

AVANTE LOGIXX INC.

Condensed Interim Consolidated Financial Statements – Unaudited

For the three-month period ended

June 30, 2020 and 2019

NOTICE TO READER OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The condensed interim consolidated financial statements of Avante Logixx Inc. for the three-month period ended June 30, 2020 are the responsibility of the Company's Management. These financial statements have not been reviewed on behalf of the shareholders by the independent external auditors of the Company. The condensed interim consolidated financial statements have been prepared by Management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with International Financial Reporting Standards.

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AVANTE LOGIXX INC.
CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2020 AND MARCH 31, 2020

	June 30, 2020	Mar 31, 2020
	<i>(Unaudited)</i>	
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 1,113,707	\$ 1,339,864
Accounts receivable (note 7)	16,543,758	16,520,900
Inventories (note 8)	2,071,158	1,845,699
Contract assets (note 6)	391,989	529,737
Prepaid expenses	812,568	771,125
	20,933,180	21,007,325
NON-CURRENT ASSETS		
Property, plant & equipment (note 9)	3,826,827	3,989,542
Capitalized commissions (note 10)	92,768	98,845
Deferred tax assets (note 16)	2,919,819	2,815,673
Intangible assets (note 11)	9,689,045	10,603,078
Goodwill (note 11)	10,533,743	10,533,743
Investment (note 17c)	70,800	47,200
	\$ 48,066,182	\$ 49,095,406
LIABILITIES		
CURRENT		
Bank indebtedness and vehicle loans (note 13)	3,932,843	2,411,191
Accounts payable and accrued liabilities	9,066,511	9,985,296
Promissory note (note 17b)	2,559,450	2,534,341
Corporate tax payable (note 16)	176,837	158,514
Obligations under lease (note 14)	716,830	735,097
Contract liabilities (note 6)	3,054,764	3,249,301
	19,507,235	19,073,740
NON-CURRENT LIABILITIES		
Obligations under lease (note 14)	1,638,635	1,708,096
Long term portion of bank indebtedness and vehicle loans (note 13)	3,963,395	4,255,519
Convertible debentures (note 17a)	4,424,745	4,309,637
Convertible debentures - derivative liability (note 17a)	1,663,395	1,738,308
Deferred tax liability (note 16)	3,185,988	3,134,420
	14,876,158	15,145,980
	34,383,393	34,219,720
SHAREHOLDERS' EQUITY		
Share capital (note 15a)	21,434,492	21,434,492
Contributed surplus (note 15b and c)	1,518,361	1,463,025
Accumulated other comprehensive deficit	(932,200)	(955,800)
Accumulated deficit	(8,710,780)	(7,431,648)
	13,309,873	14,510,069
Non-controlling interest	372,916	365,617
	13,682,789	14,875,686
TOTAL EQUITY	13,682,789	14,875,686
TOTAL EQUITY & LIABILITIES	\$ 48,066,182	\$ 49,095,406

AUTHORIZED FOR ISSUE ON BEHALF OF THE BOARD:

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

AVANTE LOGIXX INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND
COMPREHENSIVE LOSS
FOR THE THREE-MONTH PERIOD ENDED JUNE 30, 2020 AND JUNE 30, 2019

	For the period ended	
	June 30, 2020	June 30, 2019
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenues (note 6)	\$ 19,426,037	\$ 11,514,713
Cost of sales	14,831,987	8,196,074
Gross profit	4,594,050	3,318,639
Operating expenses		
Salaries, benefits and commissions	2,395,817	2,072,393
Administration	1,298,612	1,173,795
Depreciation on capital assets (note 9)	336,750	318,885
Amortization on intangible assets (note 11)	914,033	184,699
Merchant transaction fees and bank charges	109,290	128,477
Share based payments (note 15b)	55,336	79,736
	5,109,838	3,957,985
Income (loss) before other income and expenses	(515,788)	(639,346)
Other (income) expenses		
Miscellaneous income	(16,249)	(89,006)
Interest expense	380,428	-
Foreign exchange loss	69,608	55,972
Gain in fair value of derivative liability (note 17a)	(74,913)	-
	358,874	(33,034)
Income (loss) before reorganization and acquisition costs	(874,662)	(606,312)
Reorganization and acquisition costs (note 20)	431,435	151,433
	(1,306,097)	(757,745)
Income (loss) before income taxes	(1,306,097)	(757,745)
Provision for income taxes		
Current income tax expense (note 16)	22,093	24,203
Deferred income tax recovery (note 16)	(56,357)	(74,246)
	(1,271,833)	(707,702)
Net Income (loss) for the period	(1,271,833)	(707,702)
Net income (loss) for the period attributable to:		
Equity holders of the parent	(1,279,132)	(703,141)
Non-controlling interests	7,299	(4,561)
	\$ (1,271,833)	\$ (707,702)
Other comprehensive income (loss)		
Unrealized gain (loss) on investments (note 17c)	23,600	(295,000)
	\$ 23,600	\$ (295,000)
Total comprehensive income (loss) for the period	\$ (1,248,233)	\$ (1,002,702)
Total comprehensive income (loss) for the period attributable to:		
Equity holders of the parent	(1,255,532)	(998,141)
Non-controlling interests	7,299	(4,561)
	\$ (1,248,233)	\$ (1,002,702)
Net income (loss) per share (note 5)		
Basic and diluted income (loss) per share	(\$0.059)	(\$0.047)
Basic and diluted number of shares outstanding	21,192,004	21,192,004

See accompanying notes to the consolidated financial statements

AVANTE LOGIXX INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE-MONTH PERIOD ENDED JUNE 30, 2020 AND JUNE 30, 2019

	Share Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Deficit	Subtotal	Non- controlling Interest	Total Equity
Balance at April 1, 2019	\$21,434,492	\$1,261,059	(\$4,782,592)	(\$413,000)	\$17,499,959	\$526,010	\$18,025,969
Income (loss) for the period	-	-	(703,141)	(295,000)	(998,141)	(4,561)	(1,002,702)
Share based payments	-	79,736	-	-	79,736	-	79,736
Balance at June 30, 2019 (Unaudited)	\$21,434,492	\$1,340,795	(\$5,485,733)	(\$708,000)	\$19,283,641	\$798,683	\$17,103,003
Balance at April 1, 2020	\$21,434,492	\$1,463,025	(\$7,431,648)	(\$955,800)	\$14,510,069	\$365,617	\$14,875,686
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
Share options cancelled	-	(3,491)	-	-	(3,491)	-	(3,491)
Balance at June 30, 2020 (Unaudited)	\$21,434,492	\$1,518,361	(\$8,710,780)	(\$932,200)	\$13,309,873	\$372,916	\$13,682,789

