VirtualArmour International Inc.
(Formerly VirtualArmor International Inc.)
Management Discussion and Analysis
For the six months ended June 30, 2018

The following information, prepared as of August 29, 2018, should be read in conjunction with the consolidated financial statements of VirtualArmour International Inc. (the "Company" or "VA Intl" or "VirtualArmour") for the three and six months ended June 30, 2018, together with the audited consolidated financial statements of the Company for the year ended December 31, 2017 and the related Management's Discussion and Analysis (the "Annual MD&A") for that fiscal year. The referenced 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 our 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 our 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

VA LLC was incorporated on May 4, 2001 in Colorado, United States by the Operating Agreement, as amended and restated on July 15, 2005. On July 27, 2015, VA Intl completed a reverse takeover transaction (the "RTO" or the "Transaction") with VirtualArmor LLC ("VA LLC") and on October 25, 2016, the Company changed its name from VirtualArmor International Inc. to VirtualArmour International Inc. The Company's shares trade on the Canadian Securities Exchange (the "CSE") under the symbol "VAI", on the OTCQB Exchange under the symbol "VTRL" and on the German 3V3 Exchange under the symbol "F". VirtualArmour is an information technology company that delivers solutions to help enterprises build, monitor, maintain and secure their networks from cloud to core.

As a managed security services provider, VirtualArmour's services run 24 hours per day, 7 days per week, 365 days per year through its primary security operations center ("SOC") located in Middlesbrough, U.K. and a secondary SOC located in Salt Lake City, Utah. Each member of VirtualArmour's team supports the three main facets of its business: managed services, professional services, and hardware/software sales, by handling the design, configuration and installation of advanced network and cloud architecture solutions.

VirtualArmour uses best-in-breed partnerships to provide solutions for customers that are affordable, highly reliable, scalable, and backed by thorough knowledge of the related technologies, products, and platforms.

VirtualArmour has secured partnerships with established technology businesses specializing in network appliances, software, and systems and provides its services to the mid- to large- enterprise and service provider markets. VirtualArmour's customers include a 13-location data center provider, a Fortune 100 oil and gas company, multiple service providers with presences throughout the United States, and household name enterprise organizations located primarily in the western United States.

OVERALL PERFORMANCE

During the six months ended June 30, 2018, the Company experienced continued significant growth with their global Managed and Professional Services market recording revenue of $2,294,284 (2017 - $1,105,996) for year-over-year growth of 107%. During the same period, the gross profit as a percentage of revenue increased to 27.6% from 17.3% in 2017 due to the significant increase in Managed and Professional Services revenue which has a much higher gross profit margin as compared to hardware and software sales and product support services revenue.

This significant growth was achieved through a combination of signing several new recurring revenue contracts along with increasing the level of services with multiple existing customers. These customer additions were across multiple industries including healthcare, transportation, hospitality, and non-profit sectors. The majority of these first half contracts were multi-year and included the securing of Managed and Professional Services along with hardware and software purchases.

The Company continued to have a customer retention rate of 100% during the first half of 2018. 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 2018.

PARTNER FOR SUCCESS

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, and partners that will increase its addressable market.

VirtualArmour has expanded its service offerings by both adding to existing services and creating new services to add to the overall platform. Plus spending time on internal streamlining and automation, thus allowing the Company to successfully increase its ability to secure new clients, and add additional business from current clients.

With cybercrime expected to hit 6 trillion annually by 2021, cybersecurity spending is expected to exceed 1 trillion dollars. With this expected cybercrime, many businesses across the U.S and globe. are currently looking for 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 2018.

DRIVING THE CHANNEL

VirtualArmour established a comprehensive strategy and approach to its channel program. This resulted in the addition of two strategic channel partners that focus on selling VirtualArmour's managed service offerings to their customer base.

Throughout the first half of 2018, this channel partner program has been a truly effective way to grow customer base and Managed Services contracts leading to increased Monthly Recurring Revenue.

VirtualArmour's channel program can quickly address the managed service needs of channel partners customers while forming a strong long-term reoccurring revenue business for those channel partners that cannot establish a managed service practice on their own.

PERSONNEL CHANGES

During Q2 of 2018, VirtualArmour further strengthened its sales, marketing and operational capabilities by adding new team members. These appointments included notable additions to its sales, and engineering teams, who came to their roles with a track record of, increasing profitability, developing top engineering services, and expanding service delivery standards.

In May 2018, the Company announced the promotion of Russel Armbrust, to CEO. Russel will be focused on the continued growth and development of VirtualArmour as an Elite Managed Services Provider.

In May 2018, the Company also announced the promotion of Andrew Douthwaite, to Chief Technical Officer. Andrew has been part of VirtualArmour since 2007 and has helped achieve the growth as a leading MSSP throughout his tenure. Andrew will be focused on the holistic approach to growth and increased capabilities for VirtualArmour from a technical standpoint.

