



VirtualArmour International Inc.
Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 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 September 30, 2017 and December 31, 2016
(Unaudited - Expressed in U.S. Dollars)

	Notes	September 30, 2017 \$	December 31, 2016 \$
ASSETS			
Current			
Cash		76,755	144,530
Accounts receivable	3	916,458	1,646,663
Other receivables		66,880	271,771
Prepaid expenses		122,336	150,253
		1,182,429	2,213,217
Office facilities and equipment, net	4	566,773	277,403
Intangible assets, net	5	81,132	36,857
Total Assets		1,830,334	2,527,477
LIABILITIES			
Current			
Accounts payable and accrued liabilities	6	2,584,408	2,157,864
Deferred revenue		124,969	84,000
Warrant derivative liabilities	7	2,589	29,762
Line-of-credit arrangements	8	-	445,000
Leases-current portion	9	154,413	72,777
Due to related parties	13	344,373	152,206
		3,210,752	2,941,609
Leases-noncurrent portion	9	273,558	80,817
Total Liabilities		3,484,310	3,022,426
DEFICIT ATTRIBUTABLE TO SHAREHOLDERS			
Share capital	10	6,284,418	6,284,418
Contributed surplus		1,748,532	1,664,490
Accumulated deficit		(9,686,926)	(8,443,857)
Total Deficit		(1,653,976)	(494,949)
Total Liabilities and Deficit		1,830,334	2,527,477

Going concern (Note 1)

On behalf of the Board:

"Todd Kannegieter"

"Christopher Blisard"

VirtualArmour International Inc.

Condensed Interim Consolidated Statements of Comprehensive Income (Loss)

For the three and nine months ended September 30, 2017 and 2016

(Unaudited - Expressed in U.S. Dollars)

	Notes	Three months ended September 30		Nine months ended September 30	
		2017 \$	2016 \$	2017 \$	2016 \$
Revenue	11	2,796,309	2,003,095	8,627,601	6,849,871
Cost of sales	12	(2,070,571)	(1,390,072)	(6,891,973)	(5,008,706)
Gross Profit		725,738	613,023	1,735,628	1,841,165
Expenses	12				
General and administrative		445,294	360,865	1,128,063	1,039,296
Research and development		45,268	26,208	103,604	95,192
Sales and marketing		538,682	479,453	1,670,494	1,238,774
Total Expenses		1,029,244	866,526	2,902,161	2,373,262
Loss from Operations		(303,506)	(253,503)	(1,166,533)	(532,097)
Other Income (Expenses)					
Interest expense	8,13	(48,586)	(13,316)	(103,709)	(45,910)
Change in fair value of warrant derivative liabilities	7	9,547	1,638,919	27,173	(1,351,613)
Gain on debt settlement, net		-	-	-	167,375
Net and Comprehensive (Loss) Income for the period		(342,545)	1,372,100	(1,243,069)	(1,762,245)
(Loss) Income per share – basic and diluted	10(e)	(0.01)	0.03	(0.02)	(0.03)
Weighted average number of shares outstanding – basic		55,769,447	54,091,132	55,769,447	52,030,172

VirtualArmour International Inc.
Condensed Interim Consolidated Statements of Changes in Deficit
For the nine months ended September 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)
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	-	(6,900)	-	-	(6,900)
Exercise of share purchase warrants	6,202,339	569,666	-	-	569,666
Cancellation of shares	(2,998,392)	-	-	-	-
Transfer value on exercise of share purchase warrants	-	1,838,000	-	-	1,838,000
Share-based payments – vesting of options	-	-	132,354	-	132,354
Net loss	-	-	-	(1,762,245)	(1,762,245)
Balance, September 30, 2016	55,769,447	6,294,831	1,570,240	(7,907,274)	(42,203)
Share issuance costs – private placement	-	(4,357)	-	-	(4,357)
Share issuance costs – exercise of share purchase warrants	-	(6,056)	-	-	(6,056)
Share-based payments – vesting of options	-	-	94,250	-	94,250
Net loss	-	-	-	(536,583)	(536,583)
Balance, December 31, 2016	55,769,447	6,284,418	1,664,490	(8,443,857)	(494,949)
Share-based payments – vesting of options	-	-	84,042	-	84,042
Net loss	-	-	-	(1,243,069)	(1,243,069)
Balance, September 30, 2017	55,769,447	6,284,418	1,748,532	(9,686,926)	(1,653,976)



