

# **AVANTE LOGIXX INC.**

Condensed Interim Consolidated Financial Statements – Unaudited

For the three and nine-month periods ended

**December 31, 2020 and 2019**

## **NOTICE TO READER OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The condensed interim consolidated financial statements of Avante Logixx Inc. for the three and nine-month periods ended December 31, 2020 are the responsibility of the Company's Management. These financial statements have not been reviewed on behalf of the shareholders by the independent external auditors of the Company. The condensed interim consolidated financial statements have been prepared by Management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with International Financial Reporting Standards.

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**AVANTE LOGIXX INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2020 AND MARCH 31, 2020**

	Dec 31, 2020	Mar 31, 2020
	<i>(Unaudited)</i>	
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents	\$ 559,401	\$ 1,339,864
Accounts receivable (note 7)	17,984,975	16,520,900
Inventories (note 8)	1,837,860	1,845,699
Contract assets (note 6)	710,561	529,737
Prepaid expenses	395,343	771,125
	21,488,140	21,007,325
<b>NON-CURRENT ASSETS</b>		
Property, plant & equipment (note 9)	3,294,843	3,989,542
Capitalized commissions (note 10)	106,940	98,845
Deferred tax assets (note 16)	1,910,336	2,815,673
Intangible assets (note 11)	6,771,783	10,603,078
Goodwill (note 11)	9,637,031	10,533,743
Long term notes receivable (note 17c)	400,000	-
Investment (note 17c)	-	47,200
	\$ 43,609,073	\$ 49,095,406
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Bank indebtedness and vehicle loans (note 13)	1,908,221	2,411,191
Accounts payable and accrued liabilities	9,405,352	9,985,296
Promissory note (note 17b)	2,610,417	2,534,341
Corporate tax payable (note 16)	152,387	158,514
Obligations under lease (note 14)	563,304	735,097
Contract liabilities (note 6)	2,740,972	3,249,301
	17,380,653	19,073,740
<b>NON-CURRENT LIABILITIES</b>		
Obligations under lease (note 14)	1,362,735	1,708,096
Long term portion of bank indebtedness and vehicle loans (note 13)	3,310,790	4,255,519
Convertible debentures (note 17a)	4,676,190	4,309,637
Convertible debentures - derivative liability (note 17a)	3,639,339	1,738,308
Deferred tax liability (note 16)	1,793,841	3,134,420
	14,782,895	15,145,980
	32,163,548	34,219,720
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 15a)	21,434,492	21,434,492
Contributed surplus (note 15b and c)	1,514,844	1,463,025
Accumulated other comprehensive deficit	(1,003,000)	(955,800)
Accumulated deficit	(10,500,811)	(7,431,648)
	11,445,525	14,510,069
Non-controlling interest	-	365,617
<b>TOTAL EQUITY</b>	<b>11,445,525</b>	<b>14,875,686</b>
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>\$ 43,609,073</b>	<b>\$ 49,095,406</b>

**AUTHORIZED FOR ISSUE ON BEHALF OF THE BOARD:**

*Signed "Craig Campbell" Director      Signed "Samuel Duboc" Director*  
*See accompanying notes to the consolidated financial statements*

**AVANTE LOGIXX INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND**  
**COMPREHENSIVE LOSS**  
**FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2020 AND**  
**DECEMBER 31, 2019**

	For the three-month period ended		For the nine-month period ended	
	Dec 31, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019
	<i>(Unaudited)</i>	<i>(Restated)</i>	<i>(Unaudited)</i>	<i>(Restated)</i>
<b>Revenues from continuing operations (note 6)</b>	\$ 25,204,265	\$ 12,642,667	\$ 67,009,760	\$ 32,819,723
<b>Cost of sales</b>	19,620,202	9,823,861	51,528,604	24,226,561
<b>Gross profit</b>	5,584,063	2,818,806	15,481,156	8,593,162
<b>Operating expenses</b>				
Salaries, benefits and commissions	2,458,449	2,097,722	7,426,803	5,548,569
Administration	1,318,644	1,020,229	3,716,819	2,918,407
Depreciation on capital assets (note 9)	312,541	251,208	916,596	797,215
Amortization on intangible assets (note 11)	893,202	208,156	2,719,706	580,087
Merchant transaction fees and bank charges	96,484	(80,122)	238,196	34,103
Share based payments (note 15b, note 23)	(55,943)	11,631	58,219	166,741
	5,023,377	3,508,824	15,076,339	10,045,121
<b>Income (loss) before other income and expenses</b>	560,686	(690,018)	404,817	(1,451,959)
<b>Other (income) expenses</b>				
Miscellaneous income	(43,866)	118,418	(80,078)	50,229
Interest expense	395,699	166,548	1,155,883	263,385
Foreign exchange (gain) loss	127,253	21,737	226,994	28,645
Loss in fair value of derivative liability (note 17a)	1,403,821	388,816	1,901,030	388,816
	1,882,907	695,519	3,203,829	731,075
<b>Income (loss) before reorganization and acquisition costs</b>	(1,322,221)	(1,385,537)	(2,799,012)	(2,183,034)
Reorganization and acquisition costs (note 20)	170,824	499,628	488,323	758,270
<b>Income (loss) before income taxes</b>	(1,493,045)	(1,885,165)	(3,287,335)	(2,941,304)
<b>Provision for income taxes</b>				
Current income tax expense (recovery) (note 16)	198,525	46,094	198,525	51,495
Deferred income tax expense (recovery) (note 16)	(199,065)	(364,486)	(148,511)	(580,233)
<b>Net Income (loss) from continuing operations for the period</b>	(1,492,505)	(1,566,773)	(3,337,349)	(2,412,566)
<b>Net income from discontinued operations for the period net of tax (note 22)</b>	-	(104,474)	370,063	(29,218)
<b>Net income (loss) for the period</b>	\$ (1,492,505)	\$ (1,671,247)	\$ (2,967,286)	\$ (2,441,784)
<b>Net income (loss) for the period attributable to:</b>				
Equity holders of the parent	(1,492,505)	(1,633,890)	(3,069,163)	(2,404,474)
Non-controlling interests	-	(37,357)	101,877	(37,310)
	\$ (1,492,505)	\$ (1,671,247)	\$ (2,967,286)	\$ (2,441,784)
<b>Other comprehensive income (loss) from continuing operations</b>				
Unrealized gain (loss) on investments (note 17c)	-	(53,100)	(47,200)	(531,000)
	\$ -	\$ (53,100)	\$ (47,200)	\$ (531,000)
<b>Total comprehensive income (loss) for the period</b>	\$ (1,492,505)	\$ (1,724,347)	\$ (3,014,486)	\$ (2,972,784)
<b>Total comprehensive income (loss) for the period attributable to:</b>				
Equity holders of the parent	(1,492,505)	(1,686,990)	(3,116,363)	(2,935,474)
Non-controlling interests	-	(37,357)	101,877	(37,310)
	\$ (1,492,505)	\$ (1,724,347)	\$ (3,014,486)	\$ (2,972,784)
Net income (loss) per share (note 5)				
Basic and diluted income (loss) from continuing operation	(\$0.070)	(\$0.074)	(\$0.157)	(\$0.114)
Basic and diluted income (loss) from discontinued operations	\$0.000	(\$0.003)	\$0.013	\$0.000
Basic and diluted number of shares outstanding	21,192,004	21,192,004	21,192,004	21,192,004

See accompanying notes to the consolidated financial statements

**AVANTE LOGIXX INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE NINE-MONTH PERIODS ENDED DECEMBER 31, 2020 AND DECEMBER**  
**31, 2019**

	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Deficit	Subtotal	Non-controlling Interest	Total Equity
<b>Balance at April 1, 2019</b>	<b>\$21,434,492</b>	<b>\$1,261,059</b>	<b>(\$4,782,592)</b>	<b>(\$413,000)</b>	<b>\$17,499,959</b>	<b>\$526,010</b>	<b>\$18,025,969</b>
Income (loss) for the period	-	-	(2,404,473)	(531,000)	(2,935,473)	(37,310)	(2,972,783)
Share based payments	-	242,557	-	-	242,557	-	242,557
Unvested share options cancelled	-	(75,817)	-	-	(75,817)	-	(75,817)
Subsidiary dividend paid	-	-	-	-	-	(92,500)	(92,500)
<b>Balance at December 31, 2019 (Unaudited)</b>	<b>\$21,434,492</b>	<b>\$1,427,800</b>	<b>(\$7,187,065)</b>	<b>(\$944,000)</b>	<b>\$14,731,227</b>	<b>\$396,200</b>	<b>\$15,127,427</b>
<b>Balance at April 1, 2020</b>	<b>\$21,434,492</b>	<b>\$1,463,025</b>	<b>(\$7,431,648)</b>	<b>(\$955,800)</b>	<b>\$14,510,069</b>	<b>\$365,617</b>	<b>\$14,875,686</b>
Income (loss) for the period	-	-	(3,069,163)	(47,200)	(3,116,363)	101,877	(3,014,486)
Share based payments	-	183,261	-	-	183,261	-	183,261
Share options expired/cancelled	-	(131,442)	-	-	(131,442)	-	(131,442)
Sale of discontinued operations	-	-	-	-	-	(467,494)	(467,494)
<b>Balance at December 31, 2020 (Unaudited)</b>	<b>\$21,434,492</b>	<b>\$1,514,844</b>	<b>(\$10,500,811)</b>	<b>(\$1,003,000)</b>	<b>\$11,445,525</b>	<b>\$-</b>	<b>\$11,445,525</b>

**AVANTE LOGIXX INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE AND NINE-MONTH PERIODS ENDED DECEMBER 31, 2020 AND**  
**DECEMBER 31, 2019**

	For the three-month period ended		For the nine-month period ended	
	Dec 31, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019
	<i>(Unaudited)</i>	<i>(Restated)</i>	<i>(Unaudited)</i>	<i>(Restated)</i>
<b>Operating activities</b>				
Comprehensive loss from continuing operations for the period	\$ (1,492,505)	\$ (1,695,309)	\$ (3,014,486)	\$ (2,943,566)
Gain on disposal of capital assets	(621)	(80,604)	(143,883)	(80,604)
Share based payments	(55,943)	11,631	58,219	166,741
Interest on bank loans and leases	75,285	-	281,767	-
Accretion on convertible debt (note 17a)	274,020	97,592	800,413	97,592
Accretion on promissory note (note 17b)	25,609	-	76,076	-
Depreciation on capital assets (note 9)	312,541	251,989	916,596	789,158
Amortization on intangible assets (note 11)	893,202	207,375	2,719,706	577,743
Amortization on capitalized commission	-	(5,384)	6,077	89,513
Provision for income tax	(199,066)	(379,833)	(148,514)	(595,580)
Loss on fair value of derivative liability (note 17a)	1,403,821	388,816	1,901,031	388,816
Capitalization of commissions	-	(11,952)	-	(11,952)
Unrealized (gain) loss on investment (17c)	-	53,100	47,200	531,000
	<u>1,236,343</u>	<u>(1,162,579)</u>	<u>3,500,202</u>	<u>(991,138)</u>
<b>Net change in non-cash working capital:</b>				
Accounts receivable	(216,873)	(1,405,887)	(1,954,777)	(651,944)
Inventories	(221,669)	(202,737)	(421,422)	(227,108)
Contract assets (note 6)	(135,334)	181,020	(180,824)	(506,097)
Prepaid expenses	49,606	(102,254)	151,448	(50,021)
Current income tax	225,610	298,578	(59,632)	284,360
Accounts payable and accrued liabilities	(1,987,635)	(1,103,046)	63,287	(2,433,932)
Contract liabilities (note 6)	549,732	209,515	204,894	345,915
	<u>(1,736,563)</u>	<u>(2,124,811)</u>	<u>(2,197,026)</u>	<u>(3,238,827)</u>
Cash from (used in) continuing operations	(500,220)	(3,287,390)	1,303,176	(4,229,965)
Net cash flows attributable to discontinued operations	-	87,957	231,377	458,512
<b>Net cash from (used in) operating activities</b>	<u>(500,220)</u>	<u>(3,199,434)</u>	<u>1,534,553</u>	<u>(3,771,454)</u>
<b>Financing activities</b>				
Proceeds from loans	4,561,833	2,690,000	12,641,833	2,690,000
Proceeds of obligations under finance lease	-	(1,387,616)	-	-
Proceeds of convertible debentures, net of costs	-	8,052,031	-	8,052,031
Principal loan payments	(4,991,168)	(177,932)	(13,973,717)	(418,098)
Principal lease payments (note 14)	(163,624)	(404,749)	(496,087)	(404,749)
Interest on bank loans, convertible debenture, and leases	(219,905)	-	(715,627)	-
Subsidiary dividend paid to NCI	-	-	-	(92,500)
Cash from (used in) continuing operations	(812,864)	8,771,734	(2,543,598)	9,826,684
Net cash flows attributable to discontinued operations	-	(27,667)	(81,271)	(96,556)
<b>Net cash from (used in) financing activities</b>	<u>(812,864)</u>	<u>8,744,066</u>	<u>(2,624,869)</u>	<u>9,730,128</u>
<b>Investing activities</b>				
Acquisition of subsidiary, net of cash (note 11)	-	(7,600,772)	-	(7,600,772)
Net proceeds from sale of subsidiary (note 22)	-	-	1,891,500	-
Cash sold on disposition of subsidiary (note 22)	-	-	(730,218)	-
Gain on sale of discontinued operations (note 22)	-	-	(365,423)	-
Dividend received	-	-	-	250,000
Purchase of capital assets (note 9)	(315,567)	91,769	(509,394)	(184,157)
Disposal of capital assets (note 9)	-	-	55,974	10,911
Reclass finance lease on IFRS 16 transition	-	1,530,190	-	-
Capitalization of commission	(12,349)	26,164	(14,172)	-
Additions to vehicle leases	-	86,101	(24,333)	-
Cash from (used in) continuing operations	(327,916)	(5,866,548)	303,934	(7,524,018)
Net cash flows attributable to discontinued operations	-	-	5,919	(250,000)
<b>Net cash from (used in) investing activities</b>	<u>(327,916)</u>	<u>(5,866,548)</u>	<u>309,853</u>	<u>(7,774,018)</u>
<b>Increase (decrease) in cash during the period</b>	<u>(1,641,000)</u>	<u>(321,915)</u>	<u>(780,464)</u>	<u>(1,815,344)</u>
Cash and cash equivalents, beginning of period	2,200,401	682,292	1,339,864	2,175,721
<b>Cash and cash equivalents, end of period</b>	<u>\$ 559,401</u>	<u>\$ 360,377</u>	<u>\$ 559,401</u>	<u>\$ 360,377</u>

