

VIRTUALARMOUR REPORTS Q2 2020 RESULTS

Realizes Highest Quarterly Operating Income in Five Years

CENTENNIAL, Colorado, – (August 31, 2020) – VirtualArmour International Inc. (CSE:VAI) (OTCQB:VTLR), a premier cybersecurity managed services provider, reported results for the second quarter ended June 30, 2020. Financial results are in U.S. dollars, with comparisons made to the same year-ago quarter unless otherwise noted. For complete details, please refer to our financial statements and discussion found here: <https://www.sedar.com/DisplayCompanyDocuments.do?lang=EN&issuerNo=00037617>

2020-Q2 Financial Highlights

- Managed and professional services revenue for the quarter increased to \$1.7 million, increasing by 29.7% year-over-year.
- Gross profit margins for managed and professional services exceeded 56% with overall gross profit margin, including lower margin resale revenue, of 43.3%.
- The company realized \$139,000 in operating income in the quarter ending June 30, 2020.
- Adjusted EBITDA was \$181,000 for the quarter ending June 30, 2020. See Supplemental Non-GAAP Financial Measures below.
- Annual recurring revenue (ARR) totaled \$5.1 million at June 30, 2020, representing an increase of more than 13% from \$4.5 million at June 30, 2019. ARR is defined as the value of VirtualArmour's service contracts normalized to a one-year period.

2020-Q2 Operational Highlights

- Launch of new Essential Core Managed Infrastructure and Essential Core Managed SIEM service offerings. These economical service offerings enable current and new clients to extend, renew, or establish contracts with VirtualArmour given the current market conditions.
- VirtualArmour & Dynamic Funding partnership enables financial options for clients to defer payments on managed service costs. Locks in for the term - hardware, software, and managed services for reduced upfront cashflow expenditure.
- Continued pursuit of a strengthened relationship with technical partners, driving additional leads into the business. Leveraging new partnerships with data center companies that focus on re-selling VirtualArmour services to their existing client base.
- Focus on a targeted audience of mid-size enterprise and investment in digital marketing tactics and website refinement/navigation.
- Won a 3-year contract with a Healthcare client with a TCV of \$1.7M expanding professional and managed services and integrating a major hardware/software refresh. Includes Managed SIEM and Vulnerability Scanning offerings.
- Solidified partnership with Teesside University UK, commenced the joint venture to further develop VirtualArmour automation platform with a short, mid and long term roadmap to increase efficiencies, margin and intellectual property. This project is slated to last 12 months and will consist of four phases. It is expected that by the conclusion of this project, gross margin will increase considerably over current values. The ROI on this initiative will be realized by end of 2020.

2020-Q2 Financial Summary

- Revenue totaled \$2.65 million for the three months ending June 30, 2020. Managed and professional services revenue totaled \$1.7 million in the first quarter reflecting a 29.7% increase in managed and

professional services revenue year-over-year. Product revenue reduced year-over-year by 31.1% to \$964,000.

- Cost of sales totaled \$1.5 million for the second quarter 2020 as compared to \$2.04 million in 2019. The decrease in cost of sales was due primarily to a decrease in product cost of sales.
- Gross profit was \$1.15 million for the second quarter 2020 as compared to \$.67 million in 2019. The change in gross profit was due to higher margin revenues from managed services and higher utilization of professional services resources in the second quarter 2020.
- Total expenses were \$1.01 million in the second quarter 2020 as compared to \$1.21 million in the prior year.
- Operating income was \$139,000 for the second quarter 2020 compared to an operating loss of \$548,000 in 2019. Net loss was \$127,500 or \$(0.00) per share in the second quarter as compared to a net loss of \$646,000 or \$(0.01) per share in the prior year.
- Cash totaled \$11,209 at June 30, 2020, compared to \$25,000 at June 30, 2019.

Management Commentary

VirtualArmour CEO, Russ Armbrust highlights, “We are pleased to see that this has been the highest adjusted EBITDA realized by the company in the last five years. Given the current economic conditions, the market has proven to show an invested interest in cybersecurity.”

Tianyi Lu VirtualArmour VP Product Strategy , explains, “To cope with the shift we have seen since COVID, we launched our Essential Core service offerings. These pared down service offerings enable current and new clients to continue working with our team and remain compliant, while being mindful of their budgets.”

Chad Schamberger, VirtualArmour VP of Operations, mentions, “While launching our new Essential Core service offerings has had a profound effect on gaining new clients, we continue to build out our more substantial offerings such as Data Center Optimization and Cloud Services. Our current clients are realizing the value that our team brings not only to implement new hardware and software but to fully manage their IT.”

