



*Interim Condensed Consolidated Financial Statements of*

**Route1 Inc.**

*September 30, 2019 and 2018*

## **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 International Financial Reporting Standards (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 September 30, 2019 and December 31, 2018  
(stated in Canadian dollars)

	Note	September 30, 2019 Unaudited	December 31, 2018 Audited
<b>Assets</b>			
Current assets			
Cash and cash equivalents	18	\$319,536	\$1,073,195
Accounts receivable	18,20	4,483,030	1,858,751
Other receivables	18	53,179	43,849
Inventory	4	760,971	379,322
Prepaid expenses	2	456,457	309,341
Other current assets	2	32,882	-
<b>Total current assets</b>		<b>6,106,055</b>	<b>3,664,458</b>
Non-current assets			
Deferred tax asset		742,067	742,067
Right-of-use assets	2,5	485,920	-
Property, furniture and equipment	5,9,10	1,335,304	1,282,502
Intangible assets	5,9,10	1,402,547	522,211
Goodwill	9,10	1,680,172	461,889
Other non-current assets	2	27,960	-
<b>Total non-current assets</b>		<b>5,673,970</b>	<b>3,008,669</b>
<b>Total assets</b>		<b>\$11,780,025</b>	<b>\$6,673,127</b>
<b>Liabilities</b>			
Current liabilities			
Bank indebtedness		\$1,145,224	-
Accounts payable and other liabilities	2,18,20	4,366,394	\$2,493,779
Contract liability	20	2,421,538	1,540,297
Lease liabilities	2	422,116	-
Notes payable	10,11,20	393,410	-
<b>Total current liabilities</b>		<b>8,748,682</b>	<b>4,034,076</b>
Non-current liabilities			
Contract liability	20	222,661	147,092
Deferred rent	2	-	63,620
Other non-current liabilities	20	352,010	570,354
Lease liabilities	2	328,380	-
Litigation funding liability	7,8	898,646	393,022
Notes payable	10,11,20	756,236	-
<b>Total non-current liabilities</b>		<b>2,557,933</b>	<b>1,174,088</b>
<b>Total liabilities</b>		<b>11,306,615</b>	<b>5,208,164</b>
<b>Shareholders' equity</b>			
Capital and reserve			
Common shares	12,13	22,172,754	22,142,402
Warrants	13	534,000	534,000
Contributed surplus – stock compensation reserve	13	14,743,216	14,552,696
Accumulated other comprehensive income (loss)		(26,276)	(6,694)
Deficit	2	(36,950,284)	(35,757,441)
<b>Total shareholders' equity</b>		<b>473,410</b>	<b>1,464,963</b>
<b>Total shareholders' equity and liabilities</b>		<b>\$11,780,025</b>	<b>\$6,673,127</b>

# INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

## Route1 Inc.

For the three and nine months ended September 30, 2019 and 2018  
(unaudited, stated in Canadian dollars)

		Three months ended Sept. 30 Unaudited		Nine months ended Sept. 30 Unaudited	
	Note	2019	2018	2019	2018
<b>Revenue</b>					
Subscription revenue and services	21	\$2,136,191	\$1,684,256	\$5,322,098	\$4,581,802
Devices and appliances	21	6,575,428	13,206,897	10,277,826	17,531,665
Other	21	2,274	3,712	6,325	42,938
<b>Total revenue</b>		<b>8,713,893</b>	14,894,865	<b>15,606,249</b>	22,156,405
<b>Cost of revenue</b>	4	<b>5,952,728</b>	12,310,859	<b>9,324,790</b>	16,515,841
<b>Gross profit</b>		<b>2,761,165</b>	2,584,006	<b>6,281,459</b>	5,640,564
<b>Operating expenses</b>					
General administration	2	1,156,666	1,349,489	3,169,323	3,134,429
Research and development		185,825	166,311	417,010	566,227
Selling and marketing		993,648	634,208	2,267,298	1,476,845
<b>Total operating expense before stock-based compensation</b>		<b>2,336,139</b>	2,150,008	<b>5,853,631</b>	5,177,501
Stock-based compensation	13	106,367	43,939	224,925	112,617
<b>Total operating expenses</b>		<b>2,442,506</b>	2,193,947	<b>6,078,556</b>	5,290,118
<b>Operating profit (loss) before other income (expense)</b>		<b>318,659</b>	390,059	<b>202,903</b>	350,446
<b>Other income (expense)</b>					
Patent litigation	7,8	(278,670)	(181,374)	(1,094,657)	(362,027)
Interest income (expense)	2	(32,780)	-	(55,316)	-
Foreign exchange gain (loss)		(6,549)	(20,821)	11,872	58,895
Asset disposal gain (loss)	2	-	-	(16,462)	-
Acquisition expense	9,10	-	-	(73,780)	(126,750)
<b>Total other income (expense)</b>		<b>(317,999)</b>	(202,195)	<b>(1,228,343)</b>	(79,436)
<b>Income (loss) before taxes</b>		<b>660</b>	187,864	<b>(1,025,440)</b>	(79,436)
<b>Income taxes</b>		-	-	<b>(40,104)</b>	-
<b>Net income (loss) for the period</b>		<b>660</b>	187,864	<b>(1,065,544)</b>	(79,436)
<b>Other comprehensive income (loss)</b>					
Foreign currency translation		(21,536)	20,312	(23,518)	(2,155)
<b>Comprehensive income (loss)</b>		<b>(\$20,876)</b>	\$208,176	<b>(\$1,089,062)</b>	(\$81,591)
<b>Basic (loss) income per share</b>	15	<b>\$(0.00)</b>	\$0.01	<b>\$(0.03)</b>	\$(0.00)
<b>Diluted (loss) income per share</b>	15	<b>\$(0.00)</b>	\$0.00	<b>\$(0.00)</b>	\$(0.00)
<b>Weighted average number of common shares outstanding</b>	13	<b>36,854,532</b>	36,893,547	<b>36,519,132</b>	36,348,029

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

### Route1 Inc.

For the three and nine months ended September 30, 2019 and 2018  
(unaudited, stated in Canadian dollars)

	Note	Common Shares	Warrants	Contributed Surplus	Accumulated Other Comprehensive Income (loss)	Deficit	Total shareholders' equity
Balance at January 1, 2018		\$22,150,751	\$ -	\$14,408,256	\$ -	(\$35,323,097)	\$1,235,910
Stock-based compensation	13	-	-	45,856	-	-	45,856
Consideration issued for Group Mobile acquisition	9	408,000	534,000	-	-	-	942,000
Comprehensive income (loss)		-	-	-	(12,305)	(279,998)	(292,303)
Balance at March 31, 2018		22,558,751	534,000	14,454,112	(12,305)	(35,603,095)	1,931,463
Repurchase of capital stock for cancellation	12	(68,492)	-	-	-	-	(68,492)
Stock-based compensation	13	-	-	22,822	-	-	\$22,822
Comprehensive income (loss)		-	-	-	(10,172)	\$12,702	\$2,530
Balance at June 30, 2018		22,490,259	\$534,000	14,476,934	(22,477)	(35,590,393)	1,888,323
Repurchase of capital stock for cancellation	12	(212,836)	-	-	-	-	(212,836)
Stock-based compensation	13	-	-	43,939	-	-	43,939
Comprehensive income (loss)		-	-	-	20,312	187,864	208,176
Balance at September 30, 2018		\$22,277,423	\$534,000	\$14,520,873	\$2,152	(\$35,402,529)	\$1,927,602

