



*Interim Condensed Consolidated Financial Statements of*

**Route1 Inc.**

*June 30, 2018 and 2017*

## **NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

These unaudited interim condensed consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standards (“IAS”) 34 ‘Interim Financial Reporting’ (“IAS 34”) using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim condensed consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying unaudited interim condensed consolidated financial statements of Route1 Inc. (the “Company”) have been prepared by and are the responsibility of the Company’s management. The unaudited interim condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada (these statements are prepared under IFRS and reflect management’s best estimates and judgment based on information currently available. The Company’s independent auditor has not performed a review of these interim condensed consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity’s auditor.

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# INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

## Route1 Inc.

As at June 30, 2018 and December 31, 2017  
(stated in Canadian dollars)

	Note	June 30, 2018	December 31, 2017
		Unaudited	Audited
<b>Assets</b>			
Current assets			
Cash and cash equivalents		\$1,084,195	\$1,037,424
Accounts receivable	17	2,716,464	333,023
Other receivables		19,149	177,180
Inventory		888,696	248,408
Prepaid expenses		272,646	238,670
Current portion of deferred expenses		7,658	-
<b>Total current assets</b>		<b>4,988,808</b>	<b>2,034,705</b>
Non-current assets			
Deferred tax asset		742,067	742,067
Property, furniture and equipment	6	1,459,574	168,449
Intangible assets	6	165,863	225,415
<b>Total non-current assets</b>		<b>2,367,504</b>	<b>1,135,931</b>
<b>Total assets</b>		<b>\$7,356,312</b>	<b>\$3,170,636</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable and other liabilities		\$2,221,544	\$333,451
Contract liability	20	2,641,078	1,495,409
<b>Total current liabilities</b>		<b>4,862,622</b>	<b>1,828,860</b>
Non-current liabilities			
Other liabilities		101,775	75,140
Contract liability	20	69,805	30,726
<b>Total non-current liabilities</b>		<b>171,580</b>	<b>105,866</b>
<b>Total liabilities</b>		<b>5,034,202</b>	<b>1,934,726</b>
<b>Shareholders' equity</b>			
Capital and reserve			
Common shares	11,12	22,582,259	22,150,751
Warrants	12	534,000	-
Contributed surplus – stock compensation reserve	12	14,476,934	14,408,256
Accumulated other comprehensive income (loss)		(7,430)	-
Deficit		(35,263,653)	(35,323,097)
<b>Total shareholders' equity</b>		<b>2,322,110</b>	<b>1,235,910</b>
<b>Total shareholders' equity and liabilities</b>		<b>\$7,356,312</b>	<b>\$3,170,636</b>

Approved by the Board of Directors:

Director:

● *“signed”*  
Michael F. Doolan

Director:

● *“signed”*  
Tony Busseri

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

# INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

## Route1 Inc.

For the three and six months ended June 30, 2018 and 2017  
(unaudited, stated in Canadian dollars)

	Note	Three months ended June 30 Unaudited		Six months ended June 30 Unaudited	
		2018	2017	2018	2017
<b>Revenue</b>					
Subscription revenue and services	20	\$1,633,334	\$1,347,005	\$2,897,546	\$3,257,994
Devices and appliances	20	3,936,356	24,007	4,324,768	53,574
Other	20	7,398	141	39,226	355
<b>Total revenue</b>		<b>5,577,088</b>	1,371,153	<b>7,261,540</b>	3,311,923
<b>Cost of revenue</b>	5	<b>3,620,394</b>	297,484	<b>4,204,983</b>	632,483
<b>Gross profit</b>		<b>1,956,694</b>	1,073,669	<b>3,056,557</b>	2,679,440
<b>Operating expenses</b>					
General administration		1,090,345	713,207	1,784,939	1,481,509
Research and development		193,468	225,277	399,917	506,445
Selling and marketing		607,387	212,795	842,637	451,791
<b>Total operating expense</b>		<b>1,891,200</b>	1,151,279	<b>3,027,493</b>	2,439,745
<b>Operating (loss) profit before stock-based compensation and patent litigation</b>		<b>65,494</b>	(77,610)	<b>29,064</b>	239,695
<b>Stock-based compensation</b>	12	<b>(22,822)</b>	(66,369)	<b>(68,678)</b>	(162,084)
<b>Patent litigation</b>	8,9	<b>126,594</b>	(80,085)	<b>15,675</b>	(80,085)
<b>Operating (loss) profit after stock-based compensation and patent litigation</b>		<b>169,266</b>	(224,064)	<b>(23,939)</b>	(2,474)
<b>Other income (expense)</b>					
<b>Interest income</b>		-	-	-	-
<b>Foreign exchange (loss) gain</b>		39,761	(11,447)	79,717	(24,692)
<b>Acquisition expenses</b>	10	-	-	(126,750)	-
<b>Gain on acquisition</b>	10	-	-	130,417	-
		39,761	(11,447)	83,384	(24,692)
<b>Total other income (income)</b>					
<b>Income (loss) before taxes</b>		<b>209,026</b>	(235,511)	<b>59,445</b>	(27,166)
<b>Income taxes</b>		-	-	-	-
<b>Net income (loss) for the period</b>		<b>\$209,026</b>	\$(235,511)	<b>\$59,445</b>	\$(27,166)
<b>Other comprehensive income (loss)</b>					
Foreign currency translation		5,687	-	(7,430)	-
<b>Comprehensive income (loss)</b>		<b>\$214,712</b>	\$(235,511)	<b>\$52,015</b>	\$(27,166)
<b>Basic and diluted (loss) income per share</b>	14	<b>\$0.00</b>	\$(0.00)	<b>\$0.00</b>	\$(0.00)
<b>Weighted average number of common shares outstanding</b>		<b>371,722,376</b>	347,479,128	<b>371,955,278</b>	347,834,298

