual property rights may not be adequate. Our trade secrets may become known or be independently discovered by our competitors. We may have no or limited rights to stop the use of our information by others. Moreover, to the extent that our employees or third parties with whom we do business use intellectual property owned by others in their work for us, disputes may arise as to the rights to such intellectual property. Preventing any unauthorized use of our intellectual property is difficult and costly and the steps we take may be inadequate to prevent the misappropriation of our intellectual property. In the event that we resort to litigation to enforce our intellectual property rights, such litigation could result in substantial costs and a diversion of our managerial and financial resources. We can provide no assurance that we will prevail in such litigation. Any failure in protecting or enforcing our intellectual property rights could have a material adverse effect on our business, financial condition and results of operations.

***Our services or solutions could infringe upon the intellectual property rights of others or we might lose our ability to utilize the intellectual property of others.***

We cannot be sure that our services and solutions do not infringe on the intellectual property rights of third parties, and these third parties could claim that we or our clients are infringing upon their intellectual property rights. These claims could harm our reputation, cause us to incur substantial costs or prevent us from offering some services or solutions in the future. Any related proceedings could require us to expend significant resources over an extended period of time. Any claims or litigation in this area could be time-consuming and costly, damage our reputation and/or require us to incur additional costs to obtain the right to continue to offer a service or solution to our clients. If we cannot secure this right at all or on reasonable terms, or we cannot substitute alternative technology, our results of operations could be materially adversely affected. The risk of infringement claims against us may increase as we expand our industry software solutions.

In recent years, individuals and firms have purchased intellectual property assets in order to assert claims of infringement against technology providers and customers that use such technology. Any such action naming us or our clients could be costly to defend or lead to an expensive settlement or judgment against us. Moreover, such an action could result in an injunction being ordered against our client or our own services or operations, causing further damages.

In addition, we rely on third-party software in providing some of our services and solutions. If we lose our ability to continue using such software for any reason, including in the event that the software is found to infringe the rights of others, we will need to obtain substitute software or seek alternative means of obtaining the technology necessary to continue to provide such services and solutions. Our inability to replace such software, or to replace such software in a timely or cost-effective manner, could materially adversely affect our results of operations.

***Third parties may register trademarks or domain names or purchase internet search engine keywords that are similar to our trademarks, brands or websites, or misappropriate our data and copy our platform, all of which could cause confusion to our users, divert online customers away from our products and services or harm our reputation.***

Competitors and other third parties may purchase trademarks that are similar to our trademarks and keywords that are confusingly similar to our brands or websites in internet search engine advertising programs and in the header and text of the resulting sponsored links or advertisements in order to divert potential customers from us to their websites. Preventing such unauthorized use is inherently difficult. If we are unable to prevent such unauthorized use, competitors and other third parties may continue to drive potential online customers away from our platform to competing, irrelevant or potentially offensive platform, which could harm our reputation and cause us to lose revenue.

***Our business is highly dependent on the proper functioning and improvement of our information technology systems and infrastructure. Our business and operating results may be harmed by service disruptions, or by our failure to timely and effectively scale up and adjust our existing technology and infrastructure.***

Our business depends on the continuous and reliable operation of our information technology, or IT, systems. Our IT systems are vulnerable to damage or interruption as a result of fires, floods, earthquakes, power losses, telecommunications failures, undetected errors in software, computer viruses, hacking and other attempts to harm our IT systems. Disruptions, failures, unscheduled service interruptions or a decrease in connection speeds could damage our reputation and cause our customers and end-users to migrate to our competitors' platforms. If we experience frequent or constant service disruptions, whether caused by failures of our own IT systems or those of third-party service providers, our user experience may be negatively affected, which in turn may have a material and adverse effect on our reputation and business. We may not be successful in minimizing the frequency or duration of service interruptions. As the number of our end-users increases and more user data are generated on our platform, we may be required to expand and adjust our technology and infrastructure to continue to reliably store and process content.

***We use third-party services and technologies in connection with our business, and any disruption to the provision of these services and technologies to us could result in adverse publicity and a slowdown in the growth of our users, which could materially and adversely affect our business, financial condition and results of operations.***

Our business partially depends on services provided by, and relationships with, various third parties. We exercise no control over the third parties with whom we have business arrangements. If such third parties increase their prices, fail to provide their services effectively, terminate their service or agreements or discontinue their relationships with us, we could suffer service interruptions, reduced revenues or increased costs, any of which may have a material adverse effect on our business, financial condition and results of operations.

***In most cases, we rely on third party consumer-brand partners to fulfil the prizes and rewards for our end users, players, viewers and participants. Disruption of this fulfilment could result in a poor user experience, adverse publicity, and a slowdown in growth of users, which could materially and adversely affect our business, financial condition and results of operations.***

Our business depends on rewards, earned by users, being fulfilled correctly by third party consumer-brands with whom we have business arrangements. While we have agreements with those consumer-brands, we do not exercise control over those companies. If, for any reason, our customers do not fulfil the prizes or rewards in a manner that our end users, players and/or viewers expect, we may suffer in the perception of those end users. This could result in loss of players, poor public relations, or lawsuits. Such event(s) would have a material adverse effect(s) on our business, financial condition and may results in a loss of operations.

**Risks Related to International Operations**

***The risks related to international operations, in particular in countries outside of the United States, could negatively affect our results.***

We expect to derive up to 50% of our total revenue from transactions denominated in currencies other than the United States dollar, such as the Chinese yuan, the Euro, and the British pound, and we expect that receivables with respect to foreign sales will account for a significant amount of our total accounts and receivables. As such, our operations may be adversely affected by changes in foreign government policies and legislation or social instability and other factors which are not within our control, including, but not limited to, recessions in foreign economies, expropriation, nationalization and limitation or restriction on repatriation of funds, assets or earnings, longer receivables collection periods and greater difficulty in collecting accounts receivable, changes in consumer tastes and trends, renegotiation or nullification of existing contracts or licenses, changes in gaming policies, regulatory requirements or the personnel administering them, currency fluctuations and devaluations, exchange controls, economic sanctions and royalty and tax increases, risk of terrorist activities, revolution, border disputes, implementation of tariffs and other trade barriers and protectionist practices, taxation policies, including royalty and tax increases and retroactive tax claims, volatility of financial markets and fluctuations in foreign exchange rates, difficulties in the protection of intellectual property particularly in countries with fewer intellectual property protections, the effects that evolving regulations regarding data privacy may have on our online operations, adverse changes in the creditworthiness of parties with whom we have significant receivables or forward currency exchange contracts, labor disputes and other risks arising out of foreign governmental sovereignty over the areas in which our operations are conducted. Our operations may also be adversely affected by social, political and economic instability and by laws and policies of such foreign jurisdictions affecting foreign trade, taxation and investment. If our operations are disrupted and/or the economic integrity of our contracts is threatened for unexpected reasons, our business may be harmed.

Our international activities may require protracted negotiations with host governments, national companies and third parties. Foreign government regulations may favor or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. In the event of a dispute arising in connection with our operations in a foreign jurisdiction where we conduct our business, we may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdictions of the courts of United States or enforcing United States judgments in such other jurisdictions. We may also be hindered or prevented from enforcing our rights with respect to a governmental instrumentality because of the doctrine of sovereign immunity. Accordingly, our activities in foreign jurisdictions could be substantially affected by factors beyond our control, any of which could have a material adverse effect on it. We believe that management's experience to date in commercializing our products, services and solutions in China, Japan, the United Kingdom, the European Union, and other countries and regions around the world may be of assistance in helping to reduce these risks. Some countries in which we may operate may be considered politically and economically unstable.

Doing business in the industries in which we operate often requires compliance with numerous and extensive procedures and formalities. These procedures and formalities may result in unexpected or lengthy delays in commencing important business activities. In some cases, failure to follow such formalities or obtain relevant evidence may call into question the validity of the entity or the actions taken. Our management is unable to predict the effect of additional corporate and regulatory formalities which may be adopted in the future including whether any such laws or regulations would materially increase our cost of doing business or affect our operations in any area.

We may in the future enter into agreements and conduct activities outside of the jurisdictions where we currently carry on business, which expansion may present challenges and risks that we have not faced in the past, any of which could adversely affect our results of operations and/or our financial condition.

***We are subject to foreign exchange and currency risks that could adversely affect our operations, and our ability to mitigate our foreign exchange risk through hedging transactions may be limited.***

We expect that it will derive up to 50% of our revenues in currencies other than the United States dollar; however, a substantial portion of our operating expenses are incurred in United States dollars. Fluctuations in the exchange rate between the U.S. dollar and other currencies may have a material adverse effect on our business, financial condition and operating results. Our consolidated financial results are affected by foreign currency exchange rate fluctuations. Foreign currency exchange rate exposures arise from current transactions and anticipated transactions denominated in currencies other than United States dollars and from the translation of foreign-currency-denominated balance sheet accounts into United States dollar-denominated balance sheet accounts. We are exposed to currency exchange rate fluctuations because portions of our revenue and expenses are denominated in currencies other than the United States dollar, particularly the Canadian dollar. Exchange rate fluctuations could adversely affect our operating results and cash flows and the value of our assets outside of the United States. If a foreign currency is devalued in a jurisdiction in which we are paid in such currency, then our customers may be required to pay higher amounts for our products or services, which they may be unable or unwilling to pay. Changes in exchange rates and our limited ability or inability to successfully hedge exchange rate risk could have an adverse impact on our liquidity and results of operations.

***We may be unable to operate in new jurisdictions where our customers operate because of new regulations.***

We are subject to regulation in any jurisdiction where our customers access our systems. To expand into any such jurisdiction we may need to operate according to local regulations. In some cases this may require us to be licensed, or obtain approvals for our products or services. If we do not receive, or receive a revocation of a license in a particular jurisdiction for our products or services, we would not be able to sell or place our products or services in that jurisdiction. Any such outcome could materially and adversely affect our results of operations and any growth plans for our business.

***Privacy concerns could result in regulatory changes and impose additional costs and liabilities on us, limit our use of information, and adversely affect our business.***

Personal privacy has become a significant issue in the United States and many other countries in which we currently operate and may operate in the future. Many federal, state, and foreign legislatures and government agencies have imposed or are considering imposing restrictions and requirements about the collection, use, and disclosure of personal information obtained from individuals. Changes to laws or regulations affecting privacy could impose additional costs and liability on us and could limit our use of such information to add value for customers. If we were required to change our business activities or revise or eliminate services, or to implement burdensome compliance measures, our business and results of operations could be harmed. In addition, we may be subject to fines, penalties, and potential litigation if we fail to comply with applicable privacy regulations, any of which could adversely affect our business, liquidity and results of operation.

***Our results of operations could be affected by natural events in the locations in which we operate or where our customers or suppliers operate.***

We, our customers, and our suppliers have operations in locations subject to natural occurrences such as severe weather and other geological events, including hurricanes, earthquakes, or flood that could disrupt operations. Any serious disruption at any of our facilities or the facilities of our customers or suppliers due to a natural disaster could have a material adverse effect on our revenues and increase our costs and expenses. If there is a natural disaster or other serious disruption at any of our facilities, it could impair our ability to adequately supply our customers, cause a significant disruption to our operations, cause us to incur significant costs to relocate or re-establish these functions and negatively impact our operating results. While we intend to seek insurance against certain business interruption risks, such insurance may not adequately compensate us for any losses incurred as a result of natural or other disasters. In addition, any natural disaster that results in a prolonged disruption to the operations of our customers or suppliers may adversely affect our business, results of operations or financial condition.

**Risks Related to Regulation**

***We are subject to various laws relating to trade, export controls, and foreign corrupt practices, the violation of which could adversely affect our operations, reputation, business, prospects, operating results and financial condition.***

We are subject to risks associated with doing business outside of the United States, including exposure to complex foreign and U.S. regulations such as the Foreign Corrupt Practices Act, or the FCPA, and other anti-corruption laws which generally prohibit U.S. companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or retaining business. Violations of the FCPA and other anti-corruption laws may result in severe criminal and civil sanctions and other penalties. It may be difficult to oversee the conduct of any contractors, third-party partners, representatives or agents who are not our employees, potentially exposing us to greater risk from their actions. If our employees or agents fail to comply with applicable laws or company policies governing our international operations, we may face legal proceedings and actions which could result in civil penalties, administration actions and criminal sanctions. Any determination that we have violated any anti-corruption laws could have a material adverse impact on our business. Changes in trade sanctions laws may restrict our business practices, including cessation of business activities in sanctioned countries or with sanctioned entities.

Violations of these laws and regulations could result in significant fines, criminal sanctions against us, our officers or our employees, requirements to obtain export licenses, disgorgement of profits, cessation of business activities in sanctioned countries, prohibitions on the conduct of our business and our inability to market and sell our products or services in one or more countries. Additionally, any such violations could materially damage our reputation, brand, international expansion efforts, ability to attract and retain employees and our business, prospects, operating results and financial condition.

***Regulations that may be adopted with respect to the internet and electronic commerce may decrease the growth in the use of the internet and lead to the decrease in the demand for our services.***

We may become subject to any number of laws and regulations that may be adopted with respect to the internet and electronic commerce. New laws and regulations that address issues such as user privacy, pricing, online content regulation, taxation, advertising, intellectual property, information security, and the characteristics and quality of online products and services may be enacted. As well, current laws, which predate or are incompatible with the internet and electronic commerce, may be applied and enforced in a manner that restricts the electronic commerce market. The application of such pre-existing laws regulating communications or commerce in the context of the internet and electronic commerce is uncertain. Moreover, it may take years to determine the extent to which existing laws relating to issues such as intellectual property ownership and infringement, libel and personal privacy are applicable to the internet. The adoption of new laws or regulations relating to the internet, or particular applications or interpretations of existing laws, could decrease the growth in the use of the internet, decrease the demand for our services, increase our cost of doing business or could otherwise have a material adverse effect on our business, revenues, operating results and financial condition.

**Risks Related to Our Common Shares, Our Warrants and this Offering**

***Once our common shares and Unit A Warrants are listed on The Nasdaq Capital Market, there can be no assurance that we will be able to comply with The Nasdaq Capital Market's continued listing standards.***

Our common shares and Unit A Warrants have been approved for listing on The Nasdaq Capital Market under the symbols "VS" and "VSSYW," respectively. However, once our common shares and Unit A Warrants are listed after the consummation of this offering, there can be no assurance any broker will be interested in trading our common shares and/or Unit A Warrants. Therefore, it may be difficult to sell your common shares and/or Unit A Warrants if you desire or need to do so. Our underwriters are not obligated to make a market in our securities, and even if our underwriters make a market, the underwriters can discontinue such market making activities at any time without notice. Neither we nor the underwriters can provide any assurance that an active and liquid trading market in our securities will develop or, if developed, that such market will continue.

Once our common shares and Unit A Warrants are listed on The Nasdaq Capital Market, there is no guarantee that we will be able to maintain such listings for any period of time by perpetually satisfying The Nasdaq Capital Market's continued listing requirements. Our failure to continue to meet these requirements may result in our securities being delisted from The Nasdaq Capital Market.

***The market price of our common shares and Unit A Warrants are likely to be highly volatile because of several factors, including a limited public float.***

Our common share price on the CSE and the OTCQB has experienced significant price and volume fluctuations and our common share price is likely to be highly volatile in the future. You may not be able to resell our common shares or Unit A Warrants following periods of volatility because of the market's adverse reaction to volatility.

Other factors that could cause such volatility may include, among other things:

- actual or anticipated fluctuations in our operating results;
- the absence of securities analysts covering us and distributing research and recommendations about us;
- we may have a low trading volume for a number of reasons, including that a large portion of our stock is closely held;
- overall stock market fluctuations;
- announcements concerning our business or those of our competitors;
- actual or perceived limitations on our ability to raise capital when we require it, and to raise such capital on favorable terms;
- conditions or trends in the industry;
- litigation;
- changes in market valuations of other similar companies;
- future sales of common shares;
- departure of key personnel or failure to hire key personnel; and
- general market conditions.

Any of these factors could have a significant and adverse impact on the market price of our common shares and/or our Unit A Warrants. In addition, the stock market in general has at times experienced extreme volatility and rapid decline that has often been unrelated or disproportionate to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common shares and/or Unit A Warrants, regardless of our actual operating performance.

***Our common shares have in the past been a "penny stock" under SEC rules, and our Unit A Warrants may be subject to the "penny stock" rules in the future. It may be more difficult to resell securities classified as "penny stock."***

In the past (including immediately prior to this offering), our common shares were a "penny stock" under applicable SEC rules (generally defined as non-exchange traded stock with a per-share price below US$5.00). While our common shares (and Unit A Warrants) will not be considered "penny stock" following this offering since they will be listed on The Nasdaq Capital Market, if we are unable to maintain that listing and our common shares and/or our Unit A Warrants are no longer listed on The Nasdaq Capital Market, unless we maintain a per-share price above US$5.00, our common shares and/or Unit A Warrants will be considered "penny stock." These rules impose additional sales practice requirements on broker-dealers that recommend the purchase or sale of penny stocks to persons other than those who qualify as "established customers" or "accredited investors." For example, broker-dealers must determine the appropriateness for non-qualifying persons of investments in penny stocks. Broker-dealers must also provide, prior to a transaction in a penny stock not otherwise exempt from the rules, a standardized risk disclosure document that provides information about penny stocks and the risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, disclose the compensation of the broker-dealer and its salesperson in the transaction, furnish monthly account statements showing the market value of each penny stock held in the customer's account, provide a special written determination that the penny stock is a suitable investment for the purchaser, and receive the purchaser's written agreement to the transaction.

Legal remedies available to an investor in "penny stocks" may include the following:

- If a "penny stock" is sold to the investor in violation of the requirements listed above, or other federal or states securities laws, the investor may be able to cancel the purchase and receive a refund of the investment.

- If a "penny stock" is sold to the investor in a fraudulent manner, the investor may be able to sue the persons and firms that committed the fraud for damages.

These requirements may have the effect of reducing the level of trading activity, if any, in the secondary market for a security that becomes subject to the penny stock rules. The additional burdens imposed upon broker-dealers by such requirements may discourage broker-dealers from effecting transactions in our securities, which could severely limit the market price and liquidity of our securities. These requirements may restrict the ability of broker-dealers to sell our common shares or our warrants and may affect your ability to resell our common shares and our Unit A Warrants.

Many brokerage firms will discourage or refrain from recommending investments in penny stocks. Most institutional investors will not invest in penny stocks. In addition, many individual investors will not invest in penny stocks due, among other reasons, to the increased financial risk generally associated with these investments.

For these reasons, penny stocks may have a limited market and, consequently, limited liquidity. We can give no assurance at what time, if ever, our common shares or our Unit A Warrants will not be classified as a "penny stock" in the future.

***We are subject to the continued listing criteria of the CSE, and our failure to satisfy these criteria may result in delisting of our common shares from the CSE and could also jeopardize our continued ability to trade in the United States on The Nasdaq Capital Market.***

Our common shares are currently listed for trading on the CSE and will be listed for trading on The Nasdaq Capital Market upon the consummation of this offering. In order to maintain the listing on the CSE or any other securities exchange we may trade on, we must maintain certain financial and share distribution targets, including maintaining a minimum number of public shareholders. In addition to objective standards, these exchanges may delist our securities if, in the exchange's opinion, our financial condition and/or operating results appear unsatisfactory; if it appears that the extent of public distribution or the aggregate market value of the security has become so reduced as to make continued listing inadvisable; if we sell or dispose of our principal operating assets or cease to be an operating company; if we fail to comply with the listing requirements; or if any other event occurs or any condition exists which, in their opinion, makes continued listing on the exchange inadvisable.

If the CSE or Nasdaq were to delist our common shares, investors may face material adverse consequences, including, but not limited to, a lack of trading market for our common shares, reduced liquidity, decreased analyst coverage, and/or an inability for us to obtain additional financing to fund our operations.

***If the benefits of any proposed acquisition do not meet the expectations of investors, shareholders or financial analysts, the market price of our common shares and/or Unit A Warrants may decline.***

If the benefits of any proposed acquisition do not meet the expectations of investors or securities analysts, the market price of our common shares and/or Unit A Warrants prior to the closing of the proposed acquisition may decline. The market values of our common shares and/or Unit A Warrants at the time of the proposed acquisition may vary significantly from their prices on the date the acquisition target was identified.

In addition, broad market and industry factors may materially harm the market price of our common shares and/or Unit A Warrants irrespective of our operating performance. The stock market in general has experienced price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of the particular companies affected. The trading prices and valuations of these stocks, and of our securities, may not be predictable. A loss of investor confidence in the market for retail stocks or the stocks of other companies which investors perceive to be similar to us could depress the price of our common shares and/or Unit A Warrants regardless of our business, prospects, financial conditions or results of operations. A decline in the market price of our securities also could adversely affect our ability to issue additional securities and our ability to obtain additional financing in the future.

***Our management team will have immediate and broad discretion over the use of the net proceeds from this offering and we may use the net proceeds in ways with which you disagree.***

The net proceeds from this offering will be immediately available to our management to use at their discretion. We currently intend to use the net proceeds from this offering to repay certain outstanding indebtedness fund the expansion of our operations, working capital and general corporate purposes. See "Use of Proceeds." Other than the repayment of US$250,000 principal amount of indebtedness, we have not allocated specific amounts of the net proceeds from this offering for any of the foregoing purposes. Accordingly, our management will have significant discretion and flexibility in applying the net proceeds of this offering. You will be relying on the judgment of our management with regard to the use of these net proceeds, and you will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. It is possible that the net proceeds will be invested in a way that does not yield a favorable, or any, return for us or our shareholders. The failure of our management to use such funds effectively could have a material adverse effect on our business, prospects, financial condition, and results of operation.

***You will experience immediate and substantial dilution as a result of this offering and may experience additional dilution in the future.***

You will incur immediate and substantial dilution as a result of this offering. After giving effect to the sale by us of up to US$8,000,001 in units (of which our common shares forms a part) offered in this offering, at a public offering price of US$11.90 per unit, and after deducting the underwriters' discounts and commissions and other estimated offering expenses payable by us, investors in this offering can expect an immediate dilution of US$11.28 per share, or 94.8% of the assumed public offering price. We also have a large number of outstanding stock options to purchase common shares with exercise prices that are below the public offering price of our common shares. To the extent that these options are exercised, you will experience further dilution.

***Shares eligible for future sale may adversely affect the market.***

From time to time, certain of our shareholders may be eligible to sell all or some of their common shares by means of ordinary brokerage transactions in the open market pursuant to Rule 144 promulgated under the Securities Act of 1933, as amended, or the Securities Act, subject to certain limitations. In general, pursuant to Rule 144, non-affiliate shareholders may sell freely after six months, subject only to the current public information requirement. Affiliates may sell after six months, subject to the Rule 144 volume, manner of sale (for equity securities), current public information, and notice requirements. Of the approximately 9,375,778 common shares outstanding as of September 30, 2020, approximately 9,375,778 shares are tradable without restriction. Given the limited trading of our common shares, resale of even a small number of our common shares pursuant to Rule 144 or an effective registration statement may adversely affect the market price of our common shares.

***We have never paid dividends on our common shares and may not do so in the future.***

Holders of our common shares are entitled to receive such dividends as may be declared by our board of directors. To date, we have paid no cash dividends on our common shares and we do not expect to pay cash dividends on our common shares in the foreseeable future. We intend to retain future earnings, if any, to provide funds for operations of our business. Therefore, any return investors in our common shares may have will be in the form of appreciation, if any, in the market value of their common shares. See "Dividend Policy."

***If an active, liquid trading market for our Unit A Warrants does not develop, you may not be able to sell your Unit A Warrants quickly or at a desirable price.***

The Unit A Warrants forming a part of the units issued in this offering will be immediately exercisable and expire on the fifth anniversary of the date of issuance. The Unit A Warrants will have an initial exercise price per share equal to US$11.90. In the event that the stock price of our common shares does not exceed the exercise price of the Unit A Warrants during the period when the Unit A Warrants are exercisable, the Unit A Warrants may not have any value.

There is no established trading market for the Unit A Warrants sold in this offering, and to the extent a market develops, such market for the Unit A Warrants may be highly volatile or may decline regardless of our operating performance. The Unit A Warrants offered in this offering have been approved for listing on The Nasdaq Capital Market under the symbol "VSSYW." However, an active public market for our Unit A Warrants may not develop or be sustained. We cannot predict the extent to which investor interest in our company will lead to the development of an active trading market in our Unit A Warrants or how liquid that market might become. If a market does not develop or is not sustained, it may be difficult for you to sell your Unit A Warrants at the time you wish to sell them, at a price that is attractive to you, or at all.

***Holders of our warrants will have no rights as a common shareholder until they acquire our common shares.***

Until you acquire our common shares upon exercise of your warrants, you will have no rights as a shareholder in respect of the common shares underlying such warrants. Upon exercise of your warrants, you will be entitled to exercise the rights of a common shareholder only as to matters for which the record date occurs after the exercise date.

***Our articles and certain Canadian legislation contain provisions that may have the effect of delaying or preventing a change in control.***

Certain provisions of our articles could discourage potential acquisition proposals, delay or prevent a change in control and limit the price that certain investors may be willing to pay for our common shares. The material differences between the British Columbia Business Corporations Act, or BCBCA, and Delaware General Corporation Law, or DGCL, that may have the greatest such effect include, but are not limited to, the following: (i) for certain corporate transactions (such as mergers and amalgamations or amendments to our articles) the BCBCA generally requires the voting threshold to be a special resolution approved by 66 2/3% of shareholders, whereas DGCL generally only requires a majority vote; and (ii) under the BCBCA a holder of 5% or more of our common shares can requisition a special meeting of shareholders, whereas such right does not exist under the DGCL.

In addition, a non-Canadian must file an application for review with the Minister responsible for the Investment Canada Act and obtain approval of the Minister prior to acquiring control of a "Canadian Business" within the meaning of the Investment Canada Act, where prescribed financial thresholds are exceeded. Finally, limitations on the ability to acquire and hold our common shares may be imposed by the Competition Act (Canada). The Competition Act (Canada) establishes a pre-merger notification regime for certain types of merger transactions that exceed certain statutory shareholding and financial thresholds. Transactions that are subject to notification cannot be closed until the required materials are filed and the applicable statutory waiting period has expired or been waived by the Commissioner. However, the Competition Act (Canada) permits the Commissioner of Competition to review any acquisition or establishment, directly or indirectly, including through the acquisition of shares, of control over or of a significant interest in us, whether or not it is subject to mandatory notification. Otherwise, there are no limitations either under the laws of Canada or British Columbia, or in our articles on the rights of non-Canadians to hold or vote our common shares. Any of these provisions may discourage a potential acquirer from proposing or completing a transaction that may have otherwise presented a premium to our shareholders. We cannot predict whether investors will find our company and our common shares less attractive because we are governed by foreign laws.

***Because we are a corporation incorporated under the laws of British Columbia and some of our directors and officers are residents of Canada, it may be difficult for investors in the United States to enforce civil liabilities against us based solely upon the U.S. federal securities laws. Similarly, it may be difficult for Canadian investors to enforce civil liabilities against our directors and officers residing outside of Canada.***

We are a corporation incorporated under the laws of British Columbia. Some of our directors and officers and the auditors or other experts named herein are residents of Canada and all or a substantial portion of our assets and those of such persons are located outside the United States. Consequently, it may be difficult for U.S. investors to effect service of process within the United States upon us or our directors or officers or such auditors who are not residents of the United States, or to realize in the United States upon judgments of courts of the United States predicated upon civil liabilities under the U.S. federal securities laws. Investors should not assume that Canadian courts: (1) would enforce judgments of U.S. courts obtained in actions against us or such persons predicated upon the civil liability provisions of the U.S. federal securities laws or the securities or blue sky laws of any state within the United States or (2) would enforce, in original actions, liabilities against us or such persons predicated upon the U.S. federal securities laws or any such state securities or blue sky laws.

***As a result of becoming a reporting company under the Exchange Act, we will be obligated to develop and maintain proper and effective internal controls over financial reporting and any failure to maintain the adequacy of these internal controls may adversely affect investor confidence in our company and, as a result, the value of our common shares.***

We will be required, pursuant to Section 404 of the Sarbanes-Oxley Act, or Section 404, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting for the first fiscal year beginning after the effective date of this offering. This assessment will need to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting. Our independent registered public accounting firm will not be required to attest to the effectiveness of our internal control over financial reporting until our first annual report required to be filed with the SEC following the date we are no longer an emerging growth company, as defined in the JOBS Act. We will be required to disclose significant changes made in our internal control procedures on a quarterly basis.

We are beginning the costly and challenging process of compiling the system and processing documentation necessary to perform the evaluation needed to comply with Section 404, and we may not be able to complete our evaluation, testing and any required remediation in a timely fashion. Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management efforts. While we currently have an internal audit group, we may need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge and compile the system and process documentation necessary to perform the evaluation needed to comply with Section 404.

During the evaluation and testing process of our internal controls, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal control over financial reporting is effective. We cannot assure you that there will not be material weaknesses or significant deficiencies in our internal control over financial reporting in the future. Any failure to maintain internal control over financial reporting could severely inhibit our ability to accurately report our financial condition or results of operations. If we are unable to conclude that our internal control over financial reporting is effective, we could lose investor confidence in the accuracy and completeness of our financial reports, the market price of our common shares could decline, and we could be subject to sanctions or investigations by Nasdaq, the SEC or other regulatory authorities. Failure to remedy any material weakness in our internal control over financial reporting, or to implement or maintain other effective control systems required of public companies, could also restrict our future access to the capital markets.

***We are an emerging growth company within the meaning of the Securities Act, and if we take advantage of certain exemptions from disclosure requirements available to emerging growth companies, this could make our securities less attractive to investors and may make it more difficult to compare our performance with other public companies.***

We are an "emerging growth company" within the meaning of the Securities Act, as modified by the JOBS Act, and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the auditor internal controls attestation requirements of Section 404, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. As a result, our shareholders may not have access to certain information they may deem important. We could be an emerging growth company for up to five years, although circumstances could cause us to lose that status earlier, including if the market value of our common shares held by non-affiliates exceeds US$700 million as of any November 30 before that time, in which case we would no longer be an emerging growth company as of the following May 31. We cannot predict whether investors will find our securities less attractive because we will rely on these exemptions. If some investors find our securities less attractive as a result of our reliance on these exemptions, the trading prices of our securities may be lower than they otherwise would be, there may be a less active trading market for our securities and the trading prices of our securities may be more volatile.

Further, Section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a Securities Act registration statement declared effective or do not have a class of securities registered under the Exchange Act are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such election to opt out is irrevocable. We have elected not to opt out of such extended transition period which means that when a standard is issued or revised and it has different application dates for public or private companies, we, as an emerging growth company, can adopt the new or revised standard at the time private companies adopt the new or revised standard. This may make comparison of our financial statements with another public company which is neither an emerging growth company nor an emerging growth company which has opted out of using the extended transition period difficult or impossible because of the potential differences in accounting standards used.

***We will incur increased costs as a result of operating as reporting company under the Exchange Act, and our management will be required to devote substantial time to compliance with our reporting company responsibilities and corporate governance practices.***

As a reporting company under the Exchange Act, and particularly after we are no longer an "emerging growth company," we will incur significant legal, accounting and other expenses that we did not incur as a non-reporting company. The Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the listing requirements of The Nasdaq Capital Market and other applicable securities rules and regulations impose various requirements on public companies. We will also become obligated to file with the Canadian securities regulators similar reports pursuant to securities laws and regulations applicable in all the provinces and territories of Canada in which we will be a reporting issuer. Compliance with these laws and regulations will increase our legal and financial compliance costs and make some activities more difficult, time-consuming or costly. Our management and other personnel will need to devote a substantial amount of time to compliance with these requirements. Moreover, these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly. For example, we expect that these rules and regulations may make it more difficult and more expensive for us to obtain directors' and officers' liability insurance, which could make it more difficult for us to attract and retain qualified members of our board of directors. We cannot predict or estimate the amount of additional costs we will incur as a public company or the timing of such costs.

***We are a foreign private issuer under the rules and regulations of the SEC and, thus, are exempt from a number of rules under the Exchange Act and are permitted to file less information with the SEC than a company incorporated in the U.S.***

As a foreign private issuer under the Exchange Act, we are exempt from certain rules under the Exchange Act, including the proxy rules, which impose certain disclosure and procedural requirements for proxy solicitations. Moreover, we are not required to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies with securities registered under the Exchange Act; we are not required to file financial statements prepared in accordance with U.S. generally accepted accounting principles; and we are not required to comply with SEC Regulation FD, which imposes certain restrictions on the selective disclosure of material information. In addition, our officers, directors and principal shareholders are not subject to the reporting or short-swing profit recovery provisions of Section 16 of the Exchange Act or the rules under the Exchange Act with respect to their purchases and sales of our common shares. Accordingly, you may receive less information about us than you would receive about a company incorporated in the United States and may be afforded less protection under the U.S. federal securities laws than you would be afforded with respect to a company incorporated in the United States. If we lose our status as a foreign private issuer at some future time, we will no longer be exempt from such rules and, among other things, will be required to file periodic reports and financial statements as if we were a company incorporated in the United States. The costs incurred in fulfilling these additional regulatory requirements could be substantial.

Additionally, pursuant to the Nasdaq Listing Rules, as a foreign private issuer, we may elect to follow our home country practice in lieu of the corporate governance requirements of the Nasdaq Listing Rules, with the exception of those rules that are required to be followed pursuant to the provisions of the Nasdaq Listing Rules. We have elected to follow Canadian practices in lieu of the requirements of the Nasdaq Listing Rules to the extent permitted under Nasdaq Listing Rule 5615(a)(3).

***U.S. Holders of our common shares may suffer adverse tax consequences if we are treated as a passive foreign investment company.***

A non-U.S. corporation generally will be treated as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes, in any taxable year if either (1) at least 75% of its gross income for such year is passive income (such as interest income) or (2) at least 50% of the value of its assets (based on an average of the quarterly values of the assets) during such year is attributable to assets that produce or are held for the production of passive income. Based on the current and anticipated composition of the income, assets and operations of the Company and its subsidiaries, we do not believe that we will be a PFIC for U.S. federal income tax purposes for the current taxable year or for future taxable years. However, the application of the PFIC rules is subject to uncertainty in several respects, and a separate determination must be made after the close of each taxable year as to whether we are a PFIC for that year. Changes in the composition of our income or assets may cause us to become a PFIC. Accordingly, there can be no assurance that we will not be a PFIC for any taxable year. If we are a PFIC for any taxable year during which a U.S. Holder (as that term is defined below in "Material U.S. Federal Income Tax Considerations for U.S. Holders") holds our common shares, such U.S. Holder may be subject to adverse tax consequences. In particular, absent certain elections, a U.S. Holder would generally be subject to U.S. federal income tax at ordinary income tax rates, plus a possible interest charge, in respect of a gain derived from a disposition of our common shares, as well as certain distributions by us. The PFIC rules are complex, and each prospective investor is strongly urged to consult its tax advisors regarding the application of these rules to such investor's particular circumstances. See "Material United States Federal Income Tax Considerations for U.S. Holders".

***Changes to tax laws may have an adverse impact on us and holders of our common shares.***

Changes in tax laws, including amendments to tax laws, changes in the interpretation of tax laws, or changes in the administrative pronouncements or positions by the Canada Revenue Agency, or CRA, may have a material adverse effect on us. In addition, tax authorities could disagree with us on tax filing positions taken by us and any reassessment of our tax filings could result in material adjustments of tax expense, income taxes payable and deferred income taxes.

Changes in tax laws, including amendments to tax laws, changes in the interpretation of tax laws or changes in the administrative pronouncements or positions by the CRA, may also have a material adverse effect on our shareholders and their investment in our common shares. Purchasers of our common shares should consult their tax advisors regarding the potential tax consequences associated with the acquisition, holding and disposition of our common shares in their particular circumstances.

## CURRENCY AND EXCHANGE RATE INFORMATION

The following table sets forth, for each period indicated, the period-end and the high and low exchange rate for U.S. dollars expressed in Canadian dollars, and the average exchange rate for the periods indicated. These rates are based on the noon buying rate certified for custom purposes by the U.S. Federal Reserve Bank of New York set forth in the H.10 statistical release of the Federal Reserve Board. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this prospectus or will use in the preparation of any other reports or information to be provided to you. We make no representation that any Canadian dollar or U.S. dollar amounts referred to in this prospectus could have been or could be converted into U.S. dollars or Canadian dollars, as the case may be, at any particular rate or at all. We maintain our books and records and have presented our results of operations in Canadian dollars.

On December 18, 2020, the noon buying rate was US$1.00 = C$1.28.

| | Period End | Period Average | Low | High |
|---|---|---|---|---|
| | | (C$ per US$) | | |
| **Year Ended December 31:** | | | | |
| 2013 | 1.0637 | 1.0300 | 0.9839 | 1.0697 |
| 2014 | 1.1601 | 1.1043 | 1.0634 | 1.1644 |
| 2015 | 1.3839 | 1.2791 | 1.1725 | 1.3970 |
| 2016 | 1.3426 | 1.3243 | 1.2544 | 1.4592 |
| 2017 | 1.2517 | 1.2984 | 1.2131 | 1.3745 |
| 2018 | 1.3644 | 1.2957 | 1.2280 | 1.3650 |
| 2019 | 1.2962 | 1.3269 | 1.2962 | 1.3591 |
| | | | | |
| **2020:** | | | | |
| January | 1.3220 | 1.3089 | 1.2964 | 1.3220 |
| February | 1.3411 | 1.3286 | 1.3217 | 1.3411 |
| March | 1.4123 | 1.3960 | 1.3334 | 1.4539 |
| April | 1.3911 | 1.4048 | 1.3903 | 1.4222 |
| May | 1.3809 | 1.3972 | 1,3763 | 1.4143 |
| June | 1.3614 | 1.3551 | 1.3379 | 1.3695 |
| July | 1.3384 | 1.3497 | 1.3364 | 1.3606 |
| August | 1.3042 | 1.3222 | 1.3042 | 1.3377 |
| September | 1.3339 | 1.3222 | 1.3055 | 1.3396 |
| October | 1.3318 | 1.3214 | 1.3122 | 1.3349 |
| November | 1.2990 | 1.3173 | 1.2917 | 1.3367 |

## USE OF PROCEEDS

We estimate that the net proceeds from this offering will be approximately US$8,000,000 (or US$9,200,000 if the underwriters exercise their option to purchase additional units in full) assuming a public offering price of US$11.90 per unit (based upon the last reported sale price of our common shares on the OCTQB on December 21, 2020), and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

Each US$1.00 increase or decrease in the assumed public offering price of US$11.90 per unit would increase or decrease, as applicable, the net proceeds to us from this offering, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us, by approximately US$672,000, assuming that the number of units offered by us, as set forth on the cover page of this prospectus, remains the same. We may also increase or decrease the number of units we are offering. Each increase or decrease of 1.0 million units in the number of units we are offering at the assumed public offering price of US$11.90 per share would increase or decrease, as applicable, the net proceeds to us from this offering, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us, by approximately US$11.9 million.

We currently intend to use the net proceeds from this offering to repay in full at the closing of this offering a loan from The Sandoval Pierce Family Trust Established May 20, 2015, whose trustee is our Chief Executive Officer, Matthew Pierce, in the principal amount of US$250,000 and the balance for working capital and general corporate purposes, including marketing and sales expenses, the costs and expenses of our continuing development of our prizing and rewards platform and salaries and wages. General corporate purposes may also include capital expenditures. Due to the uncertainties inherent in the product development process, it is difficult to estimate with certainty the exact amounts of the net proceeds from this offering that may be used for the above purposes. The amounts and timing of our actual expenditures will depend upon numerous factors, including the progress of our product development activities, any collaborations that we may enter into with third parties for our products or strategic opportunities that become available to us, our sales and marketing and commercialization efforts, our operating costs, as well as unforeseen cash needs. The loan we received from The Sandoval Pierce Family Trust Established May 20, 2015 was made on March 12, 2020, matures on March 12, 2022, bears interest at a variable rate equal to the prime rate of the Bank of Canada and was also used for working capital and general corporate purposes.

We would receive additional gross proceeds of approximately US$16,000,000 if all of the warrants included in the units are exercised, assuming no exercise of the underwriter's over-allotment option and the representative's warrants. We intend to use any such proceeds for working capital and general corporate purposes.

Based on our current business plan, we believe that our existing cash, together with the net proceeds from this offering as described above, will be sufficient to enable us to fund our operating expenses and capital expenditure requirements through the 12-month period following completion of the offering. We have based this estimate on assumptions that may prove to be wrong, and we could use our available capital resources sooner than we currently expect.

Pending their use as described above, we plan to invest the net proceeds in short-term, interest-bearing obligations, investment-grade instruments, certificates of deposit or guaranteed obligations of the U.S. government.

## MARKET FOR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

### Market Information For Common Shares

Our common shares are traded under the ticker symbol "VS" on the CSE and under the ticker symbol "VRSSF" (or under the ticker symbol "VRSSFD" until January 12, 2021 due to our recent reverse share split of our common shares) on the OTCQB tier of the OTC Markets, Inc. On December 21, 2020, the closing price of our common shares on the CSE was C$15.15 and the closing bid price of our common shares on the OTCQB was US$11.90 (in each case based upon the last reported sale of our common shares on the CSE and the OCTQB, respectively, on December 21, 2020).

### Holders

As at August 11, 2020, the registrar and transfer agent for our common shares reported that there were 9,376,680 common shares of our company issued and outstanding. Of these, 8,257,210 were registered to Canadian residents, including 6,949,448 shares registered to CDS & Co., which is a nominee of the Canadian Depository for Securities Limited. The 8,257,210 shares were registered to 917 shareholders in Canada, one of which is CDS & Co. 765,857 of our shares were registered to residents of the United States, including one share registered to CEDE & Co., which is a nominee of Depository Trust Company. The 765,857 shares were registered to 378 shareholders in the United States, one of which is CEDE & Co. 353,613 of our shares were registered to residents of other foreign countries (12 shareholders).

### Dividends

We have not declared any common share dividends to date. We have no present intention of paying any cash dividends on our common shares in the foreseeable future, as we intend to use earnings, if any, to generate growth. The payment by us of dividends, if any, in the future, is within the discretion of our board of directors and will depend upon, among other things, our earnings, capital requirements and financial condition, as well as other relevant factors. There are no material restrictions in our articles that restrict us from declaring dividends.

## CAPITALIZATION

The table below sets forth our cash and cash equivalents and capitalization as of September 30, 2020:

- on an actual basis;
- on a pro forma basis to reflect (i) the private sale of 625,000 units, each unit consisting of one common share and a warrant to purchase one common share, for a purchase price of $4.00 per unit, and (ii) the exercise of warrants outstanding at September 30, 2020 to purchase an aggregate of 641,939 common shares at a weighted average exercise price of $5.28 per share, in each case subsequent to September 30, 2020; and
- on a pro forma as adjusted basis to give effect to (i) the sale of 672,269 units by us in this offering at the assumed public offering price of US$11.90 per unit (based upon the last reported sale of our common shares on the OCTQB on December 21, 2020), and to reflect the application of the proceeds therefrom after deducting the estimated 8% underwriting discounts and commissions and approximately US$540,000 of estimated offering expenses payable by us, and (ii) the exchange at the closing of this offering of promissory notes in the aggregate principal amount of US$1,500,000 outstanding at September 30, 2020, and accrued interest thereon, for 136,870 units that are comprised of the same securities, and are valued at an amount equal to the purchase price of, the units offered by us in this offering, which is assumed to be US$11.90 per unit.

The pro forma information set forth in the table below is illustrative only and will be adjusted based on the actual public offering price and other terms of this offering determined at pricing. You should read the information in this table together with our financial statements and accompanying notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this prospectus.

| | As of September 30, 2020 | | |
|---|---|---|---|
| | **Actual** | **Pro forma** | **Pro forma As Adjusted** |
| | | (unaudited) | |
| **Cash and Cash Equivalents** | $ 21,954 | $ 5.909,526 | $ 14,630,328 |
| **Liabilities:** | | | |
| Government note | 78,106 | 78,106 | 78,106 |
| Notes payable | 6,139,565 | 6,139,565 | 4,259,988 |
| Total liabilities | 9,018,259 | 9,018,259 | 6,973,881 |
| **Equity** | | | |
| Share capital | | | |
| Common shares, no par value; unlimited shares authorized and 9,375,778 shares issued and outstanding on an actual basis, 10,642,717 shares issued and outstanding on a pro forma basis and 11,451,856 shares issued and outstanding on a pro forma as adjusted basis | 102,561,956 | 108,449,528 | 119,255,130 |
| Class A shares; 5,057 shares authorized and 5,057 issued and outstanding on an actual and on a pro forma and a pro forma as adjusted basis | 37,927 | 37,927 | 37,927 |
| Reserves | 11,276,623 | 11,276,623 | 11,276,623 |
| Deficit | (112,170,746) | (112,170,746) | (112,211,169) |
| Total Equity before non-controlling interest | 1,705,760 | 7,593,332 | 18,358,511 |
| **Non-controlling interest** | (7,408,341) | (7,408,341) | (7,408,341) |
| Total Equity | (5,702,581) | 184,991 | 10,950,170 |
| **Total Liabilities and Equity** | $ 3,315,678 | $ 9,203,250 | $ 17,924,052 |

Each US$1.00 increase (decrease) in the assumed public offering price of US$11.90 per unit would increase (decrease) the pro forma as adjusted net tangible cash and cash equivalents after giving effect to this offering by approximately US$672,000 assuming no change to the number of units offered by us as set forth on the front cover page of this prospectus and after deducting the estimated underwriting commissions and expenses payable by us.

