

AVANTE LOGIXX INC.

Condensed Interim Consolidated Financial Statements

Unaudited for the three-month period ended June 30, 2022 and 2021

NOTICE TO READER OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The condensed interim consolidated financial statements of Avante Logixx Inc. for the three-month period ended June 30, 2022 are the responsibility of the Company's Management. These financial statements have not been reviewed on behalf of the shareholders by the independent external auditors of the Company. The condensed interim consolidated financial statements have been prepared by Management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with International Financial Reporting Standards.

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AVANTE LOGIXX INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT JUNE 30, 2022 AND MARCH 31, 2022

	June 30, 2022	Mar 31, 2022
	<i>Unaudited</i>	
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 12,085,490	\$ 354,082
Accounts receivable (note 8)	4,379,454	3,519,628
Inventories (note 9)	846,143	936,246
Contract assets (note 6b)	590,686	564,669
Prepaid expenses	236,303	250,690
	18,138,076	5,625,315
Assets of disposal groups classified as held for sale	-	29,334,844
	18,138,076	34,960,159
NON-CURRENT ASSETS		
Property, plant & equipment (note 10)	1,507,398	1,737,693
Capitalized commissions (note 11)	10,435	13,359
Deferred tax assets	1,159,103	1,232,196
Intangible assets (note 12a)	1,589,287	1,677,841
Goodwill (note 12b)	2,971,997	2,971,997
Long term notes receivable (note 19c)	350,000	350,000
	\$ 25,726,296	\$ 42,943,245
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	3,775,896	6,163,438
Bank indebtedness (note 14)	-	443,379
Obligations under lease (note 15)	370,101	505,580
Contract liabilities (note 6b)	2,021,708	2,252,203
	6,167,705	9,364,600
Liabilities directly associated with assets classified as held for sale	-	8,519,399
	6,167,705	17,883,999
NON-CURRENT LIABILITIES		
Obligations under lease (note 15)	354,154	335,167
Long term portion of bank indebtedness (note 14)	-	8,421,671
Deferred tax liability	213,828	250,415
	567,982	9,007,253
	6,735,687	26,891,252
SHAREHOLDERS' EQUITY		
Share capital (note 16a)	30,138,388	30,138,388
Contributed surplus (note 16b)	1,078,022	1,643,982
Accumulated deficit	(12,225,801)	(15,730,377)
	18,990,609	16,051,993
	\$ 25,726,296	\$ 42,943,245

Signed "Emmanuel Mounouchos" Director Signed "Leland Verner" Director
See accompanying notes to the condensed interim consolidated financial statements

AVANTE LOGIXX INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE
INCOME
FOR THE THREE-MONTH PERIOD ENDED JUNE 30, 2022 AND JUNE 30, 2021

	For the three-month period ended	
	Jun 30, 2022	Jun 30, 2021
	<i>(Unaudited)</i>	<i>(Restated)</i>
Revenues from continuing operations (note 6a)	\$ 4,567,765	\$ 4,029,011
Cost of sales	2,572,814	2,252,611
Gross profit	<u>1,994,951</u>	<u>1,776,400</u>
Operating expenses		
Salaries, benefits and commissions	909,475	1,448,098
Administration	631,934	646,369
Depreciation of capital assets (note 10)	156,876	239,140
Amortization of intangible assets (note 12)	88,554	88,554
Merchant transaction fees and bank charges	84,519	52,028
Share based payments (note 16b, note 17)	<u>(608,817)</u>	<u>31,376</u>
	<u>1,262,541</u>	<u>2,505,565</u>
Income (loss) before other income and expenses	<u>732,410</u>	<u>(729,164)</u>
Other (income) expenses		
Miscellaneous income	(113,222)	(6,421)
Interest expense	73,265	98,848
Foreign exchange loss	1,792	1,097
Loss (gain) in fair value of derivative liability (note 19a)	<u>-</u>	<u>(174,815)</u>
	<u>(38,165)</u>	<u>(81,291)</u>
Income (loss) before reorganization and acquisition costs	<u>770,575</u>	<u>(647,873)</u>
Reorganization and acquisition costs (note 22)	<u>972,067</u>	<u>316,205</u>
Loss before income taxes	(201,492)	(964,078)
Provision for income taxes		
Current income tax expense (recovery) (note 18)	-	-
Deferred income tax expense (recovery) (note 18)	<u>28,087</u>	<u>8,892</u>
Net Income (loss) from continuing operations for the period	<u>(229,579)</u>	<u>(972,970)</u>
Net income from discontinued operations for the period net of tax (note 24)	<u>3,734,155</u>	<u>1,249,568</u>
Net income for the period	<u>\$ 3,504,576</u>	<u>\$ 276,598</u>
Net income for the period attributable to:		
Equity holders of the parent	3,504,576	276,598
Non-controlling interests	<u>-</u>	<u>-</u>
	<u>\$ 3,504,576</u>	<u>\$ 276,598</u>
Net income (loss) per share attributable to equity holders of the parent (note 5)		
Basic and diluted loss from continuing operations (note 5)	(\$0.009)	(\$0.046)
Basic and diluted earnings per share from discontinued operations (note 5)	\$0.141	\$0.059
Basic and diluted earnings per share	\$0.132	\$0.013
Weighted average number of shares outstanding for basic and diluted calculation	26,489,438	21,192,004
<i>See accompanying notes to the condensed interim consolidated financial statements</i>		

AVANTE LOGIXX INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE-MONTH PERIOD ENDED JUNE 30, 2022 AND JUNE 30, 2021

	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Deficit	Total Equity
Balance at April 1, 2021	\$21,434,492	\$1,536,099	(\$10,335,474)	(\$1,003,000)	\$11,632,117
Income (loss) for the period	-	-	276,598	-	276,598
Share based payments	-	25,108	-	-	25,108
Unvested share options cancelled	-	-	-	-	-
Balance at June 30, 2021	\$21,434,492	\$1,561,207	(\$10,058,876)	(\$1,003,000)	\$11,933,823
Balance at April 1, 2022	\$30,138,388	\$1,643,982	(\$15,730,377)	\$ -	\$16,051,993
Income for the period	-	-	3,504,576	-	3,504,576
Share based payments	-	183,703	-	-	183,703
Vested share options cancelled	-	(738,600)	-	-	(738,600)
Share options expired	-	(11,063)	-	-	(11,063)
Balance at June 30, 2022 (Unaudited)	\$30,138,388	\$1,078,022	(\$12,225,801)	\$ -	\$18,990,609

See accompanying notes to the condensed interim consolidated financial statements

AVANTE LOGIXX INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE-MONTH PERIOD ENDED JUNE 30, 2022 AND JUNE 30, 2021

	For the three-month period ended	
	Jun 30, 2022	Jun 30, 2021
	<i>Unaudited</i>	<i>(Restated)</i>
Operating activities		
Comprehensive income for the period	\$ 3,504,576	\$ 276,598
Share based payments	(608,817)	31,376
Interest on bank loans and leases	67,621	118,079
Accretion on convertible debt (note 19)	-	290,087
Depreciation on capital assets (note 10)	156,876	239,140
Amortization on intangible assets (note 12)	88,554	88,555
Amortization on capitalized commission	2,924	446
Provision for income tax	28,087	8,892
Loss (gain) on fair value of derivative liability (note 19)	-	(174,815)
Net income from discontinued operations (note 24)	(3,734,155)	-
	<u>(494,334)</u>	<u>878,358</u>
Net change in non-cash working capital:		
Accounts receivable	(336,955)	129,660
Inventories	90,103	(56,879)
Contract assets (note 6b)	(26,016)	(42,255)
Prepaid expenses	14,387	(252,471)
Accounts payable and accrued liabilities	(2,344,668)	576,407
Contract liabilities (note 6b)	(230,495)	(703,956)
	<u>(2,833,644)</u>	<u>(349,494)</u>
Cash from (used in) continuing operations	(3,327,978)	528,864
Net cash flows attributable to discontinued operations	(7,056,465)	(816,224)
Net cash from (used in) operating activities	(10,384,443)	(287,360)
Financing activities		
Proceeds from loans	-	13,472,592
Principal loan payments	(9,200,000)	(10,873,280)
Principal lease payments (note 15)	(133,006)	(133,099)
Interest on bank loans, convertible debenture, and leases	(67,621)	(262,699)
Promissory note payment	-	(155,000)
Cash from (used in) continuing operations	(9,400,627)	2,048,514
Net cash flows attributable to discontinued operations	7,730,604	(131,133)
Net cash from (used in) financing activities	(1,670,023)	1,917,381
Investing activities		
Net proceeds from sale of subsidiary (note 24)	23,733,248	-
Purchase of capital assets (note 10)	(10,805)	(21,442)
Disposal of capital assets (note 10)	113,721	(148,100)
Additions to vehicle leases	(12,985)	(4,959)
Cash from (used in) continuing operations	23,823,179	(174,501)
Net cash flows attributable to discontinued operations	(37,305)	(159,135)
Net cash from (used in) investing activities	23,785,874	(333,636)
Increase (decrease) in cash during the period	11,731,408	1,296,385
Cash and cash equivalents, beginning of period	354,082	1,623,754
Cash and cash equivalents, end of period	<u>\$ 12,085,490</u>	<u>\$ 2,920,139</u>

*Total interest paid in the period ending June 30, 2022 is \$67,621, June 30, 2021 \$423,811

**Total corporate income tax payments made in the period ending June 30, 2022 is \$NIL, June 30, 2021 \$NIL

See accompanying notes to the condensed interim consolidated financial statements

AVANTE LOGIXX INC.

