VirtualArmour International Inc.
(Formerly VirtualArmor International Inc.)
Management Discussion and Analysis
For the year ended December 31, 2016

The following information, prepared as of May 1, 2017, should be read in conjunction with the consolidated financial statements of VirtualArmour International Inc. (the ñCompanyò or ñVA Intlò or ñVirtualArmourò) for the year ended December 31, 2016. The referenced consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (ñIFRSò). All amounts are expressed in U.S. dollars unless otherwise indicated.

CAUTIONARY STATEMENT ON FORWARD LOOKING INFORMATION

This Management Discussion and Analysis (the ñMD&Aò) may include forward-looking statements with respect to business plans, activities, prospects, opportunities and events anticipated or being pursued by the Company and the Companyõs 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 ñbelieves,ò ñexpects,ò ñmay,ò ñwill,ò ñshould,ò ñpotential,ò ñestimates,ò ñanticipates,ò ñaim,ò ñgoalò 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

On July 27, 2015, VA Intl completed a reverse takeover transaction (the ñRTOò or the ñTransactionò) with VirtualArmor LLC (ñVA LLCò). In connection with the closing of the Transaction, VA LLC and VirtualArmor Capital Inc. (ñVA Capitalò) became wholly-owned subsidiaries of VA Intl. Upon completion of the RTO, the shareholders of VA LLC obtained control of the consolidated entity. Under the purchase method of accounting, VA LLC was identified as the acquirer, and accordingly the entity is considered to be a continuation of VA LLC with the net assets of VA Intl at the date of the RTO deemed to have been acquired by VA LLC. On October 25, 2016, the Company changed its name from VirtualArmor International Inc. to VirtualArmour International Inc. The Companyõs shares trade on the Canadian Securities Exchange (the "CSE") under the symbol ñVAIò.

VA LLC was incorporated on May 4, 2001 in Colorado, United States by the Operating Agreement, as amended and restated on July 15, 2005. 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, VirtualArmourõs services run 24 hours per day, 7 days per week, 365 days per year through its primary security operations center (ñSOCò) located in Middlesbrough, U.K. and a secondary SOC located in Salt Lake City, Utah. Each member of VirtualArmourõs 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 year ended December 31, 2016, the Company recorded revenues of $8,897,092 (2015 - $7,366,309).

With the global managed services market experiencing continued growth, VirtualArmour increased its year-over-year revenue by 21%. This was achieved through a combination of signing a host of new recurring revenue contracts as well as increasing its levels of engagement with several existing clients. The Company continued to strengthen its market presence through expanded partnerships with the industry's leading technology vendors. It also added five new partners to its line card, bringing in additional services, expanding its product offering and allowing the Company to successfully penetrate new markets.

VirtualArmour added 34 new clients during 2016. Some of these clients became part of the managed services practice, others professional services and almost all procured hardware and software solutions from the Company. These additions were a direct result of the new sales territories of focus, Bay Area, CA, Pacific Northwest and Texas.

VirtualArmour prides itself on customer retention. 2016 was no different, the Company maintained a customer retention rate of over 96%. With the dramatic growth in customer acquisition coupled with the high customer retention, VirtualArmour is poised to achieve and exceed its revenue goals.

PARTNER FOR SUCCESS

The Company increased its capabilities by adding three new market leading cybersecurity technologies to be managed 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 technologies that will increase our addressable market to include premier solutions being used by industry leaders. 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. It is important to expand beyond the current technologies under our managed services platform to include products in the cybersecurity space that are being used by leading companies. Our managed 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. We expect this segment of our business to become a larger percentage of our overall business and ultimately become the main driving force to our bottom line.

PERSONNEL CHANGES

During 2016, VirtualArmour further strengthened its sales, marketing and operational capabilities by adding new team members. These appointments included notable additions to its executive leadership who came to their roles with a track record of developing winning teams, increasing profitability, and expanding service delivery standards.

In February 2016, the Company announced the appointment of respected veteran Mary OHanneson as its Regional Sales Director for the Bay Area, California. Ms. OHanneson made a significant impact in 2016 and starting out even stronger in 2017, solidifying VirtualArmour as a trusted brand in the Bay Area. To date, Ms. OHanneson has closed opportunities totalling over $3m and adding six new customers to VirtualArmour.

