Audited Consolidated Financial Statements of

Route1 Inc.

For the years ended December 31, 2016 and 2015

TABLE OF CONTENTS

Route1 Inc.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Route1 Inc.

We have audited the accompanying consolidated financial statements of Route1 Inc. and its subsidiary, which comprise the consolidated statements of financial postition as at December 31, 2016 and December 31, 2015 and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Route1 Inc. and its subsidiary, as at December 31, 2016 and December 31, 2015, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Collins Barrow Toronto LLP

Chartered Professional Accountants
Licensed Public Accountants
April 13, 2017
Toronto, Ontario

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Route1 Inc.

As at December 31, 2016 and December 31, 2015
(stated in Canadian dollars)

	Note	**December 31 2016**	December 31 2015
Assets			
Current assets			
Cash and cash equivalents		**$1,945,549**	$1,251,242
Accounts receivable	**14**	**181,848**	142,521
Other receivables		**170,741**	248,201
Devices and appliances held for sale	**4**	**312,995**	293,623
Prepaid expenses		**299,205**	176,864
Total current assets		**2,910,338**	2,112,451
Non-current assets			
Deferred tax asset	**16**	**742,067**	742,067
Property, furniture and equipment	**5**	**305,592**	556,482
Intangible assets	**5**	**231,685**	244,557
Total non-current assets		**1,279,344**	1,543,106
Total assets		**$4,189,682**	$3,655,557
Liabilities			
Current liabilities			
Accounts payable and other liabilities		**$345,048**	$291,242
Deferred revenue	**15**	**2,154,721**	1,656,778
Total current liabilities		**2,499,769**	1,948,020
Non-current liabilities			
Other liabilities		**62,288**	67,361
Deferred revenue	**15**	**27,947**	43,642
Total non-current liabilities		**90,235**	111,003
Total liabilities		**2,590,004**	2,059,023
Shareholders' equity			
Common shares	**6, 7**	**22,169,410**	22,864,205
Contributed surplus – stock compensation reserve	**7**	**14,143,368**	13,775,171
Deficit		**(34,713,100)**	(35,042,842)
Total shareholders' equity		**1,599,678**	1,596,534
Total shareholders' equity and liabilities		**$4,189,682**	$3,655,557

Approved by the Board of Directors:

Director:	Director:
● *"signed"*	● *"signed"*
Michael F. Doolan	Tony Busseri

The accompanying notes are an integral part of these audited consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Route1 Inc.

For the years ended December 31, 2016 and 2015
(stated in Canadian dollars)

	Note	2016	2015
Revenue			
Devices and Appliances	15	**$363,031**	$156,048
Services	15	**7,080,462**	6,218,284
Other	15	**3,995**	23,037
Total revenue		**7,447,488**	6,397,369
Cost of revenue	4	**1,474,951**	1,164,522
Gross profit		**5,972,537**	5,232,847
Operating expenses			
General administration		**3,105,935**	2,867,716
Research and development		**1,184,926**	976,247
Selling and marketing		**939,676**	671,158
Total operating expense		**5,230,537**	4,515,121
Operating profit before stock-based compensation and patent litigation		**742,000**	717,726
Patent litigation		**(56,292)**	-
Stock-based compensation	7	**(368,197)**	(409,645)
Operating profit including stock-based compensation and patent litigation		**317,511**	308,081
Other income (expense)			
Interest income		**251**	-
Foreign exchange gain (loss)		**11,980**	(155,451)
Total other income (expense)		**12,231**	(155,451)
Income before taxes		**329,742**	152,630
Income tax recovery	16	**-**	575,469
Total comprehensive income for the period		**$329,742**	$728,099
Basic and diluted income per share	9	**$0.00**	$0.00
Weighted average number of common shares outstanding		**355,100,654**	367,620,611

The accompanying notes are an integral part of these audited consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Route1 Inc.

For the years ended December 31, 2016 and 2015
(stated in Canadian dollars)

	Note	Common Shares	Warrants	Contributed Surplus	Deficit	Total shareholders' equity
Balance at January 1, 2015		$23,349,991	$1,746,027	$11,619,499	$(35,770,941)	$944,576
Repurchase of capital stock for cancellation	6	(485,786)	-	-	-	(485,786)
Expired warrants	7	-	(1,746,027)	1,746,027	-	-
Stock-based compensation	7	-	-	409,645	-	409,645
Comprehensive income		-	-	-	728,099	728,099
Balance at December 31, 2015		$22,864,205	$ -	$13,775,171	$(35,042,842)	$1,596,534

	Note	**Common Shares**	**Warrants**	**Contributed Surplus**	**Deficit**	**Total shareholders' equity**
Balance at January 1, 2016		**$22,864,205**	**$ -**	**$13,775,171**	**$(35,042,842)**	**$1,596,534**
Repurchase of capital stock for cancellation	**6**	**(694,795)**	**-**	**-**	**-**	**(694,795)**
Stock-based compensation	**7**	**-**	**-**	**368,197**	**-**	**368,197**
Comprehensive income		**-**	**-**	**-**	**329,742**	**329,742**
Balance at December 31, 2016		**$22,169,410**	**$ -**	**$14,143,368**	**$(34,713,100)**	**$1,599,678**

The accompanying notes are an integral part of these audited consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Route1 Inc.

