

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2024

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 001-39885

VERSUS SYSTEMS INC.

(Exact name of registrant as specified in its charter)

British Columbia

(State or other jurisdiction of incorporation or organization)

Not Applicable

(I.R.S. Employer Identification No.)

**1558 West Hastings St .
Vancouver , BC**

(Address of principal executive office)

V6G 3J4 Canada

(Zip Code)

(424) 226-8588

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Shares, no par value per share	VS	The Nasdaq Capital Market
Unit A Warrants	VSSYW	The Nasdaq Capital Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

If an emerging growth company, 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 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of August 12, 2024, there were 2,550,728 of the registrant's common shares outstanding.

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PART I. FINANCIAL INFORMATION

Item 1: Financial Statements

Versus Systems Inc.
 Condensed Interim Consolidated Balance Sheets
 (Expressed in US Dollars)

	June 30 2024	December 31, 2023
	(\$) (Unaudited)	(\$)
ASSETS		
Current assets		
Cash	905,915	4,689,007
Receivables, net of allowance (Note 4)	10,250	18,222
Prepays	913,658	160,474
Total current assets	1,829,823	4,867,703
Restricted deposit (Note 5)	-	8,679
Property and equipment, net (Note 6)	878	1,935
Total assets	1,830,701	4,878,317
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 9, Note 10 and Note 12)	23,606	286,427
Deferred revenue	9,331	35,049
Total liabilities	32,937	321,476
Stockholders' equity		
Share capital (Note 11)		
Common stock and additional paid in capital, no par value. Unlimited authorized shares; 2,506,015 common shares and no Class A shares issued and outstanding at June 30, 2024 and December 31, 2023, respectively	147,290,988	147,130,123
Accumulated other comprehensive income	329,770	248,287
Accumulated deficit	(138,105,958)	(135,434,022)
	9,514,800	11,944,388
Non-controlling interest (Note 7)	(7,717,036)	(7,387,547)
Total stockholders' equity	1,797,764	4,556,841
Total liabilities and stockholders' equity	1,830,701	4,878,317

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

Versus Systems Inc.
 Consolidated Statements of Operations and Comprehensive Loss (Unaudited)
 (Expressed in US Dollars, except share and per share amounts)

	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
	(\$)	(\$)	(\$)	(\$)
REVENUES				
Revenues				
Revenues	26,937	56,053	53,440	214,003
Cost of revenues	16,231	23,570	40,277	55,927
Gross margin	10,706	32,483	13,163	158,076
EXPENSES				
Research and development				
Research and development	67,203	717,667	106,615	784,807
Selling, general and administrative	1,443,171	1,625,471	2,907,652	3,010,813
Total operating expenses	1,510,374	2,343,138	3,014,267	3,795,620
Operating loss	(1,499,668)	(2,310,655)	(3,001,104)	(3,637,544)
Other income/(expense), net	(74)	-	(321)	-
Loss before provision	(1,499,742)	(2,310,655)	(3,001,425)	(3,637,544)

Provision for income taxes	-	-	-	-
Net loss	(1,499,742)	(2,310,655)	(3,001,425)	(3,637,544)
Other total comprehensive income (loss):				
Change in foreign currency translation, net of tax	121,174	18,849	160,865	28,197
Total other comprehensive income (loss)	121,174	18,849	160,865	28,197
Total comprehensive loss	(1,378,568)	(2,291,806)	(2,840,560)	(3,609,347)
Less: comprehensive income attributable to non-controlling interest	156,197	268,894	329,489	401,588
Comprehensive loss attributable to shareholders	(1,222,371)	(2,022,912)	(2,511,071)	(3,207,759)
Basic and diluted earnings per share to shareholders	(0.54)	(3.05)	(1.07)	(5.46)
Weighted average shares - basic and diluted	2,506,015	669,636	2,506,015	592,896

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

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Versus Systems Inc.

Condensed Interim Consolidated Statements of Changes in Equity (Deficit) (Unaudited)
(Expressed in US Dollars)

	Number of Common Shares	Number of Class "A" Shares	Common Shares (\$)	Class "A" Shares (\$)	Additional paid in Capital (\$)	Currency translation adjustment (\$)	Accumulated deficit (\$)	Stockholders' equity (\$)	Non- controlling Interest (\$)	Total stockholders' equity (\$)
Balance at December 31, 2023	2,506,015	-	134,075,745	-	13,054,378	248,287	135,434,022	(11,944,388)	(7,387,547)	4,556,841
Stock-based compensation	-	-	-	-	160,865	-	-	160,865	-	160,865
Cumulative translation adjustment	-	-	-	-	-	(39,691)	-	(39,691)	-	(39,691)
Loss and comprehensive loss	-	-	-	-	-	-	(1,328,391)	(1,328,391)	(173,292)	(1,501,683)
March 31, 2024	2,506,015	-	134,075,745	-	13,215,243	208,596	136,762,413	(10,737,171)	(7,560,839)	3,176,332
Stock-based compensation	-	-	-	-	-	121,174	-	121,174	-	121,174
Cumulative translation adjustment	-	-	-	-	-	-	-	-	-	-
Loss and comprehensive loss	-	-	-	-	-	-	(1,343,545)	(1,343,545)	(156,197)	(1,499,742)
Balance at June 30, 2024	2,506,015	-	134,075,745	-	13,215,243	329,770	138,105,958	(9,514,800)	(7,717,036)	1,797,764
	Number of Common Shares	Number of Class "A" Shares	Common Shares (\$)	Class "A" Shares (\$)	Additional paid in Capital (\$)	Currency translation adjustment (\$)	Accumulated deficit (\$)	Stockholders' equity (\$)	Non- controlling Interest (\$)	Total stockholders' equity (\$)
Balance at December 31, 2022	260,761	21	122,353,525	28,247	14,506,758	154,970	125,907,025	(11,136,475)	(6,402,387)	4,734,088
Exercise of warrants	252,625	-	4,446,200	-	-	-	-	4,446,200	-	4,446,200
Shares issued in public offering	156,250	-	2,250,000	-	-	-	-	2,250,000	-	2,250,000
Share issuance costs	-	-	(226,544)	-	-	-	-	(226,544)	-	(226,544)
Stock-based compensation	-	-	-	-	1,247,113	-	-	(1,247,113)	-	(1,247,113)
Cumulative translation adjustment	-	-	-	-	-	9,348	-	9,348	-	9,348
Loss and comprehensive loss	-	-	-	-	-	-	(1,194,195)	(1,194,195)	(132,694)	(1,326,889)
March 31, 2023	669,636	21	128,823,181	28,247	13,259,645	164,318	127,101,220	(15,174,171)	(6,535,081)	8,639,090
Stock-based compensation	-	-	-	-	90,893	-	-	90,893	-	90,893
Cumulative translation adjustment	-	-	-	-	-	18,849	-	18,849	-	18,849
Loss and comprehensive loss	-	-	-	-	-	-	(2,041,761)	(2,041,761)	(268,894)	(2,310,655)
Balance at June 30, 2023	669,636	21	128,823,181	28,247	13,350,541	183,167	129,142,981	(13,242,155)	(6,803,975)	6,438,180

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

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Versus Systems Inc.