Notes to Condensed Interim Consolidated Financial Statements For the Three-Month Period Ended June 30, 2022 and June 30, 2021

1. NATURE OF BUSINESS

Avante Logixx Inc. (the "Company") develops security technologies, products and solutions for personal and condominium protective services, monitoring and control applications. As of June 1, 2022, all of these activities are conducted through one subsidiary, Avante Security Inc. ("Avante Security"), which is 100% owned. Logixx Security Inc. ("Logixx Security") was 100% owned until June 1, 2022 (Note 7). The Company's common shares are listed on the TSX Venture Exchange under the symbol XX.V (OTC: ALXXF).

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

Logixx Security provides security services for enterprise customers across Canada. Services include protective services (also known as guarding) as well as security system design, sales, installations, and monitoring and alarm response. The Company sold its entire ownership interest in Logixx Security on June 1, 2022 (Note 7).

The address of the Company's corporate office is 1959 Leslie Street, Toronto, Ontario, Canada.

2. BASIS OF PRESENTATION

a) Statement of compliance

These condensed interim consolidated financial statements of the Company have been prepared in accordance with IAS 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB") and using the accounting policies described herein. Accordingly, certain information and footnote disclosure normally included in the annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB, have been omitted or condensed.

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

These condensed interim consolidated financial statements should be read in conjunction with the Company's audited financial statements for the year ended March 31, 2022.

The financial information included herein reflects all adjustments that, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the periods ended June 30, 2022, and 2021 are not necessarily indicative of the results to be expected for the full year.

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on August 29, 2022.

AVANTE LOGIXX INC.

Notes to Condensed Interim Consolidated Financial Statements For the Three-Month Period Ended June 30, 2022 and June 30, 2021

2. BASIS OF PRESENTATION (CONTINUED)

b) Basis of measurement

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

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

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

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

Name of entity	Ownership interest held at	
	Jun 30, 2022	Mar 31, 2022
Avante Security Inc.	100%	100%
Logixx Security Inc.	0%	100%

Discontinued operations

A discontinued operation is a component of the consolidated entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the condensed interim consolidated statements of income and comprehensive income. In these financial statements, the financial results of Logixx Security are treated as discontinued operations along with assets and liabilities held for sale as of March 31, 2022, as the Company had executed a definitive agreement to sell Logixx Security to a third party on March 30, 2022 and this ultimately resulted in the sale of the Company's entire ownership interest in Logixx Security on June 1, 2022.

Non-current assets and assets of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying amount and fair value less costs of disposal. For non-current assets or assets of disposal groups to be classified as held for sale, they must be available for immediate sale in their present condition and their sale must be highly probable.

AVANTE LOGIXX INC.

Notes to Condensed Interim Consolidated Financial Statements For the Three-Month Period Ended June 30, 2022 and June 30, 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

An impairment loss is recognised for any initial or subsequent write down of the non-current assets and assets of disposal groups to fair value less costs of disposal. A gain is recognised for any subsequent increases in fair value less costs of disposal of a non-current assets and assets of disposal groups, but not in excess of any cumulative impairment loss previously recognized.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of assets held for sale continue to be recognized.

Non-current assets classified as held for sale and the assets of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current assets. The liabilities of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current liabilities.

New Standards and Interpretations

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.

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.

AVANTE LOGIXX INC.

Notes to Condensed Interim Consolidated Financial Statements For the Three-Month Period Ended June 30, 2022 and June 30, 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 does not expect any material impact of the standard on its consolidated financial statements or 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 does not expect any material impact of these amendments on its consolidated financial statements at this time.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

There have been no material revisions to the nature and number of estimates and judgments made in prior periods. However, the effects of COVID-19 have required significant judgements and estimates to be made. For assumptions made by Avante Logixx Inc. in the estimates made to calculate the recoverable amount of CGU’s, refer to note 12. Additionally, while the changes in the estimates and judgements have not had a material adverse impact on Avante Logixx Inc. to date, the effects of COVID-19 have required revisions to estimates of expected credit losses attributed to accounts receivable arising from sales to customers on credit terms, including the incorporation of forward-looking information to supplement historical credit loss rates.

AVANTE LOGIXX INC.

Notes to Condensed Interim Consolidated Financial Statements For the Three-Month Period Ended June 30, 2022 and June 30, 2021

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Due to rapid developments and uncertainty surrounding COVID-19, it is not possible to predict the impact that COVID-19 will have on the Company's operating results in the future, its suppliers, and its customers. Additionally, it is possible the Company's financial prospects will change in the near term as a result of COVID-19. The Company is closely monitoring the impact of the pandemic on all aspects of its business. Within the Logixx Security business that was sold on June 1, 2022, the Company experienced a decline of revenues related to COVID-19 "specials" from approximately July 1, 2021 until the year ended March 31, 2022 as compared to the prior fiscal year and periods. Additionally, increased labour cost and supply chain delays primarily within the Logixx Security business attributable to the ongoing economic uncertainty caused by the pandemic negatively impacted the Company's cost of goods sold, and delayed electronic services installations, within Logixx Security beginning in August 2021 until March 31, 2022 and continuing to a lesser extent until Logixx Security was sold by the Company on June 1, 2022.

Judgements

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

1. Allowance for doubtful accounts receivable and contract assets

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

2. Income taxes

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

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. Judgement is used to evaluate whether a deferred tax asset can be recovered based on the Company's assessment of existing tax laws, estimates of future profitability, and tax planning strategies.

3. Provision for impairment of inventories

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

4. Lease discount rate

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

AVANTE LOGIXX INC.

Notes to Condensed Interim Consolidated Financial Statements For the Three-Month Period Ended June 30, 2022 and June 30, 2021

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

5. Intangible assets and goodwill

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

6. Revenue and contract assets

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

7. Segment Reporting

The Company has exercised judgement in identifying its reportable segments and applying the related aggregation criteria required under IFRS 8. With the sale of Logixx Security on June 1, 2022, the Company now has one reportable segment consisting of Avante Security. Avante Security focuses on providing security services to ultra-high net worth residential customers in the central Toronto and Muskoka regions of Ontario.

Estimates

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

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

Share-based payments and derivative liabilities are determined by the Black-Scholes option pricing model, which is used by the Company to determine the fair value of stock options and was used by the Company to determine the fair value of the convertible debentures-derivative liability until conversion to common shares occurred on February 16, 2022. Significant estimates are used in the calculation of the input variables in the Black-Scholes model, which include: risk free interest rate (based on government bonds), expected stock price volatility, expected life, and expected dividend yield.

The fair value of the Company's unvested performance share units prior to cancellation during April 2022 was determined by a Monte Carlo valuation model and the significant estimates used to estimate the price of the Company's common shares on the vesting date which included: the current price of the Company's common shares as of the period end date, the risk free interest rate over the remaining life of the performance units, the expected stock price volatility, the number of trading days between the valuation date and the vesting date and the expected return on the Company's common shares during the remaining vesting period of the performance units.

AVANTE LOGIXX INC.

Notes to Condensed Interim Consolidated Financial Statements For the Three-Month Period Ended June 30, 2022 and June 30, 2021

5. EARNINGS (LOSS) PER SHARE

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

	For the three-month period ended	
	Jun 30, 2022	Jun 30, 2021
		<i>Restated</i>
Basic and diluted loss per share from continuing operations	(0.009)	(0.046)
Basic and diluted earnings per share from discontinued operations	0.141	0.059
Basic and diluted earnings per share	0.132	0.013
Net loss attributable to equity holders of the parent - basic and fully diluted from continuing operations	(229,579)	(972,970)
Net income attributable to equity holders of the parent - basic and fully diluted from discontinued operations	3,734,155	1,249,568
Total net income attributable to equity holders of the parent - basic and fully diluted	3,504,575	276,599
Weighted average number of shares outstanding for basic and diluted calculation	26,489,438	21,192,004

For the three months ended June 30, 2021, the convertible debentures (classified as a liability prior to conversion to common shares on February 16, 2022) and share-based payments were determined to be antidilutive owing to the numerator adjustment required to remove the fair value gain on those securities which would then result in the net income for the period to be a loss. As such, the convertible debentures were excluded from the calculation above in respect of the comparative period.

Potential common shares are antidilutive when their conversion to common shares increases earnings per share or decreases loss per share from continuing operations. Antidilutive common shares are excluded from weighted average number of shares outstanding for the purposes of calculating the diluted earnings per share.

6. REVENUE RECOGNITION

a) Disaggregation of Revenue

Revenue is recognized in a manner that depicts the transfer of promised goods or services to the customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods and services. Standard 30-day payment terms apply to the majority of accounts receivable for the Company. Segment revenues by service type for the three-months ended June 30, 2022 and 2021 were as follows:

Revenue	For the three-month period ended					
	Jun 30, 2022			Jun 30, 2021		
	Avante Security	Elimination	Total	Avante Security	Elimination	Total
Protective Services	\$ 2,122,313		\$ 2,122,313	\$ 1,659,438		\$ 1,659,438
Monitoring and Managed Services	999,735		999,735	\$ 973,062		973,062
Electronic Services	1,446,687	(970)	1,445,717	\$ 1,396,511		1,396,511
Total Revenue	\$ 4,568,736	\$ (970)	\$ 4,567,765	\$ 4,029,011	\$ -	\$ 4,029,011

AVANTE LOGIXX INC.

