

Avante Logixx Inc.

Management's Discussion and Analysis

For the Three And Nine-Month Periods Ended December 31, 2021 and 2020

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

This Management's Discussion and Analysis ("MD&A") contains information about the consolidated performance and financial position of Avante Logixx Inc. (the "Company") as at and for the three and nine-month periods ended December 31, 2021 and 2020, as well as forward-looking information about future periods. The information in this MD&A is current to February 25, 2022 and should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and notes thereto as at and for the three and nine-month periods ended December 31, 2021 and 2020. This Management's Discussion and Analysis is authorized for issue by the Board of Directors on February 25, 2022.

The accompanying unaudited condensed interim consolidated financial statements of the Company were prepared by and are the responsibility of the Company's management. The Company's unaudited condensed interim consolidated financial statements as at and for the three and nine-month periods ended December 31, 2021 and 2020 were prepared in accordance with IAS 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB") and *International Financial Reporting Standards* ("IFRS"). All financial amounts in this MD&A are expressed in thousands of Canadian dollars except where otherwise noted. All tables are for the three and nine-month periods ended December 31 of the year indicated, unless otherwise stated. This MD&A includes forward-looking statements and assumptions. See "Forward-Looking Information" for more details.

FORWARD LOOKING INFORMATION

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

These forward-looking statements are based on current expectations that involve numerous risks and uncertainties, including, but not limited to, those identified in the Risks Factors section of the Annual Information Form the Company filed with regulatory authorities on July 20, 2021 and amended on July 23, 2021. Assumptions relating to the foregoing involve judgements with respect to, among other things, future economic, competitive and market conditions and future business decisions and the successful completion and integration of proposed acquisitions, all of which are difficult or impossible to predict accurately and many of which are beyond the Company's control. Although the Company believes that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate. These factors should be considered carefully, and readers should not place undue reliance on forward-looking statements. The Company has no intention and undertakes no obligation to update or revise any forward-looking statements, whether written or oral that may be made by or on the Company's behalf.

NON-IFRS MEASURES

This MD&A includes certain measures which have not been prepared in accordance with IFRS such as operating expenses % of revenue, recurring monthly revenue ("RMR"), EBITDA, Adjusted EBITDA and Adjusted EBITDA per share. These non-IFRS measures are not recognized under IFRS and, accordingly, users are cautioned that these measures should not be construed as alternatives to net income determined in accordance with IFRS.

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The non-IFRS measures presented are unlikely to be comparable to similar measures presented by other issuers.

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

A reconciliation of net income or loss (as determined under IFRS) to EBITDA and Adjusted EBITDA is provided in the Reconciliation of Non-IFRS Measures section of this MD&A.

OVERVIEW OF AVANTE AND HIGHLIGHTS

Avante Logixx Inc. is an Ontario corporation listed on the Toronto Venture Exchange (TSXV: XX). The Company is a leading provider of technology enabled security solutions to both commercial and residential customers providing the following services.

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

The Company is organized into two operating segments consisting of Logixx Security Inc. ("Logixx Security") and Avante Security Inc. ("Avante Security"), based on the type of customer serviced and as described in further detail in the Business Segment Operating Results section of this MD&A. A third division, 70% owned City Wide Locksmiths Ltd. ("City Wide"), was sold on September 30, 2020, refer to Note 23 to the Unaudited Condensed Interim Consolidated Financial Statements for the three and nine-month periods ended December 31, 2021 and 2020. In summary, Logixx Security focuses on providing enterprise customers with Protective Services, Electronic Security and Monitoring & Managed Services across Canada. Avante Security focuses on providing residential customers with similar services within central Toronto and Muskoka, Ontario. City Wide focused on both residential and commercial customers by selling and installing Security Devices and Hardware mainly within the Greater Toronto Area.

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

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In fiscal 2018, the Company announced a new strategy following the appointment of Craig Campbell, a security industry veteran as Chief Executive Officer. The Board approved strategy is two-pronged:

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

The Company added key talent throughout fiscal 2019 and 2020 at the operational, management and executive level, creating, enhancing and expanding the support platform of Finance & Administration, Human Resources, Sales and Marketing and IT. The Company believes that these investments in people, technology and processes are critical to achieving the scale required to realize its strategy of building a technology-enabled security solution and one stop security provider to large, national commercial clients and for high-net-worth residential customers. On December 1, 2019, the Company's most recent acquisition was A.S.A.P. Secured Inc. ("ASAP"), which was amalgamated into Logixx Security on April 1, 2020 and more than doubled the size of that operating segment.

These investments are the foundation for the Company's growth platform. Management of the Company expects costs, as a percentage of total revenue, to decrease as the Company grows organically, acquires additional companies and realizes further synergies. This is evidenced by the decrease in operating expenses as a percentage of revenue (excluding depreciation, amortization, interest and accretion interest, non-cash share-based payments) in fiscal 2020 and fiscal 2021 which decreased to 16.3% for the third quarter ended December 31, 2021 from 24.3% during the third quarter of fiscal 2020 ended December 31, 2019, and increased compared to 15.4% during the third quarter of fiscal 2021 ended December 31, 2020. The increase over the third quarter of fiscal 2021 ended December 31, 2020 is related to the reduction of COVID-19 specials revenue in the second and third quarters of fiscal 2022. For further discussion see the Operating Expenses section of this MD&A.

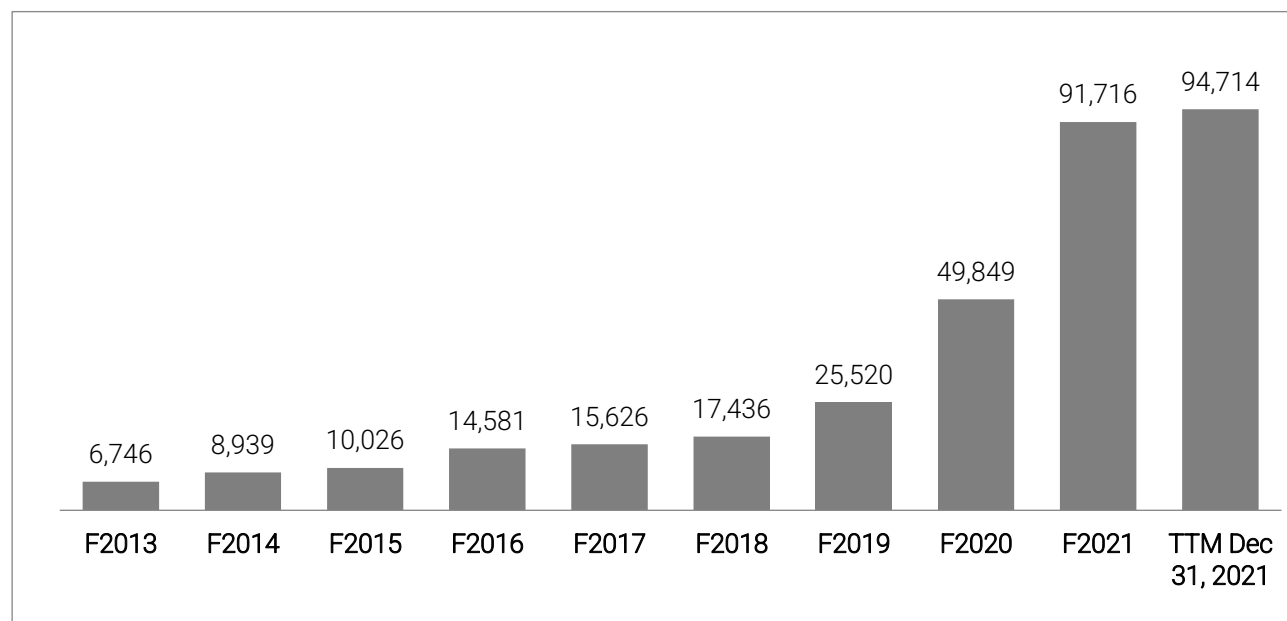
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As at December 31, 2021, the Company's full-time and part-time headcount was 1,963 compared to 1,852 as at March 31, 2021. Historical consolidated annual revenues from continuing operations of the Company are summarized below:



Notes: The Company's fiscal year end is March 31 and "TTM" means Trailing Twelve Months. The above reported revenue for F2020 excludes revenues of ASAP prior to its acquisition by the Company on December 1, 2020. Similarly, reported revenue for F2019 excludes revenue of Intelligarde, Veridin and Watermark prior to the respective acquisitions by the Company on November 30, 2018, September 17, 2018 and August 1, 2018. City Wide revenues are excluded from the above chart, as the ownership of City Wide is treated as a discontinued operation since the date the Company sold its interest in City Wide on September 30, 2020.

STRATEGY

The Company's strategy is to acquire, manage and build industry-leading security businesses in dedicated subsidiaries, with an emphasis on seeking acquisition opportunities that provide a foundation for profitable, sustainable growth. Management of the Company aims to reinforce this position with technology-enabled security solutions and a one-stop shop for residential customers and for large, national, security conscious commercial clients. Management of the Company believes that providing a one-stop shop for all security needs is a unique value proposition to many large, national commercial clients that find it cumbersome to work with multiple service providers across the country.

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

Make strategic acquisitions

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

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Grow organically

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

Improve business operations

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

Consolidated objectives and outlook

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

- Invest in platform and tuck-in acquisitions as described above;
- Achieve consolidated Adjusted EBITDA margins consistent with its industry;
- Achieve growth in adjusted net income per share;
- Reinvest cashflow in future business growth; and
- Target a ratio of Net Senior Debt to Adjusted EBITDA consistent with its industry.

