Avante Logixx Inc.
Management Discussion and Analysis
For the Three and Nine Month Periods Ended December 31, 2019 and 2018
(All amounts are in thousands of Canadian dollars unless otherwise indicated)

This Management's Discussion and Analysis ("MD&A") contains information about the consolidated performance and financial position of Avante Logixx Inc. ("Company") as at and for the nine months ended December 31, 2019 and 2018, as well as forward-looking information about future periods. The information in this MD&A is current to February 25, 2020, and should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and notes thereto as at and for the nine months ended December 31, 2019 and 2018.

The accompanying unaudited condensed interim consolidated financial statements of the Company were prepared by and are the responsibility of the Company's management. The Company's unaudited condensed interim consolidated financial statements as at and for the nine months ended December 31, 2019 and 2018 were prepared in accordance with *International Financial Reporting Standards* ("IFRS"). All financial amounts in this MD&A are expressed in thousands of Canadian dollars except where otherwise noted. All tables are for the nine months ended December 31 of the year indicated, unless otherwise stated. This MD&A includes forward-looking statements and assumptions. See "Forward-Looking Information" for more details.

FORWARD LOOKING INFORMATION

The information set forth in this MD&A and the accompanying message to readers may contain statements concerning the Company's future results, future performance, intentions, objectives, plans and expectations that are, or may be deemed to be, forward-looking statements or information within the meaning of securities laws. In some cases, forward-looking information can be identified by the use of terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or other similar expressions concerning matters that are not historical facts. Forward-looking statements are not guarantees of future performance.

These forward-looking statements are based on current expectations that involve numerous risks and uncertainties, including, but not limited to, those identified in the Risks Factors section of the AIF the Company filed with regulatory authorities on October 17, 2019. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions and the successful completion and integration of proposed acquisitions, all of which are difficult or impossible to predict accurately and many of which are beyond the Company's control. Although the Company believes that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate. These factors should be considered carefully, and readers should not place undue reliance on forward-looking statements. The Company has no intention and undertakes no obligation to update or revise any forward-looking statements, whether written or oral that may be made by or on the Company's behalf.

NON-IFRS MEASURES

This MD&A includes certain measures which have not been prepared in accordance with IFRS such as EBITDA, Adjusted EBITDA and Adjusted EBITDA per share. These non-IFRS measures are not recognized under IFRS and, accordingly, users are cautioned that these measures should not be construed as alternatives to net income determined in accordance with IFRS. The non-IFRS measures presented are unlikely to be comparable to similar measures presented by other issuers.

References to EBITDA are to net income before interest, taxes, depreciation and amortization. References to Adjusted EBITDA are to net income before interest, taxes, depreciation, amortization, share-based payments, acquisition, integration and / or reorganization costs, loss (gain) in fair value of derivative liability, and expensing of fair value adjustment per IFRS less non-controlling interest's share. Neither EBITDA nor Adjusted EBITDA is an earnings measure recognized by IFRS and do not have a standardized meaning prescribed by IFRS. Management believes that Adjusted EBITDA is an appropriate measure in evaluating the Company's performance. Readers are cautioned that neither EBITDA nor Adjusted EBITDA should be construed as an alternative to net income (as determined under IFRS), as an indicator of financial performance or to cash flow from operating activities (as determined under IFRS) or as a measure of liquidity and cash flow. The Company's method of calculating Adjusted EBITDA may differ from methods used by other issuers and, accordingly, the Company's Adjusted EBITDA may not be comparable to similar measures used by other issuers.

A reconciliation of earnings to EBITDA and Adjusted EBITDA is provided in the Reconciliation of Non-IFRS Measures section of this MD&A.

OVERVIEW OF AVANTE AND HIGHLIGHTS

Avante Logixx Inc. is an Ontario corporation listed on the Toronto Venture Exchange (TSXV: XX).

The Company is a leading provider of technology enabled security services to both commercial and residential customers comprised of the following segments.

- Protective Services
- Monitoring & Managed Services
- Electronic Security
- Security Devices and Hardware

The Company's strategy focuses on acquiring, managing and building a diversified portfolio of industry leading businesses which provide specialized, mission-critical solutions that address the security risks of our customers. The Company's businesses continuously develop innovative solutions that enable its customers to achieve their security and risk objectives.

The segments are grouped with reference to the nature of the services provided and are described in further detail in the Business Segment Operating Results section of this MD&A.

In fiscal 2019, the Company announced a new strategy following the appointment of Craig Campbell, a security industry veteran as Chief Executive Officer. The Board approved strategy is two-pronged:

i) invest in the parent company management structure to create the capability to grow via acquisition (senior leadership, and corporate development); and
ii) look for opportunities to leverage previous acquisitions to gain synergies and create a shared services infrastructure to efficiently deliver services such as: human resources, management information services, finance, marketing and sales.

The Company added key talent throughout fiscal 2019 and 2020 at the operational, management and executive level, creating, enhancing and expanding the support platform of Finance & Administration, Human Resources, Sales and Marketing and IT. We believe that these investments in people, technology and processes are critical to achieving the scale required to realize our strategy of building a technology-enabled security solution and one stop security provider to large, national clients.

These investments are the foundation for our growth platform. We expect costs, as a percentage of total revenue, to continually decrease as we grow organically, acquire additional companies and realize further synergies. This is evidenced by the consistent decrease in operating expenses as a percentage of revenue (excluding depreciation, amortization, interest, non-cash share-based payments, and loss (gain) in fair value of derivative liability) which decreased to 25% for the quarter ended December 31, 2019 from 29% and 26% in the first and second quarter of fiscal 2020, 31% for fiscal 2019 and 39% for the quarter ended December 31, 2018.

During fiscal 2019, the Company completed a platform investment in the Protective Services segment and three tuck-in investments for the Protective Services and Electronic Security segments. The aggregate revenues, gross profit and Adjusted EBITDA[1] of these three acquisitions for the period from July 1, 2018 to the dates of acquisition were approximately $7.4 million, $1 million and $0.3 million, respectively. During the third quarter of 2020, Veridin Systems Canada ("Veridin") was legally amalgamated into Logixx Security Inc.

During fiscal 2020, the Company completed a platform investment in the Protective Services segment (see ASAP acquisition below). The aggregate revenues, gross profit and Adjusted EBITDA[1] of this acquisition for the period from October 1, 2019 to the date of acquisition was approximately $5.2 million, $1.6 million and $0.8 million, respectively.

On December 1, 2019, the Company acquired A.S.A.P. Secured Inc ("ASAP") located in Milton, Ontario, for approximately $10.5 million, subject to normal working capital and holdback adjustments. The acquisition of ASAP was strategic and expanded the national footprint of our Protective Services business and our industry verticals, including retail, consumer products and mining to the Company's customer portfolio. *Refer to Note 12 to the Unaudited Condensed Interim Consolidated Financial Statements for the three- and nine-month periods ended December 31, 2019 and 2018.*