For the years ended December 31, 2016 and 2015
(stated in Canadian dollars)

	Note	2016	2015
Net cash inflow (outflow) related to the following activities			
Operating activities			
Profit from operations		**$329,742**	$728,099
Items not affecting cash and cash equivalents			
Depreciation	**5**	**461,401**	434,173
Devices and appliances write down	**4**	**7,716**	22,255
Stock-based compensation	**7**	**368,197**	409,645
Deferred tax asset	**16**	**-**	(575,469)
		1,167,056	1,018,703
Net changes in working capital balances			
(Increase)/decrease in accounts receivable		**(39,327)**	38,662
Decrease/(increase) in other receivables		**77,460**	(216,086)
(Increase) in devices and appliances held for sale		**(27,088)**	(40,275)
(Increase)/decrease in prepaid expenses		**(122,341)**	47,648
Increase/(decrease) in payables and other liabilities		**53,806**	(37,775)
(Decrease)/increase in other liabilities-non-current		**(5,073)**	135
Increase in deferred revenue		**482,248**	65,155
		419,685	(142,538)
Net cash generated by operating activities		**1,586,741**	876,165
Investing activities			
Acquisition of property, furniture and equipment	**5**	**(84,421)**	(427,222)
Acquisition of intangible assets	**5**	**(113,218)**	(244,817)
Net cash used by investing activities		**(197,639)**	(672,039)
Financing activities			
Repurchase of capital stock for cancellation	**6**	**(694,795)**	(485,786)
Net cash used by financing activities		**(694,795)**	(485,786)
Net increase/(decrease) in cash and cash equivalents for the year		**694,307**	(281,660)
Cash and cash equivalents, beginning of year		**1,251,242**	1,532,902
Cash and cash equivalents, end of year		**$1,945,549**	$1,251,242

The accompanying notes are an integral part of these audited consolidated financial statements

1. NATURE AND DESCRIPTION OF THE COMPANY

Route1 Inc. ("Route1" or "the Company") is a publicly traded company on the TSX Venture Exchange and the OTCQB Venture Market. The Company is incorporated under the laws of the Province of Ontario by articles of amendment dated October 14, 2004 followed by articles of continuance dated November 10, 2004. The registered office of the company is 8 King Street East, Suite 600, Toronto, Ontario, M5C 1B5.

Route1 delivers industry-leading security and identity management solutions to enterprises worldwide – businesses, government and military which need universal, secure access to all digital resources and sensitive data. For more information, visit the Company's website at: www.route1.com.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The audited year end consolidated financial statements were authorized for issuance by the Company's Board of Directors on April 13, 2017.

2.2 Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company is exposed or has rights to variable returns from an investee and has the ability to affect those returns through its power over the investee. The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial records of the subsidiary to bring their accounting policies in line with those used by the Company. All intercompany transactions, balances, income and expenses are eliminated upon consolidation. Where the Company's interest in a subsidiary is less than 100%, the Company recognizes a non-controlling interest.

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary Route 1 Security Corporation.

2.3 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The accounting policies set out in these consolidated financial statements have been applied consistently to all periods presented in these consolidated financial statements.

(a) Functional and presentation currency and foreign currency translation

These consolidated financial statements are presented in Canadian dollars, which is the Company's and its wholly-owned subsidiary company's functional currency. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the balance sheet date; non-monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at historical exchange rates; revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the average exchange rate for the period. Foreign exchange gains and losses on translation are included in the consolidated statements of comprehensive income in the period in which they occur.

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash deposits with chartered banks both in Canada and the United States of America that are available on demand.

(c) Financial instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments. Settlement date accounting is used.

Financial assets	***Classification***	***Measurement***
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Financial liabilities		
Accounts payable and other liabilities	Other financial liabilities	Amortized cost

(c)(i) Loans and receivables

Loans and receivables are accounted for at amortized cost using the effective interest method.

(c)(ii) Other liabilities

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities.

(c)(iii) Effective interest method

The Company uses the effective interest method to recognize interest income or expense which includes transaction costs or fees, premiums or discounts earned or incurred for financial instruments.

(d) Allowance for doubtful accounts

The allowance for doubtful accounts receivable is determined based on management's assessment of the collectability of specific customer balances, considering general and industry economic and market conditions as well as other credit information available for the customer. Recoveries of the allowances are recorded when payment is received.

(e) De-recognition of financial liabilities

The Company de-recognizes financial liabilities when the obligations are discharged, cancelled or expire.

(f) Devices and appliances held for sale

Devices and appliances are valued at the lower of cost and net realizable value with cost being calculated on a weighted average basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

(g) Property, furniture and equipment

Property, furniture and equipment are recorded at cost and subsequently recorded at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided over the estimated useful life of the assets less any impairment loss or reversal as follows:

Furniture and equipment	-	straight-line over 36 months
Computer equipment	-	straight-line over 36 months

The Company assesses the depreciation method and rate as well as the residual value of property, furniture and equipment at the end of each financial year.

