VirtualArmour International Inc.
Condensed Interim Consolidated Financial Statements
For the three months ended March 31, 2018 and 2017
(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 March 31, 2018 and December 31, 2017
(Expressed in U.S. Dollars)

	Notes	March 31, 2018 $ (unaudited)	December 31, 2017 $
ASSETS			
Current			
Cash		**361,357**	46,795
Accounts receivable	**3**	**1,681,160**	727,618
Other receivables		**19,413**	44,300
Prepaid expenses		**199,144**	196,938
Total Current Assets		**2,261,074**	1,015,651
Office facilities and equipment	**4**	**495,661**	520,062
Intangible assets	**5**	**73,218**	77,175
Total Assets		**2,829,953**	1,612,888
LIABILITIES			
Current			
Accounts payable and accrued liabilities	**6**	**2,647,857**	2,821,038
Deferred revenue	**11**	**81,273**	80,105
Warrant derivative liabilities	**7**	**-**	2,589
Debt	**8**	**133,462**	-
Leases	**9**	**201,778**	154,580
Due to related parties	**13**	**242,679**	455,162
Total Current Liabilities		**3,307,049**	3,513,474
Leases	**9**	**202,376**	224,645
Total Liabilities		**3,509,425**	3,738,119
SHAREHOLDERS' DEFICIT			
Share capital	**10**	**7,784,418**	6,284,418
Contributed surplus		**1,898,100**	1,825,129
Deficit		**(10,361,990)**	(10,234,778)
Total Shareholders' Deficit		**(679,472)**	(2,125,231)
Total Liabilities and Shareholders' Deficit		**2,829,953**	1,612,888

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

On behalf of the Board:

"Todd Kannegieter" *"Christopher Blisard"*

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

VirtualArmour International Inc.
Condensed Interim Consolidated Statements of Comprehensive Loss
For the three months ended March 31, 2018 and 2017
(Unaudited - Expressed in U.S. Dollars)

	Notes	2018 $	2017 $
Revenue	11	**3,267,653**	3,157,982
Cost of sales	12	**(2,348,985)**	(2,619,153)
Gross Profit		**918,668**	538,829
Expenses	12		
General and administrative		**425,783**	428,801
Research and development		**35,679**	32,020
Sales and marketing		**548,006**	584,643
Total Expenses		**1,009,468**	1,045,464
Loss from Operations		**(90,800)**	(506,635)
Other Income (Expenses)			
Interest expense	8,13	**(39,001)**	(11,866)
Change in fair value of warrant derivative liabilities	7	**2,589**	28,671
Net and Comprehensive Loss		**(127,212)**	(489,830)
Loss per share – basic and diluted	10(e)	**(0.00)**	(0.01)
Weighted average number of shares outstanding – basic		**57,936,114**	55,769,447

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

VIRTUALARMOUR

VirtualArmour International Inc.
Condensed Interim Consolidated Statements of Changes in Deficit
For the three months ended March 31, 2018 and 2017
(Unaudited - Expressed in U.S. Dollars)

	Common Shares / Membership Units #	Share Capital / Members' Contributions $	Contributed Surplus $	Deficit $	Total $
Balance, December 31, 2016	**55,769,447**	**6,284,418**	**1,664,490**	**(8,443,857)**	**(494,949)**
Share-based payments – vesting of options	-	-	74,727	-	74,727
Net loss	-	-	-	(489,830)	(489,830)
Balance, March 31, 2017	**55,769,447**	**6,284,418**	**1,739,217**	**(8,933,687)**	**(910,052)**

	Common Shares / Membership Units #	Share Capital / Members' Contributions $	Contributed Surplus $	Deficit $	Total $
Balance, December 31, 2017	**55,769,447**	**6,284,418**	**1,825,129**	**(10,234,778)**	**(2,125,231)**
Pursuant to offering under regulation A+	7,500,000	1,500,000	-	-	1,500,000
Share-based payments – vesting of options	-	-	72,971	-	72,971
Net loss	-	-	-	(127,212)	(127,212)
Balance, March 31, 2018	**63,269,447**	**7,784,418**	**1,898,100**	**(10,361,990)**	**(679,472)**