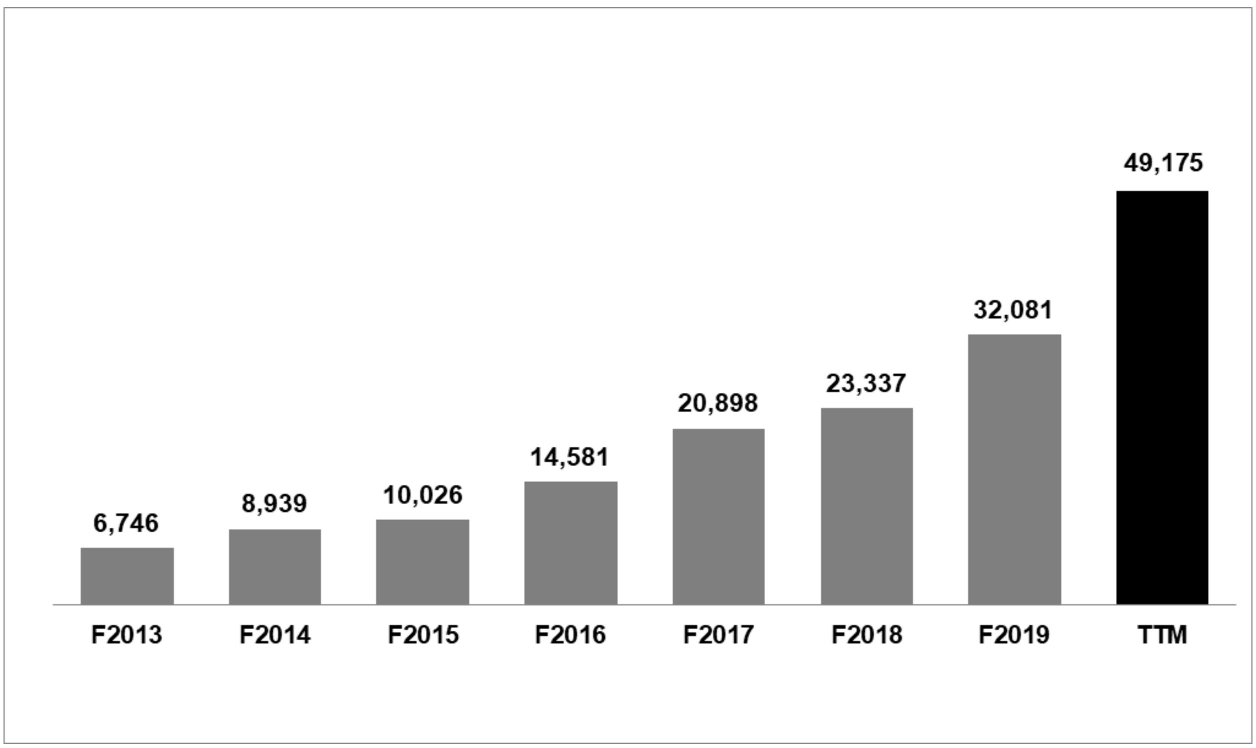
The acquisition of ASAP was funded by an unsecured, subordinated, non-interest-bearing promissory note from the vendors and a convertible debenture issuance. On November 13, 2019, the Company entered an indenture and a subscription agreement pursuant to which Fairfax Financial Holdings Limited, through certain of its affiliates (collectively, "Fairfax"), agreed to invest up to $18 million in the Company through a private placement of 7% unsecured convertible debentures, with such debentures maturing on November 27, 2024 and guaranteed by the Company's wholly-owned subsidiaries. The debenture facility was made available by way of two tranches. The first tranche was used to fund the ASAP transaction, consisting of 8,264 debentures for gross proceeds of $8,264,000 that was drawn and advanced on November 27, 2019. The second tranche, of up to $9,736,000, is available on or prior to August 27, 2020 at the Company's sole option, but subject to shareholder approval, to fund general corporate purposes including future acquisitions and investments in guarantors. Fairfax has the right to convert issued debentures into common shares of the Company at a conversion price of $1.56 per share. So long as Fairfax owns at least 10% of the Company's common shares, Fairfax has the right to maintain the same percentage ownership of the Company's common shares subsequent to an issuance of the Company's common shares as held by Fairfax immediately prior to such issuance. If Fairfax owns more than 10% of the Company's common shares, Fairfax is entitled to nominate one member to the Company's boards of directors. Pursuant to the indenture, the Company's consolidated total indebtedness (excluding the Fairfax debentures) shall not exceed 6.5 times adjusted EBITDA on a rolling four quarter basis and consolidated

[1] Pre-acquisition EBITDA of acquired companies excludes pre-closing adjustments made by the owners for tax planning purposes which were considered non-operating and non-recurring

senior indebtedness shall not exceed 3.5 times adjusted EBITDA on a rolling four quarter basis. In the event of a change of control, issued and outstanding debentures must be repurchased immediately prior to the change of control at 101% of face value plus accrued and unpaid interest. *Refer to Note 17(a) to the Unaudited Condensed Interim Consolidated Financial Statements for the three- and nine-month periods ended December 31, 2019 and 2018.*

As at December 31, 2019 the Company's full-time headcount was 1,525 compared to 649 as at March 31, 2019. The acquisition of ASAP added 842 full-time employees on acquisition.

Historical Revenue



* The TTM revenues includes the trailing twelve month period ending December 31, 2019.

STRATEGY

Our strategy is to acquire, manage and build industry-leading security businesses in our dedicated divisional segments, with an emphasis on seeking acquisition opportunities that provide a foundation for profitable, sustainable growth. We aim to reinforce this position with technology-enabled security solutions and a one-stop shop for large, national, security conscious clients. We believe that providing a one-stop shop for all security needs is a unique value proposition to many large, national clients that find it cumbersome to work with multiple vendors across the country.

Our long-term strategy is focused on operating and acquiring high performing assets, investing in top talent to drive growth and results, and deploying capital with an outlook to superior returns for our customers and shareholders as follows:

Make strategic acquisitions

- Pursue opportunities that will strengthen our value proposition and expand our platform, achieving operational efficiencies through increased scale and consolidation of acquisitions
- Apply strict criteria to ensure alignment, accretion and return on invested capital

Grow organically

- Leverage the Company's value proposition with customers to win new contracts
- Expand the scope of services to utilize the existing customer base and attract new customers
- Maximize scale and efficiencies

Improve business operations

- Optimize labour models and rely on innovative technology and economies of scale to drive efficiencies
- Maintain standards of exceptional customer service
- Manage costs at the corporate office to ensure a lean shared service model and maximize overall profitability

Consolidated objectives and outlook

Our long-term financial objectives serve as a guide in developing our strategy. While these metrics serve as a guide to developing and executing our long-term strategy, management does not anticipate achieving these objectives annually and these should not be considered as guidance. Our long-term financial objectives are:

- Investing in the range of $50 – 70 million during the next three years, and $200 million within the next five years, in platform and tuck-in acquisitions;
- Consolidated adjusted EBITDA margin of 10%;
- High single-digit growth in adjusted net income per share;
- Reinvestment of cash in future business growth; and
- Net Senior Debt to Adjusted EBITDA of less than 3x.

2019 and 2020 ACQUISITIONS

On July 16, 2018, the Company acquired the remaining 49% of outstanding common shares of its subsidiary Architronics Limited for an aggregate purchase price of $588,000. The purchase price was paid $294,000 in cash and 140,000 (700,000 pre-consolidation) in shares of the Company at a negotiated price of $2.10 per share.

On August 1, 2018, the Company acquired all the outstanding shares of Watermark Security Inc. ("Watermark") with an effective date of August 1, 2018. Watermark provides alarm monitoring and cottage check services to clients in the Muskoka region and the surrounding areas. The total purchase price was $525,247 of which $450,000 was paid in cash at closing. The Company held back $50,000 of the purchase price against certain representations and warranties provided by the vendors in relation to customer attrition. The amount held back is payable, net of deductions if any, on the first anniversary of the closing date and discussions continue with the vendors of Watermark to settle this hold back amount.

On September 17, 2018, the Company completed the acquisition of Veridin Systems Canada Inc. ("Veridin"). Veridin provides alarm monitoring services and installation of security systems to commercial and residential clients across Canada. The aggregate purchase price was $2,436,410 and was funded through cash consideration of $1,900,746 and the issuance of 238,095 (1,190,476 pre-consolidation) shares at $2.25. An amount of $94,923 is held in escrow in respect of certain representations and warranties of the vendors to be released on the first anniversary following the closing date and discussions continue with the vendors of Veridin to settle this escrow amount.

On November 30, 2018, the Company completed the acquisition of Logixx Security Inc. (formerly and doing business as Intelligarde International Inc.). Logixx Security Inc. is a commercial security services provider that offers high- and low-profile security guards and patrols, mainly in the Greater Toronto Area. Purchase consideration for this acquisition amounted to $4,543,255, net of post-closing working capital adjustments. The acquisition was financed through cash and $3,000,000 of borrowings under the Company's acquisition credit facility. An amount of $712,500 is held in escrow as a guarantee against certain representations and warranties provided by the vendors and is payable at the first anniversary following the closing date and discussions continue with the vendors of Intelligarde International Inc. to settle this escrow amount.

