



VirtualArmour International Inc.
Condensed Interim Consolidated Financial Statements
For the three and six months ended June 30, 2017 and 2016
(Unaudited - Expressed in U.S. Dollars)

Notice of no Auditor Review of Interim Financial Statements

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

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

VirtualArmour International Inc.
Condensed Interim Consolidated Statements of Financial Position
As at June 30, 2017 and December 31, 2016
(Unaudited - Expressed in U.S. Dollars)

	Notes	June 30, 2017 \$	December 31, 2016 \$
ASSETS			
Current			
Cash		126,913	144,530
Accounts receivable	3	1,317,151	1,646,663
Other receivables		114,661	271,771
Prepaid expenses		165,695	150,253
		1,724,420	2,213,217
Office facilities and equipment	4	250,308	277,403
Intangible assets	5	32,242	36,857
Total Assets		2,006,970	2,527,477
LIABILITIES			
Current			
Accounts payable and accrued liabilities	6	2,315,102	2,157,864
Deferred revenue		159,625	84,000
Warrant derivative liabilities	7	12,136	29,762
Line-of-credit arrangements	8	450,000	445,000
Leases	9	55,833	72,777
Due to related parties	13	348,127	152,206
		3,340,823	2,941,609
Leases	9	55,441	80,817
Total Liabilities		3,396,264	3,022,426
DEFICIT ATTRIBUTABLE TO SHAREHOLDERS			
Share capital	10	6,284,418	6,284,418
Contributed surplus		1,670,669	1,664,490
Accumulated deficit		(9,344,381)	(8,443,857)
Total Deficit		(1,389,294)	(494,949)
Total Liabilities and Deficit		2,006,970	2,527,477

Going concern (Note 1)
Subsequent event (Note 14)

On behalf of the Board:

"Todd Kannegieter"

"Christopher Blisard"

VirtualArmour International Inc.
Condensed Interim Consolidated Statements of Comprehensive Loss
For the three and six months ended June 30, 2017 and 2016
(Unaudited - Expressed in U.S. Dollars)

	Notes	Three months ended		Six months ended	
		2017	June 30 2016	2017	June 30 2016
		\$	\$	\$	\$
Revenue	11	2,673,310	3,169,284	5,831,292	4,846,776
Cost of sales	12	(2,202,249)	(2,401,741)	(4,821,402)	(3,618,634)
Gross Profit		471,061	767,543	1,009,890	1,228,142
Expenses	12				
General and administrative		253,968	360,142	682,769	678,431
Research and development		26,316	53,117	58,336	68,984
Sales and marketing		547,169	383,035	1,131,812	759,321
Total Expenses		827,453	796,294	1,872,917	1,506,736
Loss from Operations		(356,392)	(28,751)	(863,027)	(278,594)
Other Income (Expenses)					
Interest expense	8,13	(43,257)	(14,451)	(55,123)	(32,594)
Change in fair value of warrant derivative liabilities	7	(11,045)	(458,527)	17,626	(2,990,532)
Gain on debt settlement, net		-	-	-	167,375
Net and Comprehensive Loss for the period		(410,694)	(501,729)	(900,524)	(3,134,345)
Loss per share – basic and diluted	10(e)	(0.01)	(0.01)	(0.02)	(0.06)
Weighted average number of shares outstanding – basic		55,769,447	49,301,608	55,769,447	50,988,368

VirtualArmour International Inc.
Condensed Interim Consolidated Statements of Changes in Deficit
For the six months ended June 30, 2017 and 2016
(Unaudited - Expressed in U.S. Dollars)

