

VIRTUALARMOUR INTERNATIONAL INC.

State of Incorporation: Colorado
8085 S. Chester Street, Suite 108
Centennial, CO
80112

720-961-3304

<http://www.virtualarmour.com>

SIC Code:

7371 Computer Programming Services

Interim Financial Report
For the period ending September 30, 2017
(the "Reporting Period")

The number of shares outstanding of our Common Stock is 55,769,447 as of November 28, 2017.

The number of shares outstanding of our Common Stock is 55,769,447 as of September 30, 2017 (end of previous reporting period).

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934):

Yes: ☐ No: ☒

Indicate by check mark whether the company's shell status has changed since the previous reporting period:

Yes: ☐ No: ☒

Indicate by check mark whether a change in control of the company has occurred over this reporting period:

Yes: ☐ No: ☒

Item 1 Exact name of the issuer and the address of its principal executive offices.

The name of the issuer is VirtualArmour International Inc. On September 28, 2016, the issuer changed its name from VirtualArmor International Inc.

8085 S. Chester Street, Suite 108
Centennial, CO
80112

Telephone: 720-961-3304
Fax Number: 720-528-7919

<http://www.virtualarmour.com>

Investor relations contact:

Nick Dinsmoor
Vice President Strategy and Marketing
Office: 720-644-0913
nick.dinsmoor@virtualarmour.com

Item 2 Shares outstanding.

In answering this item, provide the information below for each class of securities authorized. Please provide this information (i) as of the end of the issuer's most recent fiscal quarter and (ii) as of the end of the issuer's last two fiscal years.

| | Period ending September 30, 2017 | Period ending December 31, 2016 | Period ending December 31, 2015 |
|--|---|--|--|
| Number of shares authorized: | 300,000,000 | 300,000,000 | 300,000,000 |
| Number of shares outstanding: | 55,769,447 | 55,769,447 | 51,700,000 |
| Freely tradeable shares (public float): | 21,827,566 | 16,850,0271 | 12,667,666 |
| Number of beneficial holders owning at least 100 shares: | 129 | 133 | 151 |
| Total number of shareholders of record: | 129 | 133 | 151 |

Since June 30, 2017, the issuer has not issued any securities.

Item 3 Interim financial statements.

The below financial statements for the period ended September 30, 2017 are incorporated by reference and attached at the end of this Quarterly Update:

1. balance sheet;
2. statement of income;
3. statement of cash flows; and
4. financial notes.

Item 4 Management’s discussion and analysis or plan of operation.

The management discussion and analysis for the period ended September 30, 2017 is incorporated by reference and is attached at the end of this Quarterly Update.

Item 5 Legal proceedings.

There are no current, past, pending or threatened legal proceedings or administrative actions either by or against the issuer that could have a material effect on the issuer’s business, financial condition, or operations and any current, past or pending trading suspensions by a securities regulator.

Item 6 Defaults upon senior securities.

Not applicable.

Item 7 Other information.

On August 21, 2017, Matthew James Anderson resigned as Chief Financial Officer. The Board of Directors approved the appointment of Todd Kannegieter as Interim Chief Financial Officer. On October 10, 2017, the Board of Directors approved the appointment of John Donaldson as Chief Financial Officer.

Item 8 Exhibits.

- 3.1 Unaudited condensed interim consolidated financial statements
- 3.2 Management discussion and analysis
- 9.1 Certification of principal executive officer
- 9.2 Certification of principal financial officer

Item 9 Certifications.

Current certifications are filed as Exhibits 9.1 and 9.2 to this Quarterly Report.

Exhibit 3.1



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)

| | | September 30, 2017 \$ | December 31, 2016 \$ |
|---|-------|-----------------------------|----------------------------|
| | Notes | | |
| 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)

| | | Three months ended September 30 | | Nine months ended September 30 | |
|--|--------------|------------------------------------|-------------|-----------------------------------|-------------|
| | Notes | 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.

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)

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.
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)

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.
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)

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:

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)

| | 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.
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)

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> |

VirtualArmour International Inc.
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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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For the nine months ended September 30, 2017 and 2016
(Unaudited - Expressed in U.S. Dollars unless otherwise stated)

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).

VirtualArmour International Inc.