The foregoing table and calculations are based on 9,375,778 of our common shares outstanding as of September 30, 2020, and excludes:

- 1,344,538 common shares issuable upon exercise of the units offered hereby and 273,740 common shares issuable upon exercise of the warrants to be issued in the Debt Exchange;
- 3,412,050 common shares issuable upon exercise of outstanding warrants at September 30, 2020 with a weighted average exercise price of $5.31;
- 1,331,966 common shares reserved for issuance upon the exercise of outstanding stock options at September 30, 2020 with a weighted average exercise price of $4.64 issued pursuant to our 2017 Stock Option Plan;
- 309,548 common shares issuable upon conversion of outstanding Versus Systems (Holdco) shares; and
- 80,673 common shares issuable upon exercise of warrants to be issued to the underwriters in connection with this offering.

## DILUTION

If you invest in our units in this offering, your ownership interest in our common shares will be diluted immediately to the extent of the difference between the public offering price per common share and the pro forma net tangible book value per common share immediately after this offering.

As of September 30, 2020, we had a historical net tangible book value (deficit) of $(8,101,633), or $(0.86) per common share (or a loss of US$0.68 per common share) based on 9,375,778 common shares outstanding at September 30, 2020. Our historical net tangible book value per share is the amount of our total tangible assets less our total liabilities at September 30, 2020, divided by the number of our common shares outstanding at September 30, 2020.

Dilution results from the fact that the per common share public offering price is substantially in excess of the book value per common share attributable to the existing shareholders for our presently outstanding common shares. After giving effect to (i) our issuance and sale of 672,269 units in this offering at an assumed public offering price of US$11.90 per unit (based upon the last reported sale of our common shares on the OCTQB on December 21, 2020), and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us, (ii) the conversion of US$1.5 million of debt and accrued interest thereon into common shares at US$11.90 per share at the closing of this offering, (iii) the issuance of 625,000 common shares at $4.00 per share subsequent to September 30, 2020, and (iv) the issuance of 641,939 common shares upon the exercise of warrants at an average price of $5.28 per share subsequent to September 30, 2020, the pro forma as adjusted net tangible book value as of September 30, 2020 would have been $8,551,118, or $0.75 per common share (or US$0.58 per common share). This represents an immediate increase in pro forma as adjusted net tangible book value of US$1.26 per common share to existing shareholders and immediate dilution of US$11.28 per common share to new investors purchasing common shares in this offering.

The following table illustrates the estimated net tangible book value per common share after this offering and the per common share dilution to persons purchasing common shares in this offering based on the foregoing offering assumptions, including the assumed conversion rate of the net proceeds of this offering from U.S. dollars to Canadian dollars at the rate of US$1.00=C$1.28:

| | | US$ |
|---|---|---|
| Assumed offering price per unit | | $ 11.90 |
| Net tangible book value per common share as of September 30, 2020 | $ (0.68) | |
| Increase in net tangible book value per common share attributable to investors participating in this offering | 1.26 | |
| Pro forma as adjusted net tangible book value per common share immediately after this offering | | 0.58 |
| Dilution per common share to investors participating in this offering | | $ 11.32 |

A US$1.00 increase (decrease) in the assumed public offering price of US$11.90 per unit would increase (decrease) the pro forma as adjusted net tangible book value per share by approximately US$0.05 and the dilution in pro forma net tangible book value per share to investors participating in this offering by US$0.95 per share, assuming that the number of common shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions, non-accountable expense allowance, and offering expenses payable by us.

The foregoing table and calculations are based on 9,375,778 of our common shares outstanding as of September 30, 2020, and excludes:

- 1,344,538 common shares issuable upon exercise of the units offered hereby and 273,740 common shares issuable upon exercise of the warrants to be issued in the Debt Exchange;
- 3,412,050 common shares issuable upon exercise of outstanding warrants at September 30, 2020 with a weighted average exercise price of $5.31;
- 1,331,966 common shares reserved for issuance upon the exercise of outstanding stock options at September 30, 2020 with a weighted average exercise price of $4.64 issued pursuant to our 2017 Stock Option Plan;
- 309,548 common shares issuable upon conversion of outstanding Versus Systems (Holdco) shares; and
- 80,673 common shares issuable upon exercise of warrants to be issued to the underwriters in connection with this offering.

The information discussed above is illustrative only and will adjust based on the actual public offering price, the actual number of units that we offer in this offering, and other terms of this offering determined at pricing. In addition, the information discussed above assumes no exercise of the underwriter's over-allotment option.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our audited consolidated financial statements and the related notes included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this prospectus.

The following discussion and analysis of our financial condition and results of operations for the years ended December 31, 2019 and 2018 should be read in conjunction with our consolidated financial statements and related notes to those consolidated financial statements that are included elsewhere in this prospectus and with our unaudited interim consolidated financial statements as of September 30, 2020 and for the nine-month periods ended September 30, 2020 and 2019. Certain information contained in the discussion and analysis set forth below includes forward-looking statements that involve risks and uncertainties.

### Overview

We offer a business-to-business software platform that allows video game publishers and developers, as well as other interactive media content creators, to offer in-game prizing and rewards, based on the completion of in-content challenges. The prizes available are specific to each player based on a variety of characteristics, including age, location, game played, and challenged played. Our platform facilitates several types of single player prize challenges that includes a wide range of prize types including, coupons, sweepstakes-style prizes, CPG, and DLC. We sell the opportunity to place in-game prizes to advertisers who wish to place product in-game, sharing a certain portion of the gross receipts with the content and game owners. Our current agreements range from 50% to 60% of revenue being shared with the publisher/developers, with the remaining 50% to 40% of gross receipts belonging to us.

We believe our platform is mutually-beneficial across three targets. Content providers gain increased interaction with their media experience. Brands see a prolonged increase of interests from players and consumers viewing their goods as a positive win rather than a distraction from content. Players and consumers want to interact with content that provides access to these wins, increasing the value of the content as a supplier of opportunities, of the brands as prizes, and of the experience itself as an interactive and desirable challenge.

Our platform allows consumers to become active ad participants seeking a claim to placed brands as victories won through interactions with a variety of media experiences. Users are no longer "just" winning a game or streaming their favorite film. These interactions now bestow bragging rights that extend past the media's original purpose, resulting in winning real world goods and gaining access to experiences.

### Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with the IFRS as issued by the IASB, and Interpretations issued by the IFRIC. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We continually evaluate our estimates, including those related to the allowance for doubtful accounts, the useful life of property and equipment, assumptions used in assessing impairment of long-term assets, and valuation of deferred tax assets.

We base our estimates on historical experience and on various other assumptions that we believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Any future changes to these estimates and assumptions could cause a material change to our reported amounts of revenues, expenses, assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

Our consolidated financial statements are prepared in accordance with IFRS as issued by the IASB. Some of the accounting methods and policies used in preparing the financial statements under IFRS are based on complex and subjective assessments by our management or on estimates based on past experience and assumptions deemed realistic and reasonable based on the circumstances concerned. The actual value of our assets, liabilities and shareholders' equity and of our earnings could differ from the value derived from these estimates if conditions changed and these changes had an impact on the assumptions adopted.

Our significant accounting policies that we believe to be critical to the judgments and estimates used in the preparation of our financial statements are included in "note 2 — Basis of Presentation" and "note 3 — Significant Accounting Policies" to our consolidated financial statements included elsewhere in this prospectus.

**Significant Components of Our Results of Operations**

***Revenue.*** In general, we recognize revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to us, where there is evidence of an arrangement, when the selling price is fixed or determinable, and when specific criteria have been met or there are no significant remaining performance obligations for each of our activities as described below. Foreseeable losses, if any, are recognized in the year or period in which the loss is determined.

We earn revenue in two primary ways: 1) development and maintenance of custom-built software or other professional services, or 2) the sale of advertising.

We recognize revenues received from the development and maintenance of custom-built software and other professional services provided upon the satisfaction of our performance obligation in an amount that reflects the consideration to which we expect to be entitled in exchange for those services. Performance obligations can be satisfied either at a single point in time or over time. For those performance obligations that are satisfied at a single point in time, the revenue is recognized at that time. For each performance obligation satisfied over time, we recognize revenue by measuring the progress toward complete satisfaction of that performance obligation.

For revenues received from the sales of advertising, we are deemed the agent in our revenue agreements. We do not own or obtain control of the digital advertising inventory. We recognize revenues upon the achievement of agreed-upon performance criteria for the advertising inventory, such as a number of views, or clicks. As we are acting as an agent in the transaction, we recognize revenue from sales of advertising on a net basis, which excludes amounts payable to partners under our revenue sharing agreements.

Our contracts with customers may include multiple performance obligations. For these contracts, we account for individual performance obligations separately if they are capable of being distinct within the context of the contract. Determining which performance obligations are considered distinct may require significant judgment. Judgment is also required to determine the amount of revenue associated with each distinct performance obligation.

***Operating Expenses.*** We classify our operating expense as sales and marketing, and general and administrative. Personnel costs are the primary component of each of these operating expense categories, which consist of cash-based personnel costs, such as salaries, benefits and bonuses. Additionally, we separate intangible amortization, amortization expense, interest expense, professional fees and share-based compensation into its own category.

***Employee Benefit and Other Expenses.*** Our employee benefit and other expenses primarily consist of non-labor overhead expenses, which include health benefits, utilities, software cost to run the back office operations of our company.

***Salaries and Wages Expenses.*** Our salaries and wages are primarily made up of salaries paid directly to our engineers, which comprise most of the employee base within our company. This amount also includes the related payroll taxes and accrued bonuses.

***Sales and Marketing Expenses.*** Sales and marketing expenses consist primarily of the costs of the advertisements and promotions we run in order to expand awareness of our product offerings.

**Results of Operations**

**Comparison of Results of Operations for the Nine Months Ended September 30, 2020 and 2019**

The following table summarizes our results of operations for the nine months ended September 30, 2020 and 2019:

| | For the Nine Months Ended September 30, | |
|---|---|---|
| | **2020** | **2019** |
| | **(unaudited)** | |
| **Statement of Operations and Comprehensive Income (Loss) Data:** | | |
| Revenue | $ 1,368,924 | $ 654,324 |
| Amortization | (246,802) | (252,838) |
| Amortization of intangible assets | (1,314,342) | (2,379,591) |
| Consulting fees | (511,815) | (625,560) |
| Foreign exchange gain (loss) | (210,419) | (53,868) |
| Employee benefit and other expense | (773,270) | (856,347) |
| Interest expense | (179,386) | (128,333) |
| Interest expense on lease obligations | (63,500) | (81,940) |
| Professional fees | (873,872) | (320,093) |
| Salaries and wages | (1,953,921) | (2,178,669) |
| Sales and marketing | (230,952) | (657,582) |
| Share-based compensation | (1,161,925) | (577,987) |
| **Operating loss** | **(6,151,280)** | **(7,458,484)** |
| Finance expense | (293,583) | (193,811) |
| Loss on disposal of shares | (508,050) | - |
| Other expense | (80,085) | 299 |
| **Net loss** | **$ (7,032,998)** | **$ (7,651,996)** |
| **Net loss per share (basic and diluted)** | **$** (0.62) | **$** (0.60) |

***Revenue***

Our revenues are derived from two primary sources: advertising and services related to integration. Revenue was $1,368,924 for the nine months ended September 30, 2020, representing an increase of $714,600, or 109%, from $654,324 for the nine months ended September 30, 2019. The increase was primarily due to an increase in services revenue in the first nine months of 2020 to HP.

***Amortization of intangible assets***

Our 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. Amortization expense was $1,314,342 for the nine months ended September 30, 2020, representing a decrease of $1,065,249, or 45%, from $2,379,591 for the nine months ended September 30, 2019. The decrease was primarily due to prior-year projects becoming fully amortized in 2019.

***Foreign exchange***

We have operated to date primarily in the United States and Canada. Foreign exchange loss was $210,419 for the nine months ended September 30, 2020, representing an increase of $156,551, or 291%, from a loss of $53,868 for the nine months ended September 30, 2019. The increase in the loss was due to changes in the foreign exchange translation between the U.S. and Canadian dollar.

***Employee benefit and other expenses***

Employee benefit and other expenses were $773,270 for the nine months ended September 30, 2020, representing a decrease of $83,077, or 10%, from $856,347 for the nine months ended September 30, 2019. The decrease was primarily due to non-labor expenses related to additional employees being hired to support our operations.

***Professional Fees***

Professional fee expense was $873,872 for the nine months ended September 30, 2020, representing an increase of $553,779, or 173%, from $320,093 for the nine months ended September 30, 2019. The increase was primarily due to additional expenses incurred to support expansion of the business and the costs and expenses related to this offering.

***Salaries and wages***

Salaries and wages was $1,953,921 for the nine months ended September 30, 2020, representing an decrease of $224,748, or 10%, from $2,178,669 for the nine months ended September 30, 2019. The decrease was primarily due to wages being offset by our expected forgiveness of our government loan, which we were awarded to subsidize our payroll cost due to the effects of COVID-19.

***Share-based compensation***

Share-based compensation expense was $1,161,925 for the nine months ended September 30, 2020, representing an increase of $583,938, or 101%, from $577,987 for the nine months ended September 30, 2019. The increase is primarily was due to the timing of options vesting and the increase in the fair value of options issued.

***Loss from Operations***

Loss from operations was $6,151,280 for the nine months ended September 30, 2020, representing an decrease of $1,307,204, or 35%, from $7,458,484 for the nine months ended September 30, 2019. The decrease was primarily due to a decrease in payroll-related expenses and the amortization of intangible assets.

***Loss on Disposal of Marketable Securities***

Loss on disposal of marketable securities was $508,050 for the nine months ended September 30, 2020, representing an increase of $508,050, or 100%, from none for the nine months ended September 30, 2019. The increase was due to our purchase and sale of shares of capital stock of Animoca Brands Corporation Ltd. ("Animoca Brands") during the nine months ended September 30, 2020.

On July 25, 2019, we entered into a Mutual Investment Agreement with Animoca Brands, a Hong Kong-based leader in the field of digital entertainment, specializing in blockchain, gamification, and artificial intelligence technologies to develop and publish a broad portfolio of mobile gaming products such as *The Sandbox*, *Crazy Kings*, and *Crazy Defense Heroes,* as a step toward partnering with Animoca Brands to allow us to reach into a key growth market on a large scale.

The terms of the mutual investment agreement provided for a stock swap between Animoca Brands and our company in the amount of US$500,000 based upon, in the case of our common shares, the higher of (i) $ 0.23 per share, or (ii) the 21-day volume weighted average price per share of our common shares on the date the agreement was approved by our Board of Directors, and, in the case of the Animoca Brands shares, the higher of (i) AU$0.18 per share, or (ii) the 21-day volume weighted average price per share of the Animoca Brands shares as of the date the agreement was approved by the Animoca Brands shareholders. The transaction was consummated on April 6, 2020.

On April 28, 2020, we sold our acquired block of Animoca Brands stock to a buyer for the price of $0.05AU per share in order to provide immediate liquidity during the COVID-19 pandemic in advance of being approved for, or receiving, any funds from the Paycheck Protection Program for which we had applied. For financial accounting purposes, we had recorded the value of our Animoca Brands shares at $0.1614 per share, based on the closing price of our common shares on the Canadian Securities Exchange on the April 6, 2020 closing date. As a result, we recorded a loss of approximately $500,000 in connection with that transaction.

**Comparison of Results of Operations for the Years Ended December 31, 2019 and 2018**

The following table summarizes our results of operations for the year ended December 31, 2019 and 2018:

| | For the Year Ended December 31, | |
|---|---|---|
| | **2019** | **2018** |
| **Statement of Operations and Comprehensive Income (Loss) Data:** | | |
| Revenue | $ 664,922 | $ 1,620 |
| Delivery costs | - | (170) |
| Amortization | (327,221) | (29,642) |
| Amortization of intangible assets | (2,530,590) | (2,965,035) |
| Consulting fees | (814,128) | (1,177,405) |
| Foreign exchange gain (loss) | (38,797) | (147,723) |
| Employee benefit and other expenses | (669,586) | (1,305,652) |
| Interest expense | (225,334) | (77,669) |
| Interest expense on lease obligations | (104,384) | - |
| Professional fees | (445,603) | (621,979) |
| Salaries and wages | (3,252,789) | (2,074,554) |
| Sales and marketing | (787,398) | (199,412) |
| Share-based compensation | (839,249) | (651,316) |
| **Operating loss** | **(9,370,157)** | **(9,248,487)** |
| Finance expense | (257,448) | (125,903) |
| Other income (expense) | - | 1,219 |
| **Net loss** | **$ (9,627,605)** | **$ (9,373,171)** |
| **Net loss per share (basic and diluted)** | **$ (0.98)** | **$ (0.86)** |

***Revenue***

Revenue was $664,922 for the year ended December 31, 2019, representing an increase of $663,302, or 100%, from $1,620 for the year ended December 31, 2018. The increase was primarily due to an increase in services related to integration being completed in 2019.

***Amortization of intangible assets***

Amortization expense was $2,530,590 for the year ended December 31, 2019, representing a decrease of $434,445, or 15%, from $2,965,035 for the year ended December 31, 2018. The decrease was primarily due to prior year projects becoming fully amortized in 2019.

***Consulting fees***

Consulting fees expense was $814,128 for the year ended December 31, 2019, representing a decrease of $363,277, or 31%, from $1,177,405 for the year ended December 31, 2018. The decrease was primarily due to less outside experts needed to support our operations.

***Employee benefit and other expenses***

Employee benefit and other expenses was $669,586 for the year ended December 31, 2019, representing a decrease of $636,066, or 49%, from $1,305,652 for the year ended December 31, 2018. The decrease was primarily due to less non-labor overhead needed in order to support our operations, including recruiting fees and IT-related costs.

***Professional fees***

Professional fee expense was $445,603 for the year ended December 31, 2019, representing a decrease of $176,376, or 28%, from $621,979 for the year ended December 31, 2018. The decrease was primarily due to a reduction in outside service providers assisting with our operations.

***Salaries and wages***

Salaries and wages was $3,252,789 for the year ended December 31, 2019, representing an increase of $1,178,235, or 57%, from $2,074,554 for the year ended December 31, 2018. The increase was primarily due to additional employees being hired in order to support our operations along with higher wages being earned.

***Sales and marketing***

Sales and marketing expense was $787,398 for the year ended December 31, 2019, representing an increase of $587,986, or 295%, from $199,412 for the year ended December 31, 2018. The increase was primarily due to increased spending on market awareness advertising campaigns.

***Share-based compensation***

Share-based compensation expense was $839,249 for the year ended December 31, 2019, representing an increase of $187,933, or 29%, from $651,316 for the year ended December 31, 2018. The increase was primarily due to timing of options vesting and the increase in the fair value of options issued.

***Loss from Operations***

Loss from operations was $9,370,157 for the year ended December 31, 2019, representing an increase of $121,670, or 1%, from $9,248,487 for the year ended December 31, 2018. The increase was due to an increase in payroll related expenses and sales and marketing expenses that were offset by a decrease of intangible assets and general and administrative expenses.

***Finance expense***

Finance expense was $257,448 for the year ended December 31, 2019, representing an increase of $131,545, or 104%, from $125,903 for the year ended December 31, 2018. The increase was due to additional debt we incurred at below market interest rates.

**Liquidity and Capital Resources**

Our financial condition and liquidity is and will continue to be influenced by a variety of factors, including:

- our ability to generate cash flows from our operations;
- future indebtedness and the interest we are obligated to pay on this indebtedness;
- the availability of public and private debt and equity financing;
- changes in exchange rates which will impact our generation of cash flows from operations when measured in CAD; and
- our capital expenditure requirements.

***Overview***

Since inception, we have incurred significant operating losses. For the nine months ended September 30, 2020 and 2019, we incurred net losses of $7.0 million and $7.7 million, respectively. For the years ended December 31, 2019 and 2018, we incurred net losses of $9.6 million and $9.4 million, respectively. To date, we have financed our operations primarily through private placements of equity securities and the issuance of debt securities. Our cash and cash equivalents as of September 30, 2020 was $0.2 million. Our primary cash needs are for working capital requirements, capital expenditures and to fund our operations.

We are subject to the risks and uncertainties associated with a new business. We believe that our current resources, the expected proceeds from forecasted billings and the net proceeds of this offering will be sufficient to fund our planned operations for the next 12 months. However, the report of our independent registered public accountants on our financial statements for the year ended December 31, 2019 stated that the material uncertainties resulting from our failure to achieve positive cash flows from operations, our inability to finance our day-to-day activities from operations and our expectation that we will incur further losses in the development of our business raise substantial doubt about our ability to continue as a going concern.

We plan to increase our cash flow from our operations to address some of our liquidity concerns. However, to execute our business plan, service our existing indebtedness and implement our business strategy, we anticipate that we will need to obtain additional financing from time to time and may choose to raise additional funds through public or private equity or debt financings, a bank line of credit, borrowings from affiliates or other arrangements. We cannot be sure that any additional funding, if needed, will be available on terms favorable to us or at all. Furthermore, any additional capital raised through the sale of equity or equity-linked securities may dilute our current shareholders' ownership in us and could also result in a decrease in the market price of our common shares. The terms of those securities issued by us in future capital transactions may be more favorable to new investors and may include the issuance of warrants or other derivative securities, which may have a further dilutive effect. Furthermore, any debt financing, if available, may subject us to restrictive covenants and significant interest costs. There can be no assurance that we will be able to raise additional capital, when needed, to continue operations in their current form. If we cannot raise needed funds, we might be forced to make substantial reductions in our operating expenses, including reductions in our research and development expenses or headcount reductions, which could adversely affect our ability to implement our business plan and ultimately our viability as a company.

**Cash Flows for the Nine Months Ended September 30, 2020 Compared to the Nine Months Ended September 30, 2019**

The following summarizes the key components of our cash flows for the nine months ended September 30, 2020 and 2019:

| | Nine Months Ended September 30, 2020 | Nine Months Ended September 30, 2019 |
|---|---|---|
| Net cash used in operating activities | $ (2,766,092) | $ (4,328,070) |
| Net cash used in investing activities | (742,651) | (1,507,850) |
| Net cash provided by financing activities | 3,431,488 | 6,491,164 |
| Net increase in cash | $ (77,255) | $ 655,244 |

*Operating Activities*

Net cash used in operating activities for the nine months ended September 30, 2020 was $2,766,092 as compared to $4,328,070 for the nine months ended September 30, 2019. The decrease in net cash used in operating activities was primarily attributable to the decrease of the loss for the period, decrease in the non-cash add backs and change in accrued in accounts payable and accrued liabilities.

*Investing Activities*

Net cash used in investing activities for the nine months ended September 30, 2020 was $742,651 as compared to $1,507,850 for the nine months ended September 30, 2019. The change in cash flow used in investing activities was primarily attributable to the timing of payments related to payroll capitalized for the development of intangible assets which was partially offset by proceeds from the sale of investments.

*Financing Activities*

Net cash provided by financing activities was $3,431,488 for the nine months ended September 30, 2020 as compared to $6,491,164 for the nine months ended September 30, 2019. The change in cash flow provided by financing activities was mainly attributable to proceeds from the issuance of share capital, exercise of warrants and proceeds from notes payables which was offset by payments on notes payable.

**Cash Flows for the year ended December 31, 2019 Compared to the year ended December 31, 2018**

The following summarizes the key components of our cash flows for the year ended December 31, 2019 and 2018:

| | Year Ended December 31, 2019 | Year Ended December 31, 2018 |
|---|---|---|
| Net cash used in operating activities | $ (5,467,875) | $ (5,075,945) |
| Net cash used in investing activities | (1,939,858) | (1,842,690) |
| Net cash provided by financing activities | 7,472,942 | 6,721,893 |
| Net increase (decrease) in cash | $ 65,209 | $ (196,742) |

*Operating Activities*

Net cash used in operating activities for the year ended December 31, 2019 was $5,467,875 as compared to $5,075,945 for the year ended December 31, 2018. The increase in net cash used in operating activities was primarily attributable to timing of non-cash working capital and the increase of the loss.

*Investing Activities*

Net cash used in investing activities for the year ended December 31, 2019 was $1,939,858 as compared to $1,842,690 for the year ended December 31, 2018. The change in cash flow used in investing activities was primarily attributable to the timing of payments related to payroll capitalized for the development of intangible assets.

*Financing Activities*

Net cash provided by financing activities was $7,472,942 for the year ended December 31, 2019 as compared to $6,721,893 for the year ended December 31, 2018. The change in cash flow provided by financing activities was mainly attributable to proceeds from the issuance of share capital, exercise of warrants and proceeds from notes payables which was offset by payments on notes payable.

**Indebtedness**

***Government Note***

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

The unforgiven portion of the PPP loans is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. We intend to use the proceeds for purposes consistent with the PPP. For the nine months ended September 30, 2020, we had incurred eligible payroll cost of $751,931 that were offset against the loan balance.

***Notes Payable***

From 2017 to September 30, 2020, we issued notes payable primarily to Brain Tingle, one of our directors. The notes payable bear interest at the prime rate of the Bank of Canada, which has ranged from 2.45% to 3.95% per annum, compounded annually and payable quarterly, and had a maturity date of three years from the date of issuance. The notes were considered below our estimated market borrowing rate of 10% and as such, a contribution benefit was recorded in reserves at the time of issuance for each note. As at September 30, 2020, we had recorded $413,553 in accrued interest that was included in accounts payable and accrued liabilities.

At the closing of this offering, outstanding notes in the principal amount of US$1,500,000, plus US$128,750 of accrued interest thereon, will be exchanged for units that are comprised of the same securities, and are valued at an amount equal to the purchase price of, the units offered by us in this offering, which is assumed to be US$11.90 per unit.

**Contractual Obligations and Off-Balance Sheet Arrangements**

***Contractual Obligations***

The following table summarizes our contractual obligations as of December 31, 2019 and the effects, including estimated interest payments, that such obligations are expected to have on our liquidity and cash flows in future periods:

| | Payment Due by Period | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Total** | **2020** | **2021** | **2022** | **2023** | **2024** | **Thereafter** |
| | **(in thousands)** | | | | | | |
| Note payable | $ (4,815) | $ (580) | $ (2,504) | $ (1,731) | $ — | $ — | $ — |
| Lease liabilities | (1,122) | (328) | (324) | (311) | (159) | — | — |
| **Total** | **$ (5,937)** | **$ (908)** | **$ (2,828)** | **$ (2,042)** | **$ (159)** | **$ —** | **$ —** |

***Off-balance Sheet Arrangements***

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

***Foreign Currency Exchange Rate Risk***

Our primary operations are in the United States. Thus, our revenues and operating results may be impacted by exchange rate fluctuations between Canadian dollars and U.S. dollars. For the nine months ended September 30, 2020 and 2019, the foreign currency translation gain/loss was not material to our financial statements.

***Inflation***

The effect of inflation on our revenue and operating results was not significant.

## BUSINESS

### Overview

We offer a proprietary business-to-business software platform that allows video game publishers and developers, as well as other interactive media content creators, to offer in-game prizing and rewards based on the completion of in-content challenges. The prizes or rewards offered are specific to each player or viewer based on a variety of user- and content-based characteristics, including age, location, game played and challenge undertaken. Our platform facilitates several types of single player prize challenges that includes a wide range of prize types, including coupons, sweepstakes-style prizes, consumer packaged goods ("CPG") and downloadable content ("DLC").

We believe our platform is mutually-beneficial across three target groups. By providing in-content prizes or rewards, content providers gain increased and longer interaction by users or viewers with the media experience they offer. Consumer brands offering in-content prizes or rewards see a prolonged and increased interest from players and consumers who view their goods as a positive "win" within their viewing experience rather than as a distraction from the content they are watching as is typically the case with traditional in-content advertising. Players and consumers who are offered prizes or rewards have an increased desire to interact with such content, which increases the value of the content as a supplier of prizing opportunities, of the brands that offer the prizes, and of the experience itself as an interactive and desirable challenge.

We market our platform and its benefits to two industry segments: the owners or developers of consumer brands and their marketing and advertising professionals and for media content creators, owners and platforms. To the owners or marketers of consumer brands, we sell the opportunity to place their products as prizes or rewards in selected on-line games, media or content and we share a certain percentage of the gross receipts we receive from such customers with the owners of the media in which the prizes or rewards are offered. Our current agreements with the owners or marketers of consumer brands provide that we are paid a fee to place their ads in content, the amount of which is based either on the number of ads placed or upon the performance of those ads relative to the brand's goals.

To content creators, owners and platforms, which currently include primarily video game developers and computer hardware manufacturers, we sell the opportunity to include our proprietary platform in their content or hardware and to use such platform as a basis for selling advertising to popular consumer brands. Our current agreements with content or game owners, including HP, Kast and Animoca Brands, provide that from 50% to 60% of advertising revenue will be kept by, or shared with, the publisher or developer, with the remaining 50% to 40% of gross receipts belonging to us. HP, our largest customer during the nine-months ended September 30, 2020 and the year ended December 31, 2019, installs our platform in its OMEN and Pavilion brands of personal computers that are manufactured primarily for gamers and general use as a means of increasing usage and desirability of those computers by consumers.

Our platform allows consumers to become active advertising participants by seeking to claim the brand's prizes or rewards as victories won through interactions with a variety of media experiences. Users are no longer "just" winning a game or streaming their favorite film. These interactions now bestow bragging rights on the consumers that extend past the media's original purpose, resulting in winning real world goods and gaining access to experiences.

According to a 2018 study by the University of California, Los Angeles Center for Management of Enterprise in Media, Entertainment and Sports, the introduction of rewards benefits content providers, brands and players in the following perspectives, leading to:

- 34% more play time;
- 77% more live viewers;
- 97% higher satisfaction while interacting with a virtual entertainment experience (i.e., video games);
- 10% increase in audience - 10% of players are new players, downloading the game for the first time because of prizes; and
- 4+ hours of additional engagement per week.

Our technology facilitates advertising as a narrative, not as a distraction. By creating an environment that makes brands part of a desired experience - winning prizes or rewards - we empower content providers and brands to engage consumers more effectively and for more extended periods of time.

**Our Strengths**

While we believe our overall value is generated from our ability to directly increase player and viewer engagement, we see the following as our core strengths:

- ***Choice and Earned-Rewards is a Better Model for Players***. While we sell our ad units to agencies, brands and companies that seek to reach media players and viewers, our primary goal will always be to make games and media experiences more fun. Our objective is to build ad units that do not increase viewer/player churn, but in fact increase player engagement. We believe our focus on how the player views the experience - offering them choice and an opportunity to both earn the reward and achieve the gratification of a successful win - will be the key differentiator in the in-game and in-app advertising market. While other competitors in the advertising industry may have more reach at the moment, we believe the increasing numbers of players who want the superior experience of rewards rather than banner ads, commercials and un-skippable videos will ultimately win out.

- ***Our Team is Diverse, Accomplished and Effective.*** We have brought together experts in the game industry, software development, advertising, product design and development, and corporate finance. Our Executive Chair, Keyvan Peymani, was the Head of Startup Marketing for Amazon Web Services, and our advisory board includes the former Vice President of Revenue for Activision Blizzard, the Chief Executive Officer of Radley Media, and a number of veterans of the global gaming industry. Our designers and engineers have built hundreds of successful products from games and apps, including the NFL.com fantasy football platform. We are curious, creative, community-oriented problem solvers who have come together to make a world-class software solution. As a result, we have won multiple awards as one of the best places to work in Los Angeles, and one of the best places to work anywhere for millennial women. We are extremely proud of our team and our culture. We believe it allows us to hire, retain, promote and develop the very best talent.

- ***Our Technology is Robust, Scalable and Flexible.*** We have architected a platform that will allow any content publisher to integrate real-world prizes into their system, and allow any brand or agency to place their products, discounts, codes and coupons into an earned-rewards framework. We have software development kits that are compatible with millions of games, and apps, as well as ways to work with iOS and Android devices, PCs, consoles, Apple TVs, and other peripherals. The back end of our platform is built in Elixir by some of the world-experts in that language. The Elixir back end allows the type of massively scalable system that will be required for AAA games and app partners with millions of users. The strengths of the code base are its ability to manage huge numbers of concurrent users with localized failure - such that if there is an issue with a single player's match it does not affect larger portions of the system. We can add new features, new games, entire new verticals easily. We can also adapt to changing regulatory environments around prizing, sweepstakes, privacy and other issues by managing our geofencing for where any given prize is offered. Our Dynamic Regulatory Compliance system is the direct result of years of thoughtful system architecture and development - an achievement that we believe sets us apart from competitors.

- ***Our IP portfolio is Strong and Growing.*** We have been issued two key patents from the U.S. Patent and Trademark Office (USPTO) with dozens of granted claims around how to offer players prizes in-game at scale. We have been awarded claims covering how to maintain and promote competitive balance in multiplayer games, how to use multi-factor tests to serve up only relevant prizing on a per-player basis, how to use a player's location, game, and age to determine eligibility for certain kinds of prizes in certain kinds of single player games, competitive games, tournaments, synchronous and asynchronous matches. We have several other patent filings in various stages at the USPTO and we are working with our technology and legal teams to develop new and defensible IP in this space. We want to be the only real solution for global in-game and in-app rewards.

- ***The Support of Our Partners Helps us Grow.*** Our rewards platform is currently deployed in all HP OMEN and HP Pavilion Gaming laptops and desktop computers in the U.S., and we launched our platform in China with HP in August 2020. Our multi-year agreement with HP is to bring rewards to all their players worldwide as a way to differentiate HP hardware and to engage with a massive global audience. Beyond HP, we are also partnered with Animoca Brands, a developer of games that have been downloaded hundreds of millions of times. We have also partnered with Ludare, a licensed mobile game developer that makes licensed games for titles in the *Men In Black* series. Beyond gaming, we are working with Kast, a video sharing application with millions of viewers, and are developing partnerships in the fitness/health and wellness industries. As we grow our user base, we believe we will become more desirable for brand and advertising partners and we expect to increase our transactional revenues exponentially while staying on a capital-efficient low-cost trajectory.

**Our Growth Strategy**

While other forms of advertising technology focus mostly upon increasing monetization only for the advertiser, we believe we change the universe of beneficiaries significantly. Our approach creates simultaneous wins for content providers, brands and consumers. We believe today's audiences not only seek engagement, but are also consummate purveyors of media, with no shortage of content choice. We recognize that keeping engagement high is the key to changing the negative association of traditional media advertising. By creating a prizing opportunity, brand introductions mean a chance to win rather than switching to another tab, source or device while waiting for selected content to return.

Our growth strategy can really be summarized into three areas: grow the audience, grow the prize provider pool, and then constantly iterate and improve.

The key elements of our long-term growth strategy include:

- ***Increase Applications and Verticals***. To grow our user base, we will seek to increase the number of games, applications and content providers that have integrated our platform across an increasing number of industries. Part of that process will involve making our platform easier to integrate into the wide variety of media, which we are doing, but the rest is putting our value proposition in front of a larger group of game and app developers. Integrating into new categories and industries allows us a greater pool of potential applications with which to integrate, and therefore a greater pool of potential users. We intend to focus on gaming, streaming media, and health & wellness applications, but may seek to expand to other verticals as opportunities arise. We believe this will significantly grow our user base.

- ***Integrate Into More Devices and Software Languages***. Our platform is currently available in applications running on laptops and desktops, as well as in mobile devices powered by iOS and Android operating systems through a series of software development kits (SDKs) which we have created. We strive to make our rewards platform available to, and compatible with, all kinds of devices. The current engineering roadmap includes additional support for the tens of millions of console gaming systems like the new Xbox and PlayStation consoles. We are also developing features for a number of wearable devices that are in the marketplace, which we believe will increase our user base in the health & wellness vertical.

- ***Develop a Global Reach***. The United States is one of the world's largest gaming markets, with nearly $37 billion in annual revenue according to a Newzoo 2020 Global Games Report. We intend to deepen our penetration of the U.S. market. However, we believe there is significant opportunity for expansion of our offerings into the rest of the world, starting with Asia and Europe. In August 2020, our platform became available for the first time in China, and we plan to expand in Asia and move into Europe in 2021. Because our platform is built to optimize value for a player based on his or her location, we believe we are uniquely positioned to offer location-specific rewards and prizes for players all over the world. As we move into new geographies, we believe we will gain new players and new brands and prize providers that can offer real, local value.

- ***Add More Prizing Partners***. Increasing the number of prize providers - the largest growth area for our company - and the one that will be the most lucrative - is at the center of our growth strategy. We have built out a sales team and we are adding both salespeople and sales assets to pursue both agencies and individual vendors who may want to use our platform to promote their businesses. At the same time, we are also working to make our tools easier for prizing partners to use - including building functionality for businesses that use e-commerce platforms such as the Shopify platform, and for others who want to self-direct their prizing campaigns.

- ***Constantly Improve Outcomes***. We are dedicated to improving the quality of the outcomes for our partners. We have developed a number of tools to evaluate the efficacy of each advertising campaign, and part of our value to our brand partners is providing them with anonymized but actionable information on each of their campaigns on our platform. Our analytics are focused on response rates, transaction rates, customer acquisition cost, and many other aspects of the step-by-step funnel from activation to registration, all the way through to lifetime customer value. We continually review outcomes and if there is a way to improve the transaction rate - to get winners, players or viewers to engage with our brand partners while retaining our core goal of making the media more fun - then we will make the necessary changes to improve those outcomes. This core tenet of our approach requires dedication to research, player and user outreach, surveys, and constant design improvements. We believe this strategy will produce yields in loyalty, affinity and Return on Ad Spend (ROAS) for our partners, which will drive future growth.

- ***Grow Revenues and Market Share***. We are always looking for opportunities to grow through selective acquisitions and while much of our current roadmap is devoted to organic growth, we are also aware of a number of potential partnerships through which we may gain market share through inorganic growth via selective acquisition. Performance marketing is a growing field, as is interactive media advertising, and there may be opportunities to grow our sales team, our service offerings or our reach through acquisition.

**Our Industry**

According to a Newzoo 2020 Global Games Report, the video game industry is over a $159.3-billion-dollar market, and has seen enormous change in the last ten years.

The way games are run has changed significantly in only ten years, from both an organizational and a business perspective, regardless of platform. When added to the ongoing global alignment of distribution channels, franchises and business models, it becomes clear that this is more than several individual trends happening simultaneously. Ultimately, the consumer has determined the pace of change. No other form of entertainment or media gives as much power to the consumer as games. Today, not only do games empower people to actively participate, but they also allow them to enjoy their passion for gaming in ways that suit any mood, interest, lifestyle, location and budget. Almost any new game includes competitive modes that could lead to a professional e-sports scene, including live events, pro-gamer heroes, and teams with millions of fans.

There are multiple games that have over one million daily active users, including several competitive multiplayer games that have developed their own professional electronic sports ("e-sports") communities. These e-sports competitions regularly draw spectators, both in-person and online, in the millions. The 2015 world championships of Defense of the Ancients ("DOTA"), a multiplayer online battle arena modification for the video game "*Warcraft III*" and its expansions, were held at Madison Square Garden in New York, and more people watched the 2015 League of Legends world championship online than watched all of the 2015 Stanley Cup Finals combined. ESPN Inc. and its affiliates now carry news of major e-sports events.

On the other hand, since the introduction of ad-funded television in the middle of the 20th century and continuing through the present day, most advertising inventory has been transacted based on a rate card. Publishers, content owners and their agents set a price for their inventory, and buyers place an order to purchase that inventory. Similar to how the equities and commodities markets have transitioned from paper transactions on trading floors to electronic trading, media advertising is transitioning from manual to programmatic.

Several trends happening in parallel are revolutionizing the way that media advertising is bought and sold. The rise of the Internet has led to wholesale changes in the way media is consumed and monetized, as ads can be digitally delivered on a one-to-one basis. In traditional methods of advertising, such as broadcast TV, ads can target a specific network, program or geography, but not a single household or individual as digital ads can.

We believe some of the key industry trends are:

***Media is Becoming Digital***. Media is increasingly becoming digital as a result of advances in technology and changes in consumer behavior. This shift has enabled unprecedented options for advertisers to target and measure their advertising campaigns across nearly every media channel and device. The digital advertising market is a significant and growing part of the total advertising market. According to International Data Corporation, a leading global provider of market intelligence (IDC), global advertising spend was approximately $651.7 billion in 2016 and is expected to grow to $767.1 billion in 2020, a compound annual growth rate of 4.2%. Also, according to IDC, global digital advertising spend was $205.4 billion in 2016 and is expected to grow to $339.9 billion in 2020, a compound annual growth rate of 13.4%. We believe the market is evolving and that advertisers will shift more spend to digital media. Since media is becoming increasingly digital, decisions based on consumer and behavioral data are more prevalent.

***Fragmentation of Audience***. As digital media grows, audience fragmentation is accelerating. A growing "long tail" of websites and content presents a challenge for advertisers trying to reach a large audience. Mirroring the fragmentation occurring in content, the number of devices used by individual consumers has increased. Both of these fragmentation trends are opportunities for technology companies that can consolidate and simplify media buying options for advertisers and their agencies.

***Shift to Programmatic Advertising***. We believe the advertising industry is in the early stages of a shift to programmatic advertising, which is the ability to buy and sell advertising inventory electronically. Initially available for digital display advertising and transacted through real-time bidding platforms, programmatic advertising has evolved and is increasingly being used to transact across a wide range of advertising inventory, including display, mobile, video and audio among other inventory types.

***Increased Use of Data***. Advances in software and hardware and the growing use of the Internet have made it possible to collect and rapidly process massive amounts of user data. Data vendors are able to collect user information across a wide range of Internet properties and connected devices, aggregate it and combine it with other data sources. This data is then made non-identifiable and available within seconds based on specific parameters and attributes. Advertisers can integrate this targeting data with their own or an agency's proprietary data relating to client attributes, the advertisers' own store locations and other related characteristics. Through the use of these data sources, together with real-time feedback on consumer reactions to the ads, programmatic advertising increases the value of impressions for advertisers, inventory owners and viewers who receive more relevant ads.

Driven by these industry trends, programmatic advertising is expected to grow from $19 billion during 2016 to $42 billion by 2020, according to Magna Global. We believe that programmatic advertising will continue to grow as more content providers, content distributors and advertisers are able to realize its benefits. In addition, we expect that programmatic advertising will help grow the overall advertising market by enabling more advertisers to deploy more spend across a broader range of inventory channels. We believe the enormous game industry and the industry trends in adversity present us excellent opportunities to further expand our platform, which smartly combines advertising into video games and other media sources.

**Our Services**

In addition to licensing our prizing and rewards platform, we provide the following services to our partners and customers:

- ***Design, Development, and Platform Integration Services***. Our patented platform can be integrated into games and interactive media through a number of Software Development Kits (SDKs), including SDKs for iOS, Android, Unity, C++ and others. We also work with partners such as HP to develop bespoke instances of our rewards platform, as we did with their OMEN Rewards system available inside OMEN Command Center in every HP OMEN and Pavillion gaming desktop and laptop. We also offer professional design, development and platform integration services to content partners who seek a more bespoke solution.

- ***White-Label Rewards Platforms***. Our technology can be easily integrated into mobile apps to track any behavior that a content, publishing, or health and fitness program partner may want to incentivize. We can also white label and/or license technologies like our stand-alone mobile app to enable partners to create an entire rewards ecosystem where activities in one application earn rewards or discounts from another part of the same company. For example, we can assist a partner in creating a mobile app that would allow a consumer to earn movie tickets to a comic book movie for purchasing or reading the online comic, or a consumer to earn discounts on in-stadium concessions or on team apparel for playing a sports trivia game or for watching games live on his or her mobile device. We work with content partners to create entire in-house rewards programs for their users that promote cross-sales within a company, or new channels for the sale of licensed goods, or new opportunities for event or brand sponsors. Our systems and applications can be white labeled and sold as a rewards platform for those partners looking to increase engagement and stickiness with their customers.

- ***Advertising services***. In connection with the placement or licensing of our platform, we market our services to brand partners to place their products, discounts or coupons into Versus-enabled content so that users, viewers and players can earn those rewards for their in-game or in-app behavior. When providing those services, we typically charge the brand only when a player attempts to win one of the brand's proffered prizes. However, in certain cases may also charge on a cost-per-click (CPC), cost-per-engagement (CPE) or a cost per acquisition (CPA) model.