	Common Shares / Membership Units #	Share Capital / Members' Contributions \$	Contributed Surplus \$	Accumulated Deficit \$	Total \$
Balance, December 31, 2015	51,700,000	3,650,715	1,432,743	(6,145,029)	(1,061,571)
Exercise of share purchase warrants	3,452,339	356,651	-	-	356,651
Cancellation of shares	(2,998,392)	-	-	-	-
Transfer value on exercise of share purchase warrants	-	1,113,731	-	-	1,113,731
Share-based payments – vesting of options	-	-	93,209	-	93,209
Net loss	-	-	-	(3,134,345)	(3,134,345)
Balance, June 30, 2016	52,153,947	5,121,097	1,525,952	(9,279,374)	(2,632,325)
Pursuant to private placement	865,500	316,607	-	-	316,607
Less:					
Fair value of warrants issued as part of units	-	(52,649)	-	-	(52,649)
Fair value of finders' warrants	-	(5,143)	5,143	-	-
Cash finders' fees	-	(15,465)	-	-	(15,465)
Share issuance costs	-	(11,257)	-	-	(11,257)
Exercise of share purchase warrants	2,750,000	213,015	-	-	213,015
Share issuance costs	-	(6,056)	-	-	(6,056)
Transfer value on exercise of share purchase warrants	-	724,269	-	-	724,269
Share-based payments – vesting of options	-	-	133,395	-	133,395
Net loss	-	-	-	835,517	835,517
Balance, December 31, 2016	55,769,447	6,284,418	1,664,490	(8,443,857)	(494,949)
Share-based payments – vesting of options	-	-	6,179	-	6,179
Net loss	-	-	-	(900,524)	(900,524)
Balance, June 30, 2017	55,769,447	6,284,418	1,670,669	(9,344,381)	(1,389,294)



VirtualArmour International Inc.
Condensed Interim Consolidated Statements of Cash Flows
For the six months ended June 30, 2017 and 2016
(Unaudited - Expressed in U.S. Dollars)

	2017 \$	2016 \$
Cash Flows (Used In) Provided By Operating Activities		
Net loss for the period	(900,524)	(3,134,345)
Non-cash expenses:		
Depreciation and amortization	68,469	111,106
Share-based payments	6,179	93,209
Change in fair value of warrant derivative liabilities	(17,626)	2,990,532
Gain on debt settlement, excluding legal fees	-	(215,681)
Cash used in operating activities, before changes in operating assets and liabilities	(843,502)	(155,179)
Changes in operating assets and liabilities:		
Accounts receivable	329,512	(42,100)
Other accounts receivable	157,110	(86,338)
Prepaid expenses	(15,442)	(25,418)
Accounts payable and accrued liabilities	211,189	166,424
Deferred revenue	75,625	(21,000)
	(85,508)	(163,611)
Interest paid	(47,405)	(28,294)
Net Cash Used In Operating Activities	(132,913)	(191,905)
Cash Flows Used In Investing Activities		
Purchase of office facilities and equipment	(36,759)	(31,656)
Net Cash Used In Investing Activities	(36,759)	(31,656)
Cash Flows Provided By (Used In) Financing Activities		
Proceeds from the exercise of warrants	-	356,651
Advances from line-of-credit arrangements	5,000	245,000
Repayment of line-of-credit arrangements	-	(295,000)
Repayment of leases	(42,320)	(54,633)
Due to related parties	189,375	(91,612)
Net Cash Provided By Financing Activities	152,055	160,406
Decrease In Cash	(17,617)	(63,155)
Cash – Beginning of the Period	144,530	250,812
Cash – End of the Period	126,913	187,657
Non-cash Investing and Financing Activities	-	-

VirtualArmour International Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the six months ended June 30, 2017 and 2016
(Unaudited - Expressed in U.S. Dollars unless otherwise stated)

1. Organization, Nature of Operations and Going Concern

VirtualArmour International Inc. (formerly VirtualArmor International Inc.) ("VA Intl" or the "Company") was incorporated on March 4, 2015 in the State of Colorado. The registered office of the Company is 8085 S. Chester Street, Suite 108, Centennial, Colorado, United States. Effective October 25, 2016, the Company changed its name from VirtualArmor International Inc. to VirtualArmour International Inc. The Company sells advanced networking and cybersecurity products and solutions to large enterprise and service provider markets. The solutions provided by the Company run the full project life cycle from initial design, through professional and managed services. The Company delivers its products and services by working as a Business Partner with well-established and respected technology partners such as: Juniper Networks, IBM Security, Netskope, Palo Alto Networks and others. The Company's shares trade on the Canadian Securities Exchange (the "CSE") under the symbol "VAI".

