Avante Logixx Inc.
Management's Discussion and Analysis
For the Three Month Period Ended June 30, 2020 and 2019
(All amounts are in thousands of Canadian dollars unless otherwise indicated)

This Management's Discussion and Analysis ("MD&A") contains information about the consolidated performance and financial position of Avante Logixx Inc. (the "Company") as at and for three months ended June 30, 2020 and 2019, as well as forward-looking information about future periods. The information in this MD&A is current to August 26, 2020 and should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and notes thereto as at and for the three months ended June 30, 2020 and 2019.

The accompanying unaudited condensed interim consolidated financial statements of the Company were prepared by and are the responsibility of the Company's management. The Company's unaudited condensed interim consolidated financial statements as at and for the three months ended June 30, 2020 and 2019 were prepared in accordance with *International Financial Reporting Standards* ("IFRS"). All financial amounts in this MD&A are expressed in thousands of Canadian dollars except where otherwise noted. All tables are for the three months ended June 30 of the year indicated, unless otherwise stated. This MD&A includes forward-looking statements and assumptions. See "Forward-Looking Information" for more details.

FORWARD LOOKING INFORMATION

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

These forward-looking statements are based on current expectations that involve numerous risks and uncertainties, including, but not limited to, those identified in the Risks Factors section of the AIF the Company filed with regulatory authorities on October 17, 2019. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions and the successful completion and integration of proposed acquisitions, all of which are difficult or impossible to predict accurately and many of which are beyond the Company's control. Although the Company believes that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate. These factors should be considered carefully, and readers should not place undue reliance on forward-looking statements. The Company has no intention and undertakes no obligation to update or revise any forward-looking statements, whether written or oral that may be made by or on the Company's behalf.

NON-IFRS MEASURES

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

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

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

OVERVIEW OF AVANTE AND HIGHLIGHTS

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

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

The Company is organized into three divisions consisting of Logixx Security Inc. ("Logixx Security"), Avante Security Inc. ("Avante Security") and 70% owned City Wide Locksmiths Ltd. ("City Wide"), based on the type of customer serviced and as described in further detail in the Business Segment Operating Results section of this MD&A. In summary, Logixx Security focuses on providing enterprise customers with Protective Services, Electronic Security and Monitoring & Managed Services across Canada. Avante Security focuses on providing residential customers with similar services within central Toronto and Muskoka, Ontario. City Wide focuses on both residential and commercial customers with Security Devices and Hardware mainly within the Greater Toronto Area. 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 within the Company's unaudited condensed interim consolidated financial statements and notes thereto as at and for the three months ended June 30, 2020 and 2019).

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

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

i) invest in the parent company management structure to create the capability to grow by way of acquisition (senior leadership, and corporate development); and

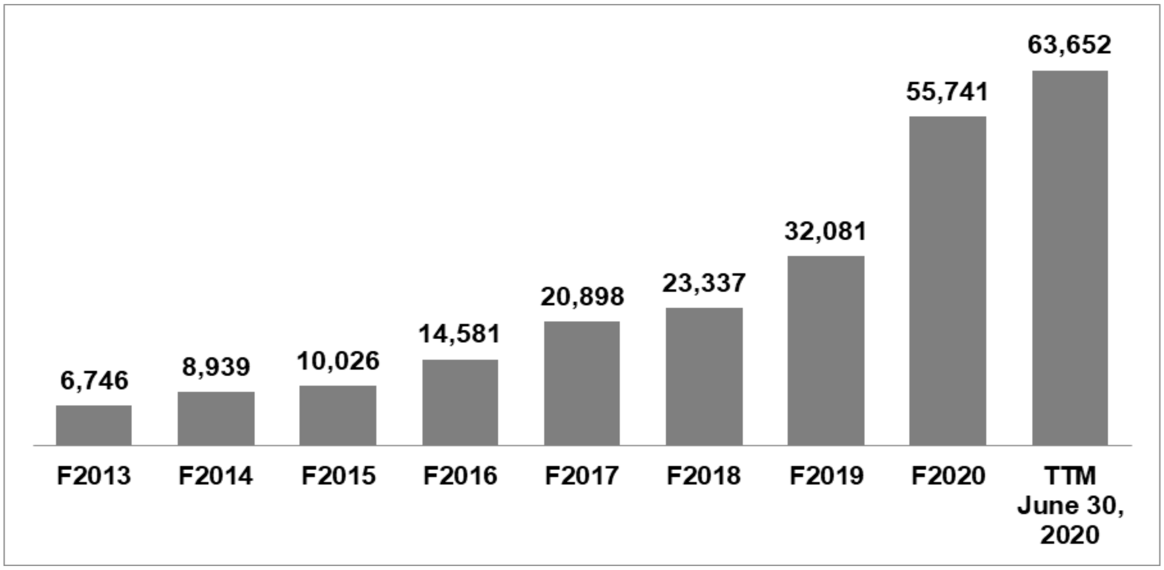
ii) look for opportunities to leverage previous acquisitions to gain synergies and create a shared services infrastructure to efficiently deliver services such as: human resources, management information services, marketing and sales.

The Company added key talent throughout fiscal 2019 and 2020 at the operational, management and executive level, creating, enhancing and expanding the support platform of Finance & Administration, Human Resources, Sales and Marketing and IT. The Company believes that these investments in people, technology and processes are critical to achieving the scale required to realize its strategy of building a technology-enabled security solution and one stop security provider to large, national commercial clients and for high net worth residential customers.

