

# **AVANTE LOGIXX INC.**

Condensed Interim Consolidated Financial Statements

**Unaudited for the three-month period ended  
June 30, 2021 and 2020**

**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, 2021 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, 2021 AND MARCH 31, 2021**

	Jun 30, 2021	Mar 31, 2021
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents (note 13)	\$ 2,920,139	\$ 1,623,754
Accounts receivable (note 7)	17,760,519	18,171,980
Inventories (note 8)	1,667,486	1,617,709
Contract assets (note 6b)	626,883	696,506
Prepaid expenses	518,243	496,589
	<u>23,493,270</u>	<u>22,606,538</u>
<b>NON-CURRENT ASSETS</b>		
Property, plant & equipment (note 9)	5,263,226	3,878,163
Capitalized commissions (note 10)	236,206	275,482
Deferred tax assets	1,314,003	1,466,873
Intangible assets (note 11)	5,668,091	5,878,581
Goodwill (note 11)	9,600,477	9,600,477
Long term notes receivable (note 18c)	400,000	400,000
	<u>\$ 45,975,273</u>	<u>\$ 44,106,114</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Bank indebtedness and vehicle loans (note 13)	359,755	1,703,281
Accounts payable and accrued liabilities	8,864,400	10,428,220
Promissory note (note 18b)	-	155,000
Corporate tax payable	285,471	-
Obligations under lease (note 14)	931,117	784,318
Contract liabilities (note 6b)	2,143,866	2,964,149
	<u>12,584,609</u>	<u>16,034,968</u>
<b>NON-CURRENT LIABILITIES</b>		
Obligations under lease (note 14)	2,476,268	1,396,607
Long term portion of bank indebtedness and vehicle loans (note 13)	9,042,458	5,067,903
Convertible debentures (note 19a)	4,958,856	4,813,389
Convertible debentures - derivative liability (note 19a)	3,633,587	3,808,402
Deferred tax liability	1,345,672	1,352,728
	<u>21,456,841</u>	<u>16,439,029</u>
	<u><b>34,041,450</b></u>	<u><b>32,473,997</b></u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 15a)	21,434,492	21,434,492
Contributed surplus (note 15b)	1,561,207	1,536,099
Accumulated other comprehensive deficit	(1,003,000)	(1,003,000)
Accumulated deficit	(10,058,876)	(10,335,474)
	<u>11,933,823</u>	<u>11,632,117</u>
Non-controlling interest	-	-
<b>TOTAL EQUITY</b>	<u><b>11,933,823</b></u>	<u><b>11,632,117</b></u>
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<u><b>\$ 45,975,273</b></u>	<u><b>\$ 44,106,114</b></u>

Signed "Craig Campbell" Director      Signed "Samuel Duboc" 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, 2021 AND JUNE 30, 2020**

	For the three-month period ended	
	Jun 30, 2021	Jun 30, 2020 <i>(Restated-Note 23)</i>
<b>Revenues from continuing operations (note 6a)</b>	\$ 24,120,146	\$ 18,203,260
<b>Cost of sales</b>	18,225,942	14,080,168
<b>Gross profit</b>	<u>5,894,204</u>	<u>4,123,092</u>
<b>Operating expenses</b>		
Salaries, benefits and commissions	2,555,039	2,224,556
Administration	1,258,367	1,174,107
Depreciation on capital assets (note 9)	417,081	291,641
Amortization on intangible assets (note 11)	210,490	913,252
Merchant transaction fees and bank charges	59,562	75,326
Share based payments (note 15b, note 16)	31,376	55,336
	<u>4,531,915</u>	<u>4,734,218</u>
<b>Income (loss) before other income and expenses</b>	<u>1,362,289</u>	<u>(611,126)</u>
<b>Other (income) expenses</b>		
Miscellaneous income	(21,998)	(16,249)
Interest expense	424,658	370,249
Foreign exchange loss	75,720	47,954
Loss (gain) in fair value of derivative liability (note 18a)	(174,815)	(74,913)
	<u>303,565</u>	<u>327,041</u>
<b>Income (loss) before reorganization and acquisition costs</b>	1,058,724	(938,167)
Reorganization and acquisition costs (note 21)	350,842	431,435
<b>Income (loss) before income taxes</b>	707,882	(1,369,602)
<b>Provision for income taxes</b>		
Current income tax expense (recovery) (note 17)	285,471	3,780
Deferred income tax expense (recovery) (note 17)	145,813	(57,168)
<b>Net Income (loss) from continuing operations for the period</b>	<u>276,598</u>	<u>(1,316,214)</u>
<b>Net income from discontinued operations for the period net of tax (note 23)</b>	-	44,381
<b>Net income (loss) for the period</b>	<u>\$ 276,598</u>	<u>\$ (1,271,833)</u>
<b>Net income (loss) for the period attributable to:</b>		
Equity holders of the parent	276,598	(1,279,132)
Non-controlling interests	-	7,299
	<u>\$ 276,598</u>	<u>\$ (1,271,833)</u>
<b>Other comprehensive income (loss) from continuing operations: Items that may be reclassified subsequently to net loss</b>		
Unrealized gain (loss) on investments (note 18c)	-	23,600
	<u>\$ -</u>	<u>\$ 23,600</u>
<b>Total comprehensive income (loss) for the period</b>	<u>\$ 276,598</u>	<u>\$ (1,248,233)</u>
<b>Total comprehensive income (loss) for the period attributable to:</b>		
Equity holders of the parent	276,598	(1,255,532)
Non-controlling interests	-	7,299
	<u>\$ 276,598</u>	<u>\$ (1,248,233)</u>
Net income (loss) per share attributable to equity holders of the parent (note 5)		
Basic and diluted income (loss) from continuing operations	\$0.013	(\$0.062)
Basic and diluted income (loss) from discontinued operations	\$0.000	\$0.002
Basic and diluted number of shares outstanding	21,192,004	21,192,004

See accompanying notes to the condensed interim consolidated financial statements

**AVANTE LOGIXX INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE THREE-MONTH PERIOD ENDED JUNE 30, 2021 AND JUNE 30, 2020**

	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Deficit	Subtotal	Non-controlling Interest	Total Equity
<b>Balance at April 1, 2020</b>	<b>\$21,434,492</b>	<b>\$1,463,025</b>	<b>(\$7,431,648)</b>	<b>(\$955,800)</b>	<b>\$14,510,069</b>	<b>\$365,617</b>	<b>\$14,875,686</b>
Income (loss) for the period	-	-	(1,279,132)	23,600	(1,255,532)	7,299	(1,248,233)
Share based payments	-	58,827	-	-	58,827	-	58,827
Unvested share options cancelled	-	(3,491)	-	-	(3,491)	-	(3,491)
<b>Balance at June 30, 2020 (Unaudited)</b>	<b>\$21,434,492</b>	<b>\$1,518,361</b>	<b>(\$8,710,780)</b>	<b>(\$932,200)</b>	<b>\$13,309,873</b>	<b>\$372,916</b>	<b>\$13,682,789</b>
<b>Balance at April 1, 2021</b>	<b>\$21,434,492</b>	<b>\$1,536,099</b>	<b>(\$10,335,474)</b>	<b>(\$1,003,000)</b>	<b>\$11,632,117</b>	<b>\$ -</b>	<b>\$11,632,117</b>
Income (loss) for the period	-	-	276,598	-	276,598	-	276,598
Share based payments	-	25,108	-	-	25,108	-	25,108
Unvested share options cancelled	-	-	-	-	-	-	-
<b>Balance at June 30, 2021 (Unaudited)</b>	<b>\$21,434,492</b>	<b>\$1,561,207</b>	<b>(\$10,058,876)</b>	<b>(\$1,003,000)</b>	<b>\$11,933,823</b>	<b>\$ -</b>	<b>\$11,933,823</b>