**Recent Business Developments and Milestones**

Within the past year, we have had the following milestones occur in support of our company's growth strategy:

*Master Services Agreement With Sparx Technologies*

On December 2, 2020, we entered into a Master Services Agreement with Sparx Technology pursuant to which our prizing platform will be added to the Sparx Participation Platform, a second-screen engagement tool used by producers of live television, including NBC, ABC, Disney, CNN and others, to incentivize live television audiences to play live predictive, polling and trivia games, either at-home, in-stadium or in-venue, before or during the live event. Sparx Technology works with the broadcasters of a number of professional sports teams globally, including the NBA, NFL, MLB and the Argentine Primera Division. We estimate that the products we co-develop with Sparx Technology will be available in the first quarter of 2021 and will be launched during the up-coming NBA basketball season.

*BTC Studios Integration Agreement for European Games Developer*

On October 14, 2020, we entered into an agreement with BTC Studios, a European games developer and publisher focused on family-friendly mobile games, to bring our proprietary in-app rewards technology to BTC's free-to-play and family-friendly puzzle game, *"Taffy: Feed The Kitty."*

*China Launch with HP OMEN and Pavilion*

On August 24, 2020, we launched our platform in China. It is available as OMEN Rewards on HP's OMEN and Pavilion computers.

*ePlay Digital Health and Wellness Application*

On August 10, 2020, we announced an agreement with ePlay Digital to bring our proprietary in-app rewards technology to ePlay's health and wellness applications and platforms. With ePlay, we expand into the global wellness market, valued at over $4 trillion according to the Global Wellness Institute. ePlay's catalog of health, wellness and personal improvement applications further diversifies our content offerings for reward partners in video content platforms and lifestyle mobile applications.

*Kast Integration Agreement for Streaming Media*

On April 14, 2020, we announced an agreement with Kast to bring our proprietary in-app rewards technology to Kast's successful watch party platform. This is the first non-gaming content partner to integrate our rewards platform. Social streaming, watch parties and video are a part of a market that Business Wire estimates as a $250-billion-dollar global streaming market that is estimated to grow at 19% compound annual growth rate (CAGR) through 2024. Kast is a real-time video sharing app with screen capture, voice, text and video chat technology that makes it easy to connect with friends wherever they are in a watch party. Kast has recently been featured in well-known media outlets such as Wired, Mashable, The Next Web, The Evening Standard, NBC and others.

*Animoca Brands*

On April 9, 2020, we announced an agreement with Animoca Brands to bring our proprietary in-game rewards technology to mobile games developed by Animoca Brands. We are currently working with Animoca Brands to integrate real-world rewards into three of its mobile games. We have already negotiated a share swap and investment program, announced in August 2019, and have continued to expand upon that relationship in 2020. Animoca Brands leverages gamification, blockchain and artificial intelligence technologies to develop and publish a broad portfolio of mobile products, including games such as *The Sandbox*, *Crazy Kings* and *Crazy Defense Heroes* as well as products based on popular intellectual properties such as *Formula 1*®, *Garfield*, *Snoopy*, *Thomas & Friends*™, *Ever After High* and *Doraemon*. Animoca Brands' portfolio includes Lucid Sight, Dapper Labs (creators of CryptoKitties), WAX, Harmony, and Decentraland. Animoca Brands has operations in Hong Kong, Canada, Finland and Argentina.

*iClick Interactive Agreement*

On December 9, 2019, we entered into a commission sales agreement with iClick Interactive to collaborate and bring our technology to iClick's customer base in China. iClick is an independent online marketing and enterprise data solution provider in China that expertly connects brands to consumers in China with omnichannel, integrated, cross-platform and cross-screen advertising, leveraging its over 800 million Chinese consumers' dataset.

As discussed above, we first launched our platform in China in August 2020 and are currently testing that platform for technical, business and user interface and design issues. We anticipate a larger and more comprehensive launch of our platform in China during the first quarter of 2021, following which we expect to begin generating revenues from our iClick relationship as brands introduced by iClick begin using our platform to reach consumers by offering in-game prizing and rewards.

*Men in Black Launch*

On November 6, 2019, Ludare Games Group announced that a new in-game rewards feature powered by our prizing and rewards platform went live via an update to "*Men in Black: Global Invasion*," a location-based, augmented reality game based on the *Men in Black* film franchise. We began generating revenue from our partnership with Ludare Games Group in the second quarter of 2020 commensurate with the size of the player bases of the games into which our platform was installed, but do not expect to receive significant revenues from that relationship until such time as Ludare Games Group develops and begins marketing additional games that include our in-game prizing and rewards platform.

*HP Omen Rewards Launch*

In March 2019, Versus LLC entered into a Software License, Marketing and Linking Agreement with HP (the "HP Agreement") to provide for, among other matters, the agreement of HP to include a customized HP-branded version of our in-game prizing and rewards platform as a pre-installed software program in all of HP's OMEN and Pavilion brand personal computers that are sold throughout the world. Our obligations under the HP Agreement are divided into two categories:

1) The development and maintenance of custom-built software that we developed specifically for HP, which was delivered to HP; and

2) A revenue-sharing arrangement that describes how we and HP will derive revenues from advertisers and brands that pay to use our in-game rewards platform to reach HP's users. These revenues derive from an advertiser's or brand's use of our in-game rewards platform to allow HP's users to earn rewards from such advertiser or brand based on the in-game actions of HP's users.

In the first category of work, under the terms of the HP Agreement, we were obligated to develop custom software, including a Software Development Kit ("SDK") specific for HP that would allow HP laptop and desktop computers to access our prizing platform. As part of this performance obligation, we are required to maintain backwards compatibility of the customized HP SDK that will allow HP and HP users to access our platform. We are not required to provide new functionality for the platform even if new functionality becomes available through other SDKs that we develop for our other partners. We do not believe the maintenance of backwards compatibility of these new software enhancements to the customized HP SDK will require any material efforts on our part. Any additional features or functionality within the SDK would require additional statements of work under this agreement, for which we would be compensated separately. We satisfied our obligations in this category of work in June 2019 with the delivery of the custom software to HP.

As part of the second category of work, pursuant to the HP Agreement and as with many of our partnership agreements, we have agreed to host the HP-branded platform and to make it available to users of the HP products in which the platform has been made available. End users of the platform who elect to play for prizes or rewards will be required to meet certain standards and will be verified by us for eligibility. We are also required to provide a system to fulfil prizes or rewards won by users and to seek mutually-acceptable consumer brands to purchase advertising and to provide downloadable content, physical goods or other prizes for end users. All fees generated by us from the sale of advertising will be shared by us with HP in agreed upon percentages. We are not paid separately for the hosting services.

Pursuant to the HP Agreement, we and HP have granted to each other a non-exclusive license to certain patent rights and know-how that has enabled us, and will continue to enable us, to create an HP-branded customized version of our platform for the HP computers, which customized brand features will belong exclusively to HP. The intellectual property license is solely for the purpose of operating the SDK to access our platform and is not the predominant item to which consideration relates.

The HP Agreement has an initial term of three years and will be automatically renewed for additional one-year terms unless either party provides the other with notice of termination at least 90 days prior to the end of the current term. HP also has the right to terminate the HP Agreement without cause at any time on 90 days written notice to us or immediately in the event we or our platform, in HP's reasonable determination, violate applicable law.

On August 21, 2019, we announced that our patented technology is powering OMEN Rewards, a real-world prizing platform built into OMEN Command Center and available for download by any Win10 PC via the Windows Store. OMEN Rewards allows any consumer running the OMEN Command Center app to play their favorite games for real-world prizes, gift cards, trips and experiences. The OMEN Rewards Beta is available in the United States, was recently expanded into China and is expected to be expanded to other regions in the future.

**Sales and Marketing**

Our sales and marketing organizations work together closely to drive market awareness, build a strong sales pipeline and cultivate customer relationships to drive revenue growth.

***Sales.*** We primarily sell access to our platform and service offerings through our direct sales organization, which is comprised of inside sales and field sales professionals who are segmented by industry. Our direct sales organization also leverages our network of channel partners to expand our reach to additional sectors and industries, especially internationally. Our resellers market and sell our offerings throughout the U.S. and provide a go-to-market channel in regions in which we do not have a direct presence.

Once a sale is made, our sales team leverages our land-and-expand model to generate incremental revenues through increased levels of adoption of our platform by our customers. To drive such expansion in our existing customers, our direct sales team works closely with our accounts team, sales engineers and creative services team to ensure customer success.

***Marketing***. We focus our marketing efforts on building our brand reputation, increasing the awareness of our platform, and driving customer demand through campaigns that leverage our innovation, thought leadership, technical resources and customer success stories. We use various marketing strategies to engage with prospective customers, including email marketing, digital advertising, public relations, search engine optimization, social media, and thought leadership in the industry. Our technical leaders also frequently speak as subject matter experts at market-leading developer events, such as *ElixirConf*.

**Research and Development**

Our research and development team consists of technical engineering, product management, and user experience, and is responsible for the design, architecture, creation, and quality of our platform. We invest substantial resources in research and development to enhance our platform features and functionalities and expand the services we offer. We believe the timely development of new, and the enhancement of our existing, services and platform features is essential to maintaining our competitive position, and we continually incorporate suggestions, feedback and new use cases from our community and customers into our platform. Our research and development team works closely with our technical operations team to ensure the successful deployment and monitoring of our platform to provide a platform that is available, reliable and stable, as well as with our customer success team to collect user feedback to enhance our development process. We utilize an agile development process to deliver numerous software releases each year and hundreds of minor releases, fixes and updates.

**Competition**

Advertising in interactive media is a highly competitive business, characterized by increasing product introductions and rapidly-emerging new platforms and technologies. With respect to competing for customers for our platform, we will compete primarily on the basis of functionality, quality, brand and customer reviews. We will compete for platform placement based on these factors, as well as our relationship with the content owner, historical performance, perception of sales potential and relationships with owners and licensors of brands, properties and other content.

We believe that our small size will provide us a competitive edge in the near term and allow us to make quick decisions as to product development to take advantage of customer preferences at a particular point in time.

With respect to our prizing and rewards platform, we compete with a continually increasing number of companies, including industry leaders such as TapJoy and Otello. We could also face increased competition if large companies with significant online presences, such as Apple, Google, Amazon, Facebook or Yahoo, choose to enter or expand into the prizing or rewards space or develop competing platforms.

In addition, given the open nature of the development and distribution for smartphones and tablets, we also compete or will compete with a vast number of small companies and individuals in all of our segments who are able to create and launch software programs and platforms for these devices using relatively limited resources and with relatively limited start-up time or expertise.

Most of our competitors and our potential competitors have one or more advantages over us, including:

- significantly greater financial and personnel resources;
- stronger brand and consumer recognition;
- the capacity to leverage their marketing expenditures across a broader portfolio of mobile and non-mobile products;
- more substantial intellectual property of their own;
- lower labor and development costs and better overall economies of scale; and
- broader distribution and presence.

**Intellectual Property Rights**

Our success and ability to compete depend substantially upon our core technology and intellectual property rights. We generally rely on patent, trademark and copyright laws, trade secret protection and confidentiality agreements to protect our intellectual property rights. In addition, we generally require employees and consultants to execute appropriate nondisclosure and proprietary rights agreements. These agreements acknowledge our exclusive ownership of intellectual property developed for us and require that all proprietary information remain confidential.

We maintain a program designed to identify technology that is appropriate for patent and trade secret protection, and we file patent applications in the United States and, when appropriate, certain other countries for inventions that we consider significant. Our patent claims, extending and expanding on claims filed in the United States in 2014 and internationally through the patent co-operation treaty in 2015, describe a system that seeks to match competitive game players and spectators with prizing from their favorite brands through a unique conditional prize matching system.

As of August 31, 2020, we had over 30 granted patent claims with the U.S. Patent and Trademark Office to expand upon our existing portfolio of prizing, promotion and financial technologies that enable brands to reach the rapidly growing competitive gaming audience of players, spectators and broadcasters. As of August 31, 2020, we had been granted two patents.

We also continue to engage in licensing transactions to secure the right to use third-parties' patents. Although our business is not materially dependent upon any one patent, our patent rights and the products made and sold under our patents, taken as a whole, are a significant element of our business.

In March 2019, we were issued U.S. Patent No. 10,242,538, titled "Systems and Methods for Creating and Maintaining Real Money Tournaments for Video Games." This issued patent protects a number of proprietary systems and methods for awarding real money, physical goods, digital currencies, and downloadable content to players inside video games and other interactive media. We use these patented technologies within our prizing platform, which allows players to play for real-world prizes inside their favorite games. This granted patent:

- protects the subject systems and methods until 2035;
- covers claims around player identification and verification;
- covers technologies to determine prize eligibility for matches, tournaments, and sweepstakes based on a player's age, location, and other characteristics; and
- describes how the system can award multiple prize types to players that meet a variety of win conditions or achievements in-game.

In addition to patents, we also possess other intellectual property, including trademarks, know-how, trade secrets, design rights and copyrights. We control access to and use of our software, technology and other proprietary information through internal and external controls, including contractual protections with employees, contractors, customers and partners. Our software is protected by U.S. and international copyright, patent and trade secret laws. Despite our efforts to protect our software, technology and other proprietary information, unauthorized parties may still copy or otherwise obtain and use our software, technology and other proprietary information. In addition, we have expanded our international operations, and effective patent, copyright, trademark and trade secret protection may not be available or may be limited in foreign countries.

Companies in the industry in which we operate frequently are sued or receive informal claims of patent infringement or infringement of other intellectual property rights. We may receive such claims from companies, including from competitors and customers, some of which have substantially more resources and have been developing relevant technology similar to ours. As and if we become more successful, we believe that competitors will be more likely to try to develop products that are similar to ours and that may infringe on our proprietary rights. It may also be more likely that competitors or other third parties will claim that our products infringe their proprietary rights. Successful claims of infringement by a third party, if any, could result in significant penalties or injunctions that could prevent us from selling some of our products in certain markets, result in settlements or judgments that require payment of significant royalties or damages or require us to expend time and money to develop non-infringing products. We cannot assure you that we do not currently infringe, or that we will not in the future infringe, upon any third-party patents or other proprietary rights, but will not and have never done so intentionally.

**Employees**

As of September 30, 2020, we employed 27 people on a full-time basis and five contractors, comprised of four employees in accounts and integrations; eight employees in sales, marketing and business development; 11 employees in engineering; five employees in general and administration, and four employees in product and design. We have never had a work stoppage, and none of our employees is represented by a labor organization or under any collective bargaining arrangements. We consider our employee relations to be good. All employees are subject to contractual agreements that specify requirements on confidentiality and restrictions on working for competitors, as well as other standard matters.

**Government Regulation**

We are involved in a variety of areas that are subject to governmental oversight. While we have developed a flexible platform designed to adjust to a changing legal and regulatory landscape, there are a number of areas where federal, state and international law could force us to make significant adjustments to our strategies and deployment efforts. As such, as with many companies in both the software and advertising spaces, there are risks associated with the potential impacts of government regulation.

As a company that facilitates the distribution of real-world prizes for in-game and online activities, we are, in some cases and for some campaigns, subject to laws that surround sweepstakes, contests, and games of skill. While we use best efforts to ensure that all contests are compliant with federal, state, and local laws pertaining to the game type, contest type, prize type, and the eligibility of individual players, among other concerns, we are subject to those regulations and those regulations may change. We have filed patents, and have been granted certain patent claims, protecting our ability to use player characteristics like player location, player age, and contest type to adjust eligibility in specific contests with the intent of providing dynamic regulatory compliance. We also have also designed the platform to make it possible to expeditiously cease providing prizes in certain jurisdictions, or cease offering certain types of contests, such as sweepstakes or other contest types, if that becomes necessary. If necessary, we can make these changes without interruption to our campaigns and contests in other jurisdictions.

Certain of our campaigns and contests may be subject to laws and regulations applicable to companies engaged in skill-based contests. As we partner with our brand and content partners to offer prizes that players may earn as a result of their in-game activities, we may be subject in some cases to the federal Deceptive Mail Prevention and Enforcement Act as well as certain state prize, gift, or sweepstakes statutes that may apply to certain experiences that we or our customers and partners may run from time to time. Our system does allow us to adjust terms of service to account for this and other acts. We may also choose not to offer certain campaigns, contests or prizes in certain areas because of these regulations.

In addition, certain states prohibit, restrict, or regulate contests in a number of ways, particularly with respect to payment of entry fees, and the size, value, and/or source of prizes to participants in such contests. Certain other states require companies to register and/or insure certain types of contests. While we do not typically require entry fees or consideration of any type from our players, and thus based on legal research conducted, are not subject to these regulations in most cases, we do remain conscious of these regulations. We may choose to not offer certain prizes or certain contests in certain areas due to these regulations. We can do so without interruption to other services and other jurisdictions. While at this time, our operations are not subject to certain regulations, for example the pay-to-play regulations, given that our platform is free-to-play, we are conscious that because the nature of our services is relatively new and is rapidly evolving, we may not be able to accurately predict which regulations will be applied to our business. We may also at some point become subject to new or amended regulations.

Further, our online in-game prizing and rewards platform, which may be integrated into games whose player bases include individuals ranging from elementary school age children to adults, is subject to laws and regulations relating to privacy and child protection. Through our applications and online platform we, and the content creators, owners and platform owners that incorporate our proprietary platform into their media or hardware, may monitor and collect certain information about child users of these games and forums. A variety of laws and regulations have been adopted in recent years aimed at protecting children using the internet, such as the Federal Children's Online Privacy Protection Rule (COPPA). COPPA sets forth, among other things, a number of restrictions related to what information may be collected with respect to children under the age of 13, as the kinds of content that website operators may present to children under such age. There are also a variety of laws and regulations governing individual privacy and the protection and use of information collected from individuals, particularly in relation to an individual's personally identifiable information (e.g., credit card numbers). We currently employ multiple measures to ensure that we are COPPA-compliant. We screen for age at registration, we address the issue in our terms of service, and we employ a kick-out procedure during member registration whereby anyone identifying themselves as being under the age of 13 during the process may not register for a player account on our website or participate in any of our online experiences or tournaments without linking their account to that of a parent or guardian.

In the area of information security and data protection, many states have passed laws requiring notification to users when there is a security breach for personal data, such as the 2002 amendment to California's Information Practices Act, or requiring the adoption of minimum information security standards that are often vaguely defined and difficult to implement. And while we believe that we are currently in compliance with these and other data protection regulations, including the privacy regulations set out below, the costs of compliance with these laws may increase in the future as a result of changes in interpretation. Furthermore, any failure on our part to comply with these laws may subject us to significant liabilities.

We are also subject to federal, state and foreign laws regarding privacy and protection of our users' personal information and related data, including the California Consumer Privacy Act (CCPA), which took effect in January 2020, providing California residents increased privacy rights and protections, including the ability to opt out of sales of their personal information; and we are subject to the European Union's (EU) General Data Protection Regulation (GDPR) which took effect in May 2018 and established requirements applicable to the handling of personal information of EU residents. The CCPA may increase our compliance costs and exposure to liability. Other U.S. states are considering adopting similar laws.

We post our Terms of Service and Privacy Policy on our website where we set forth our practices concerning the use, transmission and disclosure of player data. We also require players to agree to these terms when they register for our service. Our failure to comply with our posted privacy policy or privacy related laws and regulations could result in proceedings against us by governmental authorities or others, which could damage our reputation and business. In addition, the interpretation of data protection laws, and their application to the Internet is evolving and not settled. There is a risk that these laws may be interpreted and applied in an inconsistent manner by various states, countries and areas of the world where our users are located, and in a manner that is not consistent with our current data protection practices. Complying with these varying national and international requirements could cause us to incur additional costs and change our business practices. Further, any failure by us to adequately protect our users' privacy and data could result in a loss of player confidence in our services and ultimately in a loss of players, which could adversely impact our business.

Based on legal research conducted, we believe we are currently in compliance with all applicable state and federal laws and regulations related to our business. We continually monitor our activity and changes in such laws in order to ensure, to the best extent possible, that we remain in compliance with such laws. State and federal regulation of internet-based activity, including online prizing and rewards, is evolving and there can be no assurance that future legislation, regulation, judicial decisions, US Attorney, or state attorney general actions will not restrict or prohibit activities such as those made possible by our platform. Such regulation would have a material adverse effect on our business and operations.

**Properties**

Our principal executive offices are located at 1620 West 8th Avenue, Suite 302, Vancouver, BC V6J 1V4 Canada and our principal offices in the United States are located at 6701 Center Drive West, Suite 480, Los Angeles, CA 90045. All of the facilities are leased. We believe our facilities are adequate for our current needs and we do not believe we will encounter any difficulty in extending the terms of the leases by which we occupy our respective premises. A summary description of our facilities locations follows:

| Office | Address | Rental Term | Space |
|---|---|---|---|
| U.S. Corporate Office | 6701 Center Drive West, Suite 480, Los Angeles, CA 90045 | 5 year lease, ending in 2023 | 5,029 sq. ft. |
| Canadian Corporate Office | 1558 West Hastings Street, Vancouver, BC V6G 3J4 | 6 year agreement, ending in 2021 | 300 sq. ft. |

**Legal Proceedings**

As of the date hereof, we are not a party to any material legal or administrative proceedings. There are no proceedings in which any of our directors, executive officers or affiliates, or any registered or beneficial stockholder, is an adverse party or has a material interest adverse to our interest. We may from time to time be subject to various legal or administrative claims and proceedings arising in the ordinary course of business. Litigation or any other legal or administrative proceeding, regardless of the outcome, is likely to result in substantial cost and diversion of our resources, including our management's time and attention.

## MANAGEMENT

### Management and Board of Directors

The following table sets forth the names and ages of the members of our board of directors and our executive officers and the positions held by each. Our board of directors elects our executive officers annually by majority vote. Each director's term continues until his or her successor is elected or qualified at the next annual meeting, unless such director earlier resigns or is removed.

| Name | Age | Positions and Offices |
|---|---|---|
| Matthew Pierce | 43 | Director and Chief Executive Officer |
| Craig Finster | 44 | President and Chief Financial Officer |
| Alex Peachey | 46 | Chief Technology Officer |
| Keyvan Peymani | 43 | Chairman of the Board of Directors |
| Brian Tingle | 48 | Independent Director |
| Michelle Gahagan | 62 | Independent Director |
| Paul Vlasic | 50 | Independent Director |

The following is information about the experience and attributes of the members of our board of directors and senior executive officers as of the date of this prospectus. The experience and attributes of our directors discussed below provide the reasons that these individuals were selected for board membership, as well as why they continue to serve in such positions.

**Matthew Pierce**, 43, was the Founder of Versus LLC and joined our company as Chief Executive Officer and a director in 2016. Mr. Pierce has over 20 years of experience working in entertainment and technology. Prior to founding Versus Systems, Mr. Pierce founded in June 2014 and was until June 2016 the chief executive officer of OLabs, LLC, a technology incubator that founded Versus. From April 2011 to June 2014, Mr. Pierce was Vice President of Strategy at Originate Inc., a business incubator where he worked with early-stage technology companies. Since 2014, Mr. Pierce has been a Lecturer at the University of California, Los Angeles, or UCLA, Anderson School of Management and in the Economics department at UCLA, where he teaches entrepreneurship. Mr. Pierce is a graduate of Stanford University and earned his MBA from the UCLA Anderson School of Management.

**Craig Finster**, 44, joined our company as Chief Financial Officer in 2016 and additionally as President in 2019. Mr. Finster has over 20 years of experience in finance, accounting, and corporate development for technology companies. Between April 2010 and March 2019, Mr. Finster worked at Originate, Inc. in a variety of roles, including Sr. Vice President of Corporate Partnerships and Managing Director of Originate's Strategic Advisory Group, which focused on capital advisory for early and growth stage companies. He received his bachelor's degrees in economics and finance from the University of Arizona and his MBA from the UCLA Anderson School of Management.

**Alex Peachey**, 46, joined our company as Chief Technology Officer in May 2016. Mr. Peachey leads the architecture efforts for our Elixir-based Winfinite challenge platform. Prior to joining us, Mr. Peachey founded Threadbias LLC in January 2011, an online community for people who love to sew and wish to exchange ideas, share projects and join or create groups. He continues to serve as their CEO. From February 2012 to May 2016, Mr. Peachey served the Director of Engineering at Originate, Inc., where he managed a team of software engineers. He holds a BS in Computer Science from Western Washington University and an MBA from the University of Washington.

**Keyvan Peymani**, 43, joined our company as a director in 2016. Mr. Peymani is a veteran senior executive and leader working at the intersection of technology, media, and venture capital. From March 2017 to January 2019, Mr. Peymani served as the Head of Startup Marketing for Amazon Web Services where he was responsible for the global marketing strategy. Since January 2016, he has been serving as a Venture Partner and Senior Advisor to Touchdown Ventures, a venture capital firm pairing with several leading corporations to establish and manage their platforms. From June 2012 to February 2016, Mr. Peymani served as the Managing Director, Digital Strategy Division at ICM Partners, one of the world's largest talent and literary agencies, and was the firm's chief digital executive, reporting to the Executive Board. Mr. Peymani has a BA in Religious Studies and a BA in Neurobiology with concentrations in Neuroscience from Northwestern University. He holds an MBA from the UCLA Anderson School of Management.

**Brian Tingle**, 48, joined our Company as a director in 2016. Mr. Tingle began his career in the Canadian banking sector, and has been involved in the capital markets for the past 20 years as an advisor. In April 1996, Mr. Tingle founded and has since been serving as the President of Tingle Resource Management, a consulting firm which specializes in advising board members in capital markets and finance. Since January 2017, Mr. Tingle has been serving as a director at Cellstop Systems, a Canadian cell company involved in mining. From 2011 to December 2018, he also served as a director at Torch River Farms, a private company that owned and operated farmland in Canada. Mr. Tingle graduated from University of British Columbia with a Bachelor of Commerce with a major in Finance and a minor in Accounting.

**Michelle Gahagan**, 62, joined our company as a director in 2016. Since May 2006, Ms. Gahagan has been serving as the Managing Director of Intrepid Financial, a privately-held merchant bank based in Vancouver, British Columbia and London, England. In August 2014, Ms. Gahagan founded and has since been serving as a director of France Bike Rentals, a large bike rental business with over 500 rental bikes and over 2,500 annual reservations. Since January 2018, Ms. Gahagan has been serving as the Board Chair of Canadian Palladium Resources, an exploration company specializing in palladium and cobalt projects. From February 2016 to June 2018, she also served as a director at US Cobalt Inc., a Canadian-based company focused on the exploration of cobalt assets in the Idaho cobalt belt. Ms. Gahagan graduated from Queens University Law School and practiced corporate law for 20 years. Ms. Gahagan has extensive experience advising companies with respect to international tax-driven structures, mergers and acquisitions.

**Paul Vlasic**, 50, joined our Company as a director in 2016. Mr. Vlasic currently serves as Chairman at the Vlasic Group, a family office with diversified holdings. He has been involved there since August 1986 and participates in all asset allocation, investment decisions and long-term strategic planning. He is a Founding Partner at RSVP Ventures and has been working there since March 2008. RSVP Ventures specializes in investing in early stage businesses supporting entrepreneurs and their ideas, turning them into market-leading companies. He also founded Amplifinity, LLC in February 2009 and served as the CEO and Chairman of the board of directors until its sale in August 2019. Amplifinity provided its clients a software-as-a-service solution that permitted them to efficiently launch and manage marketing campaigns to generate referrals, reviews, and testimonials at scale, capturing leads and tracking the performance of those leads within CRM platforms. Mr. Vlasic serves as Chairman of four craft spirit brands, Papa's Pilar Rum, Suerte Tequila, Treaty Oak Whiskey, and Waterloo Gin. Mr. Vlasic also serves on multiple boards within the Henry Ford Health System and is the past Chairman of the University of Michigan College of Engineering's Center for Entrepreneurship. He is a graduate of Rollins College and earned his MBA with Distinction from the University of Michigan Ross School of Business.

**Board Composition and Structure; Director Independence**

Our business and affairs are managed under the direction of our board of directors. Our board of directors currently consists of five members. The term of office for each director will be until his or her successor is elected at our annual meeting or his or her death, resignation or removal, whichever is earliest to occur.

While we do not have a stand-alone diversity policy, in considering whether to recommend any director nominee, including candidates recommended by shareholders, we believe that the backgrounds and qualifications of the directors, considered as a group, should provide a significant mix of experience, knowledge and abilities that will allow our board of directors to fulfill its responsibilities. As set forth in our corporate governance guidelines, when considering whether directors and nominees have the experience, qualifications, attributes or skills, taken as a whole, to enable our board of directors to satisfy its oversight responsibilities effectively in light of our business and structure, the board of directors focuses primarily on each person's background and experience as reflected in the information discussed in each of the directors' individual biographies set forth above. We believe that our directors and director nominees will provide an appropriate mix of experience and skills relevant to the size and nature of our business.

Our board of directors expects a culture of ethical business conduct. Our board of directors encourages each member to conduct a self-review to determine if he or she is providing effective service with respect to both our company and our shareholders. Should it be determined that a member of our board of directors is unable to effectively act in the best interests of our shareholders, such member would be encouraged to resign.

**Board Leadership Structure**

Our articles and our corporate governance guidelines provide our board of directors with flexibility to combine or separate the positions of Chairman of the Board and Chief Executive Officer in accordance with its determination that utilizing one or the other structure is in the best interests of our company. Matthew Pierce currently serves as our Chief Executive Officer and Keyvan Peymani serves as Chairman of the Board.

As Chairman of the Board, Mr. Peymani's key responsibilities will include facilitating communication between our board of directors and management, assessing management's performance, managing board members, preparation of the agenda for each board meeting, acting as chair of board meetings and meetings of our company's shareholders and managing relations with shareholders, other stakeholders and the public.

We will take steps to ensure that adequate structures and processes are in place to permit our board of directors to function independently of management. The directors will be able to request at any time a meeting restricted to independent directors for the purposes of discussing matters independently of management and are encouraged to do so should they feel that such a meeting is required.

**Foreign Private Issuer Status**

Under the Nasdaq Listing Rules, as a foreign private issuer, we may elect to follow our home country practice in lieu of the corporate governance requirements of the Nasdaq Listing Rules, with the exception of those rules that are required to be followed pursuant to the provisions of the Nasdaq Listing Rules. We have elected to follow Canadian practices in lieu of the requirements of the Nasdaq Listing Rules to the extent permitted under Nasdaq Listing Rule 5615(a)(3). When our common shares are listed on The Nasdaq Capital Market, we intend to continue to follow Canadian corporate governance practices in lieu of the corporate governance requirements of The Nasdaq Capital Market in respect of the quorum requirement for meetings of our common shareholders as described below.

**Committees of our Board of Directors**

The standing committees of our board of directors consist of an audit committee, a compensation committee and a nominating and corporate governance committee. Each of the committees reports to our board of directors as they deem appropriate and as our board may request. Each committee of our board of directors has a committee charter that will set out the mandate of such committee, including the responsibilities of the chair of such

The composition, duties and responsibilities of these committees are set forth below.

*Audit Committee*

The audit committee is responsible for, among other matters:

- appointing, retaining and evaluating our independent registered public accounting firm and approving all services to be performed by them;
- overseeing our independent registered public accounting firm's qualifications, independence and performance;
- overseeing the financial reporting process and discussing with management and our independent registered public accounting firm the interim and annual financial statements that we file with the SEC;
- reviewing and monitoring our accounting principles, accounting policies, financial and accounting controls and compliance with legal and regulatory requirements;
- establishing procedures for the confidential anonymous submission of concerns regarding questionable accounting, internal controls or auditing matters; and
- reviewing and approving related person transactions.

Our audit committee consists of three of our directors, Brian Tingle, Paul Vlasic, and Michelle Gahagan, each of whom meets the definition of "independent director" for purposes of serving on an audit committee under Rule 10A-3 under the Exchange Act and Nasdaq listing rules. Mr. Tingle serves as chairman of our audit committee. Our board of directors has determined that Mr. Tingle qualifies as an "audit committee financial expert," as such term is defined in Item 407(d)(5) of Regulation S-K under the Securities Act. The written charter for our audit committee will be available on our corporate website at *www.versussystems.com*, upon the completion of this offering. The information on our website is not part of this prospectus.

*Compensation Committee*

The compensation committee is responsible for, among other matters:

- reviewing key employee compensation goals, policies, plans and programs;
- reviewing and approving the compensation of our directors, chief executive officer and other executive officers;
- producing an annual report on executive compensation in accordance with the rules and regulations promulgated by the SEC;
- reviewing and approving employment agreements and other similar arrangements between us and our executive officers; and
- administering our stock plans and other incentive compensation plans.

Our compensation committee consists of three of our directors, Messrs. Tingle, Vlasic and Ms. Gahagan , each of whom meets the definition of "independent director" under the Nasdaq rules and the definition of non-employee director under Rule 16b-3 promulgated under the Exchange Act. Mr. Tingle serves as chairman of our compensation committee. Our board of directors has adopted a written charter for the compensation committee in connection with this offering, which will be available on our corporate website at *www.versussystems.com*, upon the completion of this offering. The information on our website is not part of this prospectus.

*Nominating and Corporate Governance Committee*

Our nominating and corporate governance committee will be responsible for, among other matters:

- determining the qualifications, qualities, skills and other expertise required to be a director and developing and recommending to the board for its approval criteria to be considered in selecting nominees for director;
- identifying and screening individuals qualified to become members of our board of directors, consistent with criteria approved by our board of directors;
- overseeing the organization of our board of directors to discharge our board's duties and responsibilities properly and efficiently;
- reviewing the committee structure of the board of directors and the composition of such committees and recommending directors to be appointed to each committee and committee chairmen;
- identifying best practices and recommending corporate governance principles; and
- developing and recommending to our board of directors a set of corporate governance guidelines and principles applicable to us.

Our nominating and corporate governance committee consists of three of our directors, Messrs. Tingle and Vlasic and Ms. Gahagan, each of whom meets the definition of "independent director" under the Nasdaq rules. Ms. Gahagan serves as chairman of our nominating and corporate governance committee. Our board of directors has adopted a written charter for the nominating and corporate governance committee in connection with this offering, which will be available on our corporate website at *www.versussystems.com*, upon the completion of this offering. The information on our website is not part of this prospectus.

*Compensation Committee Interlocks and Insider Participation*

None of our executive officers currently serves, or in the past fiscal year has served, as a member of the board of directors or compensation committee of another entity that had one or more of its executive officers serving as a member of our board of directors or compensation committee. None of the members of our compensation committee, when appointed, will have at any time been one of our officers or employees.

*Other Committees*

Our board of directors may establish other committees as it deems necessary or appropriate from time to time.

**Director Term Limits**

Our board of directors has not adopted policies imposing an arbitrary term or retirement age limit in connection with individuals serving as directors as it does not believe that such a limit is in the best interests of our company. Our nominating and corporate governance committee will annually review the composition of our board of directors, including the age and tenure of individual directors. Our board of directors will strive to achieve a balance between the desirability of its members having a depth of relevant experience, on the one hand, and the need for renewal and new perspectives, on the other hand.

**Risk Oversight**

Our board of directors oversees the risk management activities designed and implemented by our management. Our board of directors executes its oversight responsibility for risk management both directly and through its committees. The full board of directors also considers specific risk topics, including risks associated with our strategic plan, business operations and capital structure. In addition, our board of directors regularly receives detailed reports from members of our senior management and other personnel that include assessments and potential mitigation of the risks and exposures involved with their respective areas of responsibility.

Our board of directors has delegated to the audit committee oversight of our risk management process. Our other board committees also consider and address risk as they perform their respective committee responsibilities. All committees report to the full board of directors as appropriate, including when a matter rises to the level of a material or enterprise level risk.

**Code of Ethics**

Our board of directors has adopted a Code of Ethics that applies to all of our employees, including our chief executive officer, chief financial officer and principal accounting officer. Our Code of Ethics will be available on our website at *www.versussystems.com* by clicking on “Investors.” If we amend or grant a waiver of one or more of the provisions of our Code of Ethics, we intend to satisfy the requirements under Item 5.05 of Form 8-K regarding the disclosure of amendments to or waivers from provisions of our Code of Ethics that apply to our principal executive officer, financial and accounting officers by posting the required information on our website at the above address within four business days of such amendment or waiver. The information on our website is not part of this prospectus.

Our board of directors, management and all employees of our company are committed to implementing and adhering to the Code of Ethics. Therefore, it is up to each individual to comply with the Code of Ethics and to be in compliance of the Code of Ethics. If an individual is concerned that there has been a violation of the Code of Ethics, he or she will be able to report in good faith to his or her superior. While a record of such reports will be kept confidential by our company for the purposes of investigation, the report may be made anonymously and no individual making such a report will be subject to any form of retribution.

## EXECUTIVE COMPENSATION

### Summary Compensation Table

The following table provides certain summary information concerning compensation awarded to, earned by or paid to the individuals who served as our principal executive officer at any time during fiscal 2019 and 2018, and our two other most highly compensated officers in fiscal 2019 and 2018. These individuals are referred to in this prospectus as the "named executive officers." The salaries and bonuses paid or earned by our executives were denominated in U.S. dollars and converted to Canadian dollars using the exchange rate as of September 30, 2020 which was 1.36 Canadian dollars per U.S. dollar.

**Summary Compensation Table**

| Name and Principal Position | Year | Salary ($) | Bonus ($) | Stock Awards ($) | Option Awards ($) | All Other Compensation ($) | Total ($) |
|---|---|---|---|---|---|---|---|
| Matthew Pierce | 2019 | $ 217,600 | $ 54,400 | $ - | $ 227,100 | $ - | $ 499,100 |
| *Chief Executive Officer* | 2018 | 217,600 | 54,400 | - | - | - | 272,000 |
| Craig Finster | 2019 | 154,133 | 54,400 | - | 246,000 | - | 454,533 |
| *President and Chief Financial Officer*[(1)] | 2018 | - | - | - | - | - | - |
| Alex Peachey | 2019 | 231,200 | 32,640 | - | 227,100 | - | 490,940 |
| *Chief Technology Officer* | 2018 | 188,700 | 26,520 | - | 158,200 | - | 373,420 |

(1) Mr. Finster commenced employment with our company on May 1, 2019.

### Employment Contracts and Potential Payments Upon Termination or Change in Control

On June 30, 2016, we entered into employment agreement with Matthew Pierce, our Chief Executive Officer, on May 1, 2019, we entered into an employment agreement with Craig Finster, our President and Chief Financial Officer, and on April 20, 2020, we entered into an employment agreement with Keyvan Peymani, our Executive Chairman of the Board. The original terms of the employment agreements are two years, which shall be automatically renewed for one year upon expiration of the prior term unless either party provides at least six-month notice to the other party that it does not wish to renew the agreement.

The following is a summary of the compensation arrangements set forth in each employment agreement described above:

| Executive | Title | Annual Base Salary | Annual Cash Bonus | Equity Compensation in Warrants (In Shares) (2) | Equity Compensation in Options (In Shares) (3) |
|---|---|---|---|---|---|
| Matthew Pierce | Chief Executive Officer | US$ 160,000 | (1) | 441,190 | 176,500 |
| Craig Finster | Chief Financial Officer | US$ 160,000 | (1) | - | 6,250 |
| Keyvan Peymani | Executive Chairman of the Board | US$ 160,000 | (1) | - | 6,250 |

(1) Each of the executive officers receive an annual cash bonus of twenty-five percent (25%) of his base salary, and an annual performance cash bonus in accordance with EBITDA achievement in the relevant fiscal year. In particular, each executive officer receives a bonus equal to 50%, 100% or 200% of his base salary if we generate EBITDA of at least $1 million, $2 million or $4 million, respectively, within the then current fiscal year. Each executive officer is also eligible for a discretionary cash bonus determined by our board of directors.

(2) Representing warrants to purchase our common shares at $4.00 per share, which shall vest in accordance with the achievements of certain performance milestones or service date.

(3) The options vest in three installments with one-third vesting immediately and one-third vesting on each of the first and second anniversaries of the date of the employment agreement and have an exercise price of $3.36 per share.

If the employment agreement is terminated for "good reason" as defined therein and we receive proper notice or if the employment agreement is involuntarily terminated other than for "just cause" as defined therein, then we shall pay the executive officer (i) any accrued benefits and (ii) a severance amount equal to the sum of (w) 12 months of his then-current base salary; (x) his maximum discretionary bonus for the then-current fiscal year; (y) his annual bonus for the prior fiscal year; and (z) his maximum performance cash bonus provided in the employment agreement for the then-current fiscal year. In addition, in this circumstance, the executive's equity compensation shall be fully and immediately vested and exercisable, as applicable. If the employment agreement is terminated without good cause, then the executive officer shall receive his accrued benefits, the prorate bonus and the performance cash bonus, if any, as of the termination date. Upon termination of this agreement, we will pay the executive officer any lump sum payment due to him under his agreement within ten business days of the date of termination.

**Equity Incentive Plans**

On May 17, 2017, our board of directors adopted our 2017 Stock Option Plan, or the 2017 Plan, to provide an additional means to attract, motivate, retain and reward selected employees and other eligible persons. Our stockholders approved the 2017 Plan on or about June 29, 2017. Employees, officers, directors, advisors and consultants that provided services to us or one of our subsidiaries are eligible to receive awards under the 2017 Plan. The total number of common shares that are at any time reserved for issuance under the 2017 Plan and under all other management option plans and employee stock purchase plans, if any, cannot exceed in the aggregate a number of common shares equal to 15% of the number of common shares issued and outstanding at that time. Options have a maximum term of ten years and vesting is determined by our board of directors.

As of September 30, 2020, stock option grants for the purchase of an aggregate of 1,553,150 common shares had been made under the 2017 Plan, and 221,184 of those stock options had been cancelled or exercised. As of that date, there remained 74,415 common shares authorized under the 2017 Plan remained available for award purposes.

Our board of directors may amend or terminate the 2017 Plan at any time, but no such action will affect any outstanding award in any manner materially adverse to a participant without the consent of the participant.

The following information is a brief description of the 2017 Plan, which is filed as an exhibit to the registration statement of which this prospectus forms a part:

a) *Number of Shares*: At no time shall the number of common shares reserved for issuance to any one person pursuant to stock options granted under the 2017 Plan or otherwise, unless permitted by regulatory authorities and by a vote of shareholders, exceed five (5%) percent of the outstanding common shares in any 12-month period.

b) *Option Price*: The option price of a stock option granted under the 2017 Plan shall be fixed by our board of directors but shall be not less than the Market Price of our common shares at the time the stock option is granted, or such lesser price as may be permitted pursuant to the rules of any regulatory authority having jurisdiction over our common shares issued, which rules may include provisions for certain discounts in respect to the option price. For the purpose of the 2017 Plan, the "Market Price" at any date in respect of our common shares shall mean, subject to a minimum exercise price of $1.60 per option, the greater of:

   a. the closing price of our common shares on a stock exchange on which our common shares are listed and posted for trading or a quotation system for a published market upon which the price of our common shares is quoted, as may be selected for such purpose by our board of directors (the "Market"), on the last trading day prior to the date the stock option is granted; and

   b. the closing price of our common shares on the Market on the date on which the stock option is granted. In the event that such shares did not trade on such trading day, the Market Price shall be the average of the bid and ask prices in respect of such shares at the close of trading on such trading day as reported thereof. In the event that our common shares are not listed and posted for trading or quoted on any Market, the Market Price shall be the fair market value of such shares as determined by our board of directors in its sole discretion.

c) *Reduction in Option Price*: The option price of a stock option granted under the 2017 Plan to an insider of our company (as that term is defined in the Securities Act (British Columbia)) shall not be reduced without prior approval from the disinterested shareholders of our company.

d) *Payment*: The full purchase price payable for shares under a stock option shall be paid in cash or certified funds upon the exercise thereof. A holder of a stock option shall have none of the rights of a shareholder until the shares are paid for and issued.

e) *Term of Option*: Stock options may be granted under the 2017 Plan for a period not exceeding ten years.

f) *Vesting*: Unless our board of directors determines otherwise at its discretion, a stock option shall vest immediately upon being granted.

g) *Exercise of Option*: Except as specifically provided for in the 2017 Plan, no stock option may be exercised unless the optionee is at the time of exercise an Eligible Person (as defined by the 2017 Plan). If the optionee is an employee or consultant, the optionee shall represent to us that he or she is a bona fide employee or consultant of our company. The 2017 Plan shall not confer upon the optionee any right with respect to continuation of employment by our company. Leave of absence approved by an officer of our company authorized to give such approval shall not be considered an interruption of employment for any purpose of the 2017 Plan. Subject to the provisions of the 2017 Plan, a stock option may be exercised from time to time by delivery to us of written notice of exercise specifying the number of shares with respect to which the stock option is being exercised and accompanied by payment in full, by cash or certified check, of the purchase price of the shares then being purchased.

h) *Non-transferability of Stock Option*: No stock option shall be assignable or transferable by the optionee, except to a personal holding corporation of the optionee, other than by will or the laws of descent and distribution.

i) *Applicable Laws or Regulations*: Our obligation to sell and deliver shares under each stock option is subject to our compliance with any laws, rules and regulations of Canada and any provinces and/or territories thereof applying to the authorization, issuance, listing or sale of securities and is also subject to the acceptance for listing of the shares which may be issued upon the exercise thereof by each stock exchange upon which our common shares are then listed for trading.

j) *Termination of Options*. Unless the option agreement provides otherwise, all stock options will terminate:

   a. in the case of stock options granted to an employee or consultant employed or retained to provide investment relations services, 30 days after the optionee ceases to be employed or retained to provide investment relations services;

   b. in the case of stock options granted to other employees, consultants, directors, officers or advisors, 90 days following

      i. our termination, with or without cause, of the optionee's employment or other relationship with our company or an affiliate of our company, or

      ii. the termination by the optionee of any such relationship with our company or an affiliate of our company;

      iii. or in the case of death or permanent and total disability of the optionee, all stock options will terminate 12 months following the death or permanent and total disability of the optionee, and the deceased optionee's heirs or administrators may exercise all or a portion of the stock option during that period.