These investments are the foundation for the Company's growth platform. Management of the Company expects costs, as a percentage of total revenue, to continually decrease as the Company grows organically, acquires additional companies and realizes further synergies. This is evidenced by the decrease in operating expenses as a percentage of revenue (excluding depreciation, amortization, interest and accretion interest, non-cash share-based payments) which decreased to 19.5% for the first quarter ended June 30, 2020 from 28.4% during the first quarter of fiscal 2020, further discussed in the Operating Expenses section of this MD&A.

During fiscal 2020 (on December 1, 2019), the Company acquired A.S.A.P. Secured Inc. ("ASAP", rebranded and amalgamated with Logixx Security Inc. at April 1, 2020 located in Milton, Ontario, for approximately $9.3 million, subject to normal working capital and holdback adjustments. The acquisition of ASAP was strategic and expanded the national footprint of the Company's Protective Services activities within Logixx Security for commercial clients and expanded the number of industry verticals, including retail, consumer products and mining to the Company's customer portfolio. *Refer to Note 12 to the Unaudited Condensed Interim Consolidated Financial Statements for the three months ended June 30, 2020 and 2019.* The aggregate revenues, gross profit and Adjusted EBITDA of this acquisition for the period from April 1, 2019 to the date of acquisition was approximately $17.2 million, $3 million and $0.564 million, respectively. The acquisition of ASAP was funded by a promissory note in the amount of $2,625 (before discounting for accounting purposes) from the vendors of ASAP and by way of a Convertible Debenture issuance of $8,264 (refer to the Liquidity & Capital Resources section of this MD&A and *Note 17 to the Unaudited Condensed Interim Consolidated Financial Statements for the three months ended June 30, 2020 and 2019*). ASAP was legally amalgamated into Logixx Security on April 1, 2020.

As at June 30, 2020, the Company's full-time headcount was 1,604 compared to 1,525 as at March 31, 2020. Historical consolidated annual revenues of the Company are summarized below:



Notes: The Company's year end is March 31. The above reported revenue for F2020 and Trailing Twelve Months ("TTM") to June 30, 2020 excludes revenues of ASAP prior to its acquisition by the Company on December 1, 2020. Similarly, reported revenue for F2019 excludes revenue of Intelligarde, Veridin and Watermark prior to the respective acquisitions by the Company on November 30, 2018, September 17, 2018 and August 1, 2018.

STRATEGY

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

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

Make strategic acquisitions

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

Grow organically

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

Improve business operations

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

Consolidated objectives and outlook

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

- Invest in the range of $50 to 70 million during the next three years, and $200 million within the next five years, in platform and tuck-in acquisitions;
- Consolidated Adjusted EBITDA margin of 10%;
- High single-digit growth in adjusted net income per share;
- Reinvestment of cash in future business growth; and
- Net Senior Debt to Adjusted EBITDA of less than 3.0x.

Notwithstanding the above stated longer-term objectives, management intends to focus on internal organic opportunities and cost reduction activities during the balance of fiscal 2021. Management will also consider accretive acquisition opportunities that may become available during that time.

2020 ACQUISITIONS

On December 1, 2019, the Company acquired all of the outstanding shares of A.S.A.P Secured Inc. ("ASAP"). ASAP is a commercial security services provider that offers high-end low-profile security guards and patrols, as well as numerous complementary security services across Canada. The acquisition brought strategic capabilities to the Company that accelerated the realization of the Company's vision of building a technology-enabled security solutions provider. The acquisition further extended the Company's presence in the commercial security market, on a national basis and on April 1, 2020, ASAP was legally amalgamated into Logixx Security.

The total consideration paid for the outstanding shares of ASAP was initially $10,270 and was funded through the combination of the issuance of a non-transferrable Promissory Note in the principal amount of $2,625 and drawing of $8,264 (less transaction costs) under a Convertible Debenture facility. The initial consideration payable for ASAP was subject to certain post-closing net working capital adjustments as well as gross profit adjustments that might be applied to reduce the Promissory Note. In connection with the purchase agreement in respect of ASAP, the parties agreed to settle the difference between the actual working capital as at closing versus a targeted amount set out in the purchase agreement and such difference was to be settled in accordance with the agreement. During June 2020, the parties agreed that as of March 31, 2020, the vendors of ASAP owed the Company $177. However, the vendors provided transitional services to the Company since the closing date, including rental arrangements, corporate credit cards and other services, which the parties agreed aggregated to $146 as of March 31, 2020. On June 24, 2020, the parties settled all net amounts owing in respect of the working capital adjustments resulting in a final purchase price for the acquisition of $9,337 subject only to finalization of amounts owing under the Promissory Note due on February 28, 2021.

SELECTED FINANCIAL INFORMATION

The following selected financial information for the three-month period ended June 30, 2020 and 2019 have been derived from the unaudited condensed interim consolidated financial statements and should be read in conjunction with those financial statements and related notes. The results of acquisitions are added from their respective dates of completion. Non-IFRS measures are defined and reconciled in the Reconciliation of Non-IFRS Measures section of this MD&A.

	For the three month period ended June 30,	
$ in thousands, unless otherwise noted	2020	2019
Revenues	19,426	11,515
Gross profit (1)	4,594	3,319
Gross profit margin (1)	23.6%	28.8%
EBITDA (1)	331	(151)
Adjusted EBITDA (1)	756	115
Net income (loss) attributable to Avante shareholders	(1,279)	(703)
Comprehensive income (loss) attributed to Avante shareholders	(1,256)	(998)
Basic and fully diluted loss per share	($ 0.059)	($ 0.035)

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

Results for the Three Months Ended June 30, 2020 and 2019

Revenues

Revenues for the first quarter ended June 30, 2020 were $19.4 million, compared with $11.5 million for the prior year's first quarter, an increase of $7.9 million or 68.7%. The increase was largely due to the acquisition of ASAP completed on December 1, 2019, and further initiatives to generate organic growth.