Condensed Interim Consolidated Statements of Cash Flows (unaudited)
(Expressed in US Dollars)

	Six months Ended	Six months Ended
	June 30, 2024	June 30, 2023
	(\$)	(\$)
Cash flows from operating activities		
OPERATING ACTIVITIES		
Net loss	(3,001,425)	(3,637,544)
Adjustments to reconcile net loss to net cash:		
Amortization (Note 8)	- 113,391	
Amortization of intangible assets	- 1,371,951	
Loss on sale of equipment	- 51,771	
Accrued interest	- 2,582	
Effect of foreign exchange	91,219 56,500	
Share-based compensation	160,865 (1,156,217)	
Receivables	7,972 39,363	
Prepays	(753,184) (67,338)	
Deferred revenue	(25,718) (58,720)	
Accounts payable and accrued liabilities	(262,821) (229,742)	
Cash flows used in operating activities	(3,783,092)	(3,514,003)
FINANCING ACTIVITIES		
Repayment of notes payable - related party	- (664,697)	
Proceeds from warrant exercises	- 4,446,200	
Proceeds from share issuances	- 2,250,000	
Payments for lease liabilities	- (131,142)	
Payments of share issuance costs	- (361,706)	
Cash flows provided by financing activities	—	5,538,655
INVESTING ACTIVITIES		
Proceeds from sale of equipment	- 4,899	
Purchase of intangible assets	- (14,569)	
Cash flows used in investing activities	—	(9,670)
Change in cash during the period	(3,783,092)	2,014,981
Cash - Beginning of period	4,689,007	1,178,846
Cash - End of period	905,915	3,193,827

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

VERSUS SYSTEMS INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2024
(Expressed in United States dollars)
(Unaudited)



1. NATURE OF OPERATIONS

Versus Systems Inc. (the Company) was continued under the Business Corporations Act (British Columbia) effective January 2, 2007. The Company's head office and registered and records office is 1558 West Hastings Street, Vancouver, BC, V6C 3J4, Canada. The Company's common stock is traded on the NASDAQ under the symbol "VS". The Company's Unit A warrants are traded on NASDAQ under "VSSYW". On November 9, 2022, the Company completed a one-for-15 reverse stock split of the Company's common shares. On December 28, 2023, the Company completed a one-for-16 reverse stock split of the Company's common shares. All share and per share data are presented to reflect the reverse share splits on a retroactive basis.

The Company is engaged in the technology sector and has developed a proprietary prize and promotions tool allowing game developers and creators of streaming media, live events, broadcast TV, games, apps, and other content to offer real world prizes inside their content. The ability to win prizes drives increased levels of consumer engagement creating an attractive platform for advertisers.

In June 2021, the Company completed its acquisition of multimedia, production, and interactive gaming company Xcite Interactive, a provider of online audience engagement through its owned and operated XEO technology platform. The Company partners with professional sports franchises across Major League Baseball (MLB), National Hockey League (NHL), National Basketball Association (NBA) and the National Football League (NFL) to drive audience engagement.

The Company is actively pursuing a range of strategic alternatives aimed at maximizing shareholder value and strengthening its market position. We are in the process of evaluating and implementing commercial agreements to expand the distribution of applications that leverage our proprietary technology. These arrangements are intended to enhance market reach, drive user growth, and establish relationships with distribution partners. These collaborations may support technology and development, integrate complementary technologies, and improve our competitive edge.

In parallel, we are exploring various strategic options, including potential acquisitions, mergers, reverse mergers, and the sale of non-core assets. These alternatives would be designed to create synergies, streamline operations, and generate revenue. We are also seeking strategic partnerships and evaluating opportunities for capital raises to support our growth initiatives. Furthermore, the Company is focused on enhancing operational efficiency by optimizing processes and upgrading technology systems to reduce costs and improve profitability. Strengthening our financial health through better cash flow management and prudent financial practices is also a key priority. These comprehensive efforts are aimed at positioning the Company for long-term success and delivering sustainable value to our shareholders.

The Company is undertaking a strategic transition by shifting its governing jurisdiction from British Columbia to Delaware. This change is expected to better align with our evolving business strategy and deliver several key benefits. Firstly, the transition to Delaware is anticipated to enhance our access to investors and financial institutions within the United States. Delaware's renowned business-friendly legal environment and

proximity to the U.S. Northeast's economic and financial centers is expected to facilitate easier access to funding, increase our strategic flexibility, and reduce the overall cost of capital. This improved access to funding would be crucial in supporting our future growth initiatives and financing our strategic plans.

Secondly, the move is expected to bolster our ability to execute an acquisitive growth strategy. By operating under Delaware's well-established corporate laws, we believe that we will be better positioned to use our capital stock as consideration for acquisitions and be able to structure transactions with more legal certainty. This capability will allow us to pursue strategic opportunities more effectively, expand our business portfolio, and achieve our growth objectives through well-structured transactions.

Additionally, the change in jurisdiction will enable us to more effectively focus management efforts on our U.S. and international operations. This realignment would help streamline our governance and operational strategies across different regions, thereby enhancing our ability to manage and optimize each market effectively. Furthermore, the enhanced profile of companies incorporated in Delaware with operations in the U.S. is likely to make the Company more attractive to key employees and executives, aiding in the recruitment and retention of top talent critical for driving innovation and growth.

In conjunction with these changes, the Company is also exploring opportunities to raise capital through its shareholders. Engaging with our shareholder base could provide an additional source of funding that aligns with our strategic goals. Accretive capital raises would support our expansion plans, enable us to capitalize on growth opportunities, and strengthen our financial position.

Overall, the shift to Delaware, combined with the exploration of acquisition opportunities and investor engagement, is part of our broader strategy to enhance operational effectiveness, execute our growth strategy, and maximize shareholder value.

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 of June 30, 2024, the Company has not achieved positive cash flow from operations and is not able to finance day to day activities through operations and as such, there is substantial doubt as to the Company's ability to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to attain profitable operations and generate funds therefrom and/or raise equity capital or borrowings sufficient to meet current and future obligations. These condensed interim consolidated financial statements do not include any adjustments as 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.



VERSUS SYSTEMS INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2024
(Expressed in United States dollars)
(Unaudited)

2. BASIS OF PRESENTATION

Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP).

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 interim consolidated financial statements have been prepared using the accrual basis of accounting.

Functional and presentation currency

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

Basis of consolidation

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

Name of Subsidiary	Place of Incorporation	Proportion of Ownership Interest	Principal Activity
Versus Systems (Holdco) Inc.	United States of America	81.9%	Holding Company
Versus Systems UK, Ltd.	United Kingdom	81.9%	Sales Company
Versus LLC	United States of America	81.9%	Technology Company
Xcite Interactive, Inc.	United States of America	100.0%	Technology Company

Use of estimates

The preparation of these condensed interim consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed interim consolidated financial statements. Estimates and assumptions are continually evaluated and are based on 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

period, 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.

VERSUS SYSTEMS INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2024
(Expressed in United States dollars)
(Unaudited)



2. BASIS OF PRESENTATION (continued)

ii) 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. Input assumptions changes can materially affect the fair value estimate and the Company's earnings (losses).

iii) 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.

iv) 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.

v) Revenue Recognition

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.

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 as of June 30, 2024 totaled 911,775 (June 30, 2023 – 127,041).

VERSUS SYSTEMS INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2024
(Expressed in United States dollars)
(Unaudited)



3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and 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	
<i>Classification</i>	

The Company classifies its financial instruments into 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 classification of financial assets and liabilities is determined at initial recognition. For equity instruments, the Company generally classifies them at FVTPL. However, certain equity investments that are not held for trading may be measured at cost minus impairment if they do not have readily determinable fair values. Debt instruments are classified based on the Company's business model for managing the financial assets and their contractual cash flow characteristics. 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 if the Company opts to measure them at FVTPL.

Measurement

The Company applies Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures (ASC 820). ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 requires disclosures to be provided for fair value measurements. ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1-Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2-Includes other inputs that are directly or indirectly observable in the marketplace.
- Level 3-Unobservable inputs which are supported by little or no market activity.