See accompanying notes to the consolidated financial statements

AVANTE LOGIXX INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE-MONTH PERIOD ENDED JUNE 30, 2020 AND JUNE 30, 2019

	For the period ended	
	June 30, 2020	June 30, 2019
Operating activities	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Comprehensive loss for the period	\$ (1,248,233)	\$ (1,002,702)
Gain on disposal of capital assets	(19,382)	-
Share based payments	55,336	79,736
Interest on bank loans and leases	95,443	-
Accretion on convertible debt (note 17a)	259,728	-
Accretion on promissory note	25,109	-
Depreciation on capital assets (note 9)	336,750	318,885
Amortization on intangible assets (note 11)	914,033	184,699
Amortization on capitalized commission	6,077	38,473
Inventory fair value expensed (note 8)	-	35,000
Provision for income tax	(56,357)	(74,246)
Gain on fair value of derivative liability (note 17a)	(74,913)	-
Unrealized (gain) loss on investment (17b)	(23,600)	295,000
	<u>269,991</u>	<u>(125,155)</u>
Net change in non-cash working capital:		
Accounts receivable	(22,858)	1,104,340
Inventories	(225,459)	(180,877)
Contract assets (note 6)	137,748	(535,980)
Prepaid expenses	(41,443)	(28,475)
Current income tax	22,103	5,384
Accounts payable and accrued liabilities	(918,787)	(573,536)
Contract liabilities (note 6)	(194,537)	370,027
	<u>(1,243,233)</u>	<u>160,883</u>
Cash used in operating activities	<u>(973,242)</u>	<u>35,728</u>
Financing activities		
Proceeds from loans	4,360,000	-
Proceeds of obligations under finance lease	-	1,368,501
Principal loan payments	(3,130,472)	(139,236)
Principal lease payments (note 14)	(169,068)	-
Interest on bank loans, convertible debenture, and leases	(240,063)	-
Cash from financing activities	<u>820,397</u>	<u>1,229,265</u>
Investing activities		
Purchase of capital assets (note 9)	(101,160)	(1,641,784)
Disposal of capital assets (note 9)	27,848	-
Cash used in investing activities	<u>(73,312)</u>	<u>(1,641,784)</u>
Increase (decrease) in cash during the period	(226,157)	(376,791)
Cash and cash equivalents, beginning of period	1,339,864	2,175,721
Cash and cash equivalents, end of period	<u>\$ 1,113,707</u>	<u>\$ 1,798,930</u>

*Total interest paid in the period ending June 30, 2020 is \$384,683, June 30, 2019 \$64,385

**Total corporate income tax payments made in the period ending June 30, 2020 is \$Nil, June 30, 2019 \$Nil

See accompanying notes to the consolidated financial statements

AVANTE LOGIXX INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

For the Three-Month Period Ended June 30, 2020 and June 30, 2019

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 has a 70% majority interest. 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 also has a specialized skillset in high-rise security integration, monitoring and electronic building management. It also provides consulting and installation of automation and security solutions for the high-end residential market. Avante Security’s signature offerings are its Rapid Alarm Response services, and its Intelligent Perimeter Protection Video Analytics. Avante Security also provides extensive offerings, which includes Closed Circuit Television (“CCTV”), access controls and security services for travelling executives. Avante Security also uses its proprietary two-way wireless communication technology for security and home automation applications and in other market segments for various remote control and monitoring functions.

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

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

City Wide provides security locks, keys and door hardware to residential and commercial customers in the greater Toronto area, with a division catering to preeminent architects, designers and builders in the high-end home markets. City Wide is currently a 70.0% owned subsidiary of the Company, but a minority shareholder has the right to exchange special shares to acquire common shares from City Wide’s treasury. If all such special shares were exchanged, the Company’s ownership interest in City Wide would decline from 70.0% to 63.0%. On August 10, 2020, the Company announced its intention to sell the Company’s ownership interest in City Wide on or before September 30, 2020 (refer to Subsequent Events Note 22).

The address of the Company’s corporate office and principal place of business is 1959 Leslie Street, Toronto, Ontario, Canada.

2. BASIS OF PRESENTATION

a) Statement of compliance

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

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

AVANTE LOGIXX INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

For the Three-Month Period Ended June 30, 2020 and June 30, 2019

2. BASIS OF PRESENTATION (CONTINUED)

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

The financial information included herein reflects all adjustments that, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the periods ended June 30, 2020 and 2019 are not necessarily indicative of the results to be expected for the full year.

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on August 26, 2020.

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	Ownership interest held at
	June 30, 2020	March 31, 2020
Avante Security Inc.	100%	100%
Logixx Security Inc.	100%	100%
City Wide Locksmiths Ltd. (note 22)	70%	70%
A.S.A.P. Secured Inc.	0%	100%

The Company's ownership interest in A.S.A.P. Secured Inc. was not divested, but amalgamated with Logixx Security Inc. on April 1, 2020.

AVANTE LOGIXX INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

For the Three-Month Period Ended June 30, 2020 and June 30, 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant & Equipment

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

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

Depreciation is provided for using the following rates and methods:

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

Intangible assets

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

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

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

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

AVANTE LOGIXX INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

For the Three-Month Period Ended June 30, 2020 and June 30, 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Segment Reporting

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

The factors used to identify the Company’s reportable segments include a combination of how the businesses are managed, with separately accountable management teams, the principal type of target customer (residential versus enterprise) and, when applicable, the discrete product type being sold or distributed (for example, door hardware as opposed to security services). Operating segments have not been aggregated as each division is a discrete reportable segment.

Government Grants

The Company recognizes government grants when there is a reasonable assurance that the Company will comply with the corresponding conditions attached to the grant and the grant will be received. Government grants are recognized in the Consolidated Statements of Loss and Comprehensive Loss on a systematic basis over the periods in which the Company recognizes the related costs for which the grants are intended to compensate and are deducted from the related expense.

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, the Company has been able to continue operating with no material impact to operations.