For acquired companies, comparable growth is calculated as the difference between actual revenue achieved by each company in the financial period following acquisition compared to the revenue achieved in the corresponding financial period preceding the date of acquisition by the Company.

Revenue from recurring monitoring and response was $0.95 million for the first quarter ended June 30, 2020, compared to $0.92 million for the prior year's first quarter, an increase of $0.03 million or approximately 3.5%. Revenues for Protective Services, which are contractual, were $14.7 million in the first quarter ended June 30, 2020, compared to $6.5 million for the prior year's first quarter. Recurring and contractual revenues increased by $8.1 million over the prior year's first quarter and represented approximately 80.4% of the Company's consolidated revenue in the the first quarter ended June 30, 2020.

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

	For the three month period	
	June 30, 2019	**June 30, 2020**
Monitoring	920	947
Protective services	6,542	14,669
Recurring revenue	7,462	15,616
Total consolidated revenue	11,515	19,426
Recurring as a percent of total revenue	64.8%	80.4%

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

Gross Profit and Gross Profit Margin

Gross profit was $4.6 million for the first quarter ended June 30, 2020, an increase of $1.3 million or 38.4% over the prior year's first quarter, primarily due to increased revenues as a result of the ASAP acquisition.

Gross profit margin was 23.6% for the first quarter ended June 30, 2020 compared to 28.8% for prior year's first quarter. The year-over-year decrease in the gross profit margin is largely attributed to the increased concentration of Protective Services due to the changes in sales mix, as a result of the ASAP acquisition, as the protective services industry operates at a lower margin. Gross Profit and Gross Margin percentages by division were as follows during the first quarter ended June 30, 2020 and 2019:

	For the three month period	
	June 30, 2019	**June 30, 2020**
Gross Profit		
Logixx Security	786	2,496
Avante Security	1,936	1,627
City Wide	596	471
GP As reported	3,319	4,594
Gross Margin		
Logixx Security	15.2%	17.0%
Avante Security	40.4%	43.9%
City Wide	38.2%	38.5%
Total Gross Margin	28.8%	23.6%

Operating Expenses

Operating expenses, excluding depreciation, amortization, interest and share based payments for the first quarter ended June 30, 2020 were $3.8 million compared to $3.3 million during the prior year's first quarter, an increase of $0.5 million or 16.1%. Adjusted operating expenses as a percentage of revenues decreased from 28.4% for the first quarter ended June 30, 2019 to 19.5% for the current year's first quarter.

	FY 2020				FY2021
	Q1	**Q2**	**Q3**	**Q4**	**Q1**
Operating expenses	3,958	3,718	4,191	5,339	5,110
Less					
Interest expense	64	70	70	-	-
Accretion interest expense	-	-	98	-	-
Depreciation	319	329	298	342	337
Amortization	185	187	208	899	914
Commission amortization	38	56	(5)	71	6
Share based payments	80	75	12	35	55
Adjusted operating expenses	3,272	3,000	3,510	3,994	3,798
Revenue	11,515	11,743	14,114	18,369	19,426
Operating expense as a % of revenue	28.4%	25.5%	24.9%	21.7%	19.5%

The increase in people costs reflected within operating expenses is the result of acqusitions and talent additions throughout fiscal 2020 to build the corporate shared services and executive team to position the Company to scale as part of its growth strategy. The improvement in operating expenses as a percentage of revenues over recent fiscal quarters reflects the benefits of scale arising from both acquisitions completed during fiscal 2019 and 2020 as well as from organic growth in revenues.

Interest expense

Interest costs, including accretion interest expense, for the first quarter ending June 30, 2020 were $0.380 million compared with $0.064 million during the prior year's first quarter. The increase in interest expense for the current year's first quarter of $0.316 million is directly attributed to the acquisition of ASAP, which was funded by drawing on the Convertible Debenture and additional drawings under the acquisition credit facility.

EBITDA and Adjusted EBITDA

EBITDA and Adjusted EBITDA for the first quarter ended June 30, 2020, was $0.331 million and $0.756 million respectively, as compared to June 30, 2019, EBITDA and Adjusted EBITDA was $(0.151) million and $0.115 million respectively. The quarterly composition is summarized below:

Fiscal year	2021	2020			
$ in thousands, unless otherwise noted	Q1	Q4	Q3	Q2	Q1
Revenues	19,426	18,369	14,114	11,743	11,515
Gross profit [(1)]	4,594	3,530	3,332	3,684	3,319
Gross profit margin [(1)]	*23.6%*	*19.2%*	*23.6%*	*31.4%*	*28.8%*
Net Income (loss)	**(1,272)**	**(275)**	**(1,671)**	**(63)**	**(708)**
Interest expense	96	103	70	70	64
Accretion interest expense	285	253	98	–	–
Income taxes	(34)	(649)	(245)	(39)	(50)
Amortization on capitalized commission	6	71	(5)	56	38
Depreciation on capital assets	337	342	298	329	319
Amortization	914	899	208	187	185
EBITDA [(1)]	**331**	**744**	**(1,248)**	**541**	**(151)**
Write-down of intangible assets	–	172	–	–	–
Share based compensation	55	35	12	75	80
CWL inventory adjustment	–	–	–	–	35
Reorganization and acquistion costs	431	1,140	500	107	151
Loss (gain) in fair value of derivative liability	(75)	(2,599)	389	–	–
Other Adjustments	–	–	21	–	–
Deferred finance fees	13	49	–	–	–
Adjusted EBITDA [(1) (2)]	**756**	**(458)**	**(327)**	**723**	**115**
Total comprehensive income (loss)	(1,248)	(287)	(1,725)	(246)	(1,003)
Comprehensive income (loss) attributable to equity holders	(1,256)	(256)	(1,687)	(250)	(998)
Basic and fully diluted earnings per share	$ (0.059)	$ (0.012)	$ (0.077)	$ (0.003)	$ (0.035)
Total assets	48,066	49,095	48,542	33,033	34,282
Senior debt	7,896	9,110	7,706	4,821	5,057
Total debt	12,811	11,644	7,706	4,821	5,057