\*Total interest paid in the period ending December 31, 2020 is \$856,630, December 31, 2019 \$314,475

\*\*Total corporate income tax payments made in the period ending December 31, 2020 is \$285,282, December 31, 2019 \$104,195 (note 16)

See accompanying notes to the consolidated financial statements

## **AVANTE LOGIXX INC.**

### **Notes to Unaudited Condensed Interim Consolidated Financial Statements**

**For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019**

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#### **1. NATURE OF BUSINESS**

Avante Logixx Inc. (the "Company") develops security technologies, products and solutions for personal, condo and commercial protective services, monitoring and control applications, and sells and installs custom-made locks, doors and hardware. All of these activities are conducted through the following subsidiaries: Avante Security Inc. ("Avante Security"), which is 100% owned, Logixx Security Inc. ("Logixx Security"), which is 100% owned and City Wide Locksmiths Ltd. ("City Wide"), in which the Company held a 70% majority interest until sold on September 30, 2020 (see Note 22). The Company's common shares are listed on the TSX Venture Exchange under the symbol XX.V (OTC: ALXXF).

Avante Security provides premium security services for residential customers in Toronto and Muskoka, Ontario through the use of advanced technology and a focus on client service. Avante Security's business provides a complete offering ranging from system design, sales, installations, and monitoring to services such as alarm response and patrols, personal protection, house staff training, and secure transportation. Avante Security has a specialized skillset in high-rise security integration, monitoring and electronic building management. It also provides consulting and installation of automation and security solutions for the high-end residential market. Avante Security's signature offerings are its Rapid Alarm Response services, and its Intelligent Perimeter Protection Video Analytics. Avante Security also provides extensive offerings, which includes Closed Circuit Television ("CCTV"), access controls and security services for travelling executives. Avante Security uses its proprietary two-way wireless communication technology for security and home automation applications and in other market segments for various remote control and monitoring functions.

Logixx Security provides security services for enterprise customers across Canada. Services include protective services (also known as guarding) as well as security system design, sales, installations, and monitoring and alarm response. The development of Logixx Security into a national business has occurred through organic growth and completion of acquisitions.

On December 1, 2019, the Company completed the acquisition of A.S.A.P. Secured Inc. ("ASAP"), which provides high-end, low-profile security guards and patrols, as well as numerous security services across Canada (see Note 12). On April 1, 2020, ASAP was amalgamated into Logixx Security.

City Wide provides security locks, keys and door hardware to residential and commercial customers in the greater Toronto area, with a division catering to preeminent architects, designers and builders in the high-end home markets. City Wide was a 70% owned subsidiary of the Company, but this ownership interest was sold on September 30, 2020 (see Note 22).

The address of the Company's corporate office is 130 Bloor Street West, Suite 601, Toronto, Ontario, Canada.

#### **2. BASIS OF PRESENTATION**

##### **a) Statement of compliance**

These condensed interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies described herein, including IAS 34, interim financial reporting.

The notes presented in these condensed interim consolidated financial statements include only significant events and transactions and do not include all matters normally disclosed in the Company's annual audited consolidated financial statements and are therefore referred to as condensed.

## AVANTE LOGIXX INC.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019

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#### 2. BASIS OF PRESENTATION (CONTINUED)

These condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended March 31, 2020.

The financial information included herein reflects all adjustments that, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the periods ended December 31, 2020 and 2019 are not necessarily indicative of the results to be expected for the full year.

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on February 25, 2021.

##### b) Basis of measurement

These condensed interim consolidated financial statements have been prepared using the historical cost convention. The condensed interim consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency, including all subsidiaries.

The preparation of these condensed interim consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the condensed interim consolidated financial statements are disclosed in Note 4.

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Consolidation

The condensed interim consolidated financial statements include the accounts of the Company and other entities that the Company controls (subsidiaries). Control exists when the Company is exposed or has the existing rights to variable returns and the current ability to direct activities that significantly affect the entities' returns. Consolidation of the subsidiaries begins on the date on which control is obtained and ends when control of the entity ceases to exist. The Company assesses control on an ongoing basis.

The financial statements of the Company and subsidiaries are prepared as of the same dates and periods. The condensed interim consolidated financial statements are prepared using uniform accounting policies by all companies in the Company. Transactions and balances between the Company and its consolidated entities have been eliminated on consolidation.

Non-controlling interests are recorded in the condensed interim consolidated financial statements and represent the non-controlling shareholders' equity in an entity consolidated by the Company for which the Company's ownership is less than 100%. Transactions with non-controlling interests are treated as transactions with equity owners of the Company. Changes in the Company's ownership interest in its subsidiaries are accounted for as equity transactions.

The Company's composition is made of the subsidiaries listed below.

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Name of entity	Ownership interest held at	Ownership interest held at
	Dec 31, 2020	March 31, 2020
Avante Security Inc.	100%	100%
Logixx Security Inc.	100%	100%
City Wide Locksmiths Ltd (note 22)	0%	70%
A.S.A.P. Secured Inc.	0%	100%



## AVANTE LOGIXX INC.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019

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#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company's ownership interest in A.S.A.P. Secured Inc. was not divested but amalgamated with Logixx Security Inc. on April 1, 2020. The Company's 70% ownership in City Wide Locksmith's Ltd was sold on September 30, 2020 (see Note 22).

##### Property, Plant & Equipment

Property, plant and equipment are stated at cost less accumulated depreciation less any accumulated impairment.

On April 1, 2020, the Company opted to change the accounting treatment of uniform acquisitions due to the change in the Company's revenue streams. With the acquisition of ASAP (amalgamated and doing business as Logixx Security as of April 1, 2020), uniform expense that was previously included in the statement of income and comprehensive income are more material. The Company's management has decided to now capitalize this expense and depreciate the expenditure over the useful life. The Company changed the accounting policy as the new expenditures are substantially different transactions to rebrand the entire division, as compared to prior replacement purchases. The retrospective application did not result in any changes to prior year or opening balances.

Depreciation is provided for using the following rates and methods:

Computer equipment	- 30%, declining balance basis
Computer software	- Period of useful life, straight line basis
Equipment, furniture, and fixtures	- 20%, declining balance basis
Leasehold improvements	- Period of the lease, straight line basis
Vehicles	- 30%, declining balance basis
Right-of-use-assets	- Period of the lease, straight line basis
Buildings	- 4%, declining balance basis
Uniforms	- Period of useful life, straight line basis

##### Intangible assets

Externally acquired intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. The cost of intangible assets acquired through business combinations is their fair value at the acquisition date. These intangible assets are amortized on a straight-line basis over their estimated useful lives and are tested for impairment whenever events or changes indicate that their carrying amount may not be recoverable. Useful lives, residual values and amortization methods for these intangible assets with finite useful lives are reviewed at least annually.

Intangible assets are recognized on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques.

Trade Name	- 1-10 years
Trade Name - CWL (note 22)	- Indefinite
Trade Name - CWL acquired (note 22)	- 5-10 years
Customer relationships	- 5-12 years
Order backlog	- 1-4 years
Non-compete agreement	- 5 years

On April 1, 2020, the Company changed the accounting estimates of the Trade Name intangible assets related to the acquisitions of Veridin Systems Canada Inc. ("Veridin") and Intelligarde International Inc ("Intelligarde"). The Company reassessed the amortization period of the related Trade Names intangible assets from the original estimate of ten years down to three years. The net increase to intangible amortization expense to be recognized during fiscal year ending March 31, 2021 is \$690,409.

## AVANTE LOGIXX INC.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019

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#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

	Previous estimate	New estimate
<b>Veridin and Intelligarde Trade Names</b>		
<b>Net book value at March 31, 2020</b>	<b>\$ 2,730,848</b>	<b>\$ 2,730,848</b>
Amortization to be recognized in fiscal year 2021	2,040,439	2,730,848
<b>Net book value at March 31, 2021</b>	<b>\$ 690,409</b>	<b>\$ -</b>

The reduction to intangible amortization expense to be recognized in fiscal years 2022 to 2028 will be \$90,439 per year, and in fiscal year 2029 the reduction will be \$57,336.

#### Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (“CODM”). The CODM is the person or persons who are responsible for allocating resources and assessing performance of the operating segments. The CODM for the Company has been identified as the Chief Executive Officer.

The factors used to identify the Company’s reportable segments include a combination of how the businesses are managed, with separately accountable management teams, the principal type of target customer (residential versus enterprise). Operating segments have not been aggregated as each division is a discrete reportable segment.

#### Performance Share Units

On November 25, 2020 the Company’s Board of Directors established a performance share unit (“PSU”) plan. Under this plan the holder has the opportunity to receive a cash payment based upon the relative performance measures, performance levels, and adjustment factors set out in the PSU grant. The vesting period can vary from as set out in the PSU grant. The PSU plan is cash settled and is recorded as liabilities at fair market value at each reporting period with changes in fair value recorded to profit and loss. The PSU plans fair value is determined by using a Monte-Carlo simulation model. Share based payments expense is recognized based on the fair value of the awards that are expected to vest and remain outstanding at the end of the reporting period. The share-based compensation liability is included in trade accounts payable and accrued liabilities in the condensed interim consolidated statement of financial position and the related compensation expense in share based payments on the condensed interim consolidated statements of loss and comprehensive loss.

#### Discontinued Operations

A discontinued operation is a component of the Company’s business that has been disposed of or is classified as held for sale, the operations and cash flows of which can be clearly distinguished from the rest of the Company, and either (a) represents a separate major line of business or geographic area of operations; (b) is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations; or (c) is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale. The results of discontinued operations are presented separately on the face of the condensed interim consolidated statements of loss and comprehensive loss.

## **AVANTE LOGIXX INC.**

### **Notes to Unaudited Condensed Interim Consolidated Financial Statements**

**For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019**

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#### **4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

In March 2020, the World Health Organization declared, the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, a pandemic. This has resulted in governments worldwide enacting emergency measures to limit the spread of the virus, including closure of non-essential businesses. As of the date of these financial statements, the Company’s operations are considered essential in all provinces in which the Company operates. As such, to date the Company has been able to continue operating with no material impact to operations.

