Audited Consolidated Financial Statements of

Route1 Inc.

For the years ended December 31, 2019 and 2018

Grant Thornton

Independent Auditor's Report

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To the Shareholders of Route1 Inc.

Opinion
We have audited the consolidated financial statements of Route1 Inc. ("the Company"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of loss and comprehensive loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in *the Auditor's Responsibilities for the Audit of the consolidated financial statements section* of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter
The consolidated financial statements of Route1 Inc. for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those statements on April 25, 2019.

Information Other than the Consolidated financial statements and Auditor's Report Thereon
Management is responsible for the other information. The other information comprises the Management Discussion and Analysis but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated financial statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing these consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to a going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue and auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists

related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Mark Irwin, CPA.

Grant Thornton LLP

Toronto, Canada	Chartered Professional Accountants
April 22, 2020	Licensed Public Accountants

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Route1 Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Route1 Inc.

As at December 31, 2019 and 2018
(stated in Canadian dollars)

	Note	December 31, 2019	December 31, 2018
Assets			
Current assets			
Cash and cash equivalents	22,23	**$125,544**	$1,073,195
Accounts receivable	22,23	**4,964,615**	1,858,751
Other receivables	22	**134,640**	43,849
Inventory	4	**451,564**	379,322
Prepaid expenses	2	**497,748**	309,341
Other current assets	2	**32,027**	-
Total current assets		**6,206,138**	3,664,458
Non-current assets			
Deferred tax asset	24	**1,484,000**	742,067
Right-of-use assets	2,6	**419,010**	-
Furniture and equipment	6,12,13	**1,214,264**	1,282,502
Intangible assets	7,12,13	**1,265,741**	522,211
Goodwill	7,12,13	**2,019,031**	461,889
Other non-current assets	2	**21,845**	-
Total non-current assets		**6,423,891**	3,008,669
Total assets		**$12,630,029**	$6,673,127
Liabilities			
Current liabilities			
Bank indebtedness	12	**$1,359,695**	-
Accounts payable and other liabilities	2,22,23	**5,147,494**	$2,493,779
Contract liability	15,22	**1,750,169**	1,540,297
Lease liabilities	2,5	**389,480**	-
Notes payable	13,14,21	**388,014**	-
Total current liabilities		**9,034,852**	4,034,076
Non-current liabilities			
Deferred tax liability	24	**193,164**	-
Contract liability	15,22	**158,146**	147,092
Deferred rent	2	**-**	63,620
Other non-current liabilities	23	**439,860**	570,354
Lease liabilities	2,5	**257,981**	-
Litigation funding liability	10,11	**898,645**	393,022
Notes payable	12,13,16	**667,656**	-
Total non-current liabilities		**2,615,452**	1,174,088
Total liabilities		**11,650,304**	5,208,164
Shareholders' equity			
Capital and reserve			
Common shares	17,18	**22,042,233**	22,142,402
Warrants	18	**534,000**	534,000
Contributed surplus – stock compensation reserve	18	**14,840,861**	14,552,696
Accumulated other comprehensive income (loss)		**1,547**	(6,694)
Deficit	2	**(36,438,916)**	(35,757,441)
Total shareholders' equity		**979,725**	1,464,963
Total shareholders' equity and liabilities		**$12,630,029**	$6,673,127

Commitments and contingencies	21
Subsequent events	10, 26

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

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

Route1 Inc.

For the years ended December 31, 2019 and 2018
(stated in Canadian dollars)

	Note	2019	2018
Revenue			
Subscription revenue and services		**$7,833,425**	$6,209,378
Devices and appliance		**16,168,992**	19,972,143
Other		**7,208**	49,225
Total revenue		**24,009,625**	26,230,746
Cost of revenue		**14,978,189**	18,731,871
Gross profit		**9,031,436**	7,498,875
Operating expenses			
General administration		**4,302,181**	4,076,258
Research and development		**609,465**	730,568
Selling and marketing		**3,302,438**	2,085,229
Total operating expenses before stock-based compensation		**8,214,084**	6,892,055
Stock-based compensation		**322,569**	144,440
Total operating expenses		**8,536,653**	7,036,495
Operating profit before other income (expense)		**494,783**	462,380
Other income (expense)			
Patent litigation		**(1,289,016)**	(841,308)
Interest expense		**(89,341)**	-
Foreign exchange gain		**8,359**	87,974
Loss on asset disposal		**(16,458)**	-
Acquisition expense	12,13	**(73,780)**	(143,390)
Other expenses		**(261,874)**	-
Total other income (expense)		**(1,722,110)**	(896,724)
Loss before income taxes		**(1,227,327)**	(434,344)
Income tax recovery	**24**	**673,150**	**-**
Net loss for the year		**(554,177)**	(434,344)
Other comprehensive income (loss)			
Foreign currency translation		**4,874**	(6,694)
Comprehensive loss		**($549,303)**	($441,038)
Basic and diluted loss per share	**20**	**($0.02)**	($0.01)
Weighted average number of common shares outstanding		**36,415,781**	36,367,106