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

VirtualArmour International Inc.
Condensed Interim Consolidated Statements of Cash Flows
For the three months ended March 31, 2018 and 2017
(Unaudited - Expressed in U.S. Dollars)

	2018 $	2017 $
Cash Flows (Used In) Provided By Operating Activities		
Net loss for the period	**(127,212)**	(489,830)
Items not involving cash:		
Depreciation and amortization	**32,740**	33,410
Share-based payments	**72,971**	74,727
Change in fair value of warrant derivative liabilities	**(2,589)**	(28,671)
Changes in non-cash working capital:		
Accounts receivable	**(962,542)**	(785,867)
Other accounts receivable	**33,887**	188,518
Prepaid expenses	**(2,207)**	(21,097)
Accounts payable and accrued liabilities	**(91,978)**	876,928
Deferred revenue	**1,168**	(10,500)
Net Cash Used in Operating Activities	**(1,045,762)**	(162,382)
Cash Flows (Used In) Provided By Investing Activities		
Purchase of office facilities and equipment	**(4,382)**	(23,555)
Net Cash Used In Investing Activities	**(4,382)**	(23,555)
Cash Flows (Used In) Provided By Financing Activities		
Proceeds from issuance of shares	**1,500,000**	**-**
Advances from line-of-credit / business loan arrangements	**200,000**	5,000
Repayment of line-of-credit / business loan arrangements	**(66,539)**	-
Repayment of leases	**(56,271)**	(22,193)
Due to related parties	**(212,484)**	133,403
Net Cash Provided By Financing Activities	**1,364,706**	116,210
Increase (Decrease) In Cash	**314,562**	(69.727)
Cash – Beginning of the Period	**46,795**	144,530
Cash – End of the Period	**361,357**	74,803
Non-cash Investing and Financing Activities		
Office facilities and equipment purchased under financing leases	**81,200**	-
Supplemental Cash Flow Disclosure		
Interest paid	**34,533**	9,960
Income taxes paid	**-**	-

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

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 $127,212 during the three months ended March 31, 2018. As of March 31, 2018, the Company has a working capital deficiency of $1,045,975 and an accumulated deficit of $10,361,990. 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 share issuances for equity investments, external debt and related party advances 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.

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, 2017. 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 Board7 ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") and therefore should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2017.

These condensed interim consolidated financial statements were approved by the board of directors for issue on May 29, 2018.

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.

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.

Basis of consolidation

These consolidated financial statements include the financial statements of all subsidiaries subject to control by the Company, which include VirtualArmor LLC ("VA LLC") and VirtualArmor Capital Inc. ("VA Capital").

Control is achieved when the Company (i) has power over an investee, (ii) is exposed, or has rights, to variable returns from its involvement with the investee and (iii) has the ability to affect those returns through its power over an investee entity. Subsidiaries are fully consolidated from the date on which control is obtained and continue to be consolidated until the date that such control ceases. Intercompany balances, transactions and unrealized intercompany gains and losses are eliminated upon consolidation.

Adoption of new accounting standards

IFRS 15 - Revenues from Contracts with Customers

This is the first set of the Company's condensed interim consolidated financial statements where IFRS 15 has been applied. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. On January 1, 2018, the Company has adopted the new accounting standard IFRS 15 to all contracts using the modified retrospective approach. The Company has concluded that there is no significant impact resulting from the application of the new revenue standard on its condensed interim consolidated financial statements.

Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services and the Company satisfies its performance obligation. Revenue is allocated to each performance obligation. The Company considers the terms of the contract in determining the transaction price, which is based upon the amount the entity expects to be entitled to in exchange for the transferring of promised goods. The Company generates revenues primarily from sale of goods and rendering of managed security services. The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Company's various goods and services are set out below.

i) Sale of hardware and software and product support subscriptions:

The software element of the sales is required to be purchased in order to enable the appropriate operation and functioning of the hardware, and it cannot be purchased as a standalone product or used in isolation. Under the new revenue standard, it is integral to the hardware and is combined with the hardware sales as one performance obligation and recognized on a gross basis and in line with the timing of the recognition of the hardware revenue.