Notes to the Condensed Interim Consolidated Financial Statements

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

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 |



***VirtualArmour International Inc.
Management Discussion and Analysis
For the nine months ended September 30, 2017***

The following information, prepared as of November 28, 2017, should be read in conjunction with the condensed interim consolidated financial statements of VirtualArmour International Inc. (the “Company” or “VA Intl” or “VirtualArmour”) for the three and nine months ended September 30, 2017, together with the audited consolidated financial statements of the Company for the year ended December 31, 2016, and the related Management’s Discussion and Analysis (the “Annual MD&A”) for that fiscal year. The referenced condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). All amounts are expressed in U.S. dollars unless otherwise indicated.

CAUTIONARY STATEMENT ON FORWARD LOOKING INFORMATION

This Management Discussion and Analysis (the “MD&A”) may include forward-looking statements with respect to business plans, activities, prospects, opportunities and events anticipated or being pursued by the Company and the Company’s future results. These statements relate to future events or the Company’s future performance. All statements other than statements of historical fact are forward-looking statements. Statements that include the words “believes,” “expects,” “may,” “will,” “should,” “potential,” “estimates,” “anticipates,” “aim,” “goal” or other comparable terminology and similar statements of a future or forward looking nature identify forward-looking statements. Although the Company believes the assumptions underlying such statements to be reasonable, any of the assumptions may prove to be incorrect. The anticipated results or events upon which current expectations are based may differ materially from actual results or events. Therefore, undue reliance should not be placed on such forward-looking information. A number of risks and uncertainties could cause the Company’s actual results to differ materially from those expressed or implied by the forward-looking statements, including: (1) a downturn in general economic conditions in North America and internationally, (2) the risk that the Company does not execute its business plan, (3) inability to retain key employees, (4) inability to finance operations and growth, and (5) other factors beyond the Company’s control.

Forward-looking statements speak only as of the date of this MD&A and actual results could differ materially from those anticipated in the forward-looking statements as a result of a number of factors. Investors should not place undue reliance on forward-looking statements as the plans, intentions or expectations upon which they are based may not occur, and the Company does not undertake to update forward-looking statements except as required by applicable securities laws. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

COMPANY OVERVIEW

VirtualArmour is an 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 US and UK-based security operation centers (“SOC”). 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. VirtualArmour’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 those listed on the Fortune 500 - within several industry sectors, in over 30 countries, across five continents.

The Company’s shares trade on the Canadian Securities Exchange (the “CSE”) under the symbol “VAI” and are listed on the OTCQB under the symbol “VTLR”.

Further information about the Company is available under its profile on the SEDAR website, www.sedar.com, on the CSE website, www.thecse.com and on its website, www.virtualarmour.com.

OVERALL PERFORMANCE

During the nine months ended September 30, 2017, the Company recorded revenues of \$8,627,601(2016 - \$6,849,871) a 26% period over period growth,.

With the global Managed Services market experiencing continued growth, VirtualArmour increased period over period (YTD Q3'16 compared to YTD Q3'17) growth of Managed and Professional Services by 21% across multiple industry sectors including healthcare, technology, medical research and non-profit.

The majority of new contracts were multi-year and included the securing of Managed and Professional Services as well as hardware and software.

The Company continued to strengthen its market presence through expanded partnerships with the industry's leading technology vendors. It also added two new technology partners to its line card, brought in additional services, expanded its product offerings, thus allowing the Company to successfully increase its ability to secure new clients.

VirtualArmour added 15 new clients during the first nine months of 2017. A majority of these clients became part of the Managed Services practice, others Professional Services and almost all procured hardware and software solutions from the Company.

The Company continued to maintain a customer retention rate of over 95% during the nine months ended September 30, 2017. This reflects the Company's continued focus on prevention, proactive communication and investment in the best technology and personnel. With the ongoing growth in customer acquisition, increases in customers on a monthly recurring revenue model, coupled with the high customer retention, VirtualArmour is on track to exceed its growth goals for 2017.

PARTNER FOR SUCCESS

The Company increased its capabilities by adding two new market leading cybersecurity technologies in Q3 to be utilized on the Company's Managed Services platform. With enterprises continuously adopting new and up to date cybersecurity solutions into their operations, it is imperative for VirtualArmour to strategically on-board new technologies that will increase its addressable market. Many businesses across the U.S. are currently using one or more of these technologies in their network and need a strong Managed Services company to help them monitor the effectiveness of their security platforms and identify any potential threats to their proprietary data. The Company's Managed and Professional Services business serves as a high margin multi-year-agreement platform that will contribute to predictable and recurring cash flows in the years to come. The Company expects this segment of its business to become a larger percentage of its overall business and ultimately become the main driving force to its bottom line in the future.