	Note	Common Shares	Warrants	Contributed Surplus	Accumulated Other Comprehensive Income (loss)	Deficit	Total shareholders' equity
Balance at January 1, 2019		\$22,142,402	\$534,000	\$14,552,696	(\$6,694)	(\$35,757,441)	\$1,464,963
Stock-based compensation	13	-	-	36,119	-	-	36,119
Adoption of IFRS 16	2	-	-	-	3,367	(127,298)	(123,931)
Comprehensive income (loss)		-	-	-	(4,811)	(512,654)	(517,465)
Balance at March 31, 2019		22,142,402	534,000	14,588,815	(8,138)	(36,397,393)	859,686
Repurchase of capital stock for cancellation	12	(41,100)	-	-	-	-	(41,100)
Exercise of stock options	13	86,254	-	(34,404)	-	-	51,850
Stock-based compensation	13	-	-	82,439	-	-	82,439
Consideration issued for PCS Mobile acquisition	10	456,960	-	-	-	-	456,960
Issuance costs	13	(6,060)	-	-	-	-	(6,060)
Comprehensive income (loss)		-	-	-	3,397	(553,551)	(550,154)
Balance at June 30, 2019		22,638,456	\$534,000	\$14,636,849	(4,740)	(36,950,944)	\$853,621
Repurchase of capital stock for cancellation	12	(465,702)	-	-	-	-	(465,702)
Stock-based compensation	13	-	-	106,367	-	-	106,367
Comprehensive income (loss)		-	-	-	(21,536)	660	(20,876)
Balance at September 30, 2019		\$22,172,754	\$534,000	\$14,743,216	(\$26,276)	(\$36,950,284)	\$473,410

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 nine months ended September 30, 2019 and 2018  
(unaudited, stated in Canadian dollars)

	Note	Three months ended Sept. 30		Nine months ended Sept. 30	
		Unaudited 2019	2018	Unaudited 2019	2018
<b>Net cash (outflow) inflow related to the following activities</b>					
<b>Operating activities</b>					
(Loss)/profit from operations		\$660	\$187,864	(\$1,065,544)	(\$79,432)
Items not affecting cash and cash equivalents					
Depreciation and amortization	2,5	318,463	192,810	837,585	481,954
Write down of devices and appliances		-	8,670	-	8,670
Accretion of deferred debt discount	11	6,737	-	6,737	-
Stock based compensation	13	106,367	43,939	224,925	112,617
		<b>432,227</b>	<b>433,283</b>	<b>3,703</b>	<b>523,809</b>
Net changes in working capital balances					
Decrease/(increase) in accounts receivable		(1,091,760)	45,818	(766,377)	(555,146)
Decrease/(increase) in other receivables		(34,680)	(20,945)	(9,385)	(19,242)
Decrease/(increase) in inventories		1,084,123	160,007	701,035	280,279
Decrease/(increase) in other assets		(484)	-	(23,542)	-
Decrease/(increase) in prepaid expenses		34,158	(69,262)	(158,822)	(98,483)
Decrease/(increase) in deferred expenses		(1,444)	(13,150)	6,035	(20,808)
(Decrease) in accounts payable and other liabilities		(592,923)	1,159,631	(152,351)	675,069
Increase/(decrease) in other liabilities-non-current		-	(3,103)	-	(8,438)
Increase/(decrease) in contract liability		190,325	(291,494)	664,317	570,531
		<b>(412,685)</b>	<b>967,502</b>	<b>260,910</b>	<b>823,762</b>
Net cash generated by operating activities		<b>19,542</b>	<b>1,400,785</b>	<b>264,613</b>	<b>1,347,571</b>
<b>Investing activities</b>					
Acquisition of property, furniture, and equipment	5	(171,508)	(11,859)	(523,491)	(357,196)
Disposal of property, furniture and equipment	5	13,287	-	13,287	-
Disposal of right-of-use assets	2	-	-	89,203	-
Acquisition of intangible assets	5	(2,232)	(12,459)	(83,146)	(17,409)
Cash acquired in business combination	9,10	-	-	259,161	309,953
Other assets		6,036	-	(27,960)	-
Investment in subsidiary	10	-	-	(1,347,961)	-
Net cash used by investing activities		<b>(154,417)</b>	<b>(24,318)</b>	<b>(1,620,907)</b>	<b>(64,652)</b>
<b>Financing activities</b>					
Repayment of notes payable	11	(79,372)	-	(79,372)	-
Repurchase of capital stock for cancellation	12	(465,702)	(212,837)	(506,802)	(281,328)
Decrease in lease liabilities	2	(100,949)	-	(299,733)	-
Decrease in other long-term liabilities	2	(158,916)	-	(159,153)	-
Issuance of share capital - net	13	-	-	45,790	-
Increase in bank indebtedness	10	489,809	-	1,144,159	-
Patent litigation funding	7,8	67,978	54,000	505,623	250,327
Net cash generated (used) by financing activities		<b>(247,152)</b>	<b>(158,837)</b>	<b>650,512</b>	<b>(31,001)</b>
<b>Net increase (decrease) in cash and cash equivalents for the period</b>		<b>(382,027)</b>	<b>1,217,630</b>	<b>(705,782)</b>	<b>1,251,918</b>
<b>Effects of exchange rate changes on cash</b>		<b>(777)</b>	<b>(12,582)</b>	<b>(47,877)</b>	<b>(100)</b>
<b>Cash and cash equivalents, beginning of period</b>		<b>702,340</b>	<b>1,084,194</b>	<b>1,073,195</b>	<b>1,037,424</b>
<b>Cash and cash equivalents, end of period</b>		<b>\$319,536</b>	<b>\$2,289,242</b>	<b>\$319,536</b>	<b>\$2,289,242</b>

## Route1 Inc.

September 30, 2019 and 2018 (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 amalgamation dated January 1, 2006. The registered office of the Company is 8 King Street East, Suite 600, Toronto, Ontario, M5C 1B5.

Route1, operating under the trade names GroupMobile and PCS Mobile, is an advanced provider of industrial-grade data intelligence, user authentication, and ultra-secure mobile workforce solutions. The Company helps all manner of organizations, from government and military to the private sector, to make intelligent use of devices and data for immediate process improvements while maintaining the highest level of cyber security.

With offices and staff in Boca Raton, FL, Chandler, AZ, Chattanooga TN, Denver, CO, Glen Allen, VA, 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 ROIUD and in Canada on the TSX Venture Exchange under the symbol ROI.

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## Route1 Inc.

September 30, 2019 and 2018 (stated in Canadian dollars)

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### 2. NEW STANDARDS ADOPTED

Effective January 1, 2019, the Company adopted the following standards issued by the International Accounting Standards Board (“IASB”) and IFRS Interpretations Committee (“IFRS IC”).