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Route1 Inc.

For the years ended December 31, 2019 and 2018
(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**
Repurchase of common shares for cancellation	**17**	**(416,349)**	**-**	**-**	**-**	**-**	**(416,349)**
Stock-based compensation	**18**	**-**	**-**	**144,440**	**-**	**-**	**144,440**
Consideration issued for Group Mobile acquisition	**12**	**408,000**	**534,000**	**-**	**-**	**-**	**942,000**
Comprehensive income (loss)		**-**	**-**	**-**	**(6,694)**	**(434,344)**	**(441,038)**
Balance at December 31, 2018		**$22,142,402**	**$534,000**	**$14,552,696**	**($6,694)**	**($35,757,441)**	**$1,464,963**

	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**
Repurchase of common shares for cancellation	**17**	**(634,573)**	**-**	**-**	**-**	**-**	**(634,573)**
Adoption of IFRS 16	**2**	**-**	**-**	**-**	**3,367**	**(127,298)**	**(123,931)**
Exercise of stock options		**86,254**	**-**	**(34,404)**	**-**	**-**	**51,850**
Stock-based compensation	**18**	**-**	**-**	**322,569**	**-**	**-**	**322,569**
Consideration issued for PCS Mobile acquisition	**13**	**456,960**	**-**	**-**	**-**	**-**	**456,960**
Issuance costs	**18**	**(8,810)**	**-**	**-**	**-**	**-**	**(8,810)**
Comprehensive income (loss)		**-**	**-**	**-**	**4,874**	**(554,177)**	**(549,303)**
Balance at December 31, 2019		**$22,042,233**	**$534,000**	**$14,840,861**	**$1,547**	**($36,438,916)**	**$979,725**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Route1 Inc.

For the years ended December 31, 2019 and 2018
(stated in Canadian dollars)

	Note	2019	2018
Net cash (outflow) inflow related to the following activities			
Operating activities			
Net loss		**($554,177)**	($434,344)
Items not affecting cash and cash equivalents			
Depreciation and amortization		**1,123,752**	668,645
Interest accretion on notes payable		**12,899**	-
Interest on lease liabilities		**28,831**	-
Disposal of right-of-use assets		**89,203**	-
Devices and appliances write down		**-**	8,670
Recognition of deferred tax asset		**(741,933)**	
Stock-based compensation		**322,569**	144,440
		281,144	387,411
Net changes in working capital balances			
(Increase) decrease in accounts receivable		**(1,330,135)**	236,639
Increase in other receivables		**(90,791)**	(22,997)
Decrease in inventory		**1,032,141**	509,957
Increase in other assets		**(16,653)**	-
Increase in prepaid expenses		**(203,159)**	(50,348)
Increase in deferred expenses		-	(15,375)
Increase (decrease) in accounts payable and other liabilities		**639,222**	(419,153)
Increase (decrease) in contract liability		**16,459**	(195,151)
Decrease in deferred rent		**-**	(11,520)
		47,084	32,052
Net cash generated by operating activities		**328,228**	419,463
Investing activities			
Acquisition of furniture, and equipment		**(595,801)**	(615,645)
Disposal of furniture and equipment		**13,287**	-
Acquisition of intangible assets		**(103,685)**	(102,302)
Cash paid in business combination		**(1,347,961)**	-
Cash acquired in business combination		**260,607**	309,953
Other assets		**(21,845)**	-
Net cash used by investing activities		**(1,795,398)**	(407,994)
Financing activities			
Repayment of notes payable		**(156,052)**	-
Repurchase of common shares for cancellation		**(634,573)**	(416,349)
Issuance of common shares – net		**43,040**	-
Repayment of lease liabilities		**(431,598)**	-
Increase in other non-current liabilities		**(64,187)**	-
Increase in bank indebtedness		**1,359,695**	-
Proceeds from litigation funding		**505,623**	393,022
Net cash generated (used) by financing activities		**621,948**	(23,327)
Net decrease in cash and cash equivalents for the year		**(845,222)**	(11,858)
Effects of exchange rate changes on cash		**(102,429)**	47,629
Cash and cash equivalents, beginning of year		**1,073,195**	1,037,424
Cash and cash equivalents, end of year		**$125,544**	$1,073,195