The two appointments above allowed VirtualArmour to restructure the organisation from an operational standpoint, including the appointment of two SOC managers and the development of an Architecture team.

OUTLOOK

Due to the growing threat of targeted breaches across all industries and business sizes, the outlook for the remaining quarters of 2018 is very positive as increasing budgets are allocated to cyber protection and preparing for 2019 and beyond. 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 2018 to 2021. In 2004, the global cybersecurity market was worth $3.5 billion. In 2018 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. Including Customer Self Service via increased functionality in CloudCastr. Automation tools will allow VirtualArmour to decrease the time to resolution on incidents and tickets with automated research, actions and information gathering through custom playbooks and workflows.

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

DISCUSSION OF OPERATIONS

Six months ended June 30, 2018

Hardware and software sales and product support services revenue during the six months ended June 30, 2018 was $4,976,459 (2017 - $4,725,296) while managed and professional services revenue was $2,294,284 (2017 - $1,105,996). The increase in revenue was due primarily to the adding of numerous new clients contracted with multi-year contracts over the last 12 months. The gross profit as a percentage of revenue was 27.6% in the 2018 period compared to 17.3% in the 2017 period. The increase in gross profit margin was due primarily to a significant increase in managed and professional services revenue which has a higher gross profit margin as compared to hardware and software sales and product support services revenue.

The Company recorded a net loss of $246,211 ($0.00 per share) for the six months ended June 30, 2018 as compared to a net loss of $900,524 ($0.02 per share) for the six months ended June 30, 2017.

The comments below relate to the results of operations during this six-month period:

- The Company earned revenue of $7,270,743 during the 2018 period (2017 - $5,831,292). The increase was due primarily to an increase in the number of managed and professional services customers served as well as the size of orders from new and existing customers. The increase reflects a 107% increase in managed and professional services revenue and a 5.3% increase in product sales resulting in an overall 24.7% increase in total revenue.
- Cost of sales was $5,267,609 during the 2018 period (2017 - 4,821,402). The $446,207 increase in cost of sales was due to moderate increase in product cost of sales ($71,417) and most significantly by increase in managed and professional services cost of sales ($374,790).
- General and administrative expenses were $948,198 during the 2018 period (2017 - $682,769). The increase was due primarily to an increase in depreciation and amortization ($149,634 vs. $68,469 in 2017) and salaries ($292,000 vs. $211,706 in 2017) offset by a minor decrease in professional fees, general and administrative and shareholder communications costs ($377,134 vs. $396,415 in 2017).
- Research and development expense was $88,380 during 2018 (2017 - $58,336). The expense is comprised of salaries to relevant employees as well as consulting fees.
- Sales and marketing expense was $1,119,159 during 2018 (2017 - $1,131,812). The modest decrease in sales and marketing expense was due primarily to not replacing the former President / VP of Sales who resigned in May 2017 and to the termination of one of the regional sales directors in January 2018 and the Company not replacing that position until the end of March.

Three months ended June 30, 2018

The Company recorded a net loss of $119,199 ($0.00 per share) for the three months ended June 30, 2018 as compared to a net loss of $410,694 ($0.01 per share) for the three months ended June 30, 2017.

Hardware and software sales and product support services revenue during the three months ended June 30, 2018 was $2,847,722 (2017 - $2,024,397) while managed and professional services revenue was

$1,155,368 (2017 - $648,913). The gross profit as a percentage of revenue was 27.1% in the 2018 period compared to 17.6% in the 2017 period.

The comments below relate to the results of operations during this three-month period:

- The Company earned revenue of $4,003,090 during the 2018 period (2017 - $ 2,673,310). The increase reflects a 78.0% increase in managed and professional services revenue and a 40.7% increase in product sales resulting in an overall 49.7% increase in total revenue.
- Cost of sales was $2,918,624 during the 2018 period (2017 - $2,202,249). The increase in cost of sales was due to a corresponding increase in revenue.
- General and administrative expenses were $522,415 during the 2018 period (2017 - $253,968). The increase was due primarily to an increase in depreciation and amortization ($116,894 vs. $35,059 in 2017) and salaries ($135,437 vs. $91,315 in 2017) as well as professional fees, general and administrative and shareholder communications costs ($213,625 vs. $196,142 in 2017).
- Research and development expense was $52,701 during 2018 (2017 - $26,316). The expense is comprised of salaries to relevant employees as well as consulting fees.
- Sales and marketing expense was $571,153 during 2018 (2017 - $547,169).

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 June 30, 2018.