The Company's revenue from the sale of goods continues to be recognized when products are delivered to the customer, which is also the moment when control of the products is transferred, and when there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location and the risks of loss have been transferred to the customer who has accepted the products in accordance with the sales contract.

ii) Rendering of managed security services:

Under the new revenue standard, the Company's revenue from services continues to be recognized over the periods during which the services are rendered. Revenue is only recognized when the amount of revenue can be measured reliably, when it is probable that the economic benefits of the transaction will flow to the Company, when the stage of completion of the transaction at the end of the reporting period can be measured reliably, and when the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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 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. Accounts Receivable

	March 31, 2018 $	December 31, 2017 $
Trade accounts receivable	**1,972,233**	1,035,449
Less: amounts transferred to third party	**(291,073)**	(307,831)
	1,681,160	727,618

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 quarter ended March 31, 2018, the Company incurred fees and interest of $17,309, which has been expensed as incurred in interest expense. As at March 31, 2018, the Company had $291,073 outstanding as advances from the Purchaser.

4. Office Facilities and Equipment

Cost	**Computer equipment $**	**Furniture and Fixtures $**	**Total $**
Balance at December 31, 2017	1,253,653	43,790	1,297,443
Additions	4,382	-	4,382
Balance at March 31, 2018	**1,258,035**	**43,790**	**1,301,825**
Accumulated Depreciation			
Balance at December 31, 2017	744,241	33,140	777,381
Depreciation for the period	28,123	660	28,783
Balance at March 31, 2018	**772,364**	**33,800**	**806,164**
Carrying Amounts			
Balance at December 31, 2017	509,412	10,650	520,062
Balance at March 31, 2018	**485,671**	**9,990**	**495,661**

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 $**
Balance at December 31, 2017 and March 31, 2018	**126,561**
Accumulated Depreciation	**$**
Balance at December 31, 2017	49,386
Depreciation for the period	3,957
Balance at March 31, 2018	**53,343**
Carrying Amounts	
Balance at December 31, 2017	77,175
Balance at March 31, 2018	**73,218**

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

6. Accounts Payable and Accrued Liabilities

	March 31, 2018 $	December 31, 2017 $
Trade payables and accrued liabilities	**2,233,905**	2,380,283
Payroll liabilities (Note 12)	**379,226**	415,215
Sales tax payable	**34,726**	25,540
Total accounts payable and accrued liabilities	**2,647,857**	2,821,038

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.

	$
Balance – December 31, 2017	**2,589**
Change in fair value of warrant derivative liabilities	(2,589)
Balance – March 31, 2018	**-**

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

On January 11, 2018, the 475,025 share purchase warrants expired, so there were no warrants outstanding as at March 31, 2018. As at December 31, 2017, the fair value of warrant derivative liabilities was estimated using the Black-Scholes option pricing model with the following assumptions:

	2017
Average stock price	$0.25
Average exercise price	$0.56
Average risk-free interest rate	0.73%
Expected life	1.03 years
Expected volatility	126%
Expected dividends	$nil

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

8. Line-of-Credit / Business Loan Arrangements

On January 5, 2018, the Company entered into a business loan and security agreement with On Deck Capital, Inc. in an aggregate amount of $200,000, which is due in nine months and requires weekly payments with an annual interest rate of 58.76%.

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 Obligations

The Company has equipment leases secured by specific computer equipment. The terms and the outstanding balances as at March 31, 2018 and December 31, 2017 are as follows:

	March 31, 2018 $	December 31, 2017 $
SHI International, equipment lease repayable in monthly instalments of $802 including interest at 4.63% per annum, due in January 2018.	**-**	704
SHI International, equipment lease repayable in monthly instalments of $359 including interest at 4.63% per annum, due in March 2018.	**-**	946
Contrail Cloud, equipment lease repayable in monthly instalments of $2,517 including interest at 4.47% per annum, due in April 2018.	**4,438**	8,876
Western Equipment Finance, equipment lease repayable in monthly instalments of $600 including interest at 4.58% per annum, due in September 2019	**9,500**	11,083
Western Equipment Finance, equipment lease repayable in monthly instalments of $1,985 including interest at 4.38% per annum, due in November 2020	**52,103**	58,454
Western Equipment Finance, equipment lease repayable in monthly instalments of $6,394 including interest at 4.37% per annum, due in September 2020	**151,667**	167,917
PNC Equipment Finance, equipment lease repayable in monthly instalments of $3,752 including interest at 7.84% per annum, due in September 2020	**90,006**	99,690
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	**28,773**	31,555