(h) Intangible assets

Intangible assets are recorded at cost less accumulated depreciation and any accumulated impairment loss. Depreciation is provided over the estimated useful life of the assets less any impairment loss or reversal as follows:

License agreement	-	straight-line over 48 months
Computer software	-	straight-line over 12 months
Computer software (applications)	-	straight-line over 60 months
Patents	-	straight-line over the life of the patent
Other	-	straight-line over 24 months

The Company assesses the depreciation method and rate as well as the residual value of intangible assets at the end of each financial year.

(i) Impairment of property, furniture and equipment and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

(j) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Payments of operating leases are recognized straight line over the term of the lease.

(k) Revenue recognition

The Company recognizes revenue when it is realized and earned. The Company considers revenue realized and earned when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods (or service has been performed), the Company does not retain any managerial involvement, it is probable that the economic benefits associated with the transaction will flow to the Company, and the amount of revenue can be measured reliably. The following paragraphs describe the specific revenue recognition policies for each major component of revenue.

(l) Devices

Revenues from the sale of MobiKEY devices are recognized when title is transferred to the customer and all significant contractual obligations that affect the customer's final acceptance have been fulfilled.

(m) Appliances

Revenues from the sale of a DEFIMNET platform and a MobiNET Aggregation Gateway appliance are recognized when title is transferred to the customer and all significant contractual obligations that affect the customer's final acceptance have been fulfilled.

(n) Service

Revenue from MobiKEY application software subscription-based services, and DEFIMNET platform and other appliance licensing or maintenance is recognized rateably over the term of the contract on a monthly basis when the service is provided. In instances where the Company bills the customer prior to performing the service, the prepayment amount is recorded as deferred revenue.

(o) Multiple-element arrangements

The Company enters into transactions that represent multiple-element arrangements which may include any combination of device and service. These multiple-element arrangements are assessed to determine whether they can be separated into more than one unit of accounting or element for the purpose of revenue recognition. When one or more of the components may be purchased independently of the other components, and there is evidence of fair value for all units of accounting or elements in an arrangement, the arrangement consideration is allocated to the separate units of accounting or elements based on the relative fair value method. This evidence of fair value is established through prices charged for each revenue element when that element is sold separately. The revenue recognition policies described above are then applied to each unit of accounting.

(p) Research and development

Research and development expenditures are charged as an operating expense of the Company as incurred. Expenditures for development equipment are capitalized and amortized only when the criteria for capitalization are met.

Scientific research and economic development ("SR&ED") credits and government grants

SR&ED credits are estimated and recognized rateably throughout the year based on management's expectation of projects undertaken for the current year that will comply with the conditions attaching to them. SR&ED credits reduce research and development expenses. Similarly, government grants, recorded as other revenue, are recognized when all conditions have been met, the grant has been earned and the grant is non-refundable.

(q) Stock-based compensation

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The Company calculates stock-based compensation using the Black-Scholes option pricing model to value the options at the grant date, and subsequently expenses over the vesting term.

Equity-settled share-based payment transactions related to services provided by non-employees are measured at the fair value of the services received. If the services cannot be measured reliably the transaction is measured at the fair value of the equity instrument issued.

(r) Legal claims

In the normal course of operations, the Company may be subject to litigation claims from customers, suppliers, patent holders, resellers and former employees. A provision is recognized when the probability of payment will occur is more likely than not. The Company regularly reviews any outstanding claims to see if they meet the criteria. A provision is calculated based on management's best estimate of probable outflow of economic resources.

(s) Income taxes

The tax currently payable (if any) is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(t) Recognition of deferred tax assets and liabilities

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. The Company's liability for deferred tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period and rates expected to apply the deferred tax asset or deferred tax liability is settled.

(u) Earnings per share

Basic earnings per share is computed by dividing the income by the weighted average shares outstanding during the reported period.

The Company calculates the dilutive effect of options and warrants on earnings per share. Diluted earnings per share is computed similarly to basic earnings per share, except the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period. 2.4 Use of estimates

In preparation of the Company's consolidated financial statements in accordance with IFRS, management is required to make estimates and assumptions that affect the reported amount of assets, liabilities, and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates used in the Company's consolidated financial statements and such differences could be material.

2.5 Critical judgments

The following are the critical judgments, apart from those involving estimations (see below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Revenue recognition: In making their judgment, management considered the detailed criteria for the recognition of revenue from the sale of goods and services set out in IAS 18 Revenue and, in particular, whether the Company had transferred to the buyer the significant risks and rewards of ownership of the goods and services. As well, management applies judgment when determining the fair value of the separate units of accounting for its products and services sold in multiple element arrangements. This evidence of fair value is established through prices charged for each revenue element when that element is sold separately.

Functional currency: In making their judgment that the Canadian dollar is the functional currency of the Company, management considered the currency that influences the cost of providing the goods and services in each jurisdiction in which the Company operates.

2.6 Significant estimates

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Allowance for doubtful accounts: The Company reviews its credit sales and determines the balance for the allowance for doubtful accounts. The Company has determined that no allowance for doubtful accounts is required as of December 31, 2016 and December 31, 2015.