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

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

### Route1 Inc.

**For the three and six months ended June 30, 2018 and 2017**  
(unaudited, stated in Canadian dollars)

	Note	Common Shares	Warrants	Contributed Surplus	Accumulated Other Comprehensive Income (loss)	Deficit	Total shareholder's equity
Balance at January 1, 2017		\$22,169,410	\$ -	\$14,143,368	\$ -	\$(34,713,100)	\$1,599,678
Repurchase of capital stock for cancellation	11	-	-	-	-	-	-
Stock-based compensation	12	-	-	95,715	-	-	95,715
Comprehensive income		-	-	-	-	208,345	208,345
Balance at March 31, 2017		\$22,169,410	\$ -	\$14,239,083	\$ -	\$(34,504,755)	\$1,903,738
Repurchase of capital stock for cancellation	11	(15,052)	-	-	-	-	(15,052)
Stock-based compensation	12	-	-	66,369	-	-	66,369
Comprehensive (loss)		-	-	-	-	(235,511)	(235,511)
Balance at June 30, 2017		\$22,154,358	\$ -	\$14,305,452	\$ -	\$(34,740,266)	\$1,719,544
	Note	Common Shares	Warrants	Contributed Surplus	Accumulated Other Comprehensive Income (loss)	Deficit	Total shareholder's equity
Balance at January 1, 2018		\$22,150,751	\$ -	\$14,408,256	\$ -	\$(34,713,100)	\$1,235,910
Repurchase of capital stock for cancellation	11	-	-	-	-	-	-
Stock-based compensation	12	-	-	45,856	-	-	45,856
Consideration issued for Group Mobile acquisition	10,12	500,000	534,000	-	-	-	1,034,000
Comprehensive income (loss)		-	-	-	(13,117)	(149,581)	(162,698)
Balance at March 31, 2018		\$22,650,751	\$534,000	\$14,454,112	\$(13,117)	\$(34,472,678)	\$2,153,068
Repurchase of capital stock for cancellation	11	(68,492)	-	-	-	-	(68,492)
Stock-based compensation	12	-	-	22,822	-	-	22,822
Comprehensive income(loss)		-	-	-	5,687	209,026	214,712
Balance at June 30, 2018		\$22,582,259	\$534,000	\$14,476,934	\$(7,430)	\$(35,263,653)	\$2,322,110

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

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

### Route1 Inc.

**For the three and six months ended June 30, 2018 and 2017**  
**(unaudited, stated in Canadian dollars)**

		Three months ended June 30		Six months ended June 30	
	Note	Unaudited		Unaudited	
		2018	2017	2018	2017
<b>Net cash (outflow) inflow related to the following activities</b>					
<b>Operating activities</b>					
(Loss)/profit from operations		\$209,026	\$(235,511)	\$59,445	\$(27,166)
Items not affecting cash and cash equivalents					
Depreciation and amortization	6	206,958	94,216	289,143	183,119
Stock-based compensation	12	22,822	66,369	68,678	162,084
Gain on acquisition	10	-	-	(130,417)	-
		<b>438,806</b>	<b>(74,926)</b>	<b>286,849</b>	<b>318,037</b>
Net changes in working capital balances					
Decrease/(increase) in accounts receivable		1,385,003	166,209	(600,964)	(39,030)
Decrease/(increase) in other receivables		871	132,166	1,702	82,481
Decrease/(increase) in inventory		511,207	15,296	120,273	40,762
Decrease/(increase) in prepaid expenses		(68,509)	-	(29,218)	-
Decrease/(increase) in deferred expenses		(5,265)	29,843	(7,658)	37,261
(Decrease) in payables and other liabilities		(1,318,147)	(24,035)	(484,564)	(33,146)
Increase/(decrease) in other liabilities-non-current		(2,927)	1,313	(5,334)	8,181
Increase/(decrease) in contract liability		(170,705)	1,306,553	862,024	(71,434)
		<b>331,528</b>	<b>1,627,345</b>	<b>(143,749)</b>	<b>25,075</b>
Net cash generated by operating activities		<b>770,334</b>	<b>1,552,419</b>	<b>143,110</b>	<b>343,112</b>
<b>Investing activities</b>					
Acquisition of property, furniture and equipment	6	(220,558)	(12,192)	(350,287)	(43,259)
Acquisition of intangible assets	6	-	(148,423)	-	(150,049)
Cash acquired in business combination	10	-	-	317,883	-
Net cash used by investing activities		<b>(220,558)</b>	<b>(160,615)</b>	<b>(32,404)</b>	<b>(193,308)</b>
<b>Financing activities</b>					
Repurchase of capital stock for cancellation	11	(68,491)	(15,052)	(68,491)	(15,052)
Net cash used by financing activities		<b>(68,491)</b>	<b>(15,052)</b>	<b>(68,491)</b>	<b>(15,052)</b>
<b>Net increase in cash and cash equivalents for the period</b>		<b>481,286</b>	<b>1,376,752</b>	<b>42,214</b>	<b>134,752</b>
<b>Effect of exchange rate changes on cash</b>		<b>3,100</b>	<b>-</b>	<b>4,556</b>	<b>-</b>
<b>Cash and cash equivalents, beginning of period</b>		<b>599,808</b>	<b>703,549</b>	<b>1,037,424</b>	<b>1,945,549</b>
<b>Cash and cash equivalents, end of period</b>		<b>\$1,084,194</b>	<b>\$2,080,301</b>	<b>\$1,084,194</b>	<b>\$2,080,301</b>

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

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

June 30, 2018 and 2017 (stated in Canadian dollars)

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#### 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 Inc. is a leading technology solutions innovator dedicated to enabling mobility for government and focused enterprise vertical markets by delivering secure data protection technologies and mobility solutions.