*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, 2021 AND JUNE 30, 2020**

	For the three-month period ended	
	Jun 30, 2021	Jun 30, 2020
<b>Operating activities</b>		<i>(Restated-Note 23)</i>
Comprehensive loss for the period	\$ 276,598	\$ (1,248,233)
Gain on disposal of capital assets	-	(19,382)
Share based payments	31,376	55,336
Interest on bank loans and leases	134,571	95,443
Accretion on convertible debt (note 18a)	290,087	259,728
Accretion on promissory note (note 18b)	-	25,109
Depreciation on capital assets (note 9)	417,081	291,641
Amortization on intangible assets (note 11)	210,490	913,252
Amortization on capitalized commission	39,275	6,077
Provision for income tax	145,813	(57,978)
Loss (gain) on fair value of derivative liability (note 18a)	(174,815)	(74,913)
Net income (loss) from discontinued operations (note 23)	-	(44,381)
Unrealized (gain) loss on investment (19c)	-	(23,600)
	<u>1,370,476</u>	<u>178,099</u>
<b>Net change in non-cash working capital:</b>		
Accounts receivable	448,869	17,644
Inventories	(49,777)	(228,384)
Contract assets (note 6b)	69,623	137,748
Prepaid expenses	(21,654)	(43,873)
Current income tax	285,471	4,600
Accounts payable and accrued liabilities	(1,570,085)	(779,920)
Contract liabilities (note 6b)	(820,283)	(302,578)
	<u>(1,657,836)</u>	<u>(1,194,763)</u>
Cash from (used in) continuing operations	(287,360)	(1,016,664)
Net cash flows attributable to discontinued operations	-	43,423
<b>Net cash from (used in) operating activities</b>	(287,360)	(973,241)
<b>Financing activities</b>		
Proceeds from loans	13,472,592	4,360,000
Principal loan payments	(10,878,972)	(3,118,646)
Principal lease payments (note 14)	(242,048)	(148,144)
Interest on bank loans, convertible debenture, and leases	(279,191)	(240,063)
Promissory note payment (note 18b)	(155,000)	-
Cash from (used in) continuing operations	1,917,381	853,147
Net cash flows attributable to discontinued operations	-	(32,751)
<b>Net cash from (used in) financing activities</b>	1,917,381	820,396
<b>Investing activities</b>		
Purchase of capital assets (note 9)	(180,577)	(101,160)
Disposal of capital assets (note 9)	(148,100)	21,928
Additions to vehicle leases	(4,959)	-
Cash from (used in) continuing operations	(333,636)	(79,232)
Net cash flows attributable to discontinued operations	-	5,920
<b>Net cash from (used in) investing activities</b>	(333,636)	(73,312)
<b>Increase (decrease) in cash during the period</b>	1,296,385	(226,157)
Cash and cash equivalents, beginning of period	1,623,754	1,339,864
<b>Cash and cash equivalents, end of period</b>	<u>\$ 2,920,139</u>	<u>\$ 1,113,707</u>

\*Total interest paid in the period ending June 30, 2021 is \$423,811, June 30, 2020 \$384,683

\*\*Total corporate income tax payments made in the period ending June 30, 2021 is \$NIL, June 30, 2020 \$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, 2021 and June 30, 2020**

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

Avante Logixx Inc. (the “Company”) develops security technologies, products and solutions for personal, condo and commercial protective services, monitoring and control applications, and sells and installs custom-made locks, doors and hardware. All of these activities are conducted through the following subsidiaries: Avante Security Inc. (“Avante Security”), which is 100% owned, Logixx Security Inc. (“Logixx Security”), which is 100% owned and City Wide Locksmiths Ltd. (“City Wide”), in which the Company held a 70% majority interest until sold on September 30, 2020 (see Note 23). The Company’s common shares are listed on the TSX Venture Exchange under the symbol XX.V (OTC: ALXXF).

Avante Security provides premium security services for residential customers in Toronto and Muskoka, Ontario through the use of advanced technology and a focus on client service. Avante Security’s business provides a complete offering ranging from system design, sales, installations, and monitoring to services such as alarm response and patrols, personal protection, house staff training, and secure transportation. Avante Security has a specialized skillset in high-rise security integration, monitoring and electronic building management. It also provides consulting and installation of automation and security solutions for the high-end residential market. Avante Security’s signature offerings are its Rapid Alarm Response services, and its Intelligent Perimeter Protection Video Analytics. Avante Security also provides extensive offerings, which 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 development of Logixx Security into a national business has occurred through organic growth and completion of acquisitions.

City Wide provides security locks, keys and door hardware to residential and commercial customers in the greater Toronto area, with a division catering to preeminent architects, designers and builders in the high-end home markets. City Wide was a 70% owned subsidiary of the Company, but this ownership interest was sold on September 30, 2020 (see Note 23).

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

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

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

These condensed interim consolidated financial statements of the Company have been prepared in accordance with 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, 2021.

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, 2021, and 2020 are not necessarily indicative of the results to be expected for the full year.

## AVANTE LOGIXX INC.

### Notes to Condensed Interim Consolidated Financial Statements

#### For the Three-month Period Ended June 30, 2021 and June 30, 2020

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

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

##### b) Basis of measurement

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

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

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Consolidation

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

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

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

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

Name of entity	Ownership interest held at	
	Jun 30, 2021	Mar 31, 2021
Avante Security Inc.	100%	100%
Logixx Security Inc.	100%	100%

## **AVANTE LOGIXX INC.**

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

#### **For the Three-month Period Ended June 30, 2021 and June 30, 2020**

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

#### **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 16: Property, Plant and Equipment*

The IASB published an amendment to IAS 16 Property, Plant and Equipment on May 14, 2020 that will apply retrospectively to financial statements beginning on or after January 1, 2022. Early adoption is permitted. The amendment clarifies the accounting for the net proceeds from selling any items produced while bringing an item of property, plant and equipment into use. The Company is currently evaluating the impact of the standard on its condensed interim consolidated financial statements and does not expect any retrospective changes 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 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 11. Additionally, while the changes in the estimates and judgements have not had a material impact on Avante Logixx Inc. to date, the effects of COVID-19 have required revisions to estimates of expected credit losses attributed to accounts receivable arising from sales to customers on credit terms, including the incorporation of forward-looking information to supplement historical credit loss rates.

## **AVANTE LOGIXX INC.**

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

#### **For the Three-month Period Ended June 30, 2021 and June 30, 2020**

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#### **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.

##### **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 condensed interim consolidated financial statements are discussed below:

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

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

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

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

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

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

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

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

##### **4. 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.

##### **5. 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, 2021 and June 30, 2020**

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

##### **6. 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").

##### **7. 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.

##### **8. Segment Reporting**

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

#### **Estimates**

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

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

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

## AVANTE LOGIXX INC.

### Notes to Condensed Interim Consolidated Financial Statements

#### For the Three-month Period Ended June 30, 2021 and June 30, 2020

#### 5. EARNINGS (LOSS) PER SHARE

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

	For the three-month period ended	
	Jun 30, 2021	Jun 30, 2020
		<i>restated</i>
Earnings (loss) per share - basic and diluted from continuing operations	\$ 0.013	\$ (0.062)
Earnings (loss) per share - basic and diluted from discontinued operations	-	0.002
Net income (loss) attributable to equity holders of the parent - basic and fully diluted from continuing operations	276,598	(1,316,214)
Net income (loss) attributable to equity holders of the parent - basic and fully diluted from discontinued operations	-	37,082
Total net income (loss) attributable to equity holders of the parent - basic and fully diluted	\$ 276,598	\$ (1,279,132)
Weighted average number of shares outstanding - basic and dilutive	21,192,004	21,192,004

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, with a few commercial guarding exceptions up to 180-day payment terms. Segment revenues by type of service for the three months ended June 30, 2021 and June 30, 2020 were as follows:

	Jun 30, 2021				Jun 30, 2020			
	Logixx Security	Avante Security	Intersegment elimination	Total	Logixx Security	Avante Security	Intersegment elimination	Total
Protective Services	\$ 19,336,818	\$ 1,659,437	\$ (68,878)	\$ 20,927,377	\$ 14,383,195	\$ 1,446,796	\$ (226,355)	\$ 15,603,636
Monitoring and Managed Services	60,102	973,062	-	1,033,164	65,572	881,588	-	947,160
Electronic Services	763,094	1,396,511	-	2,159,605	273,703	1,378,761	-	1,652,464
<b>Total Revenue</b>	<b>\$ 20,160,014</b>	<b>\$ 4,029,010</b>	<b>\$ (68,878)</b>	<b>\$ 24,120,146</b>	<b>\$ 14,722,470</b>	<b>\$ 3,707,145</b>	<b>\$ (226,355)</b>	<b>\$ 18,203,260</b>

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

	Jun 30, 2021	Mar 31, 2021
Work-in-progress - contracts in process	\$ 626,883	\$ 696,506

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

**AVANTE LOGIXX INC.****Notes to Condensed Interim Consolidated Financial Statements****For the Three-month Period Ended June 30, 2021 and June 30, 2020****6. REVENUE RECOGNITION (CONTINUED)**

<b>Contract liabilities balance at March 31, 2021</b>	<b>\$</b>	<b>2,964,149</b>
Additions during the period		1,682,789
Recognized during the period		(2,503,072)
Contract liabilities balance at June 30, 2021 to be recognized in fiscal year 2022		2,088,154
Contract liabilities balance at June 30, 2021 to be recognized after fiscal year 2022		55,712
<b>Contract liabilities balance at June 30, 2021</b>	<b>\$</b>	<b>2,143,866</b>
<b>Balance at March 31, 2020</b>	<b>\$</b>	<b>3,249,301</b>
Additions during the period		2,872,286
Recognized during the period		3,066,823
Balance at June 30, 2020 to be recognized in fiscal year 2021		3,040,058
Balance at June 30, 2020 to be recognized in first three months of fiscal year 2022		14,706
<b>Balance at June 30, 2020</b>	<b>\$</b>	<b>3,054,764</b>

**7. ACCOUNTS RECEIVABLE**

The accounts receivable on the financial statements are net of allowance for doubtful accounts of \$415,104 as at June 30, 2021 (March 31, 2021: \$461,284). Changes in the allowance for doubtful accounts during the period were as follows:

	<b>Jun 30, 2021</b>	<b>Mar 31, 2021</b>
Allowance for doubtful accounts - opening balance	\$ 461,284	\$ 415,077
Net increase/(decrease) during the year	(46,180)	46,207
Allowance for doubtful accounts - closing balance	\$ 415,104	\$ 461,284

As at June 30, 2021 and March 31, 2021, the aging of the Company's accounts receivables was as follows:

	<b>Balance Due</b>	<b>1 - 30 Days</b>	<b>31 - 60 Days</b>	<b>61 - 90 Days</b>	<b>Over 90 Days</b>
Trade receivables	17,081,383	8,014,716	4,874,552	1,149,631	3,042,484
Unbilled trade receivables	1,412,986	1,412,986	-	-	-
Non-trade receivables	82,145	82,145	-	-	-
Allowance for doubtful accounts	(461,284)	-	-	-	(461,284)
Current portion vendor take back loan	56,750	56,750	-	-	-
<b>Balance at March 31, 2021</b>	<b>\$18,171,980</b>	<b>\$9,566,597</b>	<b>\$4,874,552</b>	<b>\$1,149,631</b>	<b>\$2,581,200</b>
Trade receivables	16,419,068	9,721,821	2,407,053	1,037,060	3,253,134
Unbilled trade receivables	1,603,046	1,603,046	-	-	-
Non-trade receivables	93,384	93,384	-	-	-
Allowance for doubtful accounts	(415,104)	-	-	-	(415,104)
Current portion vendor take back loan	60,125	60,125	-	-	-
<b>Balance at June 30, 2021</b>	<b>\$17,760,519</b>	<b>\$11,478,376</b>	<b>\$2,407,053</b>	<b>\$1,037,060</b>	<b>\$2,838,030</b>

The consolidated entity has recognized a loss of \$30,750 at June 30, 2021 (June 30, 2020: \$15,603) in profit or loss in respect of the expected credit losses for the year. As at June 30, 2021, there was \$3,253,134 (March 31, 2021: \$3,042,484) of accounts receivable outstanding for over 90 days of which management did not consider \$2,838,030 (March 31, 2021: \$2,581,200) impaired.

# AVANTE LOGIXX INC.

## Notes to Condensed Interim Consolidated Financial Statements

### For the Three-month Period Ended June 30, 2021 and June 30, 2020

#### 8. INVENTORIES

	Jun 30, 2021	Mar 31, 2021
Inventory	\$ 1,667,486	\$ 1,617,709

All inventory is considered finished goods. Inventory expensed to cost of sales during the three-month period ended June 30, 2021, amounted to \$430,305 (June 30, 2020: Continuing operations \$526,322).

#### 9. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment	Equipment, furniture and fixtures	Leasehold improvements	Computer software	Right-of-use asset	Vehicles	Uniforms	Buildings	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>									
Balance at March 31, 2021	568,733	727,001	764,363	398,833	2,990,909	103,248	749,583	473,300	6,775,968
Additions during the period	10,776	17,275	477	-	1,670,314	-	152,051	-	1,850,893
Disposals during the period	-	-	-	-	64,213	-	-	-	64,213
Balance at June 30, 2021	579,509	744,276	764,840	398,833	4,597,010	103,248	901,634	473,300	8,562,648
<b>Accumulated depreciation</b>									
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	12,575	13,699	45,046	24,694	221,206	32,125	63,003	4,733	417,081
Depreciation from discontinued operations for the period	-	-	-	-	-	-	-	-	-
Disposals during the period	-	-	-	-	15,463	-	-	-	15,463
Balance at June 30, 2021	417,755	460,861	723,209	262,366	1,155,845	78,156	150,746	50,486	3,299,424
<b>Carrying Amounts</b>									
Balance at March 31, 2021	163,552	279,839	86,200	161,161	2,040,807	57,216	661,840	427,548	3,878,162
Balance at June 30, 2021	\$ 161,754	\$ 283,415	\$ 41,631	\$ 136,467	\$ 3,441,165	\$ 25,092	\$ 750,888	\$ 422,814	\$ 5,263,226

	Computer equipment	Equipment, furniture and fixtures	Leasehold improvements	Computer software	Right-of-use asset	Vehicles	Uniforms	Buildings	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>									
Balance at March 31, 2020	\$577,386	\$ 900,768	\$ 1,085,837	\$ 392,198	\$ 3,178,780	\$ 521,711	\$ -	\$473,300	\$ 7,129,980
Additions during the period	1,859	11,039	-	5,180	100,723	-	83,082	-	201,883
Disposals during the period	-	3,624	-	-	51,844	31,454	-	-	86,922
Balance at June 30, 2020	\$579,245	\$ 908,183	\$ 1,085,837	\$ 397,378	\$ 3,227,659	\$ 490,257	\$ 83,082	\$473,300	\$ 7,244,941
<b>Accumulated depreciation</b>									
Balance at March 31, 2020	415,957	607,601	643,388	232,431	895,125	319,115	-	26,821	3,140,438
Depreciation from continuing operations for the period	12,334	11,374	39,445	40,210	172,302	9,018	2,225	4,733	291,641
Depreciation from discontinued operations for the period	489	1,634	9,579	775	24,544	8,088	-	-	45,109
On disposals during the period	-	-	-	-	33,539	25,535	-	-	59,074
Balance at June 30, 2020	428,780	620,609	692,412	273,416	1,058,432	310,686	2,225	31,554	3,418,114
<b>Carrying Amounts</b>									
Balance at March 31, 2020	161,429	293,167	442,449	159,767	2,283,655	202,595	-	446,479	3,989,542
Balance at June 30, 2020	\$150,465	\$ 287,573	\$ 393,425	\$ 123,962	\$ 2,169,227	\$ 179,571	\$ 80,857	\$441,746	\$ 3,826,827

Depreciation expense included in the statement of income is \$417,081, (June 30, 2020: \$291,641 continuing operations) for the three-month period ended June 30, 2021.