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

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

Restructuring and Acquisition Charge

During the four quarterly periods ended March 31, 2020, the Company recorded acquisition charges of $0.682 million and restructuring charges of $1.217 million reflecting the costs of $0.784 million severances to achieve acquisition synergies, acquisiton costs related to the settlement of prior acquisition purchase prices, and legal entity amalgamation costs to achieve anticipated synergies. Operating expenses during the first quarter ended June 30, 2020 benefited from the severance charge taken in the fourth quarter of Fiscal 2020. Restructuring and acquisition costs during the first quarter of fiscal 2021 amounted ot $0.431 million.

Balance Sheet

Total assets decreased by $1.0 million, or 2%, during the first quarter ended June 30, 2020 compared to the prior year end as at March 31, 2020.

As of June 30, 2020, trade receivables amounted to $15.9 million compared to $15.2 million as of March 31, 2020, an increase of $0.75 million. The increase in trade receivables is attributed to the Logixx Security receivables as it experienced growth in revenues during the month of June 2020. This was offset by reduced receivables within Avante Security due to stronger collection activities. Non Trade Receivables decreased from $1.75 million to $0.9 million during the first quarter of fiscal 2021. Increases in inventory were largely offset by decreases in contractual assets and liabilities during the first quarter of fiscal 2021. The Company is continuing to implement processes and initiatives focused on improving cash conversion cycles and optimizing working capital efficiency.

Property, plant and equipment decreased by $0.16 million during the first quarter ended June 30, 2020 due to required deprecation. Intangible assets declined during the first quarter ended June 30, 2020 due to required amortization.

The Company recorded a fair value adjustment of $0.023 million during the first quarter ended June 30, 2020, which increased the carrying value of its investment in 3|Sixty Secure Corp to $0.07 million (refer to *Note 22 Subsequent events to the Unaudited Condensed Interim Consolidated Financial Statements for the three months ended June 30, 2020 and 2019*). The fair value adjustments are recorded in other comprehensive loss on the Consolidated Statements of Loss and Comprehensive Loss.

BUSINESS SEGMENT OPERATING RESULTS

Up to and including the third quarter ended December 31, 2019, the Company identified and measured the results of operations by segments based on type of service consisting of Protective Services, Electronic Security, Monitoring & Managed Services and Security Devices and Hardware.

During the fourth quarter ended March 31, 2020, the Company's management determined that the Company's operating segments were now organized into three divisions consisting of Logixx Security, Avante Security and City Wide grouped primarily with reference to the nature of the type of customer serviced. Logixx Security focuses on providing enterprise customers with Protective Services, Electronic Security and Monitoring & Managed Services across Canada. Avante Security focuses on providing residential customers with similar services within central Toronto and Muskoka, Ontario. City Wide focuses on providing both residential and commercial customers with Security Devices and Hardware mainly within the Greater Toronto Area. 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 within the Company's unaudited condensed interim consolidated financial statements and notes thereto as at and for the three months ended June 30, 2020 and 2019).

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

The services offered by the divisions consist of the following:

Protective Services

The Company's Protective Services are focused on offering physical protection to residential, commercial and enterprise clients. Services include guarding, patrol and rapid response, intelligent perimeter protection, secure transport, and international security travel advisory and transport. These services are predominately contractual and recur on a monthly basis.

Electronic Security

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

Monitoring & Managed Services

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

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

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

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

The monitoring function is provided by physical on-site inspections and can also be monitored remotely via CCTV and web-cameras. CCTV systems are installed to monitor multiple locations concurrently and to provide a visual record in the event of an incident.

Security Devices & Hardware

The Company's Security Devices & Hardware services provides locksmithing services and hardware sales. This includes 24/7 locksmith solutions for homes, businesses and automobiles, including high-security locks, master-keys, ironworks and gates, key cutting and lock repairs. Highly trained locksmiths provide the highest quality of service and respond in an average of 20 minutes in the areas in which they operate. City Wide also provides high-end hardware through its ADH brand. 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 within the Company's unaudited condensed interim consolidated financial statements and notes thereto as at and for the three months ended June 30, 2020 and 2019).

Based on New Divisional Reporting as of Q4 2020:

During the fourth quarter ended March 31, 2020, the Company's management determined that the Company's operating segments were now organized into three divisions consisting of Logixx Security, Avante Security and City Wide grouped primarily with reference to the nature of the type of customer serviced. A summary of divisional operating performance during the year ended March 31, 2020 is provided below. Divisional reporting in respect of the reportable segments was not established by the Company until February 2020. Therefore, June 30, 2019 divisional operating expenses for the three-months period ending June 30, 2019 are not available:

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

	For the three-months ended June 30, 2020					
	Logixx Security	Avante Security	City Wide	Corporate	Intersegment eliminations	Total
Revenues	$ 14,722	$ 3,707	$ 1,223	$ -	(226)	$ 19,426
Cost of sales	12,226	2,080	752	-	(226)	14,832
Gross profit	2,496	1,627	471	-	-	4,594
Operating expenses	2,179	1,602	376	953	-	5,110
Other (income) expenses	319	66	32	(57)	-	359
Reorganization and acquisition costs	329	-	-	103	-	431
Provision for income taxes	(20)	(61)	19	28	-	(34)
Net income (loss)	(309)	20	44	(1,027)	-	(1,272)
Current income tax expense (recovery)	(10)	(15)	18	29	-	22
Deferred income tax expense (recover)	(10)	(46)	1	(1)	-	(56)
Interest expense	295	26	10	49	-	380
Depreciation and amortization	67	176	46	968	-	1,257
EBITDA	31	161	120	19	-	331
Share based compensation	-	-	-	55	-	55
Reorganizaton and acquisition	329	-	-	103	-	431
Loss (gain) in fair value of derivative liability	-	-	-	(75)	-	(75)
Deferred financing fees	-	-	-	13	-	13
Adjusted EBITDA	360	161	120	115	-	756

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

	FY 2020				FY2021
	Q1	Q2	Q3	Q4	Q1
Revenue					
Logixx Security	5,163	5,597	8,881	13,700	14,722
Avante Security	4,792	4,654	3,847	3,805	3,708
City Wide	1,560	1,521	1,472	1,339	1,223
Intersegment eliminations	–	(29)	(86)	(475)	(226)
Total Revenue	11,515	11,743	14,114	18,369	19,426
COGS					
Logixx Security	4,377	4,554	7,702	11,833	12,226
Avante Security	2,856	2,610	2,208	2,576	2,081
City Wide	963	923	958	906	752
Intersegment eliminations	–	(29)	(86)	(475)	(226)
Total COGS	8,196	8,058	10,782	14,841	14,832
Gross Profit					
Logixx Security	786	1,043	1,179	1,867	2,496
Avante Security	1,936	2,044	1,640	1,229	1,627
City Wide	597	597	513	434	471
Total Gross Profit	3,319	3,685	3,332	3,528	4,594
Gross Margin					
Logixx Security	15.2%	18.6%	13.3%	13.6%	17.0%
Avante Security	40.4%	43.9%	42.6%	32.3%	43.9%
City Wide	38.3%	39.3%	34.9%	32.4%	38.5%
Total Gross Margin	28.8%	31.4%	23.6%	19.2%	23.6%
Opex					
Logixx Security	–	–	–	–	2,179
Avante Security	–	–	–	–	1,602
City Wide	–	–	–	–	376
Corporate	–	–	–	–	953
Total Opex	3,958	3,718	4,191	5,339	5,110
Logixx Security	–	–	–	–	318
Avante Security	–	–	–	–	24
City Wide	–	–	–	–	95
Corporate	–	–	–	–	(953)
Income (loss) before other income and expenses	(640)	(34)	(859)	(1,810)	(516)
Miscellaneous income (expense)	89	(17)	(145)	144	16
Foreign exchange gain (loss)	(56)	57	(25)	114	(70)
Depreciation	319	329	298	342	337
Amortization on intangibles	185	187	208	899	914
Amortizaton on capitalized commission	38	56	(5)	71	6
Interest	64	70	168	(302)	–
Share based compensation	80	75	12	35	55
Deferred financing fees	–	–	–	49	13
CWL inventory adjustment	35	–	–	–	–
Other	–	–	21	–	–
Adjusted EBITDA	115	723	(327)	(458)	756

LOGIXX SECURITY

Logixx Security focuses on providing enterprise customers with Protective Services, Electronic Security and Monitoring & Managed Services across Canada. The division reflects the activities of prior acquisitions that are now operating under one leadership team and one legal entity. Intelligarde International Inc. ("Intelligarde") was acquired on November 30, 2018, Veridin Systems Canada Inc. ("Veridin") was acquired on September 17, 2018 and ASAP was acquired on December 1, 2019. Intelligarde was renamed as Logixx Security on July 4, 2019, Veridin legally amalgamated into Logixx Security on December 2, 2019 and ASAP legally amalgamated into Logixx Security on April 1, 2020.

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

In respect of the Intelligarde acquisition, an amount of $713 is held in escrow as a guarantee against certain representations and warranties provided by the vendors and was payable at the first anniversary following the closing date. Discussions continue with the vendors of Intelligarde International Inc. to settle this escrow amount.

First quarter fiscal 2021 revenue at Logixx Security of $14.5 million represents a $9.3 million increase over fiscal 2020's first quarter. $8.6 million of this increase is a direct result of the acquisition of ASAP effective December 1, 2019. Gross profit at Logixx Security during the first quarter of fiscal 2021 is $2.4 million, compared to $0.8 million during fiscal 2020's first quarter, with gross profit margins of 17% compared to 15.2%. The increase in gross profit margin is due to sales mix, with an increase in additional services (or "specials") in the quarter, along with continued efforts for cost savings and pricing improvements during contract negotiations.

AVANTE SECURITY

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

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

Revenues at Avante Security in the first quarter of fiscal 2021 decreased by 23% to $3.7 million as compared to fiscal 2020's first quarter. Gross profit at Avante Security during the first quarter of fiscal 2021 is $1.7 million and the division's gross profit margin is 45.3% as compared to fiscal 2020's first quarter revenues and gross profit margins of $4.8 million and 40.4% respectively. The decrease in revenue is directly related to travel restrictions from the COVID-19 pandemic and the closure of the home automation department in Q4 of fiscal 2020. The increase in gross profit margin percentage is due to sales mix and improved contracts.