On August 25, 2021, the Company's Board of Directors announced a strategic review to consider and evaluate various strategic alternatives available to the Company. On February 9, 2022, the Company announced that it had entered into a definitive Arrangement Agreement with SSC Security Services Corp (TSXV: SECU) ("SSC") with additional details presented in the Subsequent Event section of this MD&A.

SELECTED FINANCIAL INFORMATION

The following selected financial information for the three-month period ended December 31, 2021 and 2020 have been derived from the unaudited condensed interim consolidated financial statements and should be read in conjunction with those financial statements and related notes. The results of acquisitions are added from their respective dates of completion. Non-IFRS measures are defined and reconciled in the Reconciliation of Non-IFRS Measures section of this MD&A.

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\$ in thousands, unless otherwise noted	FY 2020		FY 2021				FY 2022		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Revenues	12,642	17,030	18,204	23,602	25,204	24,706	24,120	22,601	23,286
Cost of goods sold	9,823	13,935	14,081	17,828	19,620	19,353	18,226	18,360	18,561
Gross profit	2,818	3,095	4,123	5,774	5,584	5,353	5,894	4,242	4,725
Gross profit margin	22.3%	18.2%	22.6%	24.5%	22.2%	21.7%	24.4%	18.8%	20.3%
Direct operating expenses	3,075	3,539	3,468	4,034	3,880	3,537	3,840	3,668	3,788
Direct operating expense as a percent of revenue	24.3%	20.8%	19.1%	17.1%	15.4%	14.3%	15.9%	16.2%	16.3%
Adjusted EBITDA from continuing operations ⁽¹⁾	(377)	(450)	637	1,719	1,633	2,055	2,008	627	968
Adjusted EBITDA from discontinued operations ⁽¹⁾	50	(9)	120	502	–	–	–	–	–
Total adjusted EBITDA ⁽¹⁾	(327)	(459)	757	2,221	1,633	2,055	2,008	627	968
Total comprehensive income (loss) attributable to Avante shareholders on continuing operations	(1,686)	(260)	(1,256)	(367)	(1,493)	165	277	(2,926)	1,611

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

Results for the Three and Nine-Month Period Ended December 31, 2021 and 2020

Revenues

Revenues for the three-month period ended December 31, 2021 were \$23.3 million, compared with \$25.2 million for the prior year third quarter, a decrease of \$1.9 million, or 7.6%. The decrease was due to a decline in special requests by commercial customers as a result of the COVID-19 pandemic. Revenues for the nine months ended December 31, 2021 were \$70.0 million, compared with \$67.0 million for the prior year's first nine months, an increase of \$3.0 million, or 4.5%. The increase during the nine-month period is due to organic growth and special requests by commercial customers as a result of the COVID-19 pandemic in the first quarter of fiscal 2022.

Within total revenues, the Company generates recurring monthly revenues and revenues under contractual arrangements as summarized in the table below for each of the most recent nine fiscal quarters:

	FY 2020		FY 2021				FY 2022		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Recurring	1,917	2,055	2,094	2,137	2,194	2,380	2,435	2,437	2,577
Contractual	7,824	12,586	12,102	13,263	15,019	14,643	14,171	14,888	15,235
Total recurring and contractual	9,741	14,641	14,196	15,400	17,213	17,023	16,606	17,325	17,812
Total consolidated revenue	12,642	17,030	18,204	23,602	25,204	24,706	24,120	22,601	23,286
As a percent of total revenue	77.1%	86.0%	78.0%	65.2%	68.3%	68.9%	68.8%	76.7%	76.5%

Recurring Monitoring revenue was \$2.6 million for the quarter ended December 31, 2021, compared to \$2.2 million for the prior year's third quarter, an increase of \$0.4 million, or approximately 17.4%. Contractual revenues were \$15.2 million in the third quarter ended December 31, 2021, compared to \$15.0 million for the prior year's third quarter, an increase of 0.2 million or 1.4%. The prior periods have been adjusted to remove revenue related to Secure Transportation and International Secure Transportation services from Contractual revenues as the revenue is recognized as the service is used and not on a subscription basis. Contractual revenues during the quarterly periods of fiscal 2022 and fiscal 2021 exclude estimated short term contract

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revenue specific to the COVID-19 pandemic. In fiscal 2020, a full quarter of revenues from ASAP (acquired on December 1, 2019) increased the fourth quarter contractual revenue. Total recurring and contractual revenues during the three-month period ended December 31, 2021 increased by \$0.6 million over the prior year's third quarter ended December 31, 2020 and represented approximately 76.5% of the Company's consolidated revenue during the three-month period ended December 31, 2021. Total recurring and contractual revenues increased by \$4.9 million, an approximate increase of 10.5% in the nine month period ending December 31, 2021 over prior year's nine-month period ending December 31, 2020.

Gross Profit and Gross Profit Margin

Gross profit was \$4.7 million for the three-month period ended December 31, 2021, a decrease of \$0.8 million or 15.4% over the prior year's third quarter, primarily due to decreased COVID-19 related special services within Logixx Security revenues. Gross profit was \$14.9 million for the nine months ended December 31, 2021, a decrease of \$0.6 million or 4.0% over the prior year's first nine months, primarily due to strong revenues as a result of COVID-19 specials in the first quarter of fiscal 2022 compared to fiscal 2021. Gross Margin percentages by division were as follows during the most recent nine fiscal quarters:

	FY 2020		FY 2021			FY 2022			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Gross Profit									
Logixx Security	1,128	1,776	2,496	3,957	3,800	3,512	4,186	2,481	2,685
Avante Security	1,690	1,319	1,627	1,817	1,784	1,841	1,708	1,761	2,040
Total Gross Profit	2,818	3,095	4,123	5,774	5,584	5,353	5,894	4,242	4,725
Gross Margin									
Logixx Security	12.8%	13.4%	17.0%	20.6%	18.1%	17.5%	20.8%	13.6%	14.4%
Avante Security	43.9%	34.7%	43.9%	40.8%	41.2%	39.6%	42.4%	39.7%	42.9%
Total Gross Margin	22.3%	18.2%	22.7%	24.5%	22.2%	21.7%	24.4%	18.8%	20.3%

The decline in the Gross Margin percentage in fiscal 2020 fourth quarter is largely attributed to the change in sales mix, as the protective services industry operates at a lower margin and the acquisition of ASAP increased the concentration of protective services within total consolidated revenues since its acquisition on December 1, 2019, along with organic growth of those revenues since that acquisition. The Gross Margin percentages trend in fiscal 2021 includes the benefits of COVID-19 special services. Gross Margin was 20.3% for the quarter ended December 31, 2021 compared to 22.2% for the prior year's quarter ending December 31, 2020. The decrease in Gross Margin percentage during the third quarter of fiscal 2022, versus the comparable period during fiscal 2021, is largely due to lower COVID-19 special services which had stronger margins as well as increased levels of unbillable overtime arising from staffing shortages common in many industries. Gross profit margin was 21.2% for the nine-months ended December 31, 2021 compared to 23.1% for the prior years first nine months.

Operating Expenses

Operating expenses, excluding depreciation, amortization, interest and share based payments, for the third quarter ended December 31, 2021 were \$3.8 million, compared to \$3.9 million during the prior year's third quarter, a decrease of \$0.1 million, or 2.4%. Adjusted operating expenses as a percentage of revenues decreased over the last nine fiscal quarters from 24.3% during the third quarter ended December 31, 2019 to 16.3% during the current year's third quarter. In fiscal 2020, interest expense was included as part of operating expenses for the first three quarters. In the fourth quarter of fiscal 2020, management decided to exclude interest from operating expenses and therefore an add back for interest expense was not required during and after that quarter to determine adjusted operating expenses.

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	FY 2020			FY2021			FY2022		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Operating expenses	3,676	4,834	4,734	5,319	5,023	4,814	4,532	4,286	4,595
Less									
Interest expense	37	-	-	-	-	-	-	-	-
Accretion interest expense	98	-	-	-	-	-	-	-	-
Depreciation	251	293	291	313	313	180	417	327	407
Amortization	208	896	914	913	893	893	210	211	210
Commission amortization	(5)	71	6	-	-	182	39	47	174
Share based payments	12	35	55	59	(62)	21	25	34	16
Adjusted operating expenses	3,075	3,539	3,468	4,034	3,880	3,537	3,840	3,668	3,788
Revenue	12,642	17,030	18,204	23,602	25,204	24,706	24,120	22,601	23,286
Operating expense as a % of revenue	24.3%	20.8%	19.1%	17.1%	15.4%	14.3%	15.9%	16.2%	16.3%

The improvement in operating expenses as a percentage of revenues over the last nine fiscal quarters reflects the benefits of scale arising from several acquisitions completed during fiscal 2019 and 2020 as well as from growth in revenues during fiscal 2021. The decrease in adjusted operating expenses during the third quarter of fiscal 2022, versus the comparable prior year's period, was due to several factors, including reversing management bonus' accrued in the previous two quarters of fiscal 2022.