There have been no material revisions to the nature and amount of estimates and judgments made in prior periods. However, the effects of COVID-19 have required significant judgements and estimates to be made. Additionally, while the changes in the estimates and judgements have not had a material impact on Avante Logixx Inc., 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 Unaudited Condensed Interim Consolidated Financial Statements

For the Three-Month Period Ended June 30, 2020 and June 30, 2019

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 operation results in the future, its suppliers, and its customers. Additionally, it is possible the Company's financial prospects will change in the near term as a result of COVID-19. The Company is closely monitoring the impact of the pandemic on all aspects of its business.

Judgements

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

1. Business combinations

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

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

2. Allowance for doubtful accounts receivable and contract assets

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

3. Income taxes

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

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

4. Deferred tax assets and liabilities

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

5. Provision for impairment of inventories

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

AVANTE LOGIXX INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

For the Three-Month Period Ended June 30, 2020 and June 30, 2019

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

6. Lease discount rate

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

7. Share-based payments

The Black-Scholes option pricing model is used by the Company to determine the fair value of stock options and warrants as well as the estimated derivative liability component of the convertible debentures. Significant judgements are used in the calculation of the input variables in the Black-Scholes model which include estimates of the risk free interest rate, the expected stock price volatility of the Company's common shares, the expected life of the derivative instrument and the expected dividend yield of the Company's common shares.

8. Intangible assets and goodwill

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

9. Revenue and contract assets

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

10. Segment Reporting

The Company has exercised judgement in identifying its reportable segments and applying the related aggregation criteria required under IFRS 8. The Company's three reportable segments are Logixx Security, Avante Security and City Wide. 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. City Wide sells, installs and services door hardware to high net worth residential and enterprise customers (or to their building designers or contractors) principally located in the Greater Toronto Area 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.

AVANTE LOGIXX INC.**Notes to Unaudited Condensed Interim Consolidated Financial Statements****For the Three-Month Period Ended June 30, 2020 and June 30, 2019****4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)**

Share-based payments and derivative liabilities are determined by the Black-Scholes option pricing model, which is used by the Company to determine the fair value of stock options, warrants and convertible debentures-derivative liability. Significant estimates are used in the calculation of the input variables in the Black-Scholes model, which includes: risk free interest rate, expected stock price volatility, expected life, and expected dividend yield.

5. LOSS PER SHARE

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

	June 30, 2020	June 30, 2019
Earnings (loss) per share - basic and diluted	\$ (0.059)	\$ (0.047)
Net income (loss) attributable to equity holders of the parent - basic and fully diluted	\$ (1,255,532)	\$ (998,141)
Weighted average number of shares outstanding - basic and dilutive	21,192,004	21,192,004

6. REVENUE RECOGNITION**a) Disaggregation of Revenue**

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

Revenue	June 30, 2020					June 30, 2019				
	Logixx Security	Avante Security	City Wide	Intersegment elimination	Total	Logixx Security	Avante Security	City Wide	Intersegment elimination	Total
Protective Services	\$ 14,383,195	\$ 1,446,796	\$ -	\$ (226,355)	\$ 15,603,636	\$ 4,440,597	\$ 2,101,430	\$ -	\$ -	\$ 6,542,027
Monitoring and Managed Services	65,572	881,588	-	-	947,160	65,336	855,004	-	-	920,340
Electronic Services	273,703	1,379,161	-	-	1,652,864	657,167	1,835,543	-	-	2,492,710
Security Devices and Hardware	-	-	1,222,377	-	1,222,377	-	-	1,559,636	-	1,559,636
Total Revenue	\$ 14,722,470	\$ 3,707,545	\$ 1,222,377	\$ (226,355)	\$ 19,426,037	\$ 5,163,100	\$ 4,791,977	\$ 1,559,636	\$ -	\$ 11,514,713

(b) Contract Assets and Liabilities

	June 30, 2020	Mar 31, 2020
Work-in-progress - contracts in process	\$ 391,989	\$ 529,737

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

AVANTE LOGIXX INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

For the Three-Month Period Ended June 30, 2020 and June 30, 2019

6. REVENUE RECOGNITION

Balance at March 31, 2020	\$ 3,249,301
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
Balance at June 30, 2020	\$ 3,054,764

7. ACCOUNTS RECEIVABLE

The accounts receivable on the financial statements are net of allowance for doubtful accounts of \$430,680 as at June 30, 2020 (March 31, 2020: \$415,077). Changes in the allowance for doubtful accounts during the period were as follows:

	June 30, 2020	Mar 31, 2020
Allowance for doubtful accounts - opening balance	\$ 415,077	\$ 248,854
Net increase during the period	15,603	166,223
Allowance for doubtful accounts - closing balance	\$ 430,680	\$ 415,077

As at June 30, 2020 and March 31, 2020, the aging of the Company's accounts receivables was as follows:

	Balance Due	1 - 30 Days	31 - 60 Days	61 - 90 Days	Over 90 Days
Trade receivables	15,187,593	7,013,327	3,702,110	1,349,456	3,122,700
Accrued trade receivables	1,046,792	1,046,792	-	-	-
Non-trade receivables	701,592	701,592	-	-	-
Allowance for doubtful accounts	(415,077)	-	-	-	(415,077)
Balance at March 31, 2020	\$16,520,900	\$8,761,711	\$3,702,110	\$1,349,456	\$2,707,623
Trade receivables	15,938,719	11,251,196	1,485,062	374,326	2,828,135
Accrued trade receivables	842,722	842,722	-	-	-
Non-trade receivables	192,997	192,997	-	-	-
Allowance for doubtful accounts	(430,680)	-	-	-	(430,680)
Balance at June 30, 2020	\$16,543,758	\$12,286,915	\$1,485,062	\$374,326	\$2,397,455

The consolidated entity has recognized a loss of \$15,603 at June 30, 2020 (June 30, 2019: \$31,500) in profit or loss in respect of the expected credit losses for the three-month period. As at June 30, 2020, there was \$2,828,135 (March 31, 2020: \$3,122,700) of accounts receivable outstanding for over 90 days of which management did not consider \$2,397,455 (March 31, 2020: \$2,707,623) impaired. Balances of \$18,370 included in the Over 90 Days bucket, represent holdbacks on installations and are not payable until final project completion.