ASC 820 recommends three main approaches for measuring the fair value of assets and liabilities: the market approach, the income approach, and the cost approach. The Company uses the appropriate approach based on the nature of the asset or liability being measured. Financial instruments include cash, receivables, restricted deposit, accounts payable and accrued liabilities. The carrying values of the financial instruments included in current assets and liabilities approximate their fair values due to their short-term maturities.



VERSUS SYSTEMS INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2024
(Expressed in United States dollars)
(Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

For fair value measurements categorized within Level 3 of the fair value hierarchy, the Company uses its valuation processes to decide its valuation policies and procedures and analyze changes in fair value measurements from period to period. For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting.

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

The Company applies the Current Expected Credit Loss (CECL) model under ASC 326 for impairment of financial assets. This model requires the recognition of an allowance for credit losses based on expected losses over the life of the asset. If the credit risk of a financial asset decreases in a subsequent period, any previously recognized impairment loss is reversed through profit or loss, limited to the extent that the carrying amount does not exceed what the amortized cost would have been had the impairment not been recognized.

Intangible assets excluding goodwill

Derecognition of 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 at June 30, 2024, the Company does not have any derivative financial assets and liabilities.

Intangible assets acquired separately were carried at cost at the time of initial recognition. Intangible assets acquired in a business combination and recognized separately from goodwill were 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.

Intangibles with a finite useful life were amortized and those with an indefinite useful life are not amortized. The useful life is the best estimate of the period over which the asset is expected to contribute directly or indirectly to the future cash flows of the Company. The useful life is based on the duration of the expected use of the asset by the Company and the legal, regulatory or contractual provisions that constrain the useful life and future cash flows of the asset, including regulatory acceptance and approval, obsolescence, demand, competition and other economic factors. If an income approach is used to measure the fair value of an intangible asset, the Company considers the period of expected cash flows used to measure the fair value of the intangible asset, adjusted as appropriate for Company-specific factors discussed above, to determine the useful life for amortization purposes. If no regulatory, contractual, competitive, economic or other factors limit the useful life of the intangible to the Company, the useful life is considered indefinite.

VERSUS SYSTEMS INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2024
(Expressed in United States dollars)
(Unaudited)

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

Intangibles with a finite useful life were amortized on the straight-line method unless the pattern in which the economic benefits of the intangible asset are consumed or used up are reliably determinable. The Company evaluates the remaining useful life of intangible assets each reporting period to determine whether any revision to the remaining useful life is required. If the remaining useful life is changed, the remaining carrying amount of the intangible asset will be amortized prospectively over the revised remaining useful life. The Company's intangible assets were amortized on a straight-line basis over 3 years. In the year development costs are incurred, amortization is based on a half year.

Goodwill

The Company allocates goodwill arising from business combinations to reporting units that are expected to receive the benefits from the synergies of the business combination. The carrying amount reporting units to which goodwill has been allocated was tested annually for impairment or when there is an indication that the goodwill may be impaired. Any impairment is recognized as an expense immediately.

Deferred financing costs

Deferred financing costs consist primarily of direct incremental costs related to the Company's public offering of its common stock. Upon completion of the Company's financings any deferred costs were offset against the proceeds.

Impairment of intangible assets excluding goodwill

There are special requirements for the development of software to be sold. The costs incurred to establish the technological feasibility of the software that will be sold are expensed as research and development when incurred. Once technological feasibility has been achieved, the Company capitalizes the remaining costs incurred to develop the software for sale. Costs were capitalized until the product is ready to be sold or marketed to customers, at which time, amortization of the capitalized costs begins.

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, fair value of the reporting unit or an asset group to which the asset belongs is estimated in order to determine the extent of the impairment losses (if any).

If the fair value of an asset (or an asset group/reporting unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or an asset group/reporting unit) is reduced to fair value.

Income taxes

The Company accounts for income taxes utilizing the assets and liability method. Under this method, deferred tax assets and liabilities are determined based on differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and net operating loss and tax credit carry forwards, using enacted tax rates and laws that are expected to be in effect when the differences reverse.

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

A valuation allowance is recorded against deferred tax assets in these cases then management does not believe that the realization is more likely than not. While management believes that its judgements and estimates regarding deferred tax assets and liabilities are appropriate, significant differences in actual results may materially affect the Company's future financial results.

The Company recognizes any uncertain income tax positions at the largest amount that is more-likely-than-not to be sustained upon audit by relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50 % likelihood of being sustained. The Company's policy is to recognize interest and/or penalties related to income tax matters in income tax expense. As of June 30, 2024 and December 31, 2023, the Company did not record any accruals for interest and penalties. The Company does not foresee material changes to its uncertain tax positions within its next twelve months. The Company's tax years are subject to examination for 2020 and forward for U.S. Federal tax purposes and for 2019 and forward for state tax purposes.

Leases

The Company early adopted ASC 842, Leases, as of January 1, 2019 using the modified retrospective application.

The Company assesses at contract inception whether a contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The lease term corresponds to the non-cancellable period of each contract.

All leases are accounted for as operating leases wherein rental payments are expensed on a straight-line basis over the periods of their respective leases. Operating leases (with an initial term of more than 12 months) are included in operating lease right-of-use (ROU) assets, operating lease liabilities (current), and operating lease liabilities (non-current) in the condensed interim consolidated balance sheets. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the

present value of lease payments over the lease term. The Company utilizes a market-based approach to estimate the incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease prepayments, reduced by lease incentives and accrued rent. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

Loss contingencies

A loss contingency 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. Loss contingencies are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Non-controlling interest

Non-controlling interest in the Company's less than wholly owned subsidiaries are 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.



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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Valuation of Equity Units Issued in Private Placements

In accordance with U.S. GAAP, particularly ASC 505-10 and ASC 815, the Company has adopted the fair value method for the valuation of equity units issued in private placements, which typically comprise common shares and warrants. For each private placement, the Company separately estimates the fair value of both the common shares and the warrants at the date of issuance. The determination of fair value is based on market conditions, volatility, and other relevant factors at the time of issuance.

1. Common Shares: The fair value of the common shares issued is measured based on observable market prices, if available, or estimated using appropriate valuation techniques considering the terms of the shares and market conditions.
2. Warrants: Warrants are valued using an appropriate option-pricing model, such as the Black-Scholes or a binomial model. The model incorporates various inputs, including the share price, expected volatility, expected term, risk-free interest rate, and any dividends.

The total proceeds from the issuance of equity units are allocated between the common shares and the warrants based on their relative fair values at the date of issuance. This allocation is reflected in the equity section of the condensed interim consolidated balance sheet, with the fair value of the warrants recorded as a component of additional paid-in capital in the equity section. If the warrants expire unexercised, the amount remains in additional paid-in capital.

This method of valuation and allocation ensures compliance with the fair value measurement and equity classification requirements of U.S. GAAP.



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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 Company 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) the sales of software-as-a-service (SAAS) from its interactive production software platform or 2) development and maintenance of custom-built software or other professional services.

The Company recognizes SAAS revenues from its interactive production sales over the life of the contract as its performance obligations are satisfied. Payment terms vary by contract and can be periodic or one-time payments.

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 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 of the reporting date.

Foreign exchange

The functional currency is the currency of the primary economic environment in which the Company operates and has been determined for each entity within the Company. The functional currency for the Company and its subsidiaries is the United States dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in ASC 830, Foreign Currency Matters.