VirtualArmour Outlook 2020

COVID-19 pandemic has forced a rapid shift in business to a remote workforce, something most companies were not prepared to do. With employees working from home for the first time, many IT departments are overwhelmed in regard to their cybersecurity posture and the expansion of their Remote Access VPNs. While having employees work from home reduces the risk of spreading and contracting the virus, this also puts business data at risk of malicious security threats. An unprotected remote workforce increases a company’s chance of security threats and can lead to detrimental consequences for a business – some even being forced into bankruptcy. In order to protect the remote workforce and prevent data loss, businesses will need to keep a close eye on security or hire an outside Managed Security Services Provider (MSSP) to ensure their information is secure. Due to its focus and go-to market on Managed Services, VirtualArmour is better prepared operationally and strategically to address these rapidly evolving needs compared to others that may have a narrower focus on just hardware/software resale.

Due to this rapidly evolving environment, VirtualArmour’s customers have approached the Company for needed expertise on filling their ever-changing needs. Companies are laying off IT staff to cut costs which results in an increased reliance on MSPs. Customers are relying on VirtualArmour as their strategic partner to help them with not only the planning and design, but also on-going managed services post COVID. VirtualArmour is well-positioned to capitalize on this growth opportunity and continues to deepen its penetration into the healthcare, financial, retail and service provider industries. VirtualArmour has seen an

uptick in professional services around SSL VPN migrations and implementations due to a shifting workforce to all remote employees. The Company's ability to provide Network Managed Services has been emphasized due to client base having to work fully remote with a reliance on digital communications' uptime/availability critical to their success.

In order to increase managed services gross margin and further internal operational efficiency, VirtualArmour has enhanced its roadmap for automation. Based on existing KPI's, it is expected that the productivity of our SOC analysts will drastically increase due to automating more of their typical workload, allowing us to accomplish more with less. SOC automation will allow VirtualArmour to resolve current and future threats quickly with automated proprietary playbooks, as attackers are becoming more sophisticated in their tactics and techniques. This differentiator keeps VirtualArmour at the forefront of stopping cybersecurity threats and increasing our clients' security postures. The SOC Automation project in conjunction with Teesside University is due to commence in early September and the expectation is that we will start to see results by the end of 2020 – setting the foundations for expansion at scale in 2021.

About VirtualArmour

VirtualArmour International is a global cybersecurity and managed services provider that delivers customized solutions to help businesses build, monitor, maintain and secure their networks.

The company maintains 24/7 client monitoring and service management with specialist teams located in its U.S. and UK-based security operation centers. Through partnerships with best-in-class technology providers, VirtualArmour delivers leading hardware and software solutions for customers that are both sophisticated and scalable, and backed by industry-leading customer service and experience. The company's proprietary CloudCastr client portal and prevention platform provides clients with unparalleled access to real-time reporting on threat levels, breach prevention and overall network security. VirtualArmour services a wide range of clients, which include Fortune 500 companies and several industry sectors in over 30 countries across five continents. For further information, visit www.virtualarmour.com.

Supplemental Non-GAAP Financial Measures

In addition to GAAP financial measures, management uses non-GAAP financial measures to assess the company's operational performance. It is likely that the non-GAAP financial measures used by the company will not be comparable to similar measures reported by other issuers or those used by financial analysts as their measures may have different definitions. Generally, a non-GAAP financial measure is a numerical measure of an entity's historical or future financial performance, financial position or cash flows that is neither calculated nor recognized under GAAP. Management believes that such non-GAAP financial measures can be important as they provide users of the financial statements with a better understanding of the results of the company's recurring operations and their related trends, while increasing transparency and clarity into its operating results. Management also believes these measures can be useful in assessing the company's capacity to discharge its financial obligations.

Management assesses adjusted EBITDA as the net gain (loss) for the period as reported excluding depreciation and amortization, change in fair value of warrant derivative liabilities, share-based compensation and interest expense. Adjusted EBITDA is not a term recognized under GAAP and non-GAAP measures do not have standardized meaning. Accordingly, non-GAAP measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

The table below provides a reconciliation of net gain (loss) for the period as reported to non-GAAP adjusted EBITDA for the three months and six months ended June 30, 2020 and 2019:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net Income	\$ (127,445)	\$ (645,775)	\$ (1,017,378)	\$ (1,048,701)
Depreciation and Amortization	\$ 83,877	\$ 96,925	\$ 168,698	\$ 197,480
Interest Expense	\$ 155,258	\$ 97,536	\$ 733,173	\$ 149,266
Change in Value of Warrant Derivatives	\$ 111,109	\$ -	\$ 111,109	\$ -
Share-based Payments	\$ (41,397)	\$ 19,131	\$ (2,786)	\$ 36,786
Adjusted EBITDA	\$ 181,402	\$ (432,183)	\$ (7,184)	\$ (665,169)

Important Cautions Regarding Forward Looking Statements

This press release may include forward-looking information within the meaning of Canadian securities legislation and U.S. securities laws. This press release includes certain forward-looking statements concerning a service contract VirtualArmour has entered into with a current client, VirtualArmour's continued relationship with various suppliers, the future performance of our business, its operations and its financial performance and condition, as well as management's objectives, strategies, beliefs and intentions. The forward-looking information is based on certain key expectations and assumptions made by the management of VirtualArmour. Although VirtualArmour believes that the expectations and assumptions on which such forward-looking information is based are reasonable, undue reliance should not be placed on the forward-looking information as VirtualArmour cannot provide any assurance that it will prove to be correct.