8. INVENTORIES

	June 30, 2020	March 31, 2020
Inventory	\$ 2,071,158	\$ 1,845,699

All inventory is considered finished goods. Inventory expensed to cost of sales during the three-month period ended June 30, 2020 amounted to \$1,194,025 (June 30, 2019: \$1,634,707). Included in the inventory expensed during the three-month period ended June 30, 2019 was \$35,000 of the fair value adjustment made upon the acquisition of City Wide. For June 30, 2020 there was no fair value adjustment made to inventory related to the City Wide acquisition.

AVANTE LOGIXX INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

For the Three-Month Period Ended June 30, 2020 and June 30, 2019

9. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment	Equipment, furniture and fixtures	Leasehold improvements	Computer software	Right-of-use asset	Vehicles	Uniforms	Buildings	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost									
Balance at March 31, 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
Accumulated depreciation									
Balance at March 31, 2020	415,957	607,601	643,388	232,431	895,125	319,115	-	26,821	3,140,438
Depreciation for the Period	12,823	13,008	49,024	40,985	196,846	17,106	2,225	4,733	336,750
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
Carrying Amounts									
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	\$ 287,574	\$ 393,425	\$ 123,962	\$ 2,169,227	\$ 179,571	\$ 80,857	\$ 441,746	\$ 3,826,827

The Company carries two categories of right-of-use assets: vehicles and property. At June 30, 2020 the carrying amount of vehicles under lease was \$1,220,444 (June 30, 2019: \$1,028,722), with \$110,704 of depreciation included in the statement of income for the three month period ended June 30, 2020, (June 30 2019: \$82,120).

9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The right-of-use asset property had a carrying amount of \$948,786 at June 30, 2020 (June 30, 2019: \$1,038,816). Depreciation in the amount of \$86,142 is included in the statement of income for the three-month period ended June 30, 2020 (June 30, 2019: \$122,953).

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 commission on long-term contracts as of June 30, 2020 was \$92,768 (March 31, 2020: \$98,845), with \$6,077 amortized in the three-month period ending June 30, 2020 (June 30, 2019: \$39,348).

AVANTE LOGIXX INC.**Notes to Unaudited Condensed Interim Consolidated Financial Statements****For the Three-Month Period Ended June 30, 2020 and June 30, 2019****11. GOODWILL AND INTANGIBLE ASSETS****A. INTANGIBLE ASSETS**

	Tradename City Wide	Tradename Others	Customer relationships	Backlog	Non-compete	Total
	\$	\$	\$	\$	\$	\$
Cost						
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	677,000	3,585,266	9,460,097	293,000	200,000	14,215,364
Amortization						
Balance at March 31, 2020	\$ 6,510	\$ 854,418	\$ 2,445,023	\$ 293,000	\$ 13,333	\$ 3,612,285
Amortization for the period	781	682,712	220,540	-	10,000	914,033
Balance at June 30, 2020	7,292	1,537,130	2,665,563	293,000	23,333	4,526,319
Carrying amounts						
Balance at March 31, 2020	\$ 670,490	\$ 2,730,848	\$ 7,015,074	\$ -	\$ 186,667	\$ 10,603,078
Balance at June 30, 2020	\$ 669,708	\$ 2,048,136	\$ 6,794,534	\$ -	\$ 176,667	\$ 9,689,045

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

B. GOODWILL

Balance at March 31, 2019	\$ 8,162,900
Acquired through business acquisition of ASAP	2,457,775
Impairment of Architronics	(86,933)
Balance at March 31, 2020	\$ 10,533,743
	-
Balance at June 30, 2020	\$ 10,533,743

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, City Wide Locksmiths Ltd. at April 1, 2016, Architronics Limited 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 Electroncis, LVS Inc, Architronics, and Watermark were previously amalgamated into Avante Security, and doing business as such. 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.

AVANTE LOGIXX INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

For the Three-Month Period Ended June 30, 2020 and June 30, 2019

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. These assumptions are consistent with the assumptions used to calculate fair values for goodwill. The cost of goodwill is calculated as the excess of purchase price of the acquired business over the estimated fair value of the tangible and intangible assets acquired and liabilities assumed at the date of acquisition and is allocated to the cash generating unit ("CGU") expected to benefit from the acquisition. A CGU is the smallest group of assets for which there are separate identifiable cash flows. During the fourth quarter of the fiscal year ended March 31, 2020, management determined with recent amalgamations, that the Company has three CGU's consisting of Avante Security, Logixx Security and City Wide consistent with how the Company now manages its operations. The goodwill acquired as part of ASAP Secured has been allocated to Logixx Security at March 31, 2020. Previously, each acquisition made by the Company was treated as a distinct CGU.

At March 31, 2020, the Company assessed an impairment loss of \$172,274 on Architronics comprised of Goodwill, Customer Relationships, and inventory. There was no impairment loss in the three-month period ended June 30, 2020, (June 30, 2019: \$NIL).

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

Amortization

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

12. BUSINESS ACQUISITIONS

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

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

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

AVANTE LOGIXX INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

For the Three-Month Period Ended June 30, 2020 and June 30, 2019

12. BUSINESS ACQUISITIONS (CONTINUED)

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

On November 30, 2018, the Company acquired all the outstanding shares of Intelligarde International Inc. ("Intelligarde" – currently doing business as Logixx Security Inc.). The total consideration paid for the outstanding shares of Intelligarde is \$4,801,370 paid in cash subject to a post-closing working capital adjustment. The Company held back \$712,500 of the purchase price against certain representations and warranties of the vendors.

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

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

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

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

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

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

AVANTE LOGIXX INC.**Notes to Unaudited Condensed Interim Consolidated Financial Statements****For the Three-Month Period Ended June 30, 2020 and June 30, 2019****12. BUSINESS ACQUISITIONS (CONTINUED)**

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

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

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

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

AVANTE LOGIXX INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements For the Three-Month Period Ended June 30, 2020 and June 30, 2019

13. BANK INDEBTEDNESS AND VEHICLE LOANS

Current and non-current bank indebtedness and vehicle loans was comprised of the following as at June 30, 2020 and March 31, 2020:

	June 30, 2020			Mar 30, 2020		
	Current Portion	Long-Term Portion	Total	Current Portion	Long-Term Portion	Total
Line of credit	\$ 2,800,000	\$ -	\$ 2,800,000	\$ 1,290,000	\$ -	\$ 1,290,000
Term Loans	1,061,341	3,477,307	4,538,648	1,050,146	3,749,785	4,799,931
Mortgage	8,634	352,156	360,790	8,487	354,369	362,856
	3,869,975	3,829,463	7,699,438	2,348,633	4,104,154	6,452,787
Vehicle Loans	62,868	133,931	196,799	62,559	151,365	213,924
Balance at March 31	\$ 3,932,843	\$ 3,963,395	\$ 7,896,238	\$ 2,411,192	\$ 4,255,519	\$ 6,666,711