#### 2.1 IFRS 16, Leases

Effective January 1, 2019, the Company adopted IFRS 16, “Leases” (IFRS 16), which specifies how to recognize, measure, present and disclose leases. The standard provides a single accounting model, requiring the recognition of assets and liabilities for all major leases previously classified as "operating leases" under the principles of IAS 17, Leases ("IAS 17"), and related interpretations.

(a) *The Company's accounting policy under IFRS 16 is as follows:*

*i. Definition of a lease:*

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. It applied the definition of a lease under IFRS 16 to existing contracts as of January 1, 2019.

*ii. As a lessee:*

The Company has leased premises in Toronto (Canada), Burlington (Ontario), Boca Raton (Florida), Chattanooga (Tennessee), and Chandler (Arizona).

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, based on the initial amount of the lease liability. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically adjusted for certain remeasurements of the lease liability, if the case may be.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

#### September 30, 2019 and 2018 (stated in Canadian dollars)

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The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for (1) short-term leases, that have a lease term of 12 months or less, as well as for (2) leases of low value assets. The lease payments associated with these leases are recognized as expenses on a straight-line basis over the lease term.

#### *iii. Sub-lease:*

When the Company is an intermediate lessor, it determines at the lease inception date whether each sub-lease is a finance lease or an operating lease based on whether the contract transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, the sub-lease is a financial lease; if not, it is an operating lease.

For financial leases, and when the Company acts as intermediate lessor, it recognizes a sublease receivable and derecognizes the right-of-use assets relating to the head lease that it transfers to the sub lessees. Right-of-use assets and lease receivables relating to the sub leases are measured in the same way as the right-of-use assets and lease liabilities for the head lease, using the same discount rate for the actualization of future payments to be received.

The Company presents accretion expense in the head lease net of accretion income from the sub-leases.

#### *(b) Impact of transition to IFRS 16:*

Effective January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for 2018 has not been restated. The cumulative effect of initial application is recognized in Shareholders' Equity - deficit at January 1, 2019. Comparative amounts for 2018 remain as previously reported under IAS 17 and related interpretations.

Lease receivables and liabilities have been measured by discounting future lease payments at the incremental borrowing rate at January 1, 2019. The weighted average incremental borrowing rate applied was determined to be 5.0% per annum for each lease and represents the Company's best estimate of the rate of interest that it would expect to pay to borrow, on a collateralized basis, over a similar term, an amount equal to the lease payments in the current economic environment. The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied.

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard: the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

#### September 30, 2019 and 2018 (stated in Canadian dollars)

The following table summarizes the impacts of adopting IFRS 16 at January 1, 2019:

	January 1, 2019 prior to adoption of IFRS 16	January 1, 2019 after adoption of IFRS 16
<b>Assets</b>		
Current assets		
Prepaid expenses	\$309,341	\$293,212
Non-current assets		
Right-of-use assets	-	\$776,491
<b>Liabilities</b>		
Current liabilities		
Accounts payable and other liabilities	\$2,493,779	\$2,432,391
Lease liabilities	-	\$401,405
Non-current liabilities		
Lease liabilities	-	\$648,823
Deferred rent	\$63,620	-
Other non-current liabilities	\$570,354	\$529,427
<b>Shareholders' equity</b>		
Accumulated other comprehensive income (loss)	\$(6,694)	\$(3,327)
Deficit	\$(35,757,441)	\$(35,884,739)

The application of IFRS 16 to leases, previously classified as operating leases under IAS 17, resulted in the recognition of right-of-use assets of \$776,491 and finance lease liabilities of \$1,050,228. The difference in value between the right-of-use assets and the outstanding lease liabilities is attributable to being part way through lease terms. On initial application of the standard, the Company reversed prepayments for end of lease rent of \$16,129 and deferred rent of \$63,620, previously recorded per IAS 17. An accrual of \$102,315 relating to the lease of the Chattanooga office acquired with Group Mobile was removed and the value right-of-use asset was reduced. The net effect of these changes resulted in an adjustment to retained earnings of \$(127,298).

The following table provides a reconciliation from previously disclosed operating lease commitments to total lease liabilities:

<b>Operating lease commitments disclosed as at December 31, 2018</b>	<b>\$1,264,545</b>
Less adjustments due to variable lease payments	(100,866)
Less adjustments due to removal of prepaid rent	(16,129)
Less adjustment due to present value	(97,322)
<b>Opening current and non-current lease liabilities as at January 1, 2019</b>	<b>\$1,050,228</b>

# INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Route1 Inc.

### September 30, 2019 and 2018 (stated in Canadian dollars)

(c) Impact for the period:

The following tables summarizes the impacts of adopting IFRS 16 on the Company's condensed interim financial statements for the nine months ended September 30, 2019:

	September 30, 2019 as reported	September 30, 2019 without adoption of IFRS 16
<b>Assets</b>		
Current assets		
Prepaid expenses	\$456,457	\$472,586
Other assets	\$32,882	9,340
<b>Total current assets</b>	<b>\$6,106,055</b>	<b>\$6,098,642</b>
Non-current assets		
Right-of-use assets	\$485,920	-
Other assets	\$27,960	-
<b>Total non-current assets</b>	<b>\$5,673,970</b>	<b>\$5,160,090</b>
<b>Total assets</b>	<b>\$11,780,025</b>	<b>\$11,258,732</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and other liabilities	\$4,366,391	\$4,415,525
Lease liabilities	\$422,116	-
<b>Total current liabilities</b>	<b>\$8,748,682</b>	<b>\$8,375,700</b>
Non-current liabilities		
Lease liabilities	\$328,380	-
Deferred rent	-	\$54,362
Other non-current liabilities	\$352,010	\$352,010
<b>Total non-current liabilities</b>	<b>\$2,557,933</b>	<b>\$2,298,939</b>
<b>Total liabilities</b>	<b>\$11,306,615</b>	<b>\$10,659,615</b>
<b>Shareholders' equity</b>		
Accumulated other comprehensive income (loss)	\$(26,276)	\$(1,724)
Deficit	\$(36,950,284)	\$(36,856,489)
<b>Total shareholders' equity</b>	<b>\$473,410</b>	<b>\$599,117</b>
<b>Total shareholders' equity and liabilities</b>	<b>\$11,780,025</b>	<b>\$11,258,732</b>
<b>Expenses</b>		
General and administrative	\$3,169,323	\$3,253,180
<b>Total operating expenses before stock-based compensation</b>	<b>\$5,853,631</b>	<b>\$5,937,488</b>
<b>Operating profit (loss) before other income (expense)</b>	<b>\$202,903</b>	<b>\$119,046</b>
<b>Other income (expense)</b>		
Interest (expense) income	\$(55,316)	\$(21,424)
Asset disposal (loss) gain	\$(16,462)	-
<b>Total other income (expense)</b>	<b>\$(317,999)</b>	<b>\$(267,645)</b>
<b>Net loss for the period</b>	<b>\$(1,065,544)</b>	<b>\$(1,099,047)</b>

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

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The net impact of the adoption of IFRS 16 was an increase in net income of \$33,503 during the nine months ending September 30, 2019. As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Company did not recognize any additional right-of-use assets or lease liabilities as at September 30, 2019.