Allowance for inventory obsolescence: The Company reviewed the recoverable amount of its inventory for the year ended December 31, 2016; the Company incurred a write-down of $7,716 which was included in the cost of revenue. For additional information regarding the devices and appliances write-down see Note 4,

	"COST OF DEVICES SOLD" of these financial statements.
Useful lives of property, furniture and equipment:	The Company reviews the estimated useful lives of property, furniture and equipment at the end of each reporting period. During the current period the useful lives were considered reasonable.
Valuation of deferred tax assets:	The Company estimates the probability that taxable profits will be available to be offset against deductible temporary differences and thus give rise to deferred tax assets. The Company has reviewed the expected profitability and determined that a deferred tax asset should be recognized at December 31, 2016, as it is probable that the asset will be utilized. See Note 16 to these financial statements, **"INCOME TAXES".**
Valuation of warrants and stock-based compensation:	The Company estimates the fair value of shares based compensation issued for goods or services based on the Black-Scholes Option Pricing Model for warrants and share options with a service condition. The Company has judged that the fair value of the services could not be determined; therefore the fair value of the shares, share options and warrants was used in the measurement of the transactions. These methods of valuation were applied to the equity transactions during the period (Note 7, **"SHARE CAPITAL, OPTIONS AND CONTRIBUTED SURPLUS"**).
Recognition of SR&ED tax credits/Government grants:	The Company estimates SR&ED credits based on historical and forward looking analysis. SR&ED credits are estimated and recognized rateably throughout the year based on management's expectation of projects undertaken for the current year that will comply with the conditions attaching to them. Similarly, government grants, recorded as other revenue, are recognized when all conditions have been met, the grant has been earned and the grant is non-refundable.

3. FUTURE ACCOUNTING POLICY CHANGES

Financial Instruments

IFRS 9, “Financial Instruments” (IFRS 9), was issued by the IASB in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. Requirements relating to Hedge Accounting, representing a new hedge accounting model, have been added to IFRS 9 in November 2013. The new model represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements. The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is assessing the impact of adopting IFRS 9 on the consolidated financial statements.

Revenue from Contracts with Customers

IFRS 15, “Revenue from Contracts with Customers” (IFRS 15), was issued by the IASB in May 2014 and will supersede current revenue recognition guidance, which is currently found across several standards and interpretations including IAS 11, Construction Contracts and IAS 18, Revenue. IFRS 15 provides a framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is in the process of assessing the impact of this standard on its consolidated financial statements.

Leases

IFRS 16, “Leases” (IFRS 16), is effective for years commencing on or after January 1, 2019, and replaces IAS 17, Leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for almost all leases. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Company is assessing the impact of adopting IFRS 16 on the consolidated financial statements.

4. COST OF DEVICES SOLD

Cost of revenue includes the cost of devices, salaries of select staff, hosting of our MobiNET and royalty related expenses. For the year ended December 31, 2016, the cost of devices recognized as an expense was $212,462 (December 31, 2015 - $70,292).

On a quarterly basis or when necessary, management reviews the carrying value of inventory. Under IFRS, inventory must be recognized at the lower of cost and net realizable value, which is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale. For the year ended December 31, 2016, the Company incurred a devices and appliances write-down of $7,716 (December 31, 2015 - $22,255) which was included in the cost of revenue.

December 31, 2016 and 2015 (stated in Canadian dollars)

5. PROPERTY, FURNITURE AND EQUIPMENT AND INTANGIBLE ASSETS

Cost	**Computer Equipment**	**Furniture and Equipment**	**Total Property, Furniture and Equipment**	**Intangible Assets**
Balance January 1, 2016	$1,531,547	$211,275	**$1,742,822**	**$476,077**
Additions	78,663	5,758	**84,421**	**113,218**
Disposals	-	-	-	-
Balance December 31, 2016	$1,610,210	$217,033	**$1,827,243**	**$589,295**

Accumulated depreciation and impairment	**Computer Equipment**	**Furniture and Equipment**	**Total Property, Furniture and Equipment**	**Intangible Assets**
Balance January 1, 2016	$(1,030,062)	$(156,278)	**$(1,186,340)**	**$(231,520)**
Depreciation expense	(311,395)	(23,916)	**(335,311)**	**(126,090)**
Disposals	-	-	-	-
Balance December 31, 2016	$(1,341,457)	$(180,194)	**$(1,521,651)**	**$(357,610)**

Net book value	**Computer Equipment**	**Furniture and Equipment**	**Total Property, Furniture and Equipment**	**Intangible Assets**
Balance January 1, 2016	$501,485	$54,997	**$556,482**	**$244,557**
Balance December 31, 2016	**$268,753**	**$36,839**	**$305,592**	**$231,685**

As of December 31, 2016, non-current assets (excluding the deferred tax asset) were $537,277 (December 31, 2015 - $801,039). At December 31, 2016, computer, furniture, equipment and intangible assets located in Canada were $368,033 (December 31, 2015 - $384,095) and $169,244 were located in the U.S. (December 31, 2015 - $416,944).

For the year ended December 31, 2016, depreciation expense of $461,401 (December 31, 2015 - $434,173) was recognized in general administration expense.

6. SHARE REPURCHASE PROGRAM

On September 22, 2015, the Company announced with approval from the TSX Venture Exchange its intention to make another Normal Course Issuer Bid ("NCIB"). The NCIB permitted the Company to purchase for cancellation up to 5% of the common shares in the public float. The maximum number of shares allowed for repurchase was 18,262,570. Purchases for cancellation under the NCIB during the period from September 27, 2015 to September 26, 2016 were 14,174,000 common shares.