There have been no material revisions to the nature and number of estimates and judgments made in prior periods. However, the effects of COVID-19 have required significant judgements and estimates to be made. Additionally, while the changes in the estimates and judgements have not had a material impact on Avante Logixx Inc. to date, the effects of COVID-19 have required revisions to estimates of expected credit losses attributed to accounts receivable arising from sales to customers on credit terms, including the incorporation of forward-looking information to supplement historical credit loss rates.

Due to rapid developments and uncertainty surrounding COVID-19, it is not possible to predict the impact that COVID-19 will have on the Company’s operation results in the future, its suppliers, and its customers. Additionally, it is possible the Company’s financial prospects will change in the near term as a result of COVID-19. The Company is closely monitoring the impact of the pandemic on all aspects of its business.

#### **Judgements**

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the amounts reported in these condensed interim consolidated financial statements are discussed below:

##### **1. Business combinations**

IFRS 3, Business Combinations, is applied to account for all business acquisitions. Identifying the fair value of assets and liabilities acquired, including intangible assets and residual goodwill requires significant judgement by management upon acquisition.

The Company uses judgement in determining the entities that it controls and therefore consolidates. The Company controls an entity when the Company has the existing rights that give it the current ability to direct the activities that significantly affect the entity’s returns. The Company consolidates all of its subsidiaries.

##### **2. Allowance for doubtful accounts receivable and contract assets**

The Company has exercised judgement in quantifying the allowance for doubtful accounts receivable. While it is possible that certain accounts receivable considered good may turn doubtful at a later date, there are no indicators that they would at the present time.

## **AVANTE LOGIXX INC.**

### **Notes to Unaudited Condensed Interim Consolidated Financial Statements**

**For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019**

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#### **4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)**

##### **3. Income taxes**

Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may be materially different than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized.

##### **4. Deferred tax assets and liabilities**

Significant judgements are utilized by the Company in interpreting tax rules and regulations when recognizing and calculating deferred tax assets and liabilities. Judgement is used to evaluate whether a deferred tax asset can be recovered based on the Company's assessment of existing tax laws, estimates of future profitability, and tax planning strategies.

##### **5. Provision for impairment of inventories**

The provision for impairment of inventories requires estimation and judgement to assess the lower of cost and net realizable value. The provision is assessed by taking into account recent sales, aging of inventories, historical costs and other factors that affect inventory obsolescence.

##### **6. Lease discount rate**

The Company exercises judgment in determining the incremental borrowing rate when the interest rate is not implicit in the lease. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

##### **7. Share-based payments**

The Black-Scholes option pricing model is used by the Company to determine the fair value of stock options and warrants as well as the estimated derivative liability component of the convertible debentures. A Monte Carlo simulation model is used to fair value unvested performance share units. Significant judgements are used in the calculation of the input variables in the Black-Scholes valuation model which include estimates of the risk-free interest rate, the expected stock price volatility of the Company's common shares, the expected life of the derivative instrument and the expected dividend yield of the Company's common shares. Significant judgements are used in the calculation of the input variables in the Monte Carlo valuation model which include estimates of the price of the Company's common shares as of the valuation date, the risk-free interest rate over the life of the performance units, the expected stock price volatility of the Company's common shares, the number of trading days between the valuation date and the vesting date of the performance units and the expected return on the Company's common shares during the remaining term of the performance units.

##### **8. Intangible assets and goodwill**

Management is required to use judgement in determining the economic useful lives of identifiable intangible assets. Judgement is also required in identifying indicators of impairment and in identifying the Company's cash generating units ("CGUs").

## **AVANTE LOGIXX INC.**

### **Notes to Unaudited Condensed Interim Consolidated Financial Statements**

**For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019**

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#### **4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)**

##### **9. Revenue and contract assets**

There is judgement in determining the timing of revenue recognition pertaining to electronic installation services, where the entire contract is one performance obligation and is recognized over time using the percentage of completion basis. Timing of revenue recognition may differ from when customers are invoiced, which could result in contract assets or contract liabilities being recognized.

##### **10. Segment Reporting**

The Company has exercised judgement in identifying its reportable segments and applying the related aggregation criteria required under IFRS 8. The Company's two reportable segments are Logixx Security and Avante Security. Logixx Security focuses on providing security services to enterprise clients across Canada, including corporations and municipalities. Avante Security focuses on providing security services to ultra-high net worth residential customers in the central Toronto and Muskoka regions of Ontario.

#### **Estimates**

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year include accrued liabilities. These estimates are created based on management's assumptions, based on current circumstances, and management believes represent a reasonable basis upon which to estimate the future liability. With respect to intangibles, acquired through business combinations, 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. With respect to goodwill impairment testing, the Company determines value in use and fair value less costs of disposal using such estimates as cash flows and discount rates. These estimates are reviewed periodically by management.

Share-based payments and derivative liabilities are determined by the Black-Scholes option pricing model, which is used by the Company to determine the fair value of stock options, warrants and convertible debentures-derivative liability. Significant estimates are used in the calculation of the input variables in the Black-Scholes model, which includes: risk free interest rate, expected stock price volatility, expected life, and expected dividend yield. The fair value of the Company's unvested performance share units is determined by a Monte Carlo valuation model and the significant estimates used to estimate the price of the Company's common shares on the vesting date which includes: the current price of the Company's common shares, the risk free interest rate over the life of the performance units, the expected stock price volatility, the number of trading days between the valuation date and the vesting date and the expected return on the Company's common shares during the remaining vesting period of the performance units.

## AVANTE LOGIXX INC.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019

#### 5. LOSS PER SHARE

The following reflects the income and share data used in the basic and diluted earnings per share computations for the period ended:

	For the three-month period ended		For the nine-month period ended	
	Dec 31, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019
Earnings (loss) per share - basic and diluted from continuing operations	\$ (0.070)	\$ (0.074)	\$ (0.157)	\$ (0.114)
Earnings (loss) per share - basic and diluted from discontinued operations	-	(0.003)	0.013	0.0004
Net income (loss) attributable to equity holders of the parent - basic and fully diluted from continuing operations	(1,492,505)	(1,566,773)	(3,337,349)	(2,412,566)
Net income (loss) attributable to equity holders of the parent - basic and fully diluted from discontinued operations	-	(67,117)	268,186	8,092
Total net income (loss) attributable to equity holders of the parent - basic and fully diluted	\$ (1,492,505)	\$ (1,633,890)	\$ (3,069,163)	\$ (2,404,474)
Weighted average number of shares outstanding - basic and dilutive	21,192,004	21,192,004	21,192,004	21,192,004

#### 6. REVENUE RECOGNITION

##### a) Disaggregation of Revenue

Revenue is recognized in a manner that depicts the transfer of promised goods or services to the customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods and services. Standard 30-day payment terms apply to the majority of accounts receivable for the Company, with a few commercial guarding exceptions up to 180-day payment terms.

In thousands	For the three-month period ended				For the three-month period ended			
	Dec 31, 2020		Dec 31, 2019		Dec 31, 2020		Dec 31, 2019	
	Logixx Security	Avante Security	Intersegment elimination	Total	Logixx Security	Avante Security	Intersegment elimination	Total
Protective Services	\$ 19,786	\$ 1,621	\$ (64)	\$ 21,343	\$ 7,429	\$ 1,471	\$ (87)	\$ 8,813
Monitoring and Managed Services	64	856	0	920	65	812	-	877
Electronic Services	1,090	1,851	-	2,941	1,301	1,565	-	2,866
<b>Total Revenue</b>	<b>\$ 20,940</b>	<b>\$ 4,328</b>	<b>\$ (64)</b>	<b>\$ 25,204</b>	<b>\$ 8,795</b>	<b>\$ 3,848</b>	<b>\$ (87)</b>	<b>\$ 12,556</b>

In thousands	For the nine-month period ended				For the nine-month period ended			
	Dec 31, 2020		Dec 31, 2019		Dec 31, 2020		Dec 31, 2019	
	Logixx Security	Avante Security	Intersegment elimination	Total	Logixx Security	Avante Security	Intersegment elimination	Total
Protective Services	\$ 52,363	\$ 4,590	\$ (352)	\$ 56,601	\$ 16,508	\$ 5,018	\$ (115)	\$ 21,411
Monitoring and Managed Services	195	2,601	(3)	2,793	195	2,589	-	2,783
Electronic Services	2,317	5,299	-	7,616	2,939	5,686	-	8,626
<b>Total Revenue</b>	<b>\$ 54,875</b>	<b>\$ 12,490</b>	<b>\$ (355)</b>	<b>\$ 67,010</b>	<b>\$ 19,642</b>	<b>\$ 13,293</b>	<b>\$ (115)</b>	<b>\$ 32,820</b>

##### (b) Contract Assets and Liabilities

	Dec 31, 2020	Dec 31, 2019
Work-in-progress - contracts in process	\$ 710,561	\$ 529,737

**AVANTE LOGIXX INC.****Notes to Unaudited Condensed Interim Consolidated Financial Statements****For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019****6. REVENUE RECOGNITION (CONTINUED)**

Timing differences between invoicing, cash collection, and revenue recognition results in accounts receivable and also results in unbilled revenue (contract assets), and deferred revenue (contract liabilities) on the consolidated statement of financial position. Amounts are billed in accordance with the terms of each customer contract, generally subsequent to the performance of obligations and related revenue recognition, resulting in accounts receivable and unbilled revenue with standard payment terms of 'Net 30 Days' for these types of contracts. For certain contracts, the Company receives customer payment prior to satisfying contracted obligations and recognizing revenue, resulting in deferred revenue (contract liabilities).

<b>Contract liabilities balance at March 31, 2020</b>	3,249,301
Additions during the period	16,065,653
Recognized during the period	(15,480,341)
Adjustment for Discontinued Operations (note 22)	(1,093,643)
Contract liabilities balance at December 31, 2020 to be recognized in fiscal year 2021	1,735,138
Contract liabilities balance at December 31, 2020 to be recognized after fiscal year 2021	1,005,834
<b>Contract liabilities balance at December 31, 2020</b>	<b>2,740,972</b>

**7. ACCOUNTS RECEIVABLE**

The accounts receivable on the financial statements are net of allowance for doubtful accounts of \$404,033 as at December 31, 2020 (March 31, 2020: \$415,077). Changes in the allowance for doubtful accounts during the period were as follows:

	<b>Dec 31, 2020</b>	<b>Dec 31, 2019</b>
Allowance for doubtful accounts - opening balance	\$ 415,077	\$ 248,854
Net increase (decrease during) the period	(11,044)	166,223
Allowance for doubtful accounts - closing balance	\$ 404,033	\$ 415,077

As at December 31, 2020 and March 31, 2020, the aging of the Company's accounts receivables was as follows:

	<b>Balance Due</b>	<b>1 - 30 Days</b>	<b>31 - 60 Days</b>	<b>61 - 90 Days</b>	<b>Over 90 Days</b>
Trade receivables	15,187,593	7,013,327	3,702,110	1,349,456	3,122,700
Accrued trade receivables	1,046,792	1,046,792	-	-	-
Non-trade receivables	701,592	701,592	-	-	-
Allowance for doubtful accounts	(415,077)	-	-	-	(415,077)
<b>Balance at March 31, 2020</b>	<b>\$16,520,900</b>	<b>\$8,761,711</b>	<b>\$3,702,110</b>	<b>\$1,349,456</b>	<b>\$2,707,623</b>
Trade receivables	17,708,789	12,622,625	1,983,536	668,347	2,434,281
Accrued trade receivables	451,507	451,507	-	-	-
Non-trade receivables	175,337	175,337	-	-	-
Allowance for doubtful accounts	(404,033)	-	-	-	(404,033)
Current portion vendor take back loan	53,375	53,375	-	-	-
<b>Balance at December 31, 2020</b>	<b>\$17,984,975</b>	<b>\$13,302,844</b>	<b>\$1,983,536</b>	<b>\$668,347</b>	<b>\$2,030,249</b>

The consolidated entity has recognized a loss of \$45,750 and \$77,100 at December 31, 2020 (December 31, 2019: \$31,500 and \$94,500) in profit or loss in respect of the expected credit losses for the three and nine-month periods. As at December 31, 2020, there was \$2,434,281 (March 31, 2020: \$3,122,700) of accounts receivable outstanding for over 90 days of which management did not consider \$2,030,249 (March 31, 2020: \$2,707,623) impaired.