## AVANTE LOGIXX INC.

### Notes to Condensed Interim Consolidated Financial Statements

#### For the Three-month Period Ended June 30, 2021 and June 30, 2020

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

The Company carries two categories of right-of-use assets: vehicles and property. At June 30, 2021 the carrying amount of vehicles under lease was \$2,711,596 (March 31, 2021: \$1,629,601), with \$112,892 of depreciation included in the statement of income for the three-month period ended June 30, 2021, (June 30, 2020: \$102,512 continuing operations).

The right-of-use asset property had a carrying amount of \$1,885,414 at June 30, 2021 (March 31, 2021: \$411,206). Depreciation in the amount of \$108,314 is included in the statement of income for the three-month period ended June 30, 2021, (June 30, 2020: \$69,790 continuing 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 credit facilities established with the Company's bankers (Note 13). Gains and losses on disposals are booked in the miscellaneous (income) expense line on the income statement.

#### 10. CAPITALIZED COMMISSION

Commissions on long-term contracts (12 months in length or longer) are capitalized at the initiation of the contract and amortized over the length of the contract as revenue is recognized. The unamortized amount of commission on long-term contracts as of June 30, 2021 was \$236,206 (March 31, 2021: \$275,482), with \$39,275 amortized in the three-month period ended June 30, 2021 (June 30, 2020: \$6,077).

#### 11. GOODWILL AND INTANGIBLE ASSETS

##### A. INTANGIBLE ASSETS

	Tradename City Wide	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
Balance at June 30, 2021	-	3,585,266	8,658,097	262,000	200,000	12,705,364
<u>Amortization</u>						
Balance at March 31, 2021	\$ -	\$ 3,585,266	\$ 2,926,183	\$ 262,000	\$ 53,333	\$ 6,826,783
Amortization for the period	-	-	200,490	-	10,000	210,490
Balance at June 30, 2021	-	3,585,266	3,126,673	262,000	63,333	7,037,273
<u>Carrying amounts</u>						
Balance at March 31, 2021	\$ -	\$ -	\$ 5,731,914	\$ -	\$ 146,667	\$ 5,878,581
Balance at June 30, 2021	\$ -	\$ -	\$ 5,531,424	\$ -	\$ 136,667	\$ 5,668,091

## AVANTE LOGIXX INC.

### Notes to Condensed Interim Consolidated Financial Statements

#### For the Three-month Period Ended June 30, 2021 and June 30, 2020

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

	Tradename City Wide	Tradename Others	Customer relationships	Backlog	Non-compete	Total
	\$	\$	\$	\$	\$	\$
<b>Cost</b>						
Balance at March 31, 2020	\$ 677,000	\$ 3,585,266	\$ 9,460,097	\$ 293,000	\$ 200,000	\$ 14,215,364
Balance at June 30, 2020	<b>677,000</b>	<b>3,585,266</b>	<b>9,460,097</b>	<b>293,000</b>	<b>200,000</b>	<b>14,215,364</b>
<b>Amortization</b>						
Balance at March 31, 2020	\$ 6,510	\$ 854,418	\$ 2,445,023	\$ 293,000	\$ 13,333	\$ 3,612,285
Amortization for the period	-	682,712	220,540	-	10,000	913,252
Amortization from discontinued operations for the period	781	-	-	-	-	781
Balance at June 30, 2020	<b>7,292</b>	<b>1,537,130</b>	<b>2,665,563</b>	<b>293,000</b>	<b>23,333</b>	<b>4,526,319</b>
<b>Carrying amounts</b>						
Balance at March 31, 2020	\$ 670,490	\$ 2,730,848	\$ 7,015,074	\$ -	\$ 186,667	\$ 10,603,078
Balance at June 30, 2020	<b>\$ 669,708</b>	<b>\$ 2,048,136</b>	<b>\$ 6,794,534</b>	<b>\$ -</b>	<b>\$ 176,667</b>	<b>\$ 9,689,045</b>

On company amalgamations, the previously acquired intangible asset tradename from externally acquired entities useful life decreases as operations are merged. The Company's management has assessed no impairment as there is a period of operations during which both the purchased tradename and the existing tradename are utilized. As such, the purchased tradename assets for Intelligarde (rebranded to Logixx Security effective June 21, 2019), Veridin (amalgamated into Logixx Security on December 2, 2019), and ASAP (amalgamated into Logixx Security on April 1, 2020) were amortized in full over the fiscal year ending March 31, 2021.

Intangible amortization expensed in the condensed interim consolidated statement of income is \$210,490 for the three-month period ended June 30, 2021 (June 30, 2020: Continuing operations \$913,252, Discontinued operations \$781).

#### B. GOODWILL

<b>Balance at March 31, 2020</b>	<b>\$ 10,533,743</b>
Disposal of discontinued operations (Note 23)	(896,712)
Settlement of purchase holdback of ASAP	(36,554)
<b>Balance at March 31, 2021</b>	<b>\$ 9,600,477</b>
<b>Balance at June 30, 2021</b>	<b>\$ 9,600,477</b>

The above intangible assets and goodwill were acquired upon the acquisitions of the businesses of INTO Electronics Inc. at August 22, 2014, LVS Inc. at April 1, 2015, Architronics Limited ("Architronics") at March 1, 2017, Watermark Security Inc. at August 1, 2018, Veridin Systems Canada Inc. at September 16, 2018, Intelligarde International Inc. (currently doing business as Logixx Security Inc.) at November 30, 2018 and A.S.A.P Secured Inc. at December 1, 2019.

INTO Electronics, LVS Inc, Architronics, and Watermark were previously amalgamated into Avante Security, and doing business under that name. Veridin was previously amalgamated into Logixx Security, and ASAP was amalgamated into Logixx Security on April 1, 2020 with both doing business as Logixx Security Inc.

As at March 31, 2020, the goodwill balance also reflected goodwill acquired upon the acquisition of City Wide Locksmiths Ltd. on April 1, 2016. However, such goodwill balance was removed as of September 30, 2020 concurrent with the Company's sale of this ownership interest on September 30, 2020 (Note 23).

## **AVANTE LOGIXX INC.**

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

#### **For the Three-month Period Ended June 30, 2021 and June 30, 2020**

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

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

#### **Amortization**

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

#### **12. BUSINESS ACQUISITIONS**

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

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

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 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.

## AVANTE LOGIXX INC.

### Notes to Condensed Interim Consolidated Financial Statements

#### For the Three-month Period Ended June 30, 2021 and June 30, 2020

#### 13. BANK INDEBTEDNESS AND VEHICLE LOANS

Current and non-current bank indebtedness and vehicle loans was comprised of the following as at June 30, 2021 and March 31, 2021:

	Jun 30, 2021			Mar 31, 2021		
	Current Portion	Long-Term Portion	Total	Current Portion	Long-Term Portion	Total
Line of credit	\$ -	\$ 3,650,000	\$ 3,650,000	\$ -	\$ -	\$ -
Term Loans	337,857	5,359,182	5,697,039	1,668,221	4,687,783	\$ 6,356,004
Mortgage	-	-	-	8,942	345,371	\$ 354,313
Total credit facilities	337,857	9,009,182	9,347,039	1,677,163	5,033,154	6,710,317
Vehicle Loans	21,898	33,276	55,174	26,118	34,749	60,867
<b>Balance at June 30</b>	<b>\$ 359,755</b>	<b>\$ 9,042,458</b>	<b>\$ 9,402,213</b>	<b>\$ 1,703,281</b>	<b>\$ 5,067,903</b>	<b>\$ 6,771,184</b>

On June 30, 2021, the Company entered into a senior secured credit agreement with a bank that fully replaced the Company's senior secured banking arrangements and mortgage provided by its former bank. The new credit agreement provides an \$8,000,000 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 has the ability to draw upon Facility A and is subject to a borrowing base consisting of eligible cash, accounts receivable, and inventory. The Company may draw upon Facility B in two tranches; Tranche 1 has a limit of \$6,000,000 and Tranche 2 has 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 is available until December 31, 2022, to fund delayed purchase price payments or other funding requirements applicable to future permitted acquisitions. Repayment of drawings under the term loan and delayed-draw credit facilities will occur at the rate of 2.50% per quarter with the remaining balance due on the maturity date. The new credit agreement also provides for a corporate credit card facility and hedge-transaction credit facilities.