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

1. NATURE AND DESCRIPTION OF THE COMPANY

Route1 Inc. ("Route1" or "the Company") is a publicly traded company on the TSX Venture Exchange and the OTCQB Venture Market. The Company is incorporated under the laws of the Province of Ontario by articles of 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 in Canada on the TSX Venture Exchange under the symbol ROI and on the OTCQB in the United States under the symbol ROIUF.

The Company has three operating segments: Route1 Inc. & Route 1 Security Corporation, Group Mobile Int'l LLC ("GMI") and Portable Computer Systems, Inc. ("PCS"). An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, and for which discrete financial information is available. Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

The Company has one reportable segment.

See https://www.route1.com/terms-of-use/ for notice of Route1's intellectual property.

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. Prior to January 1, 2019, the Company treated all lease payments as operating expenses.

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.

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, and (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 finance lease; if not, it is an operating lease.

For finance 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, with the cumulative effect of adopting IFRS 16 being recognized in equity as an adjustment to the opening balance of the deficit for the current period. Accordingly, the information presented for 2018 has not been restated, and 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, applied a single discount rate to a portfolio of leases with similar characteristics, reliance on previous assessments on whether leases are onerous, 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”.

December 31, 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
Assets		
Current assets		
Prepaid expenses	$309,341	$293,212
Non-current assets		
Right-of-use assets	-	$776,491
Liabilities		
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
Shareholders' equity		
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 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 GMI was removed and the value right-of-use asset was reduced. The net effect of these changes resulted in an adjustment to deficit of ($127,298).

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

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

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.

There was no material impact on the Company upon the adoption of this standard.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

3.1 Statement of compliance

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

The consolidated financial statements were approved and authorized for issuance by the Company's Board of Directors on April 22, 2020.

3.2 Basis of consolidation

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

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Route 1 Security Corporation, GMI and PCS.

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

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

(a) Foreign currency translation

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of Route1 Inc. For each entity within the consolidated financial statements, the functional currency is determined based on the currency of the primary economic environment in which the entity operates. Primary and secondary indicators are used to determine the functional currency (primary indicators have priority over secondary indicators).

Foreign operations

The functional currency of Route 1 Security Corporation, GMI and PCS is United States dollars. The financial statements of these entities are translated into the Canadian dollar presentation currency at as follows:

- assets and liabilities – at the exchange rate in effect at the balance sheet date.
- Income and expenses – at the average rate for the period (as this is considered to be a reasonable approximation of actual rates).

The resulting changes are recognized in other comprehensive income ("OCI") as cumulative translation adjustments. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognized in net income.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the respective entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary assets and liabilities denominated in foreign currencies at period-end exchange rates are recognized in net income. Non-monetary assets and liabilities are not retranslated and are measured at historical cost (translated using the exchange rates at the transaction date).

(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. Bank indebtedness is considered a financing activity.

(c) Financial instruments

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

Financial assets	***Classification under IFRS 9***
Cash and cash equivalents	Amortized cost
Accounts receivable	Amortized cost
Other receivables	Amortized cost
Financial liabilities	
Bank indebtedness	Amortized cost
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.

(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.

December 31, 2019 and 2018 (stated in Canadian dollars)

(h) Furniture and equipment

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
Right-of-use asset	-	straight-line over the remaining lease term
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 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 and tradenames	-	straight-line over 120 months
Website & brand	-	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 2019 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 cash flow projections based on financial budgets approved by management.