The Company's condensed interim consolidated financial statements are presented in U.S. dollars. The functional currency of the Company and all of its wholly-owned subsidiaries is the U.S. dollar.

These condensed interim consolidated financial statements have been prepared on a going concern basis which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company had a net loss of \$967,589 during the six months ended June 30, 2017. As of June 30, 2017, the Company has a working capital deficiency of \$1,616,403 and an accumulated deficit of \$9,344,381. A significant portion of the accumulated deficit is comprised of non-cash accounting expenses such as listing expense (\$4,166,285). The Company has funded losses with external debt and related party advances, share issuances and working capital. The existence of these matters creates a material uncertainty that raises significant doubt about the Company's ability to continue as a going concern. The continuation of the Company as a going concern is dependent upon the obtaining of financing necessary to continue operations and, ultimately, on sustaining profitable operations. These condensed interim consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, the amount and classification of liabilities and the reported revenue and expenses that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

During the six months ended June 30, 2017, the Company entered into an Invoice Purchase Agreement dated April 20, 2017 (Note 3) which will provide the Company with working capital as well as credit and collections support for accounts receivables.

2. Basis of Presentation

Statement of compliance

These condensed interim consolidated financial statements have been prepared in conformity with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, using the same accounting policies as detailed in the audited financial statements of VA Intl for the year ended December 31, 2016. They do not include all the information required for a complete set of annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") and therefore should be read in conjunction with the audited financial statements for the year ended December 31, 2016.

These financial statements were approved by the board of directors for issue on August 28, 2017.

Critical accounting judgments and estimates

The preparation of these condensed interim consolidated financial statements in accordance with IAS 1, Presentation of Financial Statements, requires management to make certain critical accounting estimates and to exercise judgment in applying the Company's accounting policies. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. Critical accounting estimates include the determination of the fair value of share based payments and warrant derivative liabilities as well as the amount to recognize as an allowance for doubtful accounts.

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Critical judgments in applying accounting policies that have the most significant risk of causing material adjustments to the carrying amounts of assets and liabilities include the accounting for revenue recognition, the assessment of the going concern assumption, the determination of impairment of financial and non-financial assets, and determining whether contingent assets or liabilities exist.

The Company must apply judgment in the application of its revenue recognition accounting policy. Judgment is required in order to determine when the significant risks and rewards of ownership have been transferred to the buyer as well as the other criteria required to be assessed as part of the sale of goods. Rendering of services requires the Company to make considerable judgments as to whether the Company has the primary responsibility for providing services to the customer or whether the Company is acting as an agent.

Standards, amendments and interpretations not yet effective

The following new IFRSs have not been early adopted in these financial statements. Management does not intend to adopt these standards prior to the effective date and has not yet assessed the effect on the Company's future results and financial position of adopting these standards:

- i) IFRS 9, *Financial Instruments* (New; to replace IAS 39, *Financial Instruments: Recognition and Measurement*, and IFRIC 9, *Reassessment of Embedded Derivatives*), applicable January 1, 2018.
- ii) IFRS 15, *Revenue from Contracts with Customers*, applicable January 1, 2018.
- iii) IFRS 16, *Leases*, applicable January 1, 2019.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable and/or are not expected to have a significant impact on the Company's financial statements.

3. Receivables

	June 30, 2017 \$	December 31, 2016 \$
Receivables	1,750,477	1,646,663
Less: amounts transferred to third party	(433,326)	-
	1,317,151	1,646,663

On April 20, 2017, the Company entered into an Invoice Purchase Agreement with a third party (the "Purchaser") which provides the Company with working capital as well as credit and collections support for accounts receivable. The Purchaser is paid fees and interest as compensation for providing advances of up to 85% of the value of trade receivables. During the six months ended June 30, 2017, the Company incurred fees and interest of \$17,962. As at June 30, 2017, the Company had \$433,326 outstanding as advances from the Purchaser.