Also, in relation to those leases under IFRS 16, the Company has recognized depreciation and interest costs, instead of operating lease expense. During the nine months ended 30 September 2019, the Company recognized \$202,608 of depreciation and \$33,892 of interest expense from these leases. The Company also recognized \$1,982 of interest income related to a sublease which was initiated in January 2019.

#### *2.2 IFRIC 23, Uncertainty of Income Tax Treatments*

Effective January 1, 2019, the Company adopted IFRIC 23, “Uncertainty of Income Tax Treatments” (IFRIC 23), which clarifies how the recognition and measurement requirements of IAS 12 — Income taxes, are applied where there is uncertainty over income tax treatments. The Interpretation also explains when to reconsider the accounting for a tax uncertainty.

At this time, management believes 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 unaudited interim condensed 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 November 26, 2019.

#### *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 unaudited interim condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Route 1 Security Corporation, Group Mobile Int'l, LLC and Portable Computer Systems, Inc.

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

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##### *3.3 Share consolidation (reverse stock split)*

On August 13, 2019, the Company effected a share consolidation (reverse stock split) of its issued and outstanding Common Shares on the basis of one post-consolidation Common Share for every ten pre-consolidation Common Shares. All references in these consolidated financial statements to Common Shares and options have been retroactively adjusted to reflect the share consolidations. The number of warrants were not affected by the consolidations, but the Common Shares issuable upon exercise of the warrants and the exercise price per common share have been adjusted proportionally to the share consolidation ratio.

##### *3.3 Basis of preparation*

The unaudited interim condensed 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 unaudited interim condensed consolidated financial statements have been applied consistently to all periods presented in these unaudited interim condensed consolidated financial statements.

##### *(a) Functional and presentation currency and foreign currency translation*

These unaudited interim condensed consolidated financial statements are presented in Canadian dollars, which is the functional currency of Route1 Inc. The functional currency of Route 1 Security Corporation, Group Mobile Int'l, LLC and Portable Computer Systems, Inc. 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.

##### *(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, a large money centre bank and a large regional bank in the United States.

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

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*(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 under IFRS 9</i>
Cash and cash equivalents	Amortized cost
Accounts receivable	Amortized cost
Other receivables	Amortized cost
<i>Financial liabilities</i>	
Accounts payable and other liabilities	Amortized cost

*(d)(i) Amortized cost*

Subsequent to initial recognition, financial assets at amortized cost are measured using the effective interest method, less any impairment. Interest income, foreign exchange gains and losses, impairment, and any gain or loss on de-recognition are recognized in profit or loss.

*(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) Impairment of financial assets*

The Company measures a loss allowance based on the lifetime expected credit losses. Lifetime expected credit losses are estimated based on factors such as the Company's past experience of collecting payments, the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables, financial difficulty of the borrower, and it becoming probable that the borrower will enter bankruptcy or financial re-organization.

Financial assets are written off when there is no reasonable expectation of recovery.

*(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.

September 30, 2019 and 2018 (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
Customer relationships	-	straight-line over 120 months
Vendor relationships	-	straight-line over 120 months
Trademarks & tradenames	-	straight-line over 120 months
Employee contracts	-	straight-line over 36 months
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.

Goodwill is not amortized but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

The Company tests whether goodwill has suffered any impairment on an annual basis. For the 2018 reporting period, the recoverable amount of the cash generating units (CGUs) was determined based on value-in-use calculations which require the use of assumptions. The calculations use cashflow projections based on financial budgets approved by management.



### Route1 Inc.

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*(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 finite lived 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.

*(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 control to the buyer; 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 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 and other 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.

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

#### September 30, 2019 and 2018 (stated in Canadian dollars)

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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 is recognized to the extent of costs incurred that are not proportionate to the Company's progress in satisfying the performance obligation.

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

(iv) *Technology as a Service Revenue*

Revenue from computing equipment and related accessories that is owned by the Company and leased out to clients is recognized when the service is provided. The Company provides certain management services for this equipment including provision of equipment and related accessories, software, management, maintenance, support and documentation.

(l) *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 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. For the nine months ended September 30, 2019, the Company accrued \$97,385 for SR&ED credits (September 30, 2018 - \$97,655) and for the three months ended September 30, 2019, the Company accrued \$26,107 (September 30, 2018 - \$33,404).

(m) *Stock-based compensation*

Equity-settled share-based payments to employees and others providing services to the Company 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 rateably 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.

(n) *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

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

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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.

##### *(o) Income taxes*

Income 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.

##### *(p) 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 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.

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

Basic earnings per share are computed by dividing the income/loss 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.

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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*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. Where appropriate, device revenue related to subscriptions and the associated costs of such revenue will be recognized ratably over the life of the nearest term subscription contract. 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 Company has applied judgment to determine that it is acting as a principal and gross revenue for sale of devices recognized when title is transferred to the customer and all significant contractual obligations that affect the customer’s final acceptance have been fulfilled.

*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.

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

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#### 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:*

Impairment of financial assets is based on an expected credit loss (“ECL”) model under IFRS 9. ECLs are a probability-weighted estimate of credit losses. The Company calculated ECLs based on consideration of customer-specific factors and actual historical credit loss experience. The Company has determined that no allowance for doubtful accounts is required as of September 30, 2019.

*Allowance for inventory obsolescence:*

The Company reviewed the recoverable amount of its inventory for three months ended September 30, 2019 and determined that no write-down was required. For additional information, see Note 5, “**COST OF REVENUE**” of these financial statements.

*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 September 30, 2019, as it is probable that the asset will be utilized.

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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*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 and PCS Mobile. These methods of valuation were applied to the equity transactions during the period (Note 13, “**SHARE CAPITAL, WARRANTS AND CONTRIBUTED SURPLUS**”).

*Valuation of assets acquired in Business Combinations* The Company estimates the value of the assets acquired in the business combinations on the basis of fair value to the ongoing operations of the acquired businesses. For additional information, See Notes 9 and 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 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.

*Goodwill impairment* The Company estimates recoverable amount of the cash generating units based on future cash flow projections that require significant judgment.

#### 4. 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 September 30, 2019, the cost of revenue recognized as an expense was \$5,952,728 (September 30, 2018 - \$12,310,859). For the nine months ended September 30, 2019, the cost of revenue recognized as an expense was \$9,324,790 (September 30, 2018 - \$16,515,841).