On December 1, 2019 the Company acquired all the outstanding shares of A.S.A.P Secured Inc. ("ASAP"). ASAP is a commercial security services provider that offers high-end low-profile security guards and patrols, as well as numerous complementary security services across Canada. The acquisition brings strategic capabilities to the Company that accelerate the realization of the Company's vision of building a technology-enables security solutions provider. The acquisition will further extend the Company's presence in the commercial security market. The total consideration paid for the outstanding shares of ASAP is $10,270,000 through the combination of cash payment on closing and issuance of a non-interest bearing, non-transferrable, subordinated promissory note in the principal amount of $2,625,000. The consideration payable for ASAP is subject to certain post-closing net working capital and gross profit adjustments.

SELECTED FINANCIAL INFORMATION

The following selected financial information for the three and the nine-month periods ended December 31, 2019 and 2018 have been derived from the condensed unaudited interim consolidated financial statements and should be read in conjunction with those financial statements and related notes. The results of acquisitions are added from their respective dates of completion. Non-IFRS measures are defined and reconciled in the Reconciliation of Non-IFRS Measures section of this MD&A.

	Three months ended December 31		Nine months ended December 31	
$ in thousands, unless otherwise noted	**2019**	**2018**	**2019**	**2018**
Revenues	14,114	8,846	37,371	20,277
Gross profit (1)	3,332	3,015	10,334	6,618
Gross profit margin (1)	23.6%	34.1%	27.7%	32.6%
EBITDA (1)	(1,248)	(704)	(858)	(629)
Adjusted EBITDA (1)	(327)	(321)	513	165
Net income (loss) attributable to Avante shareholders	(1,634)	(1,073)	(2,404)	(1,681)
Comprehensive income (loss) attributed to Avante shareholders	(1,687)	(1,073)	(2,935)	(1,681)
Basic and fully diluted income per share	($0.077)	($ 0.056)	($0.113)	($ 0.088)

(1) Adjusted EBITDA, EBITDA. Gross Profit and Gross Profit Margin are non-IFRS measures. See Description of Non-IFRS Measures

Results for the Three and Nine Month Periods Ended December 31, 2019 and 2018

Revenues

Revenues for the third quarter were $14.1 million, compared with $8.8 million for the prior year, an increase of $5.3 million or 59.5%. The increase was comprised of organic growth of 2.9% (down from 9.6% in the second quarter), with the balance coming from the acquisition completed on December 1, 2019. For the nine months ending December 31, 2019 revenues were $37.4 million, compared to $20.2 million for the prior year, an increase of 84.3% of which 14.8% was organic growth and the balance coming from the acquisitions completed during 2019 and 2020.

For acquired companies, comparable growth is calculated as the difference between actual revenue achieved by each company in the financial period following acquisition compared to the revenue achieved in the corresponding financial period preceding the date of acquisition by the Company.

Revenue from recurring monitoring and response was $2.1 million for the quarter ended December 31, 2019, compared to $1.0 million for the prior year, an increase of $1.1 million or approximately 110%. Revenues for the Protective Services business, which are contractual, were $8.9 million in the quarter ended December 31, 2019, compared to $3.2 million for the prior year. Recurring and contractual revenues increased by $6.8 million over the prior year quarter and represented approximately 78% of the Company's consolidated revenue in the quarter.

Gross Profit and Gross Profit Margin

Gross profit was $3.3 million for the quarter ended December 31, 2019, an increase of $0.3 million or 10.5% over the prior year comparable quarter, primarily due to increased revenues in Protective Services as a result of the Intelligarde and ASAP acquisitions. For the nine months ended December 31, 2019 the gross profit was $10.3 million compared to $6.6 million for the same period in the prior year.

Gross profit margin was 23.6% for the three months ended December 31, 2019 compared to 34.1% for December 31, 2018. For the nine month periods ending December 31, 2019 and 2018 the gross margin was 27.7% versus 32.6%. The decrease in the third quarter margin, and during the nine month period, is largely attributed to the Protective Services division due to the changes in sales mix, as a result of the Intelligarde and ASAP acquisitions, as the protective services industry operates at a lower margin.

Operating Expenses

Operating expenses, excluding depreciation, amortization, interest, share based payments and loss (gain) in fair value of derivative liability for the three months ended December 31, 2019 were $3.5 million compared to $3.5 million last year, an increase of $0.02 million and 0.7%. Adjusted operating expenses as a percentage of revenues decreased from 39% for the quarter ended December 31, 2018 to 25% for the current year quarter. For the nine month period ended December 31, 2019 operating expenses, excluding depreciation, amortization, interest, share based payments and loss (gain) in fair value of derivative liability were $9.9 million compared to $7 million last year.

The increase in people costs is the result of the talent additions throughout fiscal 2019 and 2020 to build the corporate shared services and executive team to position the Company to scale as part of its growth strategy as well as the alignment of the CEO compensation to market. Refer to the Company's latest management information circular for further details.

Interest expense

Interest costs on bank debt for the third quarter ending December 31, 2019 were $0.07 million compared with $0.01 million during the comparative prior year's quarterly period and $0.2 million for the nine months ended December 31, 2019 compared to $0.04 million for the same period last year. The increase in interest expense for the current quarter of $0.06 million is directly attributed to the acquisition of Logixx Security Inc. (formerly Intelligarde International Inc.), which was funded by drawdown of the acquisiton facility, the purchase of Watermark property, which was funded by a mortgage. Additionally, interest of $0.1 million on the debenture was recognized in miscellaneous expenses, which was related to the acquistion of ASAP The adoption of new standards on leases (IFRS 16) increased interest expense by $0.021 million.

EBITDA and Adjusted EBITDA

EBITDA and Adjusted EBITDA for the third quarter of fiscal 2020 was ($1.2) million and ($0.3) million, respectively. EBITDA and Adjusted EBITDA for the nine months ended December 31, 2019 was ($0.85) million and $0.5 million compared to ($0.6) million and $0.2 million in the prior period.

A reconciliation of earnings to Adjusted EBITDA is provided in the Reconciliation of Non-IFRS Measures section.

SUMMARY OF EIGHT QUARTER OPERATING RESULTS

Fiscal year ended			2020		2019			2018
$ in thousands, unless otherwise noted	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	14,114	11,743	11,515	11,804	8,846	5,856	5,575	6,372
Gross profit (1)	3,332	3,684	3,319	2,957	3,015	1,741	1,862	2,245
Gross profit margin (1)	*23.6%*	*31.4%*	*28.8%*	*25.0%*	*34.1%*	*29.7%*	*33.4%*	*35.2%*
Net Income (loss)	**(1,671)**	**(63)**	**(708)**	**(537)**	**(1,027)**	**(495)**	**(61)**	**76**
Interest expense	70	70	64	63	14	14	12	12
Accretion interest expense (3)	98	–	–	–	–	–	–	–
Income taxes	(245)	(39)	(50)	(1,154)	4	61	49	(46)
Depreciation on capital assets	298	329	319	204	158	98	106	267
Amortization (4)	203	244	223	250	147	151	140	138
EBITDA (1)	**(1,248)**	**541**	**(151)**	**(1,174)**	**(704)**	**(172)**	**247**	**447**
Write-down of intangible assets	–	–	–	65	–	–	–	–
Share based compensation	12	75	80	131	65	98	110	(291)
CWL inventory adjustment	–	–	35	60	60	60	60	–
Reorganization and acquistion costs	500	107	151	533	258	84	–	606
Loss (gain) in fair value of derivative liability	389	–	–	–	–	–	–	–
Other Adjustments	21	–	–	–	–	–	–	–
Adjusted EBITDA (1) (2)	**(327)**	**724**	**115**	**(385)**	**(321)**	**69**	**417**	**762**
Total comprehensive income (loss)	(1,725)	(246)	(1,003)	(950)	(1,027)	(495)	(61)	76
Comprehensive income (loss) attributable to equity holders	(1,687)	(250)	(998)	(962)	(1,073)	(494)	(114)	58
Basic and fully diluted earnings per share	$ (0.077)	$ (0.003)	$ (0.035)	$ (0.110)	$ (0.056)	$ (0.005)	$ (0.007)	$ (0.005)
Total assets	48,542	33,033	34,282	34,174	34,610	30,195	28,150	21,075
Total debt	7,706	4,821	5,057	3,998	4,113	806	734	766

1. For Non-IFRS Measures see Reconciliation of Non-IFRS Measures Section of this MD&A
2. EBITDA and Adjusted EBITDA have been modified to include interest expense in the 2018 and Q1, Q2 and Q3 2019 results
3. Accretion interest expense for debenture
4. Amortization includes amortization of intangible assets and capitalized commissions

Total assets increased by $15.5 million, or 46.9%, in the three months ended December 31, 2019 compared to the prior quarter and $14.4 million, or 42.0%, in the nine months ended December 31, 2019.