Forward-looking statements are frequently identified by such words as "may", "will", "plan", "expect", "anticipate", "estimate", "intend" and similar words referring to future events and results. Forward-looking statements are based on the current opinions and expectations of management. All forward-looking information is inherently uncertain and subject to a variety of assumptions, risks and uncertainties, including the success of the Company in performing the IT implementation and migration, performance under the contract by all parties, the ability of VirtualArmour to meet timelines, the continued availability of necessary hardware, the absence of any trade war or tariffs affecting VirtualArmour's ability to perform, competitive risks and the availability of financing. These forward-looking statements are made as of the date of this press release and VirtualArmour disclaims any intent or obligation to update publicly any forward-looking information, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

VirtualArmour International Inc.
Interim Consolidated Statements of Operations and Comprehensive Loss
For the three and six months ended June 30, 2020 and 2019
(Unaudited - Expressed in U.S. Dollars)

	Three months ended		Six months ended	
	2020	June 30 2019	2020	June 30 2019
	\$	\$	\$	\$
Revenue	2,652,712	2,702,303	5,129,105	6,250,489
Cost of sales	(1,502,978)	(2,035,882)	(3,249,407)	(4,501,962)
Gross Profit	1,149,734	666,421	1,879,698	1,748,527
Expenses				
General and administrative	489,441	511,763	1,000,242	1,289,966
Research and development	91,883	52,519	182,102	101,952
Sales and marketing	429,488	650,378	870,450	1,256,044
Total Expenses	1,010,812	1,214,660	2,052,794	2,647,962
Gain (Loss) from Operations	138,922	(548,239)	(173,096)	(899,435)
Other Income (Expenses)				
Change in fair value of warrant derivative liabilities	(111,109)	-	(111,109)	-
Interest expense	(155,258)	(97,536)	(733,173)	(149,266)
Net and Comprehensive Loss for the period	(127,445)	(645,775)	(1,017,378)	(1,048,701)
Loss per share – basic and diluted	(0.00)	(0.01)	(0.01)	(0.02)
Weighted average number of shares outstanding – basic and diluted	106,508,822	63,599,447	90,005,216	63,599,447

VirtualArmour International Inc.
Interim Consolidated Balance Sheets
As at June 30, 2020 and December 31, 2019
(Unaudited - Expressed in U.S. Dollars)

	June 30, 2020 \$	December 31, 2019 \$
ASSETS		
Current Assets		
Cash	11,209	145,268
Accounts receivable	1,013,853	3,776,520
Other receivables	–	47,513
Prepaid expenses	212,000	279,003
Contract assets	722,683	722,683
Total Current Assets	1,959,745	4,970,987
Operating lease right-of-use assets	38,140	88,242
Property and equipment	411,011	555,860
Intangible assets	37,605	45,519
Contract assets	180,671	542,012
Total Assets	2,627,172	6,202,620
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	2,096,257	5,305,786
Factoring payable	680,965	377,740
Deferred revenue	972,782	1,099,387
Loans payable	602,851	1,206,468
Current portion of operating lease liabilities	44,961	100,772
Current portion of finance lease liabilities	57,816	138,441
Due to related parties	122,361	401,699
Total Current Liabilities	4,577,993	8,630,293
Deferred revenue	215,820	626,178
Loans payable	590,437	281,984
Warrant liabilities	703,430	–
Finance lease liabilities	–	12,188
Total Liabilities	6,087,680	9,550,643
STOCKHOLDERS' DEFICIT		
Common stock, no par value, 300,000,000 shares authorized Issued and outstanding: 106,508,822 (2019 – 63,599,447) shares	8,578,654	7,670,975
Additional paid-in capital	2,010,659	2,013,445
Deficit	(14,049,821)	(13,032,443)
Total Stockholders' Deficit	(3,460,508)	(3,348,023)
Total Liabilities and Stockholders' Deficit	2,627,172	6,202,620

Company Contact

Russ Armbrust, CEO
VirtualArmour International Inc.
Tel (720) 644-0913

[Email Contact](#)