On November 23, 2018, the Company and its bankers entered into a new credit agreement to provide senior credit facilities to the Company. Under this agreement, the bank provided an acquisition facility of \$10,000,000 (capped at \$4,985,022 as of April 2, 2020), a revolving demand credit facility of \$2,000,000 (increased to \$3,000,000 as of April 2, 2020) of which \$2,800,000 has been drawn as at June 30, 2020 (March 31, 2020: \$1,290,000) along with a \$200,000 performance bond letter of credit (March 31, 2020: \$200,000), and a credit card facility of \$350,000 (March 31, 2020: \$350,000). The Company also has a mortgage provided by the same bank of \$360,790 outstanding at June 30, 2020, (March 31, 2020: \$362,885). These replaced all previous credit facilities provided to current and former subsidiaries of the Company, and the related charges on all assets related to those former credit facilities were released. Security for the amended credit facilities is provided pursuant to general security agreements and cross guarantees in favour of the bank that encumber all assets of the Company and subsidiaries. The Company received a waiver of the covenant breaches before the end of the reporting period. Advances under the credit facilities provided by the bank is presented as current \$3,869,975 and non-current \$3,829,463 at June 30, 2020.

The acquisition facility was drawn on by way of a specific loan advances at a fixed rate or at the bank's prime rate + 1%. One such term loan bears interest of 4.9% based on an initial term of 5 years. The outstanding balance due to the bank as at June 30, 2020 is \$2,176,343 (March 31, 2020: \$2,318,037). A second term loan of \$1,750,000 with a balance at June 30, 2020 of \$1,616,822 bears an interest rate of the bank's prime rate + 1%, (March 31, 2020: \$1,698,362). A third term loan of \$1,000,000 with a balance of \$916,667 at June 30, 2020, (March 31, 2020: \$966,667) bears an interest rate of the banks prime rate + 1%.

The \$3,000,000 revolving credit facility bears interest at the bank's prime rate plus 0.85% per annum based on amounts drawn from time to time and is repayable on demand by the bank.

The mortgage has an interest rate of 4.68% per annum. The mortgage loan was used to purchase a building in Port Carling for Avante Security's Muskoka operations. The mortgage outstanding balance at June 30, 2020 is \$360,790, (March 31, 2020: \$362,856).

At June 30, 2020, the Company, through City Wide, has an outstanding balance of \$141,397 (March 31, 2020: \$153,223) towards loans from auto credit companies to purchase vehicles. While one of these loans is interest-free, the others range between 2.99% and 4.99%. The monthly payments on these loans range between \$555 and \$1,163, and these will be repaid in full between August 2020 and July 2024.

At June 30, 2020, the Company has an outstanding balance of \$55,402 (March 31, 2020: \$60,702) towards loans from auto credit companies to purchase vehicles. While two of these loans are interest-free, the others range between 0.99% and 7.53%. The monthly payments on these loans range between \$404 and \$1,045, and these will be repaid in full between August 2021 and February 2027.

AVANTE LOGIXX INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

For the Three-Month Period Ended June 30, 2020 and June 30, 2019

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
Balance at March 31, 2020	\$ 1,456,629	\$ 986,563	\$ 2,443,192
Additions during the Period	100,723	-	100,723
Disposals during the Period	(19,382)	-	(19,382)
Reclass Vehicle addition to Property	(78,390)	78,390	-
Principal payments	(89,329)	(79,739)	(169,068)
Balance at June 30, 2020	\$ 1,370,251	\$ 985,214	\$ 2,355,465
Current provisions	509,712	207,118	716,830
Long-term provisions	860,539	778,096	1,638,635
Total Balance at June 30, 2020	\$ 1,370,251	\$ 985,214	\$ 2,355,465

The Company leased certain vehicles with a value of \$1,370,251 (March 31, 2020: \$1,456,629), at an effective annual rate of interest of 6.45% (March 31, 2020: 6.45%). Blended monthly payments of \$34,827 plus applicable taxes (March 31, 2020: \$52,346) for 48 to 60 months ending between August 2020 and December 2024, with a buy out obligation of \$638,509 (March 31, 2020: \$638,509). Interest expense from these leases, included in the statement of loss for the three-month period ended June 30, 2020 is \$14,042 (June 30, 2019: \$14,869).

Various office properties with a value of \$985,214 are leased with blended monthly payments of \$31,925 plus applicable taxes. An incremental borrowing rate of 4.80% is used. The property leases end between September 2020 and August 2031. Interest expense from these leases, included in the statement of income for three-month period ended June 30, 2020 was \$12,116 (June 30, 2019: \$13,468).

15. SHAREHOLDERS' EQUITY

[a] Share capital issued and outstanding

Unlimited common shares	Number of Shares	Amount
Balance at March 31, 2019	21,192,004	\$21,434,492
Balance at March 31, 2020	21,192,004	\$21,434,492
Balance at June 30, 2020	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 Unaudited Condensed Interim Consolidated Financial Statements****For the Three-Month Period Ended June 30, 2020 and June 30, 2019****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 19, 2019. Accordingly, the Company has a total of 363,866 options available to be issued as at June 30, 2020, with the maximum term remaining at 10 years (March 31, 2020: 348,866). Prior to September 29, 2015, the Company had an Option plan whereby it could issue a maximum of 7,145,000 options with a term of up to 10 years.

	Number of Options	Weighted Average Exercise Price
Balance at March 31, 2019	1,586,333	\$2.03
Options issued during the year	385,000	1.55
Options cancelled during the year	(201,000)	1.62
Balance at March 31, 2020	1,770,333	\$1.97
Options cancelled during the period	(15,000)	\$1.85
Balance at June 30, 2020	1,755,333	\$1.97

No share options were granted during the three-month period ended June 30, 2020. The weighted average grant date fair values of share options granted during the year ended March 31, 2020 were \$0.89 per option. All options were granted at an exercise price greater than or equal to the trading price on the day of the grant that is considered fair value. Options were granted in the year ending March 31, 2020 totaling 385,000 options at an exercise price of \$1.55. None of the outstanding options were exercised in the three-month period ending June 30, 2020 or during the twelve-month period ended March 31, 2020. All options granted in the year ending March 31, 2020 expire between December 2024 and January 2025.