Route1’s suite of patented enterprise security solutions, which includes MobiKEY, ActionPLAN, *Powered by MobiNET*, MobiENCRYPT and DerivID, delivers best-in-class authentication, data security, data analytics and secure remote access, running on a proven, trusted infrastructure, which meets or exceeds the highest security standards for government and industry. Route1 has earned a Full Authority to Operate from the U.S. Department of Defense, the U.S. Department of the Navy, the U.S. Department of the Interior, and other government agencies. We are proud to be a trusted solutions partner in the banking, healthcare, legal, education, public sector, manufacturing, logistics, field service and warehousing industries.

Through our wholly owned subsidiary, Group Mobile Int’l, LLC, we are a trendsetter in the enterprise technology space by providing expertise in building mobility solutions and deploying complete offerings into vertical markets through specialized hardware, software and our expanding services capabilities.

We are pioneers in IIoT (Industrial Internet of Things) through the delivery of our ActionPLAN, *Powered by MobiNET* technology, which not only captures data from electrical inputs including sensor data but takes it to the next level by interpreting, analyzing and transforming the data to deliver strategic business intelligence.

The diverse but complimentary technologies we provide, along with the level of experience and expertise of our team, uniquely positions us as the pre-emptive leader in secure and complete mobile technology solutions. We remain focused and dedicated to serving the needs of our business partners; to positively influence their profitability, contribute to their longevity and share in their success.

With offices and staff in Washington, D.C., Boca Raton, FL, Phoenix AZ, Chattanooga TN and Toronto, Canada, Route1 provides leading-edge solutions to public and private sector clients around the world. Route1 is listed on the OTCQB in the United States under the symbol ROIUF and in Canada on the TSX Venture Exchange under the symbol ROI. For more information, visit: [www.route1.com](http://www.route1.com)

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## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

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The DEFIMNET and MobiNET platforms, the MobiKEY, MobiKEY Classic, MobiKEY Classic 2, MobiKEY Classic 3, MobiKEY Fusion, MobiKEY Fusion2, and MobiKEY Fusion3 devices, and MobiLINK are protected by U.S. Patents 7,814,216, 7,739,726, 9,059,962, 9,059,997 and 9,319,385, Canadian Patent 2,578,053, and other patents pending. The MobiKEY Classic 2 and MobiKEY Classic 3 devices are also protected by U.S. Patents 6,748,541 and 6,763,399, and European Patent 1001329 of Aladdin Knowledge Systems Ltd. and used under license. Other patents are registered or pending in various countries around the world.

## 2. NEW STANDARDS ADOPTED

Effective January 1, 2018, the Company adopted the following standards issued by the International Accounting Standards Board (“IASB”).

### 2.1 IFRS 15, Revenue from Contracts with Customers

Effective January 1, 2018, the Company adopted IFRS 15, “Revenue from Contracts with Customers” (IFRS 15). IFRS 15 introduced a single model for recognizing revenue from contracts with customers. This standard applies to all contracts with customers, with only some exceptions, including certain contracts accounted for under other IFRSs. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services.

IFRS 15 also provides guidance relating to the treatment of contract acquisition and contract fulfillment costs. Costs related to device hardware provided as part of our services are now recognized as an asset and amortized into operating expenses over time.

The treatment of costs incurred in acquiring customer contracts is affected as IFRS 15 requires certain contract acquisition costs (such as sales commissions) to be recognized as an asset and amortized into operating expenses over time.

Under IFRS 15, device revenue and the associated cost of goods sold will now be recognized ratably over the life of the nearest term subscription contract. Previously, device revenue was recognized when sold and the related costs were recognized as incurred.

Extended warranties that are sold to customers as an optional service, including “Comprehensive Maintenance” contracts and warranties beyond that provided by the manufacturer, are treated as a “service-type” warranty under IFRS 15. “Service-type” warranties are treated as separate performance obligation, and related revenue is deferred over the period for which there is a performance obligation.

The impact of adoption on the Company's financial statements is not material.

### 2.2 IFRS 9, Financial Instruments

Effective January 1, 2018, the Company adopted IFRS 9, “Financial Instruments” (IFRS 9). 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

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

**June 30, 2018 and 2017 (stated in Canadian dollars)**

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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.

The impact of adoption on the Company's financial statements is not material.

### **3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION**

#### *3.1 Statement of compliance*

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

The unaudited interim condensed consolidated financial statements were authorized for issuance by the Company's Board of Directors on August 15, 2018.

#### *3.2 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 control 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 subsidiaries Route 1 Security Corporation and Group Mobile Int'l, LLC.

#### *3.3 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 functional currency of Route1 Inc. and Route 1 Security Corporation. The functional currency of Group Mobile Int'l, LLC is United States dollars. 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 for any month at the average monthly exchange rate for the prior month. Foreign exchange gains and losses on translation are included in the consolidated statements of comprehensive income in the period in which they occur.

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

June 30, 2018 and 2017 (stated in Canadian dollars)

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*(b) Cash and cash equivalents*

Cash and cash equivalents consist of cash deposits available on demand with Schedule 1 banks in Canada and their subsidiaries in the United States, and a large money centre bank in the United States.

*(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.

<i>Financial assets</i>	<i>Classification</i>	<i>Measurement</i>
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
<i>Financial liabilities</i>		
Accounts payable and other liabilities	Other financial liabilities	Amortized cost

*(d)(i) Loans and receivables*

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

*(d)(ii) Other liabilities*

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

*(d)(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.

*(e) 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.

*(f) De-recognition of financial liabilities*

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

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

June 30, 2018 and 2017 (stated in Canadian dollars)

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*(g) Inventory*

Inventory is 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.

*(h) 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
TaaS computer 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.

*(i) 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
Internally generated applications	-	straight-line over 36 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.

*(j) 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

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

June 30, 2018 and 2017 (stated in Canadian dollars)

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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.