(j) Impairment of 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 CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs; or otherwise, they are allocated to the smallest group of CGUs 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 CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) 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

To determine whether to recognize revenue, the Company follows a 5-step process:

1) Identifying a contract with a customer
2) Identifying the performance obligations
3) Determining the transaction price
4) Allocating the transaction price to the performance obligations
5) Recognizing revenue when/as performance obligation(s) are satisfied

The Company often enters into transactions involving a range of their products and services. In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognized either at a point in time or over time, when (or as) the Company satisfies performance obligations by transferring the promised goods or services to its customers.

The Company recognizes contract liabilities (deferred revenue) for consideration received in respect to unsatisfied performance obligations. 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 (control) 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 (control) 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.

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

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

(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 year ended December 31, 2019, the Company accrued $110,000 for SR&ED credits (December 31, 2018 - $134,316).

(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 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.

Deferred income taxes are not recognized if they arise from the initial recognition of goodwill.

(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.

(r) Business Combination

Business combinations are accounted for by applying the acquisition method. The acquisition method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. The acquiree's identifiable assets and liabilities that meet the conditions for recognition under IFRS 3, "Business Combinations" ("IFRS 3"), are recognized at their fair value at the acquisition date, except for: (i) deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements which are recognized and measured in accordance with IAS 12, “Income Taxes”, and IAS 19, “Employee Benefits”, respectively; and (ii) assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, “Non-current Assets Held for Sale and Discontinued Operations”, which are measured and recognized at fair value less costs to sell.

The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value.

Transaction costs related to the acquisition are expensed as they are incurred.

Goodwill arising on acquisition is recognized as an asset and represents the excess of acquisition cost over the fair value of the identifiable net assets of the acquiree at the date of the acquisition.

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 management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Revenue recognition:

In making their judgment, management considers the detailed criteria for the recognition of revenue from the sale of goods and services set out in IFRS 15. The Company recognizes revenue when it is realized and earned. The Company considers revenue realized and earned when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods (or service has been performed); the Company does not retain any managerial involvement; it is probable that the economic benefits associated with the transaction will flow to the Company; and the amount of revenue can be measured reliably. Where appropriate, device revenue related to subscriptions and the associated costs of such revenue will be recognized rateably 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.

Business combinations: Determination of whether a group of assets acquired and liabilities assumed constitute the acquisition of a business or an asset may require the Company to make certain judgments as to whether or not the assets acquired and liabilities assumed include the inputs, processes and outputs necessary to constitute a business as defined in IFRS 3, "Business Combinations".

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 December 31, 2019 and 2018.

Allowance for inventory obsolescence: The Company reviewed the recoverable amount of its inventory for year ended December 31, 2019 and determined that no write-down was required.

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 December 31, 2019, as it is probable that the asset will be utilized.

Valuation of warrants and stock-based compensation:	The Company estimates the fair value of stock- based compensation issued for goods or services based on the Black-Scholes Option Pricing Model for warrants and share options with a service condition. The Company has judged that the fair value of the services could not be determined; therefore, the fair value of the shares, share options and warrants was used in the measurement of the transactions. The Black-Scholes Option Pricing Model was used to value the warrants issued as part of the consideration for the purchase of GMI. These methods of valuation were applied to the equity transactions during the year (Note 18, **“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 12 and 13, **“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.

3.7 Future accounting policy changes

At the date of the authorization of these consolidated financial statements, several new, but not effective Standards and amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards or amendments to existing Standards have been adopted early by the Company.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact to the Company’s consolidated financial statements.

December 31, 2019 and 2018 (stated in Canadian dollars)

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 year ended December 31, 2019, the cost of revenue recognized as an expense was $14,978,189 (December 31, 2018 - $18,731,871).