OUTLOOK

Due to the growing threat of targeted breaches across all industries and business sizes, the outlook for the remaining quarter of 2017 is very positive as increasing budgets are allocated to cyber protection and preparing for 2018. Opportunities for specialist service providers in the cybersecurity sector have grown in line with the increased volume of cyber-attacks being encountered by businesses, non-profits, and government institutions and covered by global media. This shift has not only led to increasing enterprise budgets being allocated to cyber protection but also increased interest in investment opportunities in what is a high growth sector.

According to Cybersecurity Ventures' recent quarterly report⁽¹⁾, global cybersecurity spending is predicted to exceed \$1 trillion cumulatively over the next five years, from 2017 to 2021. In 2004, the global cybersecurity market was worth \$3.5 billion. In 2017 spending is expected to reach \$120 billion.

VirtualArmour is well positioned to capitalize on this growth opportunity and continues to deepen its penetration into the Healthcare, Financial, Retail and Service provider verticals. Margin growth is anticipated from a ramp up in Managed Services sales and expansions into new markets led by a growing sales, marketing, and service organization. The following strategic goals are designed to increase growth and profitability in both the short term and long term.

1. **Sell VirtualArmour as an Exclusive Managed Services Provider.** The Company will continue to maintain a clear focus on promoting and executing on its core competencies: Managed Services, Professional Services and hardware/software solutions in cooperation with its premier technology partners. VirtualArmour's service delivery and client experience in the industry is second to none and will continue to broaden its penetration within the enterprise space.
2. **Deliver and Communicate Value to Clients.** Bringing a coordinated, customized and a personal service that exceeds the Company's customers' expectations is critical to differentiating VirtualArmour from its competitors and winning new business. The Company intends to continue to bolster its existing cybersecurity services and product offerings with additional services and technologies that further support and expand the Company's vision of an end-to-end Managed and Professional Security Services company.
3. **Increase Service Efficiency and Client Profitability:** The Company will continue to evolve its service delivery practice to increase response time, offer proprietary engagement tools and broaden the volume of supported technologies. Additional focus will be on leveraging new technology, staff and processes to decrease per client operating expense.

(1) *Cybersecurity Ventures Research Report - <http://cybersecurityventures.com/cybersecurity-market-report/>*

DISCUSSION OF OPERATIONS

Nine months ended September 30, 2017

Hardware and software sales and product support services revenues during the nine months ended September 30, 2017 were \$6,755,861 (2016 - \$5,298,861) while Managed and Professional Services revenues were \$1,871,740 (2016 - \$1,551,010). The gross profit as a percentage of revenue was 20.1% in the 2017 period compared to 26.9% in the 2016 period. The decrease in gross profit margin was driven primarily by increases in hardware and software sales and product support services, which has a lower gross profit margin as compared to Managed and Professional Services.

The Company recorded a net loss of \$1,243,069 (\$0.02 per share) for the nine months ended September 30, 2017, as compared to net loss of \$1,762,245 (\$0.03 per share) for the nine months ended September 30, 2016. The table below details certain non-cash and other transactions that for the purposes of this discussion have been adjusted out of the reported loss to produce an adjusted loss that forms a better basis for comparing the year-over-year operating results of the Company.

| | 2017 \$ | 2016 \$ |
|--|-------------|-------------|
| Loss for the period as reported | (1,243,069) | (1,762,245) |
| Add (deduct): | | |
| Gain on debt settlement, net of legal fees | - | (167,375) |
| Change in fair value of warrant derivative liabilities | (27,173) | 1,351,613 |
| G&A expense – share-based payments | 84,042 | 132,354 |
| Adjusted loss for the period ⁽¹⁾ | (1,186,200) | (445,653) |

- (1) Adjusted loss for the period is not a term recognized under IFRS. Non-IFRS measures do not have standardized meaning. Accordingly, non-IFRS measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

Comments regarding certain of these items are as follows:

- During 2016, the Company recorded a gain on debt settlement as a result of settling amounts owing to a former officer of the Company.
- Change in fair value of warrant derivative liabilities represents the change in the value of warrants held by shareholders. The accounting fair value of the warrants increases/decreases as the share price increases/decreases. As the share price at September 30, 2016 was higher than the share price at December 31, 2015, the Company recorded a loss on the change in fair value during the nine months ended September 30, 2016. The gain/loss does not represent a cash outflow to the Company.
- Non-cash share-based payments expense fluctuates in accordance with the timing of stock option grants and the Company's share price, among other factors.