On September 16, 2016, the Company announced with approval from the TSX Venture Exchange its intention to make another NCIB. The NCIB permits the Company to purchase for cancellation up to 5% of the common shares in the public float. The maximum number of shares allowed for repurchase is

December 31, 2016 and 2015 (stated in Canadian dollars)

17,563,870. Purchases under the NCIB may occur during the 12 month period commencing September 27, 2016 and ending September 26, 2017, or the date upon which the maximum number of common shares have been purchased by the Company. Purchases for cancellation under the NCIB during the period from September 27, 2016 to December 31, 2016 were 2,884,000 common shares.

For the year ended December 31, 2016, the Company repurchased for cancellation 14,466,000 of its common shares for consideration of $688,785, at an approximate average price of $0.048 per share under the NCIB. The Company also incurred an expense of $6,010 for regulatory cost to set up the new NCIB and to complete the share repurchases during the year. For the year ended December 31, 2015, the Company repurchased for cancellation 10,114,500 of its common shares for consideration of $480,518 at an average price of $0.048 per share under the NCIB. The Company also incurred an expense of $5,268 for regulatory cost to set up the NCIB and to complete the repurchase during the year ended December 31, 2015.

7. SHARE CAPITAL, OPTIONS AND CONTRIBUTED SURPLUS

The Company's authorized share capital consists of the following:

- Unlimited number of common shares with voting rights and no par value.
- Unlimited number of non-cumulative, non-voting first preferred shares with no fixed dividend rate, issuable in series.
- Unlimited number of non-cumulative, non-voting second preferred shares with no fixed dividend rate, issuable in series.
- Unlimited number of non-cumulative, non-voting Series A first preferred shares with no fixed dividend rate, issuable in series and convertible into common shares at the option of the holder on a one-for-one basis at any time after October 31, 2000.

  As of December 31, 2016, the following was outstanding:

	Number of Common Shares	Common Shares $
Balance, January 1, 2016	362,659,414	$22,864,205
Shares issued/repurchased for cancellation	(14,466,000)	(694,795)
Balance, December 31, 2016	348,193,414	$22,169,410

- There are 32,689,000 common share purchase options ("Options") outstanding and exercisable into 32,689,000 common shares.

Stock-based compensation

The Company has a Stock Option Plan (the "Plan") that was created in 1997 to attract, retain and motivate officers, salaried employees and directors who are in a position to make important contributions toward the success of the Company. Under the Plan, options may be granted to directors, officers, employees, and consultants of the Company at an exercise price determined by the Board provided that such exercise price should not be less than permitted under the rules of any stock exchange where the shares are listed. The period during which an option may be exercised (the "Option Period") is determined by the Board at the time the option is granted, subject to any vesting limitations which may be imposed by the Board in its sole unfettered discretion at the time such option is granted. Options are exercisable as determined by the Board at the date of the grant. Shares covered by options granted with respect to any year may not exceed 10% of the issued and outstanding shares of the Company at the time of the grant, calculated on a non-diluted basis.

December 31, 2016 and 2015 (stated in Canadian dollars)

The following tables reflect the movement and status of the stock options:

	December 31, 2016		December 31, 2015	
Options Outstanding	**Number of Options**	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Balance, beginning of the year	**33,114,000**	**$0.09**	29,124,000	$0.14
Options granted during the year	**4,875,000**	**0.05**	19,800,000	0.05
Options expired during the year	**(3,150,000)**	**0.23**	(15,610,000)	0.15
Options exercised during the year	**-**	**-**	-	-
Options forfeited during the year	**(2,150,000)**	**0.09**	(200,000)	0.05
Balance, end of the year	**32,689,000**	**$0.07**	33,114,000	$0.09

	Options Outstanding December 31, 2016		**Options Exercisable December 31, 2016**	
Exercise Price	**Number of Options**	**Weighted Average Life (Years)**	**Number of Options**	**Weighted Average Life (Years)**
$0.05	**11,439,000**	**3.6**	**2,933,400**	**2.8**
$0.055	**15,250,000**	**3.3**	**4,575,000**	**3.3**
$0.13	**6,000,000**	**0.4**	**6,000,000**	**0.4**
	32,689,000	**2.9**	**13,508,400**	**1.9**

	Options Outstanding December 31, 2015		Options Exercisable December 31, 2015	
Exercise Price	Number of Options	Weighted Average Life (Years)	Number of Options	Weighted Average Life (Years)
$0.05	7,214,000	4.0	1,009,200	3.4
$0.055	15,750,000	4.3	-	-
$0.13	7,000,000	1.4	7,000,000	1.4
$0.16	625,000	0.7	625,000	0.7
$0.25	2,525,000	0.2	2,525,000	0.2
	33,114,000	3.2	11,159,200	1.2

During the year ended December 31, 2016 the Company recorded stock-based compensation expense of $368,197 (December 31, 2015 - $409,645).