Any stock options granted under the 2017 Plan that are cancelled, terminated or expire will remain available for granting under the 2017 Plan at the current Market Price

k) *Amendments.* Subject to the approval of regulatory authorities having jurisdiction, our board of directors may from time to time amend or revise the terms of the 2017 Plan, or may terminate the 2017 Plan at any time; provided, however, that no such action shall adversely affect the rights of any optionee under any outstanding stock option without such optionee's prior consent. Upon the mutual consent of the optionee and our board of directors, the terms of an option agreement may be amended, subject to regulatory approval and shareholder approval as may be required from time to time.

**Outstanding Equity Awards at Fiscal Year-End**

The following table sets forth outstanding equity awards to our named executive officers as of December 31, 2019.

| | Option Awards | | | Stock Awards | |
|---|---|---|---|---|---|
| **Name** | **Number of Securities Underlying Unexercised Options (#) Exercisable** | **Option Exercise Price** | **Option Expiration Date** | **Number of Shares or Units of Stock that have not Vested** | **Market Value of Shares of Units of Stock that have not Vested** |
| Matthew Pierce | 625 | $ 3.36 | April 2, 2024 | - | - |
| Matthew Pierce | 37,500 | $ 6.00 | Sept 27, 2024 | 35,156 | $ 0 |
| Matthew Pierce | 176,500 | $ 4.32 | July 13, 2021 | - | - |
| Matthew Pierce | 15,625 | $ 5.52 | Sept 14, 2022 | 1,628 | - |
| | | | | | |
| Craig Finster | 26,563 | $ 4.32 | July 13, 2021 | 3,874 | - |
| Craig Finster | 6,250 | $ 3.36 | April 2, 2024 | 3,646 | - |
| Craig Finster | 37,500 | $ 6.00 | Sept 27, 2024 | 35,156 | - |
| Alex Peachey | 37,500 | $ 6.00 | Sept 27, 2024 | 35,156 | - |
| Alex Peachey | 37,500 | $ 4.32 | July 13, 2021 | 5,469 | - |

**Equity Compensation Plan Information**

The following table provides information as of December 31, 2019, regarding our compensation plans under which equity securities are authorized for issuance:

| **Plan category** | **Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights** | **Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights** | **Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))** |
|---|---|---|---|
| | **(a)** | **(b)** | **(c)** |
| Equity compensation plans approved by security holders | 4,744,016 | $ 5.03 | 74,415 |
| Equity compensation plans not approved by security holders | - | - | - |
| **Total** | 4,744,016 | $ 5.03 | 74,415 |

**DIRECTOR COMPENSATION**

All directors hold office until the next annual meeting of shareholders at which their respective class of directors is re-elected and until their successors have been duly elected and qualified. There are no family relationships among our directors or executive officers. Officers are elected by and serve at the discretion of the Board of Directors. Directors do not receive any compensation for their services.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information relating to the beneficial ownership of our common shares as of December 10, 2020 by:

- each person, or group of affiliated persons, known by us to beneficially own 5% or more of our outstanding common shares;
- each of our named executive officers and members of our board of directors; and
- all executive officers and members of our board of directors as a group.

The amounts and percentages of common shares beneficially owned are reported on the basis of regulations of the SEC governing the determination of beneficial ownership of securities. Under the rules of the SEC, a person is deemed to be a "beneficial owner" of a security if that person has or shares "voting power," which includes the power to vote or to direct the voting of such security, or "investment power," which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days after September 30, 2020. Under these rules, more than one person may be deemed a beneficial owner of the same securities and a person may be deemed a beneficial owner of securities as to which he has no economic interest. Except as indicated by footnote, to our knowledge, the persons named in the table below have sole voting and investment power with respect to all common shares shown as beneficially owned by them.

In the table below, the percentage of beneficial ownership of our common shares is based on 10,438,144 shares of our common shares outstanding as of December 10, 2020. Unless otherwise noted below, the address of the persons listed on the table is c/o Versus Systems Inc., 1558 West Hastings Street, Vancouver BC V6G 3J4 Canada.

| | Amount and Nature of | Percentage of Shares Beneficially Owned[1] | |
|---|---|---|---|
| **Name of Beneficial Owner** | **Beneficial Ownership** | **Before Offering** | **After Offering** |
| Named Executive Officers and Directors | | | |
| Matthew Pierce[2] | 830,798 | 7.4% | 6.7 |
| Craig Finster[3] | 55,249 | * | * |
| Alex Peachey[4] | 64,141 | * | * |
| Keyvan Peymani[5] | 204,558 | 1.9 | 1.8 |
| Brian Tingle[6] | 1,067,619 | 10.2 | 9.2 |
| Michelle Gahagan[7] | 37,540 | * | * |
| Paul Vlasic[8] | 517,572 | 4.9 | 4.5 |
| Kelsey Chin[9] | 148,762 | 1.4 | 1.3 |
| Executive Officers and Directors as a Group (eight persons) | 2,926,239 | 27.4 | 24.8 |

* Indicates beneficial ownership of less than 1% of the total outstanding common shares.

(1) The percentages in the table have been calculated on the basis of treating as outstanding for a particular person, all common shares outstanding on December 10, 2020. On December 10, 2020, there were 10,438,144 common shares outstanding. To calculate a shareholder's percentage of beneficial ownership, we include in the numerator and denominator the common shares outstanding and all common shares issuable to that person in the event of the exercise of outstanding options and other derivative securities owned by that person that are exercisable within 60 days of December 10, 2020. Common share options and derivative securities held by other shareholders are disregarded in this calculation. Therefore, the denominator used in calculating beneficial ownership among our shareholders may differ. Unless we have indicated otherwise, each person named in the table has sole voting power and sole investment power for the shares listed opposite such person's name.

(2) Represents 217,998 common shares issuable upon the exercise of outstanding share purchase options and 441,192 common shares issuable upon the exercise of outstanding warrants.

(3) Includes 54,936 common shares issuable upon the exercise of outstanding share purchase options.

(4) Represents 64,141 common shares issuable upon the exercise of outstanding share purchase options.

(5) Includes 48,308 common shares issuable upon the exercise of outstanding share purchase options and 78,125 common shares issuable upon the exercise of outstanding warrants.

(6) Includes (i) 136,870 common shares and 273,740 common shares issuable upon the exercise of warrants to be issued at the closing of this offering, at an assumed price of US$11.90 per share, in connection with the Debt Exchange, and (ii) 25,040 common shares issuable upon the exercise of outstanding share purchase options.

(7) Includes 25,040 common shares issuable upon the exercise of outstanding share purchase options.

(8) Includes 25,040 common shares issuable upon the exercise of outstanding share purchase options.

(9) Includes 16,887 common shares issuable upon the exercise of outstanding share purchase options and 6,875 common shares issuable upon the exercise of outstanding warrants.

## CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

A "related party transaction" is any actual or proposed transaction, arrangement or relationship or series of similar transactions, arrangements or relationships, including those involving indebtedness not in the ordinary course of business, to which we or our subsidiaries were or are a party, or in which we or our subsidiaries were or are a participant, in which the amount involved exceeded or exceeds the lesser of (i) US$120,000 or (ii) one percent of the average of our total assets at year-end for the last two completed fiscal years and in which any related party had or will have a direct or indirect material interest. A "related party" includes:

- any person who is, or at any time during the applicable period was, one of our executive officers or one of our directors;
- any person who beneficially owns more than 5% of our common share;
- any immediate family member of any of the foregoing; or
- any entity in which any of the foregoing is a partner or principal or in a similar position or in which such person has a 10% or greater beneficial ownership interest.

Other than the transactions described below and the compensation arrangements for our named executive officers, which we describe above, there were no related party transactions to which we were a party since the beginning of the Company's last fiscal year, or any currently proposed related party transaction.

At December 31, 2019, a total of $492,181 was included in accounts payable and accrued liabilities owing to our officers, directors, or companies controlled by them in respect of accrued bonuses, expenses payable and other reimbursable expenses. These amounts are unsecured and non-interest bearing.

Between November 7, 2017 and December 10, 2020, we borrowed an aggregate of $6,551,007 in 29 separate loan transactions from Brian Tingle, a director of our company. Each loan bears interest at the prime rate of the Bank of Canada, which was 2.45% per annum and 3.95% per annum at September 30, 2020 and December 31, 2019, respectively, compounded annually and payable quarterly, and had a maturity date of three years from the date of the respective loan. At September 30, 2020 and December 31, 2019, the aggregate outstanding principal amounts of such loans was $5,735,820 and $5,470,000, respectively. We made no payments of principal or interest on such loans during the nine-month period ended September 30, 2020 or the year ended December 31, 2019.

Between October 18, 2018 and March 15, 2020, we borrowed an aggregate of $580,000 in three separate loan transactions from Matthew Pierce, our Chief Executive Officer and a director of our company. Each loan bears interest at the prime rate of the Bank of Canada, which was 2.45% per annum and 3.95% per annum at September 30, 2020 and December 31, 2019, respectively, compounded annually and payable quarterly, and had a maturity date of three years from the date of the respective loan. At September 30, 2020 and December 31, 2019, the aggregate outstanding principal amounts of such loans was $350,000 and $0, respectively. During the nine-month period ended September 30, 2020 and the year ended December 31, 2019, we paid principal and interest in respect of such loans in the aggregate amounts of $0 and $230,000, respectively.

## DESCRIPTION OF SHARE CAPITAL

### General

Upon the closing of this offering, our authorized share capital will consist of an unlimited number of common shares and an unlimited number of Class A Shares, each without par value. Immediately following the closing of this offering, we expect to have 11,451,856 issued and outstanding common shares (11,552,697 common shares if the underwriter's option to purchase additional common shares is exercised in full) and 5,057 Class A Shares. The number of issued Class A Shares shall remain the same after the offering.

The following description of our share capital and provisions of our articles and Notice of Articles are summaries of material terms and provisions and are qualified by reference to our articles and Notice of Articles, copies of which have been filed with the SEC as exhibits to the registration statement of which this prospectus is a part.

### Common Shares

The holders of our common shares are entitled to one vote for each share held at any meeting of shareholders. The holders of our common shares are entitled to receive dividends as and when declared by our board of directors. In the event of our liquidation, dissolution or winding-up or other distribution of our assets among our shareholders, the holders of our common shares are entitled to share pro rata in the distribution of the balance of our assets. There are no preemptive, redemption, purchase or conversion rights attaching to our common shares. There are no sinking fund provisions applicable to our common shares. The common shares offered in this offering, upon payment and delivery in accordance with the underwriting agreement, will be fully paid and non-assessable.

### Class A Shares

We are authorized to issue an unlimited number of Class A Shares. The Class A Shares do not have any special rights or restrictions attached. As of September 30, 2020, there were 5,057 Class A Shares issued and outstanding.

### Warrants to be issued in this Offering

*The following summary of certain terms and provisions of the warrants offered hereby is not complete and is subject to, and qualified in its entirety by, the provisions of the form of the warrant, which is filed as an exhibit to the registration statement of which this prospectus is a part of. Prospective investors should carefully review the terms and provisions set forth in the form of warrant.*

#### *Unit A Warrants*

*Exercisability*. The Unit A Warrants are exercisable immediately upon issuance and at any time up to the date that is five years from the date of issuance. The Unit A Warrants will be exercisable, at the option of each holder, in whole or in part, by delivering to us a duly executed exercise notice accompanied by payment in full for the number of our common shares purchased upon such exercise (except in the case of a cashless exercise as discussed below). Unless otherwise specified in the warrant, the holder will not have the right to exercise any portion of the warrant if the holder (together with its affiliates) would beneficially own in excess of 4.99% of the number of our common shares outstanding immediately after giving effect to the exercise (or, upon election by a holder prior to the issuance of any Unit A Warrants, 9.99%), as such percentage ownership is determined in accordance with the terms of the Unit A Warrants.

*Cashless Exercise*. In the event that a registration statement covering common shares underlying the Unit A Warrants, is not available for the issuance of such common shares underlying the Unit A Warrants, the holder may, in its sole discretion, exercise the warrant in whole or in part and, in lieu of making the cash payment otherwise contemplated to be made to us upon such exercise in payment of the aggregate exercise price, elect instead to receive upon such exercise the net number of common shares determined according to the formula set forth in the warrant. In no event shall we be required to make any cash payments or net cash settlement to the registered holder in lieu of issuance of common shares underlying the Unit A Warrants.

*Certain Adjustments*. The exercise price and the number of common shares purchasable upon the exercise of the Unit A Warrants are subject to adjustment upon the occurrence of specific events, including stock dividends, stock splits, combinations and reclassifications of our common shares.

*Transferability*. Subject to applicable laws, the Unit A Warrants may be transferred at the option of the holders upon surrender of the Unit A Warrants to our warrant agent together with the appropriate instruments of transfer.

*Exchange Listing.* The Unit A Warrants have been approved for listing on The Nasdaq Capital Market under the symbol "VSSYW". No assurance can be given that a trading market will develop.

*Warrant Agent.* The Unit A Warrants will be issued in registered form under a warrant agent agreement between Computershare, as warrant agent, and us.

*Fundamental Transactions.* If, at any time while the Unit A Warrants are outstanding, (1) we consolidate or merge with or into another corporation and we are not the surviving corporation, (2) we sell, lease, license, assign, transfer, convey or otherwise dispose of all or substantially all of our assets, (3) any purchase offer, tender offer or exchange offer (whether by us or another individual or entity) is completed pursuant to which holders of our common shares are permitted to sell, tender or exchange their common shares for other securities, cash or property and has been accepted by the holders of 50% or more of our outstanding common shares, (4) we effect any reclassification or recapitalization of our common shares or any compulsory share exchange pursuant to which our common shares are converted into or exchanged for other securities, cash or property, or (5) we consummate a stock or share purchase agreement or other business combination with another person or entity whereby such other person or entity acquires more than 50% of our outstanding common shares, each a "Fundamental Transaction," then upon any subsequent exercise of the Unit A Warrants, the holder thereof will have the right to receive the same amount and kind of securities, cash or property as it would have been entitled to receive upon the occurrence of such Fundamental Transaction if it had been, immediately prior to such Fundamental Transaction, the holder of the number of warrant shares then issuable upon exercise of the warrant, and any additional consideration payable as part of the Fundamental Transaction.

*Rights as a Stockholder*. Except as otherwise provided in the Unit A Warrants or by virtue of such holder's ownership of our common shares, the holder of a warrant does not have the rights or privileges of a holder of our common shares, including any voting rights, until the holder exercises the warrant.

*Beneficial Ownership Limitation.* A holder's exercise shall be limited to 4.99% of our outstanding common shares (or, upon election by a holder prior to the issuance of any Unit A Warrants, 9.99%) of the number of the common shares outstanding immediately after giving effect to the issuance of common shares issuable upon exercise. The holder, upon notice to us, may increase or decrease the beneficial ownership limitation provided that the beneficial ownership limitation in no event exceeds 9.99% of the number of the common shares outstanding immediately after giving effect to the issuance of common shares upon exercise of the warrant held by the holder. Any increase in the beneficial ownership limitation will not be effective until the 61st day after such notice is delivered to the Company.

*Governing Law*. The Unit A Warrants and the warrant agency agreement are governed by New York law.

***Unit B Warrants***

*Exercisability*. The Unit B Warrants are exercisable immediately upon issuance and at any time up to the date that is one year from the date of issuance. The Unit B Warrants will be exercisable, at the option of each holder, in whole or in part, by delivering to us a duly executed exercise notice accompanied by payment in full for the number of our common shares purchased upon such exercise. Unless otherwise specified in the Unit B Warrant, the holder will not have the right to exercise any portion of the Unit B Warrant if the holder (together with its affiliates) would beneficially own in excess of 4.99% of the number of our common shares outstanding immediately after giving effect to the exercise (or, upon election by a holder prior to the issuance of any Unit B Warrants, 9.99%), as such percentage ownership is determined in accordance with the terms of the Unit B Warrants.

*Certain Adjustments*. The exercise price and the number of common shares purchasable upon the exercise of the Unit B Warrants are subject to adjustment upon the occurrence of specific events, including stock dividends, stock splits, combinations and reclassifications of our common shares.

*Transferability*. Subject to applicable laws, the Unit B Warrants may be transferred at the option of the holders upon surrender of the Unit B Warrants to our warrant agent together with the appropriate instruments of transfer.

*Warrant Agent.* The Unit B Warrants will be issued in registered form under a warrant agent agreement between Computershare, as warrant agent, and us.

*Fundamental Transactions.* If, at any time while the Unit B Warrants are outstanding, (1) we consolidate or merge with or into another corporation and we are not the surviving corporation, (2) we sell, lease, license, assign, transfer, convey or otherwise dispose of all or substantially all of our assets, (3) any purchase offer, tender offer or exchange offer (whether by us or another individual or entity) is completed pursuant to which holders of our common shares are permitted to sell, tender or exchange their common shares for other securities, cash or property and has been accepted by the holders of 50% or more of our outstanding common shares, (4) we effect any reclassification or recapitalization of our common shares or any compulsory share exchange pursuant to which our common shares are converted into or exchanged for other securities, cash or property, or (5) we consummate a stock or share purchase agreement or other business combination with another person or entity whereby such other person or entity acquires more than 50% of our outstanding common shares, each a "Fundamental Transaction," then upon any subsequent exercise of the Unit B Warrants, the holder thereof will have the right to receive the same amount and kind of securities, cash or property as it would have been entitled to receive upon the occurrence of such Fundamental Transaction if it had been, immediately prior to such Fundamental Transaction, the holder of the number of warrant shares then issuable upon exercise of the Unit B Warrant, and any additional consideration payable as part of the Fundamental Transaction.

*Rights as a Stockholder*. Except as otherwise provided in the Unit B Warrants or by virtue of such holder's ownership of our common shares, the holder of a Unit B Warrant does not have the rights or privileges of a holder of our common shares, including any voting rights, until the holder exercises the Unit B Warrant.

*Beneficial Ownership Limitation*. A holder's exercise shall be limited 4.99% of our outstanding common shares (or, upon election by a holder prior to the issuance of any Unit B Warrants, 9.99%) of the number of common shares outstanding immediately after giving effect to the issuance of common shares issuable upon exercise. The holder, upon notice to us, may increase or decrease the beneficial ownership limitation provided that the beneficial ownership limitation in no event exceeds 9.99% of the number of common shares outstanding immediately after giving effect to the issuance of common shares upon exercise of the Unit B Warrant held by the holder. Any increase in the beneficial ownership limitation will not be effective until the 61st day after such notice is delivered to us.

*Governing Law*. The Unit B Warrants and the warrant agency agreement are governed by New York law.

**Other Outstanding Warrants**

At September 30, 2020, we had outstanding warrants to purchase an aggregate of 3,412,050 common shares with an exercise price range from $2.88 per share to $6.40 per share. These warrants have an expiration date range from February 13, 2021 to July 17, 2022. Pursuant to the terms of such warrants, the exercise price of such warrants is subject to adjustment in the event of stock splits, combinations or the like of our common shares.

**Stock Options**

Pursuant to the policies of the Canadian Securities Exchange, or the CSE, we may grant incentive stock options to our officers, directors, employees and consultants. Our 2017 Plan is a rolling stock option plan whereby we can issue a number of options to purchase up to 15% of our issued and outstanding common shares. Options have a maximum term of ten years and vesting is determined by our board of directors.

During the year ended December 31, 2019, we granted stock options to purchase a total of 482,500 common shares with a fair value of $1,724,580 (or $3.52 per option). During the year ended December 31, 2019, we recorded share-based compensation of $826,360 relating to options vested during the year.

During the year ended December 31, 2018, we granted stock options to purchase a total of 72,284 common shares with a fair value of $343,711 (or $5.92 per option). During the year ended December 31, 2018, we recorded share-based compensation of $651,316 relating to options vested during the year.

As of September 30, 2020, we had outstanding incentive stock options to purchase an aggregate of 1,331,966 common shares.

**Certain Important Provisions of our Articles and the Business Corporations Act (British Columbia)**

The following is a summary of certain important provisions of our articles and certain related sections of the Business Corporations Act (British Columbia), or the BCBCA. Please note that this is only a summary and is not intended to be exhaustive. This summary is subject to, and is qualified in its entirety by reference to, the provisions of our articles and the BCBCA.

***Stated Objects or Purposes***

Our articles do not contain stated objects or purposes and do not place any limitations on the business that we may carry on.

***Directors***

*Power to vote on matters in which a director is materially interested*. Under the BCBCA a director who has a material interest in a contract or transaction, whether made or proposed, that is material to us, must disclose such interest to us, subject to certain exceptions such as if the contract or transaction: (i) is an arrangement by way of security granted by us for money loaned to, or obligations undertaken by, the director for our benefit or for one of our affiliates' benefit; (ii) relates to an indemnity or insurance permitted under the BCBCA; (iii) relates to the remuneration of the director in his or her capacity as director, officer, employee or agent of our company or of one of our affiliates; (iv) relates to a loan to our company while the director is the guarantor of some or all of the loan; or (v) is with a corporation that is affiliated to us while the director is also a director or senior officer of that corporation or an affiliate of that corporation.

A director who holds such disclosable interest in respect of any material contract or transaction into which we have entered or propose to enter may be required to absent himself or herself from the meeting while discussions and voting with respect to the matter are taking place. Directors are also required to comply with certain other relevant provisions of the BCBCA regarding conflicts of interest.

*Directors' power to determine the remuneration of directors.* The remuneration of our directors is determined by our directors subject to our articles. The remuneration may be in addition to any salary or other remuneration paid to any of our employees (including executive officers) who are also directors.

*Number of shares required to be owned by a director.* Neither our articles nor the BCBCA provide that a director is required to hold any of our shares as a qualification for holding his or her office. Our board of directors has discretion to prescribe minimum share ownership requirements for directors.

***Shareholder Meetings***

Subject to applicable stock exchange requirements, we must hold a general meeting of our shareholders at least once every year at a time and place determined by our board of directors, provided that the meeting must not be held later than 15 months after the preceding annual general meeting. A meeting of our shareholders may be held anywhere in or outside British Columbia.

A notice to convene a meeting, specifying the date, time and location of the meeting, and, where a meeting is to consider special business, the general nature of the special business must be sent to each shareholder entitled to attend the meeting and to each director not less than 21 days prior to the meeting for so long as we are a public company. The accidental omission to send notice of any meeting of shareholders to, or the non-receipt of any notice by, any person entitled to notice does not invalidate any proceedings at that meeting.

Subject to the special rights and restrictions attached to the shares or any class or series of shares, the quorum for the transaction of business at a meeting of shareholders is two shareholders, or one or more proxyholder(s) representing two shareholders, or one member and a proxyholder representing another shareholder. If there is only one shareholder, the quorum is one person present and being, or representing by proxy, such shareholder. If a quorum is not present within one-half hour of the time set for the holding of a meeting of shareholders, the meeting stands adjourned to the same day in the next week at the same time and place, unless the meeting is a general meeting that was requisitioned by shareholders, in which case the meeting is dissolved.

***Shareholder Proposals and Advance Notice Procedures***

Under the BCBCA, qualified shareholders holding at least one percent (1%) of our issued voting shares or whose shares have a fair market value in excess of CAD$2,000 may make proposals for matters to be considered at the annual general meeting of shareholders. Such proposals must be sent to us in advance of any proposed meeting by delivering a timely written notice in proper form to our registered office in accordance with the requirements of the BCBCA. The notice must include information on the business the shareholder intends to bring before the meeting in the prescribed form. To be a qualified shareholder, a shareholder must currently be and have been a registered or beneficial owner of at least one share of the company for at least two years before the date of signing the proposal.

We have included certain advance notice provisions with respect to the election of our directors in our articles. The advance notice provisions are intended to: (i) facilitate orderly and efficient annual general meetings or, where the need arises, special meetings; (ii) ensure that all shareholders receive adequate notice of board nominations and sufficient information with respect to all nominees; and (iii) allow shareholders to register an informed vote. Only persons who are nominated in accordance with the advance notice provisions will be eligible for election as directors at any annual meeting of shareholders, or at any special meeting of shareholders if one of the purposes for which the special meeting was called was the election of directors.

Under the advance notice provisions, a shareholder wishing to nominate a director would be required to provide us notice, in the prescribed form, within the prescribed time periods. These time periods include, (i) in the case of an annual meeting of shareholders (including annual and special meetings), not less than 30 days prior to the date of the annual meeting of shareholders; provided, that if the first public announcement of the date of the annual meeting of shareholders, or the Notice Date, is less than 40 days before the meeting date, not later than the close of business on the 10th day following the Notice Date; and (ii) in the case of a special meeting (which is not also an annual meeting) of shareholders called for any purpose which includes electing directors, not later than the close of business on the 15th day following the Notice Date.

These provisions could have the effect of delaying until the next shareholder meeting the nomination of certain persons for director that are favored by the holders of a majority of our outstanding voting securities.

***Limitation of Liability and Indemnification***

Under the BCBCA, a company may indemnify: (i) a current or former director or officer of that company; (ii) a current or former director or officer of another corporation if, at the time such individual held such office, the corporation was an affiliate of the company, or if such individual held such office at the company's request; or (iii) an individual who, at the request of the company, held, or holds, an equivalent position in another entity, against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment actually and reasonably incurred by him or her in respect of any legal proceeding or investigative action (whether current, threatened, pending or completed) in which he or she is involved because of that person's position as an indemnifiable person, unless: (i) the individual did not act honestly and in good faith with a view to the best interests of such company or the other entity, as the case may be; or (ii) in the case of a proceeding other than a civil proceeding, the individual did not have reasonable grounds for believing that the individual's conduct was lawful. A company cannot indemnify an indemnifiable person if it is prohibited from doing so under its articles or by applicable law. A company may pay, as they are incurred in advance of the final disposition of an eligible proceeding, the expenses actually and reasonably incurred by an indemnifiable person in respect of that proceeding only if the indemnifiable person has provided an undertaking that, if it is ultimately determined that the payment of expenses was prohibited, the indemnifiable person will repay any amounts advanced. Subject to the aforementioned prohibitions on indemnification, a company must, after the final disposition of an eligible proceeding, pay the expenses actually and reasonably incurred by an indemnifiable person in respect of such eligible proceeding if such indemnifiable person has not been reimbursed for such expenses, and was wholly successful, on the merits or otherwise, in the outcome of such eligible proceeding or was substantially successful on the merits in the outcome of such eligible proceeding. On application from us or from an indemnifiable person, a court may make any order the court considers appropriate in respect of an eligible proceeding, including the indemnification of penalties imposed or expenses incurred in any such proceedings and the enforcement of an indemnification agreement. As permitted by the BCBCA, our articles require us to indemnify our directors, former directors or alternate directors (and such individual's respective heirs and legal representatives) and permit us to indemnify any person to the extent permitted by the BCBCA.

**Listing**

Our common shares and our Unit A Warrants have been approved for listing on The Nasdaq Capital Market under the symbols "VS" and "VSSYW," respectively.

**Transfer Agent and Registrar**

The U.S. transfer agent and registrar for the common shares and the Unit A Warrants and Unit B Warrants is Computershare, Inc., located at 8742 Lucent Boulevard, Suite 300, Highlands Ranch, Colorado 80129. The telephone number of Computershare, Inc. at such address is (303) 262-0705.

**Ownership and Exchange Controls**

There is no limitation imposed by Canadian law or by our articles on the right of a non-resident to hold or vote our common shares, other than discussed below.

***Competition Act***

Limitations on the ability to acquire and hold our common shares may be imposed by the *Competition Act* (Canada). This legislation permits the Commissioner of Competition, or Commissioner, to review any acquisition or establishment, directly or indirectly, including through the acquisition of shares, of control over or of a significant interest in us. This legislation grants the Commissioner jurisdiction, for up to one year after the acquisition has been substantially completed, to challenge this type of acquisition by seeking a remedial order, including an order to prohibit the acquisition or require divestitures, from the Canadian Competition Tribunal, which may be granted where the Competition Tribunal finds that the acquisition substantially prevents or lessens, or is likely to substantially prevent or lessen, competition.

This legislation also requires any person or persons who intend to acquire more than 20% of our voting shares or, if such person or persons already own more than 20% of our voting shares prior to the acquisition, more than 50% of our voting shares, to file a notification with the Canadian Competition Bureau if certain financial thresholds are exceeded. Where a notification is required, unless an exemption is available, the legislation prohibits completion of the acquisition until the expiration of the applicable statutory waiting period, unless the Commissioner either waives or terminates such waiting period or issues an advance ruling certificate. The Commissioner's review of a notifiable transaction for substantive competition law considerations may take longer than the statutory waiting period.

***Investment Canada Act***

The *Investment Canada Act* requires each "non Canadian" (as defined in the *Investment Canada Act*) who acquires "control" of an existing "Canadian business," to file a notification in prescribed form with the responsible federal government department or departments not later than 30 days after closing, provided the acquisition of control is not a reviewable transaction under the *Investment Canada Act.* Subject to certain exemptions, a transaction that is reviewable under the *Investment Canada Act* may not be implemented until an application for review has been filed and the responsible Minister of the federal cabinet has determined that the investment is likely to be of "net benefit to Canada" taking into account certain factors set out in the *Investment Canada Act.* Under the *Investment Canada Act*, an investment in our common shares by a non-Canadian who is a World Trade Organization member country investor that is not a state-owned enterprise, including a United States investor would be reviewable only if it were an investment to acquire control of us pursuant to the *Investment Canada Act* and our enterprise value (as determined pursuant to the *Investment Canada Act* and its regulations) was equal to or greater than $1.075 billion (as of January 1, 2020). The enterprise value threshold for "trade agreement investors" that are not state-owned enterprises is $1.613 billion (as of January 1, 2020).

The *Investment Canada Act* contains various rules to determine if there has been an acquisition of control. Generally, for purposes of determining whether an investor has acquired control of a corporation by acquiring shares, the following general rules apply, subject to certain exceptions: the acquisition of a majority of the voting interests or a majority of the undivided ownership interests in the voting shares of the corporation is deemed to be acquisition of control of that corporation; the acquisition of less than a majority, but one-third or more, of the voting shares of a corporation or of an equivalent undivided ownership interest in the voting shares of the corporation is presumed to be acquisition of control of that corporation unless it can be established that, on the acquisition, the corporation is not controlled in fact by the acquirer through the ownership of voting shares; and the acquisition of less than one third of the voting shares of a corporation or of an equivalent undivided ownership interest in the voting shares of the corporation is deemed not to be acquisition of control of that corporation.

Under the national security review regime in the *Investment Canada Act*, review on a discretionary basis may also be undertaken by the federal government with respect to a much broader range of investments by a non-Canadian to "acquire, in whole or part, or to establish an entity carrying on all or any part of its operations in Canada." No financial threshold applies to a national security review. The relevant test is whether such investment by a non-Canadian could be "injurious to national security." Review on national security grounds is at the discretion of the responsible ministers, and may occur on a pre- or post-closing basis.

Certain transactions relating to our common shares will generally be exempt from the *Investment Canada Act*, subject to the federal government's prerogative to conduct a national security review, including:

- the acquisition of our common shares by a person in the ordinary course of that person's business as a trader or dealer in securities;
- the acquisition of control of us in connection with the realization of security granted for a loan or other financial assistance and not for any purpose related to the provisions of the Investment Canada Act if the acquisition is subject to approval under Canadian legislation relating to financial institutions; and
- the acquisition of control of us by reason of an amalgamation, merger, consolidation or corporate reorganization following which the ultimate direct or indirect control in fact of us, through ownership of our common shares, remains unchanged.

**Comparison of Shareholder Rights**

We are a corporation governed by the BCBCA. The following discussion summarizes material differences between the rights of holders of our common shares and the rights of holders of the common share of a typical corporation incorporated under the laws of the state of Delaware, which result from differences in governing documents and the laws of British Columbia and Delaware. This summary is qualified in its entirety by reference to the DGCL, the BCBCA, and our articles.

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| **Stockholder/ Shareholder Approval of Business Combinations; Fundamental Changes** | Under the DGCL, certain fundamental changes such as amendments to the certificate of incorporation, a merger, consolidation, sale, lease, exchange or other disposition of all or substantially all of the property of a corporation not in the usual and regular course of the corporation's business, or a dissolution of the corporation, are generally required to be approved by the holders of a majority of the outstanding stock entitled to vote on the matter, unless the certificate of incorporation requires a higher percentage.<br><br>However, under the DGCL, mergers in which less than 20% of a corporation's stock outstanding immediately prior to the effective date of the merger is issued generally do not require stockholder approval. In certain situations, the approval of a business combination may require approval by a certain number of the holders of a class or series of shares. In addition, Section 251(h) of the DGCL provides that stockholders of a constituent corporation need not vote to approve a merger if: (i) the merger agreement permits or requires the merger to be effected under Section 251(h) and provides that the merger shall be effected as soon as practicable following the tender offer or exchange offer, (ii) a corporation consummates a tender or exchange offer for any and all of the outstanding stock of such constituent corporation that would otherwise be entitled to vote to approve the merger, (iii) following the consummation of the offer, the stock accepted for purchase or exchanges plus the stock owned by the | Under the BCBCA and our articles, certain changes to our authorized share structure and the change of our name maybe approved by a resolution of the directors our company. Under the BCBCA and our articles, certain extraordinary company alterations, such as to continuances, into or out of province, certain amalgamations, sales, leases or other dispositions of all or substantially all of the undertaking of a company (other than in the ordinary course of business), liquidations, dissolutions, and certain arrangements are required to be approved by ordinary or special resolution as applicable.<br><br>An ordinary resolution is a resolution (i) passed at a shareholders' meeting by a simple majority, or (ii) passed, after being submitted to all of the shareholders, by being consented to in writing by shareholders who, in the aggregate, hold shares carrying at least two-thirds of the votes entitled to be cast on the resolution.<br><br>A special resolution is a resolution (i) passed by not less than two-thirds of the votes cast by the shareholders who voted in respect of the resolution at a meeting duly called and held for that purpose or (ii) passed by being consented to in writing by all shareholders entitled to vote on the resolution.<br><br>Holders common shares vote together at all meetings of shareholders except meetings at which only holders of a particular class are entitled to vote. |

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| consummating corporation equals at least the percentage of stock that would be required to adopt the agreement of merger under the DGCL, (iv) the corporation consummating the offer merges with or into such constituent corporation and (v) each outstanding share of each class or series of stock of the constituent corporation that was the subject of and not irrevocably accepted for purchase or exchange in the offer is to be converted in the merger into, or the right to receive, the same consideration to be paid for the shares of such class or series of stock of the constituent corporation irrevocably purchased or exchanged in such offer.<br><br>The DGCL does not contain a procedure comparable to a plan of arrangement under BCBCA. | Under the BCBCA, an action that prejudices or interferes with a right or special right attached to issued shares of a class or series of shares must be approved by a special separate resolution of the holders of the class or series of shares being affected.<br><br>Subject to applicable securities laws, which may impose certain "Issuer bid" or tender offer requirements, under the BCBCA, arrangements with shareholders, creditors and other persons are permitted and a company may make any proposal it considers appropriate "despite any other provision" of the BCBCA. In general, a plan of arrangement is approved by a company's board of directors and then is submitted to a court for approval. It is customary for a company in such circumstances to apply to a court initially for an interim order governing various procedural matters prior to calling any security holder meeting to consider the proposed arrangement. Plans of arrangement involving shareholders must be approved by a special resolution of shareholders, including holders of shares not normally entitled to vote. The court may, in respect of an arrangement proposed with persons other than shareholders and creditors, require that those persons approve the arrangement in the manner and to the extent required by the court. The court determines, among other things, to whom notice shall be given and whether, and in what manner, approval of any person is to be obtained and also determines whether any shareholders may dissent from the proposed arrangement and receive payment of the fair value of their shares. Following compliance with the procedural steps contemplated in any such interim order (including as to obtaining security holder approval), the court would conduct a final hearing, which would, among other things, assess the fairness of the arrangement and approve or reject the proposed arrangement.<br><br>The BCBCA does not contain a provision comparable to Section 251(h) of the DGCL. |

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| **Special Vote Required for Combinations with Interested Stockholders/ Shareholders** | Section 203 of the DGCL provides (in general) that a corporation may not engage in a business combination with an interested stockholder for a period of three years after the time of the transaction in which the person became an interested stockholder. The prohibition on business combinations with interested stockholders does not apply in some cases, including if: (i) the board of directors of the corporation, prior to the time of the transaction in which the person became an interested stockholder, approves (a) the business combination or (b) the transaction in which the stockholder becomes an interested stockholder; (ii) upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced; or (iii) the board of directors and the holders of at least two-thirds of the outstanding voting stock not owned by the interested stockholder approve the business combination on or after the time of the transaction in which the person became an interested stockholder.<br><br>For the purpose of Section 203, the DGCL, subject to specified exceptions, generally defines an interested stockholder to include any person who, together with that person's affiliates or associates, (i) owns 15% or more of the outstanding voting stock of the corporation (including any rights to acquire stock pursuant to an option, warrant, agreement, arrangement or understanding, or upon the exercise of conversion or exchange rights, and stock with respect to which the person has voting rights only), or (ii) is an affiliate or associate of the corporation and owned 15% or more of the outstanding voting stock of the corporation at any time within the previous three years. | The BCBCA does not contain a provision comparable to Section 203 of the DGCL with respect to business combinations. |

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| **Appraisal Rights; Rights to Dissent** | Under the DGCL, a stockholder of a corporation participating in some types of major corporate transactions may, under varying circumstances, be entitled to appraisal rights pursuant to which the stockholder may receive cash in the amount of the fair market value of his or her shares in lieu of the consideration he or she would otherwise receive in the transaction.<br><br>For example, a stockholder is entitled to appraisal rights in the case of a merger or consolidation if the shareholder is required to accept in exchange for the shares anything other than: (i) shares of stock of the corporation surviving or resulting from the merger or consolidation, or depository receipts in respect thereof; (ii) shares of any other corporation, or depository receipts in respect thereof, that on the effective date of the merger or consolidation will be either listed on a national securities exchange or held of record by more than 2,000 shareholders; (iii) cash instead of fractional shares of the corporation or fractional depository receipts of the corporation; or (iv) any combination of the shares of stock, depository receipts and cash instead of the fractional shares or fractional depository receipts. | The BCBCA provides that shareholders of a company are entitled to exercise dissent rights in respect of certain matters and to be paid the fair value of their shares in connection therewith. The dissent right is applicable where the company resolves to (i) alter its articles to alter the restrictions on the powers of the company or on the business it is permitted to carry on; (ii) approve certain amalgamations; (iii) approve an arrangement, where the terms of the arrangement or court orders relating thereto permit dissent; (iv) sell, lease or otherwise dispose of all or substantially all of its undertaking; or (v) continue the company into another jurisdiction.<br><br>Dissent may also be permitted if authorized by resolution. A court may also make an order permitting a shareholder to dissent in certain circumstances. |
| **Compulsory Acquisition** | Under the DGCL, mergers in which one corporation owns 90% or more of each class of stock of a second corporation may be completed without the vote of the second corporation's board of directors or shareholders. | The BCBCA provides that if, within 4 months after the making of an offer to acquire shares, or any class of shares, of a company, the offer is accepted by the holders of not less than 90% of the shares (other than the shares held by the offeror or an affiliate of the offeror) of any class of shares to which the offer relates, the offeror is entitled, upon giving proper notice within 5 months after the date of the offer, to acquire (on the same terms on which the offeror acquired shares from those holders of shares who accepted the offer) the shares held by those holders of shares of that class who did not accept the offer. Offerees may apply to the court, within 2 months of receiving notice, and the court may set a different price or terms of payment and may make any consequential orders or directions as it considers appropriate. |

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| **Stockholder/ Shareholder Consent to Action Without Meeting** | Under the DGCL, unless otherwise provided in the certificate of incorporation, any action that can be taken at a meeting of the stockholders may be taken without a meeting if written consent to the action is signed by the holders of outstanding stock having not less than the minimum number of votes necessary to authorize or take the action at a meeting of the stockholders. | Although it is not customary for public companies to do so, under the BCBCA, shareholder action without a meeting may be taken by a consent resolution of shareholders provided that it satisfies the thresholds for approval in a company's articles, the BCBCA and the regulations thereunder. A consent resolution is as valid and effective as if it was a resolution passed at a meeting of shareholders. |
| **Special Meetings of Stockholders/ Shareholders** | Under the DGCL, a special meeting of shareholders may be called by the board of directors or by such persons authorized in the certificate of incorporation or the bylaws. | Under the BCBCA, the holders of not less than 5% of the issued shares of a company that carry the right to vote at a general meeting may requisition that the directors call a meeting of shareholders for the purpose of transacting any business that may be transacted at a general meeting. Upon receiving a requisition that complies with the technical requirements set out in the BCBCA, the directors must, subject to certain limited exceptions, call a meeting of shareholders to be held not more than 4 months after receiving the requisition. If the directors do not call such a meeting within 21 days after receiving the requisition, the requisitioning shareholders or any of them holding in aggregate not less than 2.5% of the issued shares of the company that carry the right to vote at general meetings may call the meeting. |
| **Distributions and Dividends; Repurchases and Redemptions** | Under the DGCL, subject to any restrictions contained in the certificate of incorporation, a corporation may pay dividends out of capital surplus or, if there is no surplus, out of net profits for the current and/or the preceding fiscal year in which the dividend is declared, as long as the amount of | Under the BCBCA, a company may pay a dividend in money or other property unless there are reasonable grounds for believing that the company is insolvent, or the payment of the dividend would render the company insolvent. |

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| | capital of the corporation following the declaration and payment of the dividend is not less than the aggregate amount of the capital represented by issued and outstanding shares having a preference upon the distribution of assets. Surplus is defined in the DGCL as the excess of the net assets over capital, as such capital may be adjusted by the board.<br><br>A Delaware corporation may purchase or redeem shares of any class except when its capital is impaired or would be impaired by the purchase or redemption. A corporation may, however, purchase or redeem out of capital shares that are entitled upon any distribution of its assets to a preference over another class or series of its shares if the shares are to be retired and the capital reduced. | The BCBCA provides that no special rights or restrictions attached to a series of any class of shares confer on the series a priority in respect of dividends or return of capital over any other series of shares of the same class.<br><br>Under the BCBCA, the purchase or other acquisition by a company of its shares is generally subject to solvency tests similar to those applicable to the payment of dividends (as set out above). Our company is permitted, under its articles, to acquire any of its shares, subject to the special rights and restrictions attached to such class or series of shares and the approval of its board of directors.<br><br>Under the BCBCA, subject to solvency tests similar to those applicable to the payment of dividends (as set out above), a company may redeem, on the terms and in the manner provided in its articles, any of its shares that has a right of redemption attached to it. Our common shares are not subject to a right of redemption. |
| **Vacancies on Board of Director** | Under the DGCL, a vacancy or a newly created directorship may be filled by a majority of the directors then in office, although less than a quorum, or by the sole remaining director, unless otherwise provided in the certificate of incorporation or bylaws. Any newly elected director usually holds office for the remainder of the full term expiring at the annual meeting of stockholders at which the term of the class of directors to which the newly elected director has been elected expires. | Under the BCBCA and our articles, a vacancy among the directors created by the removal of a director may be filled by the shareholders at the meeting at which the director is removed or, if not filled by the shareholders at such meeting, by the shareholders or by the remaining directors. In the case of a casual vacancy, the remaining directors may fill the vacancy. Under the BCBCA, directors may increase the size of the board of directors by one third of the number of current directors.<br><br>Under the BCBCA and our articles, if as a result of one or more vacancies, the number of directors in office falls below the number required for a quorum, the remaining directors may appoint as directors the number of individuals that, when added to the number of remaining directors, will constitute a quorum and/or call a shareholders' meeting to fill any or all vacancies among directors and to conduct such other business that may be dealt with at that meeting, but must not take any other action until a quorum is obtained. |