#### *(k) 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.

#### *(l) 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.

##### *(i) Devices*

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

##### *(ii) 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.

##### *(iii) Subscription Revenue and Services*

Revenue from MobiKEY application software subscription-based services, and DEFIMNET platform and other appliance licensing or maintenance is recognized ratably over the term of the contract on a daily basis when the service is provided.

In instances where the Company bills the customer prior to performing the service in all aspects of its business, the prepayment amount is recorded as contract liability.

Revenue from installation and hardware maintenance and organization services provided to customers is recognized when the service is provided.

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

**June 30, 2018 and 2017 (stated in Canadian dollars)**

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*(m) Research and development*

Research expenditures are charged as an operating expense of the Company as incurred. Expenditures for development of software and 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 ratably 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. For the six months ended June 30, 2018, the Company accrued \$64,250 for SR&ED credits (June 30, 2017 - \$70,000).

*(n) 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 such value ratably 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.

*(o) 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 that 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.

*(p) 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.

*(q) 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

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

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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 asset/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.

#### *(r) Loss/Earnings per share*

Basic earnings per share are computed by dividing the loss/income by the weighted average shares outstanding during the reporting 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.

#### *3.4 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.

#### *3.5 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 considers the detailed criteria for the recognition of revenue from the sale of goods and services set out in IFRS 15. 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. Device revenue and the associated costs of revenue will be recognized ratably over the life of the nearest term subscription contract.



## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Extended warranties that are sold to customers as an optional service, including “Comprehensive Maintenance” contracts and warranties beyond that provided by the manufacturer, are treated as a “service-type” warranty under IFRS 15. “Service-type” warranties are treated as separate performance obligation, and related revenue is deferred over the period for which there is a performance obligation.

*Functional currency:*

In making a judgment as to which currency is the functional currency of the Company and its subsidiaries, management considers the currency that influences the cost of providing the goods and services in each jurisdiction in which the Company operates.

*Capitalization of development costs:*

Management exercises judgment when establishing whether the criteria under IAS 38, Intangible Assets, for development costs have been met, specifically the technical feasibility of the products in development and the ability to generate probable future economic benefits.

### 3.6 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 June 30, 2018.

*Allowance for inventory obsolescence:*

The Company reviewed the recoverable amount of its inventory for the three months ended June 30, 2018; the Company determined that no write-down was required; however, the value of certain inventory acquired in the acquisition of Group Mobile was adjusted to reflect the lower of cost and net realizable value and was included in the gain on acquisition. For additional information, see Note 5, “**COST OF REVENUE**” and Note 10, “**BUSINESS COMBINATION**” of these financial statements.



## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

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*Valuation of deferred tax asset:*

The Company estimates the probability that taxable profits will be available to be offset against deductible temporary differences and thus give rise to a deferred tax asset. The Company has reviewed the expected profitability and determined that a deferred tax asset should be recognized at June 30, 2018, as it is probable that the asset will be utilized.

*Valuation of warrants and stock-based compensation:*

The Company estimates the fair value of stock-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. The Black-Scholes Option Pricing Model was used to value the warrants issued as part of the consideration for the purchase of Group Mobile. These methods of valuation were applied to the equity transactions during the period (Note 12, **“SHARE CAPITAL, OPTIONS AND CONTRIBUTED SURPLUS”**).

*Valuation of assets acquired in Business Combination*

The Company estimates the value of the assets acquired in the business combination on the basis of fair value to the ongoing business of Group Mobile. For additional information, See Note 10, **“BUSINESS COMBINATION”** of these financial statements.

*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 ratably 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.

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 4. FUTURE ACCOUNTING POLICY CHANGES

##### 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 lease accounting model, requiring leases 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. Management is assessing the impact of adopting IFRS 16 on the consolidated financial statements.

#### 5. COST OF REVENUE

Cost of revenue includes the cost of devices, salaries of select staff, hosting of our MobiNET and royalty related fees. For the quarter ended June 30, 2018, the cost of devices recognized as an expense was \$3,260,436 (June 30, 2017 - \$20,554) as follows: cost of MobiKEY devices was \$5,549; and cost of ruggedized computing equipment and related accessories was \$3,254,888. For the six months ended June 30, 2018, the cost of devices recognized as an expense was \$3,568,100 (June 30, 2017 - \$46,019) as follows: cost of MobiKEY devices was \$15,672; and cost of ruggedized computing equipment and related accessories was \$3,552,428.

#### 6. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Cost	Computer Equipment	Furniture and Equipment	TaaS Computer Equipment	Total Property, Furniture and Equipment	Intangible Assets
Balance January 1, 2018	1,647,143	251,759	-	1,898,902	\$766,024
Additions	1,537	4,659	339,146	345,342	4,950
Additions from acquisition	-	60,518	1,109,929	1,170,447	-
Disposals	-	-	-	-	-
Balance June 30, 2018	1,648,642	316,936	1,449,075	3,414,653	\$770,974

  

Accumulated depreciation and impairment	Computer Equipment	Furniture and Equipment	TaaS Computer Equipment	Total Property, Furniture and Equipment	Intangible Assets
Balance January 1, 2018	(1,522,863)	(207,590)	-	(1,730,453)	(540,609)
Depreciation expense	(70,042)	(20,318)	(134,265)	(224,625)	(64,502)
Disposals	-	-	-	-	-
Balance June 30, 2018	(1,592,905)	(227,908)	(134,265)	(1,955,078)	(605,111)

  

Net book value	Computer Equipment	Furniture and Equipment	TaaS Computer Equipment	Total Property, Furniture and Equipment	Intangible Assets
Balance January 1, 2018	124,280	44,169	-	168,449	225,415
Balance June 30, 2018	55,737	89,028	1,314,810	1,459,575	165,863

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

#### June 30, 2018 and 2017 (stated in Canadian dollars)

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As of June 30, 2018, non-current assets (excluding the deferred tax asset) were \$1,625,437 (June 30, 2017 - \$547,466). At June 30, 2018, computer, furniture, equipment and intangible assets located in Canada were \$253,687 (June 30, 2017 - \$345,205) and \$1,371,750 were located in the U.S. (June 30, 2017 - \$135,862)

As at June 30, 2018, the net book value of Technology as a Service (“TaaS”) assets was \$1,314,810 representing computing equipment and related accessories owned by the Company and leased out to clients pursuant to contracts typically with a duration of 36 months. These assets are depreciated over the life of the contracts. The Company provides certain management services for this equipment including provision of equipment and related accessories, software, management, maintenance, support and documentation. The Company currently has five TaaS customers with contracts in place.