Security for the new credit agreement consists 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 these senior secured credit facilities, on a rolling four-quarter basis, the Company must 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. Interest and standby fees in respect of the credit facilities are subject to a leverage-ratio based pricing grid and, as at June 30, 2021, was the bank's prime rate plus 0.50%, and standby fees of 0.50%.

Term loans pursuant to Facility B, and the former the acquisition facility, consisted of the following drawings:

	Initial Draw	Interest Rate	Balance Due		Maturity Date
			Jun 30, 2021	Mar 31, 2021	
Facility 1	\$ 3,000,000	4.9%	\$ -	\$ 1,740,885	-
Facility 2	1,750,000	prime rate + 1%	-	1,358,782	-
Facility 3	1,000,000	prime rate + 1%	-	766,667	-
Facility 4	2,625,000	prime rate + 1%	-	2,625,000	-
Facility B	6,000,000	prime rate + 0.5%	6,000,000	-	May 2024
Deferred Financing	(208,841)	-	(302,961)	(135,330)	February 2024
<b>Total</b>	<b>\$ 14,166,159</b>		<b>\$ 5,697,039</b>	<b>\$ 6,356,004</b>	

To facilitate transfer to new banking arrangements on June 30, 2020, the former bank is holding a specific pledge against guaranteed investment certificates owned by the Company amounting to \$584,000 as of June 30, 2021 in support of an outstanding letter of credit and usage under corporate credit cards provided by that bank. Such guaranteed investment certificates are included within cash and cash equivalents on the condensed interim consolidated statements of financial position.

## AVANTE LOGIXX INC.

### Notes to Condensed Interim Consolidated Financial Statements

#### For the Three-month Period Ended June 30, 2021 and June 30, 2020

#### 14. OBLIGATIONS UNDER LEASE

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

	Vehicle lease liability	Property lease liability	Total liability
<b>Balance at March 31, 2021</b>	<b>\$ 1,733,060</b>	<b>\$ 447,865</b>	<b>\$ 2,180,925</b>
Additions during the period	581,409	1,083,948	1,665,357
Disposals during the period	(196,849)	-	(196,849)
Principal payments	(130,912)	(111,136)	(242,048)
<b>Balance at June 30, 2021</b>	<b>1,986,708</b>	<b>1,420,677</b>	<b>3,407,385</b>
Current obligations under lease	561,362	369,755	931,117
Long-term obligations under lease	1,425,346	1,050,922	2,476,268
<b>Total Balance at June 30, 2021</b>	<b>\$ 1,986,708</b>	<b>\$ 1,420,677</b>	<b>\$ 3,407,385</b>

The Company leased certain vehicles with a value of \$1,986,708 (March 31, 2021: \$1,733,060), at an effective annual rate of interest of 7.69% (March 31, 2021: 8.49%). Blended monthly payments of \$56,914 plus applicable taxes (March 31, 2021: \$56,279) for 48 to 60 months ending between July 2021 and January 2026, with a buy out obligation of \$800,629 (March 31, 2021: \$977,741). Interest expense from these leases, included in the statement of income for the three-month period ended June 30, 2021 is \$33,458 (June 30, 2020: \$14,042).

Various office properties with a value of \$1,420,677 (March 31, 2021: \$447,865), are leased with blended monthly payments of \$29,641 plus applicable taxes (March 31, 2021: \$18,964). An incremental borrowing rate of 4.80% is used. The property leases end between January 2023 and December 2025. Interest expense from these leases, included in the statement of income for the three-month period ended June 30, 2021 was \$17,757 (June 30, 2020: \$12,116).

#### 15. SHAREHOLDERS' EQUITY

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

Unlimited common shares	Number of Shares	Amount
<b>Balance at March 31, 2020</b>	21,192,004	\$21,434,492
<b>Balance at March 31, 2021</b>	21,192,004	\$21,434,492
<b>Balance at June 30, 2021</b>	21,192,004	\$21,434,492

##### [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.

**AVANTE LOGIXX INC.****Notes to Condensed Interim Consolidated Financial Statements****For the Three-month Period Ended June 30, 2021 and June 30, 2020****15. SHAREHOLDERS' EQUITY (CONTINUED)**

On September 29, 2015, the shareholders of the Company approved an amendment to the stock option plan whereby it reverted to a 10% rolling stock option plan. This plan is approved annually by the shareholders of the Company and was again approved by the shareholders on September 17, 2020. Accordingly, the Company has a total of 679,200 options available to be issued as at June 30, 2021, with the maximum term remaining at 10 years (March 31, 2021: 679,200). Prior to September 29, 2015, the Company had an Option plan whereby it could issue a maximum of 7,145,000 options with a term of up to 10 years.

	Number of Options	Weighted Average Exercise Price
<b>Balance at March 31, 2020</b>	<b>1,770,333</b>	<b>\$1.97</b>
Options cancelled during the year	(325,000)	1.99
Options expired during the year	(55,333)	1.58
Option granted during the year	50,000	1.55
<b>Balance at March 31, 2021</b>	<b>1,440,000</b>	<b>\$1.97</b>
<b>Balance at June 30, 2021</b>	<b>1,440,000</b>	<b>\$1.97</b>

No share options were granted during the three-month period ended June 30, 2021, (June 30, 2020: NIL). The weighted average grant date fair values of share options granted during the year ended March 31, 2021 were \$0.75 per option, (March 31, 2020: \$0.89). All options were granted at an exercise price greater than or equal to the trading price on the day of the grant that is considered fair value. Options were granted in the year ending March 31, 2021 totaling 50,000 options at an exercise price of \$1.55. None of the outstanding options were exercised in the three-month period ended June 30, 2021 or during the twelve-month period ended March 31, 2021. All options granted in the year ending March 31, 2021 expire in October 2025.

Using the Black-Scholes pricing model, the Company recognized \$25,108 of share based compensation, during the three-month period ending June 30, 2021 (June 30, 2020: \$55,336).

In calculating the share-based compensation expense, the Company used the assumptions as listed below as at the date of grants in prior years:

	Fiscal 2021	Fiscal 2020
Risk-free interest rate	0.80%	1.75%
Expected volatility	80.51%	55.33 to 66.31%
Expected time until exercise	5 years	5 years
Expected dividend yield	NIL	NIL
Expected forfeiture	5%	5%
Share price	\$0.99	\$1.50 to \$1.55

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

## AVANTE LOGIXX INC.

### Notes to Condensed Interim Consolidated Financial Statements

#### For the Three-month Period Ended June 30, 2021 and June 30, 2020

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

The following table summarizes stock options vested and outstanding at June 30, 2021:

Grant Date	Outstanding	Remaining	Vested	Exercise Price	Expiry Date
2016-09-06	15,000	0.44	15,000	1.30	2021-09-06
2017-10-29	15,000	1.58	15,000	1.30	2022-10-29
2018-01-10	200,000	1.78	200,000	1.65	2023-01-10
2018-01-10	200,000	1.78	200,000	1.90	2023-01-10
2018-01-10	200,000	1.78	200,000	2.20	2023-01-10
2018-01-10	200,000	1.78	-	2.55	2023-01-10
2018-09-19	65,000	2.47	21,667	2.25	2023-09-19
2018-10-02	200,000	2.51	66,667	2.25	2023-10-02
2019-12-02	95,000	3.68	-	1.55	2024-12-02
2020-01-20	200,000	3.81	-	1.55	2025-01-20
2020-10-14	50,000	4.54	-	1.55	2025-10-14
	1,440,000	2.38	718,334	\$1.97	

#### 16. PERFORMANCE SHARE UNITS

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

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

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

- The Company's share price on the valuation date, which was \$1.48 per share on June 30, 2021;
- The remaining term and number of trading days from the valuation date until the vesting date of March 31, 2023;
- The average expected annual return on the Company's shares of 15.0% as of June 30, 2021;
- The expected volatility of the price of the Company's common shares as of the valuation date, which was 75.0% on June 30, 2021; and
- The average risk-free interest rate over the remaining term of 2.06% as of June 30, 2021.