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| **Constitution and Residency Of Directors** | The DGCL does not have residency requirements, but a corporation may prescribe qualifications for directors under its certificate of incorporation or bylaws. | The BCBCA does not place any residency restrictions on the boards of directors. |
| **Removal of Directors; Terms of Directors** | Under the DGCL, except in the case of a corporation with a classified board or with cumulative voting, any director or the entire board may be removed, with or without cause, by the holders of a majority of the shares entitled to vote at an election of directors. | Our articles allow for the removal of a director by special resolution of the shareholders.<br><br>According to our articles, all directors cease to hold office immediately before the election or appointment of directors at every annual general meeting, but are eligible for re-election or re-appointment. |
| **Inspection of Books and Records** | Under the DGCL, any holder of record of stock or a person who is the beneficial owner of shares of such stock held either in a voting trust or by a nominee on behalf of such person may inspect the corporation's books and records for a proper purpose. | Under the BCBCA, directors and shareholders may, without charge, inspect certain of the records of a company. Former shareholders, to the extent permitted under our articles, and former directors may also inspect certain of the records, free of charge, but only those records pertaining to the times that they were shareholders or directors.<br><br>Public companies must allow all persons to inspect certain records of the company free of charge. |
| **Amendment of Governing Documents** | Under the DGCL, a certificate of incorporation may be amended if: (i) the board of directors adopts a resolution setting forth the proposed amendment, declares the advisability of the amendment and directs that it be submitted to a vote at a meeting of shareholders; provided that unless required by the certificate of incorporation, no meeting or vote is required to adopt an amendment for certain specified changes; and (ii) the holders of a majority of shares of stock entitled to vote on the matter approve the amendment, unless the certificate of incorporation requires the vote of a greater number of shares. | Under the BCBCA, a company may amend its articles or notice of articles by (i) the type of resolution specified in the BCBCA, (ii) if the BCBCA does not specify a type of resolution, then by the type specified in the company's articles, or (iii) if the company's articles do not specify a type of resolution, then by special resolution. The BCBCA permits many substantive changes to a company's articles (such as a change in the company's authorized share structure or a change in the special rights or restrictions that may be attached to a certain class or series of shares) to be changed by the resolution specified in that company's articles. |

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| If a class vote on the amendment is required by the DGCL, a majority of the outstanding stock of the class is required, unless a greater proportion is specified in the certificate of incorporation or by other provisions of the DGCL.<br><br>Under the DGCL, the board of directors may amend a corporation's bylaws if so authorized in the certificate of incorporation. The shareholders of a Delaware corporation also have the power to amend bylaws. | Our articles provide that certain changes to our share structure and any creation or alteration of special rights and restrictions attached to a series or class of shares be done by way of a directors' resolution. However, if a right or special right attached to a class or series of shares would be prejudiced or interfered with by such an alteration, the BCBCA requires that holders of such class or series of shares must approve the alteration by a special separate resolution of those shareholders.<br><br>Our articles also provide that the shareholders may from time to time, by special resolution, make any alteration to our notice of articles and articles as permitted by the BCBCA. |

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| **Indemnification of Directors and Officers** | Under the DGCL, subject to specified limitations in the case of derivative suits brought by a corporation's stockholders in its name, a corporation may indemnify any person who is made a party to any action, suit or proceeding on account of being a director, officer, employee or agent of the corporation (or was serving at the request of the corporation in such capacity for another corporation, partnership, joint venture, trust or other enterprise) against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with the action, suit or proceeding, provided that there is a determination that: (i) the individual acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the corporation; and (ii) in a criminal action or proceeding, the individual had no reasonable cause to believe his or her conduct was unlawful.<br><br>Without court approval, however, no indemnification may be made in respect of any derivative action in which an individual is adjudged liable to the corporation, except to the extent the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity.<br><br>The DGCL requires indemnification of directors and officers for expenses (including attorneys' fees) actually and reasonably relating to a successful defense on the merits or otherwise of a derivative or third-party action.<br><br>Under the DGCL, a corporation may advance expenses relating to the defense of any proceeding to directors and officers upon the receipt of an undertaking by or on behalf of the individual to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified. | Under the BCBCA, a company may indemnify: (i) a current or former director or officer of that company; or (ii) a current or former director or officer of another corporation if, at the time such individual held such office, the corporation was an affiliate of the company, or if such individual held such office at the company's request, against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment actually and reasonably incurred by him or her in respect of any legal proceeding or investigative action (whether current, threatened, pending or completed) in which he or she is involved because of that person's position as an indemnifiable person, unless: (i) the individual did not act honestly and in good faith with a view to the best interests of such company or the other entity, as the case may be; or (ii) in the case of a proceeding other than a civil proceeding, the individual did not have reasonable grounds for believing that the individual's conduct was lawful. A company cannot indemnify an indemnifiable person if it is prohibited from doing so under its articles. In addition, a company must not indemnify an indemnifiable person in proceedings brought against the indemnifiable person by or on behalf of the company or an associated company. A company may pay, as they are incurred in advance of the final disposition of an eligible proceeding, the expenses actually and reasonably incurred by an indemnifiable person in respect of that proceeding only if the indemnifiable person has provided an undertaking that, if it is ultimately determined that the payment of expenses was prohibited, the indemnifiable person will repay any amounts advanced. Subject to the aforementioned prohibitions on indemnification, a company must, after the final disposition of an eligible proceeding, pay the expenses actually and reasonably incurred by an indemnifiable person in respect of such eligible proceeding if such indemnifiable person has not been reimbursed for such expenses, and was wholly successful, on the merits or otherwise, in the outcome of such eligible proceeding or was substantially successful on the merits in the outcome of such eligible proceeding. On application from us or from an indemnifiable person, a court may make any order the court considers appropriate in respect of an eligible proceeding, including the indemnification of penalties imposed or expenses incurred in any such proceedings and the enforcement of an indemnification agreement. |

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| | | As permitted by the BCBCA, our articles require us to indemnify our directors, officers, former directors or officers (and such individual's respective heirs and legal representatives) and permit us to indemnify any person to the extent permitted by the BCBCA. |
| **Limited Liability of Directors** | The DGCL permits the adoption of a provision in a corporation's certificate of incorporation limiting or eliminating the monetary liability of a director to a corporation or its shareholders by reason of a director's breach of the fiduciary duty of care. The DGCL does not permit any limitation of the liability of a director for: (i) breaching the duty of loyalty to the corporation or its shareholders; (ii) acts or omissions not in good faith; (iii) engaging in intentional misconduct or a known violation of law; (iv) obtaining an improper personal benefit from the corporation; or (v) paying a dividend or approving a stock repurchase that was illegal under applicable law. | Under the BCBCA, a director or officer of a company must (i) act honestly and in good faith with a view to the best interests of the company; (ii) exercise the care, diligence and skill that a reasonably prudent individual would exercise in comparable circumstances; (iii) act in accordance with the BCBCA and the regulations thereunder; and (iv) subject to (i) to (iii), act in accordance with the articles of the company. These statutory duties are in addition to duties under common law and equity.<br><br>No provision in a contract or the articles of a company may relieve a director or officer of a company from the above duties.<br><br>Under the BCBCA, a director is not liable for certain acts if the director has otherwise complied with his or her duties and relied, in good faith, on (i) financial statements of the company represented to the director by an officer of the company or in a written report of the auditor of the company to fairly reflect the financial position of the company, (ii) a written report of a lawyer, accountant, engineer, appraiser or other person whose profession lends credibility to a statement made by that person, (iii) a statement of fact represented to the director by an officer of the company to be correct, or (iv) any record, information or representation that the court considers provides reasonable grounds for the actions of the director, whether or not that record was forged, fraudulently made or inaccurate or that information or representation was fraudulently made or inaccurate. Further, a director is not liable if the director did not know and could not reasonably have known that the act done by the director or authorized by the resolution voted for or consented to by the director was contrary to the BCBCA. |

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| **Stockholder/ Shareholder Lawsuits** | Under the DGCL, a stockholder may bring a derivative action on behalf of the corporation to enforce the rights of the corporation; provided, however, that under Delaware case law, the plaintiff generally must be a stockholder not only at the time of the transaction which the subject of the suit, but through the duration of the derivative suit. Delaware law also requires that the derivative plaintiff make a demand on the directors of the corporation to assert the corporate claim before the suit may be prosecuted by the derivative plaintiff, unless such demand would be futile. An individual also may commence a class action suit on behalf of himself or herself and other similarly situated stockholders where the requirements for maintaining a class action have been met. | Under the BCBCA, a shareholder (including a beneficial shareholder) or director of a company and any person who, in the discretion of the court, is an appropriate person to make an application to court to prosecute or defend an action on behalf of a company (a derivative action) may, with judicial leave: (i) bring an action in the name and on behalf of the company to enforce a right, duty or obligation owed to the company that could be enforced by the company itself or to obtain damages for any breach of such right, duty or obligation or (ii) defend, in the name and on behalf of the company, a legal proceeding brought against the company.<br><br>Under the BCBCA, the court may grant leave if: (i) the complainant has made reasonable efforts to cause the directors of the company to prosecute or defend the action; (ii) notice of the application for leave has been given to the company and any other person that the court may order; (iii) the complainant is acting in good faith; and (iv) it appears to the court to be in the interests of the company for the action to be prosecuted or defended.<br><br>Under the BCBCA, upon the final disposition of a derivative action, the court may make any order it determines to be appropriate. In addition, under the BCBCA, a court may order a company to pay the complainant's interim costs, including legal fees and disbursements. However, the complainant may be held accountable for the costs on final disposition of the action. |

| | Delaware | British Columbia |
|---|---|---|
| **Oppression Remedy** | Although the DGCL imposes upon directors and officers fiduciary duties of loyalty (i.e., a duty to act in a manner believed to be in the best interest of the corporation and its stockholders) and care, there is no remedy under the DGCL that is comparable to the BCBCA's oppression remedy. | The BCBCA's oppression remedy enables a court to make an order (interim or final) to rectify the matters complained of if the court is satisfied upon application by a shareholder (as defined below) that the affairs of the company are being conducted or that the powers of the directors are being or have been exercised in a manner that is oppressive, or that some action of the company or shareholders has been or is threatened to be taken which is unfairly prejudicial, in each case to one or more shareholders. The application must be brought in a timely manner. A "shareholder" for the purposes of the oppression remedy includes legal and beneficial owners of shares as well as any other person whom the court considers appropriate.<br><br>The oppression remedy provides the court with extremely broad and flexible jurisdiction to intervene in corporate affairs to protect shareholders. |
| **Blank Check Preferred Stock/Shares** | Under the DGCL, the certificate of incorporation of a corporation may give the board the right to issue new classes of preferred shares with voting, conversion, dividend distribution, and other rights to be determined by the board at the time of issuance, which could prevent a takeover attempt and thereby preclude shareholders from realizing a potential premium over the market value of their shares.<br><br>In addition, the DGCL does not prohibit a corporation from adopting a shareholder rights plan, or "poison pill," which could prevent a takeover attempt and also preclude shareholders from realizing a potential premium over the market value of their shares. | Under the BCBCA, once a class of preferred shares has been created, the board of directors may be authorized, without shareholder approval, but subject to the provisions of the articles and BCBCA, to determine the maximum number of shares of each series, create an identifying name for each series and attach such special rights or restrictions, including dividend, liquidation and voting rights, as our board of directors may determine, and such special rights or restrictions, including dividend, liquidation and voting rights, may be superior to those of the common shares. Under the BCBCA, each share of a series of shares must have the same special rights or restrictions as are attached to every other share of that series of shares. In addition, the special rights or restrictions attached to shares of a series of shares must be consistent with the special rights or restrictions attached to the class of shares of which the series of shares is part. |

| | Delaware | British Columbia |
|---|---|---|
| | | The BCBCA does not prohibit a corporation from adopting a shareholder rights plan, or "poison pill," which could prevent a takeover attempt and also preclude shareholders from realizing a potential premium over the market value of their shares. |
| **Advance Notification Requirements for Proposals of Stockholders/Shareholders** | Delaware corporations typically have provisions in their bylaws that require a stockholder proposing a nominee for election to the board of directors or other proposals at an annual or special meeting of the stockholders to provide notice of any such proposals to the secretary of the corporation in advance of the meeting for any such proposal to be brought before the meeting of the stockholders. In addition, advance notice bylaws frequently require the stockholder nominating a person for election to the board of directors to provide information about the nominee, such as his or her age, address, employment and beneficial ownership of shares of the corporation's capital stock. The stockholder may also be required to disclose, among other things, his or her name, share ownership and agreement, arrangement or understanding with respect to such nomination.<br><br>For other proposals, the proposing stockholder is often required by the bylaws to provide a description of the proposal and any other information relating to such stockholder or beneficial owner, if any, on whose behalf that proposal is being made, required to be disclosed in a proxy statement or other filings required to be made in connection with solicitation of proxies for the proposal and pursuant to and in accordance with the Exchange Act and the rules and regulations promulgated thereunder. | Under the BCBCA, qualified shareholders holding at least one percent (1%) of our issued voting shares or whose shares have a fair market value in excess of CAD$2,000 in the aggregate may make proposals for matters to be considered at the annual general meeting of shareholders. Such proposals must be sent to us in advance of any proposed meeting by delivering a timely written notice in proper form to our registered office in accordance with the requirements of the BCBCA. The notice must include information on the business the shareholder intends to bring before the meeting in the prescribed form. To be a qualified shareholder, a shareholder must currently be and have been a registered or beneficial owner of at least one share of the company for at least two years before the date of signing the proposal.<br><br>If the proposal and a written statement in support of the proposal (if any) are submitted at least three months before the anniversary date of the previous annual meeting and the proposal and written statement (if any) meet other specified requirements, then the company must either set out the proposal, including the names and mailing addresses of the submitting person and supporters and the written statement (if any), in the proxy circular of the company or attach the proposal and written statement thereto.<br><br>In certain circumstances, the company may refuse to process a proposal.<br><br>We have included Advance Notice Provisions (as defined in the "Description of Share Capital" section above) in our articles. Under the Advance Notice Provisions, a shareholder wishing to nominate a director would be required to provide us notice, in the prescribed form, within the prescribed time periods. |

## SHARES ELIGIBLE FOR FUTURE SALE

Future sales of substantial amounts of our common shares in the public market could adversely affect market prices prevailing from time to time. Furthermore, because only a limited number of common shares will be available for sale shortly after this offering due to existing contractual and legal restrictions on resale as described below, there may be sales of substantial amounts of our common shares in the public market after such restrictions lapse. This may adversely affect the prevailing market price of our common shares and our ability to raise equity capital in the future.

Upon completion of this offering, we will have 11,451,856 common shares outstanding, or 11,552,697 common shares outstanding if the underwriters exercise their option in full to purchase additional common shares. Of these, 9,281,853 common shares, or 9,382,694 common shares if the underwriters exercise their option in full to purchase additional common shares, sold in this offering will be freely transferable without restriction or registration under the Securities Act, except for any shares purchased by one of our existing "affiliates," as that term is defined in Rule 144 under the Securities Act. The remaining common shares are "restricted shares" as defined in Rule 144. Restricted shares may be sold in the public market only if registered or if they qualify for an exemption from registration under Rules 144 or 701 of the Securities Act. As a result of the contractual 180-day lock-up period described below and the provisions of Rules 144 and 701, these shares will be available for sale in the public market as follows:

| Number of Shares | Date |
|---|---|
| 9,281,853 | On the date of this prospectus. |
| 625,000 | After 91 days from the date of this prospectus (subject, in some cases, to volume limitations). |
| 1,337,314 | After 180 days from the date of this prospectus (subject, in some cases, to volume limitations). |

**Lock-up Restrictions**

We and each of our directors, executive officers, and certain of our shareholders, have agreed, without the prior written consent of the representative of the underwriters, not to directly or indirectly, offer to sell, sell, pledge or otherwise transfer or dispose of any of (or enter into any transaction or device that is designed to, or could be expected to, result in the transfer or disposition by any person at any time in the future of) our common shares, enter into any swap or other derivatives transaction that transfers to another, in whole or in part, any of the economic benefits or risks of ownership of our common shares, make any demand for or exercise any right or cause to be filed a registration statement, including any amendments thereto, with respect to the registration of any common shares or securities convertible into or exercisable or exchangeable for common shares or any other securities of our company or publicly disclose the intention to do any of the foregoing for a period of 90 days after the date of this prospectus. The lock-up restrictions and specified exceptions are described in more detail under "Underwriting."

**Rule 144**

In general, under Rule 144, any person who is not our affiliate and has held their shares for at least six months, including the holding period of any prior owner other than one of our affiliates, may sell shares without restriction, subject to the availability of current public information about us. In addition, under Rule 144, any person who is not our affiliate and has not been our affiliate at any time during the preceding three months and has held their shares for at least one year, including the holding period of any prior owner other than one of our affiliates, would be entitled to sell an unlimited number of shares without regard to whether current public information about us is available.

A person who is our affiliate or who was our affiliate at any time during the preceding three months and who has beneficially owned restricted securities for at least six months, including the holding period of any prior owner other than one of our affiliates, is entitled to sell a number of common shares within any three-month period that does not exceed the greater of: (i) 1% of the number of our shares outstanding; and (ii) the average weekly trading volume of our common shares on The Nasdaq Capital Market during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale.

Sales under Rule 144 by our affiliates are also subject to certain manner of sale provisions, notice requirements and to the availability of current public information about us.

**Rule 701**

In general, under Rule 701 under the Securities Act, any of our employees, directors, officers, consultants or advisors who acquired common shares from us in connection with a written compensatory stock or option plan or other written agreement in compliance with Rule 701 prior to our IPO is entitled to sell such shares in reliance on Rule 144 but without compliance with certain of the requirements contained in Rule 144. Accordingly, subject to any applicable lock-up restrictions, under Rule 701 persons who are not our affiliates may resell those shares without complying with the minimum holding period or public information requirements of Rule 144, and persons who are our affiliates may resell those shares without compliance with Rule 144's minimum holding period requirements.

**Canadian Resale Restrictions**

Any sale of any of our shares which constitutes a "control distribution" under Canadian securities laws (generally a sale by a person or a group of persons holding more than 20% of our outstanding voting securities) will be subject to restrictions under Canadian securities laws in addition to those restrictions noted above, unless the sale is qualified under a prospectus filed with Canadian securities regulatory authorities, or if prior notice of the sale is filed with the Canadian securities regulatory authorities at least seven days before any sale and there has been compliance with certain other requirements and restrictions regarding the manner of sale, payment of commissions, reporting and availability of current public information about us and compliance with applicable Canadian securities laws.

**Equity Incentive Plans**

Following this offering, we plan to file with the SEC a registration statement on Form S-8 under the Securities Act covering the common shares that are subject to outstanding options and other awards that may be granted pursuant to our equity incentive plans. Shares covered by such registration statement will be available for sale in the open market following its effective date, subject to certain Rule 144 limitations applicable to affiliates and the terms of lock-up restrictions applicable to those shares.

## MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS FOR U.S. HOLDERS

Subject to the limitations and qualifications stated herein, this discussion sets forth certain material U.S. federal income tax considerations relating to the acquisition, ownership and disposition by U.S. Holders (as defined below) of the units ("Units"), with each Unit consisting of one common share and two warrants, a Unit A Warrant and a Unit B Warrant, acquired pursuant to this offering, and the exercise, disposition and lapse of warrants acquired as part of the Unit. The discussion is based on the U.S. Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as currently in effect and all subject to change at any time, possibly with retroactive effect. This summary applies only to U.S. Holders and does not address tax consequences to a non-U.S. Holder (as defined below) investing in our Units.

This discussion of a U.S. Holder's tax consequences addresses only those persons that hold the Units as capital assets and does not address the tax consequences to any special class of holders, including without limitation, holders (directly, indirectly or constructively) of 10% or more of our equity (based on value or voting power), dealers in securities or currencies, banks, tax-exempt organizations, insurance companies, financial institutions, broker-dealers, regulated investment companies, real estate investment trusts, traders in securities that elect the mark-to-market method of accounting for their securities holdings, persons that hold securities that are a hedge or that are hedged against currency or interest rate risks or that are part of a straddle, conversion or "integrated" transaction, persons required to accelerate the recognition of any item of gross income with respect to the common shares as a result of such income being recognized on an applicable financial statement, U.S. expatriates or former long-term residents of the United States, partnerships or other pass-through entities for U.S. federal income tax purposes, U.S. Holders that acquire Units in connection with the exercise of employee stock options or otherwise as compensation for services and U.S. Holders whose functional currency for U.S. federal income tax purposes is not the U.S. dollar. This discussion does not address the effect of the U.S. federal alternative minimum tax, U.S. federal estate and gift tax, alternative minimum tax, the 3.8% Medicare contribution tax on net investment income or any state, local or non-U.S. tax laws on a holder of Units. This discussion does not take into account the individual facts and circumstances of any particular U.S. Holder that may affect the U.S. federal income tax consequences to such U.S. Holder, including specific tax consequences to a U.S. Holder under an applicable tax treaty. Accordingly, this summary is not intended to be, and should not be construed as, legal or U.S. federal income tax advice with respect to any particular U.S. Holder. Each U.S. Holder should consult its own tax advisor regarding the U.S. federal, U.S. state and local, U.S. federal estate and gift, alternative minimum, and non-U.S. tax consequences of the acquisition, ownership and disposition of the Units.

This discussion also does not address the U.S. federal income tax considerations applicable to U.S. Holders who are: (a) persons that have been, are, or will be a resident or deemed to be a resident in Canada for purposes of the Income Tax Act (Canada); (b) persons that use or hold, will use or hold, or that are or will be deemed to use or hold Units in connection with carrying on a business in Canada; (c) persons whose Units constitute "taxable Canadian property" under the Income Tax Act (Canada); or (e) persons that have a permanent establishment in Canada for the purposes of the Canada-U.S. Tax Convention.

For purposes of this discussion, a "U.S. Holder" is a beneficial owner of Units acquired pursuant to this offering that is for U.S. federal income tax purposes: (a) an individual who is a citizen or resident of the United States; (b) a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia; (c) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (d) a trust (i) if a court within the United States can exercise primary supervision over its administration, and one or more U.S. persons have the authority to control all of the substantial decisions of that trust, or (ii) that has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person. The term "non-U.S. Holder" means any beneficial owner of Units acquired pursuant to this offering that is not a U.S. Holder, a partnership (or an entity or arrangement that is treated as a partnership or other pass-through entity for U.S. federal income tax purposes) or a person holding Units through such an entity or arrangement.

If a partnership or an entity or arrangement that is treated as a partnership for U.S. federal income tax purposes holds Units, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. Partners in partnerships that hold Units should consult their own tax advisors.

**You are urged to consult your own independent tax advisor regarding the specific U.S. federal, state, local and non-U.S. income and other tax considerations relating to the acquisition, ownership and disposition of Units.**

**U.S. Federal Income Tax Consequences of the Acquisition of Units**

For U.S. federal income tax purposes, the acquisition by a U.S. Holder of a Unit will be treated as the acquisition of one common share, one Unit A Warrant and one Unit B Warrant. The purchase price for each Unit will be allocated between these components in proportion to each component's relative fair market value at the time the Unit is purchased by the U.S. Holder. This allocation of the purchase price for each Unit will establish a U.S. Holder's initial tax basis for U.S. federal income tax purposes in the common share, the Unit A Warrant and the Unit B Warrant that comprise each Unit.

For this purpose, the Company will allocate US$11.90 of the purchase price for each Unit to the common share, US$0.001 of the purchase price for each Unit to the Unit A Warrant, and US$0.001 of the purchase price for each Unit to the Unit B Warrant. A U.S. Holder's initial tax basis for U.S. federal income tax purposes in the common share and warrants that comprise each Unit will be translated into U.S. dollars calculated by reference to the exchange rate prevailing on the date of purchase. However, the IRS will not be bound by such allocation of the purchase price for the Units, and therefore, the IRS or a U.S. court may not respect the allocation set forth above. Each U.S. Holder should consult its own tax advisor regarding the allocation of the purchase price for the Units.

**U.S. Federal Income Tax Consequences of the Exercise and Disposition of Warrants**

The following discussion is subject in its entirety to the rules described below under the heading "Passive Foreign Investment Company Considerations."

***Exercise of Warrants***

A U.S. Holder should not recognize gain or loss on the exercise of a Unit A Warrant or Unit B Warrant and related receipt of a common share (unless cash is received in lieu of the issuance of a fractional common share). A U.S. Holder's initial tax basis in the common share received on the exercise of a Unit A Warrant or Unit B Warrant, as applicable, should be equal to the sum of (a) such U.S. Holder's tax basis in such warrant plus (b) the exercise price paid by such U.S. Holder on the exercise of such warrant (translated into U.S. dollars calculated by reference to the exchange rate prevailing on the date of exercise). A U.S. Holder's holding period for the common share received on the exercise of a warrant should begin on the date that such warrant is exercised by such U.S. Holder.

***Disposition of Warrants***

A U.S. Holder will recognize gain or loss on the sale or other taxable disposition of a Unit A Warrant or Unit B Warrant, as applicable, in an amount equal to the difference, if any, between (a) the amount of cash plus the fair market value of any property received and (b) such U.S. Holder's tax basis in the warrant sold or otherwise disposed of. Any such gain or loss generally will be a capital gain or loss, which will be long-term capital gain or loss if the applicable warrant is held for more than one year. Deductions for capital losses are subject to complex limitations under the Code.

***Expiration of Warrants Without Exercise***

Upon the lapse or expiration of a Unit A Warrant or Unit B Warrant, as applicable, a U.S. Holder will recognize a loss in an amount equal to such U.S. Holder's tax basis in the applicable warrant. Any such loss generally will be a capital loss and will be long-term capital loss if the applicable warrant is held for more than one year. Deductions for capital losses are subject to complex limitations under the Code.

***Certain Adjustments to the Warrants***

Under Section 305 of the Code, an adjustment to the number of common shares that will be issued on the exercise of the Unit A Warrants or Unit B Warrants, as applicable, or an adjustment to the exercise price of the warrants, may be treated as a constructive distribution to a U.S. Holder of the warrants if, and to the extent that, such adjustment has the effect of increasing such U.S. Holder's proportionate interest in the "earnings and profits" or the Company's assets, depending on the circumstances of such adjustment (for example, if such adjustment is to compensate for a distribution of cash or other property to the shareholders). Adjustments to the exercise price of the Unit A Warrants or Unit B Warrants made pursuant to a bona fide reasonable adjustment formula that has the effect of preventing dilution of the interest of the holders of the warrants generally should not be considered to result in a constructive distribution. Any such constructive distribution would be taxable whether or not there is an actual distribution of cash or other property. (See more detailed discussion of the rules applicable to distributions made by the Company at "U.S. Federal Income Tax Consequences of the Acquisition, Ownership, and Disposition of Common Shares – Cash Dividends and Other Distributions" below).

**U.S. Federal Income Tax Consequences of the Acquisition, Ownership, and Disposition of Common Shares**

***Cash Dividends and Other Distributions***

As described in the section entitled "Dividend Policy" above, we currently intend to retain any future earnings to fund business development and growth, and we do not expect to pay any dividends in the foreseeable future. However, to the extent there are any distributions (including constructive distributions) made with respect to our common shares (including common shares received upon the exercise of a Unit A Warrant or Unit B Warrant), subject to the PFIC rules discussed below, a U.S. Holder generally will be required to treat distributions received with respect to its common shares (including the amount of Canadian taxes withheld, if any) as dividend income to the extent of our current or accumulated earnings and profits (computed using U.S. federal income tax principles), with the excess treated as a non-taxable return of capital to the extent of the holder's adjusted tax basis in its common shares and, thereafter, as capital gain recognized on a sale or exchange on the day actually or constructively received by you (see "Sale or Disposition of Common Shares" below). There can be no assurance that we will maintain calculations of our earnings and profits in accordance with U.S. federal income tax accounting principles. U.S. Holders should therefore assume that any distribution with respect to our common shares will constitute ordinary dividend income. Dividends paid on the common shares will not be eligible for the dividends received deduction allowed to U.S. corporations.

Dividends paid to a non-corporate U.S. Holder by a "qualified foreign corporation" may be subject to reduced rates of taxation if certain holding period and other requirements are met. A qualified foreign corporation generally includes a foreign corporation (other than a foreign corporation that is a PFIC in the taxable year in which the dividend is paid or the preceding taxable year) if (i) its common shares are readily tradable on an established securities market in the United States or (ii) it is eligible for benefits under a comprehensive U.S. income tax treaty that includes an exchange of information program and which the U.S. Treasury Department has determined is satisfactory for these purposes. Our common shares are readily tradable on an established securities market in the United States, the OTCQB. We may also be eligible for the benefits of the Canada-U.S. Tax Convention. Accordingly, subject to the PFIC rules discussed below, we expect that a non-corporate U.S. Holder should qualify for the reduced rate on dividends so long as the applicable holding period requirements are met. U.S. Holders should consult their own tax advisors regarding the availability of the reduced tax rate on dividends in light of their particular circumstances.

Non-corporate U.S. Holders will not be eligible for reduced rates of taxation on any dividends received from us if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year.

Distributions paid in a currency other than U.S. dollars will be included in a U.S. Holder's gross income in a U.S. dollar amount based on the spot exchange rate in effect on the date of actual or constructive receipt, whether or not the payment is converted into U.S. dollars at that time. The U.S. Holder will have a tax basis in such currency equal to such U.S. dollar amount, and any gain or loss recognized upon a subsequent sale or conversion of the foreign currency for a different U.S. dollar amount will be U.S. source ordinary income or loss. If the dividend is converted into U.S. dollars on the date of receipt, a U.S. Holder generally should not be required to recognize foreign currency gain or loss in respect of the dividend income.

A U.S. Holder who pays (whether directly or through withholding) Canadian taxes with respect to dividends paid on our common shares may be entitled to receive either a deduction or a foreign tax credit for such Canadian taxes paid. Complex limitations apply to the foreign tax credit, including the general limitation that the credit cannot exceed the proportionate share of a U.S. Holder's U.S. federal income tax liability that such U.S. Holder's "foreign source" taxable income bears to such U.S. Holder's worldwide taxable income. In applying this limitation, a U.S. Holder's various items of income and deduction must be classified, under complex rules, as either "foreign source" or "U.S. source." In addition, this limitation is calculated separately with respect to specific categories of income. Dividends paid by us generally will constitute "foreign source" income and generally will be categorized as "passive category income." However, if 50% or more of our equity (based on voting power or value) is treated as held by U.S. persons, we will be treated as a "United States-owned foreign corporation," in which case dividends may be treated for foreign tax credit limitation purposes as "foreign source" income to the extent attributable to our non-U.S. source earnings and profits and as "U.S. source" income to the extent attributable to our U.S. source earnings and profits. Because the foreign tax credit rules are complex, each U.S. Holder should consult its own tax advisor regarding the foreign tax credit rules.

**Sale or Disposition of Common Shares**

Subject to the PFIC rules discussed below, a U.S. Holder generally will recognize gain or loss on the taxable sale or exchange of its common shares in an amount equal to the difference between the U.S. dollar amount realized on such sale or exchange (determined in the case of common shares sold or exchanged for currencies other than U.S. dollars by reference to the spot exchange rate in effect on the date of the sale or exchange or, if the common shares sold or exchanged are traded on an established securities market and the U.S. Holder is a cash basis taxpayer or an electing accrual basis taxpayer, the spot exchange rate in effect on the settlement date) and the U.S. Holder's adjusted tax basis in the common shares sold or otherwise disposed of determined in U.S. dollars.

Assuming we are not a PFIC and have not been treated as a PFIC during your holding period for our common shares, such gain or loss will be capital gain or loss and will be long-term gain or loss if the common shares have been held for more than one year. Under current law, long-term capital gains of non-corporate U.S. Holders generally are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Capital gain or loss, if any, recognized by a U.S. Holder generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes. Consequently, a U.S. Holder may not be able to use the foreign tax credit arising from any Canadian tax imposed on the disposition of a common share unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources. U.S. Holders are encouraged to consult their own tax advisors regarding the availability of the U.S. foreign tax credit in their particular circumstances.

**Passive Foreign Investment Company Considerations**

***Status as a PFIC***

The rules governing PFICs can have adverse tax effects on U.S. Holders. We generally will be classified as a PFIC for U.S. federal income tax purposes if, for any taxable year, either: (1) 75% or more of our gross income consists of certain types of passive income, or (2) the average value (determined on a quarterly basis), of our assets that produce, or are held for the production of, passive income is 50% or more of the value of all of our assets.

For purposes of the PFIC provisions, "gross income" generally means sales revenues less cost of goods sold, plus income from investments and from incidental or outside operations or sources. Passive income generally includes dividends, interest, rents and royalties (other than certain rents and royalties derived in the active conduct of a trade or business), annuities and gains from assets that produce passive income. If a non-U.S. corporation owns at least 25% by value of the stock of another corporation, the non-U.S. corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation and as receiving directly its proportionate share of the other corporation's income.

Additionally, if we are classified as a PFIC in any taxable year with respect to which a U.S. Holder owns common shares, we generally will continue to be treated as a PFIC with respect to such U.S. Holder in all succeeding taxable years, regardless of whether we continue to meet the tests described above, unless the U.S. Holder makes the "deemed sale election" described below.

We do not believe that we are currently a PFIC, and we do not anticipate becoming a PFIC in the foreseeable future. Notwithstanding the foregoing, the determination of whether we are a PFIC is made annually and depends on the particular facts and circumstances (such as the valuation of our assets, including goodwill and other intangible assets) and also may be affected by the application of the PFIC rules, which are subject to differing interpretations. The fair market value of our assets is expected to depend, in part, upon (a) the market price of our common shares, which is likely to fluctuate, and (b) the composition of our income and assets, which will be affected by how, and how quickly, we spend any cash that is raised in any financing transaction, including this offering. In light of the foregoing, no assurance can be provided that we are not currently a PFIC or that we will not become a PFIC in any future taxable year. Prospective investors should consult their own tax advisors regarding our potential PFIC status.

Under proposed Treasury Regulations, if the Company is a PFIC for any taxable year during which a U.S. Holder holds Unit A Warrants or Unit B Warrants, gain recognized on the sale or other taxable disposition (other than by exercise) of the warrants by a U.S. Holder may be subject to the PFIC rules. Each U.S. Holder should consult its own financial advisor, legal counsel, or accountant regarding the application of the PFIC rules to the warrants and the ability to make a QEF election or mark-to-market election with respect to such warrants.

***U.S. Federal Income Tax Treatment of a Shareholder of a PFIC***

If we are classified as a PFIC for any taxable year during which a U.S. Holder owns common shares, the U.S. Holder, absent certain elections (including the mark-to-market and QEF elections described below), generally will be subject to adverse rules (regardless of whether we continue to be classified as a PFIC) with respect to (i) any "excess distributions" (generally, any distributions received by the U.S. Holder on its common shares in a taxable year that are greater than 125% of the average annual distributions received by the U.S. Holder in the three preceding taxable years or, if shorter, the U.S. Holder's holding period for its common shares) and (ii) any gain realized on the sale or other disposition, including a pledge, of its common shares.

Under these adverse rules (a) the excess distribution or gain will be allocated ratably over the U.S. Holder's holding period, (b) the amount allocated to the current taxable year and any taxable year prior to the first taxable year in which we are classified as a PFIC will be taxed as ordinary income, (c) the amount allocated to each other taxable year during the U.S. Holder's holding period in which we were classified as a PFIC (i) will be subject to tax at the highest rate of tax in effect for the applicable category of taxpayer for that year and (ii) will be subject to an interest charge at a statutory rate with respect to the resulting tax attributable to each such other taxable year, and (d) loss recognized on the disposition of the common shares will not be deductible.

If we are classified as a PFIC, a U.S. Holder generally will be treated as owning a proportionate amount (by value) of stock or shares owned by us in any direct or indirect subsidiaries that are also PFICs and will be subject to similar adverse rules with respect to any distributions we receive from, and dispositions we make of, the stock or shares of such subsidiaries. You are urged to consult your tax advisors about the application of the PFIC rules to any of our subsidiaries.

If we are classified as a PFIC and then cease to be so classified, a U.S. Holder may make an election (a "deemed sale election") to be treated for U.S. federal income tax purposes as having sold such U.S. Holder's common shares on the last day our taxable year during which we were a PFIC. A U.S. Holder that makes a deemed sale election would then cease to be treated as owning stock in a PFIC by reason of ownership of our common shares. However, gain recognized as a result of making the deemed sale election would be subject to the adverse rules described above and loss would not be recognized.

***PFIC "Mark-to-Market" Election***

In certain circumstances, a U.S. Holder can avoid certain of the adverse rules described above by making a mark-to-market election with respect to its common shares, provided that the common shares are "marketable." Common shares will be marketable if they are "regularly traded" on certain U.S. stock exchanges or on a foreign stock exchange that meets certain conditions. For these purposes, the common shares will be considered regularly traded during any calendar year during which they are traded, other than in de minimis quantities, on at least 15 days during each calendar quarter. Any trades that have as their principal purpose meeting this requirement will be disregarded. Our common shares are listed on the CSE and the OTCQB, each of which is a qualified exchange for these purposes. Consequently, if our common shares remain listed on the CSE or the OTCQB and are regularly traded, and you are a holder of common shares, we expect the mark-to-market election would be available to you if we are a PFIC. You should consult your own tax advisor as to the whether a mark-to-market election is available or advisable with respect to the common shares.

A U.S. Holder that makes a mark-to-market election must include in gross income, as ordinary income, for each taxable year that we are a PFIC an amount equal to the excess, if any, of the fair market value of the U.S. Holder's common shares at the close of the taxable year over the U.S. Holder's adjusted tax basis in its common shares. An electing U.S. Holder may also claim an ordinary loss deduction for the excess, if any, of the U.S. Holder's adjusted tax basis in its common shares over the fair market value of its common shares at the close of the taxable year, but this deduction is allowable only to the extent of any net mark-to-market gains previously included in income. A U.S. Holder that makes a mark-to-market election generally will adjust such U.S. Holder's tax basis in its common shares to reflect the amount included in gross income or allowed as a deduction because of such mark-to-market election. Gains from an actual sale or other disposition of common shares in a year in which we are a PFIC will be treated as ordinary income, and any losses incurred on a sale or other disposition of common shares will be treated as ordinary losses to the extent of any net mark-to-market gains previously included in income.

If we are classified as a PFIC for any taxable year in which a U.S. Holder owns common shares but before a mark-to-market election is made, the adverse PFIC rules described above will apply to any mark-to-market gain recognized in the year the election is made. Otherwise, a mark-to-market election will be effective for the taxable year for which the election is made and all subsequent taxable years. The election cannot be revoked without the consent of the Internal Revenue Service, or IRS, unless the common shares cease to be marketable, in which case the election is automatically terminated.

A mark-to-market election is not permitted for the shares of any of our subsidiaries that are also classified as PFICs. Prospective investors should consult their own tax advisors regarding the availability of, and the procedure for making, a mark-to-market election.

***PFIC "QEF" Election***

In some cases, a shareholder of a PFIC can avoid the interest charge and the other adverse PFIC consequences described above by obtaining certain information from such PFIC and by making a QEF election to be taxed currently on its share of the PFIC's undistributed income. We do not, however, expect to provide the information regarding our income that would be necessary in order for a U.S. Holder to make a QEF election with respect to common shares if we are classified as a PFIC.

***PFIC Information Reporting Requirements***

If we are a PFIC in any year, a U.S. Holder of common shares in such year will be required to file an annual information return on IRS Form 8621 regarding distributions received on such common shares and any gain realized on disposition of such common shares. In addition, if we are a PFIC, a U.S. Holder generally will be required to file an annual information return with the IRS (also on IRS Form 8621, which PFIC shareholders are required to file with their U.S. federal income tax or information return) relating to their ownership of common shares. This new filing requirement is in addition to the pre-existing reporting requirements described above that apply to a U.S. Holder's interest in a PFIC (which this requirement does not affect).

NO ASSURANCE CAN BE GIVEN THAT WE ARE NOT CURRENTLY A PFIC OR THAT WE WILL NOT BECOME A PFIC IN THE FUTURE. U.S. HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE OPERATION OF THE PFIC RULES AND RELATED REPORTING REQUIREMENTS IN LIGHT OF THEIR PARTICULAR CIRCUMSTANCES, INCLUDING THE ADVISABILITY OF MAKING ANY ELECTION THAT MAY BE AVAILABLE.

**Reporting Requirements and Backup Withholding**

Under U.S. federal income tax law and applicable Treasury Regulations, certain categories of U.S. Holders must file information returns with respect to their investment in, or involvement in, a non-U.S. corporation. For example, U.S. return disclosure obligations (and related penalties) are imposed on U.S. Holders that hold certain specified foreign financial assets in excess of certain threshold amounts. The definition of specified foreign financial assets includes not only financial accounts maintained in foreign financial institutions, but also, unless held in accounts maintained by a financial institution, any stock or security issued by a non-U.S. person, any financial instrument or contract held for investment that has an issuer or counterparty other than a U.S. person, and any interest in a non-U.S. entity. U.S. Holders may be subject to these reporting requirements unless such U.S. Holder's common shares are held in an account at certain financial institutions. Penalties for failure to file certain of these information returns are substantial.

Payments made within the United States or by a U.S. payor or U.S. middleman of (a) distributions on the common shares, and (b) proceeds arising from the sale or other taxable disposition of common shares generally may be subject to information reporting and backup withholding, currently at the rate of 24%, if a U.S. Holder (a) fails to furnish such U.S. Holder's correct U.S. taxpayer identification number (generally on IRS Form W-9), (b) furnishes an incorrect U.S. taxpayer identification number, (c) is notified by the IRS that such U.S. Holder has previously failed to properly report items subject to backup withholding, or (d) fails to certify, under penalty of perjury, that such U.S. Holder has furnished its correct U.S. taxpayer identification number and that the IRS has not notified such U.S. Holder that it is subject to backup withholding. However, certain exempt persons generally are excluded from these information reporting and backup withholding rules. Any amounts withheld under the U.S. backup withholding rules will be allowed as a credit against a U.S. Holder's U.S. federal income tax liability, if any, or will be refunded, if such U.S. Holder furnishes required information to the IRS in a timely manner. The information reporting and backup withholding rules may apply even if, under the Canada-U.S. Tax Convention, payments may be exempt from the dividend withholding tax rules or otherwise eligible for a reduced withholding rate. Each U.S. Holder should consult its own tax advisor regarding the information reporting and backup withholding rules.

**THE ABOVE DISCUSSION DOES NOT COVER ALL TAX MATTERS THAT MAY BE OF IMPORTANCE TO A PARTICULAR INVESTOR. YOU ARE STRONGLY URGED TO CONSULT YOUR OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES TO YOU OF AN INVESTMENT IN THE UNITS.**

## CANADIAN TAX IMPLICATIONS FOR NON-CANADIAN HOLDERS

The following summary describes, as of the date hereof, the principal Canadian federal income tax considerations generally applicable to a purchaser who acquires, as a beneficial owner, common shares pursuant to this offering and who, at all relevant times, for the purposes of the application of the *Income Tax Act* (Canada) and the Income Tax Regulations (collectively, the "Canadian Tax Act"), (1) is not, and is not deemed to be, resident in Canada for purposes of the Canadian Tax Act and any applicable income tax treaty or convention; (2) deals at arm's length with us; (3) is not affiliated with us; (4) does not use or hold, and is not deemed to use or hold, common shares in a business carried on in Canada; (5) has not entered into, with respect to the common shares, a "derivative forward agreement" as that term is defined in the Canadian Tax Act and (6) holds the common shares as capital property (a "Non-Canadian Holder"). Special rules, which are not discussed in this summary, may apply to a Non-Canadian Holder that is an insurer carrying on an insurance business in Canada and elsewhere.

This summary is based on the current provisions of the Canadian Tax Act, and an understanding of the current administrative policies of the CRA published in writing prior to the date hereof. This summary takes into account all specific proposals to amend the Canadian Tax Act and the Canada-United States Tax Convention (1980), as amended (the "Canada-U.S. Tax Treaty") publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "Proposed Amendments") and assumes that all Proposed Amendments will be enacted in the form proposed. However, no assurances can be given that the Proposed Amendments will be enacted as proposed, or at all. This summary does not otherwise take into account or anticipate any changes in law or administrative policy or assessing practice whether by legislative, regulatory, administrative or judicial action nor does it take into account tax legislation or considerations of any province, territory or foreign jurisdiction, which may differ from those discussed herein.

This summary is of a general nature only and is not, and is not intended to be, legal or tax advice to any particular shareholder. This summary is not exhaustive of all Canadian federal income tax considerations. Accordingly, you should consult your own tax advisor with respect to your particular circumstances.

Generally, for purposes of the Canadian Tax Act, all amounts relating to the acquisition, holding or disposition of the common shares must be converted into Canadian dollars based on the exchange rates as determined in accordance with the Canadian Tax Act. The amount of any dividends required to be included in the income of, and capital gains or capital losses realized by, a Non-Canadian Holder may be affected by fluctuations in the Canadian exchange rate.

**Dividends**

Dividends paid or credited on the common shares or deemed to be paid or credited on the common shares to a Non-Canadian Holder will be subject to Canadian withholding tax at the rate of 25%, subject to any reduction in the rate of withholding to which the Non-Canadian Holder is entitled under any applicable income tax convention between Canada and the country in which the Non-Canadian Holder is resident. For example, under the Canada-U.S. Tax Treaty, where dividends on the common shares are considered to be paid to or derived by a Non-Canadian Holder that is a beneficial owner of the dividends and is a U.S. resident for the purposes of, and is entitled to benefits of, the Canada-U.S. Tax Treaty, the applicable rate of Canadian withholding tax is generally reduced to 15%.