For the quarter ended June 30, 2018, depreciation and amortization expense of \$206,958 (June 30, 2017 - \$94,216) was recognized in general administration expense. For the six months ended June 30, 2018, depreciation and amortization expense of \$289,143 (June 30, 2017 - \$183,119) was recognized in general administration expense.

#### 7. TECHNOLOGY AS A SERVICE REVENUE

The Company provides operating leases to its customers through Technology as a Service (“TaaS”) agreements. These agreements generally require three year minimum commitments. Minimum annual future lease payments are approximately as follows:

Not later than one year	\$1,133,537
Later than one year and not later than five years	1,325,724
Later than five years	-
	<u>\$2,459,261</u>

For the three and six months ended June 30, 2018, the Company recognized TaaS revenue of \$266,428 (June 30, 2017 - \$nil).

#### 8. PATENT LITIGATION

Patent litigation expenses consist of legal fees and other third party costs incurred to prosecute cases of alleged patent infringement. Legal costs to prosecute the alleged patent infringement complaint are expensed as incurred with any potential gain on settlement to be recognized on realization.

Patent litigation expenses for the three months ended June 30, 2018 were \$78,505 (June 30, 2017 - \$80,085). For the six months ended June 30, 2018, patent litigation expenses were \$189,424 (June 30, 2017 - \$80,085). Pursuant to a litigation financing agreement dated June 18, 2018, the Company recorded a receivable in the amount of US\$159,324 (C\$205,099), of which US\$152,510 (C\$196,327) was received prior to June 30, 2018. The net expense for the three months ended June 30, 2018 was \$(125,594). For the

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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six months ended June 30, 2018, patent litigation net expense was \$(15,675). For further information, see Note 9 to the Financial Statements.

On March 27, 2017, the Company filed a complaint against AirWatch LLC (“AirWatch”) in the US District Court for the District of Delaware for infringement of Route1’s U.S. Patent No. 7,814,216 (the “216 Patent”), seeking damages and an injunction. On June 1, 2017, the Company served AirWatch with the complaint.

Route1 alleges that AirWatch infringes on the 216 Patent through at least the operation of a cloud-based controller of what AirWatch refers to as “The AirWatch Enterprise Mobility Management System” (“AirWatch EMM System”) in order to facilitate secure communications between remote computing devices such as cell phones, remote computing devices and resources residing on corporate networks such as email and corporate intranets and application programs such as spreadsheets and word processors.

On July 24, 2017, AirWatch filed its answer, defenses and counterclaims to the Company’s complaint. In summary, AirWatch denies that it infringes on the 216 Patent; denies that the 216 Patent is valid; and denies the Company is entitled to the relief sought. AirWatch counterclaimed against the Company seeking declaratory judgments of non-infringement and invalidity as well as costs, disbursements and reasonable legal fees incurred in connection with the complaint.

On September 22, 2017, AirWatch and VMWare, Inc. (parent company of AirWatch) filed a petition for Inter Partes Review (IPR) with the United States Patent and Trademark Office (USPTO). Route1 filed its preliminary response to the petition on December 22, 2017.

On March 20, 2018, the USPTO upheld Route1’s position and denied the institution of the IPR. On August 3, 2018, the USPTO denied AirWatch’s and VMWare’s petition for a rehearing, formally terminating the ability of the petitioners to challenge the validity of the 216 Patent at the Patent Trial and Appeal Board.

On July 2, 2018 a court hearing was held to define certain claim terms of the 216 Patent (the “Markman Hearing”). The court provided its Memorandum Opinion to the parties on July 25, 2018. Further information may be found at <http://www.ded.uscourts.gov/judges-info/opinions>.

In the interim, the litigation continues according to the court ordered schedule. Further details can be found on: <https://www.route1.com/investors/patent-litigation/>.

#### 9. PATENT LITIGATION FINANCING

On June 18, 2018, an affiliate of Bench Walk Advisors LLC (“Bench Walk”) entered into an agreement with the Company to invest up to US \$1,000,000 on a non-recourse basis in the Company’s lawsuit against AirWatch. The principal terms of Bench Walk’s investment are as follows:

- i. The US\$ 1,000,000 investment will be paid by Bench Walk to Route1 as follows:
  - a) US \$152,510 paid within 10 business days after signing, representing 40% of the patent litigation expenses incurred to date; and thereafter

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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- b) 40% of the ongoing litigation expenses incurred by Route1 in connection with legal costs and out of pocket expenses including experts incurred in bringing the lawsuit to a maximum of US\$1,000,000 including the reimbursement in (a) above.
- ii. Bench Walk is entitled to a share of any proceeds awarded to Route1 from the lawsuit equal to:
  - a. the sum of all investments advanced by Bench Walk; plus
  - b. the greater of (1) US \$2,000,000 (US \$3,000,000 if the lawsuit proceeds to trial); and (2) 10% of the award from the lawsuit.
- iii. Provided that Route1 is not in breach of any of its obligations under the agreement, Bench Walk will have no recourse to any other assets of Route1.
- iv. Should Route1 pursue any follow-on lawsuit and not seek to sell a portion or to engage in a transaction having substantially similar economic effect, Route1 shall pay to Bench Walk 5% of the gross proceeds awarded to Route1 from that follow-on lawsuit (subject to a maximum aggregate payment to Bench Walk under this provision of US \$1,500,000).