As of December 31, 2019, trade receivables amounted to $15.7 million compared to $9.7 million as of March 31, 2019. The increase in receivables is largely attributed to the ASAP receivables acquired through the acquisition. Increases in inventory and contractual assets were largely offset by increases in contractual liabilities. The Company is continuing to implement processes and initiatives focused on improving cash conversion cycles and optimizing working capital efficiency.

Property, plant and equipment increased by $1.4 million since March 31, 2019 due to capitalization of right-of-use assets under IFRS 16. Intangible assets and goodwill have increased from $6.5 million and $8.2 million respectively to $9.8 million and $12.6 million as a result of the ASAP acquisition.

(All amounts are in thousands of Canadian dollars unless otherwise indicated)

The Company recorded a fair value adjustment of $53,100 in the three months ended December 31, 2019, which reduced the carrying value of its investment in 3|Sixty Secure Corp. Year to date to fair value adjustment with respect to that investment is $531,000. The fair value adjustments are recorded in other comprehensive loss.

BUSINESS SEGMENT OPERATING RESULTS

The Company identified and commenced measuring the results of operations by segments in Q3 of fiscal 2019 consisting of Protective Services Division ("PSD"), Electronic Security Division ("ESD"), Monitoring & Managed Services ("MMS") and Security Devices and Hardware ("SDH"). The accounting policies of the segments are the same as those of the consolidated entity. Management evaluates overall business segment performance based on revenue growth, gross profit and gross profit margin. The results by segment are discussed in the pages that follow.

	Three Months Ended December 31		Nine Months Ended December 31	
Period ending	**2019**	**2018**	**2019**	**2018**
Revenue				
PSD	$8,900	$3,247	$21,418	$6,210
ESD	$2,866	$2,983	$8,579	$6,657
MMS	$877	$903	$2,825	$2,537
SDH	$1,471	$1,713	$4,550	$4,873
Total Revenue	**$14,114**	**$8,846**	**$37,371**	**$20,277**
Gross Profit				
PSD	$1,493	$942	$4,245	$1,921
ESD	$686	$750	$2,268	$1,293
MMS	$641	$615	$2,116	$1,772
SDH	$513	$708	$1,705	$1,633
Total Gross Profit	**$3,332**	**$3,015**	**$10,334**	**$6,618**
Gross Margin				
PSD	16.8%	29.0%	19.8%	30.9%
ESD	23.9%	25.1%	26.4%	19.4%
MMS	73.1%	68.1%	74.9%	69.8%
SDH	34.9%	41.3%	37.5%	33.5%
Total Gross Margin	**23.6%**	**34.1%**	**27.7%**	**32.6%**

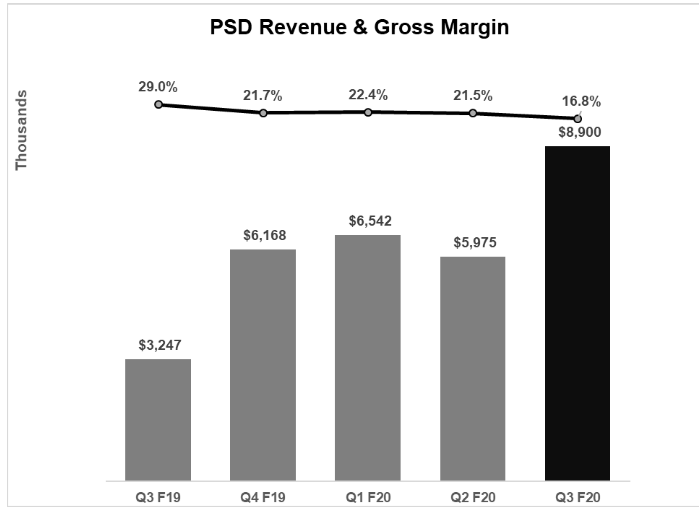
PROTECTIVE SERVICES

The Company's Protective Services Division ("PSD") is focused on offering physical protection to residential, commercial and enterprise clients. The division offers services such as guarding, patrol and rapid response, intelligent perimeter protection, secure transport, and international security travel advisory and transport. These services are predominately contractual and recur on a monthly basis.

Three and Nine Month Periods Ended December 31, 2019

Revenues for the third quarter of fiscal 2020 were $8.9 million, an increase of $5.6 million or 174% over the third quarter of fiscal 2019. For the nine months ended December 31, 2019 revenues were $21.4 million, an increase of $15.2 million or 244% over the prior year comparable period. The acquisitions of ASAP in fiscal 2020 and Intelligarde in fiscal 2019 accounted for $15.1 million of the revenue increase over the prior period. Organic growth was 7.8% over the prior year quarter driven by contract wins at Intelligarde. The increase in revenues of approximately $2.9 million from Q2 to Q3 fiscal 2020 is primarily due to the acquisition of ASAP, which represented $2.7 million of this increase.

Gross profit increased by $0.55 million and $2.3 million for the three and nine month periods ended December 31, 2019, respectively, primarily due to the acquisitions as discussed above. Gross profit margin for the three and nine month periods ended December 31, 2019 was 16.8% and 19.8% compared to 29% and 30.9% for the compable prior year periods. The decrease from the prior year is a result of the change in service mix to static guarding as this service has a lower margin.



EBITDA within the Protective Services Division, before corporate allocations, was $0.49 million for the third quarter of fiscal 2020 ended December 31, 2019, and $4.6 million year-to-date fiscal 2020.

ELECTRONIC SECURITY

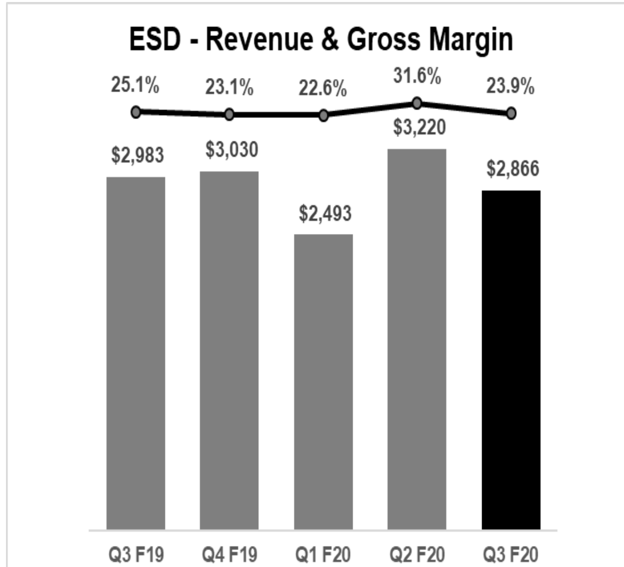
The Company's Electronic Security Division ("ESD") provides a complete suite of home and corporate security services including system design, access control, and video and systems installation and service. The ESD also offers services such as smart home and commercial automation and provides high-end integrated solutions in the home and commercial automation and custom electronic integration industry, including security, lighting, audio and video systems, temperature control and intelligent home networks.