Interest expense

Interest costs, including accretion interest expense, for the third quarter ending December 31, 2021 were \$0.41 million compared with \$0.39 million during the prior year's third quarter. Interest costs, including accretion interest expense, for the nine months ending December 31, 2021 were \$1.22 million compared with \$1.16 million during the prior year's first nine months. The increase in interest expense for the nine months ended December 31, 2021 is directly related to increased senior funded debt during the period to fund the banking transition and acquisition activities.

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EBITDA and Adjusted EBITDA From Continuing Operations

EBITDA and Adjusted EBITDA for the third quarter ended December 31, 2021, was \$2.9 million and \$1.0 million as compared to December 31, 2020's EBITDA and Adjusted EBITDA from continuing operations of \$0.1 million and \$1.6 million respectively. The quarterly composition of EBITDA and Adjusted EBITDA over the Company's most recent six quarterly fiscal periods are summarized below:

\$ in thousands, unless otherwise noted	FY2021			FY2022		
	Q2	Q3	Q4	Q1	Q2	Q3
Revenues	23,602	25,204	24,706	24,120	22,601	23,286
Gross profit ⁽¹⁾	5,774	5,584	5,353	5,894	4,242	4,725
Gross profit margin ⁽¹⁾	24.5%	22.2%	21.7%	24.4%	18.8%	20.3%
Net Income (loss)	(529)	(1,493)	166	277	(2,926)	1,611
Net income (loss) from discontinued operations	326	–	–	–	–	–
Total net income (loss)	(203)	(1,493)	166	277	(2,926)	1,611
Interest expense	98	96	87	135	98	100
Accretion interest expense ⁽²⁾	292	300	296	290	290	308
Income taxes	104	(1)	(144)	431	(131)	90
Amortization on capitalized commission	–	–	182	39	47	174
Depreciation on capital assets	313	313	180	417	327	407
Amortization	912	893	893	210	210	210
EBITDA ⁽¹⁾	1,190	108	1,660	1,799	(2,085)	2,900
EBITDA from discontinued operations	502	–	–	–	–	–
Total EBITDA	1,693	108	1,660	1,799	(2,085)	2,900
Write-down of intangible assets	–	–	–	–	–	–
Share based compensation	59	(62)	21	25	34	16
Reorganization and acquisition costs	(114)	171	192	351	435	512
Loss (gain) in fair value of derivative liability	572	1,404	169	(175)	2,220	(2,516)
Other Adjustments	–	–	–	–	–	–
Deferred finance fees	12	12	12	8	23	56
Adjusted EBITDA ⁽¹⁾	1,719	1,633	2,055	2,008	627	968
Adjusted EBITDA from discontinued operations	502	–	–	–	–	–
Total adjusted EBITDA ⁽¹⁾	2,221	1,633	2,055	2,008	627	968
Total comprehensive income (loss)	(274)	(1,493)	165	277	(2,926)	1,611
Comprehensive income (loss) attributable to equity holders	(367)	(1,493)	165	277	(2,926)	1,611
Basic and fully diluted earnings per share	\$ (0.025)	\$ (0.070)	\$ 0.010	\$ 0.013	\$ (0.138)	\$ 0.076
Total assets	45,400	43,609	44,106	45,975	44,527	43,735
Senior funded debt	8,233	7,829	6,926	9,402	9,251	9,004
Total debt and lease obligations, IFRS ⁽³⁾	16,761	18,071	17,729	21,402	22,671	20,054

1. For Non-IFRS Measures see Reconciliation of Non-IFRS Measures Section of this MD&A

2. Accretion interest expense for debenture and promissory note

3. Total debt includes the convertible debenture as reported under IFRS. As at December 31, 2021 the convertible debenture is recorded as \$8,614 under IFRS versus the contractual liability of \$8,264

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

Restructuring and Acquisition Charge

During the third quarterly period ended December 31, 2021, the Company recorded restructuring and acquisition charges of \$512 and \$1,298 in the three and nine month periods ending December 31, 2021. The prior year quarterly and nine month periods ended December 31, 2020 were an expense of \$171 and \$488 respectively. Restructuring charges during the nine months ended December 31, 2021 include \$83 in severance charges and \$129 in professional fees related to system amalgamations and \$270 in legal and bank fees related to the terminated and new credit agreement as of June 30, 2021. For more details on the credit agreement see *note 13 to the Unaudited Condensed Interim Consolidated Financial Statements For the Three and Nine-Month Periods Ended December 31, 2021 and December 31, 2020*. Acquisition charges during the nine months ended December 31, 2021 are comprised of \$127 related to potential acquisitions and \$689 for the strategic review initiated by the Board of Directors.

Balance Sheet

Total assets decreased by \$0.3 million, or 0.6%, during the nine-month period ended December 31, 2021 compared to the prior year end as at March 31, 2021. Cash balances increased during the first nine months of fiscal 2022 by \$1.2 million. The increase cash balances is a result of continued efforts to improve the cash conversion cycle and directly related to a decrease in accounts receivable at December 31, 2021 of \$0.9 million compared to the prior year end as at March 31, 2021.

As of December 31, 2021, trade receivables and unbilled trade receivables, net of the allowance for doubtful accounts, amounted to \$17.1 million compared to \$18.0 million as of March 31, 2021, a decrease of \$0.9 million. The Company is continuing to implement processes and initiatives focused on improving cash conversion cycles and optimizing working capital efficiency. Non-Trade receivables including the current portion and interest on the vendor take back loan arising from the Company's September 30, 2020 sale of its 70% interest in City Wide, decreased from \$0.14 million to \$0.13 million during the third quarter ended December 31, 2021.

Property, plant and equipment (including "right of use" assets) increased by \$0.4 million during the nine month period ended December 31, 2021, largely due to the extension of a property lease from "month-to-month" to a new five-year term, expenditures on uniforms and the replacement of several vehicle leases. The last remaining software application integration arising from 2018 acquisitions within Logixx Security was completed during the second quarter of fiscal 2022. Intangible assets declined during the nine month period ended December 31, 2021 by \$0.6 million due to required amortization of other intangible assets.

BUSINESS SEGMENT OPERATING RESULTS

The Company's operating segments are organized into two divisions consisting of Logixx Security and Avante Security grouped primarily with reference to the nature of the type of customer serviced. Logixx Security focuses on providing enterprise customers with Protective Services, Electronic Security and Monitoring & Managed Services across Canada. Avante Security focuses on providing residential customers with similar services within central Toronto and Muskoka, Ontario.

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The accounting policies of the segments are the same as those of the consolidated entity. The Company's management evaluates overall business segment and divisional performance based on revenue growth, gross profit and gross profit margin. A description of each of the service types and the segment financial results are summarized in the pages that follow.

The services offered by the segments consist of the following:

Protective Services

The Company's Protective Services are focused on offering physical protection to residential, commercial and enterprise clients. Services include guarding, patrol and rapid response, intelligent perimeter protection, secure transport, and international security travel advisory and transport. These services are predominately contractual and recur on a monthly basis. However, within Avante Security, these services also include recurring monthly revenues in respect of rapid response services.

Electronic Security

The Company's Electronic Security services provides a complete suite of home and corporate security services including system design, access control, and video and systems installation and service. These sophisticated security systems are comprised of computer software and hardware and third-party wireless and locating technologies. The Company conducts a security assessment of each customer site and provides various recommendations that range from security industry standards to the Company's recommended highly secure system design. The installation of the security system is performed by the Company's qualified technical staff and, as required, by approved third party sub-contractors. Revenues for this service type are largely project driven, thus revenues from quarter to quarter, and year to year, will vary depending on the timing of project milestones being achieved. There is some seasonality to the residential (i.e., Avante Security) portion of Electronic Security activities as such clients typically schedule project work outside the summer months and year end holiday season.

Monitoring & Managed Services

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

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

Alarm signals are communicated simultaneously through traditional landline facilities to primary response centres and wirelessly to the ACC. The primary response centres are operated by ULC (Underwriters Laboratories of Canada) approved third parties. The ULC is an independent, non-profit standards development organization for product safety testing, certification and inspection.

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Avante Security's Dual Monitoring service provides both traditional ULC Digital Monitoring and real-time wireless monitoring. Both signals are received at our ACC, which has the superior benefit of wireless "anytime anyplace" communication, allowing immediate response to an alarm signal. Avante Security's response vehicles for Toronto-customer locations physically arrive at the clients' premises, typically, within six minutes on average.

The monitoring function is provided by physical on-site inspections and can also be monitored remotely via CCTV and web-cameras. CCTV systems are installed to monitor multiple locations concurrently and to provide a visual record in the event of an incident. Some clients also choose to pay for advanced analytics services utilizing artificial intelligence to detect unusual activity based on the CCTV live feeds sent to the ACC.

Segment Reporting:

The Company's management has determined that the Company's operations are organized into two segments consisting of Logixx Security and Avante Security, grouped primarily with reference to the type of customer serviced.