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

	2017 \$	2016 \$
Cash Flows Provided By (Used In) Operating Activities		
Net loss for the period	(1,243,069)	(1,762,245)
Non-cash expenses:		
Depreciation and amortization	107,006	168,133
Share-based payments	84,042	132,354
Change in fair value of warrant derivative liabilities	(27,173)	1,351,613
Gain on debt settlement, excluding legal fees	-	(215,681)
Cash used in operating activities, before changes in operating assets and liabilities	(1,079,194)	(325,826)
Changes in operating assets and liabilities:		
Accounts receivable	730,205	(237,579)
Other accounts receivable	204,891	37,952
Prepaid expenses	(24,933)	(31,478)
Accounts payable and accrued liabilities	530,254	(215,422)
Deferred revenue	40,969	(31,500)
	402,192	(803,853)
Interest paid	(90,981)	(41,611)
Net Cash Provided By (Used In) Operating Activities	311,211	(845,464)
Cash Flows Used In Investing Activities		
Purchase of office facilities and equipment	(35,894)	(35,256)
Net Cash Used In Investing Activities	(35,894)	(35,256)
Cash Flows (Used In) Provided By Financing Activities		
Proceeds from the exercise of warrants	-	569,666
Proceeds from a private placement of units	-	316,607
Share issuance costs	-	(22,365)
Advances from line-of-credit arrangements	5,000	430,000
Repayment of line-of-credit arrangements	(450,000)	(325,000)
Repayment of leases	(77,530)	(79,522)
Due to related parties	179,438	(88,501)
Net Cash (Used In) Provided By Financing Activities	(343,092)	800,885
Decrease In Cash	(67,775)	(79,835)
Cash – Beginning of the Period	144,530	250,812
Cash – End of the Period	76,755	170,977
Non-cash Investing and Financing Activities		
42,275 finders' warrants issued	-	5,143
Transfer value on exercise of share purchase warrants	-	1,838,000
Office facilities and equipment purchased under financing leases	351,907	-

VirtualArmour International Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the nine months ended September 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" and its shares are listed on the OTCQB under the symbol "VTLR".

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 \$1,243,069 during the nine months ended September 30, 2017. As of September 30, 2017, the Company had a working capital deficiency of \$2,037,362 and an accumulated deficit of \$9,686,926. 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, 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 nine months ended September 30, 2017, the Company entered into an Invoice Purchase Agreement dated April 20, 2017 (Note 3) which has provided 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 November 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

	September 30, 2017 \$	December 31, 2016 \$
Receivables	1,620,026	1,646,663
Less: amounts transferred to third party	(703,568)	-
	916,458	1,646,663

On April 20, 2017, the Company entered into an Invoice Purchase Agreement with a third party (the "Purchaser") which provided 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 nine months ended September 30, 2017, the Company incurred fees and interest of \$47,775. As at September 30, 2017, the Company had \$703,568 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	374,597	13,204	387,801
Balance at September 30, 2017	1,247,487	43,790	1,291,277

VirtualArmour International Inc.
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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	96,450	1,981	98,431
Balance at September 30, 2017	691,937	32,567	724,504

Carrying Amounts

Balance at December 31, 2016	277,403	-	277,403
Balance at September 30, 2017	555,550	11,223	566,773

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	52,850
Balance at September 30, 2017	126,561

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	8,575
Balance at September 30, 2017	45,429

Carrying Amounts	Total
	\$
Balance at December 31, 2016	36,857
Balance at September 30, 2017	81,132

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

VirtualArmour International Inc.
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6. Accounts Payable and Accrued Liabilities

	September 30, 2017	December 31, 2016
	\$	\$
Trade payables and accrued liabilities	2,301,137	1,841,145
Payroll liabilities (Note 13)	267,500	303,735
Sales tax payable	15,771	12,984
Total accounts payable and accrued liabilities	2,584,408	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	(27,173)
Warrant derivative liabilities – September 30, 2017	2,589

As at September 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:

	September 30, 2017	December 31, 2016
Average stock price	\$0.31	\$0.25
Average exercise price	\$0.60	\$0.56
Average risk-free interest rate	0.73%	0.73%
Expected life	0.28 years	1.03 years
Expected volatility	84%	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 was repaid in full. The LOC bore interest at a variable interest rate equal to the Wall Street Journal Prime Rate plus 1.00% per annum. The LOC was secured by all assets of the Company and was 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 September 30, 2017 and December 31, 2016 are as follows:

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(Unaudited - Expressed in U.S. Dollars unless otherwise stated)

	September 30, 2017 \$	December 31, 2016 \$
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.	2,064	9,159
SHI International, equipment lease repayable in monthly instalments of \$359 including interest at 4.63% per annum, due in March 2018.	1,892	4,730
Contrail Cloud, equipment lease repayable in monthly instalments of \$2,517 including interest at 4.47% per annum, due in April 2018.	11,612	35,506
Western Equipment Finance, equipment lease repayable in monthly instalments of \$600 including interest at 4.58% per annum, due in September 2019	12,666	18,908
Western Equipment Finance, equipment lease repayable in monthly instalments of \$1,985 including interest at 4.38% per annum, due in November 2020	61,873	76,526
Western Equipment Finance, equipment lease repayable in monthly instalments of \$6,394 including interest at 4.37% per annum, due in September 2020	189,583	-
PNC Equipment Finance, equipment lease repayable in monthly instalments of \$3,752 including interest at 7.84% per annum, due in September 2020	113,341	-
Wells Fargo Vendor Financial Services, equipment lease repayable in monthly instalments of \$1,178 including interest at 9.12% per annum, due in September 2020	34,940	-
Subtotal	427,971	153,594
Less: current portion	154,413	72,777
Long-term portion	273,558	80,817
Future minimum lease payments related to capital lease obligations are as follows:		
		\$
Not later than one year		180,859
Later than one year and not later than five years		319,269
Subtotal		500,128
Less: imputed interest		72,157
Subtotal		427,971
Less: current portion		154,413
Long-term portion		273,558