December 31, 2016 and 2015 (stated in Canadian dollars)

During the year ended December 31, 2016, the Company issued 4,875,000 stock options. The table below shows the assumptions used in determining stock-based compensation expense, as derived under the Black-Scholes option pricing model for stock options issued during the current year:

	2016
Share price on issue date	$0.05
Risk free interest rate	0.61%
Expected life (years)	5
Expected volatility	145%-147%
Dividend yield	Nil
Estimated forfeitures	Nil
Weighted average fair value of options granted	$0.04

The Black-Scholes option pricing model used by the Company to determine fair values was developed for use in estimating the fair value of freely traded options, which are fully transferable and have no vesting restrictions. The Company's stock options are not transferable and cannot be traded and are subject to vesting restrictions and exercise restrictions under the Company's black-out policy which would tend to reduce the fair value of the Company's stock options. Changes to subjective input assumptions used in the model can cause a significant variation in the estimate of the fair value of the options.

All outstanding vested share options were measured in accordance with IFRS 2, "Share-based Payment" at their market-based measure at the acquisition date. Options were priced using the Black-Scholes option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions, and behavioral considerations. Expected volatility is based on the historical share price volatility.

Contributed surplus

Contributed surplus represents expired warrants and the fair value of stock options granted under the stock option plan, determined using the Black-Scholes option pricing model and is amortized to income on a graded vested basis over the vesting period with a corresponding increase to contributed surplus. Any consideration paid by the employees or non-employees resulting from the exercise of stock options is reflected as an increase to share capital, with a transfer of cost from contributed surplus.

During the year ended December 31, 2015, 38,000,000 warrants issued on February 26, 2010 expired on February 25, 2015 unexercised. Subsequent to the expiry, the carrying amount of the expired warrants was transferred to contributed surplus.

	Year ended December 31, 2016	Year ended December 31, 2015
Balance, beginning of year	**$13,775,171**	$11,619,499
Options expensed in the period	**368,197**	409,645
Warrants expired in the period	**-**	1,746,027
Balance, end of year	**$14,143,368**	$13,775,171

December 31, 2016 and 2015 (stated in Canadian dollars)

8. RELATED PARTY TRANSACTIONS

The Company has directors and officers who are considered related parties. The Company had the following transactions and/or outstanding amounts with related parties for the years ended December 31, 2016 and 2015 comparatives. All transactions are recorded at their exchange amounts.

- The Company made payments (including HST) to 1220764 Ontario Inc. for management services provided by Mr. Tony P. Busseri, a director and the CEO of the Company in the amount of $425,633 for the year ended December 31, 2016 (December 31, 2015 - $406,800). For the year ended December 31, 2016 the Company also incurred stock based compensation expense in the amount of $109,690 (December 31, 2015 - $136,576).
- The Company incurred expenses (including CPP and EHT) payable to and on behalf of the independent members of the Board of Directors of $308,109 for the year ended December 31, 2016 (December 31, 2015 - $317,673). These transactions are in the normal course of operations and are paid or payable for directorship services. As at December 31, 2016, accounts payable included $70,049 owing to directors (December 31, 2015 - $77,500). For the year ended December 31, 2016 the Company also incurred stock based compensation expense related to stock options granted to directors in the amount of $122,219 (December 31, 2015 - $174,686).
- The Company made payments to or incurred expenses for key management (President, Chief Technology Officer and the Chief Financial Officer) in the year ended December 31, 2016 as follows, with 2015 comparatives.

	Year Ended December 31, 2016	Year Ended December 31, 2015
Short-term employee benefit	**$800,424**	$714,329
Stock option expense	**138,331**	84,460
	$938,755	$798,789

9. EARNINGS PER SHARE

The Company uses the treasury stock method to calculate basic and diluted earnings per share. Basic earnings per share have been calculated based on the weighted average number of common shares without the inclusion of dilutive effects. Diluted earnings per share are calculated based on the weighted average number of common shares plus dilutive common share equivalents outstanding which consist of options and warrants to purchase common shares.

	Year Ended December 31, 2016	Year Ended December 31, 2015
Net Income	**$329,742**	$728,099
Weighted average number of common shares outstanding	**355,100,654**	367,620,611
Basic and diluted earnings per share	**$0.00**	$0.00

The diluted earnings per share are equal to the basic earnings per share as the effects of the options are anti-dilutive.

10. COMMITMENTS AND CONTINGENCIES

(i) Operating leases

The Company is committed under operating lease agreements for the rental of real property. Minimum annual future lease payments are approximately as follows:

Not later than one year	$161,223
Later than one year and not later than five years	641,944
Later than five years	10,654
	$813,821

Minimum future lease payments are subject to additional rent. Additional rent payment amounts are not known as this time.

For the year ended December 31, 2016, rent expense of $308,932 (December 31, 2015 - $293,666) was recognized in general administration expense.

(ii) Legal matters

In the normal course of operations, the Company may be subject to litigation and claims from customers, suppliers and former employees. Although it is not possible to estimate the extent of potential costs, if any, management believes that the ultimate resolution of such contingencies would not have a material adverse effect on the results of operations, financial position or liquidity of the Company.