Foreign currency transactions in currencies other than the United States dollar are recorded at exchange rates prevailing on the dates of the transactions. Foreign currency transaction gains and losses are generally recognized in profit or loss and presented within gain (loss) on foreign exchange.

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 condensed interim consolidated balance sheets. Non-monetary assets and liabilities that are denominated in foreign currencies are translated at historical rates. Revenues and expenses that are denominated in foreign currencies are translated at the exchange rates approximating those in effect on the date of the transactions. Foreign currency translation gains and losses are recognized in other comprehensive income and accumulated in equity on the condensed interim consolidated statements of stockholders' equity.

Comprehensive income (loss)

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss) and represents the change in shareholders' equity (deficit) which results from transactions and events from sources other than the Company's shareholders. Comprehensive loss differs from net loss for the periods ended June 30, 2024 and 2023, due to the effects of foreign translation gains and losses.

Recent accounting pronouncements not yet adopted

New accounting pronouncements

In August 2023, the FASB issued ASU 2023-05, Business Combinations—Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement. This ASU addresses accounting for assets and liabilities contributed to a joint venture. It requires entities to recognize and measure these contributions at fair value as of the joint venture formation date. This ASU is applicable to all entities involved in forming joint ventures and is effective for joint ventures formed on or after January 1, 2025. The Company is currently evaluating how this ASU will impact its condensed interim consolidated financial statements and disclosures.

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. This ASU enhances the disclosures related to segment reporting for public entities. It requires entities to disclose significant segment expenses for each reportable segment, providing greater transparency in segment performance. The ASU is effective for fiscal years beginning after December 15, 2023, and for interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company is currently evaluating how this ASU will impact its condensed interim consolidated financial statements and disclosures.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures. This ASU enhances

the transparency and decision usefulness of income tax disclosures. It is designed to provide more detailed information about an entity's income tax expenses, liabilities, and deferred tax items, potentially affecting how companies report and disclose their income tax-related information. The ASU is effective for public business entities for annual periods beginning after December 15, 2024, including interim periods within those fiscal years. The Company is currently evaluating how this ASU will impact its condensed interim consolidated financial statements and disclosures.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent adopted accounting pronouncements

In March 2023, the FASB issued ASU 2023-01, Leases (Topic 842): Common Control Arrangements. This ASU clarifies leasing transactions among entities under common control, emphasizing the use of written terms for lease existence and classification. It is effective for public business entities for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. The Company adopted the amendments in this update during the current year and the adoption did not have a material impact on its condensed interim consolidated financial statements and disclosures.

In March 2023, the FASB issued ASU 2023-02, Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method. This ASU expands the proportional amortization method to additional types of tax equity investments. It allows entities to apply this method to a broader range of investments that generate tax credits, providing greater flexibility in accounting for these investments. ASU 2023-02 is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. The Company adopted the amendments in this update during the current year and the adoption did not have a material impact on its condensed interim consolidated financial statements and disclosures.

In March 2023, the FASB issued ASU 2023-03, which amends various SEC paragraphs in the Accounting Standards Codification. This includes amendments to Presentation of Financial Statements (Topic 205), Income Statement—Reporting Comprehensive Income (Topic 220), Distinguishing Liabilities from Equity (Topic 480), Equity (Topic 505), and Compensation—Stock Compensation (Topic 718). The amendments are in response to SEC Staff Accounting Bulletin No. 120 and other SEC staff announcements and guidance. This ASU does not introduce new guidance and therefore does not have a specified transition or effective date. However, for smaller reporting companies, the ASU is effective for fiscal years beginning after December 15, 2023. The Company adopted the amendments in this update during the current year and the adoption did not have a material impact on its condensed interim consolidated financial statements and disclosures.

In October 2023, the FASB issued ASU 2023-06, Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative. This ASU introduces changes to the disclosure requirements, aligning them more closely with the SEC's initiatives for simplification and update. It specifically addresses various amendments in the FASB Accounting Standards Codification in response to the SEC's drive for clearer and more streamlined disclosures. This ASU is effective for public business entities classified as smaller reporting companies for fiscal years beginning after December 15, 2023. The Company adopted the amendments in this update during the current year and the adoption did not have a material impact on its condensed interim consolidated financial statements and disclosures.

Management does not believe any other recently issued but not yet effective accounting pronouncement, if adopted, would have a material effect on the Company's present or future consolidated financial statements.

4. RECEIVABLES

As of June 30, 2024, accounts receivable consists of customer receivables of none and Goods and Services Tax (GST) receivable of \$ 10,250
As of December 31, 2023, accounts receivable consists of customer receivables of \$ 8,680 (net an allowance for credit losses of \$ 2,700) and GST receivable of \$ 9,542 .

5. RESTRICTED DEPOSIT

As at June 30, 2024, restricted deposits consisted of none (December 31, 2023 - \$ 8,679) held in a guaranteed investment certificate as collateral for a corporate credit card.

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6. PROPERTY AND EQUIPMENT

	Computers (\$)	Right of Use Asset (\$)	Total (\$)
Cost			
At December 31, 2022	246,719	749,202	995,921
Additions	-	-	-
Disposals	(222,468)	-	(222,468)
At December 31, 2023	24,251	749,202	773,453
Disposals	(247)	-	(247)
At June 30, 2024	24,004	749,202	773,206

Accumulated amortization				
At December 31, 2022	152,746	749,202		901,948
Amortization for the period	23,754	-		23,754
Disposals	(154,184)	-		(154,184)
At December 31, 2023	22,316	749,202		771,518
Amortization for the period	892			892
Disposals	(82)			(82)
At June 30, 2024	23,126	749,902		772,328
Carrying amounts				
At December 31, 2022	93,973	-		93,973
At December 31, 2023	1,935	-		1,935
At June 30, 2024	878	-		878

7. NON-CONTROLLING INTEREST IN VERSUS LLC

As of December 31, 2018, the Company held a 41.3 % ownership interest in Versus LLC, a privately held limited liability company organized under the laws of the state of Nevada. The Company consolidates Versus LLC as a result of having full control over the voting shares. 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.

During 2019, the Company increased its ownership by 25.2 % in a series of transactions through the issuance of common shares and warrants.

On March 1, 2022, the Company acquired an additional 15.1 % interest in Versus LLC in exchange for 715 common shares of the Company. The common shares were determined to have a fair value of \$ 186,294 . As a result, the Company increased its ownership interest to 81.9 % and recorded the excess purchase price over net identifiable assets of \$ 4,562,631 against additional-paid-in-capital. The effect on non-controlling interest was a reduction of \$ 4,376,337 .

The following table presents summarized financial information before intragroup eliminations for the non-wholly owned subsidiary as of and for the six months ended June 30, 2024 and 2023.

	June 30, 2024	June 30, 2023
Non-controlling interest percentage	18.1 %	18.1 %
	(\$)	(\$)
Assets		
Current	1,139,890	1,010,211
Non-current	878	2,046,995
	1,140,768	3,057,206
Liabilities		
Current	10,955	140,523
Non-current	45,927,621	42,485,061
	45,938,576	42,625,584
Net liabilities	(44,797,808)	(39,568,378)
Non-controlling interest	(7,717,036)	(6,784,717)
Net loss	(3,001,425)	(2,218,719)
Net loss attributed to non-controlling interest	(329,489)	(401,588)

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8. INTANGIBLE ASSETS

Intangible assets were 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 Company continued to develop new apps, therefore additional costs were capitalized during the years ended December 31, 2023 and 2022. During the year ended December 31, 2023, the Company completed an impairment analysis of its intangible assets and concluded the assets were impaired. As a result, they recorded an impairment change in the amount of \$ 3,968,332 during the year ended December 31, 2023.