## AVANTE LOGIXX INC.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019

#### 8. INVENTORIES

	Dec 31, 2020	March 31, 2020
Inventory	\$ 1,837,860	\$ 1,845,699

All inventory is considered finished goods. Inventory expensed to cost of sales during the three and nine-month periods ended December 31, 2020 amounted to \$1,021,197 and \$2,907,839, respectively (three and nine-month periods ended December 31, 2019: \$1,068,867 and \$3,062,644 respectively). Included in the inventory expensed within discontinued operations during the three and nine-month periods ended December 31, 2019 was \$NIL and \$35,000 of the fair value adjustment made upon the acquisition of City Wide on April 1, 2016. For the three and nine-month periods ended December 31, 2020 there was no fair value adjustment made to inventory related to the City Wide acquisition.

#### 9. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment	Equipment, furniture and fixtures	Leasehold improvements	Computer software	Right-of-use asset	Vehicles	Uniforms	Buildings	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>									
Balance at March 31, 2020	\$ 577,386	\$ 900,768	\$ 1,085,837	\$ 392,198	\$ 3,178,780	\$ 521,711	\$ -	\$ 473,300	\$ 7,129,980
Additions during the Period	25,576	20,220	-	16,730	900,234	-	446,868	-	1,409,628
Disposals during the Period	-	4,000	-	-	264,138	-	-	-	268,138
Disposal of discontinued operations (note 22)	66,533	241,361	371,741	6,200	865,189	418,463	-	-	1,969,488
Balance at December 31, 2020	\$ 536,429	\$ 675,626	\$ 714,096	\$ 402,728	\$ 2,949,688	\$ 103,248	\$ 446,868	\$ 473,300	\$ 6,301,983
<b>Accumulated depreciation</b>									
Balance at April 1, 2017	249,060	311,255	206,830	101,498	-	-	-	-	1,232,701
Depreciation for the Period	12,823	13,008	49,024	40,985	196,846	17,106	2,225	4,733	336,750
Depreciation from discontinuing operations for the Period (note 22)	978	3,268	19,158	1,550	45,192	15,865	-	-	86,011
On disposals during the Period	-	-	-	-	212,164	-	-	-	212,164
Disposal of discontinued operations (Note 22)	60,991	211,951	144,914	1,808	179,670	324,407	-	-	923,741
Balance at December 31, 2020	394,277	433,989	635,967	352,966	1,099,117	12,795	37,010	41,020	3,007,140
<b>Carrying Amounts</b>									
Balance at March 31, 2020	161,429	293,167	442,449	159,767	2,283,655	202,595	-	446,479	3,989,542
Balance at December 31, 2020	\$ 142,153	\$ 241,637	\$ 78,129	\$ 49,762	\$ 1,850,571	\$ 90,452	\$ 409,858	\$ 432,280	\$ 3,294,843

Depreciation expense included in the statement of income for continuing operations is \$312,541 and \$916,596 for the three and nine-month periods ending December 31, 2020. Discontinued operations include depreciation expense of \$NIL and \$86,011 for the three and nine-month periods ended December 31, 2020.

The Company carries two categories of right-of-use assets: vehicles and property. At December 31, 2020 the carrying amount of vehicles under lease was \$1,388,276 (March 31, 2020: \$1,248,730), with \$108,138 and \$344,922 of depreciation included in the statement of income for the three and nine-month periods ended December 31, 2020 respectively, (December 31 2019: \$103,236 and \$266,397 respectively).

The right-of-use asset property had a carrying amount of \$462,295 at December 31, 2020 (March 31, 2020: \$1,034,927). Depreciation in the amount of \$28,539 and \$205,713 is included in the statement of income for continuing operations for the three and nine-month periods ended December 31, 2020 respectively (December 31, 2019: \$75,487 and \$296,507 respectively).



## AVANTE LOGIXX INC.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019

#### 9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

All assets of the Company, including its Accounts Receivables, Inventories and Property, Plant and Equipment, have been pledged as general security against the senior credit facilities established with the Company's bankers (Note 13). Gains and losses on disposals are booked in the miscellaneous (income) expense line on the income statement.

#### 10. CAPITALIZED COMMISSION

Commissions on long-term contracts (12 months in length or longer) are capitalized at the initiation of the contract and amortized over the length of the contract as revenue is recognized. The unamortized amount of commission on long-term contracts as of December 31, 2020 was \$106,940 (March 31, 2020: \$98,845), with \$NIL and \$6,077 amortized in the three and nine-month periods ending December 31, 2020 respectively (December 31, 2019: \$28,419 and \$103,725 respectively).

#### 11. GOODWILL AND INTANGIBLE ASSETS

##### A. INTANGIBLE ASSETS

	Tradename City Wide	Tradename Others	Customer relationships	Backlog	Non-compete	Total
	\$	\$	\$	\$	\$	\$
<b>Cost</b>						
Balance at March 31, 2020	\$ 677,000	\$ 3,585,266	\$ 9,460,097	\$ 293,000	\$ 200,000	\$ 14,215,364
Disposal of discontinued operations (note 22)	677,000	-	802,000	31,000	-	1,510,000
Balance at December 31, 2020	-	3,585,266	8,658,097	262,000	200,000	12,705,364
<b>Amortization</b>						
Balance at March 31, 2020	\$ 6,510	\$ 854,418	\$ 2,445,023	\$ 293,000	\$ 13,333	\$ 3,612,285
Amortization from continuing operations for the period	-	2,048,136	641,570	-	30,000	2,719,706
Amortization from discontinued operations for the period	1,563	-	-	-	-	1,563
Disposal of discontinued operations (note 22)	8,073	-	360,900	31,000	-	399,973
Balance at December 31, 2020	-	2,902,554	2,725,693	262,000	43,333	5,933,581
<b>Carrying amounts</b>						
Balance at March 31, 2020	\$ 670,490	\$ 2,730,848	\$ 7,015,074	\$ -	\$ 186,667	\$ 10,603,078
Balance at December 31, 2020	\$ -	\$ 682,712	\$ 5,932,404	\$ -	\$ 156,667	\$ 6,771,783

On company amalgamations, the previously acquired intangible asset tradename from externally acquired entities useful life decreases as operations are merged. The Company's management has assessed no impairment as there is a period of operations under both the purchased tradename and the existing tradename. As such the purchased tradename assets for Intelligarde (rebranded to Logixx Security July 4, 2019), Veridin (amalgamated into Logixx Security on December 2, 2019), and ASAP (amalgamated into Logixx Security on April 1, 2020) will be amortized in full over the fiscal year ending March 31, 2021.

Intangible amortization expensed in continuing operations is \$893,202 and \$2,719,706 for the three and nine-month periods ended December 31, 2020. The intangible amortization included in the loss on discontinued operations is \$NIL and \$1,563 for the three and nine-months periods ended December 31, 2020.

**AVANTE LOGIXX INC.****Notes to Unaudited Condensed Interim Consolidated Financial Statements****For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019****11. GOODWILL AND INTANGIBLE ASSETS (CONTINUED)****B. GOODWILL**

<b>Balance at March 31, 2018</b>	<b>\$ 3,610,237</b>
Acquired through business acquisition of Watermark	345,404
Acquired through business acquisition of Veridin	2,522,897
Acquired through business acquisition of Intelligarde	1,684,362
<b>Balance at March 31, 2019</b>	<b>\$ 8,162,900</b>
Acquired through business acquisition of ASAP	2,457,775
Impairment of Architronics	(86,933)
<b>Balance at March 31, 2020</b>	<b>\$ 10,533,743</b>
Disposal of discontinued operations (Note 22)	(896,712)
<b>Balance at December 31, 2020</b>	<b>\$ 9,637,031</b>

The above intangible assets and goodwill were acquired upon the acquisitions of the businesses of INTO Electronics Inc. at August 22, 2014, LVS Inc. at April 1, 2015, Architronics Limited (“Architronics”) at March 1, 2017, Watermark Security Inc. at August 1, 2018, Veridin Systems Canada Inc. at September 16, 2018, Intelligarde International Inc. (currently doing business as Logixx Security Inc.) at November 30, 2018 and A.S.A.P Secured Inc. at December 1, 2019. INTO Electronics, LVS Inc, Architronics, and Watermark were previously amalgamated into Avante Security, and doing business under that name. Veridin was previously amalgamated into Logixx Security, and ASAP was amalgamated into Logixx Security on April 1, 2020 with both doing business as Logixx Security Inc.

As at March 31, 2020, the goodwill balance also reflected goodwill acquired upon the acquisition of City Wide Locksmiths Ltd. on April 1, 2016. However, such goodwill balance was removed as of September 30, 2020 concurrent with the Company’s sale of this ownership interest on September 30, 2020 (Note 22).

The Company expects to renew its primary brand names and trademarks upon expiry indefinitely and expects these to generate economic benefit. Also, the key assumptions used to calculate the fair value of these intangible assets include discount rates, growth rates and margins. These assumptions are consistent with the assumptions used to calculate fair values for goodwill. The cost of goodwill is calculated as the excess of purchase price of the acquired business over the estimated fair value of the tangible and intangible assets acquired and liabilities assumed at the date of acquisition and is allocated to the cash generating unit (“CGU”) expected to benefit from the acquisition. A CGU is the smallest group of assets for which there are separate identifiable cash flows. During the fourth quarter of the fiscal year ended March 31, 2020, and after the sale of City Wide on September 30, 2020, management determined with recent amalgamations, that the Company has two CGU’s consisting of Avante Security and Logixx Security consistent with how the Company now manages its operations. The goodwill acquired as part of ASAP has been allocated to Logixx Security at March 31, 2020. Previously, each acquisition made by the Company was treated as a distinct CGU.

## AVANTE LOGIXX INC.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019

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#### 11. GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

At March 31, 2020, the Company assessed an impairment loss of \$172,274 on Architronics comprised of Goodwill, Customer Relationships, and inventory. There was no impairment loss in the three or nine-month periods ended December 31, 2020, (December 31, 2019: \$NIL).

Goodwill	\$	86,933
Customer Relationships		8,050
Inventory		77,291
<b>Impairment loss at March 31, 2020</b>	<b>\$</b>	<b>172,274</b>

#### Amortization

The amortization of tradenames, customer relationships and order backlog is included in amortization on intangible assets on the consolidated statements of income and comprehensive income and loss.

#### 12. BUSINESS ACQUISITIONS

##### Acquisition of Veridin Systems Canada Inc. (rebranded and amalgamated with Logixx Security Inc. at December 2, 2019)

On September 17, 2018, the Company acquired all the outstanding shares of Veridin Systems Canada Inc. ("Veridin") pursuant to a share purchase agreement between the Company and 1245893 Ontario Inc. and Vision Dynamics CCTV Inc. ("Vendors") of Veridin, for an aggregate purchase price of \$2,436,410, \$1,900,746 paid in cash and the issuance of 238,095 (1,190,476 pre-stock consolidation) common shares in the capital of the Company to 1245893 Ontario Inc.

The Company held back \$94,923 of the purchase price against certain representations and warranties. The parties are engaged in litigation processes to settle the amounts owing between the parties.

## **AVANTE LOGIXX INC.**

### **Notes to Unaudited Condensed Interim Consolidated Financial Statements**

**For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019**

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#### **12. BUSINESS ACQUISITIONS (CONTINUED)**

##### **Acquisition of Intelligarde International Inc. (renamed Logixx Security Inc. as of July 4, 2019)**

On November 30, 2018, the Company acquired all the outstanding shares of Intelligarde International Inc. ("Intelligarde" – currently doing business as Logixx Security Inc.). The total consideration paid for the outstanding shares of Intelligarde is \$4,801,370 paid in cash subject to a post-closing working capital adjustment.

The Company held back \$712,500 of the purchase price against certain representations and warranties of the vendors. The parties are engaged in litigation processes to settle the amounts owing between the parties.