5. LEASES

The Company has entered into a variety of premise lease agreements for office locations in Toronto, Ontario; Burlington, Ontario; Chandler, Arizona; Chattanooga, Tennessee; Boca Raton, Florida; and Denver, Colorado. In addition to the basic monthly rents, as part of some of the leases the Company must pay a proportionate share of property taxes, operating costs, utilities and additional services. The minimum annual basic rent commitments are as follows:

	December 31, 2019
2020	$650,844
2021	445,692
2022	36,050
Minimum lease payments	1,132,586
Less: interest portion at a rate of 5%	28,831
Net minimum lease payments	1,103,755
Less: Short-term or low value lease payments	456,294
	647,461
Less: current portion	389,480
	$257,981

The office locations, with the exception of the Denver location, have been recognized in right-of-use assets at the present value of minimum lease payments, less accumulated depreciation. Also, in relation to those leases under IFRS 16, the Company has recognized depreciation and interest costs, instead of operating lease expense. During the year ended December 31, 2019, the Company recognized $269,518 of depreciation and $40,396 of interest expense from these leases. The Company also recognized $2,556 of interest income related to a sublease of the Burlington, Ontario premises which was initiated in January 2019. Lease payments for the Denver location have been recognized as lease expenses, as the location is on a short-term lease which the Company has no intention of renewing.

The expense relating to payments not included in the measurement of the lease liability is as follows:

	December 31, 2019
Short-term leases	$95,370
Non-lease components	200,015
	$295,385

As December 31, 2019 the Company was committed to short-term leases and the total commitment at that date was $42,404.

December 31, 2019 and 2018 (stated in Canadian dollars)

6. RIGHT-OF-USE, FURNITURE AND EQUIPMENT ASSETS

Cost	Right-of-use Asset	Computer Equipment	Furniture and Equipment	TaaS Computer Equipment	Total Furniture and Equipment
Balance at January 1, 2018	$ -	$1,647,143	$251,759	$ -	$1,898,902
Additions	-	143,120	64,975	407,550	615,645
Additions from acquisition	-	-	60,518	957,406	1,017,924
Disposals	-	-	-	-	-
Balance at December 31, 2018	-	1,790,263	377,252	1,364,956	3,532,471
Additions	**-**	**473,958**	**16,732**	**105,111**	**595,801**
Additions from acquisition	**-**	**-**	**38,445**	**21,563**	**60,008**
Adoption of IFRS 16	**776,491**	**-**	**-**	**-**	**776,491**
Disposals	**(89,203)**	**-**	**(13,287)**	**-**	**(102,490)**
Balance at December 31, 2019	**687,288**	**2,264,221**	**419,142**	**1,491,630**	**4,862,281**

Accumulated depreciation and impairment	Right-of-use Asset	Computer Equipment	Furniture and Equipment	TaaS Computer Equipment	Total Furniture and Equipment
Balance at January 1, 2018	-	(1,522,863)	(207,590)	-	(1,730,453)
Depreciation expense	-	(97,508)	(44,251)	(378,061)	(519,820)
Disposals	-	-	-	-	-
Impact of foreign currency consolidation	-	(33)	65	272	304
Balance at December 31, 2018	-	(1,620,404)	(251,776)	(377,789)	(2,249,969)
Depreciation expense	**(269,518)**	**(78,412)**	**(71,398)**	**(560,918)**	**(980,246)**
Disposals	**1,240**	**-**	**-**	**-**	**1,240**
Impact of foreign currency consolidation	**-**	**(32)**	**-**	**-**	**(32)**
Balance at December 31, 2019	**(268,278)**	**(1,698,848)**	**(323,174)**	**(938,707)**	**(3,229,007)**

Net book value	Right-of-use Asset	Computer Equipment	Furniture and Equipment	TaaS Computer Equipment	Total Furniture and Equipment
Balance at December 31, 2018	-	169,859	125,476	987,167	1,282,502
Balance at December 31, 2019	**$419,010**	**$565,373**	**$95,968**	**$552,923**	**$1,633,274**

December 31, 2019 and 2018 (stated in Canadian dollars)

As at December 31, 2019, the net book value of Technology as a Service (“TaaS”) assets was $552,923 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 year ended December 31, 2019, depreciation and amortization expense of $1,123,752 (December 31, 2018 - $668,645) was recognized in general administration expense.