On August 15, 2016, the Company announced Matthew Brennan was promoted to the position of President with Todd Kannegieter, CEO, vacating his position as President. Mr. Brennan previously served as Vice President of Sales. Mr. Brennan is heavily experienced within the cybersecurity industry bringing 20 years of sales & operational experience to his new role. He has held previous titles such as Founder, Director, Sales Manager and Sales Executive. In his new role, Mr. Brennan is responsible for the day to day operations of the Company. He is responsible for increasing overall revenue growth, broadening the solutions VirtualArmour offers and streamlining operational efficiencies in the business.

On December 2, 2016, the Company announced the addition of Nick Dinsmoor to its senior executive team as the Vice President of Marketing. He leads all VirtualArmour global marketing efforts and continues to build the Company's brand as it expands its offerings and deepens penetration across targeted industries.

On January 17, 2017, the Company announced the appointment of Russ Ambrust to its senior executive team as Vice President of Sales. He oversees all business development opportunities for the Company across North America.

On March 28, 2017, the Company announced the appointment of Kyle Duffy as Director of Client Engagement. He is responsible for expanding the Company's services and solutions to existing clients as well as developing and implementing action plans to further strengthen customer retention.

OUTLOOK

The outlook for 2017 is positive as there continues to be growth within the MSP (Managed Services Provider) and Cybersecurity space that is accelerating adoption of the Company's service offerings. The Cybersecurity Managed Services sector is growing from $8B in 2015 to $30B in 2020(1). With 554M records stolen in the 1st half of 2016(2) and increased media coverage of major breaches, VirtualArmour is well positioned to capitalize on this opportunity. 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 our core competencies: managed services, professional services and hardware/software solutions in cooperation with our premier technology partners. VirtualArmour's service delivery and client experience in the industry is second to none and will continue to broaden our penetration within the enterprise space.

2. **Deliver and Communicate Value to our Clients.** Bringing a coordinated, customized and a personal service that exceeds our customers' expectations is critical to differentiating ourselves from our 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 our service delivery practice to increase response time, offer proprietary engagement tools and broaden the volume of technologies that are supported. Additional focus will be on leveraging new technology, staff and processes to decrease per client operating expense.

(1) Research Firm MarketsandMarkets predicting the market for managed security services to grow to $35.5 billion by 2020, up from around $17.8 billion in 2015. For scale, MarketsandMarkets also predicts that the security industry overall, including all parts, will be $202.4 billion by 2021, up from $112.5 billion in 2016.

(2) Gemalto's Breach Level Index.

SELECTED ANNUAL INFORMATION

The following is a summary of certain selected audited consolidated financial information of the Company for the years ended December 31, 2016, 2015 and 2014:

	2016 $	2015 $	2014 $
Total Revenues	8,897,092	7,366,309	4,813,410
Loss	(2,298,828)	(3,403,391)	122,944
Loss Per Share (basic and diluted)[1]	(0.04)	(0.09)	0.00
Total Assets	2,527,477	2,746,508	1,139,172
Total Non-Current Financial Liabilities	80,817	322,552	66,243
Dividends declared	-	-	-

[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.

DISCUSSION OF OPERATIONS

Year Ended December 31, 2016

Hardware and software sales and product support services revenues during the year ended December 31, 2016 were $6,827,014 (2015 - $5,780,084) while managed services revenues were $1,612,192 (2015 - $1,341,142) and professional services revenues were $438,643 (2015 - $235,823). The increase in revenue was due to an increase in the number of customers served as well as the size of orders from new and existing customers. The gross profit as a percentage of revenue was 25.5% in the 2016 period compared to 28.9% in the 2015 period. The decrease in gross profit margin was due primarily to a significant increase 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 $2,298,828 ($0.04 per share) for the year ended December 31, 2016 as compared to net loss of $3,403,391 ($0.09 per share) for the year ended December 31, 2015. 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.

	2016 $	2015 $
Loss for the year as reported	(2,298,828)	(3,403,391)
Add (deduct):		
Listing expense	-	4,166,285
Gain on debt settlement, net of legal fees	(150,803)	-
Change in fair value of warrant derivative liabilities	1,310,520	(1,169,751)
G&A expense ï share-based payments	226,604	399,674
Adjusted loss for the year [1]	(912,507)	(7,183)

[1] Adjusted loss for the year 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 2015, a listing expense of $4,166,285 was recorded pursuant to the July 27, 2015 reverse takeover transaction that resulted in the Company becoming a publically traded corporation. The expense represented the fair value of the shares and warrants issued by VA LLC pursuant to the

RTO. Refer to Note 3 of the consolidated 2016 year end financial statements for details. This was a non-recurring expense that did not represent a cash outlay of the Company.