	Software	Customer Relationships	Trade name	Developed Technology	Total
Cost					
At December 31, 2022	14,715,529	3,170,966	420,833	1,209,861	19,517,189
Additions	19,413	-	-	-	19,413
Impairment	(1,656,691)	(1,745,854)	(420,833)	(144,954)	(3,968,332)
At December 31, 2023	13,078,251	1,425,112	-	1,064,907	15,568,270
Additions	-	-	-	-	-
At June 30, 2024	13,078,251	1,425,112	-	1,064,907	15,568,270
Accumulated amortization					
At December 31, 2022	11,311,681	1,037,144	-	775,000	13,123,825
Amortization	1,766,570	387,968	-	289,907	2,444,445
At December 31, 2023	13,078,251	1,425,112	-	1,064,907	15,568,270
Amortization	-	-	-	-	-
At June 30, 2024	13,078,251	1,425,112	-	1,064,907	15,568,270

Carrying amounts					
At December 31, 2022	3,403,848	2,133,822	420,833	434,861	6,393,364
At December 31, 2023	-	-	-	-	-
At June 30, 2024	-	-	-	-	-

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	June 30, 2024	December 31, 2023
	(\$)	(\$)
Accounts payable	12,655	82,579
Due to related parties (Note 10 and Note12)	-	177,500
Accrued liabilities	10,951	26,348
	23,606	286,427

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10. NOTES PAYABLE – RELATED PARTY

During the year ended December 31, 2023, the Company repaid \$ 2,519,835 of principal on its outstanding note payable – related party balances. As at December 31, 2023, the Company had recorded \$0 in accrued interest.

During the three and six months ended June 30, 2023 the Company recorded finance expense of \$ 0 (December 31, 2023 - \$ 60,770), related to bringing the notes to their present value.

	Amount
	(\$)
Balance, December 31, 2022	2,604,713
Foreign currency adjustment	(35,380)
Repayments	(2,519,835)
Cancellation of remaining debt	(49,498)
Balance, December 31, 2023	-

11. SHARE CAPITAL

a) Authorized share capital

The Company is authorized to issue an unlimited number of Class A Shares and an unlimited number of common shares. The Class A Shares and common shares do not have any special rights or restrictions attached, respectively. The Class A shares were converted to common shares on December 22, 2023, and as of December 31, 2023, there were no Class A Shares issued and outstanding and only common shares outstanding.

b) Issued share capital

During the year ended December 31, 2023, the Company:

- i) Issued 156,250 shares at a price of \$ 14.40 per share for total proceeds of \$ 2,250,000 in a registered direct offering. In connection with the offering, the Company incurred \$ 226,544 in issuance costs as part of the transaction.
- ii) Issued 283,875 common shares pursuant to exercise of 283,875 warrants at a price of \$ 17.37 per share for total proceeds of \$ 4,561,200 .
- iii) Issued 815,217 shares at a price of \$ 3.68 per share for total proceeds of \$ 3,000,000 in a registered direct offering. In connection with the offering, the Company incurred \$ 453,345 in issuance costs as part of the transaction.
- iv) Issued 989,903 shares at a price of \$ 2.59 per share for total proceeds of \$ 2,562,660 in a private placement.
- v) Issued 21 shares upon the conversion of Class A shares.

During the six months ended June 30, 2024, the Company:

- i) Did not enter into any capital transactions.

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11. SHARE CAPITAL (continued)

c) Stock options

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:

	<u>Number Outstanding</u>	<u>Weighted Average Exercise Price</u> (\$)
Balance – December 31, 2022	14,238	594.08
Granted	25,000	14.40
Exercised	-	-
Forfeited	(10,247)	392.60
Balance – December 31, 2023	28,990	165.38
Granted	-	-
Exercised	-	-
Forfeited	(13,860)	186.49
Balance – June 30, 2024	<u>15,130</u>	<u>146.03</u>

During the three months ended June 30, 2024 and 2023 the Company recorded share-based compensation of none and \$ 90,896 , respectively, relating to options vested during the period. During the six months ended June 30, 2024 and 2023 the Company recorded share-based compensation of \$ 160,865 and \$(1,156,217), respectively, relating to options vested during the period.

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

	<u>June 30, 2024</u>	<u>June 30, 2023</u>
Risk-free interest rate	3.93%	3.93%
Expected life of options	3.38 years	5.0 years
Expected dividend yield	Nil	Nil
Volatility	132.65%	132.65%

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11. SHARE CAPITAL (continued)

At June 30, 2024, the Company had incentive stock options outstanding as follows:

<u>Expiry Date</u>	<u>Options Outstanding</u>	<u>Exercise Price</u> (\$)	<u>Weighted Average Remaining Life</u> (years)
September 27, 2024	572	1,087.20	0.24
July 24, 2025	287	715.20	1.07
July 31, 2025	276	715.20	1.08
June 1, 2026	59	1,689.60	1.92
August 19, 2026	761	1,008.00	2.14
August 17, 2027	1,504	96.00	3.13
September 20, 2027	140	55.20	3.22
February 13, 2028	<u>11,531</u>	<u>14.40</u>	<u>3.62</u>
	<u>15,130</u>	<u>146.03</u>	<u>3.27</u>

d) Share purchase warrants

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

	<u>Number Outstanding</u>	<u>Weighted Average Exercise Price</u> (\$)
Balance –December 31, 2022	329,908	91.84
Exercised	(283,875)	16.19
Expired	-	-
Issued	850,612	3.83
Balance – December 31, 2023	<u>896,645</u>	<u>32.36</u>
Exercised	-	-
Expired	-	-
Issued	-	-

During the year ended December 31, 2023, the Company:

i) Issued 10,938 placement agent warrants in conjunction with a registered direct offering on February 2, 2023, with an exercise price of \$ 14.40 per share.

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11. SHARE CAPITAL (continued)

ii) Issued 815,217 warrants in conjunction with a public offering on October 17, 2023, with an exercise price of \$ 3.68 per share.
iii) Issued 24,457 placement agent warrants in conjunction with a public offering on October 17, 2023, with an exercise price of \$ 4.05 per share.

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

	June 30, 2024	December 31, 2023
Risk-free interest rate	4.13 % – 4.49 %	4.13 % – 4.49 %
Expected life of warrants	1.81 – 4.55 years	2.06 – 4.80 years
Expected dividend yield	Nil	Nil
Volatility	132.78 %	132.78 %
Weighted average fair value per warrant	\$ 4.44	\$ 4.69

At June 30, 2024, the Company had share purchase warrants outstanding as follows:

Expiration Date	Warrants Outstanding	Exercise Price (\$)	Weighted Average Remaining Life (years)
January 20, 2026	7,030	1,800.00	1.56
February 28, 2027	20,689	460.80	2.67
December 6, 2027	13,781	20.00	3.43
December 9, 2027	9,876	17.60	3.44
January 18, 2028	25,906	124.80	3.55
February 2, 2028	10,938	14.40	3.60
October 17, 2028	783,968	3.68	4.30
October 17, 2028	24,457	4.05	4.30
	896,645	32.36	4.19

VERSUS SYSTEMS INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2024
(Expressed in United States dollars)
(Unaudited)



12. RELATED PARTY TRANSACTIONS

The following summarizes the Company's related party transactions, not disclosed elsewhere in these condensed interim consolidated financial statements, during the six months ended June 30, 2024 and 2023. 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

	2024 (\$)	2023 (\$)
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.	272,177	177,178
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.	275,032	183,898
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.	-	54,518
Short-term employee benefits paid or accrued to the Chief Technology Officer of the Company, including share-based compensation vested for incentive stock options and performance warrants.	213,028	156,193
Short-term employee benefits paid or accrued to a Director of the Company, including share-based compensation vested for incentive stock options and performance warrants.	92,487	138,473
Short-term employee benefits paid or accrued to the Chief People Officer of the Company, including share-based compensation vested for incentive stock options and performance warrants.	-	108,973

Short-term employee benefits paid or accrued to other directors and officers of the Company, including share-based compensation vested for incentive stock options and performance warrants.