Notes to Condensed Interim Consolidated Financial Statements For the Three-Month Period Ended June 30, 2022 and June 30, 2021

6. REVENUE RECOGNITION (CONTINUED)

(b) Contract Assets and Liabilities

	Jun 30, 2022	Mar 31, 2022
Work-in-progress - contracts in process	\$ 590,686	\$ 564,669

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

Contract liabilities balance at March 31, 2021	\$ 2,964,149
Additions during the year	10,020,873
Additions during the year from discontinued operations	431,990
Recognized during the year	(10,454,417)
Recognized during the year from discontinued operations	(411,383)
Adjustment for Discontinued operations	(299,010)
Contract liabilities balance at March 31, 2022 to be recognized in fiscal year 2023	2,252,203
Contract liabilities balance at March 31, 2022	\$ 2,252,203
Additions during the year	2,552,041
Recognized during the year	(2,782,536)
Contract liabilities balance at June 30, 2022 to be recognized in fiscal year 2023	640,631
Contract liabilities balance at June 30, 2022 to be recognized after fiscal year 2023	1,428,577
Contract liabilities balance at June 30, 2022	\$ 2,021,708

7. ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS

On March 30, 2022, the Company entered into a definitive share purchase agreement (the "SPA") with SSC Security Services Corp. ("SSC") pursuant to which SSC agreed to acquire all of the Company's ownership interest in Logixx Security. Under the terms of the SPA, the Company would receive \$23,950,000 in cash including repayment of intercompany loans of \$7,802,074 less reimbursement of SSC's costs related to a prior transaction agreement of \$750,000 plus or minus closing working capital compared to an agreed minimum threshold. On June 1, 2022, the Company sold Logixx Security to SSC under the SPA and received \$23,733,248, net of the expense reimbursement and estimated working capital surplus. In addition, after approximately 90 days following the closing date, the Company will receive the benefit of Logixx Security's collected accounts receivable since closing that was older than 90 days old as of closing, net of a 5% collection fee payable to SSC, and the parties will settle any surplus or deficiency between the closing working capital balance estimated before closing versus the final closing working capital amount.

The estimated total amount due from SSC is included within non-trade receivables within "Accounts receivable" on the condensed interim consolidated statements of financial position as at June 30, 2022 and consists of the unpaid portion of the cost of agreed transition services provided by the Company to SSC since the closing of the transaction as well as estimates for the potential excess working capital delivered at closing and Logixx Security accounts receivable older than 90 days at closing (net of SSC's collection fee) that the Company anticipates will be collected by SSC in accordance with the SPA.

AVANTE LOGIXX INC.

Notes to Condensed Interim Consolidated Financial Statements For the Three-Month Period Ended June 30, 2022 and June 30, 2021

7. ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS (CONTINUED)

As at March 31, 2022, the assets and liabilities of Logixx Security were classified as assets held for sale and liabilities directly associated with assets classified as held for sale. The Logixx Security financial results for the three months ended June 30, 2022 and 2021 including restatement of comparative information, net of eliminations, have been presented as discontinued operations on the condensed interim consolidated statement of income and comprehensive income. Unless otherwise specified, all other notes to the condensed interim consolidated financial statements include amounts from both Continuing and Discontinued Operations.

8. ACCOUNTS RECEIVABLE

The accounts receivable on the financial statements are net of allowance for doubtful accounts of \$122,537 as at June 30, 2022 (March 31, 2022: \$115,958). Changes in the allowance for doubtful accounts during the period were as follows:

	Jun 30, 2022	Mar 31, 2022
Allowance for doubtful accounts - opening balance	\$ 115,958	\$ 461,284
Net increase/(decrease) during the year	6,579	(10,301)
Transferred to assets held for sale	-	(335,025)
Allowance for doubtful accounts - closing balance	\$ 122,537	\$ 115,958

As at June 30, 2022 and March 31, 2022, the aging of the Company's accounts receivables was as follows:

	Balance Due	1 - 30 Days	31 - 60 Days	61 - 90 Days	Over 90 Days
Trade receivables	\$3,181,548	\$1,520,374	\$421,910	\$302,389	\$936,875
Unbilled trade receivables	367,281	367,281	-	-	-
Non-trade receivables	30,257	30,257	-	-	-
Allowance for doubtful accounts	(115,958)	-	-	-	(115,958)
Current portion vendor take back loan	56,500	56,500	-	-	-
Balance at March 31, 2022	\$3,519,628	\$1,974,412	\$421,910	\$302,389	\$820,917
Trade receivables	\$3,210,609	\$1,271,770	\$357,529	\$292,367	\$1,288,943
Unbilled trade receivables	416,381	416,381	-	-	-
Non-trade receivables	815,000	-	-	-	815,000
Allowance for doubtful accounts	(122,536)	-	-	-	(122,536)
Current portion vendor take back loan	60,000	60,000	-	-	-
Balance at June 30, 2022	\$4,379,454	\$1,748,150	\$357,529	\$292,367	\$1,981,407

The consolidated entity has recognized a loss of \$15,750 from continuing operations at June 30, 2022 (June 30, 2021: \$15,750) in profit or loss in respect of the expected credit losses for the three months then ended and \$10,000 in discontinued operations (June 30, 2021: \$15,000). As at June 30, 2022, there was \$1,288,943 (March 31, 2022: \$936,875) of accounts receivable outstanding for over 90 days of which management did not consider \$1,166,407 (March 31, 2022: \$820,917) impaired. As of June 30, 2022, non-trade receivables include the estimated amount due from SSC in respect of the Company's sale of Logixx Security (Note 7) as well as the finance receivable due from the sub-tenant of the Company's former corporate office lease expiring in January 2024.

9. INVENTORIES

	Jun 30, 2022	Mar 31, 2022
Inventory	\$ 846,143	\$ 936,246

All inventory is considered finished goods. Inventory expensed to cost of sales during the three months ended June 30, 2022, amounted to \$600,470 continuing operations and \$135,450 discontinued operations (three months ended June 30, 2021: \$444,109 continuing operations, \$2,842 discontinued operations).

AVANTE LOGIXX INC.

Notes to Condensed Interim Consolidated Financial Statements For the Three-Month Period Ended June 30, 2022 and June 30, 2021

10. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment	Equipment, furniture and fixtures	Leasehold improvements	Computer software	Right-of-use asset	Vehicles	Uniforms	Buildings	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost									
Balance at March 31, 2022	\$ 482,057	\$ 634,310	\$ 737,145	\$ 345,418	\$ 1,622,744	\$ -	\$ 68,881	\$ 473,300	\$ 4,363,854
Additions from continuing operations	1,552	-	-	-	141,291	-	9,253	-	152,096
Disposals from continuing operations	(26,642)	-	(24,752)	-	(661,612)	-	-	-	(713,007)
Balance at June 30, 2022	\$ 456,966	\$ 634,310	\$ 712,393	\$ 345,418	\$ 1,102,422	\$ -	\$ 78,134	\$ 473,300	\$ 3,802,943
Accumulated depreciation									
Balance at March 31, 2022	333,622	388,352	738,497	282,302	803,770	-	14,937	64,685	2,626,161
Depreciation from continuing operations for the period	11,171	11,822	(17,128)	14,543	125,613	-	6,121	4,733	156,876
Disposals from continuing operations	-	-	(14,747)	-	(472,745)	-	-	-	(487,492)
Balance at June 30, 2022	344,793	400,174	706,622	296,845	456,638	-	21,058	69,418	2,295,545
Carrying Amounts									
Balance at March 31, 2022	148,435	245,958	\$ (1,352)	63,116	818,974	-	53,944	408,615	1,737,693
Balance at June 30, 2022	\$ 112,174	\$ 234,136	\$ 5,770	\$ 48,573	\$ 645,784	\$ -	\$ 57,075	\$ 403,882	\$ 1,507,398

	Computer equipment	Equipment, furniture and fixtures	Leasehold improvements	Computer software	Right-of-use asset	Vehicles	Uniforms	Buildings	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost									
Balance at March 31, 2021	568,733	727,001	764,363	398,833	2,990,909	103,248	749,583	473,300	6,775,968
Additions from continuing operations	5,818	17,275	475	-	529,368	-	6,997	-	559,933
Additions from discontinued operations	4,959	-	-	-	1,140,948	-	149,427	-	1,295,334
Disposals from continuing operations	-	-	-	-	(64,213)	-	-	-	(64,213)
Disposals from discontinued operations	-	-	-	-	-	-	-	-	-
Balance at June 30, 2021	579,509	744,275	764,838	398,833	4,597,012	103,248	906,007	473,300	8,567,022
Accumulated depreciation									
Balance at March 31, 2021	405,180	447,162	678,163	237,672	950,102	46,031	87,743	45,753	2,897,806
Depreciation from continuing operations for the period	12,078	13,618	45,046	9,325	114,912	32,125	7,302	4,733	239,140
Depreciation from discontinued operations for the period	497	81	-	15,369	106,294	-	60,075	-	182,316
Disposals from continuing operations	-	-	-	-	(15,464)	-	-	-	(15,463)
Disposals from discontinued operations	-	-	-	-	-	-	-	-	-
Balance at June 30, 2021	417,755	460,861	723,209	262,366	1,155,843	78,156	155,120	50,486	3,303,799
Carrying Amounts									
Balance at March 31, 2021	163,552	279,839	86,200	161,161	2,040,807	57,216	661,840	427,547	3,878,163
Balance at June 30, 2021	\$ 161,754	\$ 283,414	\$ 41,629	\$ 136,467	\$ 3,441,169	\$ 25,092	\$ 750,887	\$ 422,814	\$ 5,263,223

Depreciation expense included in continuing operations is \$156,876 and \$143,028 from discontinued operations for the three months ended June 30, 2022 (three months ended June 30, 2021: \$239,140 from continuing operations and \$182,316 from discontinued operations).