##### **Acquisition of A.S.A.P. Secured Inc. (rebranded and amalgamated with Logixx Security Inc. at April 1, 2020)**

Effective December 1, 2019, the Company acquired all the outstanding shares of A.S.A.P Secured Inc. ("ASAP"). The total consideration paid for ASAP was initially \$10,270,000 through the combination of cash payment on closing and issuance of a non-transferrable, promissory note in the principal amount of \$2,625,000.

The consideration payable for the acquisition of ASAP was subject to certain post-closing net working capital adjustments (settled in June 2020) as well and gross profit adjustments to be settled when the final value of the Promissory Note is determined. The Promissory Note is due on February 28, 2021, and the amount payable was to range from \$NIL to \$2,625,000 depending on the gross profit performance of the acquired business over the first twelve months from acquisition closing. With the completion of that twelve-month period, the Company has determined that the maximum amount of \$2,625,000 will be payable on February 28, 2021 or subject to interest if unpaid. Additionally, since such gross profit performance exceeded an agreed threshold during the first nine months from closing, the vendors are entitled to obtain a second ranking secured interest in the Company's assets. Interest at the rate of 12.0% per annum is payable as of the third business day after the date that the vendors accept the final twelve-month gross profit calculation until the date that the Promissory Note is paid. The Promissory Note is discounted for accounting purposes at a rate of 3.95%. Net of this present value discount, the purchase price of ASAP is \$9,337,072.

The Promissory Note can also be used to settle unpaid claims by the Company against the ASAP vendor for breaches of representations, warranties and covenants of the vendor specified in the purchase agreement. There were no finders' fees payable in connection with this transaction. Acquisition costs in the amount of \$223,853 were incurred on this transaction and expensed. This includes professional fees incurred towards financial, tax and legal due diligence, and legal costs in relation to the transaction.

ASAP (amalgamated with Logixx Security on April 1, 2020) is a commercial security services provider that offers high-end and low-profile security guards and patrols, as well as numerous complementary security services across Canada. The ASAP acquisition brings strategic capabilities to the Company and accelerates the realization of the Company's vision of building a technology-enabled security solutions provider for commercial customers with capabilities, facilities and customers located across Canada.

**AVANTE LOGIXX INC.****Notes to Unaudited Condensed Interim Consolidated Financial Statements****For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019****12. BUSINESS ACQUISITIONS (CONTINUED)**

This transaction qualifies as a business combination and was accounted for in accordance with IFRS 3 Business Combinations using the acquisition method of accounting. To account for the transaction, the Company performed a business valuation of ASAP at the date of acquisition and a purchase price allocation. The following table summarizes the consideration and closing date fair values of the net identifiable assets acquired pursuant to the ASAP acquisition:

	<b><u>November 30, 2019</u></b>
Cash and cash equivalents	\$38,797
Accounts receivable, deposits and prepaid expenses	5,658,959
Property, plant and equipment	154,270
Non-compete agreements	200,000
Brand	2,600,000
Customer relationships	2,750,000
Goodwill	<u>2,457,775</u>
<b>Total Assets</b>	<b><u>\$13,859,801</u></b>
Accounts payable and accrued liabilities	2,671,246
Corporate taxes payable	231,637
Capitalized leases	149,096
Deferred tax liability	<u>1,470,750</u>
<b>Total liabilities</b>	<b><u>\$4,522,729</u></b>
<b>Net assets acquired</b>	<b><u>\$9,337,072</u></b>
<b>Total Consideration</b>	
Cash	\$6,835,827
Present Value of promissory note payable February 2021	<u>2,501,245</u>
	<b><u>\$9,337,072</u></b>

Goodwill represents intangible assets that cannot be measured directly such as company reputation and customer loyalty. The goodwill from the transaction will not be deductible for tax purposes.

For the four-month period ended March 31, 2020 following acquisition, ASAP contributed \$10,275,471 to consolidated revenues and \$323,328 to net income before income taxes and management fees.

**AVANTE LOGIXX INC.****Notes to Unaudited Condensed Interim Consolidated Financial Statements****For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019****13. BANK INDEBTEDNESS AND VEHICLE LOANS**

Current and non-current bank indebtedness and vehicle loans was comprised of the following as at December 31, 2020 and March 31, 2020:

	Dec 30, 2020			March 31, 2020		
	Current Portion	Long-Term Portion	Total	Current Portion	Long-Term Portion	Total
Line of credit	\$ 790,000	\$ -	\$ 790,000	\$ 1,290,000	\$ -	\$ 1,290,000
Term Loans	1,080,428	2,922,672	4,003,100	1,050,146	3,749,785	4,799,931
Mortgage	8,838	347,796	356,634	8,487	354,369	362,856
Total credit facilities	1,879,266	3,270,468	5,149,734	2,348,633	4,104,154	6,452,787
Vehicle Loans	28,955	40,322	69,277	62,559	151,365	213,924
<b>Balance at Dec 31</b>	<b>\$ 1,908,221</b>	<b>\$ 3,310,790</b>	<b>\$ 5,219,011</b>	<b>\$ 2,411,192</b>	<b>\$ 4,255,519</b>	<b>\$ 6,666,711</b>

On November 20, 2020, the Company and its bankers entered into an amended and restated credit agreement to provide senior credit facilities to the Company. Under this agreement, the bank provided an acquisition facility of \$10,000,000 (capped at \$4,985,022 as of April 2, 2020 until the financial covenants return to being in compliance), a revolving demand credit facility of \$5,000,000 of which \$790,000 has been drawn as at December 31, 2020 (March 31, 2020: \$1,290,000) along with a \$200,000 performance bond letter of credit (March 31, 2020: \$200,000), and a credit card facility of \$353,500 (March 31, 2020: \$350,000). The Company also has a mortgage provided by the same bank of \$356,634 outstanding at December 31, 2020, (March 31, 2020: \$362,885). Security for the amended credit facilities is provided pursuant to general security agreements and cross guarantees in favour of the bank that encumber all assets of the Company and subsidiaries on a first secured basis. In accordance with the terms of the senior credit facilities provided by the bank, on a rolling four-quarter basis, the Corporation must maintain a minimum Fixed Charge Coverage Ratio of 1.20 times and a maximum leverage ratio (Senior Funded Bank Debt to Adjusted EBITDA as defined in the credit agreement) of 3.50 times (declining to 3.00 times as of June 30, 2021). The Company received a waiver of the covenant breaches before the end of the reporting period. Advances under the credit facilities provided by the bank is presented as current \$1,879,266 and non-current \$3,270,468 at December 31, 2020.

Term loans pursuant to the acquisition facility consisted of the following drawings:

	Initial Draw	Interest Rate	Balance Due		Maturity Date
			Dec 31, 2020	March 31, 2020	
Facility 1	\$ 3,000,000	4.9%	1,888,049	2,318,037	December 2023
Facility 2	1,750,000	prime rate + 1%	1,445,666	1,698,362	January 2025
Facility 3	1,000,000	prime rate + 1%	816,666	966,667	January 2025
Deferred Financing	(208,841)		(147,281)	(183,136)	February 2024
<b>Total</b>	<b>\$ 5,541,159</b>		<b>\$ 4,003,100</b>	<b>4,799,931</b>	

The \$5,000,000 revolving credit facility bears interest at the bank's prime rate plus 0.85% per annum based on amounts drawn from time to time and is repayable on demand by the bank.

The mortgage has an interest rate of 4.68% per annum. The mortgage loan was used to purchase a building in Port Carling for Avante Security's Muskoka operations. The mortgage outstanding balance at December 31, 2020 is \$356,634, (March 31, 2020: \$362,856).

At March 31, 2020, the Company, through City Wide, had an outstanding balance of \$153,223 towards loans from auto credit companies to purchase vehicles. While one of these loans was interest-free, the others ranged between 2.99% and 4.99%. The monthly payments on these loans ranged between \$555 and \$1,163, and were repayable in full between August 2020 and July 2024. With the sale of the Company's 70% ownership interest in City Wide, such loans are no longer reflected on the Company's balance sheet as of September 30, 2020 (see Note 22).

## AVANTE LOGIXX INC.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019

#### 13. BANK INDEBTEDNESS AND VEHICLE LOANS (CONTINUED)

At December 31, 2020, the Company has an outstanding balance of \$69,277 (March 31, 2020: \$213,924 of which \$153,223 related to City Wide) towards loans from auto credit companies to purchase vehicles. While two of these loans are interest-free, the others range between 0.99% and 7.53%. The monthly payments on these loans range between \$404 and \$1,045, and these will be repaid in full between August 2021 and February 2027.

#### 14. OBLIGATIONS UNDER LEASE

The lease payments are discounted using the interest rate implicit in the lease, or if that cannot be determined, the Company's incremental borrowing rate.

	Vehicle lease liability	Property lease liability	Total liability
<b>Balance at March 31, 2020</b>	<b>\$ 1,456,629</b>	<b>\$ 986,563</b>	<b>\$ 2,443,192</b>
Additions during the period	674,759	201,142	875,901
Disposals during the period	(143,262)	(621)	(143,883)
Disposal of discontinued operations (note 22)	(154,043)	(560,842)	(714,885)
Reclass vehicle addition to property	(97,575)	97,575	-
Principal payments from continuing operations	(294,096)	(201,991)	(496,087)
Principal payments from discontinued operations	(15,723)	(22,477)	(38,200)
<b>Balance at December 31, 2020</b>	<b>1,426,689</b>	<b>499,350</b>	<b>1,926,039</b>
Current provisions	361,895	201,409	563,304
Long-term provisions	1,064,794	297,941	1,362,735
<b>Total Balance at December 31, 2020</b>	<b>\$ 1,426,689</b>	<b>\$ 499,350</b>	<b>\$ 1,926,039</b>

The Company leased certain vehicles with a value of \$1,426,689 (March 31, 2020: \$1,456,629), at an effective annual rate of interest of 8.24% (March 31, 2020: 6.45%). Blended monthly payments of \$65,058 plus applicable taxes (March 31, 2020: \$52,346) for 48 to 60 months ending between August 2020 and December 2025, with a buy out obligation of \$761,360 (March 31, 2020: \$638,509). Interest expense from these leases, included in the statement of loss for the three and nine-month periods ended December 31, 2020 is \$23,736 and \$53,233 respectively (December 31, 2019: \$16,067 and \$47,807 respectively).

Various office properties with a value of \$499,350 are leased with blended monthly payments of \$18,964 plus applicable taxes. An incremental borrowing rate of 4.80% is used. The property leases end between December 2021 and December 2023. Interest expense from these leases, included in the statement of income for three and nine-month periods ended December 31, 2020 was \$4,779 and \$15,348 respectively (December 31, 2019: \$12,130 and \$35,433 respectively). Several property leases have ended and are now considered month to month terms as extensions are negotiated.

#### 15. SHAREHOLDERS' EQUITY

##### [a] Share capital issued and outstanding

Unlimited common shares	Number of Shares	Amount
<b>Balance at March 31, 2019</b>	21,192,004	\$21,434,492
<b>Balance at March 31, 2020</b>	21,192,004	\$21,434,492
<b>Balance at December 31, 2020</b>	21,192,004	\$21,434,492

## AVANTE LOGIXX INC.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019

#### 15. SHAREHOLDERS' EQUITY (CONTINUED)

##### [b] Share options

The Company has an incentive Share Option Plan ("the Plan") under which non-transferable options to purchase common shares of the Company may be granted to directors, officers, employees or service providers of the Company. The terms of the Plan provide that the Directors have the right to grant options to acquire common shares of the Company at not less than the closing market price of the shares on the day preceding the grant at terms of up to ten years. No amounts are paid or payable by the recipient on receipt of the option.

Options for Directors vest when granted, while vesting of options for non-directors is as follows: 33.33% on the second anniversary; 33.33% on the third anniversary; and the remainder on the fourth anniversary following the grant date. Options granted to non-directors prior to fiscal year 2015 vested as follows: 33.33% on the grant date; 33.33% on the first anniversary of the grant date; and the remaining 33.33% on the second anniversary of the grant date.

On September 29, 2015, the shareholders of the Company approved an amendment to the stock option plan whereby it reverted to a 10% rolling stock option plan. This plan is approved annually by the shareholders of the Company and was again approved by the shareholders on September 17, 2020. Accordingly, the Company has a total of 589,200 options available to be issued as at December 31, 2020, with the maximum term remaining at 10 years (March 31, 2020: 348,866). Prior to September 29, 2015, the Company had an Option plan whereby it could issue a maximum of 7,145,000 options with a term of up to 10 years.