(iii) Foreign exchange

From time to time the Company may enter into U.S. dollar forward contracts to mitigate possible foreign exchange risk. The timing and amount of foreign exchange contracts are estimated based on existing or anticipated sales, current conditions in the Company's markets, the estimated timing of payments denominated in Canadian dollars and the Company's past experience. The Company's policy is not to utilize financial instruments for trading or speculative purposes.

11. INDEMNIFICATIONS

Under certain agreements and the bylaws of the Company, the Company is obligated to indemnify persons who serve as directors or officers (or both) of the Company, against certain costs, charges and expenses suffered or incurred by such person as a result of their service. Claims for indemnity pursuant to such agreements or the bylaws of the Company are subject to certain statutory and other legal limitations. Having regard to the nature of the indemnification obligations and the broad range of circumstances under which the Company may become obligated to make indemnification payments, the Company is unable to make a reasonable estimate of the maximum potential amount that it could be required to pay to persons entitled to indemnification from the Company. The Company has purchased insurance coverage to reduce the risks associated with its indemnification obligation.

December 31, 2016 and 2015 (stated in Canadian dollars)

12. FINANCIAL INSTRUMENTS

Establishing fair value

The carrying amount of financial instruments including cash and cash equivalents, accounts receivable and accounts payable and other liabilities approximates fair value because of the short-term nature of these instruments.

The following table sets out the classification, carrying amount, and fair value of the Company's financial assets and liabilities as at December 31, 2016 and December 31, 2015:

	December 31, 2016		December 31, 2015	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
FINANCIAL ASSETS				
Cash and cash equivalents	**$1,945,549**	**$1,945,549**	$1,251,242	$1,251,242
Accounts receivable	**$181,848**	**$181,848**	$142,521	$142,521
FINANCIAL LIABILITIES				
Accounts payable and other liabilities	**$345,048**	**$345,048**	$291,242	$291,242

13. CAPITAL MANAGEMENT

The Company's objectives when managing capital is to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk.

The Company manages its capital structure and makes adjustments due to changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue shares, issue debt, and/or issue new debt to replace existing debt with different characteristics.

Capital management objectives, policies and procedures have not changed over the preceding year.

On October 4, 2011, the Company entered into a $550,000 credit facility with a banking and financial services organization consisting of a $500,000 revolving demand operating facility and a $65,000 VISA facility. On September 29, 2014 the credit facility was renewed. The revolving demand credit facility carries an interest rate equal to the lender's prime rate of interest plus 1.80%. The credit facility is secured by the assets of the Company. There is no minimum collateral asset value to access the first $100,000; accessing an amount in excess of $100,000 is based on the balance and term of the Company's outstanding trade accounts receivable plus the amount of SR&ED tax credits filed and refundable. The Company had not drawn on the facility as of December 31, 2016 or December 31, 2015.

December 31, 2016 and 2015 (stated in Canadian dollars)

14. FINANCIAL INSTRUMENTS - RISK MANAGEMENT

The Company has exposure to credit risk, liquidity risk and market risk associated with its financial assets and liabilities. The Board has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Audit Committee which is responsible for monitoring the Company's compliance with risk management policies. The Audit Committee regularly reports to the Board on its activities.

The Company's risk management program seeks to minimize potential adverse effects on the Company's financial performance and ultimately shareholder value. The Company manages its risks and risk exposures through a system of internal controls and sound business practices.

The Company's financial instruments and the nature of the risks to which they may be subject are set out in the following table:

	Credit	Liquidity	Foreign Exchange	Interest Rate
Cash and cash equivalents	Yes		Yes	Yes
Accounts receivable	Yes		Yes	
Accounts payable and other liabilities		Yes	Yes	

Credit risk

Credit risk arises from cash held with banks and credit exposure to customers, including outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value (net of allowances) of the financial assets. The objective of managing credit risk is to prevent losses on financial assets. The Company assesses the credit quality of counterparties, taking into account their financial position, past experience and other factors. During the year ended December 31, 2016, the largest single customer represented approximately $2,888,259 of revenue (December 31, 2015 - $2,672,082).

Cash and cash equivalents

Cash and cash equivalents consist of bank balances. Credit risk associated with cash is minimized substantially by ensuring that these financial assets are held in highly rated financial institutions. At December 31, 2016, the Company had cash consisting of deposits with Schedule 1 banks in Canada and their subsidiaries in the U.S. of $1,945,549 (December 31, 2015 - $1,251,242).

Accounts receivable

Accounts receivable consist primarily of accounts receivable from invoicing of devices and services. The Company's credit risk arises from the possibility that a customer which owes the Company money is unable or unwilling to meet its obligations in accordance with the terms and conditions in the contracts with the Company, which would result in a financial loss for the Company. This risk is mitigated through established credit management techniques, including monitoring customer's creditworthiness, setting exposure limits and monitoring exposure against these customer credit limits.

December 31, 2016 and 2015 (stated in Canadian dollars)

The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the loss is recognized in the statement of comprehensive income. When a receivable balance is considered uncollectible, it is written off against the allowance for accounts receivable. Subsequent recoveries of amounts previously written off reduce other expenses in the statement of comprehensive income. As at December 31, 2016, the largest single customer's accounts receivable represented $106,083 (December 31, 2015 – $87,045) of the total accounts receivable. This receivable was fully collected after the year end.