4. Office Facilities and Equipment

Cost	Computer equipment \$	Furniture and Fixtures \$	Total \$
Balance at December 31, 2015	812,820	30,586	843,406
Additions	60,070	-	60,070
Balance at December 31, 2016	872,890	30,586	903,476
Additions	22,690	14,069	36,759
Balance at June 30, 2017	895,580	44,655	940,235

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Accumulated Depreciation

Balance at December 31, 2015	398,083	27,644	425,727
Depreciation for the year	197,404	2,942	200,346
Balance at December 31, 2016	595,487	30,586	626,073
Depreciation for the period	63,767	87	63,854
Balance at June 30, 2017	659,254	30,673	689,927

Carrying Amounts

Balance at December 31, 2016	277,403	-	277,403
Balance at June 30, 2017	236,326	13,982	250,308

The depreciation expense recognized by the Company in each period presented is included in general and administrative expenses.

5. Intangible Assets

Cost	Software Development Cost	\$
Balance at December 31, 2016 and 2015		73,711
Development costs for the period		-
Balance at June 30, 2017		73,711

Accumulated Depreciation	Total	\$
Balance at December 31, 2015		27,642
Depreciation for the year		9,212
Balance at December 31, 2016		36,854
Depreciation for the period		4,615
Balance at June 30, 2017		41,469

Carrying Amounts	Total	\$
Balance at December 31, 2016		36,857
Balance at June 30, 2017		32,242

The depreciation expense recognized by the Company in each period presented is included in general and administrative expenses.

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6. Accounts Payable and Accrued Liabilities

	June 30, 2017 \$	December 31, 2016 \$
Trade payables and accrued liabilities	2,030,424	1,841,145
Payroll liabilities (Note 13)	226,000	303,735
Sales tax payable	40,716	12,984
Total accounts payable and accrued liabilities	2,297,140	2,157,864

7. Warrant Derivative Liabilities

The Company has share purchase warrants exercisable into common shares at an exercise price denominated in Canadian dollars while the Company's functional currency is the U.S. dollar. As a variable amount of U.S. dollars are exercisable into a fixed number of common shares, the share purchase warrants are classified as derivative liabilities.

	\$
Warrant derivative liabilities – December 31, 2015	504,593
Transfer on exercise of share purchase warrants	(1,838,000)
432,750 warrants issued pursuant to a private placement of units	52,649
Change in fair value of warrant derivative liabilities	1,310,520
Warrant derivative liabilities – December 31, 2016	29,762
Change in fair value of warrant derivative liabilities	(17,626)
Warrant derivative liabilities – June 30, 2017	12,136

As at June 30, 2017 and December 31, 2016, the fair value of warrant derivative liabilities was estimated using the Black-Scholes option pricing model with the following assumptions:

	June 30, 2017	December 31, 2016
Average stock price	\$0.38	\$0.25
Average exercise price	\$0.58	\$0.56
Average risk-free interest rate	0.73%	0.73%
Expected life	0.53 years	1.03 years
Expected volatility	71%	126%
Expected dividends	\$nil	\$nil

The expected volatility was calculated using the historical stock price of the Company.

8. Line-of-Credit Arrangements

On February 13, 2014, the Company entered into a line-of-credit ("LOC") arrangement for \$450,000 that has been renewed and extended on multiple occasions. On August 25, 2017, the LOC matured and is now due. The LOC bears interest at a variable interest rate equal to the Wall Street Journal Prime Rate plus 1.00% per annum. The LOC is secured by all assets of the Company and is guaranteed by two members of the Board of Directors.