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

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#### 5. PROPERTY, FURNITURE AND EQUIPMENT AND INTANGIBLE ASSETS

##### *Property, Furniture and Equipment*

<b>Cost</b>	<b>Property</b>	<b>Computer Equipment</b>	<b>Furniture and Equipment</b>	<b>TaaS Computer Equipment</b>	<b>Total Property, Furniture and Equipment</b>
Balance January 1, 2019	\$776,491	\$1,790,263	\$377,252	\$1,364,956	<b>\$4,308,962</b>
Additions	-	422,906	1,000	99,585	<b>523,491</b>
Additions from acquisition	-	-	38,445	21,563	<b>60,008</b>
Disposals	(89,203)	-	(13,287)	-	<b>(102,490)</b>
Balance Sept. 30, 2019	687,288	2,213,169	403,410	1,486,104	<b>4,789,971</b>
<b>Accumulated depreciation and impairment</b>	<b>Property</b>	<b>Computer Equipment</b>	<b>Furniture and Equipment</b>	<b>TaaS Computer Equipment</b>	<b>Total Property, Furniture and Equipment</b>
Balance January 1, 2019	-	(1,620,404)	(251,776)	(377,789)	<b>(2,249,969)</b>
Depreciation expense	(202,608)	(50,721)	(50,485)	(416,171)	<b>(719,984)</b>
Disposals	1,240	-	-	-	<b>1,240</b>
Impact of foreign currency consolidation	-	(33)	-	-	<b>(33)</b>
Balance Sept. 30, 2019	(201,368)	(1,671,158)	(302,261)	(793,960)	<b>(2,968,746)</b>
<b>Net book value</b>	<b>Property</b>	<b>Computer Equipment</b>	<b>Furniture and Equipment</b>	<b>TaaS Computer Equipment</b>	<b>Total Property, Furniture and Equipment</b>
Balance January 1, 2019	776,491	169,859	125,476	987,167	2,058,993
Balance Sept. 30, 2019	<b>\$485,920</b>	<b>\$542,011</b>	<b>\$101,149</b>	<b>\$692,144</b>	<b>\$1,821,224</b>

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

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#### Intangible Assets

Cost	Patents	Software	Brand	Customer Relationships	Vendor Relationships	Trademarks & Tradenames	Employee Contracts	Total Intangible Assets
Balance January 1, 2019	\$151,850	\$606,559	\$109,917	\$343,353	-	-	-	\$1,211,679
Additions	38,416	42,185	2,545	-	-	-	-	83,146
Additions from acquisition	-	-	-	65,435	458,045	130,870	261,740	916,090
Disposals	-	-	-	-	-	-	-	-
Balance Sept. 30, 2019	190,266	648,744	112,462	408,788	458,045	130,870	261,740	2,210,915

  

Accumulated depreciation and impairment	Patents	Software	Brand	Customer Relationships	Vendor Relationships	Trademarks & Tradenames	Employee Contracts	Intangible Assets
Balance January 1, 2019	(33,113)	(536,184)	(85,521)	(34,650)	-	-	-	(689,468)
Depreciation expense	(6,870)	(39,164)	(16,041)	(19,914)	(11,569)	(3,305)	(22,037)	(118,900)
Disposals	-	-	-	-	-	-	-	-
Impact of foreign currency consolidation	-	-	-	-	-	-	-	-
Balance Sept. 30, 2019	(39,983)	(575,348)	(101,562)	(54,564)	(11,569)	(3,305)	(22,037)	808,368

  

Net book value	Patents	Software	Brand	Customer Relationships	Vendor Relationships	Trademarks & Tradenames	Employee Contracts	Intangible Assets
Balance January 1, 2019	118,737	70,375	24,396	308,703	-	-	-	522,211
Balance Sept. 30, 2019	\$150,283	\$73,396	\$10,900	\$354,224	\$446,476	\$127,565	\$239,703	\$1,402,547

As of September 30, 2019, non-current assets (excluding the deferred tax asset and other non-current assets) were \$4,903,943 (September 30, 2018 - \$1,457,231). At September 30, 2019, computer, furniture, equipment and intangible assets located in Canada were \$839,521 (September 30, 2018 - \$231,778) and assets of \$1,206,187 were located in the U.S. (September 30, 2018 - \$1,225,453). At September 30, 2019, goodwill was \$1,674,793 (September 30, 2018 - \$nil).

As at September 30, 2019, the net book value of Technology as a Service (“TaaS”) assets was \$692,144 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 September 30, 2019, depreciation and amortization expense of \$318,463 (September 30, 2018 - \$192,810) was recognized in general administration expense and for the nine months ended September 30, 2019, depreciation and amortization expense of \$837,585 (September 30, 2018 - \$481,955) was recognized in general administration expense.



## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

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#### 6. TECHNOLOGY AS A SERVICE REVENUE

The Company's TaaS agreements generally require three-year minimum commitments. The Company expects to recognize as revenue the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied as of the end of the reporting period as follows:

Not later than one year	\$1,032,774
Later than one year and not later than five years	399,470
Later than five years	-
	<u>\$1,432,244</u>

For the three months ended September 30, 2019, the Company recognized TaaS revenue of \$321,618 (September 30, 2018 - \$288,542) and for the nine months ended September 30, 2019, the Company recognized TaaS revenue of \$939,189 (September 30, 2018 - \$554,970).

#### 7. 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 September 30, 2019 were \$278,670 (September 30, 2018 - \$181,374). Patent litigation expenses for the nine months ended September 30, 2019 were \$1,094,657 (September 30, 2018 - \$362,027).

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.

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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.

On December 19, 2018, the Company filed a complaint against VMWare, Inc., AirWatch LLC and VMWare Canada Inc. in the Federal Court of Canada for infringement of Route1's Canadian Patent No. 2,578,053, seeking financial compensation for infringement, legal fees, and an injunction.

On August 7, 2019, Route1 was provided with a court order in relation to Route1's action against AirWatch. The court granted AirWatch's motion for summary judgment for non-infringement (the "Order"). On October 7, 2019, Route1 appealed to the United States Court of Appeals for the Federal Circuit from the district court's August 7, 2019 decision. The district court's decision became appealable after the stipulated dismissal of AirWatch's counterclaim challenging the validity of the 216 Patent. Route1 expects that briefing on the appeal will begin this year and that all briefing on the appeal will be completed during the first quarter of 2020.

On October 28, 2019, AirWatch filed a motion in district court to claim cost reimbursement for the litigation.

#### 8. 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
  - 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).

The reimbursements received from Bench Walk pursuant to its investment have been accounted for as a long-term non-monetary liability within the consolidated financial statements. All such amounts are non-

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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recourse to the Company. In connection with the terms of the agreement, the Company does not have a present obligation to pay any amounts until such time as the litigation has been settled or an event of default has occurred. In the event of an award or settlement of the litigation, the Company will be obligated to pay Bench Walk the greater of 10% of such award or settlement and US \$2,000,000; or US \$3,000,000 if the litigation proceeds to trial.

During the third quarter of 2019, the Company received \$209,878 (US \$157,957) as a reimbursement of expenses incurred from March 1, 2019 to June 30, 2019. At September 30, 2019, \$99,107 (US \$74,837) was included in accounts receivable in respect of reimbursable litigation expenses to that date.

#### 9. BUSINESS COMBINATION – Group Mobile Int'l, LLC

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 \$942,000. 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 Company issued 2,500,000 common shares at a price of \$0.50 per common share and 30,000,000 three-year common share purchase warrants with an exercise price of \$0.50 per common share, exercisable at a ratio of ten warrants per common share. 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 \$0.20 per share, which has been discounted to \$0.1632 per share based on the restrictions on the sale of Route1 common shares issued as consideration for the purchase of Group Mobile as outlined in the Membership Purchase Agreement. The fair value of the warrants, using the Black Scholes method, was \$0.178 per warrant. 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.