Using the Black-Scholes pricing model, the Company recognized \$55,336 of share based compensation net of \$3,490 for cancelled options during the three-month period ending June 30, 2020, (June 30, 2019: \$79,736).

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

	Fiscal 2020
Risk-free interest rate	1.75%
Expected volatility	55.33 to 66.31%
Expected time until exercise	5 years
Expected dividend yield	NIL
Expected forfeiture	5%
Share price	\$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 Unaudited Condensed Interim Consolidated Financial Statements****For the Three-Month Period Ended June 30, 2020 and June 30, 2019****15. SHAREHOLDERS' EQUITY (CONTINUED)**

The following table summarizes stock options vested and outstanding at June 30, 2020:

Grant Date	Number Outstanding	Average Remaining Contractual Years	Number Vested	Exercise Price	Expiry Date
2015-11-17	15,000	0.38	15,000	\$1.80	2020-11-17
2015-11-17	40,333	0.38	40,333	1.50	2020-11-17
2016-09-06	15,000	1.19	15,000	1.30	2021-09-06
2017-02-21	20,000	1.65	13,333	1.50	2022-02-21
2017-10-29	15,000	2.33	15,000	1.30	2022-10-29
2018-01-10	200,000	2.53	200,000	1.65	2023-01-10
2018-01-10	200,000	2.53	200,000	1.90	2023-01-10
2018-01-10	200,000	2.53	-	2.20	2023-01-10
2018-01-10	200,000	2.53	-	2.55	2023-01-10
2018-09-19	95,000	3.22	-	2.25	2023-09-19
2018-10-02	200,000	3.26	-	2.25	2023-10-02
2018-11-05	100,000	3.35	-	2.20	2023-11-05
2018-11-28	100,000	3.41	-	2.10	2023-11-28
2019-12-02	155,000	4.43	-	1.55	2024-12-02
2020-01-20	200,000	4.56	-	1.55	2025-01-20
	1,755,333	2.55	498,666	\$1.97	

[c] Share warrants

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

A summary of the changes in the warrants during the three-month period ended June 30, 2020 is as follows:

	Number of Warrants Outstanding	Weighted Average Exercise Price
Balance at March 31, 2019	258,750	\$2.00
Issue of broker warrants	-	-
Balance at March 31, 2020	258,750	\$2.00
Expiration of broker warrants	(258,750)	(2.00)
Balance at June 30, 2020	0	\$0.00

AVANTE LOGIXX INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

For the Three-Month Period Ended June 30, 2020 and June 30, 2019

16. INCOME TAXES

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

For the three-month period ending June 30, 2020, the Company recognized current income tax expense of \$22,093 (June 30, 2019: \$24,203). For the three-month period ending June 30, 2020, the Company recognized deferred income tax recovery of \$56,357 (June 30, 2019: \$74,246). The deferred tax assets are attributable to previously unused non-capital tax loss carry forwards that it estimates will be used against taxable income for the year ended March 31, 2021.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

[a] Convertible debentures

On November 27, 2019, the Company issued the first tranche of 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 of \$1.56 at any time prior to the maturity date into common shares of the Company. The Company had the ability to issue to the same holders, on or prior to August 27, 2020, a subsequent tranche of up to \$9,736,000 principal amount of unsecured convertible debentures, on the same terms, for general working capital purposes, including acquisitions and investments. As of the filing date, the ability to issue the second tranche has expired. Total professional and legal fees of \$301,311 were incurred on the transaction.

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

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 received a waiver of the covenant breaches applicable to the debenture, before the end of the reporting period on June 30, 2020, and accordingly, the accounting treatment is to categorize the convertible debentures as non-current liabilities.

For accounting purposes, the convertible debentures are compound financial instruments containing a principal debt and interest component and a conversion option. The conversion option is classified as a derivative financial liability, as the option is not closely related to the principal debt and features of the conversion option may result in conversion of debt into a variable number of common shares. The debentures do not meet the IAS 32(16) fixed-for-fixed test as conversion of debt into a variable number of common shares results from the Company declaring a dividend, a stock split, granting options, warrant, or shares at less than 95% of the current market price. The conversion option was separated from the host debt and valued at its fair value on the date of issuance, with all attributable transaction costs expenses when incurred. The Company valued the derivative liability component of the debenture using the number of common shares issued per increment of principal and the Black Scholes pricing model, at a risk free interest rate of 0.32% (March 31, 2020: 1.52%), volatility of 70.81% (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.

AVANTE LOGIXX INC.**Notes to Unaudited Condensed Interim Consolidated Financial Statements****For the Three-Month Period Ended June 30, 2020 and June 30, 2019****17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

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 operating expenses on the statement of income and comprehensive income. At June 30, 2020 a gain of \$74,913 was recognized (June 30, 2019: \$NIL).

Accretion charges attributable to the debenture of \$259,728 were included in interest expense on the statement of loss and comprehensive loss in the three-month period ending June 30, 2020, of which \$144,620 relates to interest paid or owing, (June 30, 2019: \$NIL of which \$NIL related to interest paid or owing).

7% Debentures (issued November 27, 2019)	Liability component	Derivative liability	Total carrying amount
Balance at March 31, 2019	\$ -	\$ -	\$ -
November 27, 2019 issuance	4,315,449	3,948,551	8,264,000
Deferred issue costs	(157,344)	-	(157,344)
Accretion of debenture	350,777	-	350,777
Interest	(199,245)	-	(199,245)
Fair value movement	-	(2,210,243)	(2,210,243)
Balance at March 31, 2020	\$ 4,309,637	\$ 1,738,308	\$ 6,047,945
Accretion of debenture	259,728	-	259,728
Interest	(144,620)	-	(144,620)
Fair value movement	-	(74,913)	(74,913)
Balance at June 30, 2020	\$ 4,424,745	\$ 1,663,395	\$ 6,088,140

[b] Financial liabilities

On December 2, 2020, the Company issued a Promissory Note as part of the acquisition of ASAP Secured Inc. The Promissory Note is payable on February 28, 2021 and the amount payable ranges from \$nil to \$2,625,000 depending on the performance of the acquired business over the first twelve months from acquisition closing. The Promissory Note is discounted at a rate of 3.95% for accounting purposes, and it is management's expectation that the full amount will be paid on February 28, 2021 (note 12).