	Number of Options	Weighted Average Exercise Price
<b>Balance at March 31, 2019</b>	<b>1,586,333</b>	<b>\$2.03</b>
Options issued during the year	385,000	1.55
Options exercised during the year	(201,000)	1.62
<b>Balance at March 31, 2020</b>	<b>1,770,333</b>	<b>\$1.97</b>
Options cancelled during the period	(235,000)	2.07
Options expired during the period	(55,333)	1.58
Option granted during the period	50,000	1.55
<b>Balance at December 31, 2020</b>	<b>1,530,000</b>	<b>\$1.95</b>

Share options granted during the three and nine-month periods ended December 31, 2020 consisted of 50,000 options at a strike price of \$1.55 granted on October 14, 2020. During November 2020, 55,333 share options expired without being exercised and 220,000 share options were cancelled due to terminations of employment. The weighted average grant date fair values of share options granted during the year ended March 31, 2020 were \$0.89 per option. All options were granted at an exercise price greater than or equal to the trading price on the day of the grant that is considered fair value. Options were granted in the year ending March 31, 2020 totaling 385,000 options at an exercise price of \$1.55. None of the outstanding options were exercised in the three and nine-month periods ending December 31, 2020. All options granted in the year ending March 31, 2020 expire between December 2024 and January 2025 and the options granted in October 2020 expire on October 14, 2025.

Using the Black-Scholes pricing model, the Company recognized \$65,608 and \$183,261 of share based compensation, (December 31, 2019: \$11,631 and \$242,557 respectively), net of \$127,951 and \$131,442 for cancelled options during the three and nine-month periods ending December 31, 2020, (December 31, 2019: \$NIL and \$75,817 respectively).



**AVANTE LOGIXX INC.****Notes to Unaudited Condensed Interim Consolidated Financial Statements****For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019****15. SHAREHOLDERS' EQUITY (CONTINUED)**

In calculating the share-based compensation expense, the Company used the assumptions as listed below on grants:

	<b>Fiscal 2021</b>
Risk-free interest rate	0.80%
Expected volatility	80.51%
Expected time until exercise	5 years
Expected dividend yield	NIL
Expected forfeiture	5%
Share price	\$0.99

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

The following table summarizes stock options vested and outstanding at December 31, 2020:

<b>Grant Date</b>	<b>Number Outstanding</b>	<b>Average Remaining Contractual Years</b>	<b>Number Vested</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
2016-09-06	15,000	0.68	15,000	1.30	2021-09-06
2017-10-29	15,000	1.83	15,000	1.30	2022-10-29
2018-01-10	200,000	2.03	200,000	1.65	2023-01-10
2018-01-10	200,000	2.03	200,000	1.90	2023-01-10
2018-01-10	200,000	2.03	200,000	2.20	2023-01-10
2018-01-10	200,000	2.03	-	2.55	2023-01-10
2018-09-19	95,000	2.72	31,667	2.25	2023-09-19
2018-10-02	200,000	2.75	66,667	2.25	2023-10-02
2019-12-02	155,000	3.92	-	1.55	2024-12-02
2020-01-20	200,000	4.06	-	1.55	2025-01-20
2020-10-14	50,000	4.79	-	1.55	2025-10-14
	1,530,000	2.62	728,334	\$1.95	

**[c] Share warrants**

The Company issued broker warrants as part of a fully-underwritten, common-share bought-deal on June 12, 2018, pursuant to a short form prospectus. The warrants were granted at an exercise price equal or greater to the trading price on the day of grant that was considered fair value. 258,750 post consolidation warrants were issued at that time and had a 1:1 ratio to shares. Such warrants expired without having been exercised on June 12, 2020, which was the date that was 24 months after issue.

## AVANTE LOGIXX INC.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

#### For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019

#### 15. SHAREHOLDERS' EQUITY (CONTINUED)

A summary of the changes in the warrants during the nine-month period ended December 31, 2020 is as follows:

	Number of Warrants Outstanding	Weighted Average Exercise Price
Balance at March 31, 2019	258,750	\$2.00
Balance at March 31, 2020	258,750	\$2.00
Expiration of broker warrants	(258,750)	(2.00)
Balance at December 31, 2020	-	-

#### 16. INCOME TAXES

In prior annual fiscal years, the Company incurred non-capital losses for income tax purposes. Those losses are available to the Company to reduce the current portion of income taxes payable, if any. Income tax expense is recognized based on management's estimate of tax rates of 26.5% expected to be in effect for the Company's full financial year.

For the three and nine-month periods ending December 31, 2020, the Company recognized current income tax expense of \$198,525 and \$198,525 respectively (income tax expense December 31, 2019: \$46,094 and \$51,495 respectively). For the three and nine-month periods ending December 31, 2020, the Company recognized deferred income tax recovery of \$199,065 and \$148,511 respectively (income tax recovery December 31, 2019: \$364,486 and \$580,233). The deferred tax assets are attributable to previously unused non-capital tax loss carry forwards that it estimates will be used against taxable income for the year ended March 31, 2021.

In the quarter ended December 31, 2020 the Company made corporate income tax payments of \$285,282 (December 31, 2019: \$104,195), of which \$272,881 was related to pre-acquisition corporate income tax returns and \$12,401 was related to the Company's March 31, 2020 corporate income tax returns.

#### 17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

##### [a] Convertible debentures

On November 27, 2019, the Company issued unsecured convertible debentures with a total principal amount of \$8,264,000. The debentures mature on November 27, 2024 and bear an annual interest rate of 7%, due semi-annually. The debentures are convertible, at the option of the holder, in whole or in part, at a conversion price per share of \$1.56 at any time prior to the maturity date into common shares of the Company. Total professional and legal fees of \$301,311 were incurred on the transaction. The Company decided not to draw up to \$9,736,000 under a second tranche under the convertible debenture agreement that was previously available to the Company until August 27, 2020 and such option to draw expired on that date.

So long as the holder of the convertible debt owns at least 10% of the Company's common shares, it 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 the holder immediately prior to such issuance. If the holder owns more than 10% of the Company's common shares, the holder is entitled to nominate one member to the Company's board of directors.

**AVANTE LOGIXX INC.****Notes to Unaudited Condensed Interim Consolidated Financial Statements****For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019****17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

Pursuant to the indenture, the Company's consolidated total indebtedness (excluding the Convertible Debentures) shall not exceed 6.5 times Adjusted EBITDA on a rolling four quarter basis and consolidated senior indebtedness shall not exceed 3.5 times Adjusted EBITDA on a rolling four quarter basis. The Company was in compliance with the financial covenants applicable to the debenture for the reporting period on December 31, 2020, and accordingly, the accounting treatment is to categorize the convertible debentures as non-current liabilities.

For accounting purposes, the convertible debentures are compound financial instruments containing a principal debt and interest component and a conversion option. The conversion option is classified as a derivative financial liability, as the option is not closely related to the principal debt and features of the conversion option may result in conversion of debt into a variable number of common shares. The debentures do not meet the IAS 32(16) fixed-for-fixed test as conversion of debt into a variable number of common shares results from the Company declaring a dividend, a stock split, granting options, warrant, or shares at less than 95% of the current market price. The conversion option was separated from the host debt and valued at its fair value on the date of issuance, with all attributable transaction costs expenses when incurred. The Company valued the derivative liability component of the debenture using the number of common shares issued per increment of principal and the Black Scholes pricing model, at a risk free interest rate of 0.33% (March 31, 2020: 1.52%), volatility of 67.25% (March 31, 2020: 68.56%), which is based on historical volatility of the Company's common shares, an expected maturity date of five years from the date of issue and no dividends issued by the Company over that time frame.

The principal debt and interest component is classified as a financial liability and carried at amortized cost. On initial recognition, these components were allocated the residual of the total proceeds less the fair value of the conversion option, net of transaction costs.

On initial recognition, the conversion option derivative liability component was \$3,948,551 and the host debt liability component was \$4,158,105 net of transaction cost attributable to the debt component. Transaction costs in the amount of \$143,967 were expensed in the year ending March 31, 2020 attributable to the conversion option. The conversion option derivative liability is reported at fair value with gains and losses included in other expenses on the statement of income and comprehensive income. For the three and nine-months ended December 31, 2020 a loss of \$1,403,821 and a loss of \$1,901,030, respectively, was recognized (December 31, 2019: a loss of \$388,816 and a loss of \$388,816 for the three and nine-month periods).

Accretion charges attributable to the debenture of \$274,020 and \$800,413 were included in interest expense on the statement of loss and comprehensive loss in the three and nine-month periods ending December 31, 2020, of which \$144,620 and \$433,860 relates to interest paid or owing during the three and nine-months periods respectively, (December 31, 2019: \$97,592 of which \$54,625 related to interest paid or owing during the three and nine month periods respectively).

<b>7% Debenture (Issued November 27, 2019)</b>	<b>Liability component</b>	<b>Derivative liability</b>	<b>Total carrying amount</b>
<b>Balance at March 31, 2019</b>	\$ -	\$ -	\$ -
November 27, 2019 issuance	4,315,449	3,948,551	8,264,000
Deferred issue costs	(157,344)	-	(157,344)
Accretion of debenture	350,777	-	350,777
Interest	(199,245)	-	(199,245)
Fair value gain	-	(2,210,243)	(2,210,243)
<b>Balance at March 31, 2020</b>	<b>\$ 4,309,637</b>	<b>\$ 1,738,308</b>	<b>\$ 6,047,945</b>
Accretion of debenture	800,413	-	800,413
Interest	(433,860)	-	(433,860)
Fair value loss	-	1,901,031	1,901,031
<b>Balance as of December 31, 2020</b>	<b>\$ 4,676,190</b>	<b>\$ 3,639,339</b>	<b>\$ 8,315,529</b>

**AVANTE LOGIXX INC.****Notes to Unaudited Condensed Interim Consolidated Financial Statements****For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019****17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)****[b] Financial liabilities**

On December 2, 2019, the Company issued a Promissory Note as part of the acquisition of A.S.A.P. Secured Inc. The Promissory Note is payable on February 28, 2021 and the amount payable ranges from \$NIL to \$2,625,000 depending on the performance of the acquired business over the first twelve months from acquisition closing. The Promissory Note is discounted at a rate of 3.95% for accounting purposes, and it is management's expectation that the full amount will be paid on February 28, 2021 (Note 12).

<b>Promissory note (issued December 1, 2019)</b>	<b>Carrying amount</b>	
<b>Balance at March 31, 2020</b>	<b>\$</b>	<b>2,534,341</b>
Accretion for the period		76,076
<b>Balance at December 31, 2020</b>	<b>\$</b>	<b>2,610,417</b>

**[c] Financial assets**

On October 23, 2018, the Company subscribed to a private placement by 3|Sixty Secure Corp. ("3 Sixty") of 1,180,000 Purchased Subscription Receipts, at the price of \$0.85 per Purchased Subscription Receipt, for \$1,003,000. Each Purchased Subscription Receipt entitled the holder to receive upon satisfaction or waiver release of escrow release conditions on or before release deadline of 120 days of the close date, one underlying share of 3 Sixty in accordance with the provisions of the Subscription Receipt Agreement.

The release conditions were dependent on the completion of the Reverse Take-Over ("RTO") of Petro Vista by 3 Sixty. The classification of the subscription is fair value level 2, to other comprehensive income and will be reported at fair value with gains and losses included in other comprehensive income. On January 4, 2019, the RTO of Petro Vista by 3 Sixty took place, fulfilling the escrow release conditions and the Receipts were converted to one underlying share of 3 Sixty in accordance with the provisions of the Subscription Receipt Agreement. The investment in 3 Sixty is now classified as a level 1 to other comprehensive income and is reported at fair value based on quoted market prices in active markets. An unrealized loss of \$NIL was recognized to other comprehensive income during the three-month period ended December 31, 2020 and a loss of \$47,200 during the nine-month period ended December 31, 2020 (December 31, 2019: loss of \$53,100 and \$531,000 respectively) per the summary below.