9. Leases

The Company has equipment leases secured by specific computer equipment. The terms and the outstanding balances as at June 30, 2017 and December 31, 2016 are as follows:

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	June 30, 2017 \$	December 31, 2016 \$
Contrail Cloud, equipment lease repayable in monthly instalments of \$2,517 including interest at 4.47% per annum, due in April 2018.	22,191	35,506
Western Equipment Finance, equipment lease repayable in monthly instalments of \$1,985 including interest at 4.38% per annum, due in November 2020	66,757	76,526
De Lage Landen Financial Services, Inc., equipment lease payable in monthly instalments of \$1,551 including interest at 2.07% per annum, due in June 2017.	-	8,765
SHI International, equipment lease repayable in monthly instalments of \$802 including interest at 4.63% per annum, due in January 2018.	5,238	9,159
SHI International, equipment lease repayable in monthly instalments of \$359 including interest at 4.63% per annum, due in March 2018.	2,838	4,730
Western Equipment Finance, equipment lease repayable in monthly instalments of \$600 including interest at 4.58% per annum, due in September 2019	14,250	18,908
Subtotal	111,274	153,594
Less: current portion	55,833	72,777
Long-term portion	55,441	80,817

Future minimum lease payments related to capital lease obligations are as follows:

	\$
Not later than one year	72,795
Later than one year and not later than five years	59,115
Subtotal	131,910
Less: imputed interest	20,636
Subtotal	111,274
Less: current portion	55,833
Long-term portion	55,441

10. Share Capital

a) Authorized:

300,000,000 common shares without par value.

b) Options:

The Board of Directors has adopted a stock option plan (the "Stock Option Plan" or "Plan") whereby a maximum of 10% of the issued and outstanding Shares, from time to time, may be reserved for issuance pursuant to the exercise of options. Under the terms of the Stock Option Plan, options may be granted only to: (i) employees, officers, directors, and

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consultants of the Company; (ii) employees, officers, directors, and consultants of an affiliate of the Company; and (iii) any other person deemed suitable by the Board to receive options to purchase common shares.

The exercise price of any option when granted may not be less than the greater of the closing market price of the common shares on: (a) the last trading day immediately preceding the date of grant of the option; and (b) the date of grant of the option; provided however, that if the common shares are not listed on any securities exchange, the exercise price may not be less than the fair market value of the common shares as may be determined by the Board of Directors on the day immediately preceding the date of the grant of such option. The options are settled in shares.

The options are non-assignable and non-transferable. Options granted under the Stock Option Plan have a maximum term of five years and can only be exercised by the optionee as long as the optionee remains an eligible optionee pursuant to the Stock Option Plan or within 90 days (or as otherwise determined by the Board of Directors) after ceasing to be an eligible optionee, or, if the optionee dies, within one year from the date of the optionee's death.

A summary of the status of the Company's stock options outstanding as at June 30, 2017 and December 31, 2016 and the changes during the periods then ended is presented below:

	Outside the Plan Number of options #	Within the Plan Number of options #	Weighted average exercise price \$	Weighted Average Life (Years)
Stock options outstanding – December 31, 2015	-	4,937,418	0.10	4.58
Granted	1,085,474	384,526	0.32	
Stock options outstanding – December 31, 2016	1,085,474	5,321,944	0.15	3.81
Granted	2,210,000	-	0.25	
Forfeited	-	(145,000)	0.29	
Balance outstanding – June 30, 2017	3,295,474	5,176,944	0.18	3.33
Balance exercisable – June 30, 2017	-	4,430,856	0.11	3.09

At June 30, 2017, stock options outstanding that entitled the holder thereof to acquire one share for each option held are as follows:

Expiry Date	Exercise Price \$	Number of Options
July 27, 2020	U.S.\$0.10	(1)2,136,000
July 31, 2020	U.S.\$0.10	(2)2,776,418
March 13, 2021	CAD\$0.46	(3)150,000
April 6, 2021	CAD\$0.47	(3)100,000
August 19, 2021	CAD\$0.44	(4)100,000
September 7, 2021	CAD\$0.40	(4)1,000,000
March 23, 2022	CAD\$0.30	(4)1,585,000
June 12, 2022	CAD\$0.405	(4)625,000
		<u>8,472,418</u>

(1) These stock options vested on the date of grant.