#### 10. BUSINESS COMBINATION

On March 22, 2018, the Company completed the acquisition of 100% of the membership interest of Group Mobile Int'l, LLC ("Group Mobile") and, as consideration, Route1 issued a combination of common shares and common share purchase warrants with an aggregate value of \$1,034,000. With offices in Chandler, Arizona and Chattanooga, Tennessee, Group Mobile supplies rugged mobile technology solutions to leading automotive manufacturing companies and suppliers, other leading manufacturing and distribution companies, as well as local and state governments in the southeastern and southwestern United States.

Route1 acquired Group Mobile to expand its service and product offerings; strengthen outside and inside sales; diversify revenue, customers, and verticals; expand the use of Route1's core technologies into the manufacturing, distribution, and local and state government sectors; and leverage Group Mobile's current and future placement of rugged mobile devices to sell Route1's core technologies as an integrated offering.

The fair value of the common shares issued as consideration was based on the closing price of a Route1 common share on the Toronto Venture Exchange on March 22, 2018 of \$0.02 per share. The fair value of the warrants, using the Black Scholes method, was \$0.0178 per warrant. The Company issued 25,000,000 common shares and 30,000,000 three year common share purchase warrants with an exercise price of \$0.05 per common share. On March 22, 2018, the daily average exchange rate between the United States dollar and the Canadian dollar as reported by the Bank of Canada was US \$1=CDN \$1.2908.

The following table summarizes the estimated fair value of the consideration transferred and the preliminary estimated fair values of the major classes of assets acquired and liabilities assumed at the acquisition date. The Company has adjusted and may continue to adjust the preliminary purchase price allocation, as necessary, up to one year after the acquisition closing date as new information is obtained about facts and circumstances that existed as of the closing date. The Company has determined that certain assets acquired had a value less than the reported value at closing including certain items included in inventory and certain accounts receivable. The Company has determined that the intangible assets acquired at closing had no value to the ongoing operations of Group Mobile. Changes in estimates and

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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assumptions used could have a material impact on the amount of purchase gain recorded and the amount of depreciation and amortization expense recognized in earnings for depreciable assets in future periods.

As at March 22, 2018

<b>Assets Acquired (US Dollars)</b>	<b>Revised</b>	<b>Reported March 31, 2018</b>
Cash and cash equivalents	\$246,268	\$246,268
Trade and other receivables	1,230,511	1,232,682
Inventory	590,323	590,323
Prepaid expenses	3,037	3,037
Current Assets	2,070,139	2,072,310
Furniture and fixtures (net)	46,885	46,885
TaaS assets (net)	859,878	859,878
Non-current Assets	906,763	906,763
Total assets	<u>\$2,976,902</u>	<u>\$2,979,073</u>
<b>Liabilities Assumed (US Dollars)</b>		
Trade and other payables	\$1,672,839	\$1,724,238
Employee liabilities	79,539	79,539
Sales tax payable	51,194	51,194
Contract liability	271,241	85,450
Total liabilities	2,074,813	1,940,421
Fair value of net assets acquired	<u>\$902,089</u>	<u>\$1,038,652</u>
<b>Fair value of net assets acquired in CAD Dollars</b>	\$1,164,417	\$1,340,692
Less: Consideration issued	1,034,000	1,034,000
<b>Gain on acquisition</b>	130,417	306,692
Less: Acquisition costs	126,750	200,000
 <b>Net purchase gain on acquisition</b>	 <u><u>\$3,667</u></u>	 <u><u>\$106,692</u></u>

The Company incurred a purchase gain as the value of the assets acquired exceeded the consideration paid for Group Mobile.

Based on further analysis, the Company revised the net purchase gain on acquisition to reflect changes in the balance of certain accounts based on information obtained subsequent to the acquisition. These adjustments were reflected in the balances of March 22, 2018. The major adjustments to the previously reported net purchase gain on acquisition the following items:

- i) An elimination of certain amounts payable for \$51,399 as a result of a lack of communication with the creditor for an extended period of time;

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

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- ii) Upon further analysis, the Company determined that certain sales transactions included amounts billed for services to be provided over a fixed period of time. In accordance with the Company's accounting policies and IFRS 15, the Company established a contract liability of \$180,316 of which the current portion is \$58,301. These amounts are reflected in the interim condensed consolidated financial statements of financial position at June 30, 2018 in Contract Liability;
- iii) At June 30, 2018 the Company determined that it had over-accrued the amount provided for acquisition and integration expenses related to the Group Mobile transaction. The provision was reduced by \$73,250.

The acquisition values are estimated as a result of the collection cycle of certain accounts receivable and whether they will be collectible and the Company's efforts to sell the surplus inventory. Inventory has been adjusted on a provisional basis to reflect net realizable value. Inventory relates to items in stock, which are surplus to the business operated by Group Mobile.

For the six months ended June 30, 2018, the Company incurred transaction and integration expenses related to the Group Mobile acquisition of \$126,750. For the three months ended June 30, 2018, the company incurred transaction and integration expenses of \$92,541, which were accrued at closing of the transaction. These costs have been included in the Net Purchase Gain on Acquisition above and in the consolidated statement of comprehensive income and in operating cash flows in the consolidated statement of cash flows.

### **11. SHARE REPURCHASE PROGRAM**

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 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.

On September 15, 2017, 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 17,359,671. Purchases under the NCIB may occur during the 12 month period commencing September 27, 2017 and ending September 26, 2018, or the date upon which the maximum number of common shares have been purchased by the Company. No common shares were purchased for cancellation under the NCIB during the period from September 27, 2017 to December 31, 2017.