## **AVANTE LOGIXX INC.**

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

#### **For the Three-month Period Ended June 30, 2021 and June 30, 2020**

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#### **16. PERFORMANCE SHARE UNITS (CONTINUED)**

The present value of such estimated potential liability is recalculated by the Company every fiscal quarter end. Within Accounts Payable and Accrued Liabilities on the Condensed Interim Consolidated Statement of Financial Position, the Company reflects the net present value of the potential obligation, prorated by the number of months that have elapsed since the date of grant versus the total number of months from the PSU grant date to the maturity date. The difference between the balance sheet liability amounts at the balance sheet date versus the fiscal period's opening liability is reflected as an expense, or recovery, within Share Based Payments on the Condensed Interim Consolidated Statements of Income and Comprehensive Income. At June 30, 2021, the present value of the estimated potential liability on March 31, 2023 is \$105,000. The expense reflected in the three-month period ending June 30, 2021 was \$6,268 (June 30, 2020: \$NIL).

#### **17. INCOME TAXES**

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

For the three-month period ending June 30, 2021, the Company recognized current income tax expense of \$285,471 (June 30, 2020: \$3,780). For the three-month period ending June 30, 2021 the Company recognized deferred income tax expense of \$145,813 (June 30, 2020: recovery of \$57,168). 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, 2022.

#### **18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

##### **[a] Convertible debentures**

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

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

Pursuant to the indenture, the Company's consolidated total indebtedness (excluding the Convertible Debentures) shall not exceed 6.5 times Adjusted EBITDA on a rolling four quarter basis and consolidated senior indebtedness shall not exceed 3.5 times Adjusted EBITDA on a rolling four quarter basis. The Company was in compliance with the financial covenants applicable to the debenture for the reporting period on June 30, 2021, and accordingly, the accounting treatment is to categorize the convertible debentures as non-current liabilities.

**AVANTE LOGIXX INC.****Notes to Condensed Interim Consolidated Financial Statements****For the Three-month Period Ended June 30, 2021 and June 30, 2020****18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

While the total contractual liability excluding future interest payments is \$8,264,000, for accounting purposes the convertible debentures are compound financial instruments containing a principal debt and interest component and a conversion option. The conversion option is classified as a derivative financial liability, as the option is not closely related to the principal debt and features of the conversion option may result in conversion of debt into a variable number of common shares. The debentures do not meet the IAS 32(16) fixed-for-fixed test as conversion of debt into a variable number of common shares results from the Company declaring a dividend, a stock split, granting options, warrant, or shares at less than 95% of the current market price. The conversion option was separated from the host debt and valued at its fair value on the date of issuance, with all attributable transaction costs expenses when incurred. The Company valued the derivative liability component of the debenture using the number of common shares issued per increment of principal and the Black Scholes pricing model, at a risk free interest rate of 0.73% (March 31, 2020: 1.52%), volatility of 66.82% (March 31, 2020: 68.56%), which is based on historical volatility of the Company's common shares, an expected maturity date of five years from the date of issue and no dividends issued by the Company over that time frame.

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

On initial recognition, the conversion option derivative liability component was \$3,948,551 and the host debt liability component was \$4,158,105 net of transaction cost attributable to the debt component. Transaction costs in the amount of \$143,967 were expensed in the year ending March 31, 2020 attributable to the conversion option. The conversion option derivative liability is reported at fair value, with gains and losses included in other expenses on the statement of income and comprehensive income. For the three-month period ended June 30, 2021 a gain of \$174,815 was recognized (June 30, 2020: \$74,913).

Accretion charges attributable to the debenture of \$290,087 were included in interest expense on the statement of income and comprehensive income in the three-month period ending June 30, 2021, of which \$144,620 relates to interest paid or owing (June 30, 2020: \$259,728 of which \$144,620 related to interest paid or owing).

	Liability component	Derivative liability	Total carrying amount
<b>7% Debenture (Issued November 27, 2019)</b>			
<b>Balance at March 31, 2020</b>	<b>\$ 4,309,637</b>	<b>\$ 1,738,308</b>	<b>\$ 6,047,945</b>
Accretion of debenture	1,082,232	-	1,082,232
Interest	(578,480)	-	(578,480)
Fair value loss	-	2,070,094	2,070,094
<b>Balance as of March 31, 2021</b>	<b>\$ 4,813,389</b>	<b>\$ 3,808,402</b>	<b>\$ 8,621,791</b>
Accretion of debenture	290,087	-	290,087
Interest	(144,620)	-	(144,620)
Fair value (gain)/loss	-	(174,815)	(174,815)
<b>Balance as of June 30, 2021</b>	<b>\$ 4,958,856</b>	<b>\$ 3,633,587</b>	<b>\$ 8,592,443</b>
Contractual liability			\$ 8,264,000

**AVANTE LOGIXX INC.****Notes to Condensed Interim Consolidated Financial Statements****For the Three-month Period Ended June 30, 2021 and June 30, 2020****18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)****[b] Financial liabilities**

On December 2, 2019, the Company issued a Promissory Note as part of the acquisition of A.S.A.P. Secured Inc. The Promissory Note was payable on March 4, 2021 and the amount payable ranged from \$NIL to \$2,625,000 depending on the performance of the acquired business over the first twelve months from acquisition closing. On the date of issue in November 2020, the Promissory Note was discounted at a rate of 3.95% for accounting purposes. The face value of the Promissory Note was paid in two installments on March 4, 2021 and April 5, 2021 net of \$36,554 for a purchase price reduction agreed between the parties and legal fees in respect of third-party claims paid by the Company but attributable to the vendor. This total net payment was funded by drawing on the unused portion of the \$10,000,000 acquisition facility provided by the Company's former bank (Note 13).

<b>Promissory note (issued December 1, 2019)</b>	<b>Carrying amount</b>	
<b>Balance at March 31, 2020</b>	<b>\$</b>	<b>2,534,341</b>
Accretion for the period		90,659
Payment		(2,429,501)
Reduction in purchase price		(36,554)
Reimbursement of expenses		(3,945)
<b>Balance at March 31, 2021</b>	<b>\$</b>	<b>155,000</b>
Payment		(155,000)
<b>Balance at June 30, 2021</b>	<b>\$</b>	<b>0</b>

**[c] Financial assets**

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

The release conditions were dependent on the completion of the Reverse Take-Over ("RTO") of Petro Vista by 3 Sixty. The classification of the subscription is fair value level 2, to other comprehensive income and will be reported at fair value with gains and losses included in other comprehensive income. On January 4, 2019, the RTO of Petro Vista by 3 Sixty took place, fulfilling the escrow release conditions and the Receipts were converted to one underlying share of 3 Sixty in accordance with the provisions of the Subscription Receipt Agreement. The investment in 3 Sixty is now classified as a level 1 to other comprehensive income and is reported at fair value based on quoted market prices in active markets.

On July 15, 2020, 3 Sixty announced a delay to filing 2019 fiscal year end financial results and the intention to file amended and restated interim financial statements. In response, the Ontario Securities Commission issued a cease trade order on 3 Sixty's shares. Effective July 14, 2021 the shares were delisted. No unrealized gains or losses were recognized in the three-month period ended June 30, 2021, however a gain of \$23,600 was recorded for the three-month period ended June 30, 2020.

The Company, while making this investment in 3 Sixty, also signed a memorandum of understanding with 3 Sixty, signed on September 26, 2018, in which 3 Sixty will refer business to the Company on a preferred basis for a number of services ancillary to the cannabis industry, including certain executive security and residential services, integrated security systems, and risk management and due diligence services related to employees and contractors such as employee background screening and duty of care compliance programs.