	Three Months Ended ($)			
	30-Jun-18	**31-Mar-18**	**31-Dec-17**	**30-Sep-17**
Total Revenues	4,003,090	3,267,653	1,878,762	2,796,309
Net (Loss) Income	(119,199)	(127,212)	(547,703)	(342,694)
(Loss) Income Per Share (basic and diluted) (1)	-	-	(0.03)	(0.01)

	Three Months Ended ($)			
	30-Jun-17	**31-Mar-17**	**31-Dec-16**	**30-Sep-16**
Total Revenues	2,673,310	3,157,982	2,047,221	2,003,095
Net Income (Loss)	(410,694)	(489,830)	(536,583)	1,372,100
Income (Loss) Per Share (basic and diluted) (1)	(0.02)	(0.01)	(0.01)	0.03

(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 income (loss) 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 2016 through 2018. The loss in 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 ($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 June 30, 2018, the Company had cash of $191,173 and a working capital deficiency of $1,138,376, compared to cash of $46,795 and working capital deficiency of $2,497,823 as at December 31, 2017.

Cash used in operations was $1,141,788 for the six months ended June 30, 2018, as compared to cash used in operating activities of $132,913 for the same period in 2017. Net cash used in investing activities was $17,996 for the six months ended June 30, 2018 as compared to $36,759 used in investing activities for the same period of 2017. Net cash provided by financing activities was $1,304,162 for the six months ended March 31, 2018, compared to $152,055 for the same period of 2017.

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 position. Such factors could include adverse economic conditions, political and regulatory concerns and key individual staffing problems amongst others.

As of June 30, 2018, the Company had a working capital deficiency of $1,138,376 and an accumulated deficit of $10,481,189. 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 shares issuances for equity investments, external debt and related party advances 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 arrangement which will provide the Company with working capital as well as credit and collections support for the related accounts receivables.

FINANCING ACTIVITIES

During the three months ended March 31, 2018, the Company issued 7,500,000 common shares pursuant to an offering under Regulation A+ and received gross proceeds of US$1,500,000. And the Company entered into a business loan and security agreement with On Deck Capital, Inc. in an aggregate amount of $200,000. On April 27, 2018, the Company issued an additional 330,000 common shares pursuant to the offering under Regulation A+ and received proceeds of $65,900.

During the year ended December 31, 2017, the Company repaid its line of credit in the net amount of $445,000.

On July 11, 2016, the Company closed a non-brokered private placement by issuing 865,500 units at a price of CAD$0.48 per unit for aggregate gross proceeds of $316,607 (CAD$415,440). Each unit consists of one common share of the Company and one half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one share at a price of CAD$0.75 per share up to January 11, 2018. The Company paid a cash finders' fee of $15,465, incurred issuance costs of $11,257 and issued 42,275 finders' warrants valued at $5,143. Each finders' warrant entitles the holder thereof to acquire one share at a price of CAD$0.75 per share up to January 11, 2018.

OUTSTANDING SHARE DATA

a) Authorized Capital:

   300,000,000 common shares, without par value

b) Issued and outstanding:

   63,599,447 common shares as at June 30, 2018

c) Outstanding options and warrants as at June 30, 2018:

Security	**Number**	**Exercise Price**	**Expiry date**
Stock Options	1,424,000	U.S.$ 0.10	July 27, 2020
Stock Options	2,476,418	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	1,235,000	CAD$ 0.30	March 23, 2022
Stock Options	625,000	CAD$ 0.405	June 12, 2022

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 June 30, 2018, the Company is indebted to the Director of the Company for $248,861 (2017 - $257,345) for advances provided to the Company under this loan and interest accrued on the outstanding balance. During the six months ended June 30, 2018, the Company recorded interest of $8,651 (2017 - $4,866).

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 an additional 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 had been 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.

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 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 $279,500 (December 31, 2017 - $260,500) 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 Sales, the Vice President of Managed Services and the other 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		Six months ended	
		June 30,		June 30,
	2018	2017	**2018**	2017
	$	$	**$**	$
Short-term benefits	**214,236**	138,490	**425,960**	307,636
Share-based payments	**33,846**	(63,678)	**74,568**	(17,957)
	248,082	74,812	**500,528**	289,679

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 77% of its accounts receivable owing is from four customers (December 31, 2017 - 72% from eight customers). In addition, 73% of its revenue is from ten customers (2017 - 68% from eight 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.

	June 30, 2018 $	December 31, 2017 $
Accounts receivable net of allowance for doubtful accounts		
Less than 30 days past billing date	**2,536,222**	956,979
31-60 days past billing date	**34,489**	41,884
61-90 days past billing date	**124,213**	22,408
Greater than 90 days past billing date	**33,053**	14,178
	2,727,977	1,035,449

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 June 30, 2018, the Company had minimal cash and CAD$19,793 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 arrangements bear interest at a fixed interest rate, therefore its fair value is not materially affected by changes in market interest rates and 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 provided 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:

	June 30, 2018 $	December 31, 2017 $
Current assets	**2,857,754**	**1,015,651**
Current liabilities	**(3,996,130)**	**(3,513,474)**
Working capital (deficiency)	**(1,138,376)**	**(2,497,823)**

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 three months ended March 31, 2018 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

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.

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.

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:
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.
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.