For the three and six months ended June 30, 2018, the Company purchased 2,108,414 shares for cancellation under the NCIB and at an average price of \$0.03 per share. The company incurred an expense of \$239 to complete the purchases.



## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 12. SHARE CAPITAL, WARRANTS 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 June 30, 2018, the following was outstanding:

	Number of Common Shares	Common Shares \$
Balance, January 1, 2018	372,193,414	\$22,150,751
Shared issued March 22, 2018	25,000,000	500,000
Shares repurchased for cancellation	(2,108,414)	(68,492)
Balance, June 30, 2018	<u>370,085,000</u>	<u>\$22,582,259</u>

- There are 28,689,000 common share purchase options ("Options") outstanding to acquire 28,689,000 common shares at various prices.
- 30,000,000 common share purchase warrants are outstanding with an expiry date of March 22, 2021 and an exercise price of \$0.05 per share

#### Warrant Valuation

	2018
Share price on issue date	\$0.02
Risk free interest rate	1.94%
Expected life (years)	3
Expected volatility	207%
Dividend yield	Nil
Fair value of warrants issued as partial consideration for the acquisition of Group Mobile	<u>\$0.0178</u>

The Black-Scholes option pricing model used by the Company to determine the fair value of the warrants issued as partial consideration for the purchase of Group Mobile.

#### 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



## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 pursuant to the Plan 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.

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

	June 30, 2018		December 31, 2017	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options Outstanding				
Balance, beginning of the period	27,689,000	\$0.05	32,689,000	\$0.07
Options granted during the period	1,000,000	0.05	1,000,000	0.05
Options expired during the period	-	-	(6,000,000)	0.13
Options exercised during the period	-	-	-	-
Options forfeited during the period	-	-	-	-
Balance, end of the period	28,689,000	\$0.05	27,689,000	\$0.05

Exercise Price	Options Outstanding June 30, 2018		Options Exercisable June 30, 2018	
	Number of Options	Weighted Average Life (Years)	Number of Options	Weighted Average Life (Years)
\$0.05	13,439,000	2.4	7,831,500	1.9
\$0.055	15,250,000	1.8	15,250,000	2.7
	28,689,000	2.1	23,081,500	1.8

Exercise Price	Options Outstanding December 31, 2017		Options Exercisable December 31, 2017	
	Number of Options	Weighted Average Life (Years)	Number of Options	Weighted Average Life (Years)
\$0.05	12,439,000	2.7	6,686,500	2.2
\$0.055	15,250,000	2.3	9,150,000	2.3
	27,689,000	2.5	15,836,500	2.2

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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During the quarter ended June 30, 2018, the Company recorded stock-based compensation expense of \$22,822 (June 30, 2017 - \$66,369). For the six months ended June 30, 2018, the Company recorded stock-based compensation expense of \$68,678 (June 30, 2017 - \$162,084).

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. The fair value 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 on the exercise of stock options is reflected as an increase to share capital, with a transfer from contributed surplus.

	<u>Six Months ended June 30, 2018</u>	<u>Year ended December 31, 2017</u>
Balance, January 1, 2018	<b>\$14,408,256</b>	\$14,143,368
Options expensed in the period	<b>68,678</b>	264,888
Balance, June 30, 2018	<b><u>\$14,476,934</u></b>	<u>\$14,408,256</u>

### 13. 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 three and six months ended June 30, 2018 and 2017 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 \$94,637 for the three months ended June 30, 2018 (June 30, 2017 - \$94,637) and \$189,275 for the six months ended June 30, 2018 (June 30, 2017 - \$189,275). For the three months ended June 30, 2018 the Company also incurred stock based compensation expense in the amount of \$nil (June 30, 2017 - \$10,294) and \$9,916 for the six months ended June 30, 2018 (June 30, 2017 - \$31,849).

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

June 30, 2018 and 2017 (stated in Canadian dollars)

- The Company incurred expenses (including CPP and EHT) payable to and on behalf of the independent members of the Board of Directors of \$78,637 for the quarter ended June 30, 2018 (June 30, 2017 - \$79,677) and \$157,275 for the six months ended June 30, 2018 (June 30, 2017 - \$156,866). These transactions are in the normal course of operations and are paid or payable for directorship services. As at June 30, 2018, accounts payable included \$78,637 owing to directors (June 30, 2017 - \$78,799). For the quarter ended June 30, 2018 the Company also incurred stock based compensation expense related to stock options granted to directors in the amount of \$3,192 (June 30, 2017 - \$16,270) and \$16,717 for the six months ended June 30, 2018 (June 30, 2017 - \$41,693).
- The Company made payments to or incurred expenses for key management (President, Chief Technology Officer and the Chief Financial Officer) in the quarter ended June 30, 2018 as follows, with 2017 comparatives.

	<b>Three Months Ended June 30, 2018</b>	Three Months Ended June 30, 2017	<b>Six Months Ended June 30, 2018</b>	Six Months Ended June 30, 2017
Short-term employee benefit	<b>\$207,970</b>	\$211,681	<b>\$414,464</b>	\$421,790
Stock option expense	<b>17,163</b>	39,271	<b>39,434</b>	87,421
	<b>\$225,133</b>	\$250,952	<b>\$453,898</b>	\$509,211

#### 14. 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.

	<b>Three Months Ended June 30, 2018</b>	Three Months Ended June 30, 2017	<b>Six Months Ended June 30, 2018</b>	Six Months Ended June 30, 2017
Net (loss) income	<b>\$209,206</b>	\$(235,511)	<b>\$59,445</b>	\$(27,166)
Weighted average number of common shares outstanding	<b>371,722,376</b>	347,479,128	<b>371,955,278</b>	347,834,298
Basic and diluted (loss) earnings per share	<b>\$0.00</b>	\$(0.00)	<b>\$0.00</b>	\$(0.00)

The diluted earnings per share are equal to the basic earnings per share as the stock options are not in the money and the effect of their exercise is anti-dilutive.