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

Hewlett Packard equipment lease repayable in monthly instalments of $4,930 including interest at 6.12% per annum, due in June 2019	**67,667**	-
Subtotal	**404,154**	379,225
Less: current portion	**201,778**	154,580
Long-term portion	**202,376**	224,645

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

	$
Not later than one year	174,593
Later than one year and not later than five years	292,047
Subtotal	466,640
Less: imputed interest	62,486
Subtotal	404,154
Less: current portion	201,778
Long-term portion	202,376

10. Share Capital

a) Authorized:

300,000,000 common shares without par value.

b) Financings:

On March 5, 2018, the Company issued 7,500,000 common shares pursuant to an offering under Regulation A+ and received proceeds of $1,500,000.

c) 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.

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

A summary of the status of the Company's stock options outstanding as at March 31, 2018 and the changes during the period then ended is presented below:

	Outside the Plan Number of options #	Within the Plan Number of options #	Weighted average exercise price $	Weighted Average Remaining Contractual Life (Years)
Balance outstanding – December 31, 2017 and March 31, 2018	2,095,474	4,214,944	0.17	3.21
Exercisable – March 31, 2018	516,100	3,873,881	0.13	2.53

At March 31, 2018, 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	$0.10	(1)1,424,000
July 31, 2020	$0.10	(2)2,476,418
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
		6,310,418

(1) These stock options vested on the date of grant.
(2) 1,451,418 of these stock options vested on the date of grant. 1,025,000 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 three months ended March 31, 2018, the Company recorded share-based payments expense of $72,971 (2017 - $74,727) based on the vesting of stock options. There were no stock options granted during the three months ended March 31, 2018. The weighted average fair value of stock options granted during the year ended December 31, 2017 of $0.19 per option was estimated using the Black-Scholes option pricing model with the following assumptions:

	2018	2017
Average risk-free interest rate	1.13%	1.13%
Expected life	5 years	5 years
Expected volatility	100%	100%
Expected dividends	$nil	$nil

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

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

d) Warrants:

A summary of share purchase warrants outstanding as of March 31, 2018 and the changes during the period then ended is presented below:

	Number of warrants #	Weighted average exercise price CAD$	Weighted Average Life (Years)
Balance – December 31, 2017	475,025	0.75	1.03
Expired	(475,025)	0.75	1.03
Share purchase warrants outstanding – March 31, 2018	-		

On January 11, 2018, the 475,025 share purchase warrants expired.

d) Escrow shares:

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

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

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 following 18 months.

As at March 31, 2018, 11,059,594 (December 31, 2017 – 11,059,594) common shares remained in escrow.

e) Basic and diluted loss per share:

During the three months ended March 31, 2018, potentially dilutive common shares totaling 6,310,418 (2017 – 8,467,443) were not included in the calculation of diluted loss per share because their effect was anti-dilutive.

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

11. Revenue and Deferred Revenue

A breakdown of the revenue is presented below:

	Three months ended March 31,	
	2018	2017
	$	$
Major goods/service lines		
Hardware and software sales and product support subscriptions	**2,128,737**	2,700,899
Managed security services	**1,138,916**	457,083
	3,267,653	3,157,982
Timing of revenue recognition		
Goods transferred at a point in time	**2,128,737**	2,700,899
Services transferred over time	**1,138,916**	457,083
	3,267,653	3,157,982

A breakdown of the deferred revenue is presented below:

	March 31, 2018	December 31, 2017
	$	$
Deferred revenue	**81,273**	80,105

The timing of revenue recognition, billings, and cash collections results in billed accounts receivable and deferred revenue (contract liabilities) on the condensed interim consolidated statement of financial position. Generally, billing occurs at the time of revenue recognition. However, some managed and professional services are contracted and ranged from 12 months to 36 months. Such contracts are billed at the inception of the contract or as work progresses in accordance with agreed-upon contractual terms at periodic intervals (e.g., monthly). The Company received payment at the inception of the contract, resulting in contract liabilities, and recognizes revenue over the term of the agreement in proportion to the time elapsed under the contract. These liabilities are reported on the condensed interim consolidated statement of financial position on a contract-by-contract basis at the end of each reporting period. Changes in the contract liability balances during the three months ended March 31, 2018, were not materially impacted by any other factors. Revenue recognized for the three months ended March 31, 2018 that was included in the contract liabilities balance at the beginning of the period was $42,182 (2017 - $10,500) and represented revenue from managed and professional services rendered. The Company expects to recognize $70,435 of the deferred revenue in 2018 and $10,838 in 2019.

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

12. Cost of Sales and Operating Expenses

A breakdown of the cost of sales is presented below:

	Three months ended March 31,	
	2018	2017
	$	$
Cost of sales – hardware and software sales	**1,766,755**	2,244,449
Cost of sales – managed and professional services		
Salaries and consulting fees	**536,793**	328,876
Other	**45,437**	45,828
	2,348,985	2,619,153

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

	Three months ended March 31,	
	2018	2017
	$	$
Depreciation and amortization	**32,740**	33,410
General and administrative	**91,182**	103,479
Professional fees	**52,493**	63,441
Salaries	**156,563**	120,391
Share-based payments (Note 9(b))	**72,971**	74,727
Shareholder communications	**19,834**	33,353
	425,783	428,801

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

	Three months ended March 31,	
	2018	2017
	$	$
Consulting fees	**16,862**	5,279
Salaries	**18,817**	26,741
	35,679	32,020

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

	Three months ended March 31,	
	2018	2017
	$	$
Salaries and commissions	**397,599**	439,290
Travel	**66,927**	54,765
Other	**83,480**	90,588
	548,006	584,643

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

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 March 31, 2018, the Company is indebted to the Director of the Company for $260,178 (2017 - $255,710) for advances provided to the Company under this loan and interest accrued on the outstanding balance. During the three months ended March 31, 2018, the Company recorded interest of $4,469 (2017 - $1,906).

On March 14, 2018, the Company repaid a Promissory Note with a Director of the Company in the principal amount of $90,000 and interest in the amount of $6,300. On June 1, 2017, the Company entered into a promissory note with a director of the Company. The promissory note was unsecured, bears interest at 7% per annum and was due on demand. As at December 31, 2017, the Company was indebted to the Director of the Company for $94,452 for an advance provided to the Company under this loan and interest accrued on the outstanding balance. During the three months ended March 31, 2018, the Company recorded interest of $1,848 (2017 - $nil).

On February 28, 2018, the Company repaid a Secured Subordinated Promissory Note with a shareholder of the Company in the principal amount of $100,000 and interest in the amount of $7,500. On November 29, 2017, the Company entered into a secured subordinated promissory note with a shareholder of the Company. As at December 31, 2017, the Company was indebted to the shareholder of the Company for $105,000 (2016 - $nil) for advances provided to the Company under this loan and interest accrued on the outstanding balance. During the three months ended March 31, 2018, the Company recorded interest of $2,500 (2017 - $nil).

In addition to the LOC, the Company has amounts owing to Directors of the Company of $300,500 (2017 - $260,500) for compensation. These amounts are included in payroll liabilities (Note 6). The amounts owing are unsecured, non-interest bearing and due on demand.

Key management includes the Chief Executive Officer, the Chairman of the Board, the former President, the Vice President of Managed Services and the directors of the Company. Compensation paid or payable to key management for services during the three months ended March 31, 2018 and 2017 is as follows.

	Three months ended March 31,	
	2018	2017
	$	$
Short-term benefits	**211,724**	169,146
Share-based payments	**40,722**	45,721
	252,446	214,867

14. Subsequent Event

On April 27, 2018, the Company issued 330,000 common shares pursuant to a private placement and received proceeds of $66,000.