The Company carries two categories of right-of-use assets: vehicles and property. At June 30, 2022 the carrying amount of vehicles under lease was \$586,428 (March 31, 2022: \$611,424), with \$86,172 of depreciation included in continuing operations and \$20,755 included in discontinued operations (three months ended June 30, 2021: \$64,595 continuing operations, \$48,297 discontinued operations).

The right-of-use asset property had a carrying amount of \$59,357 at June 30, 2022 (March 31, 2022: \$207,550). Depreciation in the amount of \$39,442 is included in continuing operations and \$8,079 in discontinued operations for the three months ended June 30, 2022, (three months ended June 30, 2021: \$50,317 continuing operations, \$57,997 discontinued operations).

All assets of the Company, including its Accounts Receivables, Inventories and Property, Plant and Equipment, have been pledged as general security against the senior secured credit facilities established with the Company's bank (Note 14). Gains and losses on disposals are booked in the miscellaneous (income) expense line on the condensed interim consolidated statement of income and comprehensive income.

AVANTE LOGIXX INC.

Notes to Condensed Interim Consolidated Financial Statements For the Three-Month Period Ended June 30, 2022 and June 30, 2021

11. CAPITALIZED COMMISSION

Commissions on long-term contracts (12 months in length or longer) are capitalized at the initiation of the contract and amortized over the length of the contract as revenue is recognized. The unamortized amount of commission on long-term contracts as of June 30, 2022 was \$10,435 (March 31, 2022: \$13,359), with \$2,924 amortized in the three months ended June 30, 2022 from continuing operations and \$38,671 from discontinued operations (three months ended June 30, 2021: \$446 continuing operations, \$38,829 discontinued operations).

12. GOODWILL AND INTANGIBLE ASSETS

A. INTANGIBLE ASSETS

	Tradename Others \$	Customer relationships \$	Backlog \$	Total \$
<u>Cost</u>				
Balance at March 31, 2022	\$80,873	\$4,180,673	\$262,000	\$4,523,546
Transferred to assets held for sale				
Balance at June 30, 2022	80,873	4,180,673	262,000	4,523,546
<u>Amortization</u>				
Balance at March 31, 2022	\$80,873	\$2,502,831	\$262,000	\$2,845,705
Amortization from continuing operations for the period	-	88,554	-	88,554
Amortization from discontinued operations for the period				
Balance at June 30, 2022	80,873	2,591,385	262,000	2,934,259
<u>Carrying amounts</u>				
Balance at March 31, 2022	-	\$1,677,841	\$ -	\$1,677,841
Balance at June 30, 2022	\$ -	\$1,589,287	\$ -	\$1,589,287

	Tradename Others \$	Customer relationships \$	Backlog \$	Non-compete \$	Total \$
<u>Cost</u>					
Balance at March 31, 2021	\$ 3,585,266	\$ 8,658,097	\$ 262,000	\$ 200,000	\$ 12,705,364
Disposal of discontinued operations	(3,504,393)	(4,477,424)	-	(200,000)	(8,181,818)
Balance at June 30, 2021	80,873	4,180,673	262,000	-	4,523,546
<u>Amortization</u>					
Balance at March 31, 2021	\$ 3,585,266	\$ 2,926,183	\$ 262,000	\$ 53,333	\$ 6,826,783
Amortization from continuing operations for the period	-	88,554	-	-	88,554
Amortization from discontinued operations for the period	-	111,936	-	10,000	121,936
Disposal of discontinued operations	(3,504,393)	(889,504)	-	(63,333)	(4,457,230)
Balance at June 30, 2021	80,873	2,237,169	262,000	-	2,580,043
<u>Carrying amounts</u>					
Balance at March 31, 2021	\$ -	\$ 5,731,914	\$ -	\$ 146,667	\$ 5,878,581
Balance at June 30, 2021	\$ -	\$ 1,943,504	\$ -	\$ -	\$ 1,943,503

AVANTE LOGIXX INC.

Notes to Condensed Interim Consolidated Financial Statements For the Three-Month Period Ended June 30, 2022 and June 30, 2021

12. GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

Intangible amortization expense for the three months ended June 30, 2022 with respect to continuing operations is \$88,554 and from discontinued operations \$81,290 (three months ended June 30, 2021: \$88,554 continuing operations, \$121,936 discontinued operations).

B. GOODWILL

Balance at March 31, 2021	\$ 9,600,477
Goodwill transferred to assets held for sale	(6,628,480)
Balance at March 31, 2022	\$ 2,971,997
Balance at June 30, 2022	\$ 2,971,997

The above intangible assets and goodwill as at June 30, 2022 were acquired upon the acquisitions of the businesses of INTO Electronics Inc. at August 22, 2014, LVS Inc. at April 1, 2015, Architronics Limited (“Architronics”) at March 1, 2017 and Watermark Security Inc. at August 1, 2018. The opening balance of Goodwill as of March 30, 2021 also included the Goodwill applicable to the former Logixx Security business related to Veridin Systems Canada Inc. acquired on September 16, 2018, Intelligarde International Inc. (currently doing business as Logixx Security Inc.) acquired on November 30, 2018, and A.S.A.P Secured Inc. acquired on December 1, 2019.

The key assumptions used to calculate the fair value of these intangible assets include discount rates, growth rates and margins. The cost of goodwill is calculated as the excess of purchase price of the acquired business over the estimated fair value of the tangible and intangible assets acquired and liabilities assumed at the date of acquisition and is allocated to the cash generating unit (“CGU”) expected to benefit from the acquisition. A CGU is the smallest group of assets for which there are separate identifiable cash flows. Management determined that the Company had two CGU’s as of March 31, 2022 and 2021 consisting of Avante Security and Logixx Security consistent with how the Company managed its operations at that time. With the sale of Logixx Security on June 1, 2022, the Company now has one CGU consisting of Avante Security.

Amortization

The amortization of tradenames, customer relationships, order backlog and non-compete agreement is included in amortization on intangible assets on the condensed interim consolidated statements of income and comprehensive income.

AVANTE LOGIXX INC.

Notes to Condensed Interim Consolidated Financial Statements For the Three-Month Period Ended June 30, 2022 and June 30, 2021

13. BUSINESS ACQUISITIONS

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

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

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

Acquisition of Intelligarde International Inc. (renamed Logixx Security Inc. as of June 21, 2019)

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

Within an escrow account, the Company held back \$712,500 (\$679,430 remaining as of June 30, 2022) of the purchase price against certain representations and warranties of the vendors. The parties are engaged in litigation processes to settle the amounts owing between the parties.

14. BANK INDEBTEDNESS

Current and non-current bank indebtedness was comprised of the following as at June 30, 2022 and March 31, 2022:

	Jun 30, 2022			Mar 31, 2022		
	Current Portion	Long-Term Portion	Total	Current Portion	Long-Term Portion	Total
Line of credit	-	-	-	-	\$ 3,650,000	\$ 3,650,000
Term Loans	-	-	-	600,000	4,950,000	5,550,000
Deferred Financing	-	-	-	(156,621)	(178,329)	(334,950)
Mortgage	-	-	-	-	-	-
Total credit facilities	-	-	-	\$ 443,379	\$ 8,421,671	\$ 8,865,050

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 June 30, 2021 credit agreement provided an \$8,000,000 revolving credit facility (“Facility A”), a \$10,000,000 non-revolving term loan facility (“Facility B”) and a \$3,000,000 delayed-draw non-revolving term loan credit facility (“Facility C”), each with a three-year maturity date ending May 19, 2024. The Company had the ability to draw upon Facility A that was subject to a borrowing base consisting of eligible cash, accounts receivable, and inventory. The Company was permitted to draw upon Facility B in two tranches; Tranche 1 had a limit of \$6,000,000 and Tranche 2 had a limit of \$4,000,000. The ability to draw on Tranche 2 expired on July 31, 2021 reducing the available limit to zero. Facility C was 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 term loan and delayed-draw credit facilities occurred at the rate of 2.50% per quarter with the remaining balance due on the maturity date. The June 30, 2021 credit agreement also provided for a corporate credit card facility and hedge-transaction credit facilities.

AVANTE LOGIXX INC.

Notes to Condensed Interim Consolidated Financial Statements For the Three-Month Period Ended June 30, 2022 and June 30, 2021

14. BANK INDEBTEDNESS (CONTINUED)

Security for the June 30, 2021 credit agreement consisted of upstream guarantees by the Company's subsidiaries, supported by general security agreements providing for a first secured pledge of all assets of the Company and its subsidiaries. In accordance with the terms of the June 30, 2021 senior secured credit facilities, on a rolling four-quarter basis, the Company was required to maintain a minimum Fixed Charge Coverage Ratio of 1.10 times and a maximum leverage ratio of Funded Debt (net of permitted cash balances and excluding the convertible debentures) to Adjusted EBITDA of 3.25 times with a permitted two-quarter step up following a permitted acquisition of 3.50 times. The Company was in compliance with such financial covenants at March 31, 2022. Interest and standby fees in respect of the June 30, 2021 credit facilities were subject to a leverage-ratio based pricing grid and, as at March 31, 2022, was the bank's prime rate plus 0.25%, and standby fees of 0.44%.