There is also an earn-out provision whereby if the gross profit of Group Mobile is in excess of USD \$3,750,000 per 12-month period, the seller will receive 27.5% of the actual gross profit amount greater than USD \$3,750,000. If the gross profit target is missed in the first or second year, no subsequent annual earn-out payment(s) will be made. There is also a cumulative earn-out that is equal to 27.5% of the Group Mobile gross profit for the first 36 months post-closing that is in excess of \$11,250,000 less any annual earn-out amounts previously paid.

The acquisition of Group Mobile was accounted for using the acquisition method of accounting in accordance with IFRS 3 with the results of operations consolidated with those of the Company effective March 22, 2018. The goodwill is not tax deductible. Transaction costs of \$143,390 related to the acquisition of Group Mobile have been expensed and are included in operating expenses in the consolidated statements of operations and comprehensive income (loss). Group Mobile contributed incremental revenue of

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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\$21,322,657 (USD \$16,339,598) and gross profit of \$3,718,382 (USD \$2,856,739) for the year ended December 31, 2018.

The table below summarizes the estimated fair value of the consideration transferred and the estimated fair values of the major classes of assets acquired and liabilities assumed at the acquisition date.

#### As at March 22, 2018

<b>Assets Acquired</b>	<b>US Dollars</b>	<b>Canadian Dollars</b>
Cash and cash equivalents	\$246,268	\$317,883
Trade and other receivables	1,238,839	1,599,094
Inventory	491,241	634,094
Prepaid expenses	3,037	3,920
Current Assets	<u>1,979,385</u>	<u>2,554,991</u>
Furniture and fixtures	46,885	60,519
TaaS assets	741,716	957,406
Intangible assets	266,000	343,353
Goodwill	<u>357,832</u>	<u>461,889</u>
Non-current Assets	<u>1,412,432</u>	<u>1,823,167</u>
Total assets	<u>\$3,391,817</u>	<u>\$4,378,158</u>
 <b>Liabilities Assumed</b>		
Trade and other payables	\$2,108,564	\$2,721,734
Employee liabilities	226,117	291,872
Sales tax payable	56,117	72,436
Contract liability	<u>271,241</u>	<u>350,118</u>
Total liabilities	<u>\$2,662,038</u>	<u>\$3,436,159</u>
Fair value of net assets acquired	<u>\$729,780</u>	<u>\$942,000</u>
 <b>Net consideration issued</b>	 <u>\$729,780</u>	 <u>\$942,000</u>

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2019 and 2018 (stated in Canadian dollars)

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#### 10. BUSINESS COMBINATION – Portable Computer Systems, Inc.

On June 28, 2019, the Company completed the acquisition of 100% of the outstanding shares of Portable Computer Systems, Inc. (“PCS Mobile”). The purchase consideration consisted of (i) cash of US\$1,030,000; (ii) a 3% unsecured, three year note in the amount of US\$250,000 (Note A); (iii) a 2.37% unsecured note, payable monthly over 36 months in the amount of US\$720,000 (Note B); and (iv) 1,120,000 common shares of Route1.

Based in Denver, Colorado, PCS Mobile is a computer reseller with expertise in mobile data applications, including wireless products for in-vehicle use. The company offers guidance and state-of-the-art mobile devices for a wide range of applications including utilities, telecommunications, field services, insurance, healthcare, police and public safety as well as state and local government. PCS Mobile services customers primarily located in the Southwestern and Rocky Mountain regions of the U.S. Rugged devices and applications include but are not limited to Panasonic Toughbook mobile computers, Xplore and Getac rugged tablets, Genetec license plate recognition solutions, and accessories from Gamber-Johnson and Havis.

The Company issued 1,120,000 common shares as partial consideration for the acquisition. 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 June 28, 2019 of \$0.50 per share. The common shares issued are subject to an escrow whereby 100% of the common shares may not be traded until June 28, 2020 after which 50% of the shares may be traded. The balance of the shares is released from escrow pro rata over the following six months such that by December 28, 2020, 1,120,000 shares will be freely tradable. Given the restrictions on trading, the value of the shares issued as purchase consideration was discounted to \$456,960. On June 28, 2019, 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 \$1.3087.

The notes issued as part of the purchase consideration have been discounted to reflect a market-based rate of interest. Based on a market rate of interest of 6% per annum, the values of Notes A and B were discounted to market-based values of \$309,008 and \$898,953, respectively.

The acquisition of PCS Mobile was accounted for using the acquisition method of accounting in accordance with IFRS 3 with the results of operations consolidated with those of the Company effective June 28, 2019. The goodwill recorded on the balance sheet is not tax deductible. Transaction costs of \$73,780 related to the acquisition of PCS Mobile have been expensed and included in operating expenses in the consolidated statements of operations and comprehensive income (loss) for the period ended June 30, 2019. PCS Mobile has contributed incremental revenue of \$4,418,095 and gross profit of \$1,005,258 for the three months ended September 30, 2019.

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The table below summarizes the estimated fair value of the consideration transferred and the estimated fair values of the major classes of assets acquired and liabilities assumed at the acquisition date. The Company may 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.

#### As at June 28, 2019

<b>Assets Acquired</b>	<b>US Dollars</b>	<b>Canadian Dollars</b>
Cash and cash equivalents	\$198,029	\$259,161
Trade and other receivables	1,418,800	1,856,784
Inventory	821,591	1,075,216
Prepaid expenses	16,789	21,971
Current Assets	<u>2,455,209</u>	<u>3,213,132</u>
Furniture and fixtures	29,376	38,445
TaaS assets	16,477	21,563
Intangible assets	700,000	916,090
Goodwill	930,910	1,218,282
Non-current Assets	<u>1,676,763</u>	<u>2,194,380</u>
Total assets	<u>\$4,131,972</u>	<u>\$5,407,512</u>
 <b>Liabilities Assumed</b>		
Trade and other payables	\$1,367,087	\$1,789,107
Employee liabilities	33,468	43,800
Sales tax payable	6,468	8,464
Customer deposits	197,042	257,869
Contract liability	225,712	295,390
Total liabilities	<u>\$1,829,777</u>	<u>\$2,394,630</u>
Fair value of net assets acquired	<u>\$2,302,195</u>	<u>\$3,012,882</u>
 <b>Net consideration issued</b>	 <u>\$2,302,195</u>	 <u>\$3,012,882</u>

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 11. LONG TERM DEBT

	As at September 30, 2019
Promissory note A (US\$250,000; due 2022)	\$331,075
Promissory note B (US\$720,000; due 2022)	874,038
	<u>1,205,113</u>
Less unamortized deferred debt discount	(55,467)
	<u>1,149,646</u>
Less current portion of long term debt	(393,410)
	<u><u>\$756,236</u></u>

The U.S. dollar denominated debt was translated into Canadian dollars at the period end exchange rate of US\$1 = C\$1.3243.