(2) 1,451,418 of these stock options vested on the date of grant. 1,350,000 of these stock options vest as follows: 30% twelve months after July 31, 2015 and 8.75% every three months thereafter.

(3) These stock options vest 12.5% every four months after the date of grant.

(4) These stock options vest as follows: 30% twelve months after the date of grant and 8.75% every three months thereafter.

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During the six months ended June 30, 2017, the Company recorded share-based payments expense of \$6,683 (2016 - \$93,209) based on the vesting of stock options. The weighted average fair value of stock options granted during the six months ended June 30, 2017 of \$0.192 (2016 - \$0.263) per option was estimated using the Black-Scholes option pricing model with the following assumptions:

	2017	2016
Average stock price	\$0.26	\$0.35
Average exercise price	\$0.25	\$0.35
Average risk-free interest rate	1.13%	1.38%
Expected life	5.0 years	5.0 years
Expected volatility	100%	100%
Expected dividends	\$nil	\$nil

The expected volatility was calculated in comparison to similar junior public companies.

c) Warrants:

A summary of share purchase warrants outstanding as of June 30, 2017 and December 31, 2016 and the changes during the periods then ended is presented below:

	Number of warrants #	Weighted average exercise price CAD\$	Weighted Average Life (Years)
Share purchase warrants outstanding – December 31, 2015	11,400,000	0.11	0.56
Issued	475,025	0.75	1.50
Exercised	(6,202,339)	0.12	
Expired	(5,197,661)	0.11	
Share purchase warrants outstanding – December 31, 2016	475,025	0.75	1.03
Issued	-		
Share purchase warrants outstanding – June 30, 2017	475,025	0.75	0.78

As at June 30, 2017, the Company had 475,025 share purchase warrants outstanding at an exercise price of CAD\$0.75 per share up to January 11, 2018. Of the share purchase warrants outstanding, 42,275 were allocated to equity and 432,750 were allocated to warrant derivative liabilities (Note 7).

d) Escrow shares:

On October 8, 2015, the Company entered into an escrow agreement with certain shareholders of the Company. 35,774,990 common shares of the Company were placed into escrow. On December 22, 2015, an additional 4,088,716 common shares of the Company were placed into escrow. These escrow shares will be released as follows:

Date of Automatic Timed Release	Amount of Escrow Shares Released
On the date that the Company's common shares were listed on the CSE, November 24, 2015	1/10 of the escrow shares
6 months after the listing date	1/6 of the remainder of the escrow shares
12 months after the listing date	1/5 of the remainder of the escrow shares
18 months after the listing date	1/4 of the remainder of the escrow shares
24 months after the listing date	1/3 of the remainder of the escrow shares
30 months after the listing date	1/2 of the remainder of the escrow shares
36 months after the listing date	The remainder of the escrow shares

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In addition, there are 184,800 other shares that are in escrow that will be released as to 10% of the escrowed shares three months after the date that the common shares were listed on the CSE, 20% of the remainder of the escrowed shares 6 months after the listing date, 20% of the remainder of the escrowed shares 12 months after the listing date, and the remainder 18 months after the listing date.

On March 15, 2016, the Company cancelled 2,998,392 common shares which were being held in escrow for \$nil consideration. In conjunction with this transaction, existing shareholders agreed to voluntarily escrow 3,000,000 common shares on March 15, 2016, to be released in five equal blocks on a quarterly basis over the next 18 months.

As at June 30, 2017, 17,189,391 (December 31, 2016 – 24,011,588) common shares remained in escrow.

e) Basic and diluted loss per share:

During the six months ended June 30, 2017, potentially dilutive common shares totaling 8,947,443 (2016 – 12,687,418) were not included in the calculation of diluted loss per share because their effect was anti-dilutive.