The following table outlines the details of the aging of the Company's accounts receivable as at December 31, 2016 and December 31, 2015:

	December 31, 2016	December 31, 2015
Current	**$181,848**	$141,790
Past due		
1 – 60 days	**-**	731
Greater than 60 days	**-**	-
Less: Allowance for doubtful accounts	**-**	-
Total accounts receivable, net	**$181,848**	$142,521

For the year ended December 31, 2016 and year ended December 31, 2015, there was a $nil balance for the allowance for doubtful accounts.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. In order to meet its financial liabilities, the Company has relied on collecting its accounts receivable, which by nature, are due predominately from government agencies with a high level of certainty of collection.

The Company's ability to manage its liquidity risk going forward will require some or all of the following: the ability to generate positive cash flows from operations and secure capital and/or credit facilities on reasonable terms in the current market place. The following table details the Company's contractual maturities for its financial liabilities, including operating lease commitments, as at December 31, 2016:

	2017	**2018**	**2019 and Beyond**	**Total**
Accounts payable and other liabilities	$345,048	$-	$-	$345,048
Operating lease commitments	161,223	155,980	496,618	813,821
	$506,271	$155,980	$496,618	$1,158,869

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the fair value of recognized assets and liabilities or future cash flows or the Company's results of operation.

December 31, 2016 and 2015 (stated in Canadian dollars)

Foreign exchange

The functional currency of the parent company is Canadian dollars and the reporting currency is Canadian dollars. As at December 31, 2016, the Company had non-Canadian dollar net monetary assets of approximately US$1,048,037 (December 31, 2015 - approximately US$694,587). An increase or decrease in the U.S. to Canadian dollar exchange rate by 5% as at December 31, 2016 would have resulted in a gain in the amount of $70,360 or a loss of $70,360 (December 31, 2015 – gain or loss of $48,065). Any gain or loss would have been included in the determination of net income.

Interest rate

The Company has cash balances which may be exposed to interest rate fluctuations. At December 31, 2016, cash totalled $1,945,549 (December 31, 2015 - $1,251,242) and the interest rate sensitivity is not material.

15. REVENUE INFORMATION

For sale of devices, revenue is recognized at the time of shipment of the device which constitutes transfer of ownership of the device. Revenue for the services component is reported as deferred revenue on the statement of financial position and is recognized as earned revenue for the period in which the service is provided. At December 31, 2016, the Company had $2,182,668 (December 31, 2015 - $1,700,420) in deferred revenue.

The following table provides a component presentation of the Company's revenue streams for the year ended December 31, 2016 and 2015:

	2016		2015	
	Revenue	**% of Total**	Revenue	% of Total
Devices and appliances	**$363,031**	**4.9**	$156,048	2.4
Services	**7,080,462**	**95.0**	6,218,284	97.2
Other	**3,995**	**0.1**	23,037	0.4
	$7,447,488	**100.0**	$6,397,369	100.0

The following table provides a geographical presentation of the Company's revenue streams for the year ended December 31, 2016 and 2015:

	2016		2015	
	Revenue	**% of Total**	Revenue	% of Total
USA	**$7,263,308**	**97.5**	$6,164,505	96.4
Canada	**184,180**	**2.5**	232,864	3.6
	$7,447,488	**100.0**	$6,397,369	100.0

16. INCOME TAXES

The Company has recognized the benefit of previously unrecognized tax losses in the amount of $742,067 relating to unused tax losses that are considered to be offset against the Company's taxable profits expected to arise in the current and coming year. Management has based their assessment on the budget previously approved, the Company's ability to meet this budget and its forecast moving forward.

December 31, 2016 and 2015 (stated in Canadian dollars)

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at Dec. 31, 2016	**As at Dec. 31, 2015**
Deferred tax assets		
Property, furniture and equipment and intangible assets	**$1,102,983**	$988,257
Tax losses carry-forwards	**4,789,875**	5,284,700
Unamortized Scientific Research and Development Pools	**2,302,577**	2,063,114
Investment Tax Credit	**2,389,284**	2,231,311
Other	**30,766**	31,845
Deferred tax asset	**10,615,485**	11,139,226
Deferred tax asset not recognized	**(9,873,418)**	(10,397,159)
	$742,067	$742,067

	As at December 31, 2016	As at December 31, 2015
Benefit of previously unrecognized tax losses that have been recognized	**$1,424,635**	$1,370,476
Tax losses applied to reduce current tax	**(682,568)**	(628,409)
Deferred tax asset recognized, net	**$742,067**	$742,067

Reconciliation between the Company's statutory and effective tax rates is as follows:

	As at Dec. 31, 2016	As at Dec. 31, 2015
Tax expense at statutory rate	**26.5%**	26.5%
Permanent difference	**31.4%**	76.65%
Recognition of previously unrecognized tax losses carry forwards	**(57.9)%**	(481.69)%
Effective tax rate	**- %**	(378.54)%

The Company has non-capital losses for tax purposes of approximately $18,075,000 that may be used to reduce Canadian taxable income in the future. Some of the potential tax benefits pertaining to these tax losses have been recognized in the financial statements. If not fully utilized, these losses will expire as follows:

2026	$4,591,000
2027	7,309,000
2028	4,078,000
2029	2,097,000
	$18,075,000