Total	28,748	48,777
	881,472	868,010

Other Related Party Payments

Office sharing and occupancy costs of \$ 0 (December 31, 2023 - \$ 64,741) were paid or accrued to a corporation that shares management in common with the Company.

Amounts Outstanding

a) At June 30, 2024, a total of \$ 0 (December 31, 2023 - \$ 177,500) 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 (Note 9).

VERSUS SYSTEMS INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2024
(Expressed in United States dollars)
(Unaudited)



13. CONCENTRATION OF RISK

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 due from customers and tax due from the Canadian 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 not raised additional capital during the three and six months ended June 30, 2024.

Interest rate risk

The Company's bank account earns interest income at variable rates. The fair value of its portfolio is relatively unaffected by changes in short-term interest rates. A 1% change in interest rates would have no significant impact on profit or loss for the six months ended June 30, 2024.

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 June 30, 2024 and December 31, 2023:

	June 30, 2024	December 31, 2023
	(\$)	(\$)
Cash	262,691	1,630,841
Accounts payable and accrued liabilities	(12,652)	(105,941)
	250,039	1,524,900

As at June 30, 2024, 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 \$ 25,000 (December 31, 2023 - \$ 152,500).

VERSUS SYSTEMS INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2024
(Expressed in United States dollars)
(Unaudited)



14. MANAGEMENT OF CAPITAL

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

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

In order to maximize ongoing corporate development efforts, the Company does not pay out dividends. The Company's investment policy is to keep its cash treasury invested in certificates of deposit with major financial institutions.

There have been no changes to the Company's approach to capital management during the six months ended June 30, 2024.

15. GEOGRAPHICAL SEGMENTED INFORMATION

The Company is engaged in three business activities, the live events business, which includes partnering with multiple professional sports franchises to drive in-stadium audience engagement; a software licensing business creating a recurring revenue stream; and a business-to-business software platform that allows video game publishers and developers to offer prize-based matches of their games to their players.

Details of identifiable assets by geographic segments are as follows:

	Restricted deposits	Deposits	Property and equipment	Intangible assets
June 30, 2024				
Canada	\$ -	\$ -	\$ -	\$ -
USA	-	-	878	-
	\$ -	\$ -	\$ 878	\$ -
June 30, 2023				
Canada	\$ 8,672	\$ -	\$ -	\$ -
USA	-	100,000	18,504	5,700,984
	\$ 8,672	\$ 100,000	\$ 18,504	\$ 5,700,984

16. SUBSEQUENT EVENTS

The Company has evaluated subsequent events after the balance sheet date of June 30, 2024 through August 14, 2024, the date the consolidated financial statements were issued. Based upon its evaluation, management has determined that no subsequent events have occurred that would require recognition in the accompanying condensed interim consolidated financial statements or disclosure in the notes thereto.

Item 2. 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 for the years ended December 31, 2023 and 2022, in addition to the Quarterly Report for the period ended March 31, 2024, in conjunction with our unaudited condensed consolidated interim financial statements and the related notes included elsewhere in this Quarterly Report. 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 Quarterly Report.

Overview

We offer a suite of proprietary business-to-business software tools that are meant to drive user engagement through gamification and rewards. These tools allow our partners to offer in-game prizing and rewards, including merchandise, coupons, digital goods, and sweepstakes entries — inside their websites, their venues, or their streaming media content.

Our customers are mostly sports teams, venues, and advertising agencies, who typically use our products as part of their live events or as part of an advertising campaign with the goal of engaging fans, increasing consented first-party data, and increasing sales. At December 31, 2022, we had 16 active customers. At December 31, 2023 and at June 30, 2024, we had five active customers due to the decrease in our sales force.

Our products and games are designed so that end users of our products can earn prizes by registering on our system and completing in-content challenges like trivia, polls, or casual mobile games. Players can use our system to play a variety of games and earn a wide range of prize types provided by advertisers and sponsors. Our products include our in-venue XEO and Filter Fan Cam products for live events, and our new stand-alone "Winfinite" product that can be used by brands, advertising agencies, and content partners to reach potential customers outside of sports venues, on mobile devices. We also have an IP portfolio that could create future licensing and product development opportunities including our recently allowed Artificial Intelligence ("AI") and Machine Learning ("ML") series of patent claims.

With the acquisition of Xcite Interactive in June 2021, we acquired a number of key pieces of technology and relationships that have helped to drive our engagement and rewards business, including a live events fan engagement business that has partnered with professional sports franchises in the National Football League ("NFL"), the National Basketball Association ("NBA"), the National Hockey League ("NHL") and others to increase audience engagement using interactive gaming functions like trivia, polling, and casual games that can be played alongside live experiences whether a player is at-home, in a restaurant, or in-venue at the event itself. Our three largest customers in 2023 were the San Jose Sharks, the Sacramento Kings, and ENT Marketing, a marketing agency that used our platform to promote Coca-Cola products.

We now have three principal software products. Our eXtreme Engagement Online or "XEO" platform is designed primarily for in-venue main-board work in stadiums and arenas. Our Filter Fan Cam (FFC) platform is an Augmented Reality filtering tool that can be used for mobile and in-venue applications. In addition, we have a stand-alone gaming and prizing product that we call "Winfinite," which allows brands, media companies, and advertising agencies to reach out to customers directly on their mobile devices. We license these three software products to teams, ad agencies, and other content creators.

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 through the development and maintenance of custom-built software.

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.

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 research and development, and selling, 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, these categories include intangible amortization, amortization expense, interest expense, software costs, professional fees and share-based compensation.

Operating Results

Comparison of Results of Operations for the three months ended June 30, 2024 and June 30, 2023

The following table summarizes our results of operations for the three months ended June 30, 2024 and 2023:

	For the Three Months Ended June 30,	
	2024	2023
Statement of Operations and Comprehensive Loss Data:		
Revenue	\$ 26,937	\$ 56,053
Cost of revenues	16,231	23,570
Gross Margin	10,706	32,483
Expenses		
Research and development	67,203	717,667
Selling, general and administrative	1,443,171	1,625,471
Total Operating Expenses	1,510,374	2,343,138
Operating loss	(1,499,668)	(2,310,655)
Other income (expense)	(74)	-
Net loss	(1,499,742)	(2,310,655)
Other total comprehensive loss:		
Change in foreign currency translation, net of tax	121,174	18,849
Total comprehensive loss	\$ (1,378,568)	\$ (2,291,806)
Basic and diluted loss per share to shareholders	\$ (0.54)	\$ (3.05)

Revenue

Our revenues are derived primarily from software licensing. Revenue was \$26,937 for the three month period ended June 30, 2024, representing a decrease of \$29,116, or 52%, from \$56,053 for the three month period ended June 30, 2023. The decrease was primarily due to a significant reduction in the number of clients from June 30, 2023 to June 30, 2024.

Cost of revenues

Cost of revenues was \$16,231 for the three month period ended June 30, 2024, representing a decrease of \$7,339, or 31%, from \$23,570 for the three month period ended June 30, 2023. The decrease was in line with the decrease in revenue

Research and development

Research and development was \$67,203 for the three month period ended June 30, 2024, representing a decrease of \$650,464, or 91%, from \$717,667 for the three month period ended June 30, 2023. The decrease was primarily due to significant reductions in staff related to our company restructuring.