7. INTANGIBLE ASSETS

Cost	**Patents**	**Software**	**Brand**	**Customer Relationships**	**Vendor Relationships**	**Trademarks & Tradenames**	**Total Intangible Assets**
Balance at January 1, 2018	$ 93,388	$ 592,099	$ 81,136	$ -	$ -	$ -	$ 766,623
Additions	58,462	14,460	28,781	-	-	-	101,703
Additions from acquisition	-	-	-	343,353	-	-	343,353
Disposals	-	-	-	-	-	-	-
Balance at December 31, 2018	151,850	606,559	109,917	343,353	-	-	1,211,679
Additions	**38,416**	**52,961**	**12,308**	**-**	**-**	**-**	**103,685**
Additions from acquisition	**-**	**-**	**-**	**163,588**	**458,045**	**163,588**	**785,221**
Balance at December 31, 2019	**190,266**	**659,520**	**122,225**	**506,941**	**458,045**	**163,588**	**2,100,585**

Accumulated depreciation and impairment	**Patents**	**Software**	**Brand**	**Customer Relationships**	**Vendor Relationships**	**Trademarks & Tradenames**	**Total Intangible Assets**
Balance at January 1, 2018	(25,728)	(443,544)	(71,337)	-	-	-	(540,609)
Depreciation expense	(7,385)	(92,640)	(14,184)	(34,616)	-	-	(148,825)
Impact of foreign currency consolidation	-	-	-	(34)	-	-	(34)
Balance at December 31, 2018	(33,113)	(536,184)	(85,521)	(34,650)	-	-	(689,468)
Depreciation expense	**(9,306)**	**(54,581)**	**(21,379)**	**(30,360)**	**(23,139)**	**(6,611)**	**(145,376)**
Balance at December 31, 2019	**(42,419)**	**(590,765)**	**(106,900)**	**(65,010)**	**(23,139)**	**(6,611)**	**(834,844)**

Net book value	**Patents**	**Software**	**Brand**	**Customer Relationships**	**Vendor Relationships**	**Trademarks & Tradenames**	**Total Intangible Assets**
Balance at December 31, 2018	118,737	70,375	24,396	308,703	-	-	522,211
Balance at December 31, 2019	**$ 147,847**	**$ 68,755**	**$ 15,326**	**$ 441,931**	**$ 434,906**	**$ 156,977**	**$ 1,265,741**

December 31, 2019 and 2018 (stated in Canadian dollars)

8. GOODWILL

A summary of the Company's goodwill is as follows:

Balance, January 1, 2018	$ -
Acquisition of GMI (note 12)	461,889
Balance at December 31, 2018	461,889
Acquisition of PCS (note 13)	**1,557,142**
Balance at December 31, 2019	**$2,019,031**

Management has determined that both GMI and PCS are CGUs. Accordingly, the amounts noted above for goodwill generated by the acquisition are also the carrying amount of the goodwill allocated to the CGUs.

For the year ended December 31, 2019, the Company determined that for both the GMI CGU and the PCS CGU the recoverable amount was higher than their carrying amount. The recoverable amounts of the CGUs were determined based on value-in-use calculations, using management's discounted cash flow projections over a period of 5 years. In calculating the recoverable amount of the CGUs, a pre-tax discount rate is used. The pre-tax discount rate applied was 12%, which was set considering the average borrowing cost of the Company and certain risk premiums, based on management's past experience.

These assumptions are subjective judgements based on the Company's experience, knowledge of operations and knowledge of the economic environment in which it operates. If future cash flow projections, long-term growth rates or pre-tax discount rates are different to those used, it is possible that the outcome of future impairment tests could result in a different outcome with a CGU's goodwill being impaired.

9. TECHNOLOGY AS A SERVICE (TAAS) 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	$1,137,939
Later than one year and not later than five years	265,544
Later than five years	-
	$1,403,483

For the year ended December 31, 2019, the Company recognized TaaS revenue of $1,292,090 (December 31, 2018 - $884,122).

10. 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 year ended December 31, 2019, were $1,289,016 (December 31, 2018 - $841,308).

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

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

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

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

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

On July 2, 2018 a court hearing was held to define certain claim terms of the 216 Patent (the "Markman Hearing"). The court provided its Memorandum Opinion to the parties on July 25, 2018.

In December 2018, Route1 Inc. commenced a patent infringement lawsuit in Canada against VMware, Inc., asserting that at least five claims of Route1's patent was infringed. The case has since proceeded and Route1 Inc. has received further disclosure from VMware, Inc. As a result, on March 11, 2020 Route1 Inc. filed an amended Statement of Claim increasing the number of infringed claims from Route1's patent from five to thirty-four. The Canadian lawsuit continues to proceed, with inventor and corporate examinations having been conducted in Toronto, Ontario and Chandler, Arizona. Route1 continues to work with its counsel to build its case in preparation for trial before the Federal Court of Canada.