Promissory note (issued December 1, 2019)	Carrying amount
Balance at March 31, 2020	\$ 2,534,341
Accretion for the period	25,109
Balance at June 30, 2020	\$ 2,559,450

[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.

AVANTE LOGIXX INC.**Notes to Unaudited Condensed Interim Consolidated Financial Statements****For the Three-Month Period Ended June 30, 2020 and June 30, 2019****17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

The release conditions were dependent on the completion of the RTO of Petro Vista by 3 Sixty. The classification of the subscription is fair value level 2, to other comprehensive income and will be reported at fair value with gains and losses included in other comprehensive income. On January 4, 2019, the RTO of Petro Vista by 3 Sixty took place, fulfilling the escrow release conditions and the Receipts were converted to one underlying share of 3 Sixty in accordance with the provisions of the Subscription Receipt Agreement. The investment in 3 Sixty is now classified as a level 1 to other comprehensive income and is reported at fair value based on quoted market prices in active markets. An unrealized gain of \$23,600 was recognized to other comprehensive income at June 30, 2020 (June 30, 2019: loss of \$295,000) per the summary below.

	Subscription receipts	Investment
Balance at March 31, 2019	1,180,000	590,000
Change in fair value		(542,800)
Balance at March 31, 2020	\$	47,200
Change in fair value		23,600
Balance at June 30, 2020	\$	70,800

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.

[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.

AVANTE LOGIXX INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

For the Three-Month Period Ended June 30, 2020 and June 30, 2019

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

General Objectives, Policies and Processes:

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

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

a) Market Risk

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

Foreign Currency Risk:

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

The Company has a small portion of its revenues and related costs in U.S. dollars. A significant change in the currency exchange rates of the U.S. dollar relative to the Canadian dollar could have an adverse effect on the Company's results of operations, financial position and cash flows. The Company from time to time enters into foreign exchange contracts to sell U.S. dollars to manage exposures to currency fluctuations. As of June 30, 2020, and March 31, 2020, the Company had no foreign exchange contracts outstanding.

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, 2020 the Company has a revolving credit facility and bank loans subject to floating interest rates amounting to \$7,896,238 (March 31, 2020: \$6,666,710). This interest rate risk is off set by the potential changes in the interest rate offered on cash and cash equivalents held with chartered Canadian financial institutions. The Company considers its net exposure to interest rate risk to be immaterial as the majority of its total debt, net of cash balances, is payable at fixed interest rates.

Equity Price Risk:

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The maximum equity price risk resulting from financial instruments held by the Company, including the investment in 3 Sixty, is equivalent to the fair value of the equity investments as at June 30, 2020.

AVANTE LOGIXX INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

For the Three-Month Period Ended June 30, 2020 and June 30, 2019

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

b) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. For credit risk on accounts receivable see note 7. Financial instruments, which are potentially subject to credit risk for the Company consist primarily of cash and cash equivalents. The carrying amounts of financial assets represent the maximum credit exposure. The Company has gross credit exposure at June 30, 2020 relating to cash of \$1,113,707 (March 31, 2020: \$1,339,864). All cash is held in Canadian banks which have credit ratings of Prime-1. The Company has performed a sensitivity analysis on changes in the credit risk associated with these banks and considers this risk to be minimal for all cash assets based on changes that are reasonably possible at the reporting date.

c) Liquidity Risk

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

Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of approximately 40 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
At March 31, 2020	\$ 12,134,068	\$ 4,481,765	\$ 2,366,282	\$ 13,602,231	\$ 1,287,357	\$ 33,871,703	\$ 27,677,485
Accounts payable and accrued liabilities	9,066,511	-	-	-	-	9,066,511	9,066,511
Promissory note	-	2,625,000	-	-	-	2,625,000	2,559,450
Bank indebtedness and vehicle loans	3,141,125	1,020,301	1,354,900	2,703,871	475,236	8,695,433	7,896,238
Obligations under lease	204,742	434,264	368,302	426,717	921,430	2,355,455	2,355,465
Convertible debentures	-	578,480	578,480	9,652,352	-	10,809,312	6,088,140
At June 30, 2020	\$ 12,412,378	\$ 4,658,045	\$ 2,301,682	\$ 12,782,940	\$ 1,396,666	\$ 33,551,711	\$ 27,965,804

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

The working capital as at June 30, 2020 was \$1,443,942 compared to \$1,933,585 at March 31, 2020.

AVANTE LOGIXX INC.**Notes to Unaudited Condensed Interim Consolidated Financial Statements****For the Three-Month Period Ended June 30, 2020 and June 30, 2019****17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)****d) The Covid-19 Pandemic**

While the Company is not immune to the impacts of the pandemic, the majority of the Company's services remains ongoing, certain of which has been deemed "essential" by governing authorities. However, there remains some risk that certain project work will be deferred, or restricted and new orders delayed or that certain customers could become adversely affected by the pandemic. The Company's non-wholly owned subsidiary, City Wide, qualified for the Government of Canada's Canada Emergency Wage Subsidy ("CEWS") program and has recorded amounts as disclosed below.

	Three month period ended	
	June 30, 2020	June 30, 2019
Wages and benefits included in cost of sales	\$ 12,608,965	\$ 5,193,367
Salaries, benefits and compensation	2,489,012	2,072,393
Government grants earned and received	(125,412)	-
	\$ 14,972,565	\$ 7,265,760

There are no unfilled conditions or other contingencies attached to the government assistance that has been recognized.

Determination of fair value

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

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

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.

AVANTE LOGIXX INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

For the Three-Month Period Ended June 30, 2020 and June 30, 2019

18. CAPITAL MANAGEMENT

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

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

In order to maintain a strong credit rating and healthy capital ratio in order 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 to ensure that there are adequate capital resources while maximizing the return to shareholders through the optimization of the cash flows from operations and capital transactions.

In the prior year, the Company was in default of certain financial covenants pertaining to its credit agreement as at June 30, 2019 and received a waiver of the covenant breaches, but as the waiver was received after the reporting period, the accounting treatment was to categorize the long-term portion of the acquisition facility debt as current liabilities. The company received a waiver before the reporting period ended, June 30, 2020, with no change in accounting treatment.