**AVANTE LOGIXX INC.****Notes to Condensed Interim Consolidated Financial Statements****For the Three-month Period Ended June 30, 2021 and June 30, 2020****18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

	Subscription receipts	Investment
<b>Balance at March 31, 2019</b>	1,180,000	590,000
Change in fair value		(542,800)
<b>Balance at March 31, 2020</b>		\$ 47,200
Change in fair value		(47,200)
<b>Balance at March 31, 2021</b>		\$ -
<b>Balance at June 30, 2021</b>		\$ -

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

**[d] Risk management**

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

- Market Risk
- Credit Risk
- Liquidity Risk

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

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

**General Objectives, Policies and Processes:**

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

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

## **AVANTE LOGIXX INC.**

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

#### **For the Three-month Period Ended June 30, 2021 and June 30, 2020**

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

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

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

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

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

During the three-month period ended June 30, 2021, approximately 19.5% of the Company's revenues were received or receivable in U.S. dollars, while a smaller percentage of its total costs were paid or payable in U.S. dollars. The impact of a 1% change in the foreign exchange rate would be a \$170,000 or a 0.2% change to the Company's net loss for the year and total comprehensive loss for the year on the statements of loss and comprehensive loss. A significant change in the currency exchange rates of the U.S. dollar relative to the Canadian dollar could have an adverse effect on the Company's results of operations, financial position and cash flows.

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

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. At June 30, 2021, the Company has a revolving credit facility and bank loans subject to floating interest rates amounting to \$9,650,000 (March 31, 2021: \$4,750,449). This interest rate risk is offset by the potential changes in the interest rate offered on cash and cash equivalents held with chartered Canadian financial institutions. The Company considers its net exposure to interest rate risk to be immaterial as the majority of its total debt, including convertible debentures and net of cash balances, is payable at fixed interest rates.

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

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. As the market price of the Company's common shares increases, the likelihood of the Company having an obligation on March 31, 2023 under the PSU's increases (refer to Note 16).

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

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. For credit risk on accounts receivable see Note 7. Financial instruments, which are potentially subject to credit risk for the Company consist primarily of cash and cash equivalents as well as the secured vendor take back note due from the purchasers of City Wide. The carrying amounts of financial assets represent the maximum credit exposure. The Company has gross credit exposure at June 30, 2021 relating to cash of \$2,920,139 (March 31, 2021: \$1,623,754). All cash is held in Canadian banks which have credit ratings of AA- or 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.

## AVANTE LOGIXX INC.

### Notes to Condensed Interim Consolidated Financial Statements

#### For the Three-month Period Ended June 30, 2021 and June 30, 2020

#### 18. 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. The key to success in managing liquidity is the degree of certainty in the cash flow projections. If future cash flows are fairly uncertain, the liquidity risk increases.

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

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

	Up to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Contractual amount	Carrying amount
<b>At March 31, 2021</b>	<b>\$ 11,551,632</b>	<b>\$ 2,309,150</b>	<b>\$ 3,321,513</b>	<b>\$ 12,869,974</b>	<b>\$ 1,032,887</b>	<b>\$ 31,085,156</b>	<b>\$ 28,157,120</b>
Accounts payable and accrued liabilities	8,864,400	-	-	-	-	8,864,400	8,864,400
Bank indebtedness and vehicle loans	201,396	568,847	688,399	8,704,143	3,809	10,166,594	9,402,213
Obligations under lease	302,345	877,582	1,225,809	1,282,742	-	3,688,478	3,407,385
Convertible debentures	-	578,480	578,480	9,073,872	-	10,230,832	8,592,443
<b>At June 30 2021</b>	<b>\$ 9,368,141</b>	<b>\$ 2,024,909</b>	<b>\$ 2,492,688</b>	<b>\$ 19,060,757</b>	<b>\$ 3,809</b>	<b>\$ 32,950,304</b>	<b>\$ 30,266,441</b>

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

The working capital as at June 30, 2021 was \$10,908,661 compared to \$6,571,570 at March 31, 2021.

##### 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. To date there are no significant adverse impacts to the Company related to COVID-19.

The Company sold its non-wholly owned subsidiary, City Wide, on September 30, 2020 (Note 23). City Wide qualified for the Government of Canada's Canada Emergency Wage Subsidy ("CEWS") program and recorded \$125,412 in government grants earned and received during the six-month period ending September 30, 2020 reflected within the loss from discontinued operations for the Company's fiscal year ended March 31, 2021. There were no unfilled conditions or other contingencies attached to the government assistance that was recognized.

## **AVANTE LOGIXX INC.**

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

#### **For the Three-month Period Ended June 30, 2021 and June 30, 2020**

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

##### **Determination of fair value**

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

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

##### **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 marker data (unobservable inputs).
- All financial instruments at fair value are level 1, except conversion option and promissory note which are considered level 2.

#### **19. CAPITAL MANAGEMENT**

The Company monitors its cash, 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 taking on new customers. The Company's officers and senior management are responsible for managing the capital and do so through monthly meetings and regular review of financial information. The Board of Directors is responsible for overseeing this process. The Company manages capital with the objective of maintaining adequate capital resources through the optimization of the cash flows from operations and capital transactions.

In the prior year, the Company received a waiver of the financial covenant breaches before the reporting period ended, June 30, 2020, with no change to accounting treatment. At June 30, 2021, the Company was in compliance with all covenants with its lenders.

## AVANTE LOGIXX INC.

### Notes to Condensed Interim Consolidated Financial Statements

#### For the Three-month Period Ended June 30, 2021 and June 30, 2020

#### 20. RELATED PARTY TRANSACTIONS

The Company entered into a contract effective May 1, 2018 with a private company controlled by a significant shareholder to provide consulting services for the Company. The Company incurred \$70,567 of expense in the three-month period ended June 30, 2021 (June 30, 2020: \$32,419).

The Company entered into a contract with a private company controlled by a significant shareholder and officer of the Company to provide services for the Company. For the three-month period ended June 30, 2021 the Company incurred \$5,275 (June 30, 2020: \$1,915) for these services.

Remuneration of Directors and Officers was as follows:

Directors and Officers Remuneration	For the three-month period ended	
	Jun 30, 2021	Jun 30, 2020
Salaries, short term employee benefits	212,723	161,538
Share based payments	27,120	49,135
	239,843	210,673

#### 21. REORGANIZATION AND ACQUISITION COSTS

The Company incurred reorganization and acquisition costs in the amount of \$350,842 for the three-month period ended June 30, 2021, (June 30, 2020: \$431,435). These costs included \$248,465 of bank and legal fees related to the terminated credit agreement (note 13), and \$102,377 of professional fees paid to consultants, financial and legal advisors for business acquisitions undertaken by the Company, fees related to business amalgamations, rebranding, reorganization expenses. The three-month period ended June 30, 2020 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.

#### 22. SEGMENT REPORTING

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

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.

Revenues from one customer of the Company's Logixx Security segment represents approximately \$3,666,034, or 15.2% of the Company's consolidated revenues during the three-month period ended June 30, 2021.