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. Briefing on the appeal was 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. On March 31, 2020, the district court entered an order granting AirWatch's request for attorneys' fees in part, and directing further submissions from the parties regarding the amount of fees to be awarded.

11. 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 liability within the consolidated financial statements. All such amounts are non-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 fourth quarter of 2019, the Company and Bench Walk agreed that Bench Walk would not fund the legal expenses for the appeal of the Delaware District Court's summary judgment decision rendered in August 2019. If the appeal is successful, Bench Walk will reimburse the Company for its portion of the expenses incurred.

During 2019, the Company received $659,349 (US $497,514) as a reimbursement of expenses incurred from January 1, 2019 to December 31, 2019 (January 1, 2018 to December 31, 2018 – $239,296 (US $191,212)). The Company has received $898,645 (US $688,726) under the funding agreement to date.

12. BUSINESS COMBINATION – GMI

On March 22, 2018, the Company completed the acquisition of 100% of the membership interest of GMI 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, GMI 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 GMI 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 GMI'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 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 GMI as outlined in the Membership Purchase Agreement. The fair value of the warrants, using the Black Scholes method, was $0.0178 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 GMI is in excess of US $3,750,000 per 12-month period, the seller will receive 27.5% of the actual gross profit amount greater than US $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 GMI gross profit for the first 36 months post-closing that is in excess of US $11,250,000 less any annual earn-out amounts previously paid. The gross profit target has not been met in either of the first two measurement years.

The acquisition of GMI 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 GMI have been expensed and are included in operating expenses in the consolidated statements of comprehensive income.

GMI contributed incremental revenue of $21,322,657 (US $16,339,598) and gross profit of $3,718,382 (US $2,856,739) for the year ended December 31, 2018. GMI's contribution to revenue and gross profit had the acquisition occurred as of January 1, 2018, in management's opinion, is not reliably determinable.

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.

December 31, 2019 and 2018 (stated in Canadian dollars)

As at March 22, 2018

Assets Acquired	US Dollars	Canadian Dollars
Cash and cash equivalents	$246,268	$317,883
Accounts receivable	1,238,839	1,599,094
Inventory	491,241	634,094
Prepaid expenses	3,037	3,920
Current Assets	1,979,385	2,554,991
Furniture and equipment	46,885	60,518
TaaS assets	741,716	957,406
Intangible assets	266,000	343,353
Goodwill	357,832	461,889
Non-current Assets	1,412,433	1,823,167
Total assets	$3,391,818	$4,378,158
Liabilities Assumed		
Accounts payable	$2,108,564	$2,721,734
Employee liabilities	226,117	291,872
Sales tax payable	56,117	72,436
Contract liability	271,241	350,118
Total liabilities	$2,662,039	$3,436,160
Fair value of net assets acquired	$729,779	$942,000
Net consideration issued	$729,780	$942,000

13. BUSINESS COMBINATION – PCS

On June 28, 2019, the Company completed the acquisition of 100% of the outstanding shares of PCS. 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.

The purchase consideration has been accounted for as follows:

Cash	$1,347,961
Notes payable, discounted	1,207,962
Common shares, discounted	456,960
	$3,012,883

Based in Denver, Colorado, PCS 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 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 $309,009 and $898,953, respectively.

The acquisition of PCS 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 represents the purchase price paid in excess of the fair value of the assets acquired is not tax deductible. The goodwill is attributed to the workforce and profitability of PCS. Transaction costs of $73,780 related to the acquisition of PCS have been expensed and included in operating expenses in the consolidated statements of comprehensive income.

PCS has contributed incremental revenue of $8,841,261 and gross profit of $1,950,182 for the six months ended December 31, 2019. PCS's contribution to revenue and gross profit had the acquisition occurred as of January 1, 2019, in management's opinion, is not reliably determinable.

December 31, 2019 and 2018 (stated in Canadian dollars)

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.