- 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 value of the warrants increases as the share price increases. On exercise of these warrants, the value is transferred to share capital at its fair value on the date of exercise. As the share price at December 31, 2016 (and the dates of warrant exercise) was higher than the value at December 31, 2015, the Company recorded a loss on the change in fair value. The 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 $8,897,092 during the 2016 year (2015 - $7,366,309). The increase was due primarily to an increase in the number of customers served as well as the size of orders from new and existing customers. The increase reflects an 18% increase in product sales as well as a 30% increase in managed services and professional services.
- Cost of sales was $6,624,066 during the 2016 period (2015 - $5,234,615). The increase in cost of sales was due to the corresponding increase in revenue.
- General and administrative expenses were $1,507,404 during the 2016 year (2015 - $1,296,891). The increase was due primarily to an increase in salaries ($375,294 vs. $287,013) as well as due to an increase in miscellaneous general and administrative expenditures ($419,417 vs. $270,409). The increases were a result of an increase of corporate level activities and the appointment of new employees.
- Research and development expense was $121,242 during 2016 (2015 - $56,305). The expense is comprised of salaries to relevant employees as well as consulting fees.
- Sales and marketing expense was $1,727,426 during 2016 (2015 - $1,123,889). The increase in sales and marketing expense was due primarily to the addition of major account sales executives in the San Francisco, the Pacific Northwest and the Texas markets and the addition of a Sales Engineer to support the new major account executives.

<u>Three Months Ended December 31, 2016</u>

The Company recorded net loss of $536,583 ($0.01 per share) for the three months ended December 31, 2016 as compared to a net income of $915,230 (0.02 per share) for the three months ended December 31, 2015. The table below details certain non-cash and other transactions that for the purposes of this discussion have been adjusted out of the reported income (loss) to produce an adjusted loss that forms a better basis for comparing the period-over-period operating results of the Company.

	2016 **$**	**2015** **$**
(Loss) income for the period as reported	(536,583)	915,230
Add (deduct):		
Change in fair value of warrant derivative liabilities	(41,093)	(1,199,966)
G&A expense – share-based payments	94,250	41,534
Adjusted loss for the period (1)	(483,426)	(243,202)

(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.

During the most recent quarter, the Company had a decrease in gross profit from $542,946 to $431,861 and an increase in expenses, excluding the items in the table above, from $786,148 to $915,287.

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 December 31, 2016.

	Three Months Ended ($)			
	December 31, 2016	**September 30, 2016**	**June 30, 2016**	**March 31, 2016**
Total Revenues	2,047,221	2,003,095	3,169,284	1,677,492
Net Income (Loss)	(536,583)	1,372,100	(501,729)	(2,632,616)
Income (Loss) Per Share (basic and diluted) (1)	(0.01)	0.03	(0.01)	(0.05)

	Three Months Ended ($)			
	December 31, 2015	**September 30, 2015**	**June 30, 2015**	**March 31, 2015**
Total Revenues	2,492,695	1,840,424	1,942,587	1,090,603
Net Income (Loss)	915,230	(4,460,529)	169,070	(27,162)
Income (Loss) Per Share (basic and diluted) (1)	0.02	(0.10)	0.01	(0.00)

(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 2014 through 2016. The loss in Q3 2015 was due primarily to the listing expense of $4,166,285. 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 December 31, 2016, the Company had cash of $144,530 and a working capital deficiency of $728,392, compared to cash of $250,812 and working capital deficiency of $1,202,767 as at December 31, 2015.

Cash used in operations was $952,258 for the year ended December 31, 2016, as compared to cash provided by operating activities of $280,632 for the same period in 2015. The increase in cash used in operating activities during the current year was due primarily to an increase in expenses.

Net cash used in investing activities was $60,070 for the year ended December 31, 2016 as compared to $40,812 provided by investing activities for the same period of 2015. The 2015 amount includes cash received from the RTO amount to $113,011.

Net cash provided by financing activities was $906,046 for the year ended December 31, 2016, compared to an outflow of $166,610 for the same period of 2015. During 2016, the Company received proceeds from the exercise of warrants of $569,666 and $316,607 of gross proceeds from a July 2016 non-brokered private placement. The Company also received net advances of $130,000 (2015 - $15,000) on its line-of-credit.

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 December 31, 2016, the Company has a working capital deficiency of $728,392 and an accumulated deficit of $8,443,857. A significant portion of the working capital deficiency is comprised of the third party line of credit arrangements ($445,000). A significant portion of the accumulated deficit is comprised of non-cash accounting expenses such as listing expense ($4,166,285) and the change in fair value of warrant derivative liabilities ($140,769). The Company has funded losses with external debt and related party advances, share issuances and working capital. The existence of these matters creates a material uncertainty that may cast significant doubt about the Companyøs 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 year ended December 31, 2016, the Company received $569,666 (CAD$735,468) from the exercise of share purchase warrants.