A summary of segment operating performance during the third quarter ended December 31, 2021 is provided below:

	For the three-months ended December 31, 2021				
	Logixx Security	Avante Security	Corporate	Intersegment eliminations	Total
Revenues	18,639	4,752	-	(105)	\$23,286
Cost of sales	15,954	2,712	-	(105)	18,561
Gross profit	2,685	2,040	-	-	4,725
Direct operating expenses	2,078	1,383	331	(4)	3,788
Other operating expenses	370	166	271	-	807
Total operating expenses	2,448	1,549	602	(4)	4,595
Other (income) expenses	372	8	(2,467)	4	(2,083)
Reorganization and acquisition costs	168	17	327	-	512
Provision for income taxes	22	128	(60)	-	90
Net income (loss)	(325)	338	1,598	-	1,611
Current income tax expense (recovery)	22	-	-	-	22
Deferred income tax expense (recovery)	-	128	(60)	-	68
Interest expense	316	22	70	-	408
Depreciation and amortization	370	166	255	-	791
EBITDA	383	654	1,863	-	2,900
Share based compensation	-	-	16	-	16
Reorganization and acquisition	168	17	327	-	512
Loss (gain) in fair value of derivative liability	-	-	(2,516)	-	(2,516)
Deferred financing fees	-	-	56	-	56
Adjusted EBITDA from continuing operations	551	671	(254)	-	968

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A summary of segment operating performance during the comparative year third quarter ended December 31, 2020 is provided below:

	For the three-months ended Dec 31, 2020				Total
	Logixx Security	Avante Security	Corporate	Intersegment eliminations	
Revenues	\$20,940	\$ 4,328	\$ -	\$ (64)	\$25,204
Cost of sales	17,140	2,544	-	(64)	19,620
Gross profit	3,800	1,784	-	-	5,584
Direct operating expenses	1,993	1,383	504	-	3,880
Other operating expenses	79	177	887	-	1,143
Total operating expenses	2,072	1,560	1,391	-	5,023
Other (income) expenses	435	7	1,441	-	1,883
Reorganization and acquisition costs	121	-	49	-	170
Provision for income taxes	259	67	(327)	-	(1)
Net income (loss)	911	150	(2,554)	-	(1,493)
Current income tax expense (recovery)	198	-	-	-	198
Deferred income tax expense (recovery)	61	67	(327)	-	(199)
Interest expense	289	31	76	-	396
Depreciation and amortization	80	177	949	-	1,206
EBITDA	1,539	425	(1,856)	-	108
Share based compensation	-	-	(62)	-	(62)
Reorganizaton and acquisition	122	-	49	-	171
Loss (gain) in fair value of derivative liability	-	-	1,404	-	1,404
Deferred financing fees	-	-	12	-	12
Adjusted EBITDA from continuing operations	1,661	425	(453)	-	1,633

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A summary of segment operating performance during the nine-month period ended December 31, 2021 and the prior year comparative is provided below:

	For the nine-months ended December 31, 2021					Total
	Logixx Security	Avante Security	Corporate	Intersegment eliminations		
Revenues	\$ 57,044	\$ 13,222	\$ -	\$ -	\$ (258)	\$ 70,008
Cost of sales	47,692	7,710	-	-	(255)	55,147
Gross profit	9,352	5,512	-	-	(3)	14,861
Direct operating expenses	6,304	4,299	707	-	(14)	11,296
Other operating expenses	734	542	841	-	-	2,117
Total operating expenses	7,038	4,841	1,548	-	(14)	13,413
Other (income) expenses	1,076	41	(330)	-	11	798
Reorganization and acquisition costs	196	16	1,086	-	-	1,298
Provision for income taxes	121	436	(167)	-	-	390
Net income (loss)	921	178	(2,137)	-	-	(1,038)
Current income tax expense (recovery)	22	-	-	-	-	22
Deferred income tax expense (recovery)	99	436	(167)	-	-	368
Interest expense	943	72	206	-	-	1,221
Depreciation and amortization	734	542	766	-	-	2,042
EBITDA	2,719	1,228	(1,332)	-	-	2,615
Share based compensation	-	-	76	-	-	76
Reorganization and acquisition	196	17	1,085	-	-	1,298
Loss (gain) in fair value of derivative liability	-	-	(471)	-	-	(471)
Deferred financing fees	-	-	86	-	-	86
Adjusted EBITDA from continuing operations	2,915	1,245	(556)	-	-	3,604

	For the nine-months ended Dec 31, 2020					Total
	Logixx Security	Avante Security	Corporate	Intersegment eliminations		
Revenues	\$ 54,876	\$ 12,489	\$ -	\$ -	\$ (355)	\$ 67,010
Cost of sales	44,623	7,258	-	-	(352)	51,529
Gross profit	10,253	5,231	-	-	(3)	15,481
Direct operating expenses	5,973	4,096	1,316	-	(3)	11,382
Other operating expenses	225	526	2,943	-	-	3,694
Total operating expenses	6,198	4,622	4,259	-	(3)	15,076
Other (income) expenses	1,107	85	2,012	-	-	3,204
Reorganization and acquisition costs	286	-	202	-	-	488
Provision for income taxes	705	158	(813)	-	-	50
Net income (loss)	1,957	366	(5,660)	-	-	(3,337)
Current income tax expense (recovery)	199	-	-	-	-	199
Deferred income tax expense (recovery)	506	158	(813)	-	-	(149)
Interest expense	863	86	207	-	-	1,156
Depreciation and amortization	225	526	2,891	-	-	3,642
EBITDA	3,750	1,136	(3,375)	-	-	1,511
Share based compensation	-	-	52	-	-	52
Reorganizational and acquisition	287	-	201	-	-	488
Loss (gain) in fair value of derivative liability	-	-	1,901	-	-	1,901
Deferred financing fees	-	-	37	-	-	37
Adjusted EBITDA from continuing operations	4,037	1,136	(1,184)	-	-	3,989

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A summary of segment operating performance for the last nine quarters is below:

	FY 2020		FY 2021			FY 2022			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Revenue									
Logixx Security	8,881	13,386	14,722	19,213	20,940	20,077	20,160	18,245	18,639
Avante Security	3,847	3,805	3,708	4,454	4,328	4,653	4,029	4,440	4,752
Intersegment eliminations	(86)	(161)	(226)	(65)	(64)	(24)	(69)	(84)	(105)
Total Revenue	12,642	17,030	18,204	23,602	25,204	24,706	24,120	22,601	23,286
COGS									
Logixx Security	7,789	11,571	12,226	15,256	17,140	16,565	15,973	15,764	15,954
Avante Security	2,122	2,521	2,081	2,634	2,544	2,812	2,321	2,677	2,712
Intersegment eliminations	(86)	(157)	(226)	(62)	(64)	(24)	(68)	(81)	(105)
Total COGS	9,825	13,935	14,081	17,828	19,620	19,353	18,226	18,360	18,561
Gross Profit									
Logixx Security	1,093	1,815	2,496	3,957	3,800	3,512	4,187	2,481	2,685
Avante Security	1,726	1,285	1,627	1,820	1,784	1,841	1,707	1,764	2,040
Intersegment eliminations	(1)	(5)	-	(3)	-	-	-	(3)	-
Total Gross Profit	2,818	3,095	4,123	5,774	5,584	5,353	5,894	4,242	4,725
Gross Margin									
Logixx Security	12.3%	13.6%	17.0%	20.6%	18.1%	17.5%	20.8%	13.6%	14.4%
Avante Security	44.9%	33.8%	43.9%	40.9%	41.2%	39.6%	42.4%	39.7%	42.9%
Total Gross Margin	22.3%	18.2%	22.6%	24.5%	22.2%	21.7%	24.4%	18.8%	20.3%
Total Opex									
Logixx Security			2,179	1,947	2,072	2,200	2,325	2,265	2,444
Avante Security			1,602	1,460	1,560	1,421	1,624	1,657	1,549
Corporate			953	1,912	1,392	1,193	582	364	602
Total Opex	3,676	4,834	4,734	5,319	5,023	4,814	4,532	4,286	4,595
Income (loss) before other income and expenses									
Logixx Security			318	2,010	1,728	1,312	1,862	216	240
Avante Security			24	360	224	420	82	106	492
Corporate			(953)	(1,912)	(1,392)	(1,193)	(582)	(364)	(602)
Income (loss) before other income and expenses	(858)	(1,739)	(611)	455	560	538	1,362	(45)	130
Miscellaneous income (expense)	(118)	110	16	20	44	2	22	3	3
Foreign exchange gain (loss)	(22)	94	(48)	(52)	(127)	225	(76)	28	(28)
Depreciation	251	293	291	313	313	180	417	327	407
Amortization	208	896	914	912	893	893	210	210	210
Amortization on capitalized commission	(5)	71	6	-	-	182	39	47	174
Interest	135	(258)	-	-	-	-	-	-	-
Share based payments	12	35	55	59	(62)	21	25	34	16
Deferred financing fees	-	49	13	12	12	12	8	23	56
Other	21	-	-	-	-	-	-	-	-
Adjusted EBITDA from continuing operations	(377)	(450)	637	1,719	1,633	2,055	2,008	627	968
Adjusted EBITDA from Logixx Security			360	2,015	1,661	1,785	2,020	344	551
Adjusted EBITDA from Avante Security			161	550	425	614	292	278	671
Adjusted EBITDA from Corporate			116	(846)	(453)	(343)	(304)	5	(254)
Adjusted EBITDA from continuing operations	(377)	(450)	637	1,719	1,633	2,055	2,008	627	968

During each of the first three quarters of fiscal 2020, interest expense was included within operating expenses. During the fourth quarter of fiscal 2020, management decided to remove interest expense from the operating expenses to disclose interest expense separately on the income statement, creating a requirement for a year-to-date adjustment in the above table to remove all interest in respect of the first three quarters of that year.