City Wide

The Company acquired its ownership interest in City Wide on April 1, 2016. City Wide focuses on providing both residential and commercial customers with Security Devices and Hardware mainly within the Greater Toronto Area. The business is 70% owned by the Company. However, a minority shareholder of City Wide has the right to exchange special shares to acquire common shares from City Wide's treasury that would reduce the Company's ownership interest in City Wide to 63.0%.

During the first quarter of fiscal 2021 revenue at City Wide decreased by $0.33 million to $1.2 million from $1.5 million in fiscal 2020's first quarter due to a reduction in retail sales and installation revenues during much of fiscal 2021's first quarter related to the COVID-19 pandemic. Gross profit margins at City Wide during the first quarter of fiscal 2021 of 38.5% increased from 38.3% in fiscal 2020's first quarter. City Wide qualified for the Government of Canada's Canada Emergency Wage Subsidy ("CEWS") program and recorded grants received of $125,412 during the first quarter of fiscal 2021 as a reduction to salaries, benefits and commissions that are reflected in both cost of sales and operating expenses.

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 within the Company's unaudited condensed interim consolidated financial statements and notes thereto as at and for the three months ended June 30, 2020 and 2019).

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal sources of liquidity are cash provided from operations and a revolving credit facility from a bank. The Company expects that continued cash from operations during fiscal 2021, together with cash and cash equivalents on hand, and currently available senior credit facilities, will be more than sufficient to fund its requirements for investments in working capital and capital assets.

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

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

Cash Flows

	For the three months period ending	
Cash Inflows (Outflows) by Activity	**June 30, 2020**	**June 30, 2019**
Operating activities	$(973)	$36
Financing activities	820	1,229
Investing activities	(73)	(1,642)
Net cash inflows (outflows)	**$(226)**	**$(377)**

Operating Activities

Cash used in Operating Activities was $0.97 million during the first three months of fiscal 2021 as compared to $0.03 million of cash provided from Operating Activities during fiscal 2020's first three months. Cash provided from operations during the first three months of fiscal 2021 was $0.27 million as compared to $0.12 million used in operations during fiscal 2020's first three months. Operating uses of cash increased with interest payments, gains on the derivative liability and investment were offset with an increase in intangible assets amortization directly related to the ASAP acquisition. Cash used in non-cash working capital was $1.24 million during the first three months of fiscal 2021 as compared to $0.16 million used to fund non-cash working capital during fiscal 2020's first three months.

Financing Activities

Cash provided from Financing Activities was $0.8 million during the first three months of fiscal 2021, compared to cash provided from Financing Activities of $1.2 million during fiscal 2020's first three months. Cash provided by Financing Activities included net drawings on the senior credit facilities of $1.3 million.

The increase in obligations under financing leases during the prior year's first three months was comprised of $1.8 million for property and vehicle operating leases capitalized under IFRS 16 and principal payments during fiscal 2020's first three months of $0.139 million.

Investing Activities

Cash used in investing activities was $0.07 million during the first three months of fiscal 2021 compared to $1.6 million during fiscal 2020's first three months.

The purchase of capital assets during the first three month of fiscal 2021 of $0.1 million was comprised mostly of right-of-use vehicle leases. The prior fiscal year's first three months included $1.6 million of right-of-use assets capitalized on implementation of IFRS 16. The capital expenditures were funded through vehicle financing leases capitalized under IFRS 16 and from cash flow from operations.

The cash position as at June 30, 2020 was $1.1 million compared to $1.7 million as at June 30, 2019. The decrease in cash is mainly a result of cash used in working capital.

Senior Debt Borrowing

The Company's senior debt and property leases totaled $10.3 million as at June 30, 2020 versus $9.1 million as at March 31, 2020, an increase of $1.2 million. During the first three months of fiscal 2021, the Company borrowed an additional $1.3 million of senior debt under the revolving credit facility to fund working capital requirements but made principal repayments as required on other senior debt arrangements.

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

	As at June 30, 2020		
$ in thousands	**Total Amount**	**Borrowing**	**Amount Available**
Revolving credit facility	$3,000	$2,800	$200
Revolving acquisition facility	4,710	4,710	-
Mortgage	362	361	-
Vehicle loans	197	197	-
Vehicle and property leases	2,355	2,355	-
	$10,624	**$10,423**	**$200**

On November 23, 2018, the Company's bankers approved a new senior secured credit facility, which consolidated the previous credit lines of various subsidiaries with a revolving demand facility of $2 million and provided an acquisition line of up to $10 million. On April 2, 2020, the Company amended its senior credit facilities to increase the revolving credit facility by $1.0 million, to a new limit of $3.0 million and the acquisition credit facility was capped at its existing drawings of approximately $5.0 million. In accordance with the terms of the senior credit facilities, the Company must maintain certain covenants and ratios based on Non-IFRS financial measures, including Fixed Charge Coverage Ratio and Funded Debt to EBITDA. On June 30, 2020, the bank waived the Company's requirements to comply with such covenants in respect of the fiscal quarterly period ended June 30, 2020.

The Company is focused on managing both its senior debt and its leverage ratios with a long-term goal of achieving a Net Funded Senior Debt to Adjusted EBITDA ratio of less than 3.0x.

Convertible Debentures

On November 13, 2019, the Company entered an indenture and a subscription agreement pursuant to which Fairfax Financial Holdings Limited, through certain of its affiliates (collectively, "Fairfax"), agreed to invest up to $18 million in the Company through a private placement of 7% unsecured convertible debentures ("Convertible Debentures"). Such debentures mature on November 27, 2024 and are guaranteed by the Company's wholly-owned subsidiaries. The debenture facility was made available by way of two tranches. Total professional and legal fees of $301 were incurred on the transaction.