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 findersôfee of $15,465, incurred issuance costs of $11,257 and issued 42,275 findersôwarrants valued at $5,143. Each findersôwarrant 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:

   55,769,447 common shares as at May 1, 2017

c) Outstanding options and warrants as at May 1, 2017:

Security	Number	Exercise Price	Expiry date
Stock Options	2,136,000	U.S.$ 0.10	July 27, 2020
Stock Options	2,801,418	U.S.$ 0.10	July 31, 2020
Stock Options	150,000	CAD$ 0.46	March 13, 2021
Stock Options	100,000	CAD$ 0.47	April 6, 2021
Stock Options	200,000	CAD$ 0.44	August 19, 2021
Stock Options	1,020,000	CAD$ 0.40	September 7, 2021
Stock Options	1,585,000	CAD$ 0.30	March 23, 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 ñLOCò) 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 December 31, 2016, the Company is indebted to the Director of the Company for $152,206 (2015 - $56,097) for advances provided to the Company under this loan and interest accrued on the outstanding balance. During the year ended December 31, 2016, the Company recorded interest of $8,574 (2015 - $9,068).

On June 15, 2015, VA LLC issued $400,000 of promissory notes to a former officer of VA LLC. Pursuant to the promissory note agreements, the Company made a payment of $35,000 on June 15, 2015. The remaining principal amount of the note was payable in 36 equal blended instalments beginning July 1, 2015. During the year ended December 31, 2016, the terms of the promissory notes were amended. Effective February 29, 2016, the Company and the former officer agreed that the Company will pay 25% of the remaining principal balance as part of the resolution of a dispute between the parties. The Company recorded a gain on debt settlement of $150,803, net of legal fees of $64,878. The promissory notes were repaid in six equal instalments beginning March 1, 2016 and ending on August 1, 2016. The promissory notes bore interest at 4.5% per annum. As at December 31, 2016, the balance of the promissory notes was $nil (2015 - $304,289).

Key management includes the Chief Executive Officer, the Chairman of the Board, the President, the Vice President of Managed Services and the former Chief Technology Officer as well as the directors of the Company. Compensation paid or payable to key management for services during the years ended December 31, 2016 and 2015 is as follows.

	Years ended December 31,	
	2016	2015
	$	$
Short-term benefits	**700,631**	648,041
Share-based payments	**115,034**	25,927
	815,665	673,968

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Board of Directors has overall responsibility for the establishment and oversight of the Companyõs 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 managementõs 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 62% of its accounts receivable owing is from eight customers (2015 – 85% from eight customers). In addition, 50% of its revenue is from six customers (2015 – 57% 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.

	December 31, 2016 $	December 31, 2015 $
Accounts receivable net of allowance for doubtful accounts		
Less than 30 days past billing date	**1,572,987**	1,558,439
31-60 days past billing date	**55,447**	2,916
61-90 days past billing date	**16,851**	11,200
Greater than 90 days past billing date	**1,378**	132,713
	1,646,663	1,705,268

The Company's Other Receivables relate primarily to marketing development funds ("MDF") and rebates from certain suppliers. These other receivables generally have terms of payment due within 30 days for MDF funds and four to five months for rebates from suppliers. The Company has a history of collecting these amounts in full. As at December 31 2016, the Company had an allowance for doubtful accounts relating to other receivables of $9,000 (2015 - $nil).

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 December 31, 2016, the Company had CAD$10,938 of cash and CAD$80,790 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, other than amounts drawn on the line-of-credit ("LOC") arrangement, all bear interest at a fixed interest rate. . Accordingly, the Company is exposed to cash flow interest rate risk on the LOC and fair value interest rate risk on the other debt. The bank LOC arrangement carries a variable rate of interest, therefore its fair value is not materially affected by changes in market interest rates. However, the associated cash flows representing interest payments on the bank

LOC arrangement may change if the LOC arrangement is renewed at maturity. The fair value of the other 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 will provide 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:

	December 31, 2016 $	December 31, 2015 $
Current assets	**2,213,217**	2,282,760
Current liabilities	**(2,941,609)**	(3,485,527)
Working capital (deficiency)	**(728,392)**	(1,202,767)

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 consolidated financial statements for the year ended December 31, 2016 and this accompanying MD&A (together, the "Annual 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 Annual 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.