The comments below relate to the results of operations excluding the items (primarily non-cash) discussed above:

- The Company earned revenue of \$8,627,601 during the 2017 period (2016 - \$6,849,871). The increase was due primarily to an increase in new clients and expansion of services to existing clients.
- Cost of sales was \$6,891,973 during the 2017 period (2016 - \$5,008,706). The increase in cost of sales was due to the corresponding increase in revenue.
- General and administrative expenses were \$1,128,063 during the 2017 period (2016 - \$1,039,296). The increase reflects an increase in staffing levels and growth in operations.
- Research and development expense was \$103,604 during the 2017 period (2016 - \$95,192). The expense is comprised of salaries to relevant employees as well as consulting and development fees.
- Sales and marketing expense was \$1,670,494 during the 2017 period (2016 - \$1,238,774). The increase was due to additions to sales and marketing staff, increased efforts in penetrating new markets and increasing exposure of the company to the investment community.

Three months ended September 30, 2017

The Company recorded a net loss of \$342,545 (\$0.01 per share) for the three months ended September 30, 2017, as compared to net income of \$1,372,100 (\$0.03 per share) for the three months ended September 30, 2016. The table below details certain non-cash and other transactions that for the purposes of this discussion have been adjusted out of the reported loss to produce an adjusted loss that forms a better basis for comparing the year-over-year operating results of the Company.

| | 2017 | 2016 |
|--|-------------|-------------|
| | \$ | \$ |
| Income (loss) for the period as reported | (342,545) | 1,372,100 |
| Add (deduct): | | |
| Change in fair value of warrant derivative liabilities | (9,547) | (1,638,919) |
| G&A expense – share-based payments | 73,368 | 39,145 |
| Adjusted loss for the period ⁽¹⁾ | (278,724) | (227,674) |

- (1) Adjusted loss for the period is not a term recognized under IFRS. Non-IFRS measures do not have standardized meaning. Accordingly, non-IFRS measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

The comments below relate to the results of operations excluding the items (primarily non-cash) above:

- The Company earned revenue of \$2,796,309 during the 2017 period (2016 - \$2,003,095). The increase was due primarily to an increase in client base and expansion of services to existing clients. The increase reflects a 46% increase in product sales and a 24% increase in Managed Services and Professional Services revenue.
- Cost of sales was \$2,070,571 during the 2017 period (2016 - \$1,390,072). The increase in cost of sales was due to the corresponding increase in revenue.
- General and administrative expenses were \$445,294 during the 2017 period (2016 - \$360,865). The increase was due primarily from an increase in staffing levels.
- Research and development expense was \$45,268 during the 2017 period (2016 - \$26,208). The expense is comprised of salaries to relevant employees as well as consulting and development fees.
- Sales and marketing expense was \$538,682 during the 2017 period (2016 - \$479,453). The increase in sales and marketing expense was due primarily to an increase in sales generation activities that will be reflected in Q4'17 and Q1'18 results.

SUMMARY OF QUARTERLY RESULTS

The following is selected financial data from the Company's unaudited quarterly financial statements for the last eight quarters ending with the most recently completed quarter, being September 30, 2017.

| | Three Months Ended (\$) | | | |
|--|-------------------------|------------------|-------------------|----------------------|
| | September 30, 2017 | June 30, 2017 | March 31, 2017 | December 31, 2016 |
| Total Revenues | 2,796,309 | 2,673,310 | 3,157,982 | 2,047,221 |
| Net (Loss) Income | (342,545) | (410,964) | (489,830) | (536,583) |
| (Loss) Income Per Share (basic and diluted) ⁽¹⁾ | (0.01) | (0.01) | (0.01) | (0.01) |

| | Three Months Ended (\$) | | | |
|--|-------------------------|------------------|-------------------|----------------------|
| | September 30, 2016 | June 30, 2016 | March 31, 2016 | December 31, 2015 |
| Total Revenues | 2,003,095 | 3,169,284 | 1,677,492 | 2,492,695 |
| Net Income (Loss) | 1,372,100 | (501,729) | (2,632,616) | 915,230 |
| Income (Loss) Per Share (basic and diluted) ⁽¹⁾ | 0.03 | (0.01) | (0.05) | 0.02 |

⁽¹⁾ The basic and diluted loss per share calculations result in the same amount due to the anti-dilutive effect of outstanding stock options and warrants.