VirtualArmour International Inc.
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(Unaudited - Expressed in U.S. Dollars unless otherwise stated)

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 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 September 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	-	4,962,418	0.10	4.58
Granted	1,085,474	384,526	0.32	
Stock options outstanding – December 31, 2016	1,085,474	5,346,944	0.15	3.81
Granted	2,010,000	200,000	0.25	
Forfeited	(1,000,000)	(1,282,000)	0.22	
Balance outstanding – September 30, 2017	2,095,474	4,264,944	0.17	3.45
Balance exercisable – September 30, 2017	25,642	3,601,025	0.11	2.85

At September 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⁾ 1,424,000
July 31, 2020	U.S.\$0.10	⁽²⁾ 2,526,418
April 6, 2021	CAD\$0.47	⁽³⁾ 100,000
August 19, 2021	CAD\$0.44	⁽³⁾ 100,000
March 23, 2022	CAD\$0.30	⁽³⁾ 1,585,000
June 12, 2022	CAD\$0.405	⁽³⁾ 625,000
		<u>6,360,418</u>

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- (1) These stock options vested on the date of grant.
- (2) 1,451,418 of these stock options vested on the date of grant. 1,075,000 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 as follows: 30% twelve months after the date of grant and 8.75% every three months thereafter.

During the nine months ended September 30, 2017, the Company recorded share-based payments expense of \$84,042 (2016 - \$132,354) based on the vesting of stock options. The weighted average fair value of stock options granted during the nine months ended September 30, 2017 of \$0.184 (2016 - \$0.240) per option was estimated using the Black-Scholes option pricing model with the following assumptions:

	2017	2016
Average stock price	\$0.25	\$0.32
Average exercise price	\$0.25	\$0.32
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 September 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 – September 30, 2017	475,025	0.75	0.28

As at September 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:

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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

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 September 30, 2017, 16,589,391 (December 31, 2016 – 24,011,588) common shares remained in escrow.

e) Basic and diluted loss per share:

During the nine months ended September 30, 2017, potentially dilutive common shares totaling 6,835,443 (2016 – 6,882,443) 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 September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Hardware and software sales, product support services and other revenue	2,030,565	1,386,707	6,755,861	5,298,861
Managed and professional services	765,744	616,388	1,871,740	1,551,010
	2,796,309	2,003,095	8,627,601	6,849,871

12. Cost of Sales and Operating Expenses

A breakdown of the cost of sales is presented below:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Cost of sales – hardware and software sales	1,610,606	1,059,878	5,681,578	4,067,255
Cost of sales – managed and professional services				
Salaries and consulting fees	404,081	285,004	1,041,510	819,702
Other	55,884	45,190	168,885	121,749
	2,070,571	1,390,072	6,891,973	5,008,706

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Depreciation and amortization	38,537	57,027	107,006	168,133
General and administrative	122,978	134,988	318,764	336,933
Professional fees	25,593	56,966	181,782	130,814
Salaries	145,216	72,739	356,922	271,062
Share-based payments (Note 10(b))	77,863	39,145	84,042	132,354
Shareholder communications	35,107	-	79,547	-
	445,294	360,865	1,128,063	1,039,296

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Consulting fees	8,957	5,819	20,563	32,214
Salaries	36,311	20,389	83,041	62,978
	45,268	26,208	103,604	95,192

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Salaries and commissions	373,102	369,070	1,262,339	988,358
Travel	51,862	40,650	163,793	123,553
Other	113,718	69,733	244,362	126,863
	538,682	479,453	1,670,494	1,238,774

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 September 30, 2017, the Company is indebted to the Director of the Company for \$251,046 (December 31, 2016 - \$152,206) for advances provided to the Company under this loan and interest accrued on the outstanding balance. During the nine months ended September 30, 2017, the Company recorded interest of \$9,401 (2016 - \$7,092).

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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 September 30, 2017, the Company is indebted to the Director of the Company for \$93,327 for advances provided to the Company under this loan and interest accrued on the outstanding balance. During the nine months ended September 30, 2017, the Company recorded interest of \$3,327.

In addition to the LOC, the Company has amounts owing to Directors of the Company of \$220,500 (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, the Vice President of Sales and the other directors of the Company. Compensation paid or payable to key management for services during the three and nine months ended September 30, 2017 and 2016 is as follows.

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Short-term benefits	291,994	166,882	599,630	514,174
Share-based payments	(6,873)	28,813	(24,830)	60,630
	285,121	195,695	574,800	574,804