**Dispositions**

A Non-Canadian Holder will not be subject to tax under the Canadian Tax Act on any capital gain realized on a disposition or deemed disposition of a subordinate voting share, unless the common shares are "taxable Canadian property" to the Non-Canadian Holder for purposes of the Canadian Tax Act and the Non-Canadian Holder is not entitled to relief under an applicable income tax convention between Canada and the country in which the Non-Canadian Holder is resident.

Generally, the common shares will not constitute "taxable Canadian property" to a Non-Canadian Holder at a particular time provided that the common shares are listed at that time on a "designated stock exchange" (as defined in the Canadian Tax Act), which includes the NYSE and the TSX, unless at any particular time during the 60-month period that ends at that time (i) one or any combination of (a) the Non-Canadian Holder, (b) persons with whom the Non-Canadian Holder does not deal at arm's length, and (c) partnerships in which the Non-Canadian Holder or a person described in (b) holds a membership interest directly or indirectly through one or more partnerships, has owned 25% or more of the issued shares of any class or series of our capital stock, and (ii) more than 50% of the fair market value of the common shares was derived, directly or indirectly, from one or any combination of : (i) real or immoveable property situated in Canada, (ii) "Canadian resource properties" (as defined in the Canadian Tax Act), (iii) "timber resource properties" (as defined in the Canadian Tax Act) and (iv) options in respect of, or interests in, or for civil law rights in, property in any of the foregoing whether or not the property exists. Notwithstanding the foregoing, in certain circumstances set out in the Canadian Tax Act, common shares could be deemed to be "taxable Canadian property." **Non-Canadian Holders whose common shares may constitute "taxable Canadian property" should consult their own tax advisors**

## UNDERWRITING

Lake Street Capital Markets, LLC is acting as representative of the underwriters in this offering. Subject to the terms and conditions of the underwriting agreement with the representative, we have agreed to sell to each underwriter named below, and each underwriter named below has severally agreed to purchase, at the public offering price less the underwriting discounts set forth on the cover page of this prospectus, the number of units listed next to its name in the following table:

| Underwriter | Number of Units |
|---|---|
| Lake Street Capital Markets | |
| Total | |

The underwriters are committed to purchase all the units offered by us other than those covered by the over-allotment option described below, if any, are purchased. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated. The underwriters are not obligated to purchase the units covered by the underwriters' over-allotment option described below. The underwriters are offering the units, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

**Discounts and Commissions**

The underwriters propose initially to offer the units to the public at the public offering price set forth on the cover page of this prospectus and to dealers at those prices less a concession not in excess of US$7.07 per unit. If all of the units offered by us are not sold at the public offering price, the underwriters may change the offering price and other selling terms by means of a supplement to this prospectus by filing of a post-effective amendment to the registration statement of which this prospectus forms a part.

The following table shows the public offering price, underwriting discounts and commissions and proceeds before expenses to us. The information assumes either no exercise or full exercise of the over-allotment option we granted to the representatives of the underwriters.

| | Per Unit | Total with no Over-Allotment | Total with Full Over-Allotment |
|---|---|---|---|
| Public offering price | US$ | US$ | US$ |
| Underwriting discount (8%) | US$ | US$ | US$ |
| Proceeds, before expenses, to us | US$ | US$ | US$ |

We estimate that the total expenses of the offering payable by us, excluding the total underwriting discount, will be approximately US$540,000. We have also agreed to pay the representative's expenses relating to this offering, including the representative's reasonable out-of-pocket costs and expenses incident to the performance of its obligations under the underwriting agreement (including, without limitation, the reasonable fees and expenses of the representative's outside legal counsel up to US$145,000 in the aggregate, unless we have agreed in advance to reimburse such costs and expenses in excess of US$145,000).

**Over-Allotment Option**

We have granted the underwriters an over-allotment option. This option, which is exercisable for up to 30 days after the date of this prospectus, permits the underwriters to purchase from us up to a number of additional common shares equal to 15% of the common shares sold in the primary offering of units, to cover over-allotments, if any. If the underwriters exercise all or part of this option, they will purchase common shares covered by the option at US$11.90 per common share, less the underwriting discount. If this option is exercised in full, the total price will be US$ and the total net proceeds, before expenses, to us will be US$ .

**Representative's Warrants**

We have agreed to issue to the representative the representative's warrants to purchase up to 80,673 common shares. We are registering hereby the issuance of the representative's warrants and the common shares issuable upon exercise of the representative's warrants. The representative's warrants are exercisable for cash at a per common share exercise price equal to 100% of the public offering price per unit in the offering and expiring on a date which is no more than five years from the effectiveness of the offering. Except as described above or as summarized below, the representative's warrants will be in substantially the same form as the warrants included in this offering except that the representative's warrants will expire on the fifth anniversary of the date of effectiveness of the registration statement of which this prospectus forms a part. The representative's warrants and the common shares underlying the representative's warrants have been deemed compensation by FINRA and are, therefore, subject to a 360-day lock-up pursuant to Rule 5110(e)(1) of FINRA. The representative (or permitted assignees under the Rule) will not sell, transfer, assign, pledge or hypothecate the representative's warrants or the securities underlying these warrants, nor will it engage in any hedging, short sale, derivative, put or call transaction that would result in the effective economic disposition of the representative's warrants or the underlying securities for a period of 360 days after the effective date. The exercise price and number of common shares issuable upon exercise of the representative's warrants may be adjusted in certain circumstances including in the event of a stock dividend, extraordinary cash dividend or our recapitalization, reorganization, merger or consolidation. However, the warrant exercise price or underlying common shares will not be adjusted for issuances of common shares at a price below the warrant exercise price.

**Discretionary Accounts**

The underwriters do not intend to confirm sales of the securities offered hereby to any accounts over which they have discretionary authority.

**Lock-Up Agreements**

Pursuant to "lock-up" agreements, we, our executive officers and directors, and holders of more than 10% of our voting securities, have agreed, without the prior written consent of the representative not to directly or indirectly, offer to sell, sell, pledge or otherwise transfer or dispose of any of (or enter into any transaction or device that is designed to, or could be expected to, result in the transfer or disposition by any person at any time in the future of) our common shares, enter into any swap or other derivatives transaction that transfers to another, in whole or in part, any of the economic benefits or risks of ownership of our common shares, make any demand for or exercise any right or cause to be filed a registration statement, including any amendments thereto, with respect to the registration of any common shares or securities convertible into or exercisable or exchangeable for common shares or any other securities of our company or publicly disclose the intention to do any of the foregoing, subject to customary exceptions, for a period of 90 days from the date of this prospectus.

**Right of First Refusal**

In the event we determine to undertake any public or private offering of securities, whether on own behalf or on behalf of our shareholders at any time through December 1, 2020 or within one year thereafter, we have agreed to provide the representative with the right to serve as exclusive placement agent (in the case of a private offering) or lead bookrunner with at least 75 % economics (in the case of a public offering); provided that the right of first refusal shall not include securities issued pursuant to (A) the acquisition of another entity by us by merger, purchase of substantially all of the assets or other reorganization or (B) a sale, license, encumbrance, lease, transfer or other disposition of all or substantially all of our assets (including intellectual property) and our subsidiaries taken as a whole, (C) a merger, consolidation, recapitalization, membership interest exchange or other reorganization of our company with or into an unaffiliated entity or person where immediately after such transaction our shareholders hold less than 50% of the voting power in the successor entity, on terms and conditions customary to the representative for such subject transactions, or (D) any bridge financing prior to this offering.

**Indemnification**

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, and to contribute to payments that the underwriters may be required to make for these liabilities.

**CSE, OTCQB and The Nasdaq Capital Market**

Our common shares are presently quoted on the CSE under the symbol “VS” and on the OTCQB under the symbol “VRSSF”, or under the symbol “VRSSD” until January 12, 2021 due to our recent reverse share split. Our common shares and Unit A Warrants have been approved for listing on The Nasdaq Capital Market under the symbols “VS” and “VSSYW,” respectively.

**Stabilization**

In connection with this offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate-covering transactions, penalty bids and purchases to cover positions created by short sales.

- Stabilizing transactions permit bids to purchase securities so long as the stabilizing bids do not exceed a specified maximum, and are engaged in for the purpose of preventing or retarding a decline in the market price of the securities while the offering is in progress.

- Over-allotment transactions involve sales by the underwriters of securities in excess of the number of securities that underwriters are obligated to purchase. This creates a syndicate short position which may be either a covered short position or a naked short position. In a covered short position, the number of securities over-allotted by the underwriters is not greater than the number of securities that they may purchase in the over-allotment option. In a naked short position, the number of securities involved is greater than the number of securities in the over-allotment option. The underwriters may close out any short position by exercising their over-allotment option and/or purchasing securities in the open market.

- Syndicate covering transactions involve purchases of securities in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of securities to close out the short position, the underwriters will consider, among other things, the price of securities available for purchase in the open market as compared with the price at which they may purchase securities through exercise of the over-allotment option. If the underwriters sell more securities than could be covered by exercise of the over-allotment option and, therefore, have a naked short position, the position can be closed out only by buying securities in the open market. A naked short position is more likely to be created if the underwriters are concerned that after pricing there could be downward pressure on the price of the securities in the open market that could adversely affect investors who purchase in the offering.

- Penalty bids permit the representative to reclaim a selling concession from a syndicate member when the securities originally sold by that syndicate member are purchased in stabilizing or syndicate covering transactions to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our securities or preventing or retarding a decline in the market price of our securities. As a result, the price of our securities in the open market may be higher than it would otherwise be in the absence of these transactions. Neither we nor the underwriters make any representation or prediction as to the effect that the transactions described above may have on the price of our securities. These transactions may be effected on The Nasdaq Capital Market, in the over-the-counter market or otherwise and, if commenced, may be discontinued at any time.

**Passive Market Making**

In connection with this offering, the underwriters and selling group members may also engage in passive market making transactions in our common shares. Passive market making consists of displaying bids limited by the prices of independent market makers and effecting purchases limited by those prices in response to order flow. Rule 103 of Regulation M promulgated by the SEC limits the amount of net purchases that each passive market maker may make and the displayed size of each bid. Passive market making may stabilize the market price of the common shares at a level above that which might otherwise prevail in the open market and, if commenced, may be discontinued at any time.

**Electronic Offer, Sale and Distribution of Securities**

A prospectus in electronic format may be made available on the websites maintained by one or more of the underwriters or selling group members. The representative may agree to allocate a number of securities to underwriters and selling group members for sale to its online brokerage account holders. Internet distributions will be allocated by the underwriters and selling group members that will make internet distributions on the same basis as other allocations. Other than the prospectus in electronic format, the information on these websites is not part of, nor incorporated by reference into, this prospectus or the registration statement of which this prospectus forms a part, has not been approved or endorsed by us, and should not be relied upon by investors.

**Other Relationships**

The representative and its affiliates may in the future provide various investment banking, commercial banking and other financial services for us and our affiliates for which they may in the future receive customary fees.

**Offer restrictions outside the United States**

Other than in the United States, no action has been taken by us or the underwriters that would permit a public offering of the securities offered by this prospectus in any jurisdiction where action for that purpose is required. The securities offered by this prospectus may not be offered or sold, directly or indirectly, nor may this prospectus or any other offering material or advertisements in connection with the offer and sale of any such securities be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons into whose possession this prospectus comes are advised to inform themselves about and to observe any restrictions relating to the offering and the distribution of this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities offered by this prospectus in any jurisdiction in which such an offer or a solicitation is unlawful.

## LEGAL MATTERS

The validity of our common shares and certain other matters of Canadian law will be passed upon for us by Fasken Martineau DuMoulin, LLP, Vancouver, British Columbia. Certain matters of U.S. federal law will be passed upon for us by Pryor Cashman LLP, New York, New York. Certain legal matters in connection with this offering will be passed upon for the underwriters by Troutman Pepper Hamilton Sanders LLP, Irvine, California with respect to U.S. law.

## EXPERTS

The audited consolidated financial statements of Versus Systems Inc. as of and for the year ended December 31, 2019 and 2018 included in this prospectus and elsewhere in the registration statement have been so included in reliance upon the report of Davidson & Company LLP, independent registered public accountants, upon the authority of the said firm as experts in accounting and auditing.

## ENFORCEMENT OF CIVIL LIABILITIES

We are incorporated under the federal laws of Canada. Some of our directors and officers, and some of the experts named in this prospectus, are residents of Canada or otherwise reside outside of the United States, and all or a substantial portion of their assets, and all or a substantial portion of our assets, are located outside of the United States. We have appointed an agent for service of process in the United States, but it may be difficult for shareholders who reside in the United States to effect service within the United States upon those directors, officers and experts who are not residents of the United States. It may also be difficult for shareholders who reside in the United States to realize in the United States upon judgments of courts of the United States predicated upon our civil liability and the civil liability of our directors, officers and experts under the United States federal securities laws. There can be no assurance that U.S. investors will be able to enforce against us, members of our board of directors, officers or certain experts named herein who are residents of Canada or other countries outside the United States, any judgments in civil and commercial matters, including judgments under the federal securities laws.

## EXPENSES OF THE OFFERING

The following table sets forth the costs and expenses, other than the underwriting discounts and commissions, payable by the registrant in connection with the sale of the common shares being registered. All amounts listed below are estimates except the SEC registration fee, FINRA filing fee and The Nasdaq Capital Market listing fee. We will pay all of the expenses of this offering.

| Item | Amount |
|---|---|
| SEC registration fee | $ 4,749 |
| FINRA filing fee | 200 |
| The Nasdaq Capital Market listing fee | 50,000 |
| Printing expenses | 10,000 |
| Legal fees and expenses | 395,000 |
| Accounting fees and expenses | 50,000 |
| Transfer Agent fees and expenses | 5,000 |
| Miscellaneous fees | 25,051 |
| Total | $ 540,000 |

## WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form F-1 under the Securities Act with respect to the common shares offered hereby. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement or the exhibits and schedules filed therewith. For further information with respect to us and the common shares offered hereby, please refer to the registration statement and the exhibits and schedules filed therewith. Statements contained in this prospectus regarding the contents of any contract or any other document that is filed as an exhibit to the registration statement are not necessarily complete, and each such statement is qualified in all respects by reference to the full text of such contract or other document filed as an exhibit to the registration statement. The SEC maintains an Internet website that contains reports, proxy and information statements and other information regarding registrants, including Versus Systems Inc., that file electronically with the SEC. The SEC's Internet website address is www.sec.gov.

Upon completion of this offering, we will be subject to periodic reporting and other informational requirements of the Exchange Act as applicable to foreign private issuers. Accordingly, we are required to file reports, including annual reports on Form 20-F, and other information with the SEC. Although we are not required to prepare and issue quarterly reports as a foreign private issuer, we currently intend to file quarterly reports on Form 6-K with the SEC. As a foreign private issuer, we are exempt from the rules of the Exchange Act prescribing the furnishing and content of proxy statements to shareholders and Section 16 short-swing profit reporting for our directors, officers and holders of more than 10% of our voting securities.

## INDEX TO FINANCIAL STATEMENTS

**Audited Financial Statements for the Years Ended December 31, 2019 and 2020**



**Unaudited Financial Statements for the Nine-Month Periods Ended September 30, 2019 and 2020**


**CONSOLIDATED FINANCIAL STATEMENTS**

*(Expressed in Canadian dollars)*

**YEARS ENDED**

**DECEMBER 31, 2019 AND 2018**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and Directors of
Versus Systems Inc.

***Opinion on the Consolidated Financial Statements***

We have audited the accompanying consolidated statements of financial position of Versus Systems Inc. (the "Company"), as of December 31, 2019 and December 31, 2018, and the related consolidated statements of loss and comprehensive loss, changes in equity, and cash flows for the years ended December 31, 2019 and 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and December 31, 2018, and the results of its operations and its cash flows for the years ended December 31, 2019 and 2018, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

***Going Concern***

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has not achieved positive cash flow from operations and is not able to finance day to day activities through operations. These material uncertainties raise substantial doubt as to the ability of the Company to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

***Basis for Opinion***

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatements of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2004.

/s/ DAVIDSON & COMPANY LLP
Chartered Professional Accountants

Vancouver, Canada

December 28, 2020

A member of Nexia International

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Telephone (604) 687-0947 Davidson-co.com

**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 December 28, 2020. They are signed on behalf of the Board of Directors by:

***/s/ Matthew Pierce***
Director

***/s/ Brian Tingle***
Director

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

**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** | | |
| Delivery costs | - | 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 |
| Employee benefit and other expenses | 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. | (0.98) | (0.86) |
| **Weighted average common shares outstanding** | 7,032,150 | 5,398,326 |

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

**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 | | Reserves | Deficit | Share subscriptions received | Equity | Non-controlling Interest | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Common Shares | Class "A" Shares | | | | | | |
| | | | ($) | ($) | ($) | ($) | ($) | ($) | ($) | ($) |
| **Balance at December 31, 2017** | 4,797,431 | 5,057 | 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 | 153,750 | - | 384,000 | - | - | - | - | 384,000 | - | 384,000 |
| Shares issued in private placement | 766,231 | - | 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** | 5,717,412 | 5,057 | 91,723,017 | 37,927 | 8,270,190 | (94,973,085) | - | 5,058,049 | (5,893,609) | (835,560) |
| Shares issued in private placement | 2,003,164 | - | 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 | 576,834 | - | 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 | 154,990 | - | 422,670 | - | (8,253) | - | - | 414,417 | - | 414,417 |
| Performance warrants issued | - | - | - | - | 12,889 | - | - | 12,889 | - | 12,889 |
| Exercise of options | 3,125 | - | 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** | 8,455,525 | 5,057 | 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". On November 20, 2020, the Company filed a registration statement on Form F-1 with the U.S. Securities and Exchange Commission as further described in Note 18 (L). On December 8, 2020, the Company's board of directors approved a one-for-16 reverse stock split of the Company's common shares. Pursuant to applicable rules of the CSE, the reverse share split became effective on December 15, 2020. All share and per share data as of December 31, 2019 and 2018 and for the years then ended have been restated to reflect the reverse share split on a retroactive basis.

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 raise substantial 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 December 28, 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 3,656,318 (2018 – 2,643,270) 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 the Company's sales is recognized upon delivery where there is evidence of an arrangement, the selling price is fixed or determinable and there are no significant remaining performance obligations. Foreseeable losses, if any, are recognized in the year or period in which the loss is determined.

The Company recognize revenues received from goods and services provided upon the satisfaction of its performance obligation in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. For each performance obligation satisfied over time, the Company recognizes revenue over time by measuring the progress toward complete satisfaction of that performance obligation. If the Company does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

The Company's contracts with customers may include promises to transfer multiple products and services. For these contracts, the Company accounts for individual performance obligations separately if they are capable of being distinct and distinct within the context of the contract. Determining whether products and services are considered distinct performance obligations may require significant judgment. Judgment is also required to determine the stand-alone selling price for each distinct performance obligation.

The Company does not obtain control of the goods and the right to services in advance of transferring those goods or services to the Company's customers. As a result, the Company is deemed the agent in its revenue arrangement. As the Company is acting as an agent in the transaction, the Company recognizes revenue from sales of advertising services on a net basis. As the Company's performance obligations are satisfied within 12 months, the Company has elected the practical expedients under IFRS 15, which allows the Company not to record any significant financing component as a result of financing any of its arrangements and not to capitalize cost incurred to obtain a contract.

**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.

(Expressed in Canadian dollars)

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

**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:

*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 90,098 common shares of the Company and 45,048 share purchase warrants that are exercisable at $3.20 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 31,354 common shares of the Company and 15,677 share purchase warrants that are exercisable at $3.20 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 574,009 common shares of the Company and 287,005 share purchase warrants that are exercisable at $3.20 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 2,825 common shares of the Company and 1,412 share purchase warrants that are exercisable at $3.20 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 do not have any special rights or restrictions associated with them.

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

i) issued, 624,228 units pursuant to a private placement at a price of $2.88 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 $4.80 until February 14, 2021.

ii) issued, 1,094,844 units pursuant to a private placement at a price of $3.20 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 $5.60 until July 26, 2021.

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

**a) Authorized share capital** (continued)

iii) issued, 284,091 units at a price of $3.52 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 $5.60 until August 9, 2021.

iv) issued 576,834 common shares at a value of $1,892,012 on acquisition of Newco shares (Note 6).

v) issued 158,115 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, 766,231 units at a price of $4.80 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 $6.40 until April 12, 2020. A residual value of $78,957 was allocated to the warrants.

ii) issued 153,750 common shares pursuant to the exercise of share purchase warrants for total proceeds of $384,000.

Escrow

At December 31, 2019, 313 common shares (December 31, 2018 – 313) 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, 776,987 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 | 531,559 | 4.96 |
| Granted | 72,284 | 5.92 |
| Cancelled | (54,319) | 5.28 |
| Balance –December 31, 2018 | 549,524 | 4.96 |
| Granted | 482,500 | 5.28 |
| Exercised | (3,125) | 3.52 |
| Forfeited | (15,500) | 6.72 |
| Balance – December 31, 2019 | 1,013,399 | 5.12 |

During the year ended December 31, 2019, the Company granted a total of 482,500 stock options with a fair value of $1,724,580 (or $3.52 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 72,284 stock options with a fair value of $343,711 (or $5.92 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 | 335,461 | 281,839 | 4.32 | 1.53 |
| March 17, 2022 | 56,750 | 26,011 | 6.96 | 2.21 |
| May 18, 2022 | 9,875 | 4,115 | 7.84 | 2.38 |
| September 14, 2022 | 79,906 | 65,456 | 5.52 | 2.71 |
| June 6, 2023 | 22,656 | 3,304 | 7.36 | 3.43 |
| September 4, 2023 | 23,125 | 1,928 | 3.92 | 3.68 |
| October 18, 2023 | 3.125 | 391 | 3.52 | 3.80 |
| April 2, 2024 | 113,750 | 57,500 | 3.36 | 4.26 |
| June 27, 2024 | 6,250 | 1,563 | 3.36 | 4.49 |
| September 27, 2024 | 350,000 | 28,646 | 6.00 | 4.75 |
| October 22, 2024 | 12,500 | - | 5.28 | 4.81 |
| | 1,013,399 | 470,753 | 5.12 | 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 | 1,711,690 | 4.80 |
| Exercised | (153,750) | 2.56 |
| Expired | (517,000) | 6.40 |
| Issued | 427,598 | 6.24 |
| Balance – December 31, 2018 | 1,468,538 | 4.96 |
| Exercised | (154,990) | 2.72 |
| Expired | (347,732) | 3.20 |
| Issued | 2,349,365 | 5.12 |
| Balance – December 31, 2019 | 3,315,181 | 5.28 |

**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 624,228 share purchase warrants exercisable at $4.80 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 43,696 broker warrants exercisable at $2.88 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 1,094,849 share purchase warrants exercisable at $5.60 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 14,089 agent warrants exercisable to purchase additional shares at a price of $5.60 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 284,091 share purchase warrants exercisable at $5.60 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 288,416 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 383,120 share purchase warrants exercisable at $6.40 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 44,463 brokers' warrants exercisable at $4.80 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 | $ 0.64 | $ 2.56 |

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 | 348,334 | 2.40 | 0.16 |
| March 29, 2020 | 13,121 | 4.80 | 0.24 |
| April 11, 2020 | 42,658 | 6.40 | 0.28 |
| April 12, 2020 | 31,360 | 4.80 | 0.28 |
| July 31, 2020 | 93,719 | 6.40 | 0.58 |
| August 13, 2020 | 246,740 | 6.40 | 0.62 |
| February 14, 2021 | 607,353 | 4.80 | 1.13 |
| February 14, 2021 | 41,997 | 2.88 | 1.13 |
| July 26, 2021 | 1,108,933 | 5.60 | 1.57 |
| August 9, 2021 | 284,091 | 5.60 | 1.61 |
| March 17, 2022 | 496,875 | 6.40 | 2.21 |
| | 3,315,181 | 5.28 | 1.30 |

**d) Performance warrants**

On September 30, 2016, the Company issued 625,250 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 | 625,250 | 625,250 | 4.00 | 1.5 |

(Expressed in Canadian dollars)

## 11. RELATED PARTY TRANSACTIONS

**d) Performance warrants** (continued)

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 | December 31, 2018 |
|---|---|---|
| | (US$) | (US$) |
| 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** (continued)

**b) Deferred Income Taxes** (continued)

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 150,000 units at a price of $4.00 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 $6.40 until February 13, 2021.

B) From January to December 28, 2020, the Company issued additional notes payables to a director and its CEO for an accumulated amount of $1,251,257. 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 289,398 warrants issued on April 11, 2018 for an additional three months but expired 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 189,797 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 80,839 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 December 28, 2020 the Company's warrant holders had exercised 968,397 warrants at an average exercise price of $4.31 per share for total proceeds of $4,171,072.

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.

H) On July 17, 2020, the Company issued, 172,532 units at a price of $4.00 per unit for total proceeds of $690,125. Each unit consisted of one common share and one share purchase warrant wherein each whole warrant entitles the holder to purchase one common share at a price of $6.40 until July 17, 2023.

I) Subsequent to year end, the Company has issued 445,083 options with an exercise price of $4.00 per share with expiry of five years.

J) On November 17, 2020, the Company issued, 625,000 units at a price of $4.00 per unit for total proceeds of $2,500,000. Each unit consisted of one common share and one share purchase warrant wherein each whole warrant entitles the holder to purchase one common share at a price of $6.40 until November 17, 2023.

K) On November 19, 2020, the Company issued 25,000 options with an exercise price of $6.00 per share.

L) On November 20, 2020, the Company filed a registration statement on Form F-1 with the U.S. Securities and Exchange Commission. The proposed offering contemplated by the registration statement is an initial public offering in the United States of the Company's units, each unit consisting of one common share in the capital of the Company and two warrants, each to purchase one additional common share in the capital of the Company. The final terms of the offering have not yet been finalized.

M) On December 8, 2020, the Company's board of directors approved a one-for-16 reverse stock split of the Company's common shares. Pursuant to applicable rules of the CSE, the reverse share split became effective on December 15, 2020. The shareholders surrendered a pro-rata number of ordinary shares to the Company for no consideration and such shares were thereafter cancelled.

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

*(Expressed in Canadian dollars)*

**NINE MONTH PERIOD ENDED**

**SEPTEMBER 30, 2020**

**Versus Systems Inc.**
Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)
(Unaudited)

| | September 30, 2020 ($) | December 31, 2019 ($) |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash | 21,954 | 99,209 |
| Receivables | 21,749 | 44,400 |
| Prepaids | 23,830 | 28,003 |
| | 67,533 | 171,612 |
| **Restricted deposit** (Note 4) | 11,497 | 11,500 |
| **Deposits** | 135,400 | 129,897 |
| **Property and equipment** (Note 5) | 702,196 | 948,998 |
| **Intangible assets** (Note 7) | 2,399,052 | 2,780,347 |
| **Total Assets** | 3,315,678 | 4,042,354 |
| | | |
| **LIABILITIES AND EQUITY** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities (Note 8) | 1,880,630 | 975,405 |
| Notes payable (Note 9) | 2,265,702 | - |
| Lease liability (Note 16) | 408,620 | 328,373 |
| Current liabilities | 4,554,952 | 1,303,778 |
| | | |
| **Non-current liabilities** | | |
| Lease liability (Note 16) | 511,338 | 794,027 |
| Government note (Note 9) | 78,106 | - |
| Notes payable (Note 9) | 3,873,863 | 4,814,767 |
| Total liabilities | 9,018,259 | 6,912,572 |
| | | |
| **Equity** | | |
| Share capital (Note 10) | | |
| Common shares | 102,561,956 | 99,505,558 |
| Class “A” shares | 37,927 | 37,927 |
| Share subscriptions received in advance (Note 18) | - | 300,000 |
| Reserves (Note 10) | 11,276,623 | 9,832,386 |
| Deficit | (112,170,746) | (106,521,639) |
| | 1,705,760 | 3,154,232 |
| **Non-controlling interest** (Note 6) | (7,408,341) | (6,024,450) |
| | (5,702,581) | (2,870,218) |
| **Total Liabilities and Equity** | 3,315,678 | 4,042,354 |

**Nature of operations and going concern (Note 1)**
**Commitments (Note 16)**
**Subsequent events (Note 17)**

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on December 28, 2020. They are signed on behalf of the Board of Directors by:

***/s/ Matthew Pierce***
Director

***/s/ Brian Tingle***
Director

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

**Versus Systems Inc.**
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)
(Unaudited)

| | Three Month Period Ended September 30, 2020 | Three Month Period Ended September 30, 2019 | Nine Month Period Ended September 30, 2020 | Nine Month Period Ended September 30, 2019 |
|---|---|---|---|---|
| | ($) | ($) | ($) | ($) |
| **REVENUES** | | | | |
| Revenues | 756,298 | - | 1,368,924 | 654,324 |
| | | | | |
| **EXPENSES** | | | | |
| Amortization (Note 5) | 70,006 | 82,371 | 246,802 | 252,838 |
| Amortization of intangible assets (Note 7) | 361,112 | 812,778 | 1,314,342 | 2,379,591 |
| Consulting fees (Note 11) | 195,998 | 292,593 | 511,815 | 625,560 |
| Foreign exchange loss (gain) | 91,304 | 54,660 | 210,419 | 53,868 |
| Employee benefit and other expense | (209,270) | 457,822 | 773,270 | 856,347 |
| Interest expense | 24,652 | 46,779 | 179,386 | 128,333 |
| Interest expense on lease obligations (Note 16) | 25,637 | 27,313 | 63,500 | 81,940 |
| Professional fees | 340,310 | 94,141 | 873,872 | 320,093 |
| Salaries and wages (Note 11) | 395,897 | 1,053,649 | 1,953,921 | 2,178,669 |
| Sales and marketing | 191,909 | 605,442 | 230,952 | 657,582 |
| Share-based compensation (Note 10) | 696,267 | 169,614 | 1,161,925 | 577,987 |
| | (1,427,525) | (3,697,162) | (6,151,280) | (7,458,484) |
| | | | | |
| Finance expense (Note 9) | (124,519) | (70,045) | (293,583) | (193,811) |
| Loss on disposal of marketable securities (Note 10) | - | - | (508,050) | - |
| Other expense | (80,085) | 299 | (80,085) | 299 |
| **Loss and comprehensive loss** | (1,632,129) | (3,766,908) | (7,032,998) | (7,651,996) |
| | | | | |
| **Loss and comprehensive loss attributable to:** | | | | |
| Shareholders | (1,367,377) | (1,918,760) | (5,649,107) | (3,918,329) |
| Non-controlling interest | (264,751) | (1,848,149) | (1,383,891) | (3,733,667) |
| | (1,632,128) | (3,766,908) | (7,032,998) | (7,651,996) |
| | | | | |
| Basic and diluted loss per common share attributable to Versus Systems Inc. | (0.15) | (0.24) | (0.62) | (0.60) |
| | | | | |
| **Weighted average common shares outstanding** | 9,344,240 | 7,890,222 | 9,072,768 | 6,561,903 |

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)

| | Number of Common Shares | Number of Class "A" Shares | Share Capital | | Reserves | Deficit | Share subscriptions received | Equity | Non-controlling Interest | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Common Shares | Class "A" Shares | | | | | | |
| | | | ($) | ($) | ($) | ($) | ($) | ($) | ($) | ($) |
| **Balance at December 31, 2018** | 5,717,411 | 5,057 | 91,723,017 | 37,927 | 8,270,190 | (94,973,085) | - | 5,058,049 | (5,893,609) | (835,560) |
| Shares issued in private placement | 2,003,165 | - | 5,786,278 | - | - | - | - | 5,786,278 | - | 5,786,278 |
| Share issuance costs | - | - | (570,301) | - | - | - | - | (570,301) | - | (570,301) |
| Acquisition of Versus LLC | 576,834 | - | 1,892,012 | - | 159,778 | (4,679,433) | - | (2,627,643) | 2,627,643 | - |
| Exercise of warrants | 58,114 | - | 696,296 | - | - | - | - | 696,296 | - | 696,296 |
| Contribution benefit | - | - | - | - | 182,299 | - | - | 182,299 | - | 182,299 |
| Warrants issued | - | - | - | - | 123,864 | - | - | 123,864 | - | 123,864 |
| Stock-based compensation | - | - | - | - | 454,123 | - | - | 454,123 | - | 454,123 |
| Loss and comprehensive loss | - | - | - | - | - | (3,918,329) | - | (3,918,329) | (3,733,667) | (7,651,996) |
| **Balance at September 30, 2019** | 8,355,524 | 5,057 | 99,527,302 | 37,927 | 9,190,254 | (103,570,847) | - | 5,184,636 | (6,999,633) | (1,814,997) |
| Shares issued in private placement | - | - | - | - | - | - | - | - | - | - |
| Share subscriptions received | - | - | - | - | - | - | 300,000 | 300,000 | - | 300,000 |
| Share issuance costs | - | - | (82,734) | - | 82,928 | - | - | 194 | - | 194 |
| Contribution benefit | - | - | - | - | 114,811 | - | - | 114,811 | - | 114,811 |
| Exercise of warrants | 96,876 | - | 38,621 | - | 191,500 | - | - | 233,121 | - | 233,121 |
| Performance warrants issued | - | - | - | - | (110,975) | - | - | (110,975) | - | (110,975) |
| Exercise of options | 3,125 | - | 19,369 | - | (8,369) | - | - | 11,000 | - | 11,000 |
| Stock-based compensation | - | - | - | - | 372,237 | - | - | 372,237 | - | 372,237 |
| Loss and comprehensive loss | - | - | - | - | - | (2,950,792) | - | (2,950,792) | 975,183 | (1,975,609) |
| **Balance at December 31, 2019** | 8,455,525 | 5,057 | 99,505,558 | 37,927 | 9,832,386 | (106,521,639) | 300,000 | 3,154,232 | (6,024,450) | (2,870,218) |
| Shares issued in private placement | 322,532 | - | 922,727 | - | 55,210 | - | - | 977,937 | - | 977,937 |
| Share subscriptions received | - | - | 300,000 | - | - | - | (300,000) | - | - | - |
| Contribution benefit | - | - | - | - | 227,502 | - | - | 227,502 | - | 227,502 |
| Exercise of warrants | 326,460 | - | 783,500 | - | - | - | - | 783,500 | - | 783,500 |
| Shares issued for services and investment | 270,636 | - | 1,047,671 | - | - | - | - | 1,047,671 | - | 1,047,671 |
| Exercise of options | 625 | - | 2,500 | - | (400) | - | - | 2,100 | - | 2,100 |
| Stock-based compensation | - | - | - | - | 1,161,925 | - | - | 1,161,925 | - | 1,161,925 |
| Loss and comprehensive loss | - | - | - | - | - | (5,649,107) | - | (5,649,107) | (1,383,891) | (7,032,998) |
| **Balance at September 30, 2020** | 9,375,778 | 5,057 | 102,561,956 | 37,927 | 11,276,623 | (112,170,746) | - | 1,705,759 | (7,408,341) | (5,702,581) |

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

**Versus Systems Inc.**
Condensed Interim Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)
(Unaudited)

| | Nine Month Period Ended September 30, 2020 ($) | Nine Month Period Ended September 30, 2019 ($) |
|---|---|---|
| **CASH PROVIDED BY (USED IN)** | | |
| **OPERATING ACTIVITIES** | | |
| Loss for the year | (7,032,998) | (7,651,996) |
| Items not affecting cash: | | |
| Amortization (Note 5) | 20,986 | 27,022 |
| Amortization of intangible assets (Note 7) | 1,314,342 | 2,379,591 |
| Amortization of right-of-use assets (Note 5) | 225,816 | 225,816 |
| Shares issued for services | 349,225 | - |
| Finance expense | 42,772 | 34,658 |
| Interest expense | 357,493 | 243,523 |
| Loss on sale of investment | 508,050 | - |
| Effect of foreign exchange | (5,503) | - |
| Forgiveness on government loan | (751,831) | - |
| Share-based compensation | 1,161,925 | 577,987 |
| | | |
| Changes in non-cash working capital items: | | |
| Receivables | 134,230 | (26,753) |
| Prepaids and deposits | 4,176 | 3,904 |
| Accounts payable and accrued liabilities | 905,226 | (141,822) |
| **Cash used in operating activities** | (2,766,092) | (4,328,070) |
| **FINANCING ACTIVITIES** | | |
| Proceeds from notes payable | 1,258,307 | 1,976,833 |
| Proceeds from government PPP loan | 829,937 | - |
| Repayment of notes payable | - | (1,089,228) |
| Proceeds from warrant exercises | 783,500 | 696,296 |
| Proceeds from option exercises | 2,100 | - |
| Payments for lease liabilities | (308,714) | (308,714) |
| Proceeds from issuance of common shares | 990,125 | 5,786,278 |
| Receivable factoring costs | (111,579) | |
| Share issuance costs | (12,188) | (570,301) |
| **Cash provided by financing activities** | 3,431,488 | 6,491,164 |
| **INVESTING ACTIVITIES** | | |
| Proceeds from sale of investments | 190,396 | - |
| Development of intangible assets | (933,047) | (1,507,850) |
| **Cash used in investing activities** | (742,651) | (1,507,850) |
| **Change in cash during the period** | (77,255) | 655,244 |
| **Cash - Beginning of period** | 99,209 | 34,000 |
| **Cash - End of year** | 21,954 | 689,244 |

**Supplemental Cash Flow Information (Note 15)**

The accompanying notes are an integral part of these condensed interim 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 1558 West Hastings Street, Vancouver, BC, V6C 3J4, 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". On November 20, 2020, the Company filed a registration statement on Form F-1 with the U.S. Securities and Exchange Commission. The proposed offering contemplated by the registration statement is an initial public offering in the United States of the Company's units, each unit consisting of one common share in the capital of the Company and two warrants, each to purchase one additional common share in the capital of the Company. The final terms of the offering have not yet been finalized. On December 8, 2020, the Company's board of directors approved a one-for-16 reverse stock split of the Company's common shares. Pursuant to applicable rules of the CSE, the reverse share split became effective on December 15, 2020. All share and per share data are presented to reflect the reverse share split on a retroactive basis.

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

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

## 2. BASIS OF PRESENTATION

**Statement of compliance**

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

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on December 28, 2020.

**Basis of measurement**

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

**Functional and presentation currency**

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

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

**Basis of consolidation**

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

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

**Significant Accounting Judgments, Estimates and Assumptions**

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

**Significant Accounting Judgments, Estimates and Assumptions**

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting year, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

i) Deferred income taxes

Deferred tax assets, including those arising from un-utilized tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

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

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

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

**Significant Accounting Judgments, Estimates and Assumptions** (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.

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 4,743,964 (September 30, 2019 – 3,725,694).

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

**Equipment**

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

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

**Financial instruments**

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

*Classification*

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

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 |

*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.

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

**Financial instruments** (continued)

*Impairment of financial assets at amortized cost*

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

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

*Derecognition*

*Financial assets*

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

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

**Intangible assets excluding goodwill**

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

**Impairment of intangible assets excluding goodwill**

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

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;

(b) the intention to complete the intangible asset and use or sell it;

(c) the ability to use or sell the intangible asset;

(d) how the intangible asset will generate probable future economic benefits;

(e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

(f) the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

**Impairment of intangible assets excluding goodwill**

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

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

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

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

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

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

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

**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.

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

**Deferred income tax**

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

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

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

**Lessee accounting**

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

- the amount of the initial measurement of lease liability;

- any lease payments made at or before the commencement date less any lease incentives received;

- any initial direct costs; and

- restoration costs.

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

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

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.

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

**Provisions**

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

**Government grant**

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

**Non-controlling interest**

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

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

**Valuation of equity units issued in private placements**

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

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.

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

**Share-based Compensation**

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

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

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

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

**Revenue recognition**

In general, the Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company, where there is evidence of an arrangement, when the selling price is fixed or determinable, and when specific criteria have been met or there are no significant remaining performance obligations for each of the Company's activities as described below. Foreseeable losses, if any, are recognized in the year or period in which the loss is determined.

The Company earns revenue in two primary ways: 1) development and maintenance of custom-built software or other professional services, or 2) the sale of advertising.

The Company recognizes revenues received from the development and maintenance of custom-built software and other professional services provided upon the satisfaction of its performance obligation in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services. Performance obligations can be satisfied either at a single point in time or over time. For those performance obligations that are satisfied at a single point in time, the revenue is recognized at that time. For each performance obligation satisfied over time, the Company recognizes revenue by measuring the progress toward complete satisfaction of that performance obligation.

For revenues received from the sales of advertising, the Company is deemed the agent in its revenue agreements. The Company does not own or obtain control of the digital advertising inventory. The Company recognizes revenues upon the achievement of agreed-upon performance criteria for the advertising inventory, such as a number of views, or clicks. As the Company is acting as an agent in the transaction, the Company recognizes revenue from sales of advertising on a net basis, which excludes amounts payable to partners under the Company's revenue sharing agreements.

The Company's contracts with customers may include multiple performance obligations. For these contracts, the Company accounts for individual performance obligations separately if they are capable of being distinct within the context of the contract. Determining which performance obligations are considered distinct may require significant judgment. Judgment is also required to determine the amount of revenue associated with each distinct performance obligation.

The Company entered into an Accounts Receivable Purchase and Security Agreement (the "Factor Agreement") with full recourse. Pursuant to the Factor Agreement, the factor advances funds to the Company for the right to collect cash flows from factored accounts receivable and charges fees for its services. The factor advances funds to the Company at 90% of accounts receivable factored. The outstanding balance bears a daily interest rate of 0.05%. As of September 30, 2020, 100% of the monies owed were collected by the Company and the factoring agent under the terms of the Factor Agreement. The Company expenses the fees and interest charged by the factoring agent as a loss on factoring within its financial statements, which totaled $111,759 during the nine month period ended September 30, 2020.

As the Company's performance obligations are satisfied within 12 months, the Company has elected the practical expedients under IFRS 15, which allows the Company not to record any significant financing component as a result of financing any of its arrangements and not to capitalize cost incurred to obtain a contract.

**Deferred Revenue**

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

(Expressed in Canadian dollars)

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

**Foreign Exchange**

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

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

**Comprehensive Income (Loss)**

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

**4. RESTRICTED DEPOSIT**

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

**5. PROPERTY AND EQUIPMENT**

| | Computers | Right of Use Asset | Total |
|---|---|---|---|
| | ($) | ($) | ($) |
| **Cost** | | | |
| At December 31, 2018 | 114,739 | - | 114,739 |
| Additions | - | 1,217,109 | 1,217,109 |
| At December 31, 2019 | 114,739 | 1,217,109 | 1,331,848 |
| Additions | - | - | - |
| **At September 30, 2020** | **114,739** | **1,217,109** | **1,331,848** |
| | | | |
| **Accumulated amortization** | | | |
| At December 31, 2018 | 55,629 | - | 55,629 |
| Amortization for the year | 30,695 | 296,526 | 327,221 |
| At December 31, 2019 | 86,324 | 296,526 | 382,850 |
| Amortization for the period | 20,986 | 225,816 | 246,802 |
| **At September 30, 2020** | **107,310** | **522,342** | **629,652** |
| | | | |
| **Carrying amounts** | | | |
| At December 31, 2019 | 28,415 | 920,583 | 948,998 |
| **At September 30, 2020** | **7,429** | **694,767** | **702,196** |

## 6. BUSINESS COMBINATION WITH VERSUS LLC

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

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

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

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

On November 22, 2016, the Company acquired an additional 500 shares of Newco from one of the Selling Members in exchange for 90,098 common shares of the Company and 45,048 share purchase warrants that are exercisable at $3.20 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 31,354 common shares of the Company and 15,677 share purchase warrants that are exercisable at $3.20 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 574,009 common shares of the Company and 287,005 share purchase warrants that are exercisable at $3.20 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 2,825 common shares of the Company and 1,412 share purchase warrants that are exercisable at $3.20 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 September 30, 2020 and December 31, 2019:

| | 2020 | 2019 |
|---|---|---|
| **Non-controlling interest percentage** | **33.2%** | **33.2%** |
| | **($)** | **($)** |
| **Assets** | | |
| Current | 120,269 | 103,398 |
| Non-current | 3,173,597 | 3,739,445 |
| | **3,293,866** | **3,842,843** |
| | | |
| Liabilities | | |
| Current | 1,533,652 | 823,285 |
| Non-current | 24,138,805 | 17,851,531 |
| | **25,672,457** | **18,674,816** |
| **Net liabilities** | **(22,378,591)** | **(14,831,973)** |
| **Non-controlling interest** | **(7,408,341)** | **(6,024,450)** |
| | | |
| **Loss and comprehensive loss** | **(4,168,347)** | **(7,651,996)** |
| | | |
| **Loss and comprehensive loss attributed to non-controlling interest** | **(1,383,891)** | **(3,733,667)** |

(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 costs were capitalized during the nine month period ended September 30, 2020.

| | Software ($) |
|---|---|
| **Cost** | |
| At December 31, 2018 | 9,797,209 |
| Additions | 1,939,858 |
| At December 31, 2019 | 11,737,067 |
| Additions | 933,047 |
| **At September 30, 2020** | **12,670,114** |
| | |
| **Accumulated amortization** | |
| At December 31, 2018 | 6,426,130 |
| Amortization | 2,530,590 |
| At December 31, 2019 | 8,956,720 |
| Amortization | 1,314,342 |
| **At September 30, 2020** | **10,271,062** |
| | |
| **Carrying amounts** | |
| At December 31, 2019 | 2,780,347 |
| **At September 30, 2020** | **2,399,052** |

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

| | September 30, 2020 ($) | December 31, 2019 ($) |
|---|---|---|
| Accounts payable | 834,434 | 446,988 |
| Due to related parties | 641,260 | 492,181 |
| Accrued liabilities | 404,936 | 36,236 |
| | 1,880,630 | 974,405 |

(Expressed in Canadian dollars)

## 9. GOVERNMENT AND NOTES PAYABLE

During the nine month period ended September 30, 2020, the Company issued unsecured notes payable for total proceeds of CDN$1,258,307 from director and officers of the Company who are also a shareholders. The loans bear interest at the prime rate which was ranged from 2.45% to 3.95% per annum for the nine months ended September 30, 2020, compounded annually and payable quarterly, and had a maturity date of three years from the date of issuance. The notes were considered below the Company's estimated market borrowing rate of 10% and as such, a contribution benefit of $227,502 was recorded in reserves. As at September 30, 2020, the Company had recorded $417,553 in accrued interest which was included in accounts payable and accrued liabilities.