**AVANTE LOGIXX INC.**

**Notes to Condensed Interim Consolidated Financial Statements**

**For the Three-month Period Ended June 30, 2021 and June 30, 2020**

**22. SEGMENT REPORTING (CONTINUED)**

Segment statements of loss and comprehensive loss for the three-month period ending June 30, 2021 and June 30, 2020 are included below:

	For the three-months ended June 30, 2021				Total
	Logixx Security	Avante Security	Corporate	Intersegment eliminations	
<b>Revenues</b>	\$ 20,160,014	\$ 4,029,010	\$ -	\$ (68,878)	\$ 24,120,146
<b>Cost of sales</b>	15,973,331	2,321,489	-	(68,878)	18,225,942
<b>Gross profit</b>	4,186,683	1,707,521	-	-	5,894,204
<b>Operating expenses</b>					
Salaries, benefits and commissions	1,108,192	707,684	739,163	-	2,555,039
Administration	1,031,387	671,637	(444,657)	-	1,258,367
Depreciation on capital assets	177,941	194,239	44,901	-	417,081
Amortization on intangible assets	-	-	210,490	-	210,490
Merchant transaction fees and bank charges	7,536	50,932	1,094	-	59,562
Share based payments	-	-	31,376	-	31,376
	2,325,056	1,624,492	582,367	-	4,531,915
<b>Income (loss) before other income and expenses</b>	1,861,627	83,029	(582,367)	-	1,362,289
<b>Other (income) expenses</b>					
Miscellaneous (income) expense	(15,577)	(16,237)	9,816	-	(21,998)
Interest expense	325,810	27,141	71,707	-	424,658
Foreign exchange (gain) loss	74,623	1,097	-	-	75,720
Loss in fair value of derivative liability	-	-	(174,815)	-	(174,815)
<b>Total Other (income) expenses</b>	384,856	12,001	(93,292)	-	303,565
<b>Income (loss) before reorganization, and acquisition costs</b>	1,476,771	71,028	(489,075)	-	1,058,724
Reorganization and acquisition costs	34,637	-	316,205	-	350,842
<b>Income (loss) before income taxes</b>	1,442,134	71,028	(805,280)	-	707,882
<b>Provision for income taxes</b>					
Current income tax expense (recovery)	285,471	-	-	-	285,471
Deferred income tax expense (recovery)	136,921	61,942	(53,050)	-	145,813
	422,392	61,942	(53,050)	-	431,284
<b>Net Income (loss) for the period</b>	1,019,742	9,086	(752,230)	-	276,598
<b>Total comprehensive income (loss) for the period</b>	\$ 1,019,742	\$ 9,086	\$ (752,230)	\$ -	\$ 276,598

**AVANTE LOGIXX INC.**
**Notes to Condensed Interim Consolidated Financial Statements**
**For the Three-month Period Ended June 30, 2021 and June 30, 2020**
**22. SEGMENT REPORTING (CONTINUED)**

	For the three-months ended June 30, 2020				
	Logixx Security	Avante Security	Corporate	Intersegment eliminations	Total
<b>Revenues</b>	\$ 14,722,070	\$ 3,707,545	\$ -	\$ (226,355)	\$ 18,203,260
<b>Cost of sales</b>	12,225,886	2,080,637	-	(226,355)	14,080,168
<b>Gross profit</b>	2,496,184	1,626,908	-	-	4,123,092
<b>Operating expenses</b>					
Salaries, benefits and commissions	1,008,386	684,228	531,942	-	2,224,556
Administration	1,088,885	689,981	(604,759)	-	1,174,107
Depreciation on capital assets	66,560	170,078	55,003	-	291,641
Amortization on intangible assets	-	-	913,252	-	913,252
Merchant transaction fees and bank charges	14,795	58,133	2,398	-	75,326
Share based payments	-	-	55,336	-	55,336
	2,178,626	1,602,420	953,172	-	4,734,218
<b>Income (loss) before other income and expenses</b>	317,558	24,488	(953,172)	-	(611,126)
<b>Other (income) expenses</b>					
Miscellaneous (income) expense	18,920	(3,268)	(31,901)	-	(16,249)
Interest expense	294,831	25,954	49,464	-	370,249
Foreign exchange loss	4,995	42,959	-	-	47,954
Gain in fair value of derivative liability	-	-	(74,913)	-	(74,913)
Total Other (income) expenses	318,746	65,645	(57,350)	-	327,041
<b>Income (loss) before reorganization, and acquisition costs</b>	(1,188)	(41,157)	(895,822)	-	(938,167)
Reorganization and acquisition costs	328,767	-	102,668	-	431,435
<b>Income (loss) before income taxes</b>	(329,955)	(41,157)	(998,490)	-	(1,369,602)
<b>Provision for income taxes</b>					
Current income tax expense (recovery)	(10,112)	(15,456)	29,348	-	3,780
Deferred income tax expense (recovery)	(10,357)	(45,920)	(891)	-	(57,168)
	(20,469)	(61,376)	28,457	-	(53,388)
<b>Net Income (loss) from continuing operations for the period</b>	(309,486)	20,219	(1,026,947)	-	(1,316,214)
<b>Other comprehensive income (loss)</b>					
Unrealized gain on investments	-	-	23,600	-	23,600
	-	-	23,600	-	23,600
<b>Total comprehensive income (loss) for the period from continuing operations</b>	\$ (309,486)	\$ 20,219	\$ (1,003,347)	\$ -	\$ (1,292,614)

Segment assets and liabilities as at June 30, 2021 and March 31, 2021 are as follows:

Segment assets are as follow:	Logixx Security	Avante Security	Corporate	Total
As at March 31, 2021	\$ 19,088,781	\$ 8,560,906	\$ 16,456,427	\$ 44,106,114
As at June 30, 2021	\$ 18,677,413	\$ 9,137,906	\$ 18,159,954	\$ 45,975,273
<b>Segment liabilities are as follow:</b>				
As at March 31, 2021	\$ 15,242,268	\$ 10,854,073	\$ 6,377,656	\$ 32,473,997
As at June 30, 2021	\$ 13,811,157	\$ 11,421,991	\$ 8,808,302	\$ 34,041,450

## AVANTE LOGIXX INC.

### Notes to Condensed Interim Consolidated Financial Statements

#### For the Three-month Period Ended June 30, 2021 and June 30, 2020

#### 23. DISCONTINUED OPERATIONS

On August 10, 2020, the Company announced its intention to sell its 70% majority interest in City Wide for \$2,341,500. The subsidiary was sold on September 30, 2020 resulting in a loss on disposition before income tax of \$9,627 and is reported in the twelve-month period ending March 31, 2021 (and the three months ended June 30, 2020) as a discontinued operation. The Company received \$1,891,500 in cash and an amortizing, interest bearing vendor take back note of \$450,000 receivable on or before September 30, 2025. The ownership interest in City Wide was acquired by the Company on April 1, 2016. The Company's financial results for the prior fiscal periods reported throughout these condensed interim consolidated financial statements have been adjusted to reflect continuing operation results and figures that exclude these City Wide discontinued operations.

As a result of the sale on September 30, 2020, during the twelve-month period ending March 31, 2021, the Company recognized the following loss on disposition in the consolidated statement of loss and comprehensive loss:

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

*The Company lost control of \$730,218 of cash balance included in the total current assets disposed. Such balances were restricted by minimum working capital requirements set out in the shareholder agreement. In addition, at the time of the sale, City Wide had vehicle loans reflected within the liabilities disclosed in the above table.*

**AVANTE LOGIXX INC.****Notes to Condensed Interim Consolidated Financial Statements****For the Three-month Period Ended June 30, 2021 and June 30, 2020****23. DISCONTINUED OPERATIONS (CONTINUED)**

The results of the discontinued operations are presented below for the following periods of April 1, 2020 to September 30, 2020:

	For the period of April 1 to September 30	
	2021	2020 <i>re-presented</i>
<b>Revenues</b>	\$ 3,102,511	\$ 3,080,494
<b>Cost of sales</b>	1,735,589	1,852,327
<b>Gross profit</b>	1,366,922	1,228,167
<b>Operating expenses</b>	801,830	1,043,351
<b>Income (loss) before other income and expenses</b>	565,092	184,816
<b>Other (income) expenses</b>		
Interest expense	19,965	(3,589)
Foreign exchange loss	26,458	(8,123)
	46,423	(11,712)
<b>Income (loss) before income taxes</b>	518,669	196,528
<b>Provision for income taxes</b>		
Current income tax expense	136,469	139,475
Deferred income tax expense (recovery)	2,510	(18,204)
<b>Net Income from discontinued operations for the period</b>	379,690	75,257
<b>Loss on disposal</b>	(9,627)	-
<b>Net income (loss) from discontinued operations for the period</b>	\$ 370,063	\$ 75,257
<b>Net income (loss) from discontinued operations for the period of October 1 to March 31</b>	-	(174,522)
<b>Net income (loss) from discontinued operations for the period</b>	\$ 370,063	\$ (99,265)