The first tranche of the Convertible Debentures was used to fund the ASAP acquisition, consisting of 8,264 debentures for gross proceeds of $8,264 that was drawn and advanced on November 27, 2019. The Company has up to August 27, 2020 to access the second tranche, of up to $9,736, at the Company's sole option, but subject to shareholder and regulatory approval, to fund general corporate purposes including future acquisitions and investments in guarantors. However, subsequent to the quarter end, the Company decided to not proceed with drawing of the second tranche.

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

Pursuant to the indenture, the Company's consolidated total indebtedness (excluding the Convertible Debentures) shall not exceed 6.5 times Adjusted EBITDA on a rolling four quarter basis and consolidated senior indebtedness shall not exceed 3.5 times Adjusted EBITDA on a rolling four quarter basis. Fairfax has waived compliance with such covenants with respect to the quarterly period ending June 30, 2020.

Promissory Note

Pursuant to the Company's purchase agreement in respect of ASAP, the Company entered into a Promissory Note due on February 28, 2021. The amount payable to the vendors of ASAP under this note will range from $nil to $2.63 million depending on the gross profit performance of the acquired customers of the business over the first twelve months from acquisition closing on December 1, 2019. 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 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.

Capital Stock

The authorized capital of the Company consists of an unlimited number of common shares. As at June 30, 2020, there were 21,192,004 Common Shares issued and outstanding, which is unchanged since March 31, 2020.

Issuance of Warrants

The Company issued 258,750 broker warrants as part of the common share bought deal on June 12, 2018. The warrants were granted at an exercise price of $2.00, which was equal to, or greater than, the trading price of the common shares on the day of grant and was considered fair value. The warrants had a 1:1 conversion ratio to common shares and expired on June 12, 2020, which was the second anniversary of the grant date. As at March 31, 2020, there were 258,750 warrants outstanding exercisable into 258,750 common shares, but on June 12, 2020 such warrants expired without being converted into common shares.

Issuance of Stock Options

As at June 30, 2020, there were a total of 1,755,333 options outstanding to purchase an equivalent of common shares, with a weighted average price of $1.97, expiring at various dates between November 2020 and January 2025. During the first three months of fiscal 2021, there were no options granted, no options were exercised, no options expired, but 15,000 options were cancelled. Should the outstanding options that were exercisable at June 30, 2020 be exercised, the Company would receive proceeds of approximately $0.856 million.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on its results of operations or financial condition. A performance letter of credit of $200,000 was issued to a customer as beneficiary during February 2020 and such letter of credit expires within one year of issue subject to an automatic renewal clause.

Related Party Transactions

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

The Company provided services to 3i Partners Inc., a private company controlled by a significant shareholder and officer of the Company. During the three months ended June 30, 2020, the Company billed $Nil (June 30, 2019: $4) at commercial rates.

The Company entered into a contract with Sissano Inc. effective May 1, 2018, a private company controlled by a significant shareholder to provide consulting services for the Company. The Company incurred $32 of expense during the first three months ended June 30 2020 (June 30, 2019: $96).

The Company entered into a contract with XpressChek Inc., a private company controlled by a significant shareholder and officer of the Company to provide services for the Company. During the three months ended June 30, 2020 the Company incurred $2 (June 30, 2019: $1) for these services.

RECONCILIATION OF NON-IFRS MEASURES

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

EBITDA and Adjusted EBITDA

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

The Company believes that Adjusted EBITDA is a meaningful financial metric, as it measures cash generated from operations which the Company can use to fund working capital requirements, service interest and principal debt repayments and fund future growth initiatives.

	2021	2020			
$ in thousands	Q1	Q4	Q3	Q2	Q1
Net income (loss)	**(1,272)**	**(275)**	**(1,671)**	**(63)**	**(708)**
Interest expense	96	103	70	70	64
Accretion interest expense (1)	285	253	98	–	–
Income taxes	(34)	(649)	(245)	(39)	(50)
Amortization on capitalized commission	6	71	(5)	56	38
Depreciation on capital assets	337	342	298	329	319
Amortization	914	899	208	187	185
EBITDA (1)	**332**	**744**	**(1,248)**	**541**	**(151)**
Write-down of intangible assets	–	172	–	–	–
Share based compensation	55	35	12	75	80
CWL inventory adjustment	–	–	–	–	35
Reorganization and acquistion costs	431	1,140	500	107	151
Loss (gain) in fair value of derivative liability	(75)	(2,599)	389	–	–
Deferred financing	13	49	–	–	–
Other	–	–	21	–	–
Adjusted EBITDA	**756**	**(458)**	**(327)**	**723**	**115**

(1) Accretion interest expense for debenture and promissory note

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

- *Loss (gain) in fair value of derivative liability* – The fair value of the Company's derivative liability relates to the estimated value of the common share conversion right granted to the holders of the Company's unsecured, 7% Convertible Debentures until such debentures mature on November 27, 2024. Such value will fluctuate depending on the share price of the Company's common shares, the time remaining to the debentures' maturity date and the volatility of the Company's common share price. The loss, or gain, during the reporting period represents the increase, or decrease, in such value during the reporting period.

- *City Wide inventory – fair value adjustment* – The Company made a fair value adjustment of $680 to the City Wide inventory at the date of acquisition on April 1, 2016. The adjustment reflects the non-cash amortization of this fair value adjustment. This fair value adjustment was fully expensed as at June 30, 2019 and therefore no such adjustment is required during fiscal 2021.

- *Share based payments* – Share based incentive compensation expense can vary based on the timing of when awards are issued and forfeitures. During the first three months of fiscal 2021 no such option were issued. All option grants are approved by the Board of Directors of the Company from the option pool approved by the shareholders at the most recent annaul general meeting of the Company's shareholders.