These sophisticated security systems are comprised of computer software and hardware and third-party wireless and locating technologies. The Company conducts a security assessment of each customer site and provides various recommendations that range from security industry standards to the Company's recommended highly secure system design. The installation of the security system is performed by the Company's qualified technical staff and, as required, by approved third party sub-contractors.

Three and Nine Month Periods Ended December 31, 2019

Revenues for the three months ended December 31, 2019 were $2.9 million compared to $3.0 million in the prior year quarter. Revenues for the nine months ended December 31, 2019 were $8.6 million compared to $6.7 million for the same period last year, an increase of $1.9 million or 28.8%. The nine-month increase in revenue is attributed to the acquisition of Veridin.

Revenues for this business unit are largely project driven, thus revenues from quarter to quarter will vary depending on the timing of project milestones being achieved. There is some seasonality to the business as clients schedule project work outside the summer months. The lower revenue in the first and third quarters of fiscal 2020 is mainly due to the timing of when larger projects are completed.



Gross profit and gross profit margin for the quarter ended December 31, 2019 were $0.7 million, and 23.9%, compared to $0.8 million, and 25.1%, during the same period last year. Gross profit for the nine months ended December 31, 2019 was $2.3 million compared to $1.3 million for the prior year period, an increase of $1.0 million and approximately 75.5%. The nine-month increase in gross profit is due to the acquistion of Veridin in fiscal 2019 and improved margins on contracts.

The decrease in ESD's gross profit margin during the third quarter of 2020 versus the comparable period of 2019 is attributed to the completion of legacy contract assets in the period compared to the prior year.

EBITDA within the Electronic Security Division, before corporate allocations, was $0.02 million for the third quarter of fiscal 2020 ended December 31, 2019, compared to $0.06 million for the second quarter ended September 30, 2019 and $0.24 million for the fiscal year ended March 31, 2019.

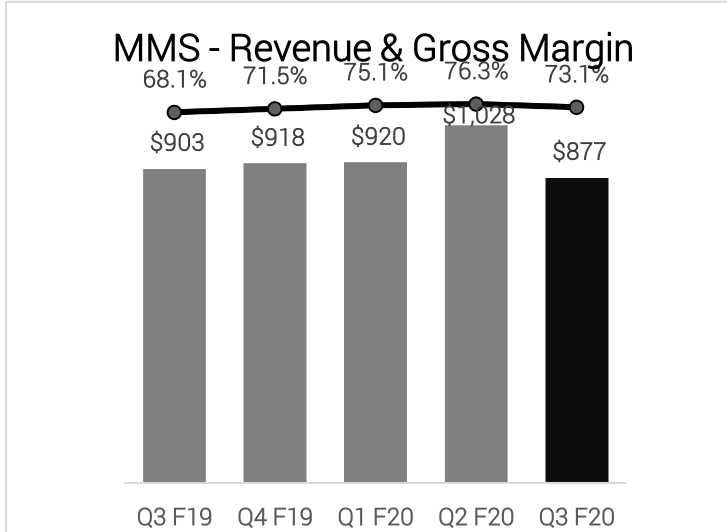
MONITORING & MANAGED SERVICES

The Company's's Monitoring & Managed Services division ("MMS") provides monitoring services to our residential, commercial and enterprise clients. These services include alarm and video monitoring, analytics, verification, and electronic building management. The Company utilizes its Avante Control Centre ("ACC") in Toronto as the central hub for monitoring, dispatch and response. The ACC operates 24 hours a day, 365 days a year.

Our monitoring services are provided through multiple channels using various technologies and equipment. Applications of these services include virtual video patrols of buildings, stores, malls, parking lots, daycare centers and hotels. Architects and builders use the services to view project progress from remote locations and homeowners station operators can view sites when alarm signals are received.

Alarm signals are communicated simultaneously through traditional landline facilities to a primary response centre and wirelessly to the ACC. The primary response centre is operated by a ULC approved third party, which is an independent, non-profit standards development organization for product safety testing, certification and inspection. Avante's Dual Monitoring service provides both traditional ULC Digital Monitoring and real-time wireless monitoring. Both signals are received at our ACC, which has the superior benefit of wireless "anytime anyplace" communication, allowing immediate response to an alarm signal. The Company's response vehicles physically arrive at the clients' premises, typically, within six minutes on average.

The monitoring function is provided by physical on-site inspections and can also be monitored remotely via CCTV and web-cameras. CCTV systems are installed to monitor multiple locations concurrently and to provide a visual record in the event of an incident.'



Three and Nine Month Periods Ended December 31, 2019

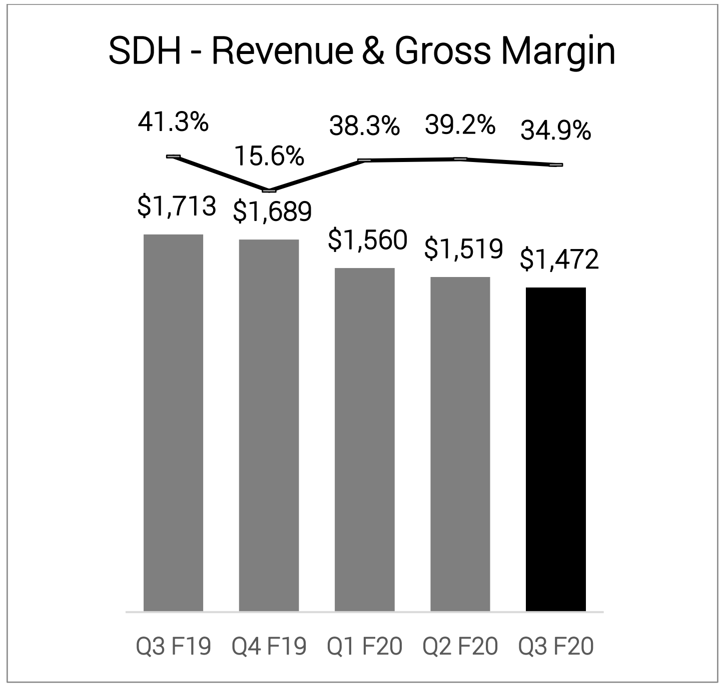
Revenues for the quarter and year-to-date December 31, 2019 were $0.9 million and $2.8 million, compared to $0.9 million and $2.5 million for the comparable prior year periods. The increase of $0.3 million year-to-date of approximately 11.4% represents organic growth.

Gross profit for the third quarter of fiscal 2020 was $0.6 million versus $0.6 million for the third quarter of fiscal 2019. Gross profit for the nine-month period ended December 31, 2019 was $2.1 million, an increase of $0.3 million and 19.4% over the prior year period. Gross profit margin was 73.1% for the third quarter of fiscal 2020 compared to 68.1% for the third quarter of 2019. The decrease in gross profit margin percentage sequentially from Q3 versus Q2 of Fiscal 2020 is due to lower revenues over a relatively fixed cost structure. The improvement in gross profit margin percentage on a year over year basis for the third quarter of fiscal 2020 is due to service mix.

EBITDA within Monitoring & Managed Services, before corporate allocations, was $0.6 million for the third quarter of fiscal 2020 ended December 31, 2019, compared to $0.8 million for the second quarter ended September 30, 2019 and EBITDA of $2.2 million for the fiscal year 2019 ended March 31, 2018.

SECURITY DEVICES & HARDWARE

The Company's Security Devices & Hardware Division ("SDH") provides locksmithing services and hardware sales through the Company's non-wholly owned subsidiary, City Wide Locksmiths Ltd. ("CWL"). SDH provides 24/7 locksmith solutions for homes, businesses and automobiles, including high-security locks, master-keys, ironworks and gates, key cutting and lock repairs. SDH has a highly trained bench of locksmiths who provide the highest quality of service and respond in an average of 20 minutes in the areas in which they operate. CWL also provides high-end hardware through its ADH brand.



Three and Nine Month Periods Ended December 31, 2019

Revenues for the three and nine month periods ended December 31, 2019 were $1.5 million and $4.6 million compared to $1.7 million and $4.9 million in the prior year.