On June 1, 2022, the Company applied proceeds from the sale of Logixx Security on June 1, 2022 to permanently repay the credit facilities pursuant to the June 30, 2021 Credit Agreement. As of June 1, 2022, the Company entered into amended credit facilities with the same bank consisting of a \$2 million revolving credit facility, together with credit card facilities for each of Avante Logixx and Avante Security, supported by a first fixed security interest in favour of the bank over all assets of Avante Logixx and Avante Security. Such credit arrangements are provided by the bank on a demand basis, and the revolver is subject to a borrowing base consisting of eligible accounts receivable and inventory, minus priority payables. The provision of the credit facilities is subject to a minimum consolidated current ratio of 1.20 as of June 30, 2022, and thereafter, and the Company was in compliance with that covenant as of June 30, 2022. Drawings under the revolver are permitted by way of letters of credit (at 2.00% per annum), prime rate advances (at the bank's prime rate plus 0.50%) and bankers' acceptances (stamping fee of 2.00%).

The Company incurred deferred financing fees of \$452,417 in connection with the June 30, 2021 credit agreement and the prior credit facilities also had applicable deferred financing fees. The remainder of these costs in the amount of \$334,950 were written-off.

Interest on bank loans expensed in the condensed interim consolidated statement of income and comprehensive income for the three months ended June 30, 2022 is \$44,204 in continuing operations and \$0 in discontinued operations (three months ended June 30, 2021: \$67,190 continuing operations, \$0 discontinued operations).

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15. OBLIGATIONS UNDER LEASE

The Company's lease payments are discounted using the interest rate implicit in the lease, or if that cannot be determined, the Company's incremental borrowing rate. Vehicle lease and property lease liabilities as of the respective period ends were as follows:

	Vehicle lease liability	Property lease liability	Total liability
Balance at March 31, 2021	\$ 1,733,060	\$ 447,865	\$ 2,180,925
Additions during the year from continuing operations	648,662	-	648,662
Additions during the year from discontinued operations	555,588	179,950	735,538
Disposals during the year from continuing operations	(892,248)	-	(892,248)
Disposals during the year from liabilities held for sale	(242,758)	-	(242,758)
Principal payments from continuing operations	(360,109)	(200,415)	(560,524)
Principal payments from liabilities held for sale	(217,880)	(52,609)	(270,489)
Transfers to liabilities held for sale	(628,630)	(129,729)	(758,359)
Balance at March 31, 2022	\$ 595,685	\$ 245,062	\$ 840,747
Additions during the period from continuing operations	\$ 128,306	-	128,306
Disposals during the period from continuing operations	(111,791)	-	(111,791)
Principal payments from continuing operations	(80,365)	(52,642)	(133,007)
Balance at June 30, 2022	\$ 531,835	\$ 192,420	\$ 724,255
Current obligations under lease	212,526	157,575	370,101
Long-term obligations under lease	319,309	34,845	354,154
Balance at June 30, 2022	\$ 531,835	\$ 192,420	\$ 724,255

The Company leased certain vehicles with a value of \$531,835 (March 31, 2022: \$595,685), at an effective annual rate of interest of 9.14% (March 31, 2022: 7.17%). The payment terms include blended monthly payments of \$39,846 plus applicable taxes (March 31, 2022: \$43,037) for 48 to 60 months ending between May 2022 and April 2027, with an aggregate buy out obligation of \$7,755 as of June 30, 2022 (March 31, 2022: \$684,560). Interest expense from these leases, included in the condensed interim consolidated statements of income and comprehensive income for the three months ended June 30, 2022 was \$22,308 continuing operations and \$10,398 discontinued operations (three months ended June 30, 2021: \$21,726 continuing operations, \$15,058 discontinued operations).

Various office properties with a value of \$192,421 (March 31, 2022: \$245,062), are leased with blended monthly payments of \$18,457 plus applicable taxes (March 31, 2022: \$18,457). An incremental borrowing rate of 4.80% is used. The property leases end between February 2022 and December 2025. Interest expense from these leases, included in the condensed interim consolidated statement of income and comprehensive income for the three months ended June 30, 2022 was \$2,734 continuing operations and \$558 discontinued operations (three months ended June 30, 2021: \$5,150 continuing operations, \$12,622 discontinued operations).

16. SHAREHOLDERS' EQUITY

[a] Share capital issued and outstanding

Unlimited common shares	Number of Shares	Amount
Balance at March 31, 2021	21,192,004	\$21,434,492
Issue of shares on convertible debenture	5,297,434	\$8,703,896
Balance at March 31, 2022	26,489,438	30,138,388
Balance at June 30, 2022	26,489,438	30,138,388

AVANTE LOGIXX INC.

Notes to Condensed Interim Consolidated Financial Statements For the Three-Month Period Ended June 30, 2022 and June 30, 2021

16. SHAREHOLDERS' EQUITY (CONTINUED)

Pursuant to an indenture agreement dated November 2019 in respect of convertible debentures that were converted to common shares on February 16, 2022, the affiliated group of owners of common shares owns 19.99% of all common shares currently issued by the Company. Under that indenture agreement, as long as such affiliated holders own at least 10% of the Company's common shares, the holders have 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 such holders immediately prior to such issuance. In addition, if such affiliated holders own more than 10% of the Company's common shares, such holders are entitled to nominate one member to the Company's board of directors, which the affiliated holders did on July 18, 2022.

[b] Share options

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

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

On September 29, 2015, the shareholders of the Company approved an amendment to the stock option plan whereby it reverted to a 10% rolling stock option plan. This plan is approved annually by the shareholders of the Company and was again approved by the shareholders on September 23, 2021. Accordingly, the Company has a total of 1,157,278 options available to be issued as at June 30, 2022, with the maximum term remaining at 10 years (March 31, 2022: 1,355,610). Prior to September 29, 2015, the Company had an Option plan whereby it could issue a maximum of 7,145,000 options with a term of up to 10 years.

	Number of Options	Weighted Average Exercise Price
Balance at March 31, 2021	1,440,000	\$1.97
Options forfeited during the period	(146,667)	1.55
Balance at March 31, 2022	1,293,333	\$1.98
Options forfeited during the year	(886,667)	\$2.04
Options expired during the year	(15,000)	\$1.30
Option granted during the year	1,100,000	\$0.99
Balance at June 30, 2022	1,491,666	\$0.60

During the three months ended June 30, 2022, 1,100,000 share options were issued to members of the board of directors, including the Chief Executive Officer, and the strike prices were \$0.88 for 500,000 options, \$0.97 for 200,000 options, \$1.07 for 200,000 options and \$1.18 for 200,000 options. In addition, during the three months ended June 30, 2022, 886,667 share options were forfeited and 15,000 share options expired. No share options were granted during the year ended March 31, 2022. All options were granted at an exercise price greater than or equal to the trading price on the day of the grant that is considered fair value. None of the outstanding options were exercised in the three months ended June 30, 2022 or during the year ended March 31, 2022.

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16. SHAREHOLDERS' EQUITY (CONTINUED)

Using the Black-Scholes pricing model, the Company recognized \$565,960 net of \$738,600 for forfeited options for the three months ended June 30, 2022 (three months ended June 30, 2021: \$25,108 net of \$0 for forfeited options).

In calculating the share-based compensation expense, the Company used the assumptions as listed below as at the date of grants in three months ended June 30, 2022 and there were no grants awarded during the year ended March 31, 2022:

	Fiscal 2023	Fiscal 2022
Risk-free interest rate	1.00%	NA
Expected volatility	92.11%	NA
Expected time until exercise	5 years	NA
Expected dividend yield	NIL	NA
Expected forfeiture	5%	NA
Share price	\$0.84	NA

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

The following table summarizes stock options vested and outstanding at June 30, 2022:

Grant Date	Number of Options Outstanding	Remaining Years	Number of Options Vested	Exercise Price	Expiry Date
2017-10-29	15,000	0.33	15,000	1.30	2022-10-29
2018-09-19	33,333	1.22	33,333	2.25	2023-09-19
2018-10-02	133,333	1.26	133,333	2.25	2023-10-02
2019-12-02	10,000	2.43	10,000	1.55	2024-12-02
2020-01-20	200,000	2.56	66,667	1.55	2025-01-20
2022-04-28	200,000	4.83	-	0.88	2027-04-28
2022-04-28	200,000	4.83	-	0.97	2027-04-28
2022-04-28	200,000	4.83	-	1.07	2027-04-28
2022-04-28	200,000	4.83	-	1.18	2027-04-28
2022-04-28	100,000	4.83	100,000	0.88	2027-04-28
2022-04-28	100,000	4.83	100,000	0.88	2027-04-28
2022-04-28	100,000	4.83	100,000	0.88	2027-04-28
	1,491,666	3.47	558,333	\$0.60	

17. PERFORMANCE SHARE UNITS

On November 25, 2020, the Company's Board of Directors established a performance share unit ("PSU") compensation program, which as of April 8, 2022 was terminated. That program provided for a cash payment to eligible participants equal to the number of PSUs granted multiplied by the Company's volume weighted average share price ("VWAP") in effect during the thirty days prior to a future valuation date scaled downwards for vesting criteria linked to that VWAP in effect during the thirty days prior to the valuation date.

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

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17. PERFORMANCE SHARE UNITS (CONTINUED)

As of February 28, 2021 and each fiscal quarter end thereafter, the Company used Monte-Carlo simulation valuation techniques to estimate the potential future value that might exist as of March 31, 2023 in respect of issued but unvested PSU grants. Such estimate was then discounted based on the risk-free interest rate as of the valuation date. Other assumptions included in the fair value of the unvested PSU grants included:

- The Company's share price on the valuation date;
- The remaining number of trading days from the valuation date until the vesting date of March 31, 2023;
- The average expected annual return on the Company's shares as of the valuation date; and
- The expected volatility of the price of the Company's common shares as of the valuation date.