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LOGIXX SECURITY

Logixx Security focuses on providing enterprise customers with Protective Services, Electronic Security and Monitoring & Managed Services across Canada. The segment reflects the activities of prior acquisitions that are now operating under one leadership team and one legal entity. Intelligarde International Inc. ("Intelligarde") was acquired on November 30, 2018, Veridin Systems Canada Inc. ("Veridin") was acquired on September 17, 2018 and A.S.A.P. Secured Inc. ("ASAP") was acquired on December 1, 2019. Intelligarde was renamed as Logixx Security effective June 21, 2019, Veridin legally amalgamated into Logixx Security on December 2, 2019 and ASAP legally amalgamated into Logixx Security on April 1, 2020.

In respect of the Veridin acquisition, an amount of \$95 is held in escrow in respect of certain representations and warranties of the vendors to be released on the first anniversary following the closing date and discussions and litigation proceedings continue with the vendors of Veridin to settle this escrow amount.

In respect of the Intelligarde acquisition, an amount of \$679 (March 31, 2021: \$713) is held in escrow as a guarantee against certain representations and warranties provided by the vendors and was payable at the first anniversary following the closing date. Discussions and litigation proceedings continue with the vendors of Intelligarde to settle this escrow amount and additional claims being made by the Company against the vendors.

In the three-month period ended December 31, 2021 revenue at Logixx Security of \$18.6 million represents a \$2.3 million decrease over the three-month period ended December 31, 2020. This decrease was directly related to reduction in COVID-19 special service revenues, with gross profit at Logixx Security during the third quarter ended December 31, 2021 of \$2.7 million, compared to \$3.8 million during fiscal 2021 third quarter. Logixx Security's gross profit margin was 14.4% for the three-month period ended December 31, 2021 compared to 18.1% for the three-month period ended December 31, 2020. The decrease in gross profit margin is due to a decrease in additional services (or "specials") related to COVID-19 since June 2021.

Revenues during the first nine months of fiscal 2022 at Logixx Security of \$57.0 million represents a \$2.2 million increase over fiscal 2021's first nine months. Gross profit at Logixx Security during the first nine months of fiscal 2022 was \$9.4 million, compared to \$10.2 million during fiscal 2021's first nine months, with gross profit margins of 16.4% compared to 18.7%. The decrease in gross profit margin was due to a decrease in margins related to additional services (or "specials") in the period.

AVANTE SECURITY

Avante Security focuses on providing residential customers with Protective Services, Electronic Security, Monitoring & Managed services within central Toronto and Muskoka, Ontario. The segment reflects the activities of prior acquisitions that are now operating under one leadership team and one legal entity.

INTO-Electronics Inc. was acquired on August 22, 2014 and legally amalgamated into Avante Security on April 1, 2018. LVS Inc. was acquired on April 1, 2015 and legally amalgamated into Avante Security on April 1, 2016. 51% of the outstanding common shares of Architronics Limited ("Architronics") was acquired on March 1, 2017, the remaining 49% of the outstanding common shares was acquired on July 16, 2018 and Architronics was legally amalgamated into Avante Security on October 1, 2018. Watermark Security Inc. ("Watermark") was acquired on August 1, 2018 and was legally amalgamated into Avante Security on October 1, 2018.

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Revenues during the third quarter ended December 31, 2021 at Avante Security of \$4.8 million represents a \$0.4 million increase over the third quarter ended December 31, 2020. The increase in revenue during the third quarter of fiscal 2022 as compared to the third quarter of fiscal 2021 within Avante Security is directly related to protective security additional service (or "specials") as well as rapid response and monitoring recurring monthly revenues, or "RMR". Gross profit at Avante Security during the three-month period ended December 31, 2021 is \$2.0 million, compared to \$1.8 million during the three-month period ended December 31, 2020, with gross profit margins of 42.9% compared to 41.2%.

Revenues during the first nine months of fiscal 2022 at Avante Security of \$13.2 million represents a \$0.7 million increase over fiscal 2021's first nine months. The increase in revenue during the first nine months of fiscal 2022 within Avante Security is directly related to equipment implementation restrictions from the COVID-19 pandemic during fiscal 2021 and additional protective security specials. Gross profit at Avante Security during the first nine months of fiscal 2022 is \$5.5 million, compared to \$5.2 million during fiscal 2021's first nine months, with gross profit margins of 41.7% compared to 41.9%.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal sources of liquidity are cash provided from operations and credit available under its revolving credit facility. The Company expects that continued cash flow from operations, together with cash and cash equivalents on hand, and available credit facilities, will be sufficient to fund its requirements for investments in working capital and capital assets over the next twelve months in the ordinary course of business. In the event that the Arrangement Agreement entered into with SSC (described in the "Subsequent Events" section of this MD&A) is terminated, in certain circumstances the Company may become obligated to pay certain reimbursement of expenses to SSC and other transaction-related costs, which could result in significant constraints on the Company's available liquidity and capital resources. The "Risk and Uncertainties" section of this MD&A outlines additional risk factors related to the entering into of the Arrangement Agreement.

In the near term, the Company intends to finance its growth strategy through one or more of the issuances of equity and equity-related instruments or the expansion of its senior credit facilities. Refer to Risks and Uncertainties section of this MD&A for further discussion of financing and risks associated with the execution and financing of the Company's growth strategy.

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Cash Flows

Cash flows during the nine-month period ended December 31, 2021 and December 31, 2020 from continuing operations are summarized as follows:

\$ in thousands	Dec 31, 2021	Dec 31, 2020
Cash Inflows (Outflows) by Activity		
Cash flow from operations	2,426	3,130
Non-cash working capital	(1,109)	(2,211)
Net operating activities	1,317	919
Financing activities	488	(2,544)
Investing activities	(583)	684
Net cash inflows (outflows) from continuing operations	1,222	(941)
Net cash inflows (outflows) from discontinued operations	-	161
Net cash inflows (outflows)	1,222	(780)

Operating Activities

Cash flow from operations before working capital was \$2.4 million during the first nine months of fiscal 2022 as compared to \$3.1 million of cash flow from operations before working capital during the first nine months of fiscal 2021. Cash flow used in Operating Activities from continuing operations during the first nine months ended December 31, 2021 was \$1.3 million as compared to \$0.9 million of cash from Operating Activities during the first nine months ended December 31, 2020. Cash used in non-cash working capital was \$(1.1) million during the nine-month period ended December 31, 2021 as compared to \$(2.2) million used to fund non-cash working capital during the nine-month period ended December 31, 2020. The reduction of contract liabilities was due, in part, to progress made by Avante Security to transition its invoicing from annual to monthly cycles. Accounts receivable decreased in the third quarter ending December 31, 2021 as the Company continues to focus on improving its cash conversion cycles.

Financing Activities

Cash provided from financing activities was \$0.5 million during the nine-months ended December 31, 2021, compared to cash used in financing activities from continuing operations of \$(2.5) million during the nine-months ended December 31, 2020. Cash provided from financing activities during the first nine months of fiscal 2021 included net drawings on the Company's senior credit facilities of approximately \$13.5 million which included \$8.1 million to repay the senior debt with the Company's former bank (refer to Note 13 to the Unaudited Condensed Interim Consolidated Financial Statements for the three and nine-month periods ended December 31, 2021 and 2020), \$0.5 million in financing fees and \$0.2 million promissory note from the acquisition of ASAP Secured (refer to note 18b to the Unaudited Condensed Interim Consolidated Financial Statements for the three and nine month periods ended December 31, 2021 and 2020). Cash provided from financing activities is offset by loan repayments of 11.0 million as well as principal lease payments of \$0.6 million. Interest expensed on bank loans, the convertible debenture and leases in the first nine months ending December 31, 2021 was \$0.8 million. On June 30, 2021, the Company replaced its former bank and that lender required the Company to deposit \$0.585 million in the form of secured Guaranteed Investment Certificates to secure an outstanding letter of credit and obligations

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under a corporate credit card program. During the third quarter ending December 31, 2021, the former bank released the last of the secured Guaranteed Investments Certificates.

Investing Activities

Cash used in investing activities was \$(0.6) million during the first three quarters ended December 31, 2021 compared to \$0.7 million used in investing activities from continuing operations during the first three quarters ended December 31, 2020. Most of the capital expenditures during the first nine months of fiscal 2022 were spent on new uniforms as well as software application integrations during the second quarter of fiscal 2022.

The cash position as at December 31, 2021 was \$2.8 million compared to \$1.6 million as at March 31, 2021. The increase in cash during the first nine months ended December 31, 2021 is mainly due to cash flow from operations offset by increased non-cash working capital requirements and cash used to reduce funded indebtedness during the year. In addition, as described above under "Financing Activities", on June 30, 2021 the Company drew on the new credit facility in order to fund full repayment of obligations owing to the former bank, including the requirement to lodge \$0.585 million of security for an outstanding letter of credit and obligations under a corporate credit card facility, of which \$NIL remains as security with the former bank at December 31, 2021.