Gross profit and gross profit margin for the nine months ended December 31, 2019 was $1.7 million and 37.5% compared to $1.6 million and 33.5%, respectively, for the comparable period of the prior year. For the three months ended December 31, 2019, gross profit and gross margin were $0.5 million and 34.9% compared to $0.7 million and 41.3%, respectively.

Gross profit and gross profit margin in the prior year quarter and prior year to date were negatively impacted by $0.06 and $0.18 million, respectively, due to the non-cash FMV adjustments for inventory. Excluding these adjustments, gross profit margin for the prior year quarter and year-to-date would have been 37.8% and 29.8% respectively. Refer to Reconciliation of Non-IFRS Measures.

As previously reported, gross profit in the fourth quarter of fiscal 2019 was negatively impacted by $0.3 million due to a fourth quarter inventory adjustment relating to prior quarters as well as $0.06 million for the non-cash FMV adjustment for inventory which was not recorded in the prior year comparable quarter. Adjusting for these impacts, fourth quarter gross profit and gross profit margin would have been $0.6 million and 32.6%, respectively.

EBITDA within the Security Devices & Hardware Division, before corporate allocations, for the third quarter of fiscal 2020 ended December 31, 2019 was $0.06 million, compared to $0.2 million for the second quarter ended September 30, 2019.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal source of liquidity is cash provided from operations. The Company expects that continued cash from operations in 2020, together with cash and cash equivalents on hand, and currently available credit facilities, will be more than sufficient to fund its requirements for investments in working capital and capital assets.

In the near term, the Company intends to finance its growth strategy through the issuance of equity and equity-related instruments as well as the expansion of its credit facilities from time to time, as required. Refer to Significant and Subsequent Events and the Risks and Uncertainties section of this MD&A for further discussion of financing and risks associated with the execution and financing of the Company's growth strategy.

Cash Flows

	Three Months Ended December 31		Nine Months Ended December 31	
$ in thousands	2019	2018	2019	2018
Cash Inflows (Outflows) by Activity				
Operating activities	(3,199)	(2,189)	(3,771)	(3,426)
Financing activities	8,830	3,410	9,730	11,106
Investing activities	(5,953)	(5,904)	(7,774)	(8,734)
Net cash inflows (outflows)	**(322)**	**(4,682)**	**(1,815)**	**(1,054)**

Operating Activities

Cash used in operating activities increased $1.0 million in the third quarter of 2020 as compared to the same period of 2019.

Cash used in operations increased by $0.34 million for the nine months ended December 31, 2019 as compared to the prior year period. The period ending December 31, 2019 reflected the acquisition of ASAP whereas the prior year periods reflected an increase in working capital investment as a result of the Watermark, Veridin and Intelligarde acquisitions.

Financing Activities

Cash provided from financing activities was $8.8 million for the third quarter of 2020 compared to cash from financing of $3.4 million in the prior year quarter. Cash from financing activities totaled $9.7 million for the nine-month period ended December 31, 2019 compared to $11.1 million for the nine-month period ended December 31, 2018. Cash flows provided by financing activities includes net proceeds of $8.0 million on November 27, 2019 from the convertible debenture. The prior year financing activities included the net proceeds of the equity raise of $7.7 million on June 12, 2018 as well as net drawings under the senior credit facilities.

Repayments of bank loans increased to $0.45 million for the nine months ended December 31, 2019 primarily as a result of principal repayments on the acquisition facility and mortgage offset by drawings under the bank credit facilities of $2.7 million during the first nine months of fiscal 2020. The increase in obligations under financing leases is comprised of $1.7 million for property and vehicle operating leases capitalized under IFRS 16 net of principal payments of $0.47 million.

Investing Activities

Cash used in investing activities was $7.7 million year-to-date December 31, 2019 compared to $8.7 million last year.

The increase in capital assets of $2.3 million is comprised of $0.40 million of right-of-use capital asset additions, $0.07 million on acquisition of ASAP, $0.18 million various other purchases and $1.7 million of right-of-use assets capitalized on implementation of IFRS 16. The capital expenditures were funded through vehicle financing leases capitalized under IFRS 16 and from cash flow from operations.

The cash position as at December 31, 2019 was $0.36 million compared to $2.1 million as at December 31, 2018. The decrease in cash is mainly a result of investments in acquisitions, including working capital and restructuring and acquisition costs

Borrowing

The Company's senior debt and property leases totaled $7.5 million as at December 31, 2019 versus $4.0 million as at March 31, 2019, an increase of $3.5 million. The implementation of IFRS 16 accounts for $1.7 million of the increase since March 31, 2019. In the third quarter of fiscal 2020, the Company borrowed an additional $2.7 million for working capital.

The Company's total available sources of senior credit facilities are detailed below:

	As at December 31, 2019		
$ in thousands	**Total Amount**	**Borrowing**	**Amount Available**
Revolving credit facility	2,000	940	1,060
Revolving acquisition facility	10,000	4,038	5,962
Mortgage	373	365	–
Vehicle leases and loans	–	1,120	–
Property leases	–	1,011	–
	12,373	**7,474**	**7,022**

On November 23, 2018, the Company's bankers approved a new credit facility which consolidated the previous credit lines of various subsidiaries with a revolving demand facility of $2 million and provided an acquisition line of $10 million. In accordance with the terms of the credit facility, the Company must maintain certain covenants and ratios that require Non-IFRS financial measures, including Fixed Charge Coverage Ratio and Funded Debt to EBITDA.

On November 25, 2019 the company amended the loan agreement with the bank and as a result the covenant related to the acquisition line will not be tested until March 31, 2020.

The Company is focused on managing both its senior debt and its leverage ratios with a long-term goal of achieving a Net Funded Senior Debt to Adjusted EBITDA ratio of less than 3x.

The Company also has access, until Augusts 27, 2020, to the second tranche of the 7% unsecured convertible debentures for up to $9,736,000 available to the Company for general corporate purposes.

Capital Stock

The authorized capital of the Company consists of an unlimited number of common shares. As at February 25, 2020, there were 21,192,004 Common Shares issued and outstanding, which is unchanged since March 31,2019.

Issuance of Warrants

The Company issued 258,750 broker warrants as part of the bought deal on June 12, 2018. The warrants were granted at an exercise price of $2.00 which was equal, or greater to, the trading price on the day of grant and is considered fair value. The warrants have a 1:1 ratio to common shares and expire on June 12, 2020, which is the second anniversary of the grant date. As at November 21 and March 31, 2019, there were 258,750 warrants outstanding exercisable into 258,750 common shares.

Issuance of Stock Options

As at December 31, 2019, there were a total of 1,675,333 options outstanding to purchase an equivalent of common shares, with a weighted average price of $2.00, expiring at various dates between December 2019 and January 2024. There were 185,000 options granted, no options were exercised and 78,000 options expired or were canceled in the quarter ending December 31, 2019. Should the outstanding options and warrants that were exercisable at December 31, 2019 be exercised, the Company would receive proceeds of approximately $1.1 million.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on its results of operations or financial condition.

Related Party Transactions

The Company's related parties include the following persons and entities: (i) associates, or entities which are controlled or significantly influenced by the Company; (ii) key management personnel, which comprise directors and officers of the Company; and (iii) entities controlled by key management personnel.

The Company provided services to 3i Partners Inc., a private company controlled by a significant shareholder and officer of the Company. In the three and nine-months periods ended December 31, 2019 the Company billed $NIL and $4,294 (December 31, 2018: $39,233 and $39,233) at commercial rates.

The Company entered into a contract with Sissano Inc. effective May 1, 2018 with a private company controlled by a significant shareholder to provide consulting services for the Company. The Company incurred $78,571 of expense in the three-month period ended December 31, 2019 (December 31, 2018: $38,565). For the nine-month period ended December 31, 2019, the Company incurred $230,821 for these services (December 31, 2018: $76,065).