The present value of such estimated potential liability was recalculated by the Company every fiscal quarter end. Within accounts payable and accrued liabilities on the consolidated statement of financial position, the Company reflected the net present value of the potential obligation, prorated by the number of months that have elapsed since the date of grant versus the total number of months from the PSU grant date to the maturity date. The difference between the statement of financial position liability amounts at the balance sheet date versus the fiscal period's opening liability was reflected as an expense, or recovery, within share based payments on the condensed interim consolidated statements of income and comprehensive income.

At March 31, 2022, the present value of the estimated potential liability on March 31, 2023 was \$42,857. However, the PSU's had no value following the departure in April 2022 of the one executive benefiting from the PSU grant. A recovery of \$42,857 is reflected in profit or loss in the three months ended June 30, 2022 (three months ended June 30, 2021: an expense of \$6,268).

18. INCOME TAXES

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

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

For the three months ending June 30, 2022, the Company recognized a deferred income tax expense of \$28,087 from continuing operations and recovery of \$0 from discontinued operations, and current income tax expense of \$0 from discontinued operations (three months ended June 30, 2021: expense of \$8,892 continuing operations and expense of \$136,921 from discontinued operations, and current income tax expense of \$285,471 from discontinued operations). The deferred tax assets are attributable to previously unused non-capital tax loss carry forwards that it estimates will be used against taxable income for the year ended March 31, 2023 and future taxable periods.

AVANTE LOGIXX INC.

Notes to Condensed Interim Consolidated Financial Statements For the Three-Month Period Ended June 30, 2022 and June 30, 2021

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

[a] Convertible debentures

On November 27, 2019, the Company issued unsecured convertible debentures with a total principal amount of \$8,264,000 and these were converted to common shares on February 16, 2022. The debentures were due to mature on November 27, 2024 and had an annual interest rate of 7%, due semi-annually. The debentures were convertible, at the option of the holder, in whole or in part, at a conversion price per share of \$1.56 at any time prior to the maturity date into common shares of the Company. Total professional and legal fees of \$301,311 were incurred on the transaction. The Company decided not to draw up to \$9,736,000 under a second tranche under the convertible debenture agreement that was previously available to the Company until August 27, 2020 and such option to draw expired on that date.

So long as the holder of the convertible debentures owns directly, or indirectly through its conversion right, at least 10% of the Company's common shares, it has the right to maintain the same percentage ownership of the Company's common shares subsequent to an issuance of the Company's common shares as held by the holder immediately prior to such issuance. If the holder owns more than 10% of the Company's common shares, the holder is entitled to nominate one member to the Company's board of directors.

Pursuant to the indenture, the Company's consolidated total indebtedness (excluding the Convertible Debentures) was not to exceed 6.5 times Adjusted EBITDA on a rolling four quarter basis and consolidated senior indebtedness was not to exceed 3.5 times Adjusted EBITDA on a rolling four quarter basis. The Company was in compliance with the financial covenants applicable to the debenture for the quarterly reporting period ending on December 31, 2021 and, with the conversion of the debentures into common shares on February 16, 2022, the Company is no longer required to comply with such financial covenants.

While the total contractual liability excluding future interest payments was \$8,264,000, for accounting purposes prior to the conversion to common shares on February 16, 2022, the convertible debentures were treated as compound financial instruments containing a principal debt and interest component and a conversion option.

The conversion option was classified as a derivative financial liability, as the option was not closely related to the principal debt and features of the conversion option could have resulted in conversion of debt into a variable number of common shares. The debentures did not meet the International Accounting Standard ("IAS") 32(16) fixed-for-fixed test as conversion of debt into a variable number of common shares results from the Company declaring a dividend, a stock split, granting options, warrant, or shares at less than 95% of the current market price. The conversion option was separated from the host debt and valued at its fair value on the date of issuance, with all attributable transaction costs expenses when incurred. At previous quarterly and fiscal year end dates the Company valued the derivative liability component of the debenture using the number of common shares issued per increment of principal and the Black Scholes pricing model, at a risk free interest rate based on government bonds, volatility based on historical volatility of the Company's common shares, an expected maturity date of five years from the date of issue and no dividends issued by the Company over that time frame.

As of the February 16, 2022 conversion date and prior, the principal debt and interest component of the convertible debentures was classified as a financial liability and carried at amortized cost. On initial recognition, these components were allocated the residual of the total proceeds less the fair value of the conversion option, net of transaction costs.

Following the conversion of the convertible debentures into 5,297,434 common shares on February 16, 2022, the liability component and the derivative liability component were eliminated with share capital increased by the amount of the debenture's fair value immediately prior to conversion of \$8,703,896.

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19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

On initial recognition, the conversion option derivative liability component was \$3,948,551 and the host debt liability component was \$4,158,105 net of transaction cost attributable to the debt component. Transaction costs in the amount of \$143,967 were expensed in the year ending March 31, 2020 attributable to the conversion option. The conversion option derivative liability was reported at fair value, with gains and losses included in the consolidated statements of income and comprehensive income. For the three months ended June 30, 2022 no gain or loss was recognized as the convertible debentures no longer existed during the period (three months ended June 30, 2021: \$174,815 gain).

Accretion charges attributable to the debenture were not included in continuing operations on the condensed interim consolidated statement of income and comprehensive income in the three months ended June 30, 2022 as the convertible debentures no longer existed during the period (three months ended June 30, 2021: \$290,087 of which \$114,620 related to interest paid or owing).

[c] Financial assets

In connection with the sale of its 70% ownership interest of City Wide Locksmiths Ltd. ("City Wide") on September 30, 2020, the Company received a vendor take back note of \$450,000 benefiting from a second secured lien on all assets of City Wide. The balance of the note on June 30, 2022 is \$410,000 (March 31, 2022: \$406,500), with \$60,000 recorded in accounts receivable representing the current portion and interest of the note receivable and \$350,000 recorded as a long term note receivable on the consolidated statement of financial position (March 31, 2022: \$350,000). The note bears interest at 3.0% until September 30, 2021, 3.5% until September 30, 2022, 4.0% until September 30, 2023, 5.0% until September 30, 2024, and then 6.0% until September 30, 2025. Installments of \$50,000 plus interest are due annually and the note is fully repayable on or before September 30, 2025.

[d] Risk management

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

- Market Risk
- Credit Risk
- Liquidity Risk

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

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

General Objectives, Policies and Processes:

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

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Notes to Condensed Interim Consolidated Financial Statements For the Three-Month Period Ended June 30, 2022 and June 30, 2021

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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

a) Market Risk

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

Foreign Currency Risk:

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and other foreign currencies will affect the Company's operations and financial results. This risk was more significant for the Company prior to its sale of Logixx Security on June 1, 2022 as significant revenue streams within that segment were settled in U.S. dollars.

Interest Rate Risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company has an available revolving credit facility limit, provided on a demand basis, from its bank of \$2,000,000 (as of June 1, 2022) and an unsecured term loan facility from its largest shareholder of \$10,000,000 (as of July 7, 2022), but neither credit arrangement was utilized as of June 30, 2022. Prior to the sale of Logixx Security on June 1, 2022, the Company had bank loans subject to floating interest rates amounting to \$9,350,000 as of March 31, 2022. At that time, a 1% change in interest rates would have impacted interest costs by \$93,500 to the Company's net income for the period and total comprehensive income for the fiscal year ended March 31, 2022. That interest rate risk was offset by the potential changes in the interest rate offered on cash and cash equivalents held with chartered Canadian financial institutions at that time. With the conversion of the convertible debentures to common shares on February 16, 2022 and the sale of Logixx Security on June 1, 2022, the Company no longer has any indebtedness for borrowed money and therefore, interest rate risk on borrowed funds has been eliminated. However, during late June 2022 the Company began investing surplus funds in one-year, cashable guaranteed investment certificates issued by its bank at fixed interest rates, so interest rate risk to rising market interest rates now exists in respect of such investments offset by the Company's ability to cash the guaranteed investment certificate and reinvest the proceeds following the initial one month non-redeemable period.

b) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. For credit risk on accounts receivable see Note 8. Financial instruments, which are potentially subject to credit risk for the Company consist primarily of cash and cash equivalents, guaranteed investment certificates, accounts receivables as well as the secured vendor take back note due from the purchasers of City Wide, and amounts due from the purchasers of Logixx Security. The carrying amounts of financial assets represent the maximum credit exposure. The Company has gross credit exposure at June 30, 2022 relating to cash of \$2,085,490 (March 31, 2022: \$354,082) and guaranteed investment certificates of \$10,000,000 (March 31, 2022: \$nil). All cash and guaranteed investment certificates are held in or with Canadian banks which have credit ratings of A+ and Aa2 from rating agencies Standard & Poor's and Moody's respectively. The Company has performed a sensitivity analysis on changes in the credit risk associated with these banks and considers this risk to be minimal for all cash assets based on changes that are reasonably possible at the reporting date.

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19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to ensure that it will have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

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

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

	Up to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Contractual amount	Carrying amount
At March 31 2022	\$ 6,511,567	\$ 1,189,199	\$ 1,099,032	\$ 8,445,861	\$ -	\$ 17,245,659	\$ 15,869,235
Accounts payable and accrued liabilities	3,775,896	-	-	-	-	3,775,896	3,775,896
Obligations under lease	130,685	461,180	297,301	191,744	-	1,080,910	724,255
At June 30 2022	\$ 3,906,581	\$ 461,180	\$ 297,301	\$ 191,744	\$ -	\$ 4,856,806	\$ 4,500,151

Contractual amounts reflect undiscounted principal payments and future interest payments. Carrying amount excludes interest, is discounted, includes any residual value.