Senior Funded Debt

The Company's senior funded debt consists of advances under its senior secured credit facilities from a bank, and vehicles loans. As at December 31, 2021 and March 31, 2021, such balances aggregated as follows:

\$ in thousands	Dec 31, 2021	Mar 31, 2021
Revolving credit facility	\$ 3,650	\$ -
Term credit facility	5,700	6,491
Deferred Financing Fees	(374)	(135)
Mortgage	-	354
Promissory note due to ASAP vendors	-	155
Vehicle loans	28	61
Total senior funded debt	\$ 9,004	\$ 6,926
Cash and cash equivalents	2,845	1,624
Net senior funded debt	\$ 6,159	\$ 5,302

The Company's senior funded debt totaled \$9.0 million as at December 31, 2021, versus \$6.9 million as at March 31, 2021, representing a net increase of \$2.1 million during the first nine months of fiscal 2022 ended December 31, 2021. This was partially due to the transition to a new bank from the former bank as described above under "Financing Activities". During the nine-month period ended December 31, 2021, on a net basis, the Company borrowed \$3.6 million of senior debt under the Company's revolving credit facility, borrowed \$5.7 million under the new term credit facilities and fully repaid the Acquisition credit facility and mortgage provided by the Company's former bank, as well as related break fees on fixed-rate bank debt, bank structuring fees and legal fees related to the transition of banking arrangements on June 30, 2021.

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

\$ in thousands	As at Dec 31, 2021		
	Total Amount	Borrowing	Amount Available
Revolving credit facility ¹	\$ 8,000	\$ 3,650	\$ 4,350
Term credit facilities	9,000	5,700	3,300
Mortgage	-	-	-
	\$ 17,000	\$ 9,350	\$ 7,650

1. Amount available is before \$200 performance Letter of Credit issued to a Logixx Security customer.

On June 30, 2021, the Company entered into a senior secured credit agreement with a bank that fully replaced the Company's senior secured banking arrangements and mortgage provided by its former bank. The new credit agreement provides an \$8,000 revolving credit facility ("Facility A"), a \$10,000 non-revolving term loan facility ("Facility B") and a \$3,000 delayed-draw non-revolving term loan credit facility ("Facility C"), each with a three-year maturity date ending May 19, 2024. The Company may draw upon Facility A, subject to a borrowing base consisting of eligible cash, accounts receivable, and inventory. The Company may draw upon Facility B in two tranches; Tranche 1 has a limit of \$6,000 and Tranche 2 had a limit of \$4,000. The ability to draw on Tranche 2 expired on July 31, 2021, reducing the available limit on that tranche to zero. Facility C is available until December 31, 2022, to fund delayed purchase price payments or other funding requirements applicable to future permitted acquisitions. Repayment of drawings under the non-revolving term loan and delayed draw credit facilities will occur at the rate of 2.50% of the original principal balance per fiscal quarter, with the remaining balances due on the maturity date.

In accordance with the terms of the senior credit facilities, the Company must maintain certain covenants and ratios based on Non-IFRS financial measures on a rolling four-quarter basis, including a minimum Fixed Charge Coverage Ratio of 1.10 times and a maximum Senior Funded Bank Debt to Adjusted EBITDA ratio of 3.25 times with a permitted two-quarter step up, following a permitted acquisition, of 3.50 times. As of December 31, 2021, the Company was in compliance with such financial covenants. Interest and standby fees in respect of the credit facilities are subject to a leverage-ratio based pricing grid and, as at December 31, 2021, interest was charged at the bank's prime rate plus 0.25%, and standby fees on the unused portions of the credit facilities of 0.44% were applicable.

The Company is focused on managing both its senior debt and its leverage ratios with a long-term goal of achieving a Net Senior Funded Bank Debt to Adjusted EBITDA ratio of less than 3.00 times, and the Company has achieved that objective as of March 31, 2021 and this has continued during fiscal 2022.

Convertible Debentures

On November 13, 2019, the Company entered an indenture and a subscription agreement pursuant to which Fairfax Financial Holdings Limited, through certain of its affiliates (collectively, "Fairfax"), invested \$8.264 million in the Company through a private placement of 7% unsecured convertible debentures ("Convertible Debentures"). Such debentures mature on November 27, 2024 and are guaranteed by the Company's wholly-owned subsidiaries. The debenture facility was made available by way of two tranches but availability of the second tranche expired on August 27, 2020. Total professional and legal fees of \$301 were incurred on the transaction. The issuance of 8,264 Convertible Debentures occurred on November 27, 2019 and net proceeds from that issuance was used to fund the ASAP acquisition that closed on December 1, 2019.

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Fairfax has the right to convert issued Convertible Debentures into common shares of the Company at a conversion price of \$1.56 per share. So long as Fairfax owns, directly or indirectly through its conversion right, at least 10% of the Company's common shares, Fairfax has the right to maintain the same percentage ownership of the Company's common shares subsequent to an issuance of the Company's common shares as held by Fairfax immediately prior to such issuance. If Fairfax owns more than 10% of the Company's common shares, Fairfax is entitled to nominate one member to the Company's board of directors.

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. As of December 31, 2021, the Company was in compliance with such financial covenants.

On February 16, 2022, the Company received notice from Fairfax to convert all of the outstanding convertible debentures issued by the Company into 5,297,434 common shares of the Company.

Promissory Note

Pursuant to the Company's purchase agreement in respect of ASAP, the Company entered into a Promissory Note due on March 4, 2021 or the note would become subject to interest if unpaid on that date. The amount payable to the vendors of ASAP under this note was to range from \$NIL to \$2.63 million depending on the gross profit performance of the acquired customers of the business over the first twelve months from acquisition closing on December 1, 2019 and to settle claims by the Company for breaches of representations and warranties of the vendors of ASAP. With the completion of that twelve-month period and settlement of certain claims, in March 2021 the Company paid the Promissory Note of \$2,625, net of \$37 for an agreed purchase price reduction, and \$155 for potential third-party litigation claims. The remaining \$155 was settled with interest in April 2021, net of legal fees paid by the Company on behalf of the vendor. These net payments were funded by drawing on the unused portion of the \$10,000 acquisition facility provided by Company's former senior secured lender.

Capital Stock

The authorized capital of the Company consists of an unlimited number of common shares. As at December 31, 2021, there were 21,192,004 common shares issued and outstanding, which is unchanged since March 31, 2021. Subsequent to the conversion of the Convertible Debentures on February 16, 2022, the Company has 26,489,438 common shares outstanding (see "Subsequent Events").

Issuance of Stock Options

As at December 31, 2021, there were a total of 1,360,000 options outstanding to purchase an equivalent of common shares, with a weighted average exercise price of \$1.98, expiring at various dates between February 2022 and January 2025. During the three-month period ended December 31, 2021, there were no options granted or exercised, and 30,000 were forfeited. During the nine-month period ended December 31, 2021, there were no options granted or exercised, and 80,000 were forfeited. Should the outstanding options that were exercisable at December 31, 2021 be exercised, the Company would receive proceeds of approximately \$1.60 million.

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Issuance of 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 the agreed future valuation date scaled downwards for vesting criteria linked to the Company's VWAP in effect during those thirty days.

On November 25, 2020, 200,000 PSUs were granted to the Company's Chief Executive Officer, with a valuation date of March 31, 2023, and vesting at 0% if the Corporation's 30-day share price VWAP ending March 31, 2023 is less than \$3.39 per share, 50% if that VWAP is greater than or equal to \$3.39 per share, 75% if that VWAP is greater than or equal to \$3.75 per share and 100% if that VWAP is greater than or equal to \$4.00 per share. The award, if any, will be settled in cash.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on its results of operations or financial condition. A performance letter of credit of \$200 was issued to a customer as beneficiary on behalf of the Company by its former bank during February 2020 and was replaced in July 2021 (refer to Note 13 to the Unaudited Condensed Interim Consolidated Financial Statements for the three and nine-month periods ended December 31, 2021 and 2020). The letter of credit expires within one year of issue subject to an automatic renewal clause. The letter of credit is considered as utilization of the Company's revolving credit facility limit.

Related Party Transactions

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

The Company entered into a contract with Sissano Inc. effective May 1, 2018, a private company controlled by a significant shareholder to provide consulting services for the Company. The Company incurred \$231 of expense during the nine-month period ended December 31, 2021 (December 31, 2020: \$153).

The Company entered into a contract with XpressChek Inc., a private company controlled by a significant shareholder and officer of the Company to provide services for the Company. During the nine-month period ended December 31, 2021, the Company incurred \$10 (December 31, 2020: \$4) for these services.

The Company provides service to, and receives service from, RSPNDR, a private company controlled by a significant shareholder and officer of the Company. During the nine-month period ended December 31, 2021, the company incurred \$38 for these services and billed \$33 (December 31, 2020: \$NIL and \$NIL).