19. RELATED PARTY TRANSACTIONS

The Company provided services to a private company controlled by a significant shareholder and officer of the Company. In the three-month period ended June 30, 2020 the Company billed \$Nil (June 30, 2019: \$4,294) at commercial rates.

The Company entered into a contract effective May 1, 2018 with a private company controlled by a significant shareholder to provide consulting services for the Company. The Company incurred \$32,419 of expense in the three-month period ended June 30, 2020, (June 30, 2019: \$96,426).

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, 2020 the Company incurred \$1,915 (June 30, 2019: \$1,164) for these services.

Remuneration of Directors and Officers was as follows:

Directors and Officers Remuneration	For the three month period ended	
	June 30, 2020	June 30, 2019
Salaries, short term employee benefits	\$ 161,538	\$ 198,077
Share based payments	49,135	47,698
	\$ 210,673	\$ 245,775

20. REORGANIZATION AND ACQUISITION COSTS

The Company incurred reorganization and acquisition costs in the amount of \$431,435 during the three-month period ended June 30, 2020 (June 30, 2019: \$151,433). These costs included professional fees paid to consultants, financial and legal advisors for business acquisitions undertaken by the Company, fees related to business amalgamations, rebranding, reorganization expenses, and severance expense for terminations as part of a restructuring effort.

AVANTE LOGIXX INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

For the Three-Month Period Ended June 30, 2020 and June 30, 2019

21. SEGMENT REPORTING

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

Logixx Security provides security services for commercial 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.

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 is currently a 70.0% owned subsidiary of the Company, but a minority shareholder has the right to exchange special shares to acquire common shares from City Wide's treasury. If all such special shares were exchanged, the Company's ownership interest in City Wide would decline from 70.0% to 63.0%.

On August 10, 2020, the Company announced its intention to sell the Company's ownership interest in City Wide on or before September 30, 2020 (refer to Subsequent Events Note 22).

The Company accounts for intersegment sales as if they were to external customers. Divisional reporting in respect of the reportable segments was not established by the Company until February 2020. Therefore, June 30, 2019 balance sheet amounts and operating expenses for the three-month period ending June 30, 2019 are not available.

AVANTE LOGIXX INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements

For the Three-Month Period Ended June 30, 2020 and June 30, 2019

21. SEGMENT REPORTING (CONTINUED)

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

	For the three-months ended June 30, 2020					
	Logixx Security	Avante Security	City Wide	Corporate	Intersegment eliminations	Total
Revenues	\$ 14,722,070	\$ 3,707,544	\$ 1,222,778	\$ -	\$ (226,355)	\$ 19,426,037
Cost of sales	12,225,886	2,080,637	751,819	-	(226,355)	14,831,987
Gross profit	2,496,184	1,626,907	470,959	-	-	4,594,050
Operating expenses						
Salaries, benefits and commissions	1,008,386	684,227	171,262	531,942	-	2,395,817
Administration	1,088,885	689,981	124,504	(604,758)	-	1,298,612
Depreciation on capital assets	66,560	170,078	45,890	54,222	-	336,750
Amortization on intangible assets	-	-	-	914,033	-	914,033
Merchant transaction fees and bank charges	14,795	58,133	33,964	2,398	-	109,290
Share based payments	-	-	-	55,336	-	55,336
	2,178,626	1,602,419	375,620	953,173	-	5,109,838
Income (loss) before other income and expenses	317,558	24,488	95,339	(953,173)	-	(515,788)
Other (income) expenses						
Miscellaneous (income) expense	18,920	(3,268)	-	(31,901)	-	(16,249)
Interest expense	294,831	25,954	10,179	49,464	-	380,428
Foreign exchange loss	4,995	42,958	21,655	-	-	69,608
Gain in fair value of derivative liability	-	-	-	(74,913)	-	(74,913)
Total Other (income) expenses	318,746	65,644	31,834	(57,350)	-	358,874
Income (loss) before reorganization, and acquisition costs	(1,188)	(41,156)	63,505	(895,823)	-	(874,662)
Reorganization and acquisition costs	328,767	-	-	102,668	-	431,435
Income (loss) before income taxes	(329,955)	(41,156)	63,505	(998,491)	-	(1,306,097)
Provision for income taxes						
Current income tax expense (recovery)	(10,112)	(15,456)	18,313	29,348	-	22,093
Deferred income tax expense (recovery)	(10,357)	(45,920)	810	(890)	-	(56,357)
Net Income (loss) for the period	(309,486)	20,220	44,382	(1,026,949)	-	(1,271,833)
Other comprehensive income (loss)						
Unrealized gain on investments	-	-	-	23,600	-	23,600
	-	-	-	23,600	-	23,600
Total comprehensive income (loss) for the period	\$ (309,486)	\$ 20,220	\$ 44,382	\$ (1,003,349)	\$ -	\$ (1,248,233)

AVANTE LOGIXX INC.

Notes to Unaudited Condensed Interim Consolidated Financial Statements For the Three-Month Period Ended June 30, 2020 and June 30, 2019

21. SEGMENT REPORTING (CONTINUED)

Segment assets and liabilities as at June 30, 2020 and March 31, 2020 are as follows:

Segment assets are as follow:	Logixx Security	Avante Security	City Wide	Corporate	Total
As at March 31, 2020	\$ 13,859,580	\$ 9,867,658	\$ 3,155,708	\$ 22,212,460	\$ 49,095,406
As at June 30, 2020	\$ 15,376,701	\$ 9,124,576	\$ 3,161,231	\$ 20,403,674	\$ 48,066,182

Segment liabilities are as follow:	Logixx Security	Avante Security	City Wide	Corporate	Total
As at March 31, 2020	\$ 6,194,408	\$ 13,445,626	\$ 2,482,445	\$ 12,097,241	\$ 34,219,720
As at June 30, 2020	\$ 6,017,756	\$ 14,163,610	\$ 2,443,588	\$ 11,758,439	\$ 34,383,393

22. SUBSEQUENT EVENTS

On August 10, 2020, the Company announced its intention to sell the Company's ownership interest in City Wide on or before September 30, 2020. The sale price for the Company's 70% interest is expected to be \$2,341,500, of which \$1,800,000 will be paid on closing, \$450,000 represents an interest-bearing vendor take back note payable over five years from the date of closing and \$91,500 has already been received.

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 has issued a cease trade order on 3 Sixty's shares.