During the year ended December 31, 2019, the Company issued unsecured notes payable for total proceeds of CDN$2,633,667 from director and officers of the Company who are also shareholders. The loans bear interest at the prime rate which was 3.95% per annum at December 31, 2019, compounded annually and payable quarterly, and had a maturity date of three years from the date of issuance. The notes were considered below the Company's estimated market borrowing rate of 10% and as such, a contribution benefit of $413,553 was recorded in reserves. As at December 31, 2019, the Company had recorded $249,496 in accrued interest which was included in accounts payable and accrued liabilities.

During the nine months ended September 30, 2020, the Company recorded finance expense of $293,583 (September 30, 2019 - $125,903), related to bringing the notes to their present value.

| | Amount ($) |
|---|---|
| Balance at December 31, 2018 | 3,478,956 |
| Proceeds | 2,633,667 |
| Repayments | (1,258,194) |
| Contribution benefit | (297,110) |
| Finance expense | 257,448 |
| Balance, December 31, 2019 | 4,814,767 |
| Proceeds | 1,258,307 |
| Repayments | - |
| Contribution benefit | (227,502) |
| Finance expense | 293,993 |
| **Balance, September 30, 2020** | 6,139,565 |
| **Current** | (2,265,702) |
| **Non-current** | 3,873,863 |

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

The unforgiven portion of the PPP loans is payable over two years at an interest rate of 1%, with a deferral of payments for the first nine months. The Company intends to use the proceeds for purposes consistent with the PPP. For the nine months ended September 30, 2020 the Company had incurred eligible payroll cost of $751,931 which were offset against the loan balance.

## 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 do not have any special rights or restrictions associated with them.

### b) Issued share capital

During the nine month period ended September 30, 2020, the Company:

i) issued, 322,532 units at a price of $4.00 per unit for total proceeds of $1,290,125. Each unit consisted of one common share and a one half share purchase warrant for each share purchased. Each warrant entitles the holder to purchase one additional common share at a price of $6.40 until February 13, 2021.

ii) entered into a Mutual Investment Agreement with Animoca Brands Inc. in which the Company issued 189,797 shares of the Company's common stock with a value of $698,446 in exchange for 4,327,431 shares of Animoca Brands common stock. On the same date, the Company issued an additional 80,840 shares of the Company's common stock with a value of $349,225 to Animoca Brands in exchange for marketing services. The Company subsequently sold all of its shares of Animoca Brands and recognized a loss of $508,050.

iii) Issued, 327,085 common shares pursuant to exercise of warrants and stock options for total proceeds of $786,000.

iv) Issued, 172,532 units at a price of $4.00 per unit for total proceeds of $690,125. Each unit consisted of one common share and one share purchase warrant for each share purchased. Each warrant entitles the holder to purchase one additional common share at a price of $6.40 until July 17, 2022.

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

i) issued, 624,228 units at a price of $2.88 per unit for total proceeds of $1,797,778. Each unit consisted of one common share and a one common stock warrant for each share purchased. Each warrant entitles the holder to purchase one additional common share at a price of $4.80 until February 14, 2021.

ii) issued, 1,094,844 units pursuant to a private placement at a price of $3.20 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 $5.60 until July 26, 2021.

iii) issued, 284,091 units at a price of $3.52 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 $5.60 until August 9, 2021.

v) issued 576,834 common shares at a value of $1,892,012 on acquisition of Newco shares (Note 6).

vi) issued 158,115 common shares pursuant to the exercise of share purchase warrants and stock options for total proceeds of $425,417.

(Expressed in Canadian dollars)

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

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

Escrow

At September 30, 2020, 313 common shares (December 31, 2019 – 313) 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, 776,987 common shares will be held in escrow. A total of 10% of the escrow shares were released on June 30, 2016, and the remainder will be released in equal tranches of 15% every nine months thereafter. As at September 30, 2020 and December 31, 2019 there were no common shares remaining in escrow.

**c) Stock options**

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

A continuity schedule of outstanding stock options is as follows:

| | Number Outstanding | Weighted Average Exercise Price ($) |
|---|---|---|
| Balance – December 31, 2018 | 549,524 | 4.96 |
| Granted | 482,500 | 5.28 |
| Exercised | (3,125) | 3.52 |
| Forfeited | (15,500) | 6.72 |
| Balance –December 31, 2019 | 1,013,399 | 5.12 |
| Granted | 445,091 | 4.00 |
| Exercised | (625) | 3.36 |
| Forfeited | (125,899) | 6.04 |
| Balance – September 30, 2020 | 1,331,966 | 4.69 |

During the nine months ended September 30, 2020, 445,091 stock options were granted by the Company. During the nine months ended September 30, 2020, the Company recorded share-based compensation of $1,161,926 (September 30, 2019 - $454,123) relating to options vested during the year.

During the year ended December 31, 2019, the Company granted a total of 482,500 stock options with a fair value of $1,724,580 (or $3.52 per option).

(Expressed in Canadian dollars)

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

**c) Stock options** (continued)

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

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Risk-free interest rate | 0.26% | 1.59% |
| Expected life of options | 2.0 – 5.0 years | 5.0 years |
| Expected dividend yield | Nil | Nil |
| Volatility | 81.2% - 85.6% | 95.8% |

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

| Expiry Date | Options Outstanding | Options Exercisable | Exercise Price ($) | Weighted Average Remaining Life (years) |
|---|---|---|---|---|
| July 13, 2021 | 325,153 | 325,153 | 4.32 | .78 |
| March 17, 2022 | 13,063 | 11,588 | 6.96 | 1.46 |
| May 18, 2022 | 5,750 | 4,702 | 7.84 | 1.63 |
| July 31, 2022 | 171,120 | 92,687 | 4.00 | 1.83 |
| September 14, 2022 | 74,157 | 53,688 | 5.52 | 1.96 |
| June 6, 2023 | 14,063 | 6,806 | 7.36 | 2.68 |
| September 4, 2023 | 12,813 | 5,606 | 4.00 | 2.93 |
| October 18, 2023 | 3,126 | 1,172 | 3.52 | 3.05 |
| April 2, 2024 | 107,500 | 22,396 | 3.36 | 3.51 |
| June 27, 2024 | 6,250 | 3,125 | 3.36 | 3.74 |
| July 24, 2024 | 148,346 | 6,181 | 4.00 | 3.82 |
| September 27, 2024 | 312,500 | 89,714 | 6.00 | 3.99 |
| October 22, 2024 | 12,500 | 3,125 | 5.28 | 4.06 |
| July 24, 2025 | 113,125 | 21,068 | 4.00 | 4.82 |
| August 10, 2025 | 12,500 | 521 | 4.00 | 4.86 |
| | 1,331,966 | 647,532 | 4.69 | 2.78 |

(Expressed in Canadian dollars)

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

**d) Share purchase warrants**

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

| | Number Outstanding | Weighted Average Exercise Price ($) |
|---|---|---|
| Balance – December 31, 2018 | 1,468,538 | 4.96 |
| Exercised | (154,990) | 2.72 |
| Expired | (347,732) | 3.20 |
| Issued | 2,349,365 | 5.12 |
| Balance – December 31, 2019 | 3,315,181 | 5.28 |
| Exercised | (326,460) | 2.40 |
| Expired | (449,453) | 5.10 |
| Issued | 247,532 | 6.40 |
| Balance – September 30, 2020 | 2,786,800 | 5.60 |

During the nine month period ended September 30, 2020, the Company:

i) On February 13, 2020, the Company completed a unit private placement which included 75,000 share purchase warrants exercisable at $6.40 per share for a period of two years. The share purchase warrants were determined to have a fair value of $Nil using the residual value method.

ii) On July 17, 2020, the Company completed a unit private placement which included 172,532 share purchase warrants exercisable at $4.00 per share for a period of two years. The share purchase warrants were determined to have a fair value of $55,210 using the residual value method.

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

i) On February 14, 2019, the Company completed a unit private placement which included 624,228 share purchase warrants exercisable at $4.80 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 43,696 broker warrants exercisable at $2.88 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 1,094,844 share purchase warrants exercisable at $5.60 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 14,088 agent warrants exercisable to purchase additional shares at a price of $5.60 per share for a period of 24 months from closing. The agent warrants were determined to have a fair value of $20,985.

(Expressed in Canadian dollars)

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

**d) Share purchase warrants** (continued)

i) On August 9, 2019, the Company completed a unit private placement which included 284,091 share purchase warrants exercisable at $5.60 per share for a period of two years. The share purchase warrants were determined to have a fair value of $Nil using the residual method.

ii) The Company issued 288,416 warrants at a value of $159,778 for the acquisition of Newco shares (Note 6).

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

| | December 31, 2019 |
|---|---|
| Risk-free interest rate | 1.77% |
| Expected life of options | 2.0 years |
| Expected dividend yield | Nil |
| Volatility | 107.14% |
| Weighted average fair value per warrant | $ 0.64 |

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

| Expiry Date | Warrants Outstanding | Exercise Price ($) | Weighted Average Remaining Life (years) |
|---|---|---|---|
| February 13, 2021 | 75,000 | 6.40 | 0.38 |
| February 14, 2021 | 607,367 | 4.80 | 0.38 |
| February 14, 2021 | 41,996 | 2.88 | 0.38 |
| July 26, 2021 | 1,094,849 | 5.60 | 0.82 |
| July 26, 2021 | 14,088 | 5.60 | 0.82 |
| August 9, 2021 | 284,093 | 5.60 | 0.88 |
| March 17, 2022 | 496,875 | 6.40 | 1.46 |
| July 17, 2022 | 172,532 | 6.40 | 1.79 |
| | 2,786,800 | 5.60 | 0.88 |

(Expressed in Canadian dollars)

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

**e) Performance warrants**

On September 30, 2016, the Company issued 625,250 performance warrants with a fair value of $1,725,496. These performance warrants vested during the year ended December 31, 2019.

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

| Expiry Date | Performance Warrants Outstanding | Performance Warrants Exercisable | Exercise Price ($) | Remaining Life (years) |
|---|---|---|---|---|
| June 30, 2021 | 625,250 | 625,250 | 4.00 | 1.00 |

**11. RELATED PARTY TRANSACTIONS**

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

| Key Management Personnel | 2020 ($) | 2019 ($) |
|---|---|---|
| Short-term employee benefits paid or accrued to the CEO of the Company, including share-based compensation vested for incentive stock options and performance warrants. | 336,628 | 355,413 |
| Short-term employee benefits paid or accrued to the CFO of the Company, including share-based compensation vested for incentive stock options and performance warrants. | 330,139 | 121,451 |
| 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. | 49,735 | 240,556 |
| 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. | 341,841 | 88,457 |
| 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. | 332,292 | 97,478 |
| Total | 1,390,635 | 903,355 |

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

Other Related Party Payments

Office sharing and occupancy costs of $63,000 (September 30, 2019 - $67,200) were paid or accrued to a corporation that shares management in common with the Company.

Amounts Outstanding

a) At September 30, 2020, a total of $641,259 (December 31, 2019 - $492,181) was included in accounts payable and accrued liabilities owing to officers, directors, or companies controlled by them. These amounts are unsecured and non-interest bearing.

b) At September 30, 2020 a total of $6,551,007 (December 31, 2019 - $5,470,000) of long term notes was payable to a director and the CEO of the Company (Note 9).

**12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

*Financial risk management*

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

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

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

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

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

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

*Credit risk*

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

*Financial instrument risk exposure*

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

(Expressed in Canadian dollars)

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

*Liquidity risk*

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

*Interest rate risk*

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

*Foreign exchange risk*

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

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

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| | (US$) | (US$) |
| Cash | 16,684 | 72,097 |
| Lease obligations | (629,586) | (768,563) |
| Accounts payable and accrued liabilities | (1,063,994) | (445,660) |
| | (1,816,896) | (1,142,126) |

As at September 30, 2020, with other variables unchanged, a +/- 10% change in the United States dollar to Canadian dollar exchange rate would impact the Company's net loss by $242,000 (December 31, 2019 - $148,000).

**13. MANAGEMENT OF CAPITAL**

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

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

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

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

(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 nine months ended September 30, 2020 is from a customer based in the United States.

Details of identifiable assets by geographic segments are as follows:

| | Restricted deposits | Deposits | Property and equipment | Intangible assets |
|---|---|---|---|---|
| September 30, 2020 | | | | |
| Canada | $ 11,497 | $ - | $ 63,051 | $ - |
| USA | - | 135,400 | 639,145 | 2,399,052 |
| | $ 11,497 | $ 135,400 | $ 702,196 | $ 2,399,052 |
| 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 |

## 15. SUPPLEMENTAL CASH FLOW INFORMATION

| | 2020 ($) | 2019 ($) |
|---|---|---|
| **Non-cash investing and financing activities:** | | |
| Contribution benefit on low interest rate notes (Note 9) | 227,502 | 182,299 |
| Shares issued to acquire Newco shares (Note 6) | - | 1,892,012 |
| **Interest paid during the period** | - | 56,144 |
| **Income taxes paid during the period** | - | - |

(Expressed in Canadian dollars)

## 16. LEASE OBLIGATIONS AND COMMITMENTS

### Lease Liabilities

| | $ |
|---|---|
| Lease liabilities recognized as of January 1, 2020 | 1,122,400 |
| Lease payments made | (308,714) |
| Interest expense on lease liabilities | 63,500 |
| Foreign exchange adjustment | 42,772 |
| | 919,958 |
| Less: current portion | (408,620) |
| **At September 30, 2020** | 511,338 |

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

| Year | Amount ($) |
|---|---|
| 2020 (remaining) | 21,000 |
| 2021 | 49,000 |

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

| Year | Amount (US$) |
|---|---|
| 2020 (remaining) | 60,722 |
| 2021 | 251,384 |
| 2022 | 260,185 |
| 2023 | 131,576 |

## 17. SUBSEQUENT EVENTS

i) On November 17, 2020, the Company issued 625,000 units at a price of $4.00 per unit for total proceeds of $2,500,000. Each unit consisted of one common share and one share purchase warrant wherein each whole warrant entitles the holder to purchase one common share at a price of $6.40 until February 13, 2021.

ii) On November 19, 2020, the Company issued 25,000 options with an exercise price of $6.00 per share which expire on November 19, 2025.

iii) Subsequent to September 30, 2020, the Company issued additional notes payables to a director for an accumulated amount of $14,000. The notes bear interest at the applicable prime rate and interest accrues quarterly.

iv) On November 20, 2020, the Company filed a registration statement on Form F-1 with the U.S. Securities and Exchange Commission. The proposed offering contemplated by the registration statement is an initial public offering in the United States of the Company's units, each unit consisting of one common share in the capital of the Company and two warrants, each to purchase one additional common share in the capital of the Company. The final terms of the offering have not yet been finalized.

v) Subsequent to September 30, 2020, the Company's warrant holders had exercised 641,939 warrants at an average exercise price of $5.28 per share for total proceeds of $3,387,872.

vi) On December 8, 2020, the Company's board of directors approved a one-for-16 reverse stock split of the Company's common shares. Pursuant to applicable rules of the CSE, the reverse share split became effective on December 15, 2020. The shareholders surrendered a pro-rata number of ordinary shares to the Company for no consideration and such shares were thereafter cancelled.

**672,269 Units**

**VERSUS SYSTEMS INC.**


**, 2021**

**Lake Street**

**Through and including , (25 days after the commencement of this offering), all dealers that effect transactions in our common shares, whether or not participating in this offering, may be required to deliver a prospectus. This delivery is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to their unsold allotments or subscriptions.**

## PART II—INFORMATION NOT REQUIRED IN THE PROSPECTUS

### Item 6. Indemnification of directors and officers

Sections 159 to 164 of the BCBCA authorize companies to indemnify past and present directors, officers and certain other individuals for the liabilities incurred in connection with their services as such (including costs, expenses and settlement payments) unless such individual did not act honestly and in good faith with a view to the best interests of the company and, in the case of a criminal or administrative proceeding, if such individual did not have reasonable grounds for believing his or her conduct was lawful. In the case of a suit by or on behalf of the corporation, a court must approve the indemnification.

Our articles require us to indemnify directors and officers to the extent required by law.

We have entered into agreements with our directors and certain officers, or an Indemnitee, to indemnify the Indemnitee, to the fullest extent permitted by law and subject to certain limitations, against all liabilities, costs, charges and expenses reasonably incurred by an Indemnitee in an action or proceeding to which the Indemnitee was made a party by reason of the Indemnitee being an officer or director of (i) our company or (ii) an organization of which we are a shareholder or creditor if the Indemnitee serves such organization at our request.

We maintain insurance policies relating to certain liabilities that our directors and officers may incur in such capacity.

### Item 7. Recent sales of unregistered securities

During the past three years, we have issued securities in the following transactions, each of which was exempt from the registration requirements of the Securities Act. Except for the shares of our common stock that were issued upon the exercise of our warrants, all of the below-referenced securities were issued pursuant to the exemption from registration under Section 4(a)(2) of the Securities Act and are deemed to be restricted securities for purposes of the Securities Act. There were no underwriters or placement agents employed in connection with any of these transactions. Use of the exemption provided in Section 4(a)(2) for transactions not involving a public offering is based on the following facts:

- Neither we nor any person acting on our behalf solicited any offer to buy or sell securities by any form of general solicitation or advertising.
- The recipients were either accredited or otherwise sophisticated individuals who had such knowledge and experience in business matters that they were capable of evaluating the merits and risks of the prospective investment in our securities.
- The recipients had access to business and financial information concerning our company.
- All securities issued were issued with a restrictive legend and may only be disposed of pursuant to an effective registration or exemption from registration in compliance with federal and state securities laws.

The common shares that were issued upon the exercise of our warrants were issued pursuant to the exemption from registration under Section 3(a)(9) of the Securities Act and are deemed to be restricted securities for purposes of the Securities Act.

The number of common shares issued or issuable in each transaction, and the price per common share in each transaction, has been adjusted to give effect to the one-for-16 reverse share split of the common shares to be effected on December 15, 2020.

***Units and Common Shares Issuance***

***2020***

During the year ending December 31, 2020, we:

i) Issued, 150,000 units at a price of $4.00 per unit for total proceeds of $600,000. Each unit consisted of one common share and a one half share purchase warrant for each share purchased. Each warrant entitles the holder to purchase one additional common share at a price of $6.40 until February 13, 2021.

ii) entered into a Mutual Investment Agreement with Animoca Brands Inc. in which we issued 189,797 common shares with a value of $698,446 in exchange for 4,327,431 shares of Animoca Brands common stock. On the same date, we issued an additional 80,839 common shares with a value of $349,225 to Animoca Brands in exchange for marketing services. We subsequently sold all of our shares of Animoca Brands and recognized a loss of $508,050.

iii) issued, 927,149 common shares pursuant to the exercise of warrants and stock options for total proceeds of $4,184,572.

iv) issued, 172,532 units at a price of $4.00 per unit for total proceeds of $690,125.

v) issued, 625,000 units at a price of $4.00 per unit for total proceeds of $2,500,000. Each unit consisted of one common share and one share purchase warrant wherein each whole warrant entitles the holder to purchase one common share at a price of $6.40 until November 17, 2023.

***2019***

During the year ended December 31, 2019, we:

i) issued, 624,228 units pursuant to a private placement at a price of $2.88 per unit for total proceeds of $1,797,778. Each unit consisted of one common share and one common share warrant for each share purchased. Each warrant entitles the holder to purchase one additional common share at a price of $4.80 until February 14, 2021.

ii) issued, 1,094,844 units pursuant to a private placement at a price of $3.20 per unit for total proceeds of $3,503,500. Each unit consisted of one common share and a one common share warrant for each share purchased. Each warrant entitles the holder to purchase one additional common share at a price of $5.60 until July 26, 2021.

iii) issued, 284,091 units at a price of $3.52 per unit for total proceeds of $1,000,000. Each unit consisted of one common share and one common share warrant for each share purchased. Each warrant entitles the holder to purchase one additional common share at a price of $5.60 until August 9, 2021.

iv) issued 576,834 common shares at a value of $1,892,012 on acquisition of Opal Energy (Holdco) Corp.

v) issued 158,115 common shares pursuant to the exercise of share purchase warrants and stock options for total proceeds of $425,417.

***2018***

During the year ended December 31, 2018, we:

i) issued, 766,229 units at a price of $4.80 per unit for total proceeds of $3,677,900. Each unit consisted of one common share and a one half common share warrant for each share purchased. Each whole warrant entitles the holder to purchase one additional common share at a price of $6.40 until April 12, 2020. A residual value of $78,957 was allocated to the warrants.

ii) issued 154,990 common shares pursuant to the exercise of share purchase warrants for total proceeds of $384,000.

***2017***

During the year ended December 31, 2017, we:

i) issued 178,000 common shares pursuant to the exercise of share purchase warrants for total proceeds of $876,700.

ii) issued 500,000 units at a price of $4.00 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 $6.40 until March 17, 2022.

iii) issued 31,354 common shares with a fair value of $235,780 to increase its ownership interest in Versus LLC.

***Warrants Issuance***

***2020***

During the year ending December 31, 2020, we issued certain number of warrants as listed below:

i) On February 13, 2020, we completed a unit private placement which included 75,000 share purchase warrants exercisable at $6.40 per share for a period of two years. The share purchase warrants were determined to have a fair value of $Nil using the residual value method.

ii) On November 17, 2020, we completed a unit private placement which included 625,000 share purchase warrants exercisable at $4.00 per share for a period of two years. The share purchase warrants were determined to have a fair value of $Nil using the residual value method.

***2019***

During the year ended December 31, 2019, we issued certain number of warrants as listed below:

i) On February 14, 2019, we completed a unit private placement which included 624,228 share purchase warrants exercisable at $4.80 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, we completed a unit private placement which included 43,696 broker warrants exercisable at $2.88 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, we completed a unit private placement which included 1,094,849 share purchase warrants exercisable at $5.60 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, we issued 14,088 agent warrants exercisable to purchase additional shares at a price of $5.60 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, we completed a unit private placement which included 284,093 share purchase warrants exercisable at $5.60 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) During 2019, we issued 288,417 warrants at a value of $159,778 for the acquisition of the shares of Opal Energy (Holdco) Corp.

***2018***

During the year ended December 31, 2018, we issued certain number of warrants as listed below:

i) On March 29, 2018 and April 12, 2018, we completed a unit private placement which included 383,115 share purchase warrants exercisable at $6.40 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, we completed a unit private placement which included 44,460 brokers' warrants exercisable at $4.80 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.

***2017***

On March 17, 2017, we completed a unit private placement which included 500,000 share purchase warrants exercisable at $6.40 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.

***Notes Issuance***

***2020***

During the year ended December 31, 2020, we issued unsecured notes payable for total proceeds of CDN$1,258,307 from our directors and officers who are also shareholders. The loans bear interest at the prime rate which was 2.45% per annum for the nine months ended September 30, 2020, compounded annually and payable quarterly, and had a maturity date of three years from the date of issuance. As at September 30, 2020, we had recorded $417,553 in accrued interest which was included in accounts payable and accrued liabilities.

***2019***

During the year ended December 31, 2019, we 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. As at December 31, 2019, the Company had recorded $249,496 in accrued interest which was included in accounts payable and accrued liabilities.

***2018***

During the year ended December 31, 2018, we issued unsecured notes payable for total proceeds of CDN$2,780,000 from one of our directors 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.

During the year ended December 31, 2018, we issued unsecured notes payable for total proceeds of US$230,000 from a director and officer of our 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.

***2017***

During the year ended December 31, 2017, we issued unsecured notes payable for total proceeds of $900,000 from a director of our company who is also a shareholder. The loans bear interest at the prime rate which was 3.20% at December 31, 2017, payable quarterly, and had a maturity date of three years from the date of issuance. As at December 31, 2017, we had recorded $2,635 in accrued interest that was included in accounts payable and accrued liabilities.

**Item 8. Exhibits and Financial Statement Schedules**

(a) The following documents are filed as part of this registration statement:

**EXHIBIT INDEX**

The following documents are filed as part of this registration statement:

| | |
|---|---|
| 1.1** | Form of Underwriting Agreement. |
| 3.1** | Notice of Articles of Versus Systems Inc. |
| 3.2** | Articles of Versus Systems Inc. |
| 4.1* | Specimen Stock Certificate evidencing common shares. |
| 4.2** | Form of Warrant Agent Agreement between Versus System Inc. and Computershare, including forms of Unit A Warrants and Unit B Warrants. |
| 4.3** | Form of Representative Warrant Agreement. |
| 5.1* | Opinion of Fasken Martineau DuMoulin, LLP. |
| 5.2* | Opinion of Pryor Cashman LLP. |
| 8.1* | Opinion of Pryor Cashman LLP. |
| 10.1** | Form of Loan Agreement, including form of promissory note, between Versus Systems Inc. and Brian Tingle. |
| 10.2** | Form of Loan Agreement, including form of promissory note, between Versus Systems Inc. and The Sandoval Pierce Family Trust Established May 20, 2015. |
| 10.3** | Employment Agreement dated as of June 30, 2016 among Versus Systems Inc. (formerly Opal Energy Corp.), Matthew D. Pierce and Versus LLC. |
| 10.4** | Employment Agreement dated as of May 1, 2019 among Versus Systems Inc., Craig C. Finster and Versus LLC. |
| 10.5** | Employment Agreement dated as of May 1, 2020 among Versus Systems Inc., Keyvan Peymani and Versus LLC. |
| 10.6** | Form of Warrant of Versus Systems Inc. |
| 10.7** | Versus Systems Inc. 2017 Stock Option Plan. |
| 10.8** | Acquisition Agreement dated as of March 16, 2016 among Versus Systems Inc. (formerly Opal Energy Corp.), Versus Systems (Holdco) Corp. (formerly Opal Energy (Holdco) Corp.), Versus LLC and the selling members of Versus LLC |
| 10.9#** | Software License, Marketing and Linking Agreement dated as of March 6, 2019 between HP Inc. and Versus LLC. |
| 14.1* | Code of Conduct and Ethics. |
| 21.1** | List of Subsidiaries of Versus Systems Inc. |
| 23.1* | Consent of Davidson & Company LLP as an Independent Registered Public Accounting Firm. |
| 23.2* | Consent of Fasken Martineau DuMoulin, LLP (included in Exhibit 5.1). |
| 23.3* | Consent of Pryor Cashman LLP (included in Exhibit 8.1) |
| 24.1** | Power of Attorney (included on signature page). |
| 99.1* | Charter of the Audit Committee. |
| 99.2* | Charter of the Compensation Committee. |
| 99.3* | Charter of the Nominating and Corporate Governance Committee. |

* Filed herewith.
** Previously filed.
*** To be filed by amendment.
# Portions of this exhibit have been redacted in compliance with Item 601(b)(10) of Regulation S-K. Schedules, exhibits and similar supporting attachments to this exhibit are omitted pursuant to Item 601(b)(2) of Regulation S-K. The Registrant agrees to furnish a supplemental copy of any omitted schedule or similar attachment to the Securities and Exchange Commission upon request.

**Item 9. Undertakings**

The undersigned hereby undertakes:

To provide to the underwriters at the closing specified in the underwriting agreements, certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the U.S. Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer, or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-1 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Vancouver, British Columbia on January 11, 2021.

VERSUS SYSTEMS INC.

By: /s/ Matthew Pierce
Name: Matthew Pierce
Title: Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement has been signed by the following persons in the capacities and on the dates indicated:

| Name | Title | Date |
|---|---|---|
| /s/ Matthew Pierce<br>Matthew Pierce | Director and Chief Executive Officer<br>(principal executive officer) | January 11, 2021 |
| /s/ Craig Finster<br>Craig Finster | President and Chief Financial Officer<br>(principal financial officer and<br>principal accounting officer) | January 11, 2021 |
| /s/ *<br>Keyvan Peymani | Director | January 11, 2021 |
| /s/ *<br>Brian Tingle | Director | January 11, 2021 |
| /s/ *<br>Michelle Gahagan | Director | January 11, 2021 |
| /s/ *<br>Paul Vlasic | Director | January 11, 2021 |

* By: /s/ Matthew Pierce
Matthew Pierce
Attorney-in-fact

**Signature of Authorized U.S. Representative of Registrant**

Pursuant to the requirements of the Securities Act of 1933, as amended, the undersigned, the duly authorized representative in the United States of Versus Systems Inc. has signed this registration statement on January 11, 2021.

By: /s/ Matthew Pierce
Name: Matthew Pierce
Title: Chief Executive Officer

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104598

Number

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Shares

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# VERSUS SYSTEMS INC.

A BRITISH COLUMBIA BUSINESS CORPORATIONS ACT COMPANY

THIS CERTIFIES THAT

SPECIMEN

CUSIP 92535P808

ISIN CA92535P8082

IS THE REGISTERED HOLDER OF

***0****

SEE REVERSE FOR CERTAIN DEFINITIONS

FULLY PAID AND NON-ASSESSABLE COMMON SHARES WITHOUT PAR VALUE IN THE CAPITAL OF

## VERSUS SYSTEMS INC.

in the Authorized share structure of the above named Company subject to the Articles of the Company transferable on the Central Securities Register of the Company by the registered holder in person or by attorney duly authorized in writing upon surrender of this certificate properly endorsed.

This certificate is not valid unless countersigned by the Transfer Agent and Registrar of the Company.

IN WITNESS WHEREOF the Company has caused this certificate to be signed on its behalf by the facsimile signatures of its duly authorized officers, at Vancouver, British Columbia.

Dated: Dec 15, 2020

Chief Financial Officer and Director

President and Chief Executive Officer

COUNTERSIGNED AND REGISTERED
COMPUTERSHARE TRUST COMPANY OF CANADA
(VANCOUVER)
TRANSFER AGENT AND REGISTRAR

By _____
Authorized Officer

VOID

VOID

The shares represented by this certificate are transferable at the office of Computershare Trust Company of Canada in Vancouver, BC.

SECURITY INSTRUCTIONS ON REVERSE VOIR LES INSTRUCTIONS DE SÉCURITÉ AU VERSO

SAMPLE

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The following abbreviations shall be construed as though the words set forth below opposite each abbreviation were written out in full where such abbreviation appears:

| | | | | | |
|---|---|---|---|---|---|
| TEN COM | - | as tenants in common | (Name) CUST (Name) UNIF GIFT MIN ACT (State) | - | (Name) as Custodian for (Name) under the (State) Uniform Gifts to Minors Act |
| TEN ENT | - | as tenants by the entireties | | | |
| JT TEN | - | as joint tenants with rights of survivorship and not as tenants in common | | | |

Additional abbreviations may also be used though not in the above list.

For value received the undersigned hereby sells, assigns and transfers unto

_____

Insert name and address of transferee

_____

_____ shares

represented by this certificate and does hereby irrevocably constitute and appoint

_____ the attorney

of the undersigned to transfer the said shares on the books of the Company with full power of substitution in the premises.

DATED: _____

_____ _____

Signature of Shareholder Signature of Guarantor

**Signature Guarantee:**

The signature on this assignment must correspond with the name as written upon the face of the certificate(s), in every particular, without alteration or enlargement, or any change whatsoever and must be guaranteed by a major Canadian Schedule I chartered bank or a member of an acceptable Medallion Signature Guarantee Program (STAMP, SEMP, MSP). The Guarantor must affix a stamp bearing the actual words "Signature Guaranteed".

In the USA, signature guarantees must be done by members of a "Medallion Signature Guarantee Program" only.

Signature guarantees are not accepted from Treasury Branches, Credit Unions or Caisses Populaires unless they are members of the Stamp Medallion Program.

**SECURITY INSTRUCTIONS - INSTRUCTIONS DE SÉCURITÉ**

THIS IS WATERMARKED PAPER, DO NOT ACCEPT WITHOUT NOTING WATERMARK. HOLD TO LIGHT TO VERIFY WATERMARK.

PAPIER FILIGRANÉ, NE PAS ACCEPTER SANS VÉRIFIER LA PRÉSENCE DU FILIGRANE. POUR CE FAIRE, PLACER À LA LUMIÈRE.

FASKEN

Fasken Martineau DuMoulin LLP
Barristers and Solicitors
Patent and Trade-mark Agents

550 Burrard Street, Suite 2900
Vancouver, British Columbia V6C 0A3
Canada

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fasken.com

January 11, 2021
File No.: 312656.00002/17803

Versus Systems Inc.
6701 Center Drive West, Suite 480
Los Angeles, CA 90445

**Re: Versus Systems Inc.**

Ladies and Gentlemen:

We have acted as counsel to you, Versus Systems Inc., a British Columbia corporation (the "Company"), in connection with the Company's Registration Statement on Form F-1 filed with the Securities and Exchange Commission (the "Commission") pursuant to the Securities Act of 1933, as amended (the "Securities Act") (File No. 333-250868) (the "Registration Statement") with respect to the registration of the proposed offer and sale of (i) a proposed maximum aggregate offering price of $13,950,000 of Units (the "Units"), with each Unit consisting of one common share of the Company, with no par value per share (each, a "Common Share" and collectively, the "Common Shares"), and two warrants (the "Unit Warrants"), each to purchase one additional Common Share (the shares issuable upon exercise of the Unit Warrants the "Unit Warrant Shares") at an exercise price equal to 100% of the public offering price of the Units; (ii) a proposed maximum aggregate offering price of $1,674,000 of Common Shares issuable upon the exercise of warrants (the "Underwriter Warrants") to purchase Common Shares (the "Underwriter Warrant Shares" and, together with the Unit Warrant Shares, the "Warrant Shares") to be issued to Lake Street Capital Markets, LLC (the "Representative"), or its designees, as compensation for its services pursuant to an underwriting agreement to be entered into by and between the Company, the Representative and the other underwriters named therein, substantially in the form filed as Exhibit 1.1 to the Registration Statement (the "Underwriting Agreement"). This opinion is being furnished in accordance with the requirements of Item 601(b)(5) of Regulation S-K under the Securities Act.

In connection with this opinion, we have examined and relied upon (a) the Registration Statement, (b) the Prospectus, (c) the Company's Certificate of Amalgamation, Certificate of Name Change, Notice of Articles and Articles, as currently in effect, and (d) originals or copies certified to our satisfaction of such records, documents, certificates, memoranda and other instruments as in our judgment are necessary or appropriate to enable us to render the opinion expressed below. We have assumed the genuineness and authenticity of all documents submitted to us as originals, and the conformity to originals of all documents submitted to us as copies where due execution and delivery are a prerequisite to the effectiveness thereof. As to certain factual matters, we have relied upon a certificate of officers of the Company and have not sought to independently verify such matters.





Our opinion is expressed only with respect to the laws of the Province of British Columbia. We express no opinion as to whether the laws of any particular jurisdiction other than those identified above are applicable to the subject matter hereof. We assume no obligation to revise or supplement this opinion should any applicable laws be changed subsequent to the date hereof by legislative action, judicial decision or otherwise or if there is a change in any fact or facts after the date hereof. Where our opinion refers to the Common Shares and the Warrant Shares as being "fully paid and non-assessable", no opinion is expressed as to actual receipt by the Company of the consideration for the issuance of such shares or as to the adequacy of any consideration received.

On the basis of the foregoing, and in reliance thereon, we are of the opinion as of the date hereof that:

1. the shares of Common Shares included in the Units, when issued pursuant to the terms and against payment therefor as set forth in the Registration Statement and the Underwriting Agreement, will be validly issued, fully paid and non-assessable;

2. the Unit Warrants included in the Units and the Unit Warrant Shares when issued in accordance with the terms of the Unit Warrants, when issued pursuant to the terms and against payment therefor as set forth in the Registration Statement and the Underwriting Agreement, will be duly authorized and if, as and when issued in accordance with the terms of the Unit Warrants, the Unit Warrant Shares will be validly issued, fully paid and non-assessable; and

3. the Underwriter Warrants and the Underwriter Warrant Shares when issued in accordance with the terms of the Underwriter Warrants, when issued pursuant to the terms and against payment therefor as set forth in the Registration Statement and the Underwriting Agreement, will be duly authorized and if, as and when issued in accordance with the terms of the Underwriter Warrants, the Underwriter Warrant Shares will be validly issued, fully paid and non-assessable.

We consent to the reference to our firm under the caption "Legal Matters" in the Prospectus and the filing of this opinion as an exhibit to the Registration Statement.

Yours truly,

**/s/** ***Fasken Martineau DuMoulin LLP***

PRYOR CASHMAN LLP
New York | Los Angeles | Miami
7 Times Square, New York, NY 10036-6569 Tel: 212-421-4100 Fax: 212-326-0806
www.pryorcashman.com

January 11, 2021

Board of Directors
Versus Systems Inc.
1558 West Hastings Street
Vancouver BC V6G 3J4 Canada

**Re: Registration Statement on Form F-1 for Versus Systems Inc.**

Ladies and Gentlemen:

We have acted as New York counsel to Versus Systems Inc., a corporation formed under the laws of the Province of British Columbia (the "***Company***"), in connection with the preparation of the Company's registration statement on Form F-1 filed with the Securities and Exchange Commission (the "**Commission**") pursuant to the Securities Act of 1933, as amended (the "**Securities Act**"), (File No.333-250868) (the "**Registration Statement**") with respect to the registration of the proposed offer and sale of (i) a proposed maximum aggregate offering price of $13,950,000 of Units (the "**Units**"), with each Unit consisting of one common share, with no par value per share (each, a "**Common Share**" and collectively, the "**Common Shares**") of the Company, and two warrants (the "**Unit Warrants**"), each to purchase one additional Common Share (the shares issuable upon exercise of the Unit Warrants the "**Unit Warrant Shares**") at an exercise price equal to 100% of the public offering price of the Units; and (ii) a proposed maximum aggregate offering price of $1,674,000 of Common Shares issuable upon the exercise of warrants (the "**Underwriter Warrants**" and, together with the Unit Warrant, the "**Warrants**") to purchase Common Shares (the "**Underwriter Warrant Shares**" and, together with the Unit Warrant Shares, the "**Warrant Shares**") to be issued to Lake Street Capital Markets, LLC (the "**Representative**"), or its designees, as compensation for its services pursuant to an underwriting agreement to be entered into by and between the Company, the Representative and the other underwriters named therein, substantially in the form filed as Exhibit 1.1 to the Registration Statement (the "**Underwriting Agreement**"). The Warrants and the Warrant Shares are collectively referred to as the "**Securities**."

In rendering the opinion set forth herein, we have examined the originals, or photostatic or certified copies, of (i) the Notice of Articles (the "**Notice of Articles**") and Articles (the "**Articles**") of the Company, each as amended to date and as filed as exhibits to the Registration Statement, (ii) certain resolutions of the Board of Directors of the Company related to the filing of the Registration Statement, the authorization and issuance of the Securities and related matters, (iii) the Registration Statement and all exhibits thereto, (iv) the form of Underwriting Agreement to be entered into by the Company and the Representative and the form of Warrant Agreement to be entered into by the Company and the Warrant Agent, (v) a certificate executed by an officer of the Company, dated as of the date hereof, (vi) the forms of the Warrants, and (vii) such other records, documents and instruments as we deemed relevant and necessary for purposes of the opinion stated herein. In making the foregoing examination, we have assumed the genuineness of all signatures, the legal capacity of all natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as photostatic or certified copies, and the authenticity of the originals of such copies. As to all questions of fact material to this opinion, where such facts have not been independently established, we have relied, to the extent we have deemed reasonably appropriate, upon representations or certificates of officers of the Company or governmental officials.

Our opinion herein is expressed solely with respect to the federal laws of the United States and the New York Business Corporation Law. Our opinion is based on these laws as in effect on the date hereof. We express no opinion as to whether the laws of any particular jurisdiction are applicable to the subject matter hereof. We are not rendering any opinion as to compliance with any federal or state law, rule or regulation relating to securities, or to the sale or issuance thereof.

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On the basis of the foregoing and in reliance thereon, and subject to the qualifications herein stated, we are of the opinion that:

1. With respect to the Unit Warrants, provided that (i) the Registration Statement has become effective under the Securities Act (and no stop order suspending the effectiveness of the Registration Statement has been issued) and the Prospectus contained therein has been delivered and filed with the Commission as required by all applicable laws; (ii) the Underwriting Agreement has been duly authorized by the Company and each of the underwriters named therein by all necessary corporate or company action, as applicable; (iii) the Underwriting Agreement is in substantially the form filed as an exhibit to the Registration Statement and has been duly executed and delivered by the Company and each of the underwriters named therein; (iv) the Warrant Agreement has been duly authorized by the Company and the Warrant Agent by all necessary corporate action; (v) the Warrant Agreement is in substantially the form filed as an exhibit to the Registration Statement and has been duly executed and delivered by the Company and the Warrant Agent; (vi) the issuance and terms of the Unit Warrants have been duly authorized by the Company by all necessary corporate action; (vii) the terms of the Unit Warrants and of their issuance and sale have been duly established in conformity with the Underwriting Agreement and the Warrant Agreement and as described in the Registration Statement and the related Prospectus so as not to violate any applicable law or result in a default under or breach of any agreement or instrument binding upon the Company, so as to be in conformity with the Articles and the Notice of Articles, and so as to comply with any requirement or restriction imposed by any court or governmental body having jurisdiction over the Company; and (viii) the Unit Warrants have been duly executed and delivered by the Company and authenticated by the Warrant Agent pursuant to the Warrant Agreement and delivered against payment therefor pursuant to the Underwriting Agreement, the Unit Warrants, when issued and sold as contemplated in the Registration Statement and the Prospectus and in accordance with the Underwriting Agreement and the Warrant Agreement, will be valid and legally binding obligations of the Company, enforceable against the Company in accordance with their terms, except as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally, and by general equitable principles (regardless of whether such enforceability is considered in a proceeding at law or in equity).

2. With respect to the Underwriter Warrants, provided that (i) the Registration Statement has become effective under the Securities Act (and no stop order suspending the effectiveness of the Registration Statement has been issued) and the Prospectus contained therein has been delivered and filed with the Commission as required by all applicable laws; (ii) the Underwriting Agreement has been duly authorized, executed and delivered by the Company and the underwriters named therein by all necessary corporate or company action, as applicable; (iii) the Underwriting Agreement is in substantially the form filed as an exhibit to the Registration Statement; (iv) the issuance and terms of the Underwriter Warrants have been duly authorized by the Company by all necessary corporate action; (v) the terms of the Underwriter Warrants and of their issuance and sale have been duly established in conformity with the Underwriting Agreement and as described in the Registration Statement and the related Prospectus so as not to violate any applicable law or result in a default under or breach of any agreement or instrument binding upon the Company, so as to be in conformity with the Articles and the Notice of Articles, and so as to comply with any requirement or restriction imposed by any court or governmental body having jurisdiction over the Company; and (vi) the Underwriter Warrants have been duly executed and delivered by the Company pursuant to the Underwriting Agreement and delivered against payment therefor, the Underwriter Warrants, when issued and sold as contemplated in the Registration Statement and the Prospectus and in accordance with the Underwriting Agreement, will be valid and legally binding obligations of the Company, enforceable against the Company in accordance with their terms, except as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally, and by general equitable principles (regardless of whether such enforceability is considered in a proceeding at law or in equity).

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We hereby consent to the filing of this opinion with the Commission as an exhibit to the Registration Statement. We further consent to the reference to our firm under the caption "Legal Matters" in the prospectus constituting a part of the Registration Statement. In giving this consent, we are not admitting that we are within the category of persons whose consent is required under Section 7 of the Securities Act or the rules and regulations of the Commission. This opinion is given as of the date hereof and we assume no obligation to update or supplement such opinion after the date hereof to reflect any facts or circumstances that may thereafter come to our attention or any changes that may thereafter occur.