The working capital as at June 30, 2022 was \$11,970,371 compared to \$17,076,160 at March 31, 2022. For accounting purposes, all of the assets and liabilities of Logixx Security were reflected in working capital as at March 31, 2022. Following the sale of Logixx Security on June 1, 2022, the Company had no bank indebtedness.

d) The Covid-19 Pandemic

While the Company is not immune to the impacts of the Covid-19 pandemic, the majority of the Company's services remain ongoing, certain of which have been deemed "essential" by governing authorities. However, there remains some risk that certain project work will be deferred, or restricted and new orders delayed or that certain customers could become adversely affected by the pandemic.

Determination of fair value

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

The balance sheet carrying amounts for cash and cash equivalents, accounts receivable, notes receivable, accounts payable and accrued liabilities, bank indebtedness and vehicle loans and finance leases, and the prior year end's derivative liabilities approximate fair value due to their short-term nature.

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Notes to Condensed Interim Consolidated Financial Statements For the Three-Month Period Ended June 30, 2022 and June 30, 2021

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair Value Hierarchy:

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

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

All financial instruments at fair value are level 1, except for the conversion option derivative liability that existed prior to the conversion of the convertible debentures on February 16, 2022, and the performance share units' liability that existed prior to its cancellation in April 2022, which were both considered level 2.

20. CAPITAL MANAGEMENT

The Company defines its cash, guaranteed investment certificates, common shares and stock options as capital. The Company's objectives when maintaining capital are:

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

To support business activity and maximize shareholder value, the Company takes into consideration various factors, including the growth of the business-related infrastructure and the up-front cost of developing new services. The Company's officers and senior management are responsible for managing the capital and do so through monthly meetings and regular review of financial information. The Board of Directors is responsible for overseeing this process. The Company manages capital with the objective of maintaining adequate capital resources through the optimization of the cash flows from operations and capital transactions. As of June 1, 2022 and July 7, 2022, the Company's new senior secured credit facility provided on a demand basis and its new unsecured term loan facility, respectively, are both subject to financial covenants, draw conditions and other terms that must be complied with in order for such sources of financing to be used by the Company (Notes 14 and 26).

21. RELATED PARTY TRANSACTIONS

The Company entered into a contract effective May 1, 2018 with a private company controlled by a significant shareholder (and subsequent to March 30, 2022 an officer) to provide consulting services for the Company. The Company incurred \$43,415 of expense in the three months ended June 30, 2022 (three months ended June 30, 2021: \$70,567). The balance outstanding payable by the Company at June 30, 2022 is \$0 (March 31, 2022: \$52,729).

The Company entered into a contract with a private company controlled by a significant shareholder and, prior to April 9, 2022, an officer of the Company to provide services for the Company. For the three months ended June 30, 2022 the Company incurred \$1,640 (three months ended June 30, 2021: \$5,275) for these services. The balance outstanding payable by the Company at June 30, 2022 is \$746 (March 31, 2022: \$859).

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Notes to Condensed Interim Consolidated Financial Statements For the Three-Month Period Ended June 30, 2022 and June 30, 2021

21. RELATED PARTY TRANSACTIONS (CONTINUED)

The Company provides service to and receives service from a private company controlled by a significant shareholder and, prior to April 9, 2022, an officer of the Company. In the three months ended June 30, 2022 the Company billed \$11,456 and incurred \$18,619 of expense for services (three months ended June 30, 2021: \$0 billed and \$14,775 expensed). The outstanding accounts receivable balance at June 30, 2022 is \$11,107 (March 31, 2022: \$1,147) and outstanding accounts payable balance at June 30, 2022 is \$5,903 (March 31, 2022: \$11,169).

The Company incurred a receivable from a private company controlled by a significant shareholder (and prior to April 9, 2022, an officer) for various expenses in the amount of \$1,806 as of June 30, 2022 (March 31, 2022: \$1,806).

Remuneration of Directors and Officers was as follows:

Directors and Officers Remuneration	For the period ended	
	Jun 30, 2022	Jun 30, 2021
Salaries, short term employee benefits	152,863	212,723
Director fees	25,000	65,000
Share based payments	11,963.67	27,120
	\$ 189,826	\$ 304,843

Directors are eligible for an annual allowance of \$5,000 towards security services from the Company.

During the fiscal year ended March 31, 2022, the Company incurred \$0.6 million for services provided by a private company that is an affiliate of a director of the Company for proxy-advisory services provided to two large shareholders of the Company. One of the shareholders became an officer and director of the Company on March 30, 2022, and a representative of the other shareholder became a board member on July 18, 2022. The services were in relation to negotiating on behalf of those shareholders termination of the Company's February 2022 agreement with SSC Security Services Corp for the sale of the entire Company and the concurrent replacement of the Company's board of directors on March 30, 2022. The cost was accrued as of March 31, 2022 within "Accounts payable and accrued liabilities" on the Consolidated Statements of Financial Position and reflected in "Reorganization and acquisition costs" on the Consolidated Statements of Income and Comprehensive Income. The amount was paid on June 3, 2022.

Effective June 2022, in addition to annual director retainer fees paid to all directors, the Company pays an affiliate of a board member \$5,000 per month for general consulting and advisory services. For the three months ended June 30, 2022, such fees amounted to \$5,000 (three months ended June 30, 2021: \$nil).

Effective July 7, 2022, the Company's largest shareholder provided an unsecured \$10 million term loan facility to the Company (Note 26), but no drawings have been made under that facility. That shareholder appointed a director to the Company's board of directors as of July 18, 2022.

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22. REORGANIZATION AND ACQUISITION COSTS

During the three-month period ended June 30, 2021, the Company evaluated a possible acquisition and refinanced its banking arrangements to facilitate that potential transaction. On August 25, 2021, the Board of Directors of the Company initiated a strategic review of alternatives available to the Company and engaged two investment banking firms and two law firms to assist with that process. On February 9, 2022 the Company announced that a third party had agreed to purchase all of the Company's common shares, however that transaction was subsequently not completed.

On March 30, 2022, the Company replaced all members of its board of directors and entered into a definitive share purchase agreement (the "SPA") with SSC Security Services Corp. ("SSC") pursuant to which SSC agreed to acquire all of the Company's ownership interest in Logixx Security. On June 1, 2022, the Company sold Logixx Security to SSC under the SPA (Note 7). From March 30, 2022 until June 30, 2022, the Company eliminated or replaced several executive and related positions and closed its corporate office.

The Company incurred reorganization and acquisition costs in the amount in continuing operations of \$972,067 and \$22,636 in discontinued operations for the three months ended June 30, 2022 (three months ended June 30, 2021: \$316,205 continuing operations, \$34,636 discontinued operations). These costs incurred during the three months ended June 30, 2022 included \$226,950 of bank and legal fees related to the terminated prior credit agreement dated June 30, 2021 (Note 14), \$(223,404) transactions costs related to prior year moved to gain on sale of subsidiary, and \$968,522 of professional fees paid to consultants, financial and legal advisors, fees related to business amalgamations, rebranding and reorganization expenses including severance expense. During the three months ended June 30, 2021 reorganization and acquisition costs included professional fees paid to consultants, financial and legal advisors for business acquisitions, fees related to business amalgamations, rebranding expenses, and severance expense for terminations as part of a restructuring effort.

23. SEGMENT REPORTING

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transactions with any of the Company's other components. The operating results of all operating segments are reviewed regularly by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assessing their performance. The Company's chief operating decision maker is the Chief Executive Officer. Prior to June 1, 2022, the Company operated in two reportable segments described below and accounted for intersegment sales as if they were to external customers.

With the sale of Logixx Security on June 1, 2022, Logixx Security is treated as a discontinued operation. Logixx Security provides security services for enterprise customers across Canada. Services include protective services (also known as guarding) as well as security system design, sales, installations, and monitoring and alarm response.

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

AVANTE LOGIXX INC.

Notes to Condensed Interim Consolidated Financial Statements For the Three-Month Period Ended June 30, 2022 and June 30, 2021

23. SEGMENT REPORTING (CONTINUED)

Segment statements of income (loss) and comprehensive income (loss) for the three months ending June 30, 2022 are included below:

	For the three-month period ended June 30, 2022			
	Avante Security	Corporate	Intersegment eliminations	Total
Revenues	\$ 4,568,735	\$ -	\$ (970)	\$ 4,567,765
Cost of sales	2,648,418		(75,604)	2,572,814
Gross profit	1,920,317	-	74,634	1,994,951
Operating expenses				-
Salaries, benefits and commissions	469,756	439,720	-	909,475
Administration	703,425	(71,491)	-	631,934
Depreciation of capital assets	134,860	22,016	-	156,876
Amortization of intangible assets	-	88,554	-	88,554
Merchant transaction fees and bank charges	70,692	13,827	-	84,519
Share based payments	-	(608,817)	-	(608,817)
	1,378,732	(116,191)	-	1,262,541
Income (loss) before other income and expenses	541,585	116,191	74,634	732,410
Other (income) expenses				-
Miscellaneous (income) expense	(87,634)	(25,588)	-	(113,222)
Interest expense	23,058	50,207	-	73,265
Foreign exchange (gain) loss	1,786	6	-	1,792
Loss in fair value of derivative liability	-	-	-	-
Total Other (income) expenses	(62,790)	24,625	-	(38,165)
				-
Income (loss) before reorganization, and acquisition costs	604,375	91,566	74,634	770,575
				-
Reorganization and acquisition costs	-	972,067	-	972,067
				-
Income (loss) before income taxes	604,375	(880,501)	74,634	(201,492)
Provision for income taxes				-
Current income tax expense (recovery)	-	-	-	-
Deferred income tax expense (recovery)	73,093	(45,006)	-	28,087
	73,093	(45,006)	-	28,087
Net Income (loss) from continuing operations for the period	531,282	(835,495)	74,634	(229,579)
Total comprehensive income (loss) from continuing operations for the period	\$ 531,282	\$ (835,495)	\$ 74,634	\$ (229,579)

AVANTE LOGIXX INC.