11. Revenue

A breakdown of the revenue is presented below:

	Three months ended		Six months ended	
	2017	June 30, 2016	2017	June 30, 2016
	\$	\$	\$	\$
Hardware and software sales, product support services and other revenue	2,024,253	2,650,286	4,777,202	3,912,154
Managed and professional services	649,057	518,998	1,054,090	934,622
	2,673,310	3,169,284	5,831,292	4,846,776

12. Cost of Sales and Operating Expenses

A breakdown of the cost of sales is presented below:

	Three months ended		Six months ended	
	2017	June 30, 2016	2017	June 30, 2016
	\$	\$	\$	\$
Cost of sales – hardware and software sales	1,826,523	2,044,672	4,070,972	3,007,377
Cost of sales – managed and professional services				
Salaries and consulting fees	308,553	324,194	637,429	534,698
Other	67,173	32,875	113,001	76,559
	2,202,249	2,401,741	4,821,402	3,618,634

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A breakdown of the general and administrative expense is presented below:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Depreciation and amortization	35,059	56,092	68,469	111,106
General and administrative	92,307	109,033	195,786	176,627
Professional fees	92,748	8,077	156,189	73,848
Salaries	91,315	120,989	211,706	198,323
Share-based payments (Note 10(b))	(68,548)	50,873	6,179	93,209
Shareholder communications	11,087	15,078	44,440	25,318
	253,968	360,142	682,769	678,431

A breakdown of the research and development expense is presented below:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Consulting fees	6,327	26,395	11,606	26,395
Salaries	19,989	26,722	46,730	42,589
	26,316	53,117	58,336	68,984

A breakdown of the sale and marketing expense is presented below:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Salaries and commissions	449,947	302,350	889,237	619,288
Travel	57,166	53,545	111,931	82,903
Other	40,056	27,140	130,644	57,130
	547,169	383,035	1,131,812	759,321

13. Related Party Transactions

The Company previously entered into two secured promissory notes with a Director of the Company pursuant to which the Director agreed to provide a revolving line of credit (the "LOC") of an aggregate of up to \$290,000. The amounts are secured by a subordinated, second priority lien on all of the assets of the Company, bear interest at 7% per annum and are due on demand. As at June 30, 2017, the Company is indebted to the Director of the Company for \$257,345 (December 31, 2016 - \$152,206) for advances provided to the Company under this loan and interest accrued on the outstanding balance. During the six months ended June 30, 2017, the Company recorded interest of \$4,866 (2016 - \$4,300).

On June 1, 2017, the Company entered into an additional promissory note with a director of the Company. The promissory notes are unsecured, bear interest at 7% per annum and are due on demand. As at June 30, 2017, the Company is indebted to the Director of the Company for \$91,680 for advances provided to the Company under this loan and interest accrued on the outstanding balance. During the six months ended June 30, 2017, the Company recorded interest of \$1,680.

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In addition to the LOC, the Company has amounts owing to Directors of the Company of \$204,000 (December 31, 2016 - \$148,000) for compensation. These amounts are included in payroll liabilities (Note 6). The amounts owing are unsecured, non-interest bearing and due on demand.

Key management includes the Chief Executive Officer, the Chairman of the Board, the former President, the Vice President of Managed Services and the directors of the Company. Compensation paid or payable to key management for services during the three and six months ended June 30, 2017 and 2016 is as follows.

	Three months ended		Six months ended	
	2017	June 30, 2016	2017	June 30, 2016
	\$	\$	\$	\$
Short-term benefits	138,490	164,990	307,636	347,292
Share-based payments	(63,678)	16,157	(17,957)	31,817
	74,812	181,147	289,679	379,109

14. Subsequent Event

The following transactions occurred subsequent to June 30, 2017:

Stock Option Forfeiture

Subsequent to June 30, 2017, a total of 2,112,000 stock options were forfeited unexercised. 962,000 stock options had an exercise price of US\$0.10 per share, 1,000,000 stock options had an exercise price of CAD\$0.40 and 150,000 stock options had an exercise price of CAD\$0.46.

Line-of-credit Maturity

The LOC (Note 8) matured on August 25, 2017 and is now due.