Very truly yours,

/s/ Pryor Cashman LLP

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**Exhibit 8.1**

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January 11, 2021

Versus Systems Inc.
1558 West Hastings Street
Vancouver BC V6G 3J4 Canada

Ladies and Gentlemen:

We have acted as New York counsel to Versus Systems Inc., a corporation formed under the laws of the Province of British Columbia (the "**Company**"), in connection with the preparation of the Company's registration statement on Form F-1 filed with the Securities and Exchange Commission (the "**Commission**") pursuant to the Securities Act of 1933, as amended (the "**Securities Act**"), (File No.333-250868) (the "**Registration Statement**") with respect to the registration of the proposed offer and sale (the "**Offering**") of (i) a proposed maximum aggregate offering price of $13,950,000 of Units (the "**Units**"), with each Unit consisting of one common share, with no par value per share (each, a "**Common Share**" and collectively, the "**Common Shares**") of the Company, and two warrants, each to purchase one additional Common Share at an exercise price equal to 100% of the public offering price of the Units; and (ii) a proposed maximum aggregate offering price of $1,674,000 of Common Shares issuable upon the exercise of warrants to purchase Common Shares to be issued to Lake Street Capital Markets, LLC (the "**Representative**"), or its designees, as compensation for its services pursuant to an underwriting agreement to be entered into by and between the Company, the Representative and the other underwriters named therein, substantially in the form filed as Exhibit 1.1 to the Registration Statement. In connection with the Offering, you have requested our opinion concerning the statements of United States federal income tax law made in the Registration Statement under the caption "Material United States Federal Income Tax Considerations For U.S. Holders."

The facts, as we understand them, and upon which, with your permission, we rely in rendering the opinion herein, are set forth in the Registration Statement. For the purpose of our opinion, we have not made an independent investigation or audit of the facts set forth in the Registration Statement.

In rendering our opinion, we have reviewed the Registration Statement and have examined such records, representations, documents, certificates or other instruments as in our judgment are necessary or appropriate to enable us to render the opinion expressed below. In this examination, we have assumed the legal capacity of all natural persons, the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified, conformed, or photostatic copies, and the authenticity of the originals of such copies. We have assumed that the agreements and other documents referred to above will be executed by the parties in the forms provided to and reviewed by us. We have further assumed that all transactions relating to the Units will be carried out in accordance with the terms of such agreements and documents.

In rendering our opinion, we have considered the applicable provisions of the Internal Revenue Code of 1986, as amended (the "**Code**"), regulations promulgated thereunder by the U.S. Department of Treasury (the "**Regulations**"), pertinent judicial authorities, rulings of the U.S. Internal Revenue Service, and such other authorities as we have considered relevant, in each case as in effect on the date hereof. It should be noted that the Code, Regulations, judicial decisions, administrative interpretations and other authorities are subject to change at any time, possibly with retroactive effect. A material change in any of the materials or authorities on which our opinion is based could affect the conclusions set forth herein. We assume no obligation to inform you of any such change. There can be no assurance, moreover, that any opinion expressed herein will be accepted by the Internal Revenue Service, or if challenged, by a court.

Based on the foregoing, although the discussion in the Registration Statement under the heading "Material United States Federal Income Tax Considerations For U.S. Holders" does not purport to discuss all possible United States federal income tax consequences of the acquisition, ownership and disposition of the Units, we hereby confirm that the discussion set forth under such heading, insofar as such discussion relates to matters of United States federal income tax law, reflects our opinion as to the material United States federal tax consequences to U.S. Holders (as such term is defined in the Registration Statement) relating to the purchase, ownership and disposition of the Units, subject to the assumptions, limitations and qualifications described in the Registration Statement under such heading.

We note that, because the determination of the Company's status as a passive foreign investment company (a "PFIC") for United States federal income tax purposes is based on an annual determination that cannot be made until the close of a taxable year, and involves extensive factual investigation, we do not express any opinion herein with respect to the Company's PFIC status in any taxable year.

We express no other opinion except as set forth above.

We hereby consent to the filing of this opinion as Exhibit 8.1 to the Registration Statement and to the reference to us under the caption "Legal Matters" in the prospectus constituting a part of the Registration Statement. In giving such consent, we do not thereby admit that we are included in the category of persons whose consent is required under Section 7 of the Securities Act or the rules and regulations of the Commission promulgated thereunder.

Sincerely,

/s/ Pryor Cashman LLP

**VERSUS SYSTEMS INC.**

**CODE OF CONDUCT AND ETHICS**

**(adopted by the Board of Directors on January 6, 2021)**

## I. Introduction

The Company requires the highest standards of professional and ethical conduct from its employees, officers and directors. Our reputation for honesty and integrity is key to the success of its business. The Company intends that its business practices will comply with the laws of all of the jurisdictions in which it operates and that honesty, integrity and accountability will always characterize the Company's business activity. No employee, officer or director may achieve results through violations of laws or regulations or unscrupulous dealings.

This Code reflects the Company's commitment to this culture of honesty, integrity and accountability and outlines the basic principles and policies with which all employees, officers and directors are expected to comply. Therefore, we expect you to read this Code thoroughly and carefully.

In addition to following this Code in all aspects of your business activities, you are expected to seek guidance in any situation where there is a question regarding compliance issues, whether with the letter or the spirit of the Company's policies and applicable laws. Cooperation with this Code is essential to the continued success of the Company's business and the cultivation and maintenance of its reputation as a good corporate citizen. Misconduct is never justified, even where sanctioned or ordered by an officer or other individual in a position of higher management. No individual, regardless of stature or position, can authorize actions that are illegal, or that jeopardize or violate Company standards.

We note that this Code sets forth general principles of conduct and ethics and is intended to work in conjunction with the specific policies and procedures that are covered in the Company's compliance manual or in separate specific policy statements, such as the Insider Trading Policy and the Related Person Transactions Policy, and you should refer to those policies and procedures for more detail in the specified context.

## II. Conflicts of Interest

A conflict of interest occurs when your private interest interferes, appears to interfere or is inconsistent in any way with the interests of the Company[1]. For example, conflicts of interest may arise if:

- You cause the Company to engage in business transactions with a company that you, your friends or your relatives control without having obtained the appropriate prior
- approvals required. (See also under "Related Person Transactions" below).
- You are in a position to (i) compete with, rather than help, the Company or (ii) make a business decision not on the basis of the Company's interest but rather for your own personal advantage.

[1] References in this Code to the Company means Versus Systems Inc. or any of its subsidiaries.

- You take actions, or have personal or family interests, that may make it difficult to perform your work (or discharge your duties and obligations) effectively.
- You, or any of your family members or affiliates, receive improper personal benefits other than gratuities and payments received or provided in compliance with the guidelines set forth in "Business Gifts and Entertainment" below, as a result of your position in the Company.

A conflict of interest may not be immediately recognizable, so potential conflicts must be reported immediately to the General Counsel (the "Responsible Officer"). If there is no General Counsel, the Chief Financial Officer shall be the Responsible Officer. Further, if you become aware of a conflict or potential conflict involving another employee, officer or director, you should bring it to the attention of the Responsible Officer or a member of the Audit Committee of the Board of Directors (the "Audit Committee") at the principal executive offices of the Company. If the concern requires confidentiality, including keeping particular individuals anonymous, then this confidentially will be protected, except to the extent necessary to conduct an effective investigation or as required by under applicable law, regulation or legal proceedings.

## III. Related Person Transactions

The Company has adopted a policy that requires the review and approval of any transaction, related series of transactions, arrangement or relationship where the Company was, is or will be a participant and the amount involved exceeds $75,000, and in which any "Related Person" (generally defined as any director (or director nominee) or executive officer of the Company, beneficial owner of more than 5% of the Company stock, any immediate family member of the foregoing and any entity in which any of the foregoing persons is employed or is a partner or principal or in which that person has a 10% or greater beneficial ownership interest) had, has or will have a direct or indirect material interest. Before entering any such transaction, arrangement or relationship, the General Counsel and the Chief Financial Officer must be notified of the facts and circumstances of the proposed transaction, arrangement or relationship. If the General Counsel or the Chief Financial Officer determines that a transaction, arrangement or relationship is indeed a related party transaction, then such transaction will be sent to the Audit Committee (or the Chair of such committee) for their review and approval. Only those transactions that are in the best interests of the Company shall be approved. For more detail, please see the Company's Related Person Transactions Policy.

## IV. Corporate Opportunities

When carrying out your duties or responsibilities, you owe a duty to the Company to advance its legitimate interests. Except as provided in the Company's constituent documents, employees, directors and officers are prohibited from (i) taking for themselves opportunities that arise through the use of corporate property, information or position, (ii) using corporate property, information or position for independent personal gain and (iii) competing with the Company.



## V. Public Reporting

Full, fair, accurate and timely disclosure must be made in the reports and other documents that the Company files with, or submits to, the Securities and Exchange Commission and in its other public communications. Such disclosure is critical to ensure that the Company maintains its good reputation, complies with its obligations under the securities laws and meets the expectations of its shareholders.

Persons responsible for the preparation of such documents and reports and other public communications must exercise the highest standard of care in accordance with the following guidelines:

- all accounting records, and the reports produced from such records, must comply with all applicable laws;
- all accounting records must fairly and accurately reflect the transactions or occurrences to which they relate;
- all accounting records must fairly and accurately reflect in reasonable detail the Company's assets, liabilities, revenues and expenses;
- accounting records must not contain any false or intentionally misleading entries;
- no transactions should be intentionally misclassified as to accounts, departments or accounting periods;
- all transactions must be supported by accurate documentation in reasonable detail and recorded in the proper account and in the proper accounting period;
- no information should be concealed from the internal auditors or the independent auditors; and
- compliance with the Company's internal control over financial reporting and disclosure controls and procedures is required.

**VI. Confidentiality**

Employees, officers and directors must maintain and protect the confidentiality of information entrusted to them by the Company, or that otherwise comes into their possession, during the course of their employment or while carrying out their duties and responsibilities, except when disclosure is authorized by the Company or legally mandated. Accordingly, each employee must sign a confidentiality agreement at the time of their hiring.

The obligation to preserve confidential information continues even after employees, officers and directors leave the Company.



Confidential information encompasses all non-public information (including, for example, "inside information"[2] or information that suppliers and customers have entrusted to the Company) that may be of use to competitors, or may otherwise be harmful to the Company or its key stakeholders, if disclosed. Financial information is of special sensitivity and should under all circumstances be considered confidential, except where its disclosure is approved by the Company or when the information has been publicly disseminated.

**VII. Protection and Proper Use of Company Assets**

All employees, officers and directors should promote and ensure the efficient and responsible use of the Company's assets and resources by the Company. Theft, carelessness and waste have a direct impact on the Company's profitability. Any suspected incidents of fraud or theft should be immediately reported to a supervisor and the Responsible Officer for investigation.

Company assets, such as proprietary information, funds, materials, supplies, products, equipment, software, facilities, and other assets owned or leased by the Company or that are otherwise in the Company's possession, may only be used for legitimate business purposes and must never be used for illegal purposes.

Proprietary information includes any information that is not generally known to the public or would be valued by, or helpful to, our competitors. Examples of proprietary information are intellectual property, business and marketing plans and employee information. The obligation to use proprietary information only for legitimate business purposes continues even after individuals leave the Company.

**VIII. Insider Trading**

Insider trading is unethical and illegal. Employees, officers and directors must not trade in securities of a company while in possession of material non-public information regarding that company. It is also illegal to "tip" or pass on inside information to any other person who might make an investment decision based on that information or pass the information to third parties. The Company has an Insider Trading Policy, which sets forth obligations in respect of trading in the Company's securities.

**IX. Fair Dealing**

Each employee, officer and director, in carrying out his or her duties and responsibilities, should endeavor to deal fairly with each other and the Company's customers, suppliers and competitors. No employee, officer or director should take unfair advantage of anyone through illegal conduct, manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair-dealing practice.

[2] "Inside information" may include material, non-public information that has not publicly been disclosed and has the potential to affect the price of a security.



**X. Compliance with Laws, Rules and Regulations**

Compliance with both the letter and spirit of all laws, rules and regulations applicable to the Company, including any securities exchange or other organization or body that regulates the Company, is critical to our reputation and continued success. All employees, officers and directors must respect and obey the laws of the cities, states and countries in which the Company operates and avoid even the appearance of impropriety. Employees, officers or directors who fail to comply with this Code and applicable laws will be subject to disciplinary measures, up to and including discharge from the Company.

**XI. Compliance with Antitrust Laws**

The Company believes in fair and open competition, and adheres strictly to applicable antitrust laws. It should be noted, however, that the following section is not an exhaustive summary of relevant antitrust laws. Additional antitrust considerations not covered in this section include participation in trade association, monopolization, price discrimination and other practices that affect competition.

As a general proposition, any contact with a competitor may be problematic under antitrust laws. Accordingly, all employees, officers and directors should avoid any such contact relating to the business of the Company or the competitor without first obtaining the approval of the Responsible Officer. Any additional concerns relating to the aforementioned areas of potential antitrust breach should also be directed to the Responsible Officer.

The Company notes below some general rules concerning contact with competitors:

- Agreements among competitors, whether written or oral, that relate to the prices to be charged for goods or services are illegal per se. In other words, such agreements, by themselves, constitute violations of the antitrust laws. *There are no circumstances under which agreements among competitors relating to prices may be found legal*. Price fixing is a criminal offense, and may subject the Company to substantial fines and penalties and the offending employee to imprisonment and fines. Note that the foregoing does not preclude enforcement of Minimum Advertised Price policies that have been approved by the General Counsel and/or outside counsel.

- Antitrust laws may be violated even in the absence of a formal agreement relating to prices. Under certain circumstances, an agreement to fix prices may be inferred from conduct, such as the exchange of price information, and from communications among competitors even without an express understanding. Although exchanges of price information are permitted in certain circumstances, employees of the Company should not participate in such exchanges without first obtaining the approval of the Responsible Officer.

- It is a per se violation of antitrust laws for competitors to agree, expressly or by implication, to divide markets by territory or customers. Note that the foregoing does not preclude entering into distribution agreements that limit Versus's distribution rights to specified territories.



- It is a per se violation of the antitrust laws for competitors to agree not to do business with a particular customer or supplier. As with agreements to fix prices, the antitrust laws can be violated even in the absence of an express understanding.

- Any communication between competitors concerning problems with any customer or supplier may violate antitrust laws and should be avoided. Note that the foregoing does not preclude discussions with suppliers about Versus's relationships with its customers, particularly as they relate to ensuring customer satisfaction, growing sales to customers, providing fulfillment services, and servicing warranties.

**XII. Compliance with Environmental Laws**

The Company is sensitive to the environmental, health and safety consequences of its operations. Accordingly, the Company strictly complies with all applicable Federal and State environmental laws and regulations, including, among others, the Clean Air Act, the Federal Water Pollution Control Act, the Resource Conservation and Recovery Act and the Occupational Safety and Health Act, and considers sustainability in its planning decisions. If any individual has any doubt as to the applicability or meaning of a particular environmental, health or safety regulation, he or she should discuss the matter with the Responsible Officer.

**XIII. Discrimination and Harassment**

The Company values a diverse working environment and is committed to providing equal opportunity in all aspects of our business. Abusive, harassing or offensive conduct is unacceptable, whether verbal, physical or visual. Examples include derogatory comments based on racial or ethnic characteristics and unwelcome sexual advances. The Company encourages the reporting of harassment when it occurs.

**XIV. Safety and Health**

The Company is committed to keeping its workplaces free from hazards. You should report any accidents, injuries or unsafe equipment, practices or conditions immediately to a supervisor or other designated person. Threats or acts of violence or physical intimidation are prohibited.

You must not engage in the use of any substance that could prevent you from discharging your work duties and responsibilities safely and effectively.

**XV. Company Records and Document Retention**

Records created, received or used during the conduct of Company business, including all communications sent or received using the Company's computer and information systems which include its email system, are at all times the property of the Company wherever those records may be located. At the time of hiring, each employee must sign Employee Confidentiality and Proprietary Rights Agreement, which further details this policy

At any time, the Company and, in certain circumstances, third parties (including government officials), may review, without prior notice to personnel, any and all firm records, including records marked "Confidential," "Personal," or "Private."



Any records that you create may be stored and are subject to this Code and may be demanded by third parties during the course of litigation or a government investigation or, in the case of records sent outside the Company, subject to the records retention policies of the recipients.

You must always avoid discriminatory remarks, harassment and threats of violence or similar inappropriate or unlawful conduct. This applies to communications of all kinds, including e-mail, instant messaging, voice messages, text messages, video recordings and informal notes or interoffice memos. Records are retained and destroyed in accordance with the Company's records retention policy, if any.

**XVI. Use of Electronic Media**

The Company has developed a policy to ensure that you understand the rules governing your use of the Company's computer and information networks, and options for e-mail, voice or other messaging services, Internet access or other use of electronic media. All Company equipment, including desks, computers and computer systems, computer software, electronic storage devices, cellphones or other mobile devices, e-mail, voice and other physical items are for business use only. The Company at all times

retains the right to access and search all such electronic media or other items contained in or used in conjunction with the Company's computer, e-mail, voice and Internet access systems and equipment with no prior notice.

Like the Company's computer network, e-mail and voice services, access to Internet services such as web-browsing or newsgroups is provided to employees by the Company only for business use. Any personal use must be infrequent and must not involve any prohibited activity, interfere with the productivity of the employee or his or her co-workers, consume system resources or storage capacity on an ongoing basis or involve large file transfers or otherwise deplete system resources available for business purposes.

Your messages and computer information are considered Company property and consequently, employees should not have an expectation of privacy in the context of computer, information and voice use. Unless prohibited by law, the Company reserves the right to access and disclose this information as necessary for business purposes. Use good judgment, and do not access, send messages or store any information that you would not want to be seen or heard by others.

The Company also recognizes that many employees are choosing to express themselves by using Internet technologies, such as blogs, wikis, file-sharing, user generated audio and video, virtual worlds, and social networking sites, such as Facebook, LinkedIn and Twitter. Whether you choose to participate in such social networking outside of work on your own time is your own decision. However, while involved in the aforementioned activities relating to business matters relating to the Company's activities, employees must make clear at all times that their views and actions are their own, and not those of the Company.

**XVII. Business Gifts and Entertainment**

Business gifts and entertainment are often customary courtesies designed to build goodwill among business partners and clients. However, issues may arise when such courtesies compromise, or appear to compromise, the recipient's ability to make objective and fair business decisions. In addition, issues can arise when the intended recipient is a government official. Offering or receiving any gift, gratuity or entertainment that might be perceived to unfairly influence a business relationship should be avoided. These guidelines apply at all times, and apply equally to employees, officers or directors offering gifts and entertainment to the Company's business associates.



The value of gifts should be reasonable and customary under the circumstances under which the gift is given or received, both with respect to frequency and monetary amount. Frequent gifting to a recipient may be perceived as an attempt to create an obligation to the giver, and is therefore inappropriate. Likewise, business entertainment should be moderately scaled and intended only to facilitate legitimate business goals. For example, should tickets to a sporting or cultural event be offered, the offeror must attend the event as well. The following questions may provide guidance in the instance of doubt:

- Is the action legal?
- Does the action raise doubts or concerns?
- Should another individual be consulted?
- Is the action clearly business-related?
- Is the action or gift moderate, reasonable, and in good taste?
- Would public disclosure of the action or gift embarrass or harm the Company?
- Is there an expectation of reciprocation or favors?

If you have any questions as to the appropriateness of giving or receiving a business gift or entertainment, you should contact the General Counsel and/or the Responsible Officer.

Strict rules apply when the Company does business with governmental agencies and officials, whether in the U.S. or in other countries, as discussed in more detail below. Because of the sensitive nature of these relationships, you must seek approval from a supervisor and/or the Responsible Officer before offering or making any gifts or hospitality to governmental officials or employees.

**XVIII. Political Activities and Contributions**

The Company respects the right of each of its employees to participate in the political process and to engage in political activities of his or her choosing; however, while involved in their personal and civic affairs employees must make clear at all times that their views and actions are their own, and not those of the Company. Employees may not use the Company's resources for their personal political activities.

The Company may occasionally express its views on local and national issues that affect its operations. In such cases, Company funds and resources may be used, but only when permitted by law and by Company guidelines. The Company may also make limited contributions to political parties or candidates in jurisdictions where it is legal and customary to do so. The Company may pay related administrative and solicitation costs for political action committees formed in accordance with applicable laws and regulations. Any use of Company resources for the Company's political activities, including contributions or donations, requires advance approval by the Company's Responsible Officer.



**XIX. Bribery and Corruption**

Employees, officers and directors must comply with all laws prohibiting bribery, corruption and kickbacks, including laws prohibiting improper payments to domestic and foreign officials such as the U.S. Foreign Corrupt Practices Act (the "FCPA"). While this section focuses primarily on foreign officials, this Policy equally prohibits bribery of domestic officials and commercial or private sector parties.

The FCPA prohibits an offer, payment, promise of payment or authorization of the payment of any money or thing of value to a foreign official, foreign political party, official of a foreign political party or candidate for political office to induce or influence any act or decision of such person or party or to secure any improper advantage. The FCPA prohibits such conduct whether done directly or indirectly through an agent or other intermediary.

Although U.S. law does allow certain payments to foreign officials intended solely to expedite non-discretionary routine government action, sometimes called "grease"

or “facilitating” payments, this exception is a narrow one and such payments are often illegal under other laws. Accordingly, the Company’s policy is to avoid such payments. No payments may be made to a foreign official even for non-discretionary action without first consulting with and obtaining written authorization from the Responsible Officer. If a facilitating payment is authorized, such payment must be accurately and fairly recorded in the Company’s books, records and accounts.

The FCPA further requires compliance by the Company with record keeping and internal controls requirements. The Company must maintain financial records which, in reasonable detail, accurately and fairly reflect transactions and disposition of corporate assets. In particular, all bank accounts that receive or disburse funds on behalf of the Company shall be properly authorized and any such transactions recorded on the official books and records of the Company. In addition, the Company must maintain a system of internal controls sufficient to provide reasonable assurances that the Company’s assets are used only in accordance with directives and authorizations by the board of directors and senior management, and that checks and balances are employed so as to prevent the by-passing or overriding of these controls.

Violation of the FCPA or other anti-corruption or anti-bribery laws subjects the Company to substantial fines and penalties and any officer, director, employee or stockholder acting on behalf of the Company to imprisonment and fines. The FCPA prohibits the Company from paying, directly or indirectly, a fine imposed upon an individual pursuant to the FCPA.

Violation of this policy may result in disciplinary actions up to and including discharge from the Company.



## XX. Compliance with and Amendments of This Code

Failure to comply with this Code or applicable laws, rules or regulations may result in disciplinary measures, including discharge from your position with the Company. Violations of this Code may also constitute violations of law and may result in civil or criminal penalties for such person, such person’s supervisors and/or the Company. The Board of Directors will determine, or designate appropriate persons to determine, appropriate actions to be taken in the event of a violation of this Code in relation to Executives and Directors. In determining what action is appropriate in a particular case, the Board of Directors or its designee will consider the nature and severity of the violation, whether the violation was a single occurrence or repeated occurrences, whether the violation was intentional or inadvertent, whether the individual in question had been advised prior to the violation as to the proper course of action and whether or not the individual in question had committed other violations in the past. The Responsible Officer will determine appropriate actions to be taken in the event of a violation of this code in relation to all other employees.

This Code cannot, and is not intended to, address all of the ethical complexities that may arise during the course of employment or association with the Company. There will be occasions where circumstances not covered by policy or procedure arise, and where a judgment must be made as to the appropriate course of action. In such circumstances, the Company encourages common sense decision-making, and consultation with a manager, member of human resources, or the Responsible Officer for guidance pursuant to the methods discussed below in “Compliance and Contact Details”.

Any material amendment of this Code will be made only by the Board of Directors and will be promptly disclosed as required by law or stock exchange regulation.

## XXI. Compliance and Contact Details

### 1. Confidential Advice

If you think that an actual or possible violation has occurred, it is important to report your concerns immediately. If you do not feel comfortable discussing the matter with your supervisor, manager or human resources, please contact the Responsible Officer in accordance with the details provided on the Company’s internal contact list.

The Company strives to ensure that all questions or concerns are handled fairly, discreetly and thoroughly. You may choose to remain anonymous.

### 2. Employee Reporting

The Company proactively promotes ethical behavior and encourages employees, officers and directors promptly to report evidence of illegal or unethical behavior, or violations of this Code to the Responsible Officer in accordance with the details provided on the Company’s internal contact list. For issues involving officers and directors, reports should be made to the Chief Executive Officer or the Chairman of the Audit Committee in accordance with the details provided on the Company’s internal contact list. You may choose to remain anonymous in reporting any possible violation of this Code.

Once a report is made and received, the Company will investigate promptly and all employees, officers and directors are expected to cooperate candidly with relevant investigatory procedures. Appropriate remedial action may be taken, based on the outcome of such investigation.

The Company has a no-tolerance policy for retaliation against persons who raise good faith compliance, ethics or related issues. However, it is unacceptable to file a report knowing it to be false.

### 3. Waiver

Any waiver of this Code for any executive officer or director will be made only by the Board of Directors and will be promptly disclosed as required by law or stock exchange regulation. Any waiver of this Code for any other employee will be made by the Responsible Officer.

### 4. Amendments

This Code will be reviewed annually as needed under the discretion of the Board and changes, if any, will be recommended to the Board for consideration. Amendments to this Code will only be effective if approved by the Board.

**Exhibit 23.1**

DAVIDSON & COMPANY LLP Chartered Professional Accountants

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the use in this Amendment No. 3 to Registration Statement on Form F-1 of our report dated December 28, 2020, relating to the consolidated financial statements of Versus Systems Inc., which is part of this Amendment No. 3 to Registration Statement on Form F-1.

We also consent to the reference to us under the caption "Experts" in the Prospectus.

/s/ DAVIDSON & COMPANY LLP
"DAVIDSON & COMPANY LLP"
Chartered Professional Accountants

Vancouver, Canada

January 11, 2021

A member of Nexia International

1200 - 609 Granville Street, P.O. Box 10372, Pacific Centre, Vancouver, B.C., Canada V7Y 1G6
Telephone (604) 687-0947 Davidson-co.com

**Exhibit 99.1**

**VERSUS SYSTEMS, INC.**
(the "Corporation")

**AUDIT COMMITTEE CHARTER**

**1. Mandate**

The Audit Committee will be responsible for managing, on behalf of shareholders of the Corporation, the relationship between the Corporation and the external auditors. In particular, the Audit Committee will have responsibility for the matters set out in this Charter, which include:

(a) overseeing the work of external auditors engaged for the purpose of preparing or issuing an auditing report or related work;

(b) recommending to the board of directors the nomination and compensation of the external auditors;

(c) reviewing significant accounting and reporting issues;

(d) reviewing the Corporation's financial statements, MD&A and earnings press releases before the Corporation publicly discloses this information;

(e) focusing on judgmental areas such as those involving valuations of assets and liabilities;

(f) considering management's handling of proposed audit adjustments identified by external auditors;

(g) being satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements of the Corporation;

(h) establishing procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and

(i) evaluating whether management is setting the appropriate tone by communicating the importance of internal control and ensuring that all individuals possess an understanding of their roles and responsibilities.

**2. Membership of the Audit Committee**

Composition

The audit committee will be comprised of at least such number of directors as required to satisfy the audit committee composition requirements of National Instrument 52-110, as amended from time to time. Each member will be a director of the Corporation.

Independence

The Audit Committee will be comprised of a number of independent directors required to enable the Corporation to satisfy:

(a) the independent director requirements for audit committee composition required by National Instrument 52-110, as amended from time to time, and

(b) the independent director requirements of the TSX Venture Exchange, or such other stock exchange on which the Corporation's shares are traded from time to time.

Chair

The Audit Committee shall select from its membership a chair. The job description of the chair is attached as Exhibit 1 hereto.

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Expertise of Audit Committee Members

Each member of the Audit Committee must be financially literate. Financially literate means the ability to read and understand a set of financial statements that represent a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

Financial Expert

The Corporation will strive to include a financial expert on the Audit Committee. An Audit Committee financial expert means a person having: (i) an understanding of financial statements and accounting principles; (ii) the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves; (iii) experience in preparing, auditing, analyzing or evaluating financial statements that present a similar breadth and level of complexity as the Corporation's statements; (iv) an understanding of internal controls; and (v) an understanding of an Audit Committee's functions.

**3. Meetings of the Audit Committee**

The Audit Committee must meet in accordance with a schedule established each year by the board of directors, and at other times as the Audit Committee may determine. A quorum for transaction of business in any meeting of the Audit Committee is a majority of members. At least twice a year, the Audit Committee must meet with the Corporation's chief financial officer and external auditors separately.

**4. Responsibilities of the Audit Committee**

The Audit Committee will be responsible for managing, on behalf of the shareholders of the Corporation, the relationship between the Corporation and the external auditors. In particular, the Audit Committee has the following responsibilities:

External Auditors

(a) the Audit Committee must recommend to the board of directors:

(i) the external auditors to be nominated for the purpose of preparing or issuing an audit report or performing other audit or review services for the Corporation; and

(ii) the compensation of the external auditors;

(b) the Audit Committee must be directly responsible for overseeing the work of the external auditors engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditors regarding financial reporting;

(c) with respect to non-audit services:

(i) the Audit Committee must pre-approve all non-audit services provided to the Corporation or its subsidiaries by its external auditors or the external auditors of the Corporation's subsidiaries, except for tax planning and transaction support services in an amount not to exceed $15,000 for each service in a fiscal year; and

(ii) the Audit Committee must pre-approve all non-audit services provided to the Corporation or its subsidiaries by its external auditors or the external auditors of the Corporation's subsidiaries, except *de minimis* non-audit services as defined in applicable law.



(d) the Audit Committee must also:

(i) review the auditors' proposed audit scope and approach;

(ii) review the performance of the auditors; and

(iii) review and confirm the independence of the auditors by obtaining statements from the auditors on relationships between the auditors and the Corporation, including non-audit services, and discussing the relationships with the auditors;

Accounting Issues

(e) the Audit Committee must:

(i) review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements; and,

(ii) ask management and the external auditors about significant risks and exposures and plans to minimize such risks.

Financial Statements, MD&A and Press Releases

(f) the Audit Committee must:

(i) review the Corporation's financial statements, MD&A and earnings press releases before the Corporation publicly discloses this information;

(ii) in reviewing the annual financial statements, determine whether they are complete and consistent with the information known to committee members, and assess whether the financial statements reflect appropriate accounting principles;

(iii) pay particular attention to complex and/or unusual transactions such as restructuring charges and derivative disclosures;

(iv) focus on judgmental areas such as those involving valuation of assets and liabilities, including, for example, the accounting for and disclosure of loan losses, warranty, professional liability, litigation reserves and other commitments and contingencies;

(v) consider management's handling of proposed audit adjustments identified by the external auditors;

(vi) ensure that the external auditors communicate certain required matters to the committee;

(vii) be satisfied that adequate procedures are in place for the review of the Corporation's disclosure of financial information extracted or derived from the Corporation's financial statements, other than the disclosure referred to in paragraph (f)(i) (above), and must periodically assess the adequacy of those procedures;

(viii) be briefed on how management develops and summarizes quarterly financial information, the extent to which the external auditors review quarterly financial information and whether that review is performed on a pre- or post-issuance basis;

(ix) meet with management, either telephonically or in person to review the interim financial statements;

(x) to gain insight into the fairness of the interim statements and disclosures, the Audit Committee must obtain explanations from management on whether:

(a) actual financial results for the quarter or interim period varied significantly from budgeted or projected results;



(b) changes in financial ratios and relationships in the interim financial statements are consistent with changes in the Corporation's operations and financing practices;

(c) generally accepted accounting principles have been consistently applied;

(d) there are any actual or proposed changes in accounting or financial reporting practices;

(e) there are any significant or unusual events or transactions;

(f) the Corporation's financial and operating controls are functioning effectively;

(g) the Corporation has complied with the terms of loan agreements or security indentures; and

(h) the interim financial statements contain adequate and appropriate disclosures;

Compliance with Laws and Regulations

(g) the Audit Committee must:

(i) periodically obtain updates from management regarding compliance;

(ii) be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements;

(iii) review the findings of any examinations by regulatory agencies such as the Ontario Securities Commission; and

(iv) review, with the Corporation's counsel, any legal matters that could have a significant impact on the Corporation's financial statements;

Employee Complaints

(h) the Audit Committee must establish procedures for:

(i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and

(ii) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;

Other Responsibilities

(i) the Audit Committee must:

(i) review and approve the Corporation's hiring policies of employees and former employees of the present and former external auditors of the Corporation;

(ii) evaluate whether management is setting the appropriate tone by communicating the importance of internal control and ensuring that all individuals possess an understanding of their roles and responsibilities;

(iv) focus on the extent to which internal and external auditors review computer systems and applications, the security of such systems and applications, and the contingency plan for processing financial information in the event of a systems breakdown;



(v) gain an understanding of whether internal control recommendations made by external auditors have been implemented by management;

(vi) periodically review and reassess the adequacy of this Charter and recommend any proposed changes to the Corporate Governance and Nominating Committee and the board for approval;

(vii) review, and if deemed appropriate, approve expense reimbursement requests that are submitted by the chief executive officer or the chief financial officer to the Corporation for payment;

(viii) assist the board to identify the principal risks of the Corporation's business and, with management, establish systems and procedures to ensure that these risks are monitored; and

(ix) carry out other duties or responsibilities expressly delegated to the Audit Committee by the board.

**5. Authority of the Audit Committee**

The Audit Committee shall have the authority to:

(a) engage independent counsel and other advisors as it determines necessary to carry out its duties;

(b) set and pay the compensation for any advisors employed by the Audit Committee; and

(c) communicate directly with the internal and external auditors.



**Exhibit 1 to Audit Committee Charter**

**VERSUS SYSTEMS, INC.**

**(the "Corporation" or "Versus")**

**Job Description – Audit Committee Chair**

The responsibilities of the Audit Committee chair include, among other things:

(a) managing the affairs of the Committee and monitoring its effectiveness;

(b) managing the meetings of the Committee by ensuring meaningful agendas are prepared and guiding deliberations of the Committee so that appropriate decisions and recommendations are made; and

(c) setting up agendas for meetings of the Committee and ensuring that all matters delegated to the Committee by the board are being dealt with at the Committee level during the course of the year.

**VERSUS SYSTEMS INC.**
(The "Company")

**COMPENSATION COMMITTEE CHARTER**

This charter (the "Charter") sets forth the purpose, composition, procedures, organization, responsibilities, duties, powers and authority of the Compensation Committee (the "Committee") of the Board of Directors (the "Board") of the Company.

**1. Purpose**

The purpose of the Committee is to advise the Board with respect to compensation of the Company's senior officers and directors, to provide general oversight of its compensation structure, including its stock option plan and other equity - based compensation plans and benefits programs, and to perform the additional specific duties and responsibilities set out herein.

**2. Composition, Procedures and Organization**

(a) The Committee shall consist of at least three members of the Board, a majority of whom shall be "independent" as that term is defined in National Instrument 58-101 *Disclosure of Corporate Governance Practices* and under the policies of the stock exchanges on which the Company's shares are listed for trading.

(b) The Board, at its organizational meeting held in conjunction with each annual general meeting of the Company's shareholders, shall appoint the members of the Committee for the ensuing year. The Board may at any time remove or replace any member of the Committee and may fill any vacancy in the Committee.

(c) Unless the Board has appointed a chair ("Chair") of the Committee, the members of the Committee shall elect a chair from among their number. The job description of the chair is attached as Exhibit 1 hereto.

(d) The Committee may designate the Corporate Secretary or one of its members or another employee of the company to act as secretary at Committee meetings.

(e) The quorum for meetings shall be a majority of the members of the Committee, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to speak and hear each other.

(f) The Committee will report regularly to the full Board with respect to its activities. All recommendations of the Committee with respect to the awarding of compensation will be submitted to the full Board for approval before implementation.

(g) The Committee shall have access to such officers and employees of the Company, its external auditors and legal counsel, and to such information respecting the Company, and may engage separate independent counsel and advisors at the expense of the Company, all as it considers to be necessary or advisable in order to perform its duties and responsibilities; provided that the expenses incurred in connection therewith may not exceed $25,000 without the prior approval of the Board.

**3. Meetings**

The Committee shall meet not less than annually and otherwise as necessary or as directed by the Board. Any member of the Committee may call a meeting of the Committee.

**4. Duties and Responsibilities**

The Committee will have the following duties and responsibilities:

(a) Human Resources and Compensation Strategies. The Committee will oversee and evaluate the Company's overall human resources and compensation structure, policies and programs, with the objective of ensuring that these establish appropriate incentives and leadership development for management and other employees.

(b) Executive Compensation. The Committee will review and approve corporate goals and objectives relevant to the compensation of the President and Chief Executive Officer (the "President and CEO") and the Company's other executive officers, evaluate the performance of the President and the CEO and oversee the President and CEO's evaluation of the performance of the other executive officers in light of those goals and objectives and make recommendations to the Board in respect of their annual compensation levels, including salaries, bonuses, and stock option grants based on such evaluation.

(c) Employment Agreements. The Committee will review and approve all employment related agreements, services agreements and severance arrangements for the President and CEO and other executive officers, including, without limitation, change-of-control agreements.

(d) External Reporting of Compensation Matters. The Committee will prepare an annual report on executive officer compensation for publication in the Company's proxy circulars, as required by the securities regulatory authorities having jurisdiction over the Company. The Chairperson of the Committee will make him or herself available for questions from shareholders of the Company at the Company's Annual General Meeting.

(e) Stock Option and Incentive Compensation Plans. The Committee will supervise and administer the Company's stock option plan and any other equity-based compensation programs, and make recommendations to the Board with respect to equity-based plans and incentive compensation plans, as appropriate, including the amendment, modification and termination of such plans. The Committee will review all proposals to grant stock options to officers, directors, employees and consultants of the Company and make recommendations to the Board with respect to implementation of these proposals.

(f) Employee Benefit Plans. The Committee will monitor the effectiveness of benefit plan offerings, in particular benefit plan offerings pertaining to executive officers, and will review and recommend to the Board for approval any new employee benefit plan or change to an existing plan that creates a material financial commitment by the Company.



(g) Leadership Development and Succession Planning. The Committee will review the leadership development and succession planning processes for senior

management positions and ensure that appropriate compensation, incentive and other programs are in place in order to promote appropriate leadership development.

(h) Director Compensation. The Committee will annually review the compensation of directors for service on the Board and its committees and recommend to the Board the annual Board member compensation package, including retainer, committee member and Chair retainers, Board and committee meeting attendance fees and any other form of director compensation, such as stock option grants or stock awards.

(i) Annual Evaluation. The Committee will annually evaluate the performance of the Committee and the adequacy of the Committee's charter and recommend any proposed changes, to the Corporate Governance and Nominating Committee and, ultimately, to the Board.

(j) General. The Committee will perform such other duties and responsibilities as are consistent with the purpose of the Committee and as the Board or the Committee deems appropriate.

**Approved by the Board on July 1, 2016.**



**Exhibit 1 to Compensation Committee Charter**

**VERSUS SYSTEMS INC.**

**Job Description – Compensation Committee Chair**

The responsibilities of the Committee chair include, among other things:

(a) managing the affairs of the Committee and monitoring its effectiveness;

(b) managing the meetings of the Committee by ensuring meaningful agendas are prepared and guiding deliberations of the Committee so that appropriate decisions and recommendations are made; and

(c) setting up agendas for meetings of the Committee and ensuring that all matters delegated to the Committee by the board are being dealt with at the Committee level during the course of the year.

**VERSUS SYSTEMS INC.**

**NOMINATING AND CORPORATE GOVERNANCE COMMITTEE CHARTER**
**Adopted by the Board of Directors on September 16, 2020**

## I. Purpose

The Nominating and Corporate Governance Committee (the "Committee") of the Board of Directors (the "Board") of Versus Systems Inc., a British Columbian corporation (the "Company"), shall

1. identify individuals qualified to become members of the Board, consistent with criteria approved by the Board;

2. recommend to the Board for approval director nominees, consistent with the Company's director qualifications criteria and any obligations under its contractual arrangements;

3. develop and recommend to the Board a set of corporate governance guidelines applicable to the Company; and

4. oversee the evaluation of the Board and management.

## II. Organization

The Committee shall consist of three or more directors, each of whom shall satisfy the applicable independence requirements of the Company's corporate governance guidelines, the Nasdaq Stock Market and any other applicable regulatory requirements subject to the phase-in periods permitted under the rules of the Nasdaq Stock Market under which the Committee is required to have only one independent member at the time of listing, a majority of independent members within 90 days of listing and all independent members within one year of listing.

Notwithstanding the foregoing, the members of the Committee shall not be required to meet the independence requirements of the Nasdaq Stock Market during any period in which the Company is a "controlled company" within the meaning of the Nasdaq Stock Market's listing standards, unless the Board otherwise determines not to rely on the Nasdaq Stock Market's "controlled company" exemption. If the Company ceases to be a "controlled company" or the Board determines not to rely on the Nasdaq Stock Market's "controlled company" exemption, the members of the Committee shall meet the independence requirements of the Nasdaq Stock Market within the periods required by the Nasdaq Stock Market's phase-in rules applicable to companies who cease to be "controlled companies."

The members of the Committee shall be appointed by the Board. Members of the Committee may be removed at any time by action of the Board. The Committee's chairperson shall be designated by the Board or, if it does not do so, the members of the Committee shall elect a chairperson by a vote of the majority of the full Committee.

The Committee may form and delegate authority to subcommittees when appropriate, provided that the subcommittees are composed entirely of directors who satisfy the applicable independence requirements of the Company's Corporate Governance Guidelines and the Nasdaq Stock Market, subject to any applicable "controlled company" exemption.

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## III. Meetings

The Committee shall meet at least once per year, or more frequently as circumstances require. Meetings shall be called by the chairperson of the Committee or, if there is no chairperson, by a majority of the members of the Committee. Meetings may be held telephonically or by other electronic means to the extent permitted by the Company's organizational documents and applicable law. A majority of the members of the Committee will constitute a quorum, and the act of a majority of the quorum will be the act of the Committee. Committee actions may also be taken by unanimous written consent in lieu of a meeting.

## IV. Authority and Responsibilities

To fulfill its responsibilities, the Committee shall:

1. Develop and recommend to the Board for approval the criteria for Board membership, including as to director independence and diversity, and periodically review and, if appropriate, revise these qualifications with the Board.

2. Identify individuals qualified to become members of the Board in a manner consistent with the criteria approved by the Board and recommend to the Board the director nominees for the next annual meeting of stockholders or to fill vacancies on the Board. As part of this process, the Committee shall formally review each director's continuation on the Board every year. In identifying and reviewing the qualifications of candidates for membership on the Board, the Committee shall consider all factors which it deems appropriate, including the requirements of the Company's Corporate Governance Guidelines and any other criteria approved by the Board.

3. Develop and periodically assess the Company's policies and procedures with respect to the consideration of director nominees submitted by stockholders of the Company and review the qualifications of such candidates pursuant to these policies and procedures.

4. Review and make recommendations to the Board with respect to the size, composition and organization of the Board and committees of the Board.

5. Review and make recommendations to the Board with respect to Board process, including the calendar, agenda and information requirements for meetings of the Board and its committees, executive sessions of non-management directors and executive sessions of independent directors.

6. Assist the Board in determining whether individual directors have material relationships with the Company that may interfere with their independence, as provided under the requirements of the Company's Corporate Governance Guidelines, the Nasdaq Stock Market or any other applicable regulatory requirements.

7. Develop and recommend to the Board for approval a Chief Executive Officer ("CEO") and executive officer succession plan (the "Succession Plan"), develop and recommend to the Board for approval an interim CEO succession plan in the event of an unexpected occurrence and, as the Committee deems appropriate, to review the Succession Plan from time to time with the CEO and any other executive officers and recommend to the Board for approval any changes to, or candidates for succession under, the Succession Plan.

8. Oversee the annual evaluation of the Board and its committees.

9. Develop, review and assess the adequacy of the Company's Corporate Governance Guidelines annually and recommend to the Board any changes the Committee deems appropriate.

10. Develop and maintain the Company's orientation programs for new directors and continuing education programs for directors.

11. Review and discuss as appropriate with management the Company's disclosures relating to director independence, governance and director nomination matters and, based on such review and discussion, determine whether to recommend to the Board that such disclosures be disclosed in the Company's Annual Report on Form 10-K or annual proxy statement filed with the SEC, as applicable.

12. Review and assess the adequacy of this Charter annually and recommend to the Board any changes deemed appropriate by the Committee.

13. Review its own performance annually.

14. Report regularly to the Board.

15. Perform any other activities consistent with this Charter, the Company's by-laws and governing law, as the Committee or the Board deems appropriate.

**V. Resources**

The Committee shall have the authority, at its sole discretion, to retain and terminate search firms to identify director candidates, consultants and any other advisors (the "Advisors") to assist it in carrying out its duties. The chairperson of the Committee, at the request of any member of the Committee, may request any officer, employee or advisor of the Company to attend a meeting of the Committee or otherwise respond to Committee requests.

The Committee shall have the sole authority to determine the terms of engagement and the extent of funding necessary (and to be provided by the Company) for payment of compensation to any Advisor retained to advise the Committee and ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.