The Company entered into a contract with XpressChek Inc., a private company controlled by a significant shareholder and officer of the Company to provide services for the Company. For the three-month period ended December 31, 2019 the Company incurred $2,057(December 31, 2018: $1,706) for these services, and $4,232 for the nine-month period ended December 31, 2019 (December 31, 2018: $1,706).

In the previous fiscal year ending March 31, 2019, a contract with Illyria Inc., a private company controlled by one of the directors of the Company to provide consulting services was terminated. For the nine-month period ended December 31, 2019, $NIL expenses were incurred (December 31, 2018: $26,500 for the three-month period, $79,500 for the nine-month period).

RECONCILIATION OF NON-IFRS MEASURES

This MD&A includes certain measures which have not been prepared in accordance with IFRS such as EBITDA, Adjusted EBITDA, Gross Profit and Gross Profit Margin and Operating Profit and Adjusted Operating Profit. These non-IFRS measures are not recognized under IFRS and, accordingly, users are cautioned that these measures should not be construed as alternatives to net income determined in accordance with IFRS. The non-IFRS measures presented are unlikely to be comparable to similar measures presented by other issuers.

EBITDA and Adjusted EBITDA

The Company defines EBITDA as earnings before depreciation and amortization, interest expense, and income tax expense (recovery). Adjusted EBITDA is defined as EBITDA before acquisition and restructuring costs, write-offs and impairments, stock based compensation expense and changes in fair value adjustments including the fair value adjustment of the convertible debenture. These items are excluded in calculating Adjusted EBITDA as they are not considered indicative of the underlying business performance for the periods being reviewed and management believes that excluding these adjustments is more reflective of ongoing operating results.

The Company believes that Adjusted EBITDA is a meaningful financial metric as it measures cash generated from operations which the Company can use to fund working capital requirement, service interest and principal debt repayments and fund future growth initiatives.

	Quarter ended December 31		Nine Months ended December 31	
$ in thousands	2019	2018	2019	2018
Net income (loss)	**(1,671)**	**(1,027)**	**(2,442)**	**(1,582)**
Interest expense (1)	70	14	205	40
Accretion interest expense (2)	98	–	98	–
Income taxes	(245)	4	(334)	113
Depreciation on capital assets	298	158	947	362
Amortization	203	147	670	438
EBITDA (1)	**(1,248)**	**(704)**	**(858)**	**(629)**
Loss (gain) in fair value of derivative liability	389	–	389	–
CWL inventory - fair value adjustment	–	60	35	180
Share based payments	12	65	167	272
Other Adjustments	21	–	21	–
Acquisition and reorganization costs				
Acquisition costs	163	–	283	163
Reorganization costs	337	258	475	179
Adjusted EBITDA (1)	**(327)**	**(321)**	**512**	**165**

(1) EBITDA and Adjusted EBITDA have been modified to include interest expense in the 2018 results

(2) Accretion interest expense for debenture

A description of the items included in the above table is as follows;

- *Loss (gain) in fair value of derivative liability* – The fair value of the Company's derivative liability relates to the estimated value of the common share conversion right granted to the holders of the Company's unsecured, 7% convertible debentures until such debentures mature on November 27, 2024. Such value will fluctuate depending on the share price of the Company's common shares, the time remaining to the debentures' maturity date and the volatility of the Company's common share price. The loss, or gain, during the reporting period represents the increase, or decrease, in such value during the reporting period.

- *CWL inventory – fair value adjustment* – The Company made a fair value adjustment of $680,000 to the CWL inventory at the date of acquisition on April 1, 2016. The adjustment reflects the non-cash amortization of this fair value adjustment. This fair value adjustment has been fully expensed as at June 30, 2019.

- *Share based payments* – Share based incentive compensation expense can vary based on the timing of when awards are issued and forfeitures. During the nine months ended December 31, 2019, there were 185,000 new options issued. All option grants are approved by the Board of Directors of the Company from the option pool approved by the shareholders at the annaul AGM in September.

- *Acquisition costs* – The Company has stated that acquisitions will be a significant component of its growth strategy. In order to implement and execute on this strategy, the Company has and will continue to incur ongoing expenses for acquisition and integration costs. IFRS requires that such costs be expensed in the period incurred rather than capitalized to the cost of the acquisition. Accordingly, net earnings will be negatively impacted for expenses incurred in connection with these growth initiatives as management executes on its growth strategy. Acquisition costs for the three and nine month period ended December 31, 2019 of $0.16 million and $0.39 million, respectively, are a direct result of the pursuit of transactions in the Company's pipeline (including ASAP) and deals completed in fiscal 2019.

- *Reorganization costs* – The Company recorded $0.29 million of reorganization costs mainly made up of debenture transaction fees and some severance costs associated with capture of deal synergies in the three and nine months ended December 31, 2019.

Gross Profit and Gross Profit Margin

Gross Profit is revenues less cost of sales and Gross Profit Margin is the ratio of Gross Profit to revenues. As Gross Profit is not a defined term under IFRS.

RISK AND UNCERTAINTIES

The Company operates in a dynamic, rapidly changing environment that involves risks and uncertainties. An investment in the Company's Common Shares is speculative and involves a high degree of risk and uncertainty. Such risks relate to and include, without limitation: its ability to predict whether it will meet internal or external expectations, its ability to offer competitive pricing for its products, its ability to maintain its current relationships and develop new strategic relationships, its ability to attract and retain qualified employees, its internal controls, its ability to develop and deploy new technology, its limited operating history, its evolving business model and its ability to achieve and maintain profitable operations.

Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of the risks as described in our filings occur, our business, financial condition, liquidity or results of operations could be materially harmed.

Significant Shareholders

There are significant shareholders of the Company that may be long-term holders of the common shares in the Company. This has the effect of reducing the actively-traded public float for the common shares, which may, in turn, impact the liquidity for the shares. In addition, relatively low liquidity may adversely affect the price at which the common shares of the Company trade on the listed market. Significant shareholders may also be able to exercise significant influence over any matter requiring shareholder approval in the future.

Risk of Dilution from Possible Future Offerings

The Company may issue additional securities from time-to-time in the future to raise funding for its growth initiatives and such issuances may be dilutive to shareholders.

Financing Risks

Additional funding will be required to execute future investment and growth opportunities. There is no assurance that such funds will be available to the Company, on acceptable terms or an acceptable level. Any limitations on the Company's ability to access the capital markets for additional funds could have a material effect on the Company's ability to execute its growth strategy.

Growth Strategy and Management

The Company has made or entered into, and will likely continue to pursue, various acquisitions, business combinations and joint ventures intended to complement or expand its business. The Company believes the acquisitions of other businesses may enhance its strategy of building a diversified portfolio of leading security businesses. The successful implementation of such acquisition strategy depends on the Company's ability to identify suitable acquisition candidates, acquire such companies on acceptable terms, integrate the acquired companies' operations and technology successfully with it own and maintain the goodwill of the acquired businesses. The Company is unable to predict whether or when it will be able to identify and suitable additional acquisition candidates that are available for a suitable price, or the likelihood that any potential acquisition will be completed.

Growth and expansion resulting from future acquisitions may place significant demands on the Company's management resources. In addition, while the Company's management believes it has the experience and know-how to integrate acquisitions, such efforts entail significant risks including, but not limited to: (a) failure to integrate successfully the personnel, information systems, technology, operations and acquired business; (b) the potential loss of key employees or customers from either the Company's current business or the business acquired; (c) failure to maximize the potential financial and strategic benefits of the transaction (d) the failure to realize the expected synergies from the acquired businesses (e) impairment of goodwill (f) the assumption of significant and or unknown liabilities of the acquired companies; and (g) the diversion of management's time and resources.

There can be no assurances that the Company will be able to successfully identify, consummate or integrate any potential acquisitions into its operations. In addition, future acquisitions may result in potentially dilutive issuance of equity securities, have a negative effect on the Company's share price, and/or may result in the incurrence of debt, all of which could have a material adverse effect on the Company's business, financial condition and results of operation.

Market Competition

As the Company operates in a highly competitive sector, management of the Company has implemented a plan to concentrate on developing the Company's clientele in more profitable sectors, focusing on clients who want and recognize value added services that the Company offers.