	<b>Subscription receipts</b>	<b>Investment</b>
<b>Balance at March 31, 2019</b>	1,180,000	590,000
Change in fair value		(542,800)
<b>Balance at March 31, 2020</b>		<b>\$ 47,200</b>
Change in fair value		(47,200)
<b>Balance at December 31, 2020</b>		<b>\$ -</b>

On July 15, 2020, 3 Sixty announced a delay to filing 2019 fiscal year end financial results and the intention to file amended and restated interim financial statements. In response, the Ontario Securities Commission issued a cease trade order on 3 Sixty's shares, the cease trade was still in effect at the filing date of these statements. The Company, while making this investment in 3 Sixty, also signed a memorandum of understanding with 3 Sixty, signed on September 26, 2018, in which 3 Sixty will refer business to the Company on a preferred basis for a number of services ancillary to the cannabis industry, including certain executive security and residential services, integrated security systems, and risk management and due diligence services related to employees and contractors such as employee background screening and duty of care compliance programs.

## **AVANTE LOGIXX INC.**

### **Notes to Unaudited Condensed Interim Consolidated Financial Statements**

**For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019**

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#### **17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

In connection with the sale of its 70% ownership interest of City Wide on September 30, 2020, the Company received a vendor take back note of \$450,000 benefiting from a second secured lien on all assets of City Wide. The balance of the note on December 31, 2020 is \$450,000, (March 31, 2020: \$NIL), with \$50,000 as a current portion of the note receivable and \$400,000 as a long term notes receivable on the statement of financial position. The note bears interest at 3.0% until September 30, 2021, 3.5% until September 30, 2022, 4.0% until September 30, 2023, 5.0% until September 30, 2024, and then 6.0% until September 30, 2025. Installments of \$50,000 plus interest are due annually and the note is fully repayable on or before September 30, 2025.

#### **[d] Risk management**

The Company is exposed through its operations to the following financial risks:

- Market Risk
- Credit Risk
- Liquidity Risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these condensed interim consolidated financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous years unless otherwise stated in this note.

#### **General Objectives, Policies and Processes:**

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's management. The Board of Directors receive quarterly reports from the Company's management, through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

#### **a) Market Risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of four types of risk: foreign currency risk, interest rate risk, commodity price risk and equity price risk.

#### **Foreign Currency Risk:**

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and other foreign currencies will affect the Company's operations and financial results.

## **AVANTE LOGIXX INC.**

### **Notes to Unaudited Condensed Interim Consolidated Financial Statements**

**For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019**

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#### **17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

During the three and nine-month-period ending December 31, 2020, approximately 18.7% and 17.3% of the Company's revenues were received or receivable in U.S. dollars, while a smaller percentage of its total costs were paid or payable in U.S. dollars. A significant change in the currency exchange rates of the U.S. dollar relative to the Canadian dollar could have an adverse effect on the Company's results of operations, financial position and cash flows.

##### **Interest Rate Risk:**

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. At December 31, 2020, the Company has a revolving credit facility and bank loans subject to floating interest rates amounting to \$2,678,041 (March 31, 2020: \$3,608,037). This interest rate risk is offset by the potential changes in the interest rate offered on cash and cash equivalents held with chartered Canadian financial institutions. The Company considers its net exposure to interest rate risk to be immaterial as the majority of its total debt, net of cash balances, is payable at fixed interest rates.

##### **Equity Price Risk:**

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The maximum equity price risk resulting from financial instruments held by the Company, including the investment in 3 Sixty, is equivalent to the fair value of the equity investments as at December 31, 2020. As the market price of the Company's common shares increases, the likelihood of the Company having an obligation on March 31, 2023 under the PSU's increases (refer to Note 23).

##### **b) Credit Risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. For credit risk on accounts receivable see Note 7. Financial instruments, which are potentially subject to credit risk for the Company consist primarily of cash and cash equivalents. The carrying amounts of financial assets represent the maximum credit exposure. The Company has gross credit exposure at December 31, 2020 relating to cash of \$559,401 (March 31, 2020: \$1,339,864). All cash is held in Canadian banks which have credit ratings of AA- and Aa2 from rating agencies Standard & Poor's and Moody's respectively. The Company has performed a sensitivity analysis on changes in the credit risk associated with these banks and considers this risk to be minimal for all cash assets based on changes that are reasonably possible at the reporting date.

##### **c) Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to ensure that it will have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The key to success in managing liquidity is the degree of certainty in the cash flow projections. If future cash flows are fairly uncertain, the liquidity risk increases.

Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of approximately 90 days. To achieve this objective, the Company prepares annual financial budgets and updates short-term liquidity requirements at least monthly based on revised estimates. Further, the Company utilizes delegated authorizations for varying expenditure levels and types to further manage expenditure. The Company also monitors its risk of shortage of funds by monitoring the maturity dates of existing trade and other accounts payable.

## AVANTE LOGIXX INC.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019

#### 17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

The following table sets out the Company's contractual maturities (representing undiscounted contractual cash flows including interest) of financial liabilities and derivatives:

	Up to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Contractual amount	Carrying amount
<b>At March 31, 2019</b>	<b>\$ 7,197,966</b>	<b>\$ 1,173,100</b>	<b>\$ 1,303,933</b>	<b>\$ 2,897,391</b>	<b>\$ 495,146</b>	<b>\$ 13,067,535</b>	<b>\$ 10,578,694</b>
Accounts payable and accrued liabilities	9,985,296	-	-	-	-	9,985,296	9,985,296
Promissory note	-	2,625,000	-	-	-	2,625,000	2,534,341
Bank indebtedness and vehicle loans	1,639,887	1,045,843	1,387,512	3,164,958	475,232	7,713,432	6,666,710
Obligations under lease	219,645	521,682	400,290	495,681	812,125	2,449,423	2,443,193
Convertible debentures	289,240	289,240	578,480	9,941,592	-	11,098,552	6,047,945
<b>At March 31, 2020</b>	<b>\$ 12,134,068</b>	<b>\$ 4,481,765</b>	<b>\$ 2,366,282</b>	<b>\$ 13,602,231</b>	<b>\$ 1,287,357</b>	<b>\$ 33,871,703</b>	<b>\$ 27,677,485</b>
Accounts payable and accrued liabilities	9,405,352	-	-	-	-	9,405,352	9,405,352
Promissory note	2,625,000	-	-	-	-	2,625,000	2,610,417
Bank indebtedness and vehicle loans	1,121,708	992,166	1,316,613	2,001,613	476,188	5,908,288	5,219,011
Obligations under lease	158,015	378,362	416,646	341,216	631,800	1,926,039	1,926,039
Convertible debentures	-	289,240	867,720	9,363,112	-	10,520,072	8,315,529
<b>At December 31, 2020</b>	<b>\$ 13,310,075</b>	<b>\$ 1,659,768</b>	<b>\$ 2,600,979</b>	<b>\$ 11,705,940</b>	<b>\$ 1,107,988</b>	<b>\$ 30,384,752</b>	<b>\$ 27,476,348</b>

Contractual amounts reflect undiscounted principal payments and interest payments. Carrying amount excludes interest, is discounted, includes any residual value and is adjusted for the derivative component where applicable.

The working capital as at December 31, 2020 was \$4,107,487 compared to \$1,933,585 at March 31, 2020.

#### d) The Covid-19 Pandemic

While the Company is not immune to the impacts of the Covid-19 pandemic, the majority of the Company's services remain ongoing, certain of which have been deemed "essential" by governing authorities. However, there remains some risk that certain project work will be deferred, or restricted and new orders delayed or that certain customers could become adversely affected by the pandemic. The Company sold its non-wholly owned subsidiary, City Wide, on September 30, 2020 (Note 22). City Wide qualified for the Government of Canada's Canada Emergency Wage Subsidy ("CEWS") program and recorded \$125,412 in government grants earned and received during the six-month period ending September 30, 2020 reflected within the loss from discontinued operations for the Company's nine-month period ending December 31, 2020. To date there are no significant impacts to the Company related to COVID-19.

There were no unfilled conditions or other contingencies attached to the government assistance that was recognized.

#### Determination of fair value

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The balance sheet carrying amounts for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, bank indebtedness and vehicle loans and finance leases, other payables, and derivative liabilities approximate fair value due to their short-term nature. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

## **AVANTE LOGIXX INC.**

### **Notes to Unaudited Condensed Interim Consolidated Financial Statements**

**For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019**

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#### **17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

##### **Fair Value Hierarchy:**

Financial instruments that are measured subsequent to initial recognition at fair value or disclosed at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).
- All financial instruments at fair value are level 1, except conversion option and promissory note which are considered level 2.

#### **18. CAPITAL MANAGEMENT**

The Company monitors its cash, common shares, warrants and stock options as capital. The Company's objectives when maintaining capital are:

- To preserve the ability to ensure business continuity thereby creating a return for the shareholders, investors and other interested parties.
- To ensure adequate return for the shareholders by pricing of services that is adjusted to the level of risk in the business activity.

To support business activity and maximize shareholder value, the Company takes into consideration various factors, including the growth of the business-related infrastructure and the up-front cost of taking on new customers. The Company's officers and senior management are responsible for managing the capital and do so through monthly meetings and regular review of financial information. The Board of Directors is responsible for overseeing this process. The Company manages capital with the objective of maintaining adequate capital resources through the optimization of the cash flows from operations and capital transactions.



## AVANTE LOGIXX INC.

### Notes to Unaudited Condensed Interim Consolidated Financial Statements

#### For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019

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#### 19. RELATED PARTY TRANSACTIONS

The Company provided services to a private company controlled by a significant shareholder and officer of the Company. In the three and nine-month periods ended December 31, 2020, the Company billed \$Nil and \$NIL (December 31, 2019: \$NIL and \$4,294 respectively) at commercial rates.

The Company entered into a contract effective May 1, 2018 with a private company controlled by a significant shareholder to provide consulting services for the Company. The Company incurred \$57,864 and \$152,564, respectively, of expense in the three and nine-month periods ended December 31, 2020, (December 31, 2019: \$78,571 and \$230,821 respectively).

The Company entered into a contract with a private company controlled by a significant shareholder and officer of the Company to provide services for the Company. For the three and nine-month periods ended December 31, 2020 the Company incurred \$1,688 and \$5,120 (December 31, 2019: \$2,057 and \$4,232) for these services.

Remuneration of Directors and Officers was as follows:

Directors and Officers Remuneration	For the three-month period ended		For the six-month period ended	
	Dec 31, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019
Salaries, short term employee benefits	198,558	222,115	548,558	610,577
Share based payments	33,403	60,953	131,673	182,860
	231,961	283,068	680,231	793,437

#### 20. REORGANIZATION AND ACQUISITION COSTS

The Company incurred reorganization and acquisition costs in the amount of \$170,824 for the three-month period ended December 31, 2020 and costs of \$488,323 during the nine-month period ended December 31, 2020, (December 31, 2019: \$499,628 and \$758,270 respectively). These costs included professional fees paid to consultants, financial and legal advisors for business acquisitions undertaken by the Company, fees related to business amalgamations, rebranding, reorganization expenses, and severance expense for terminations as part of a restructuring effort.

#### 21. SEGMENT REPORTING

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transactions with any of the Company's other components. The operating results of all operating segments are reviewed regularly by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assessing their performance. The Company's chief operating decision maker is the Chief Executive Officer. The Company operates in two reportable segments described below.

Logixx Security provides security services for enterprise customers across Canada. Services include protective services (also known as guarding) as well as security system design, sales, installations, and monitoring and alarm response.

Avante Security provides premium security services for residential customers in Toronto and Muskoka, Ontario through the use of advanced technology and a focus on client service. Avante Security's business provides a complete offering ranging from system design, sales, installations, and monitoring to services such as alarm response and patrols, personal protection, house staff training, and secure transportation.

The Company accounts for intersegment sales as if they were to external customers. Divisional reporting in respect of the reportable segments was not established by the Company until February 2020. Therefore, December 31, 2019 balance sheet amounts and operating expenses for the three and nine-month periods ending December 31, 2019 are not available.

**AVANTE LOGIXX INC.****Notes to Unaudited Condensed Interim Consolidated Financial Statements****For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019****21. SEGMENT REPORTING (CONTINUED)**

Revenues from one customer of the Company's Logixx Security segment represents approximately \$11,000,000, or 16.5% of the Company's consolidated revenues during the nine-month period ending December 31, 2020.