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

June 30, 2018 and 2017 (stated in Canadian dollars)

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#### 15. 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	\$439,987
Later than one year and not later than five years	939,598
Later than five years	-
	<hr/> <hr/>
	\$1,379,585

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

For the three months ended June 30, 2018, rent expense of \$156,391 (June 30, 2017 - \$84,316) 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.

#### 16. 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.

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

June 30, 2018 and 2017 (stated in Canadian dollars)

#### 17. 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 June 30, 2018 and December 31, 2017:

	June 30, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
FINANCIAL ASSETS				
Cash and cash equivalents	\$1,084,194	\$1,084,194	\$1,037,424	\$1,037,424
Accounts receivable	\$2,716,463	\$2,716,463	\$333,023	\$333,023
FINANCIAL LIABILITIES				
Accounts payable and other liabilities	\$2,221,543	\$2,221,543	\$333,451	\$333,451

#### 18. 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 new shares, issue new 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 June 5, 2018, the Company's credit facility consisting of a \$500,000 revolving demand operating facility and a \$100,000 credit card facility was renewed. The operating facility carries an interest rate equal to the lender's prime rate of interest plus 1%. The credit facility is secured by the assets of the Company.

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

June 30, 2018 and 2017 (stated in Canadian dollars)

#### 19. 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 quarter ended June 30, 2018, the largest single customer represented approximately \$581,326 of revenue (June 30, 2017 - \$503,816).

##### *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 June 30, 2018, the Company had cash consisting of deposits with Schedule 1 banks in Canada and their subsidiaries in the U.S. and a large money centre bank in the U.S of \$1,084,194 (December 31, 2017 - \$1,037,424).

##### *Accounts receivable*

Accounts receivable consist primarily of accounts receivable from invoicing for subscriptions, 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.

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

#### June 30, 2018 and 2017 (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 June 30, 2018, the largest single customer's account receivable represented \$594,648 (June 30, 2017 – \$112,051) of the total accounts receivable. This receivable was collected in full after the quarter-end.

The following table outlines the details of the aging of the Company's receivables as at June 30, 2018 and December 31, 2017:

	June 30, 2018	December 31, 2017
Current	\$2,363,977	\$333,023
Past due		
1 – 60 days	328,601	-
Greater than 60 days	23,885	-
Less: Allowance for doubtful accounts	-	-
Total accounts receivable, net	<u>\$2,716,463</u>	<u>\$333,023</u>

For the three and six months ended June 30, 2018 and year ended December 31, 2017, 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 primarily relied and expects to continue to rely primarily on collecting its accounts receivable as they come due.

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 interest payments and operating lease commitments, as at June 30, 2018:

	2018	2019	2020 and Beyond	Total
Accounts payable and other liabilities	\$2,221,543	\$-	\$-	\$2,221,543
Operating lease commitments	219,425	442,035	718,125	1,379,585
	<u>\$2,440,968</u>	<u>\$442,035</u>	<u>\$718,125</u>	<u>\$3,601,128</u>

#### *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.

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

June 30, 2018 and 2017 (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 June 30, 2018, the Company had non-Canadian dollar net monetary assets of approximately US\$1,176,053 (December 31, 2017 - approximately US\$961,824). An increase or decrease in the U.S. to Canadian dollar exchange rate by 5% as at June 30, 2018 would have resulted in a gain or loss in the amount of \$77,431 (December 31, 2017 – gain or loss of \$60,330). 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 June 30, 2018, cash balances were \$1,084,194 (December 31, 2017 - \$1,037,424) and the interest rate sensitivity is not material.

## 20. REVENUE INFORMATION

Revenue for the recurring revenue and services component is reported as contract liability on the statement of financial position and is recognized as earned revenue for the period in which the subscription and/or service is provided. For sale of devices, revenue is recognized at the time of shipment of the device which constitutes transfer of ownership of the device. At June 30, 2018, the Company had \$2,742,855 (December 31, 2017 - \$1,526,135) in contract liability.

The following table provides a component presentation of the Company's revenue streams for the three months ended June 30, 2018 and 2017:

	2018		2017	
	Revenue	% of Total	Revenue	% of Total
Recurring revenue and services	\$1,633,334	29.3	\$1,347,005	98.2
Devices and appliances	\$3,936,356	70.6	24,007	1.8
Other	\$7,398	0.1	141	0.0
	<b>\$5,577,088</b>	<b>100.0</b>	<b>\$1,371,153</b>	<b>100.0</b>

The following table provides a component presentation of the Company's revenue streams for the six months ended June 30, 2018 and 2017:

	2018		2017	
	Revenue	% of Total	Revenue	% of Total
Services	\$2,897,547	39.9	\$3,257,994	98.4
Devices and appliances	\$4,324,768	59.6	53,574	1.6
Other	\$39,226	0.5	355	0.0
	<b>\$7,261,539</b>	<b>100.0</b>	<b>\$3,311,923</b>	<b>100.0</b>



## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

#### June 30, 2018 and 2017 (stated in Canadian dollars)

The following table provides a geographical presentation of the Company's revenue streams for the three months ended June 30, 2018 and 2017:

	2018		2017	
	Revenue	% of Total	Revenue	% of Total
USA	\$5,526,835	99.1	\$1,326,465	96.7
Canada	50,253	0.9	44,688	3.3
	<b>\$5,577,088</b>	<b>100.0</b>	<b>\$1,371,153</b>	<b>100.0</b>

The following table provides a geographical presentation of the Company's revenue streams for the six months ended June 30, 2018 and 2017:

	2018		2017	
	Revenue	% of Total	Revenue	% of Total
USA	\$7,137,554	98.3	\$3,221,271	97.3
Canada	123,985	1.7	90,652	2.7
	<b>\$7,261,539</b>	<b>100.0</b>	<b>\$3,311,923</b>	<b>100.0</b>