Selling, general and administrative

Selling, general and administrative was \$1,443,171 for the three month period ended June 30, 2024, representing a decrease of \$182,300, or 11%, from \$1,625,471 for the three month period ended June 30, 2023. The decrease was primarily due to a decrease in payroll as the Company reduced head count and a decrease in professional fees, offset by a one-time severance payment of \$305,000 during the three months ended June 30, 2024.

Loss from Operations

Loss from operations was \$1,499,742 for the three month period ended June 30, 2024, representing a decrease of \$810,913, or 35%, from \$2,310,655 for the three month period ended June 30, 2023. The decrease was primarily the result of decreased spend on professional fees and payroll.

Operating Results

Comparison of Results of Operations for the six month period ended June 30, 2024 and June 30, 2023

The following table summarizes our results of operations for the six months ended June 30, 2024 and 2023:

	For the Six Months Ended June 30,	
	2024	2023
Statement of Operations and Comprehensive Loss Data:		
Revenue	\$ 53,440	\$ 214,003
Cost of revenues	40,277	55,927
Gross Margin	13,163	158,076
Expenses		
Research and development	106,615	784,807
Selling, general and administrative	2,907,652	3,010,813
Total Operating Expenses	3,014,267	3,795,620
Operating loss	(3,001,104)	(3,637,544)
Other income/(expense)	(321)	-
Net loss	(3,001,425)	(3,637,544)
Other total comprehensive income (loss):		
Change in foreign currency translation, net of tax	160,865	28,197
Total comprehensive loss	\$ (2,840,560)	(3,609,347)
Basic and diluted loss per share to shareholders	\$ (1.07)	\$ (5.46)

Revenue

Our revenues are derived primarily from software licensing. Revenue was \$53,440 for the six month period ended June 30, 2024, representing a decrease of \$160,563, or 75%, from \$214,003 for the six month period ended June 30, 2023. The decrease was primarily due to a significant reduction in the number of clients from June 30, 2023 to June 30, 2024.

Cost of revenues

Cost of revenues was \$40,277 for the six month period ended June 30, 2024, representing a decrease of \$15,650, or 28%, from \$55,927 for the six month period ended June 30, 2023. The decrease was in line with the decrease in revenue.

Research and development

Research and development was \$106,615 for the six month period ended June 30, 2024, representing a decrease of \$678,192, or 86%, from \$784,807 for the six month period ended June 30, 2023. The decrease was primarily due to a reduction in staffing levels, including a large portion of our engineering staff, and a reduction in software costs.

Selling, general and administrative

Selling, general and administrative was \$2,907,652 for the six month period ended June 30, 2024, representing a decrease of \$103,161, or 3%, from \$3,010,813 for the six month period ended June 30, 2023. The decrease was primarily due to a decrease in payroll as the Company reduced head count and a decrease in professional fees, offset by a one-time severance payment of \$305,000 during the six months ended June 30, 2024.

Loss from Operations

Loss from operations was \$3,001,104 for the six month period ended June 30, 2024, representing a decrease of \$636,440, or 17%, from \$3,637,544 for the six month period ended June 30, 2023. The decrease was primarily the result of decreased spend on professional fees and payroll.

Inflation

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

Liquidity and Capital Resources

We had cash of \$905,915 and a working capital surplus of \$1,796,886 as at June 30, 2024, compared to a cash position of \$4,689,007 and working capital surplus of \$4,546,227 as at December 31, 2023. The decrease in our cash position and decrease in working capital surplus was related to using cash to fund operations and ongoing losses.

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 years ended December 31, 2023 and 2022, we incurred net losses of approximately \$10.5 million and \$22.4 million, respectively. For the six months ended June 30, 2024 the company incurred a net loss of \$3.0 million. During such periods, we have financed our operations primarily through an initial public offering of our common shares in January 2021 and subsequent public offerings, registered direct offerings, and private placements. In February 2023, we completed a registered direct offering of our common shares in which we received gross proceeds of \$2.25 million and net proceeds of approximately \$2 million. In October 2023, we completed a public direct offering of our common shares in which we received gross proceeds of approximately \$3 million and net proceeds of approximately \$2.5 million. In November 2023, we completed a private placement of our equity securities in which we received gross proceeds of \$2.6 million. Throughout 2023, we received approximately \$4.6 million in proceeds from warrant exercises. Our cash and cash equivalents as of December 31, 2023 was \$4.7 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 and the expected revenues from operations will be insufficient to fund our planned operations for the next twelve months. The report of our independent registered public accounting firm on our consolidated financial statements for the year ended December 31, 2023 stated that our recurring losses from operations, accumulated deficit as of December 31, 2023, inability to achieve positive cash flows from operations and inability to fund day to day activities through operations indicates that a material uncertainty exists that may cast significant doubt on our ability to continue as a going concern.

While we plan to increase our cash flow from our operations to address some of our liquidity concerns, to date we have been unable to do so and are experiencing declining revenues. Accordingly, we are evaluating other strategic alternatives. However, to execute our business plan and implement our business strategy, we anticipate that we will need to obtain additional financing 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, or we may be forced to liquidate the company.

Cash Flows

The following summarizes the key components of our cash flows for the six months period ended June 30, 2024 and 2023:

	Six Months Period Ended June 30, 2024	Six Months Period Ended June 30, 2023
Net cash used in operating activities	\$ (3,783,092)	\$ (3,514,003)
Net cash used in investing activities	-	(9,670)
Net cash provided by financing activities	-	5,538,655
Net increase (decrease) in cash	<u><u>\$ (3,783,092)</u></u>	<u><u>\$ 2,014,982</u></u>

Operating Activities

Net cash used in operating activities for the six month period ended June 30, 2024 was \$3,783,092 as compared to \$(3,637,544) for the six month period ended June 30, 2023. The increase in cash used in operating activities was primarily attributable to the increase in cash used for prepaid expenses as the Company is required to prepay for its directors and officers insurance.

Investing Activities

Net cash used in investing activities for the six month period ended June 30, 2024 was \$0 as compared to \$9,670 for the six month period ended June 30, 2023. The change in cash flow used in investing activities was primarily attributable to a significant reduction in payroll capitalized for the development of intangible assets.

Financing Activities

Net cash provided by financing activities was \$0 for the six month period ended June 30, 2024 as compared to \$5,538,655 for the six month period ended June 30, 2023. The change in cash flow provided by financing activities was mainly attributable to proceeds we received from the issuance of common shares, net of issuance costs, exercise of warrants and options, which was offset by repayments on notes payable and lease liabilities in 2023.

Indebtedness

Notes Payable

From 2017 to December 31, 2022, we issued \$4,750,818 aggregate principal amount of promissory notes primarily to Brian Tingle, one of our directors. The notes bore interest at the prime rate of the Bank of Canada, which has ranged from 2.45% to 3.95% per annum, compounded annually, that was payable quarterly, and had a maturity date of three years from the date of issuance. As of December 31, 2023, all loans have been repaid and we had recorded \$0 in accrued interest that was included in accounts payable and accrued liabilities.

Critical Accounting Policies and Estimates

The preparation of 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:

Estimate for excess credit losses

We apply the Current Expected Credit Loss (CECL) model under ASC 326 for impairment of financial assets. This model requires the recognition of an allowance for credit losses based on expected losses over the life of the asset. If the credit risk of a financial asset decreases in a subsequent period, any previously recognized impairment loss is reversed through profit or loss, limited to the extent that the carrying amount does not exceed what the amortized cost would have been had the impairment not been recognized.