- *Reorganization and acquisition costs* – During the first three months of fiscal 2021, the Company recorded $0.431 million of reorganization costs and restructuring charges mainly comprised of fees to settle prior acquisition escrows and amalgamation and rebranding of ASAP and Logixx Security as compared to $0.151 during the fiscal 2020's first three months.

Gross Profit and Gross Profit Margin

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

RISK AND UNCERTAINTIES

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

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

Significant Shareholders

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

Risk of Dilution from Possible Future Offerings

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

Financing Risks

Additional funding will be required to execute future investment and growth opportunities and to refinance existing borrowings and working capital requirements. There is no assurance that such funds will be available to the Company, on acceptable terms or in required amounts. Any limitations on the Company's ability to access the capital markets for additional funds could have a material effect on the Company's ability to execute its growth strategy.

Growth Strategy and Management

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

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

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

Market Competition

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

Key Personnel

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

Government Regulations

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

Information Technology Systems

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

Credit Risk

The Company sells almost all of its services within Canada and a significant portion of its revenues are generated on a contractual basis pursuant to agreed payment terms. Due to the large number of commercial and residential clients that the Company deals with, and their economic distribution, the credit risk concentration to which the Company is exposed remains limited.

Reputational Risk

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

Inflationary Risk

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

COVID-19

In March 2020, the World Health Organization declared, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", a pandemic. This has resulted in governments worldwide enacting emergency measures to limit the spread of the virus, including closure of non-essential businesses. As of the date of this MD&A, the majority of the Company's operations are considered essential in all provinces in which the Company operates. As such, 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 respect of the Company's financial statements of prior periods. However, the effects of COVID-19 have required significant judgements and estimates to be made in the preparation of the Company's financial statements.

Additionally, the effects of COVID-19 may require revisions to estimates of expected credit losses attributed to accounts receivable arising from sales to customers on credit terms, including the incorporation of forward-looking information to supplement historical credit loss rates as well as other estimates and judgement used in the preparation of the Company's financial statements.

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 consolidated financial results will change in the near term as a result of COVID-19.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Financial instruments of the Company consist of cash, accounts receivable, and accounts payable and accrued liabilities, bank indebtedness, a promissory note due to the vendors of ASAP, a mortgage, the Convertible Debentures and vehicle loans and obligations under finance leases. There are no significant differences between the carrying amounts of the items reported on the balance sheet and their estimated fair values other than as set out in Note 17(c) "Liquidity Risk" of the Company's unaudited condensed interim consolidated financial statements and notes thereto as at and for the three months ended June 30, 2020 and 2019.

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

For additional detail's on the Company's financial instruments, including the amount and classification of gains and losses recorded in the Company's consolidated financial statements, summary of fair values, notional balances, effective rates and terms, and significant assumptions used in each calculation of the fair value of the Company's financial instruments, refer to Liquidity and Capital Resources in this MD&A and see Notes 7, 13, 14, 17, and 18 to the interim condensed consolidated financial statements for the years ended June 30, 2020 and June 30, 2019.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Critical accounting estimates used in the preparation of the interim condensed consolidated financial statements include the Company's estimate of the value of the Company's share-based compensation, determining whether the Company exercises control over entities in order to consolidate, provision for obsolescence of inventory, estimates of work in progress, depreciation of property, plant and equipment, amortization of intangible assets, allowance for doubtful accounts, amounts recoverable from vendors of companies acquired, fair value adjustments on Convertible Debentures and investments, and recoverability of tax credits. These estimates are based on the Company's management's best judgment and could be affected by significant factors that are out of the Company's control. Actual results could differ from these estimates. Future events and risk factors could result in changes in these estimates and assumptions.

The Company uses the Black-Scholes model to determine the fair value of options, warrants and the equity component of the Convertible Debentures. The main factor affecting the estimates of stock-based compensation is the stock price volatility used. The Company uses historical price data and comparable entities in the estimate of future volatilities. Additional factors affecting share-based compensation include estimates of when stock options might be exercised. The timing of the exercise of options is out of the Company's control and will depend upon a variety of factors, including the market value of the Company's shares and the financial objectives of the share-based instrument holders.

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

CHANGES IN ACCOUNTING POLICIES

The Company's accounting policies are as disclosed in Note 3 of the Company's audited annual consolidated financial statements for the years ended March 31, 2020 and 2019. There were no material changes to the Company's accounting policies so far during fiscal 2021 or during fiscal 2020 other than the adoption of IFRS 16 in fiscal 2020, as disclosed in Note 3 of the Company's audited consolidated financial statements. The company opted to change the accounting treatment of uniform acquisition on April 1, 2020. Uniform expense that was previously included in the statement of loss and comprehensive loss are not capitalized and depreciated over the useful life. On April 1, 2020, the Company changed the accounting estimates of the Trade Name intangible assets related to the acquisitions of Veridin and Intelligarde. The amortization period was reassessed from the original estimate of ten years down to three years.

IFRS Issued Standards Not Yet Adopted

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

IFRS 3 – Business Combinations

This standard is effective for annual periods beginning on or after January 1, 2020 with early adoption available. This amendment to IFRS 3 clarifies the definition of a business and assists entities in determining whether an acquisition is a business combination of a group of assets. The amendment emphasizes that the output of a business is to provide goods and services and also provides supplementary guidance. The Company will adopt the provisions of this amendment prospectively in its 2021 fiscal year. The Company's management does not expect adoption of this amendment to have a material effect.

ADDITIONAL INFORMATION

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