The Company incurred a receivable from Resilience Capital, a private company controlled by a significant shareholder and officer of the Company. The receivable is \$13 at December 31, 2021 (December 31, 2020: \$NIL)

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RECONCILIATION OF NON-IFRS MEASURES

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

EBITDA and Adjusted EBITDA

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

The Company believes that Adjusted EBITDA is a meaningful financial metric, as it measures cash generated from operations which the Company can use to fund working capital requirements, service interest and principal debt repayments and fund future growth initiatives. The calculation of EBITDA and Adjusted EBITDA over each of the last nine fiscal quarters is provided below:

\$ in thousands	2020		2021			2022			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Net income (loss)	(1,568)	(205)	(1,316)	(529)	(1,493)	166	277	(2,926)	1,611
Interest expense	37	104	85	98	96	87	135	98	100
Accretion interest expense ⁽¹⁾	98	253	285	292	300	296	290	290	308
Income taxes	(318)	(659)	(53)	104	(1)	(144)	431	(131)	90
Amortization on capitalized commission	(5)	71	6	–	–	182	39	47	174
Depreciation on capital assets	251	293	291	313	313	180	417	327	407
Amortization	208	896	914	912	893	893	210	210	210
EBITDA	(1,297)	753	212	1,190	108	1,660	1,799	(2,085)	2,900
Write-down of intangible assets	–	172	–	–	–	–	–	–	–
Share based compensation	12	35	55	59	(62)	21	25	34	16
Reorganization and acquisition costs	500	1,140	431	(114)	171	192	351	435	512
Loss (gain) in fair value of derivative liability	389	(2,599)	(75)	572	1,404	169	(175)	2,220	(2,516)
Deferred financing	–	49	13	12	12	12	8	23	56
Other	21	–	–	–	–	–	–	–	–
Adjusted EBITDA	(377)	(450)	637	1,719	1,633	2,055	2,008	627	969
Adjusted EBITDA from discontinued operations	50	(9)	120	502	–	–	–	–	–
Total Adjusted EBITDA	(327)	(459)	757	2,221	1,633	2,055	2,008	627	968

(1) Accretion interest expense for convertible debenture and promissory note due to the vendors of ASAP

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

- *Loss (gain) in fair value of derivative liability* – The fair value of the Company's derivative liability relates to the estimated value for accounting purposes of the common share conversion right granted to the holders of the Company's unsecured, 7% Convertible Debentures until such debentures mature on November 27, 2024. Such value will fluctuate depending on the share price of the Company's common shares, the time remaining to the debentures' maturity date and the volatility of the Company's common share price. The loss, or gain, during the reporting period represents the increase, or decrease, in such value during the reporting period. Notwithstanding the loss or gain recorded during each fiscal quarter, the contractual liability of the Convertible Debentures remains unchanged at \$8.264 million plus interest.

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- *Share based payments* – Share based incentive compensation expense can vary based on the timing of when awards are issued and forfeitures. All option grants are approved by the Board of Directors of the Company from the option pool approved by the shareholders at the most recent annual general meeting of the Company's shareholders.
- *Reorganization and acquisition costs* – During the third quarter and first nine months of fiscal 2022, the Company recorded an expense of \$0.511 million and an expense of \$1.299 million of reorganization costs and restructuring charges. These are comprised of fees to settle prior acquisition escrows and legal amalgamation and rebranding of ASAP and Logixx Security of \$0.2 million, \$0.7 million for the strategic review, and \$0.27 million in legal and bank cancellation fees. This compares to the third quarter and first nine months of fiscal 2021, the Company recorded an expense of \$0.171 million and an expense of \$0.488 million of reorganization costs and restructuring charges. These are mainly comprised of fees to settle prior acquisition escrows and legal amalgamation and rebranding of ASAP and Logixx Security.

Gross Profit and Gross Profit Margin

Gross Profit is determined as revenues less cost of sales. Gross Profit Margin is determined as the ratio of Gross Profit to revenues.

RISK AND UNCERTAINTIES

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

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

Significant Shareholders

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

Risk of Dilution from Possible Future Offerings

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

Financing and Refinancing Risks

Additional funding will be required to execute future investment and growth opportunities and to refinance existing borrowings and working capital requirements. There is no assurance that such funds will be available

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to the Company, on acceptable terms or in required amounts. Any limitations on the Company's ability to access the financial markets for additional funds could have a material adverse effect on the Company's ability to execute its growth strategy and to refinance existing indebtedness. In the event the Arrangement Agreement is terminated in certain circumstances, including if the shareholders of the Company do not approve the proposed SSC transaction (see Subsequent Events - "Sale of Company" section of this MD&A), the Company would be required to pay significant reimbursement of expenses of SSC and to absorb significant advisory fees related to the transaction. This could limit the Company's ability to address financing requirements. Additional details are included in the Arrangement Agreement Risks section of this MD&A.

Ability to Achieve and Manage Growth

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

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

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

In the event the Arrangement Agreement is terminated in certain circumstances, including the Company's shareholders voting against the proposed SSC transaction (refer to additional details in the Subsequent Events - "Sale of Company" section of this MD&A), the Company's ability to fund growth is further constrained. Refer also to additional details provided in the Arrangement Agreement Risks section of this MD&A.

Market Competition

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

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Key Personnel

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

Government Regulations and Licensing

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

Information Technology Systems

The Company is dependent on its information technology ("IT") infrastructure. Significant problems with the Company's infrastructure, such as telephone or IT systems failures, cyber security breaches, or failure to develop new technology platforms could have a material adverse effect on the business, financial condition, results of operation and cash flow of the Company.

Attrition of Accounts or Loss of Large Customers

Customer attrition of residential and loss of large enterprise customers results from a variety of different factors, including relocation of subscribers, financial difficulties experienced by the customer, competition, corporate mergers of customers, and other socio-economic factors. Demographic factors and credit quality of customers underwritten will have an impact on overall attrition levels. Within Logixx Security, one corporate customer under contract represented 16.4% of the Company's consolidated revenues during the fiscal year ended March 31, 2021 and 10.8% during the nine months ended December 31, 2021. Any significant increase in the Company's attrition rates, or loss of customer contracts, could have a materially adverse effect on the Company's business, financial condition, or results of operations. The prolonged duration of the strategic review initiated by the Company's Board of Directors in August 2021 combined with the proposed SSC transaction (see Subsequent Events - "Sale of Company" section of this MD&A), elevates the risk of loss of large customers.

Credit Risk

The Company sells all of its services within Canada and a significant portion of its revenues are generated on a contractual basis pursuant to agreed payment terms. Due to the large number of commercial and residential clients that the Company deals with, and their economic distribution, the credit risk concentration to which the Company is exposed remains limited. However, failure to pay by a significant commercial customer could have a material adverse effect on the Company's cash flow and financial condition.

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Reputational Risk

The Company depends on its reputation for high quality security services to be successful. Damage to the Company's reputation caused by a widely publicised security incident affecting the Company's clients and their installations could affect our reputation. The Company's management team constantly monitors security risk surrounding the Company's operations and the Company has instituted communication protocols to prevent or reduce negative publicity.

Inflationary Risk

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

The Company is experiencing inflationary pressures due to labour shortages, supply chain issues and general expense increases, which are negatively impacting the business. Given the current labour environment, the Company is hiring and retaining staff at higher costs, which is adversely impacting the Company's margins and earnings.

COVID-19

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 this MD&A, the majority of 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 adverse impact to operations. In general, while certain customers have reduced their requirements for the Company's services, in prior periods the COVID-19 pandemic provided incremental revenues and gross profits for the Company on a net basis. During the second quarter of fiscal 2022, the Company began to experience an unwinding of such COVID "special" revenues, as compared to the prior four fiscal quarters. Additionally, increased labour cost and supply chain delays attributable to the ongoing economic uncertainty caused by the pandemic has negatively impacted the Company's cost of goods sold and continues to delay electronic services installations in the three-month period ending December 31, 2021.

There have been no material revisions to the nature and number of estimates and judgements made in respect of the Company's financial statements of prior periods. However, the effects of COVID-19 have required significant judgements and estimates to be made in the preparation of the Company's financial statements.

Additionally, the effects of COVID-19 may require 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 as well as other estimates and judgement used in the preparation of the Company's financial statements. To date no revisions to management's estimates and judgements used in the preparation of the Company's financial statements have been necessary.

Due to rapid developments and uncertainty surrounding COVID-19 or the possible ending of COVID-19, it is not possible to predict the impact that COVID-19 will have on the Company's operations or financial results in the future, its suppliers, and its customers. Additionally, it is possible the Company's operations and consolidated financial results will change in the near term as a result of COVID-19 or the ending of COVID-19.

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Arrangement Agreement Risks

As a result of the Company entering into of the Arrangement Agreement on February 8, 2022 (refer to the Subsequent Events section of this MD&A), there are risks relating to the Arrangement that we deem material including, but not limited to, the following:

The Arrangement may divert the attention of Management.

The Arrangement could cause the attention of the Company's management to be diverted from the day-to-day operations of its business. These disruptions could be exacerbated by a delay in the completion of the Arrangement and could have an adverse effect on the business, operating results or prospects of the Company, regardless of whether the Arrangement is ultimately completed.

The Arrangement Agreement may be terminated in certain circumstances.

Each of the Company and the SSC has the right to terminate the Arrangement Agreement in certain circumstances. Accordingly, there is no certainty, nor can the Company provide any assurance, that the Arrangement Agreement will not be terminated by either the Company or SSC before the completion of the Arrangement. For example, SSC has the right, in certain circumstances, to terminate the Arrangement Agreement if changes occur that have a material adverse effect on the Company which is incapable of being cured on or prior to the outside date of the Arrangement.

The Termination Fee and the expense reimbursement provisions provided for under the Arrangement Agreement if the Arrangement Agreement is terminated in certain circumstances may discourage other parties from attempting to acquire the Company.

Under the Arrangement Agreement, the Company may be required to pay the Termination Fee in the amount of \$1,800,000 in the event the Arrangement Agreement is terminated in certain circumstances, following the occurrence of a Termination Fee event. Additionally, in the event the Company's shareholders do not approve the SSC transaction, an expense reimbursement to SSC in the amount of 2.5 times actual expenses (up to a maximum of \$750,000) will be payable by the Company. Further, in the event the Arrangement is terminated, the Company would also be required to absorb the costs of other advisory and related expenses in the expected range of \$800,000 to \$1,000,000. These costs and expenditures, if incurred, would further constrain the Company's available liquidity and capital resources.