Segment statements of loss and comprehensive loss for the three and nine-months periods ending December 31, 2020 are included below:

	For the three-months ended Dec 31, 2020				Total
	Logixx Security	Avante Security	Corporate	Intersegment eliminations	
<b>Revenues</b>	\$ 20,940,017	\$ 4,327,994	\$ -	\$ (63,746)	\$ 25,204,265
<b>Cost of sales</b>	17,140,169	\$ 2,543,779	\$ -	\$ (63,746)	\$ 19,620,202
<b>Gross profit</b>	3,799,848	1,784,215	-	-	5,584,063
<b>Operating expenses</b>					
Salaries, benefits and commissions	1,065,514	715,092	677,843	-	2,458,449
Administration	913,408	593,908	(188,672)	-	1,318,644
Depreciation on capital assets	79,167	176,743	56,631	-	312,541
Amortization on intangible assets	-	-	893,202	-	893,202
Merchant transaction fees and bank charges	13,895	74,012	8,577	-	96,484
Share based payments	-	-	(55,943)	-	(55,943)
	2,071,984	1,559,755	1,391,638	-	5,023,377
<b>Income (loss) before other income and expenses</b>	1,727,864	224,460	(1,391,638)	-	560,686
<b>Other (income) expenses</b>	-	-	-	-	-
Miscellaneous (income) expense	22,743	(27,611)	(38,998)	-	(43,866)
Interest expense	289,198	30,645	75,856	-	395,699
Foreign exchange (gain) loss	122,811	3,997	445	-	127,253
Loss in fair value of derivative liability	-	-	1,403,821	-	1,403,821
<b>Total Other (income) expenses</b>	434,752	7,031	1,441,124	-	1,882,907
<b>Income (loss) before reorganization, and acquisition costs</b>	1,293,112	217,429	(2,832,762)	-	(1,322,221)
Reorganization and acquisition costs	121,699	-	49,125	-	170,824
<b>Income (loss) before income taxes</b>	1,171,413	217,429	(2,881,887)	-	(1,493,045)
<b>Provision for income taxes</b>					
Current income tax expense (recovery)	198,525	-	-	-	198,525
Deferred income tax expense (recovery)	61,125	67,293	(327,483)	-	(199,065)
<b>Net Income (loss) for the period</b>	911,763	150,136	(2,554,404)	-	(1,492,505)
<b>Total comprehensive income (loss) for the period from continuing operations</b>	\$ 911,763	\$ 150,136	\$ (2,554,404)	\$ -	\$ (1,492,505)

**AVANTE LOGIXX INC.**

**Notes to Unaudited Condensed Interim Consolidated Financial Statements**

**For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019**

**21. SEGMENT REPORTING (CONTINUED)**

	For the nine-months ended Dec 31, 2020				Total
	Logixx Security	Avante Security	Corporate	Intersegment eliminations	
<b>Revenues</b>	\$ 54,875,546	\$ 12,489,143	-	\$ (354,929)	\$ 67,009,760
<b>Cost of sales</b>	44,622,191	7,258,442	-	(352,029)	51,528,604
<b>Gross profit</b>	10,253,355	5,230,701	-	(2,900)	15,481,156
<b>Operating expenses</b>					
Salaries, benefits and commissions	3,024,049	2,131,554	2,271,200	-	7,426,803
Administration	2,901,694	1,792,612	(974,587)	(2,900)	3,716,819
Depreciation on capital assets	225,414	520,024	171,158	-	916,596
Amortization on intangible assets	-	-	2,719,706	-	2,719,706
Merchant transaction fees and bank charges	46,748	177,686	13,762	-	238,196
Share based payments	-	-	58,219	-	58,219
	6,197,905	4,621,876	4,259,458	(2,900)	15,076,339
<b>Income (loss) before other income and expenses</b>	4,055,450	608,825	(4,259,458)	-	404,817
<b>Other (income) expenses</b>					
Miscellaneous (income) expense	65,503	(50,842)	(94,739)	-	(80,078)
Interest expense	862,953	85,447	207,483	-	1,155,883
Foreign exchange (gain) loss	178,411	49,957	(1,374)	-	226,994
Loss in fair value of derivative liability	-	-	1,901,030	-	1,901,030
<b>Total Other (income) expenses</b>	1,106,867	84,562	2,012,400	-	3,203,829
<b>Income (loss) before reorganization, and acquisition costs</b>	2,948,583	524,263	(6,271,858)	-	(2,799,012)
Reorganization and acquisition costs	286,723	-	201,600	-	488,323
<b>Income (loss) before income taxes</b>	2,661,860	524,263	(6,473,458)	-	(3,287,335)
<b>Provision for income taxes</b>					
Current income tax expense (recovery)	198,525	-	-	-	198,525
Deferred income tax expense (recovery)	506,253	157,953	(812,717)	-	(148,511)
	704,778	157,953	(812,717)	-	50,014
<b>Net Income (loss) for the period</b>	1,957,082	366,310	(5,660,741)	-	(3,337,349)
<b>Other comprehensive income (loss)</b>					
Unrealized gain on investments	-	-	(47,200)	-	(47,200)
	-	-	(47,200)	-	(47,200)
<b>Total comprehensive income (loss) for the period from continuing operations</b>	\$ 1,957,082	\$ 366,310	\$ (5,707,941)	\$ -	\$ (3,384,549)

**AVANTE LOGIXX INC.****Notes to Unaudited Condensed Interim Consolidated Financial Statements****For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019****21. SEGMENT REPORTING (CONTINUED)**

Segment assets and liabilities as at December 31, 2020 and March 31, 2020 are as follows:

<b>Segment assets are as follow:</b>	<b>Logixx Security</b>	<b>Avante Security</b>	<b>City Wide</b>	<b>Corporate</b>	<b>Total</b>
As at March 31, 2020	\$ 13,859,580	\$ 9,867,658	\$ 3,155,708	\$ 22,212,460	\$ 49,095,406
As at December 31, 2020	\$ 17,643,907	\$ 8,665,698	\$ -	\$ 17,299,468	\$ 43,609,073
<b>Segment liabilities are as follow:</b>	<b>Logixx Security</b>	<b>Avante Security</b>	<b>City Wide</b>	<b>Corporate</b>	<b>Total</b>
As at March 31, 2020	\$ 6,194,408	\$ 13,445,626	\$ 2,482,445	\$ 12,097,241	\$ 34,219,720
As at December 31, 2020	\$ 12,959,990	\$ 11,241,140	\$ -	\$ 7,962,418	\$ 32,163,548

**22. DISCONTINUED OPERATIONS**

On August 10, 2020 the Company announced its intention to sell its 70% majority interest in City Wide for \$2,341,500. The subsidiary was sold on September 30, 2020 resulting in a loss on disposition before income tax of \$9,627 and is reported in the nine-month period ending December 31, 2020 as a discontinued operation. The Company received \$1,891,500 in cash and an amortizing, interest bearing vendor take back note of \$450,000 receivable on or before September 30, 2025. The ownership interest in City Wide was acquired by the Company on April 1, 2016. The Company's financial results for the prior fiscal periods reported throughout these interim condensed consolidated financial statements have been adjusted to reflect continuing operation results and figures that exclude these City Wide discontinued operations.

As a result of the sale on September 30, 2020, during the nine-month period ending December 31, 2020, the Company recognized the following gain on disposition in the condensed consolidated interim statement of income:

Gross cash proceeds of sale	\$ 1,891,500
Vendor take back loan	450,000
<b>Total consideration</b>	<b>2,341,500</b>
less: transaction cost	85,944
<b>Net proceeds of sale</b>	<b>2,255,556</b>
<b>Assets</b>	
Total current assets	2,661,109
Total non-current assets	3,234,948
<b>Total assets</b>	<b>5,896,057</b>
<b>Liabilities</b>	
Total current liabilities	1,952,782
Total non-current liabilities	1,210,598
<b>Total liabilities</b>	<b>3,163,380</b>
<b>Total net assets</b>	<b>2,732,677</b>
Non-Controlling Interest	(467,494)
<b>Loss on disposal, before tax</b>	<b>\$ (9,627)</b>

The Company lost control of \$730,218 of cash balance included in the total current assets disposed

**AVANTE LOGIXX INC.****Notes to Unaudited Condensed Interim Consolidated Financial Statements****For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019****22. DISCONTINUED OPERATIONS (CONTINUED)**

The results of the discontinued operations are presented below for the following periods:

	For the three-month period ended		For the six-month period ended	
	Sept 30, 2020	Sept 30, 2019	Sept 30, 2020	Sept 30, 2019
<b>Revenues</b>	\$ 1,880,134	\$ 1,520,858	\$ 3,102,511	\$ 3,080,494
<b>Cost of sales</b>	983,770	924,338	1,735,589	1,852,327
<b>Gross profit</b>	896,364	596,520	1,366,922	1,228,167
<b>Operating expenses</b>	426,208	476,479	801,830	1,043,351
<b>Income (loss) before other income and expenses</b>	470,156	120,041	565,092	184,817
<b>Other (income) expenses</b>				
Interest expense	9,786	(2,218)	19,965	(3,589)
Foreign exchange loss	4,803	(10,218)	26,458	(8,123)
	14,589	(12,436)	46,423	(11,712)
<b>Income (loss) before income taxes</b>	455,567	132,477	518,669	196,529
<b>Provision for income taxes</b>				
Current income tax expense	118,156	115,273	136,469	139,475
Deferred income tax recovery	1,700	(18,204)	2,510	(18,204)
<b>Net Income from discontinued operations for the</b>	<b>335,711</b>	<b>35,409</b>	<b>379,690</b>	<b>75,257</b>
<b>Loss on disposal</b>	(9,627)	-	(9,627)	-
<b>Net income (loss) from discontinued operations</b>	<b>\$ 326,084</b>	<b>\$ 35,409</b>	<b>\$ 370,063</b>	<b>\$ 75,257</b>

**23. PERFORMANCE SHARE UNITS**

On November 25, 2020, the Company's Board of Directors established a performance share unit ("PSU") compensation program. It provides for a cash payment to eligible participants equal to the number of PSUs granted multiplied by the Company's volume weighted average share price ("VWAP") in effect during the thirty days prior to a future valuation date scaled downwards for vesting criteria linked to that VWAP in effect during the thirty days prior to the valuation date.

On November 25, 2020, the Company announced that the Chief Executive Officer was awarded 200,000 performance stock units payable on March 31, 2023 at the Corporation's 30-day volume weighted share price in effect on that date, scaled downward to 0% payout if that VWAP is less than \$3.39 per share, 50% payout if great than or equal to \$3.39 per share, 75% payout if greater than or equal to \$3.75 per share or 100% payout if greater than or equal to \$4.00 per share. Such award, if any, will be settled in cash within 150 days following March 31, 2023.

The Company uses Monte-Carlo simulation valuation techniques to estimate the potential future value that might exist as of March 31, 2023 in respect of issued but unvested PSU grants. Such estimate is then discounted based on the risk-free interest rate as of the valuation date. Assumptions included in the fair value of the unvested PSU grants include:

- The Company's share price on the valuation date, which was \$1.44 per share on December 31, 2020;
- The remaining term and number of trading days from the valuation date until the vesting date of March 31, 2023;
- The average expected annual return on the Company's shares of 15.0% as of December 31, 2020;

**AVANTE LOGIXX INC.**

**Notes to Unaudited Condensed Interim Consolidated Financial Statements**

**For the Three and Nine-Month Periods Ended December 31, 2020 and December 31, 2019**

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**23. PERFORMANCE SHARE UNITS (CONTINUED)**

- The expected volatility of the price of the Company's common shares as of the valuation date, which was 80.0% on December 31, 2020; and
- The average risk-free interest rate of 2.06% as of December 31, 2020.

The present value of such estimated potential liability is recalculated by the Company every fiscal quarter end. Within Accounts Payable and Accrued Liabilities on the Statement of Financial Position, the Company reflects the net present value of the potential obligation, prorated by the number of months that have elapsed since the date of grant versus the total number of months from the PSU grant date to the maturity date. The difference between the balance sheet liability amounts at the balance sheet date versus the fiscal period's opening liability is reflected as an expense, or recovery, within Salaries, Benefits and Commission on the Consolidated Statements of Loss and Comprehensive Loss. At December 31, 2020, the present value of the estimated potential liability on March 31, 2023 is \$179,000 and the recorded liability is \$6,400. The expense reflected in the three and nine-month periods ending December 31, 2020 was \$6,400 and \$6,400.