The significant variation between quarters for revenue and net (loss) income was a result of the significant variations in product sales between the respective quarters along with an increase in Managed Services revenue quarter over quarter from 2015 through 2017. The income in Q4 2015 was due primarily to the gain on change in fair value of warrant derivative liabilities of \$1,199,966. The loss in Q1 and Q2 2016 and the income in Q3 2016 was primarily due to a (loss)/gain on change in fair value of warrant derivative liabilities of (\$2,532,005), (\$458,527) and \$1,638,919, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Company sells advanced networking and cybersecurity products and solutions to large enterprise and service provider markets. The Company's ability to meet its obligations, and maintain its current operations is contingent upon successful completion of additional financing arrangements and ultimately generating profitable operations. There are no assurances that the Company will continue to obtain additional financing and/or achieve profitability or positive cash flows. The Company's future capital requirements will depend on many factors, including operating costs, competitive environment and global market conditions.

As at September 30, 2017, the Company had cash of \$76,755 and a working capital deficiency of \$2,037,362, compared to cash of \$144,530 and working capital deficiency of \$728,392 as at December 31, 2016.

In addition, as of September 30, 2017, the Company had an accumulated deficit of \$9,686,926. A significant portion of the accumulated deficit was comprised of non-cash accounting expenses such as listing expense (\$4,166,285). The Company has funded historical losses with external debt, related party advances, share issuances and working capital. The existence of these matters creates a material uncertainty that may cast 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.

On April 20, 2017, the Company entered into an Invoice Purchase Agreement which provides the Company with additional working capital as well as credit and collections support for accounts receivables.

Readers are cautioned that a number of factors beyond the control of the Company could result in the Company not being able to sustain its current liquidity and capital resources positions. Such factors could include adverse economic conditions, political and regulatory concerns and key individual staffing problems amongst others.

OPERATING ACTIVITIES

Cash provided by operations was \$311,211 for the nine months ended September 30, 2017, as compared to cash used in operating activities of \$845,464 for the same period in 2016. The improvement in operating cash flows was mainly due to trade receivables decreasing \$730,205 during the period in 2017 as compared to an increase in trade receivables totaling \$237,579 during the same period in 2016. The aforementioned reduction in trade receivables were a direct result of the Invoice Purchase Agreement mentioned above.

INVESTING ACTIVITIES

Net cash used in investing activities was \$35,894 for the nine months ended September 30, 2017 as compared to \$35,256 used in investing activities for the same period of 2016..

FINANCING ACTIVITIES

Net cash used in financing activities was \$343,092 for the nine months ended September 30, 2017, compared to \$800,885 provided by financing activities for the same period of 2016. During the nine months ended September 30, 2017, the Company did not issue any shares or complete any debt financing. The Company received \$5,000 from a line-of-credit arrangement and \$179,438 from secured promissory notes with Directors of the Company. These inflows were offset by lease payments totaling \$77,530 and the \$450,000 repayment of the line-of-credit arrangement.

OUTSTANDING SHARE DATA

a) Authorized Capital:

300,000,000 common shares, without par value

b) Issued and outstanding:

55,769,447 common shares as at November 28, 2017

c) Outstanding options and warrants as at November 28, 2017:

| Security | Number | Exercise Price | Expiry date |
|-----------------|---------------|-----------------------|--------------------|
| Stock Options | 1,424,000 | U.S.\$ 0.10 | July 27, 2020 |
| Stock Options | 2,526,418 | U.S.\$ 0.10 | July 31, 2020 |
| Stock Options | 100,000 | CAD\$ 0.47 | April 6, 2021 |
| Stock Options | 100,000 | CAD\$ 0.44 | August 19, 2021 |
| Stock Options | 1,585,000 | CAD\$ 0.30 | March 23, 2022 |
| Stock Options | 625,000 | CAD\$ 0.405 | June 12, 2022 |
| Warrants | 475,025 | CAD\$ 0.75 | January 11, 2018 |

TRANSACTIONS BETWEEN RELATED PARTIES

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 \$251,047 (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).