If the Company is unable to complete the Arrangement or if completion of the Arrangement is delayed, there could be an adverse effect on the Company's business, financial condition, operating results and the price of its Shares.

The completion of the Arrangement is subject to the satisfaction of certain closing conditions, including the approval by Shareholders and receipt of court approval. A substantial delay in obtaining satisfactory approvals and/or the imposition of unfavourable terms or conditions in the approvals to be obtained could have an adverse effect on the business, financial condition or results of operations of the Company or could result in the termination of the Arrangement Agreement. If the Company is unable to complete the Arrangement, the Company could be subject to various adverse consequences, including that the Company would remain liable for significant costs relating to the Arrangement, including, among others, legal, accounting, cost reimbursement, financial advisory and printing expenses.

While the Arrangement is pending, the Company is restricted from taking certain actions.

Under the Arrangement Agreement, the Company must generally conduct its business in the ordinary course, and before the completion of the Arrangement or termination of the Arrangement Agreement, the Company is

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restricted from taking certain specified actions without the consent of SSC. These restrictions may prevent the Company from pursuing attractive business opportunities that may arise prior to the completion of the Arrangement. As the Arrangement is dependent upon the satisfaction of certain conditions, its completion is subject to uncertainty and the Company's customers and suppliers may delay or defer decisions concerning the Company, which could have a negative impact on the Company's business and operations, regardless of whether the Arrangement is ultimately completed. Under certain circumstances, there could be negative and irreparable impacts on the Company's business relationships (including with current and prospective employees, customers, suppliers, lenders, partners and regulators, among others).

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Financial instruments of the Company consist of cash, accounts receivable, a promissory note due from the purchasers of the Company's ownership interest in City Wide, accounts payable and accrued liabilities, bank indebtedness, the Convertible Debentures and vehicle loans and obligations under finance leases. There are no significant differences between the carrying amounts of the items reported on the balance sheet and their estimated fair values other than as set out in Note 18(c) "Liquidity Risk" of the Company's unaudited condensed interim consolidated financial statements and notes thereto as at and for the three-month and nine-month periods ended December 31, 2021 and 2020.

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

For additional details on the Company's financial instruments, including the amount and classification of gains and losses recorded in the Company's consolidated financial statements, summary of fair values, notional balances, effective rates and terms, and significant assumptions used in each calculation of the fair value of the Company's financial instruments, refer to Liquidity and Capital Resources in this MD&A and see Notes 7, 13, 14, 18, and 19 to the unaudited condensed interim consolidated financial statements for the three and nine months ended December 31, 2021 and 2020.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Critical accounting estimates used in the preparation of the condensed interim consolidated financial statements include the Company's estimate of the value of the Company's share-based compensation, determining whether the Company exercises control over entities in order to consolidate, provision for obsolescence of inventory, estimates of work in progress, depreciation of property, plant and equipment, amortization of intangible assets, allowance for doubtful accounts, amounts recoverable from vendors of companies acquired, potential obligations under granted Performance Share Units, fair value adjustments on

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Convertible Debentures and investments, and recoverability of tax credits. These estimates are based on the Company's management's best judgement and could be affected by significant factors that are out of the Company's control. Actual results could differ from these estimates. Future events and risk factors could result in changes in these estimates and assumptions.

The Company uses the Black-Scholes model to determine the fair value of options and the equity component of the Convertible Debentures. The main factor affecting such estimates is the stock price volatility used. The Company uses historical price data and comparable entities in the estimate of future volatilities. Additional factors affecting share-based compensation include estimates of when stock options might be exercised. The timing of the exercise of options is out of the Company's control and will depend upon a variety of factors, including the market value of the Company's shares and the financial objectives of the share-based instrument holders. Similar factors and estimates are used to estimate the present value of the potential liability on March 31, 2023 related to the Performance Share Units based on a Monte Carlo simulation valuation model.

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

CHANGES IN ACCOUNTING POLICIES

The Company's accounting policies are as disclosed in Note 3 of the Company's audited annual consolidated financial statements for the years ended March 31, 2021 and 2020. There were no material changes to the Company's accounting policies during fiscal 2022 or during fiscal 2021. The Company opted to change the accounting treatment of uniform acquisitions on April 1, 2020. Uniform expense that was previously included in the statement of income (loss) and comprehensive loss are now capitalized and depreciated over the useful life. On April 1, 2020, the Company changed the accounting estimates of the Trade Name intangible assets related to the acquisitions of Veridin and Intelligarde. The amortization period was reassessed from the original estimate of ten years down to three years.

IFRS Issued Standards Not Yet Adopted

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

IAS 1: Presentation of Financial Statements

In January 2020, IASB issued Classification of Liabilities as Current or Non-current, which amends IAS 1 - Presentation of Financial Statements. The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of their recognition. It clarifies that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period and specifies that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. It also introduces a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The implementation of these amendments is not expected to have a significant impact to the Company's classification of liabilities.

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IFRS 3: Business Combinations

On May 14, 2020 the IASB published an amendment to IFRS 3 Business Combinations, and is effective on or after January 1, 2022, with earlier application permitted. The amendment has an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination. The Company did not have a business combination in this fiscal period, but will adopt the amendment for future business combinations.

IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors

In February 2021, the IASB issued narrow-scope amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8"). The amendments to IAS 8 clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. That distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The implementation of these amendments is not expected to have a significant impact to the Company.

IAS 12: Income Taxes

In May 2021, the IASB issued targeted amendments to IAS 12 – Income Taxes to specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, companies are exempt from recognizing deferred tax when they recognize assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations transactions for which companies recognize both an asset and a liability. The amendments clarify that the exemption does not apply and that companies are required to recognize deferred tax on such transactions. The aim of the amendments is to reduce diversity in the reporting of deferred tax on leases and decommissioning obligations. The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with early application permitted. The Company is assessing the potential impact of the amendment.

IAS 16: Property, Plant and Equipment

The IASB published an amendment to IAS 16 Property, Plant and Equipment on May 14, 2020 that will apply retrospectively to financial statements beginning on or after January 1, 2022. Early adoption is permitted. The amendment clarifies the accounting for the net proceeds from selling any items produced while bringing an item of property, plant and equipment into use. The Company is currently evaluating the impact of the standard on its consolidated financial statements and does not expect any retrospective changes at this time.

IAS 37: Provisions, Contingent Liabilities and Contingent Assets

On May 14, 2020, the IASB published Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37). These amendments clarify which costs should be included in determining the cost of fulfilling a contract when assessing whether a contract is onerous. The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Early application is permitted. The Company is assessing the potential impact of these amendments and does not expect an impact at this time.

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SUBSEQUENT EVENTS

Sale of Company

On February 8, 2022, the Company entered into a definitive arrangement agreement (the "Arrangement Agreement") with SSC Security Services Corp. ("SSC") pursuant to which SSC has agreed to acquire all of the Company's common shares by way of a statutory plan of arrangement (the "Arrangement"). Under the terms of the Arrangement Agreement, shareholders of the Company will receive \$0.52 in cash plus 0.4155 common shares of SSC for each common share of the Company (the "Shares") to be paid on completion of the Arrangement. SSC's common shares are listed on the TSX Venture Exchange under the symbol SECU.

The Arrangement will be carried out by way of a court-approved plan of arrangement under the Business Corporations Act (Ontario) OBCA. The Arrangement requires the approval of the holders of Shares representing at least two-thirds of all votes cast at a special meeting of shareholders anticipated to be held in April 2022 and a majority of such votes excluding the votes required to be excluded by applicable securities laws.

The Arrangement is also subject to the satisfaction of certain closing conditions customary in transactions of this nature, including TSX Venture Exchange approval and the approval of the Ontario Superior Court of Justice (Commercial List). The Arrangement is not subject to any financing condition. The Company is subject to customary non-solicitation provisions under the Arrangement Agreement.

Under the Arrangement Agreement, the Company may be required to pay the Termination Fee in the amount of \$1,800,000 in the event the Arrangement Agreement is terminated in certain circumstances, following the occurrence of a Termination Fee event. Additionally, in the event the Company's shareholders do not approve the SSC transaction, an expense reimbursement to SSC in the amount of 2.5 times actual expenses (up to a maximum of \$750,000) will be payable by the Company. Further, in the event the Arrangement is terminated, the Company would also be required to absorb the costs of other advisory and related expenses in the expected range of \$800,000 to \$1,000,000.

If all required approvals are obtained, the Transaction is expected to close in April 2022.

Conversion of Convertible Debentures

On February 17, 2022, the Company announced that it received notice from Fairfax Financial Holdings Limited, through certain of its affiliates (collectively "Fairfax") to convert all of the outstanding convertible debentures issued by the Company into common shares of the Company. After giving effect to the conversion on the effective date at \$1.56 per share, an aggregate of 5,297,434 common shares were issued to Fairfax, representing 19.998% of all common shares outstanding including the newly issued shares. The effective date was February 16, 2022 and the Company paid interest due in respect of the time from its last interest payment on December 31, 2021, up to and including the conversion's effective date. During its fourth fiscal quarter ending March 31, 2022, the Company will record a net gain from accounting purposes of approximately \$0.3 million as a consequence of this conversion.

ADDITIONAL INFORMATION

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