Key Personnel

The Company's success depends largely on the continued services of our senior management team, and our ability to attract and retain skilled employees. We must continue to retain highly efficient and high performing individuals as well as continue to enhance our operational and management systems. Most importantly we must continue to attract, train, motivate and manage our employees. If we are not successful in these aspects, it may have material adverse effects on our business, results of operations, cash flow and financial condition.

Government Regulations

The Company's operations are regulated by the Federal, Provincial and Municipal government. These regulations affect Taxes, Labour, Workplace Safety, the environment and all other aspects that can impact companies' operations and performance. We are required to obtain and maintain licenses and facility security clearances. Any failure to obtain, maintain or renew required licenses or facility security clearances could result in the cancelation of certain contracts and or disqualify us from bidding or re-bidding on certain contracts. To date, no government regulations have materially and negatively affected the Company.

Information Technology Systems

We are dependent on our information technology (IT) infrastructure. Significant problems with our infrastructure, such as telephone or IT systems failures, cyber security breaches, or failure to develop new technology platforms could have a material adverse effect on our business, financial condition, results of operation and cash flow.

Credit Risk

The Company sells almost all of it services within Canada and its revenues and a significant portion of its revenues are generated on a contractual basis and received recurrently from one year to another. Due to the large number of clients the Company deals with, and their economic distribution, the credit risk concentration to which the Company is exposed remains limited.

Reputational Risk

We depend on our reputation for high quality security services to be successful. Damage to our reputation caused by a widely publicised security incident affecting our clients and their installations could affect our reputation. Our management team constantly monitors security risk surrounding our operation and the Company has instituted company communication protocols to prevent or reduce negative publicity.

Inflationary Risk

Strong economic conditions and competition for available personnel and materials may result in significant increases in the cost of obtaining such resources. To the greatest extent possible, the Company passes such cost increases on to its customers and it attempts to reduce these pressures through proactive procurement and human resource practices. Should these efforts not be successful, the gross margin and profitability of the Company could be adversely affected.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Financial instruments of the Company consist of cash, accounts receivable, and accounts payable and accrued liabilities, bank indebtedness and vehicle loans and obligations under finance leases. There are no significant differences between the carrying amounts of the items reported on the balance sheet and their estimated fair values.

The Company may undertake sales and purchase transactions in foreign currencies, and therefore it is subject to foreign exchange risk of gains or losses due to fluctuations in foreign currencies. Historically, these transactions have not been material, so the Company does not use hedging instruments to minimize its exposure to foreign currency risks.

For additional detail's on the Company's financial instruments, including the amount and classification of gains and losses recorded in the Company's annual consolidated financial statements, summary of fair values, notional balances, effective rates and terms, and significant assumptions used in each calculation of the fair value of the Company's financial instruments, see Note 17 to the unaudited condensed interim consolidated financial statements for the nine months ended December 31, 2019.

On November 27, 2019 the Company issued the first tranche of unsecured convertible debentures with a total principal amount of $8,264,000. The debenture matures on November 27, 2024 and bears an annual interest rate of 7% due semi-annually. The debentures are convertible, in whole or in part, at a conversion price of $1.56, at the option of the holder at any time prior to the maturity date into common shares of the Company. Each debenture consists of one $1,000 principal amount unsecured convertible debenture exercisable into common share of the Company at $1.56 per share. The Company has the ability to issue subsequent tranches of up to $9,736,000 principal amount of unsecured convertible debentures. Total professional and legal fees of $301,311 were incurred on the transaction.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. Actual outcomes could differ from these estimates. The financial statements include estimates which, by their nature, are uncertain. These estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control. The impacts of such estimates are pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised, and the revision affects both current and future periods.

Critical accounting estimates used in the preparation of the consolidated financial statements include the Company's estimate of the value of the Company's share-based compensation, determining whether the Company exercises control over entities in order to consolidate, provision for obsolescence of inventory, depreciation of property, plant and equipment, amortization of intangible assets, allowance for doubtful accounts, fair value adjustments on convertible debentures and investments, and recoverability of tax credits. These estimates are based on management's best judgment and could be affected by significant factors that are out of the Company's control. Actual results could differ from these estimates. Future events and risk factors could result in changes in these estimates and assumptions.

The Company uses the Black-Scholes model to determine the fair value of options, warrants and the equity component of the Convertible Debentures. The main factor affecting the estimates of stock-based compensation is the stock price volatility used. The Company uses historical price data and comparable entities in the estimate of future volatilities. Additional factors affecting share-based compensation include estimates of when stock option might be exercised and the stock price volatility. The timing of the exercise of options is out of the Company's control and will depend upon a variety of factors, including the market value of the Company's shares and the financial objectives of the share-based instrument holders.

With respect to intangible assets, the Company determines fair values using such estimates as discount rates, capitalization rates and terminal capitalization rates. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. Estimates are reviewed periodically by the Company's management. Goodwill is not amortized, but is tested for impairment on an annual basis or more frequently if there are indicators that goodwill may be impaired as described in the Impairment of Non-Financial Assets policy.

CHANGES IN ACCOUNTING POLICIES

The Company's accounting policies are as disclosed in Note 2 of the Company's 2019 annual consolidated financial statements. There have been no material changes to the Company's accounting policies from what was disclosed at that time, with the exception of the adoption of IFRS 16, as disclosed in Note 2 in the Company's December 31, 2019 unaudited condensed interim consolidated financial statements.

IFRS 16 – This standard replaces IAS 17 – Leases, and related interpretations

The standard introduces a single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases.

Effective April 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach, with the cumulative effect of initial recognition on the date of initial application of a right-of-use asset equal to the lease liability adjusted for prepaid and accrued lease payments. The Company used the practical expedient to not recognize right-of -use assets and lease liabilities for leases that have a remaining lease term of twelve months or less at the date of adoption, as well as leases for which the underlying value of the asset is of low value.

The aggregate lease liability and right-of-use asset recognized in the statement of financial position at April 1, 2019 was $1.7 million. The right-of-use asset has been classified as property and equipment.

The transition to IFRS 16 on April 1, 2019 for the three-month period ended December 31, 2019, had an impact of increased depreciation of approximately $142,000, interest expense of approximately $22,000, offset by the removal of lease payments of approximately $158,000. The net increase in operating expenses and corresponding decrease in net earnings for the three months ended December 31, 2019 was approximately

$5,000 and EBITDA and Adjusted EBITDA increased by approximately $164,000. For the nine-month period ended December 31,2019, the impact of increased depreciation was approximately $450,000, interest of approximately $65,000, offset by the removal of lease payments of approximately $497,000. The net increase in expenses and corresponding decrease in net earnings for the nine months ended December 31, 2019 was approximately $19,000 and EBITDA and Adjusted EBITDA increased approximately $515,000.

IFRS Issued Standards Not Yet Adopted

The IASB has issued the following standards, amendments and interpretations which have not been early adopted in these consolidated financial statements. The Company is assessing the impact on its consolidated financial statements as a result of adopting these new standards.

IFRS 3 – Business Combinations

This standard is effective for annual periods beginning on or after January 1, 2020 with early adoption available. This amendment to IFRS 3 clarifies the definition of a business and assists entities in determining whether an acquisition is a business combination of a group of assets. The amendment emphasizes that the output of a business is to provide goods and services and also provides supplementary guidance. The Company will adopt the provisions of this amendment prospectively in its 2021 fiscal year. Management does not expect adoption of this amendment to have a material effect.

IFRIC 23 – Uncertainty over Income Tax Treatments.

In June 2017, the IFRS Interpretations Committee issued IFRIC 23, which clarifies how the recognition and measurement requirements of IAS 12, Income Taxes, are applied where there is uncertainty over income tax treatments. The new standard is effective for annual periods beginning on or after January 1, 2019. The Company is still evaluating the impact of IFRIC 23.

ADDITIONAL INFORMATION

Additional information relating to the Company, including its most recent annual information form, may be found under the Company's profile on SEDAR at www.sedar.com.