Pursuant to the acquisition of Portable Computer Systems. Inc. (“PCS”) on June 28, 2019, the Company’s wholly owned subsidiary, PCS, issued two notes to the vendor of PCS. The terms of these notes are as follows:

##### Unsecured Promissory Note A

Principal Amount	US\$250,000 (C\$327,175)
Interest Rate	3% per annum, payable annually
Repayment	US\$80,000 on June 28, 2020; US\$80,000 on June 28, 2021; and US\$90,000 on June 28, 2022

##### Unsecured Promissory Note B

Principal Amount	US\$720,000 (C\$942,264)
Interest Rate	2.37% per annum, payable monthly
Repayment	US\$20,000 per month for 36 months commencing July 31, 2019

The notes are subordinated to the asset-based credit facility in PCS. The notes are guaranteed as to payment by the Company’s wholly owned subsidiary, Group Mobile Int’l, LLC.

Principal debt repayment in each of the next four fiscal years is as follows:

2019	\$79,458
2020	423,776
2021	423,776
2022	278,103
	<u>\$1,205,113</u>

### Route1 Inc.

September 30, 2019 and 2018 (stated in Canadian dollars)

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#### 12. SHARE REPURCHASE PROGRAM

On September 17, 2018, 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 1,840,535. Purchases under the NCIB may occur during the 12-month period commencing September 27, 2018 and ending September 26, 2019, or the date upon which the maximum number of common shares has been purchased by the Company. Purchases for cancellation under the NCIB during the period from September 27, 2018 to September 26, 2019 were 160,870 common shares.

On September 24, 2019, the Company received approval from the TSX Venture Exchange 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 1,816,855. Purchases under the NCIB may occur during the 12-month period commencing September 27, 2019 and ending September 26, 2020, or the date upon which the maximum number of common shares has been purchased by the Company. Purchases for cancellation under the NCIB during the period from September 27, 2019 to September 30, 2019 were 15,000 common shares.

For the year ended December 31, 2018, the Company purchased 913,841 shares for cancellation under the NCIB at an average price of approximately \$0.45 per share. The Company incurred an expense of \$5,047, including regulatory costs, to complete the purchases.

For the three months ended September 30, 2019, the Company purchased 1,179,900 shares for cancellation under the NCIB at an average price of approximately \$0.3947 per share. The Company incurred an expense of \$4,121, including regulatory costs, to complete the purchases.

For the nine months ended September 30, 2019, the Company purchased 1,257,100 shares for cancellation under the NCIB at an average price of approximately \$0.4032 per share. The Company incurred an expense of \$4,264, including regulatory costs, to complete the purchases.

#### 13. 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.



## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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As of September 30, 2019, the following was outstanding:

	Number of Common Shares	Common Shares \$
Balance, January 1, 2019	36,305,500	\$22,142,402
Shares issued April 19, 2019	103,700	86,254
Shares issued June 28, 2019	1,120,000	456,960
Shares repurchased for cancellation	(1,257,100)	(504,302)
Share issuance costs	-	(8,560)
Balance, September 30, 2019	36,272,100	\$22,172,754

- There are 3,397,500 common share purchase options (“Options”) outstanding to acquire 3,397,500 common shares at various prices.
- 30,000,000 common share purchase warrants are outstanding with an expiry date of March 22, 2021, and enable the holder to purchase 3,000,000 common shares at an exercise price of \$0.50 per share.

Pursuant to a resolution passed at the Company’s annual meeting on November 26, 2018, the Company amended its Articles of Amalgamation on August 13, 2019 to consolidate the number of shares outstanding on the basis of one new common share for ten old common shares.

#### *Warrant Valuation*

	2018
Share price on issue date	\$0.20
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	\$0.178

The Black-Scholes option pricing model is 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 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.

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	September 30, 2019		December 31, 2018	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options Outstanding				
Balance, beginning of the period	2,637,700	\$0.53	2,768,900	\$0.53
Options granted during the period	1,180,000	0.60	800,000	0.54
Options expired during the period	(87,500)	0.50	-	-
Options exercised during the period	(103,700)	0.50	-	-
Options forfeited during the period	(229,000)	0.60	(931,200)	0.53
Balance, end of the period	<u>3,397,500</u>	<u>\$0.51</u>	<u>2,637,700</u>	<u>\$0.53</u>

Exercise Price	Options Outstanding September 30, 2019		Options Exercisable September 30, 2019	
	Number of Options	Weighted Average Life (Years)	Number of Options	Weighted Average Life (Years)
\$0.50	1,222,500	1.9	642,500	3.1
\$0.55	1,475,000	4.0	1,335,000	4.3
\$0.65	700,000	0.4	-	-
\$0.70	-	-	-	-
	<u>3,397,500</u>	<u>2.5</u>	<u>1,977,500</u>	<u>3.9</u>

Exercise Price	Options Outstanding December 31, 2018		Options Exercisable December 31, 2018	
	Number of Options	Weighted Average Life (Years)	Number of Options	Weighted Average Life (Years)
\$0.50	1,037,700	2.5	572,700	3.3
\$0.55	1,600,000	3.3	1,400,000	3.7
	<u>2,637,700</u>	<u>3.0</u>	<u>1,972,700</u>	<u>3.6</u>

During the quarter ended September 30, 2019, the Company recorded stock-based compensation expense of \$106,367 (September 30, 2018 - \$43,939). For the nine months ended September 30, 2019, the Company recorded stock-based compensation expense of \$224,925 (September 30, 2018 - \$112,617).

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.

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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 amortized 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. Upon exercise of stock options, the consideration paid by the holder is included in share capital and the related contributed surplus associated with the stock options exercised is transferred into share capital.

	<b>Nine months ended September 30, 2019</b>	Year ended December 31, 2018
Balance, January 1, 2019	<b>\$14,552,696</b>	\$14,408,256
Options expensed in the period	<b>224,925</b>	144,440
Options exercised in the period	<b>(34,404)</b>	-
Balance, September 30, 2019	<b><u>\$14,743,217</u></b>	<u>\$14,552,696</u>

#### 14. 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 months and nine months ended September 30, 2019. 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 \$nil for the quarter ended September 30, 2019 (September 30, 2018 - \$94,637) and \$185,979 for the nine months ended September 30, 2019 (September 30, 2018 - \$283,913). The Company also incurred stock-based compensation expense in the amount of \$nil for the quarter ended September 30, 2019 (September 30, 2018 - \$nil) and \$nil for the nine months ended September 30, 2019 (September 30, 2018 - \$9,916).
- The Company incurred expenses (including CPP and EHT) payable to and on behalf of the independent members of the Board of Directors of \$99,918 for the quarter ended September 30, 2019 (September 30, 2018 - \$77,186) and \$252,723 for the nine months ended September 30, 2019 (September 30, 2018 - \$234,461). These transactions are in the normal course of operations and are paid or payable for directorship services. As at September 30, 2019, accounts payable included \$105,070 owing to directors (September 30, 2018 - \$76,892). The Company also incurred stock based compensation expense related to stock options granted to directors in the amount of \$36,171 for the quarter ended September 30, 2019 (September 30, 2018 - \$3,192) and \$66,757 for the nine months ended September 30, 2019 (September 30, 2018 - \$18,711).
- The Company made payments to or incurred expenses for key management (Chief Executive Officer, President, Chief Technology Officer and the Chief Financial Officer) in the quarter and nine month period ended September 30, 2019 as follows, with 2018 comparatives.