Deferred financing costs

Deferred financing costs consist primarily of direct incremental costs related to our public offerings of our common stock completed in February 2023. Upon completion of our public offering and financing any deferred costs were offset against the proceeds.

Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment. All other repair and maintenance costs are recognized in the consolidated statements of operations and comprehensive loss. The initial cost of property and equipment comprises its purchase price or construction cost and any costs directly attributable to bringing it to a working condition for its intended use. The purchase price or construction cost is the aggregate amount of cash consideration paid and the fair value of any other consideration given to acquire the asset. Where an item of property and equipment is comprised of significant components with different useful lives, the components are accounted for as separate items of property and equipment. For all property and equipment, depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value. Depreciation is calculated starting on the date that property and equipment is available for its intended use.

Intangible assets

Intangible assets acquired separately were measured upon initial recognition at cost, which comprises the purchase price plus any costs directly attributable to the preparation of the asset for its intended use. Intangible assets acquired through business combinations (Xcite Interactive) or asset acquisitions were initially recognized at fair value as at the date of acquisition. After initial recognition, intangible assets were carried at cost less accumulated amortization and any accumulated impairment charges.

Income taxes

We account for income taxes utilizing the assets and liability method. Under this method, deferred tax assets and liabilities are determined based on differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and net operating loss and tax credit carry forwards, using enacted tax rates and laws that are expected to be in effect when the differences reverse.

A valuation allowance is recorded against deferred tax assets (DTA's) when management does not believe that the realization of DTA's is more likely than not. While management believes that its judgements and estimates regarding deferred tax assets and liabilities are appropriate, significant differences in actual results may materially affect our future financial results.

We recognize any uncertain income tax positions at the largest amount that is more-likely-than-not to be sustained upon audit by relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Our policy is to recognize interest and/or penalties related to income tax matters in income tax expense. As of June 30, 2024 and 2023, we did not record any accruals for interest and penalties. We do not foresee material changes to our uncertain tax positions within the next twelve months.

Determination of share-based payments

The estimation of share-based payments (including warrants and stock options) requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. We use the Black-Scholes valuation model at the date of the grant. We make estimates as to the volatility, the expected life, dividend yield and the time of exercise, as applicable. The expected volatility is based on the average volatility of share prices of similar companies over the period of the expected life of the applicable warrants and stock options. The expected life is based on historical data. These estimates may not necessarily be indicative of future actual patterns.

Deferred revenues and revenue recognition

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 of the reporting date.

Functional currency

The functional currency for each of our subsidiaries is the currency of the primary economic environment in which the respective entity operates. Such determination involves certain judgements to identify the primary economic environment. We reconsider the functional currency of our subsidiaries if there is a change in events and/or conditions which determine the primary economic environment.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, as required by Rule 13a-15(b) under the Exchange Act. Based upon that evaluation, our management, with the participation of our chief executive officer and chief financial officer, has concluded that, as of June 30, 2024, our disclosure controls and procedures were effective in ensuring that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

Other than as set forth below, there have been no material changes to the risk factors set forth in the section titled "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on April 1, 2024 (our "Annual Report"). Our business involves significant risks. You should carefully consider the risks and uncertainties described in our Annual Report, together with all of the other information in this Quarterly Report on Form 10-Q, as well as our audited consolidated financial statements and related notes as disclosed in our Annual Report. The risks and uncertainties described in our Annual Report are not the only ones we face, and additional risk and uncertainties that we are unaware of or that we deem immaterial may also become important factors that adversely affect our business. The realization of any of these risks and uncertainties could have a material adverse effect on our reputation, business, financial condition, results of operations, growth and future prospects as well as our ability to accomplish our strategic objectives. In that event, the market price of our common shares could decline and you could lose part or all of your investment.

If we do not successfully raise additional capital, improve our operating cash flow, or complete a strategic transaction, our board of directors may decide to pursue a dissolution and liquidation of our Company. In such an event, the amount of cash available for distribution to our stockholders will depend heavily on the timing of such liquidation as well as the amount of cash that must be reserved for commitments and contingent liabilities, as to which we can give you no assurance.

There can be no assurance that we will successfully raise additional capital, that we will improve our operating cash flow, or that we will be able to complete a strategic transaction. If none of those occur, our board of directors may decide to pursue a dissolution and liquidation of our Company. In such an event, the amount of cash available for distribution to our stockholders will depend heavily on the timing of such decision and, ultimately, such liquidation, since the amount of cash available for distribution continues to decrease as we fund our operations while pursuing a financing, improved operations, or a strategic transaction. As of June 30, 2024, the Company has not achieved positive cash flow from operations and is not able to finance day to day activities through operations and as such, there is substantial doubt as to the Company's ability to continue as a going concern.

In addition, we may be subject to litigation or other claims related to a dissolution and liquidation of our Company. If a dissolution and liquidation were to be pursued, our board of directors, in consultation with our advisors, would need to evaluate these matters and make a determination about a reasonable amount to reserve. Accordingly, holders of our common stock could lose all or a significant portion of their investment in the event of a liquidation, dissolution or winding up of our Company. A liquidation would be a lengthy and uncertain process with no assurance of any value ever being returned to our stockholders.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Default Upon Senior Securities

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information

None .

Item 6. Exhibits

The following documents are filed as a part of this report or incorporated herein by reference:

**Exhibit
Number**

	Description
3.1	Notice of Articles of Versus Systems Inc. (incorporated by reference to Exhibit 3.1 to the Report on Form F-1 filed by the Company on November 20, 2020).
3.2	Articles of Versus Systems Inc. (incorporated by reference to Exhibit 3.2 to the Report on Form F-1 filed by the Company on November 20, 2020).
10.1	Offer Letter, dated June 26, 2024, by and between Versus Systems Inc. and Curtis Wolfe (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the Company on July 1, 2024).
10.2	Form of Separation Agreement (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by the Company on July 1, 2024).
31.1	Certification of the Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certifications of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certifications of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

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SIGNATURES

Pursuant to the requirements of Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VERSUS SYSTEMS INC.

Date: August 14, 2024

/s/ Curtis Wolfe
Curtis Wolfe
Chief Executive Officer
(Principal Executive Officer)

Date: August 14, 2024

/s/ Geoff Deller
Geoff Deller
Interim Chief Financial Officer
(Principal Financial and
Accounting Officer)

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**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Curtis Wolfe, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Versus Systems Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2024

By: /s/ Curtis Wolfe

Name: Curtis Wolfe

Title: Chief Executive Officer
(*Principal Executive Officer*)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Geoff Deller, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Versus Systems Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2024

By: /s/ Geoff Deller

Name: Geoff Deller

Title: Interim Chief Financial Officer

(Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Curtis Wolfe, Chief Executive Officer of Versus Systems Inc., do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) the Quarterly Report on Form 10-Q of Versus Systems Inc. for the three-month period ended June 30, 2024 (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Versus Systems Inc.

Date: August 14, 2024

By: /s/ Curtis Wolfe

Name: Curtis Wolfe

Title: Chief Executive Officer (*Principal Executive Officer*)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Geoff Deller, Chief Financial Officer of Versus Systems Inc., do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) the Quarterly Report on Form 10-Q of Versus Systems Inc. for the three-month period ended June 30, 2024 (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Versus Systems Inc.

Date: August 14, 2024

By: /s/ Geoff Deller

Name: Geoff Deller

Title: Interim Chief Financial Officer

(Principal Financial and Accounting Officer)