On June 1, 2017, the Company entered into an additional promissory note with a director of the Company. The promissory note is unsecured, bears interest at 7% per annum and is 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. 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 Service, 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 |

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management activities include the preservation of its capital

by minimizing risk related to its cash. The Company does not trade financial instruments for speculative purposes. The Company does not have a risk management committee nor written risk management policies. The Company is exposed in varying degrees to a variety of financial instrument and related risks. Those risks and management's approach to mitigating those risks are as follows:

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash, accounts receivable and other receivables. The Company limits its exposure to credit loss by placing its cash with high credit quality financial institutions.

The Company's credit risk for accounts receivable is concentrated, as 75% of its accounts receivable owing is from five customers (December 31, 2016 – 62% from eight customers). In addition, 64% of its revenue is from six customers (2016 – 50% from six customers). The Company performs ongoing credit evaluations, does not require collateral and establishes an allowance for doubtful accounts based on the age of the receivable and the specific identification of receivables the Company considers at risk. Most sales' payment terms are set in accordance with industry practice. A significant amount of accounts receivable is from recurring customers with high credit quality.

The following table presents an analysis of the age of accounts receivable as at the dates of the statements of financial position.

| | September 30, 2017 | December 31, 2016 |
|---|-------------------------------|------------------------------|
| | \$ | \$ |
| Accounts receivable net of allowance for doubtful accounts | | |
| Less than 30 days past billing date | 775,013 | 1,572,987 |
| 31-60 days past billing date | 94,468 | 55,447 |
| 61-90 days past billing date | 15,890 | 16,851 |
| Greater than 90 days past billing date | 31,087 | 1,378 |
| | 916,458 | 1,646,663 |

The carrying amount of financial assets represents the maximum credit exposure.

Foreign Exchange Rate Risk

Foreign exchange rate risk is the risk that exists when a financial transaction is denominated in a currency other than the functional currency of the Company, which is the US dollar.

The Company operates in the United States and its cash is held in US dollars and Canadian dollars. At September 30, 2017, the Company had CAD\$771 of cash and CAD\$106,871 of accounts payable. Accordingly, management of the Company believes there is no significant exposure to foreign currency fluctuations.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

In respect to the Company's currently outstanding debt, all bear interest at a fixed interest rate. Accordingly, the Company is exposed to fair value interest rate risk on its debt. The fair value of the debt is equal to its carrying value due to its due on demand nature.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to achieve this relies on the

Company raising debt or equity financing in a timely manner and by endeavoring to maintain sufficient cash in excess of anticipated needs. The Company's accounts payable are due on normal commercial terms. On April 20, 2017, the Company entered into an Invoice Purchase Agreement which provides the Company with working capital as well as credit and collections support for the related accounts receivable.

The Company had working capital (deficiency) as follows:

| | September 30, 2017 \$ | December 31, 2016 \$ |
|------------------------------|--------------------------------------|-------------------------------------|
| Current assets | 1,182,429 | 2,213,217 |
| Current liabilities | (3,219,791) | (2,941,609) |
| Working capital (deficiency) | (2,037,362) | (728,392) |

DISCLOSURE OF INTERNAL CONTROLS AND PROCEDURES

In connection with National Instrument 52-109 (Certificate of Disclosure in Issuer's Annual and Interim Filings) ("NI 52-109"), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the condensed interim consolidated financial statements for the nine months ended September 30, 2017 and this accompanying MD&A (together, the "Interim Filings").

In contrast to the full certificate under NI 52-109, the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109. For further information, the reader should refer to the Venture Issuer Basic Certificates filed by the Company with the Interim Filings on SEDAR at www.sedar.com.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

The following new IFRSs that have not been early adopted in the 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.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

OTHER INFORMATION

Additional information related to the Company is available for viewing on SEDAR at www.sedar.com or on the Company's website at www.VirtualArmour.com.

Exhibit 9.1 Certification of Principal Executive Officer

I, Todd Kannegieter, certify that:

1. I have reviewed this Quarterly Disclosure Statement for the quarter ended September 30, 2017 of VirtualArmour International Inc.;
2. Based on my knowledge, this disclosure statement 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 disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: November 29, 2017

/s/ Todd Kannegieter
Todd Kannegieter
Chief Executive Officer

Exhibit 9.1 Certification of Principal Financial Officer

I, John Donaldson, certify that:

1. I have reviewed this Quarterly Disclosure Statement for the quarter ended September 30, 2017 of VirtualArmour International Inc.;
2. Based on my knowledge, this disclosure statement 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 disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: November 29, 2017

/s/ John Donaldson

John Donaldson
Chief Financial Officer