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	<b>Three Months Ended September 30, 2019</b>	Three Months Ended September 30, 2018	<b>Nine Months Ended September 30, 2019</b>	Nine Months Ended September 30, 2018
Short-term employee benefit	<b>\$292,559</b>	\$162,796	<b>\$635,076</b>	\$577,260
Stock option expense	<b>20,943</b>	10,135	<b>43,936</b>	49,569
	<b>\$313,502</b>	\$172,931	<b>\$679,012</b>	\$626,829

### 15. 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 September 30, 2019</b>	Three Months Ended September 30, 2018	<b>Nine Months Ended September 30, 2019</b>	Nine Months Ended September 30, 2018
Net income (loss)	<b>660</b>	\$187,864	<b>(\$1,065,544)</b>	(\$79,436)
Weighted average number of common shares outstanding	<b>36,854,532</b>	36,893,547	<b>36,519,132</b>	36,348,029
Basic earnings (loss) per share	<b>\$0.00</b>	\$0.01	<b>\$(0.03)</b>	\$(0.00)
Diluted earnings (loss) per share	<b>\$0.00</b>	\$0.00	<b>\$(0.00)</b>	\$(0.00)

### 16. COMMITMENTS AND CONTINGENCIES

#### (i) 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.

#### (ii) 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.

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

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#### 17. 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.

#### 18. 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.

#### 19. 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 from the preceding year.

On June 24, 2019, the Company increased its credit facility, consisting of a revolving demand facility in the amount of \$875,000 and a \$100,000 credit card facility. The operating facility carries an interest rate equal to the lender's prime rate of interest plus 1.5%. The credit facility is secured by the assets of Route1 Inc. and guaranteed by a subsidiary of the Company.

On June 28, 2019, the Company's wholly owned subsidiary, Portable Computer Systems, Inc. ("PCS"), entered into an asset based revolving credit facility in the amount of US\$1,500,000. The facility carries an interest rate of 50 basis points over the prime rate published daily in the Wall Street Journal. The availability under the facility is based on a percentage of the aggregate of certain accounts receivable and inventory. The facility is secured by the assets of PCS and is guaranteed by the Company and a wholly owned subsidiary of the Company.

In the normal course of business operations of Group Mobile Int'l, LLC ("GMI") and PCS, the Company may be required to guarantee certain trade payables to the value-added distributors from which GMI and PCS purchase product to sell to their customers. Such guarantees would be enforced only if GMI or PCS could not pay the distributor for goods acquired from such distributor and the amounts under such

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

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guarantees would vary from time to time based on the volume of purchases from the particular distributor. The Company has entered into these continuing, unconditional guarantees with several of the larger vendors/suppliers to GMI and PCS.

In the normal course of operations, GMI and PCS may enter into continuing purchase money security interests with distributors and original equipment manufacturers. These security interests relate specifically to the products purchased from each distributor and original equipment manufacturer and the amounts secured will vary from time to time with purchases.

#### 20. 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 September 30, 2019, the largest single customer represented approximately \$871,000 of revenue (September 30, 2018 - \$7,797,000).

#### *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 September 30, 2019, the Company had cash consisting of deposits with Schedule 1 banks in Canada and their subsidiaries in the U.S., a large money centre bank in the U.S. and a large regional bank in the U.S. of \$319,536 (December 31, 2018 - \$1,073,195).

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

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##### *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.

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 September 30, 2019, the largest single customer's account receivable represented \$385,918 (December 31, 2018 – \$304,380) of the total accounts receivable.

The following table outlines the details of the aging of the Company's receivables as at September 30, 2019 and December 31, 2018:

	<b>September 30, 2019</b>	December 31, 2018
Current	<b>\$3,515,224</b>	\$1,644,057
Past due		
1 – 60 days	<b>846,829</b>	201,534
Greater than 60 days	<b>120,977</b>	13,160
Less: Allowance for doubtful accounts	-	-
Total accounts receivable, net	<b>\$4,483,030</b>	\$1,858,751

For the three and nine months ended September 30, 2019 and year ended December 31, 2018, 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 September 30, 2019:

## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

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	2019	2020	2021 and Beyond	Total
Accounts payable and other liabilities	\$4,366,394	\$352,010	\$-	\$4,718,404
Notes payable	92,718	418,784	693,611	1,205,113
Lease commitments	165,488	376,948	208,060	750,496
	<b>\$4,624,599</b>	<b>\$1,147,742</b>	<b>\$901,671</b>	<b>\$6,674,013</b>

#### 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.

#### Foreign exchange

The functional currency of the parent company is Canadian dollars and the reporting currency is Canadian dollars. As at September 30, 2019, the Company had non-Canadian dollar net monetary assets of approximately US\$880,500 (December 31, 2018 - approximately US\$2,753,005). An increase or decrease in the U.S. to Canadian dollar exchange rate by 5% as at September 30, 2019 would have resulted in a gain or loss in the amount of \$44,025 (December 31, 2018 – gain or loss of \$187,204). 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 September 30, 2019, cash balances were \$319,536 (December 31, 2018 - \$1,073,195) and the interest rate sensitivity is not material.

## 21. 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 the sale of devices, revenue or contract liability is recognized at the time transfer of ownership of the device occurs. At September 30, 2019, the Company had \$2,644,199 (December 31, 2018 - \$1,687,389) in contract liability.

The following table provides a component presentation of the Company's revenue streams for the three months ended September 30, 2019 and 2018:

	2019		2018	
	Revenue	% of Total	Revenue	% of Total
Subscription revenue and services	<b>\$2,136,191</b>	<b>24.5</b>	\$1,684,256	11.3
Devices and appliances	<b>6,575,428</b>	<b>75.5</b>	13,206,897	88.7
Other	<b>2,274</b>	<b>0.0</b>	3,712	0.0
	<b>\$8,713,893</b>	<b>100.0</b>	<b>\$14,894,865</b>	<b>100.0</b>



## INTERIM CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

#### September 30, 2019 and 2018 (stated in Canadian dollars)

The following table provides a component presentation of the Company's revenue streams for the nine months ended September 30, 2019 and 2018:

	2019		2018	
	Revenue	% of Total	Revenue	% of Total
Subscription revenue and services	\$5,322,098	34.1	\$4,581,802	20.7
Devices and appliances	10,277,826	65.9	17,531,665	79.1
Other	6,325	0.0	42,938	0.2
	<b>\$15,606,249</b>	<b>100.0</b>	<b>\$22,156,405</b>	<b>100.0</b>

The following table provides a geographic presentation of the Company's revenue streams for the three months ended September 30, 2019 and 2018:

	2019		2018	
	Revenue	% of Total	Revenue	% of Total
USA	\$8,683,104	99.6	\$14,835,622	99.6
Canada	30,789	0.4	59,243	0.4
	<b>\$8,713,893</b>	<b>100.0</b>	<b>\$14,894,865</b>	<b>100.0</b>

The following table provides a geographic presentation of the Company's revenue streams for the nine months ended September 30, 2019 and 2018:

	2019		2018	
	Revenue	% of Total	Revenue	% of Total
USA	\$15,502,210	99.3	\$21,973,177	99.2
Canada	104,039	0.7	183,228	0.8
	<b>\$15,606,249</b>	<b>100.0</b>	<b>\$22,156,405</b>	<b>100.0</b>