Notes to Condensed Interim Consolidated Financial Statements For the Three-Month Period Ended June 30, 2022 and June 30, 2021

23. SEGMENT REPORTING (CONTINUED)

Segment statements of income (loss) and comprehensive income (loss) for the comparative three months ending June 30, 2021 are included below:

	For the three-month period ended June 30, 2021			
	Avante Security	Corporate	Intersegment eliminations	Total
Revenues	\$ 4,029,011	\$ -	\$ -	\$ 4,029,011
Cost of sales	2,321,489	-	(68,878)	2,252,611
Gross profit	1,707,521	-	68,878	1,776,400
Operating expenses				
Salaries, benefits and commissions	707,684	740,414	-	1,448,098
Administration	400,614	245,755	-	646,369
Depreciation of capital assets	194,239	44,901	-	239,140
Amortization of intangible assets	-	88,554	-	88,554
Merchant transaction fees and bank charges	50,932	1,094	-	52,026
Share based payments	-	31,376	-	31,376
	1,353,470	1,152,095	-	2,505,564
Income (loss) before other income and Other (income) expenses	354,053	(1,152,094)	68,878	(729,164)
Other (income) expenses				
Miscellaneous (income) expense	(12,412)	5,991	-	(6,421)
Interest expense	27,141	71,707	-	98,848
Foreign exchange (gain) loss	1,097	-	-	1,097
Loss in fair value of derivative liability	-	(174,815)	-	(174,815)
Total Other (income) expenses	15,827	(97,117)	-	(81,291)
Income (loss) before reorganization, and acquisition costs	338,225	(1,054,977)	68,878	(647,873)
Reorganization and acquisition costs	-	316,205	-	316,205
Income (loss) before income taxes	338,225	(1,371,183)	68,878	(964,078)
Provision for income taxes				
Current income tax expense (recovery)	-	-	-	-
Deferred income tax expense (recovery)	61,942	(53,050)	-	8,892
	61,942	(53,050)	-	8,892
Net Income (loss) from continuing operations for the period	276,283	(1,318,133)	68,878	(972,970)
Other comprehensive income (loss)				
Unrealized loss on investments	-	-	-	-
	-	-	-	-
Total comprehensive income (loss) from continuing operations for the period	\$ 276,283	\$ (1,318,133)	\$ 68,878	\$ (972,970)

AVANTE LOGIXX INC.

Notes to Condensed Interim Consolidated Financial Statements For the Three-Month Period Ended June 30, 2022 and June 30, 2021

23. SEGMENT REPORTING (CONTINUED)

Segment assets and liabilities as at June 30, 2022 and March 31, 2022 are as follows:

	Discontinued				
Segment assets are as follow:	Operations	Avante Security	Corporate	Total	
As at March 31, 2022	\$ 29,334,844	\$ 8,438,482	\$ 5,169,919	\$ 42,943,245	
As at June 30, 2022	\$ -	\$ 8,992,398	\$ 16,733,898	\$ 25,726,296	
Segment liabilities are as follow:	Operations	Avante Security	Corporate	Total	
As at March 31, 2022	\$ 8,519,399	\$ 10,304,497	\$ 8,067,356	\$ 26,891,252	
As at June 30, 2022	\$ -	\$ 4,431,930	\$ 2,303,756	\$ 6,735,687	

24. DISCONTINUED OPERATIONS

Logixx Security:

On March 30, 2022, the Company entered into a definitive share purchase agreement (the "SPA") with SSC Security Services Corp. ("SSC") pursuant to which SSC agreed to acquire all of the Company's ownership interest in Logixx Security. Under the terms of the SPA, the Company would receive \$23,950,000 in cash including repayment of intercompany loans of \$7,802,074 less reimbursement of SSC's costs related to a prior transaction agreement of \$750,000 plus or minus closing working capital compared to an agreed minimum threshold. On June 1, 2022, the Company sold Logixx Security to SSC under the SPA and received \$23,733,248, net of the expense reimbursement and estimated working capital surplus. In addition, after approximately 90 days following the closing date, the Company will receive the benefit of Logixx Security's collected accounts receivable since closing that was older than 90 days old as of closing, net of a 5% collection fee payable to SSC, and the parties will settle any surplus or deficiency between the closing working capital balance estimated before closing versus the final closing working capital amount.

Gross cash proceeds of sale	\$ 23,733,248
Estimated working capital adjustment	579,764
SSC break fee	750,000
<hr/>	
Total consideration	25,063,012
Less:	
Intercompany loans payment	7,802,075
Transaction costs	428,444
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Net proceeds of sale	16,832,492
Assets	
Total current assets	17,979,906
Total non-current assets	12,141,531
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Total assets	30,121,438
Liabilities	
Total current liabilities	15,559,895
Total non-current liabilities	1,233,822
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Total liabilities	16,793,718
Total net assets	13,327,720
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Gain on disposal, before tax	\$ 3,504,772

The gain or loss on the sale of Logixx Security will be finalized when the purchaser and the Company determine the final post closing adjustments to the purchase price, which is expected to occur during September to October 2022. Based on information available at this time, the Company does not expect the gain on disposal to be subject to tax.

AVANTE LOGIXX INC.

Notes to Condensed Interim Consolidated Financial Statements For the Three-Month Period Ended June 30, 2022 and June 30, 2021

24. DISCONTINUED OPERATIONS (CONTINUED)

Logixx Security financial results during the three months ended June 30, 2022 and 2021 were as follows:

	For the three-month period ended	
	Jun 30, 2022 <i>(Unaudited)</i>	Jun 30, 2021 <i>(Restated)</i>
Revenues from discontinued operations	\$ 12,278,154	\$ 20,091,136
Cost of sales	10,549,156	15,973,331
Gross profit	<u>1,728,998</u>	<u>4,117,805</u>
Operating expenses		
Salaries, benefits and commissions	740,714	1,108,192
Administration	458,029	610,748
Depreciation on capital assets	143,028	177,941
Amortization on intangible assets	81,290	121,936
Merchant transaction fees and bank charges	7,353	7,535
	<u>1,430,413</u>	<u>2,026,351</u>
Income (loss) before other income and expenses	<u>298,585</u>	<u>2,091,454</u>
Other (income) expenses		
Miscellaneous income	28,867	(15,577)
Interest expense	10,983	325,811
Foreign exchange loss	6,716	74,622
	<u>46,565</u>	<u>384,856</u>
Income (loss) before reorganization and acquisition costs	<u>252,019</u>	<u>1,706,598</u>
Reorganization and acquisition costs	<u>22,636</u>	<u>34,636</u>
Income (loss) before income taxes	229,383	1,671,961
Provision for income taxes		
Current income tax expense (recovery)	-	285,471
Deferred income tax expense (recovery)	-	136,921
Net income from discontinued operations for the period	<u>229,383</u>	<u>1,249,568</u>
Gain/Loss on disposal	<u>3,504,772</u>	<u>-</u>
Net income (loss) from discontinued operations	<u>3,734,155</u>	<u>1,249,568</u>

25. CONTINGENCIES

From time to time, the Company may become liable for legal, contractual and other claims by various parties, including customers, suppliers, former employees and vendors of businesses acquired by the Company. Depending on the nature or duration of any potential proceedings or claims, the Company may incur substantial costs and expenses, be required to devote significant management time and resources to the matters and suffer adverse judgements or outcomes in respect of these claims, although it is difficult to predict final outcomes with any degree of certainty. Except as disclosed from time to time in the Company's consolidated financial statements, the Company does not believe that any of the claims to which the Company is currently a party will have a material adverse effect on the Company's profitability or financial condition; however, the Company cannot provide any assurance to that effect.

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Notes to Condensed Interim Consolidated Financial Statements For the Three-Month Period Ended June 30, 2022 and June 30, 2021

26. SUBSEQUENT EVENTS

1) *Unsecured Term Loan Facility*

On July 7, 2022, the Company executed an unsecured Loan Agreement with affiliates of Fairfax Financial Holdings Limited (“Fairfax”) that also collectively own 19.99% of the Company’s common shares. Pursuant to the Loan Agreement, the Company is permitted to draw, on a non-revolving basis, up to \$10 million of loans until July 7, 2027 for terms to maturity ending on July 7, 2027, at an interest rate of 5.0% that can be paid by the Company in cash or in kind. Such debt may be used for working capital, general corporate purposes or as agreed in advance by Fairfax and each drawing shall be in minimum increments of \$1 million and may be repaid at any time without penalty. A standby fee of 0.5% is charged by Fairfax on the unused portion of the term loan facility, payable annually in arrears. The unsecured term loans advanced under the Loan Agreement rank junior to the senior secured credit facilities provided by the Company’s bank, but are guaranteed on an unsecured basis by all subsidiaries of the Company. Pursuant to the Loan Agreement, the Company’s consolidated senior indebtedness (excluding drawings under the Term Loan and net of permitted cash balances) shall not exceed 3.5 times Adjusted EBITDA (as defined in the Loan Agreement) on a rolling four quarter basis. In addition, further drawings under the Loan Agreement are conditional on the Company’s existing Chief Executive Officer being involved in the day-to-day operations of the Company. To date, there have not been any drawings advanced under the Loan Agreement.