	Initial Allocation		Adjustments		Final Allocation	
Assets Acquired	**US Dollars**	**Canadian Dollars**	**US Dollars**	**Canadian Dollars**	**US Dollars**	**Canadian Dollars**
Cash and cash equivalents	$198,029	$259,161	$1,105	$1,446	$199,134	$260,607
Accounts receivable	1,347,573	1,763,569	67,269	88,035	1,414,842	1,851,604
Inventory	725,600	949,593	119,964	156,996	845,564	1,106,589
Prepaid expenses	24,062	31,490	(7,273)	(9,519)	16,789	21,971
Current assets	2,295,264	3,003,813	181,065	236,958	2,476,329	3,240,771
Furniture and equipment	56,280	73,654	(10,427)	(13,646)	45,853	60,008
Intangible assets	700,000	916,090	(100,000)	(130,869)	600,000	785,221
Goodwill	1,081,049	1,414,769	108,790	142,373	1,189,839	1,557,142
Non-current assets	1,837,329	2,404,513	(1,637)	(2,142)	1,835,692	2,402,371
Total assets	4,132,593	5,408,326	179,428	234,816	4,312,021	5,643,142
Liabilities Assumed						
Accounts payable and other liabilities	1,604,685	2,100,054	97,463	127,548	1,702,148	2,227,602
Contract liability	225,712	295,389	(65,635)	(85,896)	160,077	209,493
Deferred tax liability	-	-	147,600	193,164	147,600	193,164
Total liabilities	1,830,397	2,395,443	179,428	234,816	2,009,825	2,630,259
Fair value of net assets acquired	2,302,196	3,012,883	-	-	2,302,196	3,012,883
Net consideration issued	$2,302,196	$3,012,883	$-	$-	$2,302,196	$3,012,883

Significant adjustments made to the initial allocation are as follows:

- Recognition of a deferred tax liability of $147,600 related to timing differences on intangible assets
- Accounts receivable were increased by $88,035 as result of recording additional amounts owing from customers at acquisition.
- Inventory was increased by $156,996 due to higher than anticipated amounts on products on hand for delivery to customers.
- Intangible assets were decreased by $130,869 due to the assessment that certain employment contracts did not have ongoing value to the Company.
- Accounts payable and other liabilities were increased by $127,548 due to the discovery of unrecorded customer deposits and accounts payable.
- Contract liability was reduced by $130,870 due to the revaluation of certain service contracts

December 31, 2019 and 2018 (stated in Canadian dollars)

14. BANK INDEBTEDNESS

On June 24, 2019, the Company increased its credit facility, consisting of a revolving demand facility in the amount of $875,000 (December 31, 2018 - $500,000) and a $100,000 credit card facility (December 31, 2018 - $100,000). The operating facility carries an interest rate equal to the lender's prime rate of interest plus 1.5% (December 31, 2018 – prime rate of interest plus 1%). As at December 31, 2019, the interest rate was 5.45%. The credit facility is secured by the assets of Route1 Inc. and guaranteed by GMI. As at December 31, 2019, the balance drawn on the revolving demand facility was $799,812 (December 31, 2018 - $nil).

On June 28, 2019, the Company's wholly owned subsidiary, 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. As at December 31, 2019, the interest rate was 6.0%. 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. As at December 31, 2019, the balance drawn on the revolving demand facility was $559,883.

PCS is required to maintain a Fixed Charge Coverage Ratio of greater or equal to 1.10:1. At December 31, 2019, PCS was in compliance with this covenant.

15. CONTRACT LIABILITY

Contract liability is comprised of:

	December 31, 2019	December 31, 2018
Subscription revenue and services – current	**$1,750,169**	$1,540,297
Subscription revenue and services – long-term	**158,146**	147,092
Total contract liability	**$1,908,315**	$1,687,389

Subscription revenue and services contract liability is mainly comprised of subscriptions to MobiKEY© services and support contracts for license plate recognition customers.

16. NOTES PAYABLE

	December 31, 2019
Promissory note A (US $250,000; due 2022)	$324,700
Promissory note B (US $720,000; due 2022)	779,280
	1,103,980
Less: unamortized deferred debt discount	(48,310)
	1,055,670
Less: current portion of notes payable	(388,014)
	$667,656

The U.S. dollar denominated debt was translated into Canadian dollars at the period end exchange rate of US $1 = C $1.2988.

December 31, 2019 and 2018 (stated in Canadian dollars)

Pursuant to the acquisition of 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
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
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, GMI.

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

	Cash Repayment	Reduction of Recorded Liability
2020	$415,616	$388,014
2021	415,616	399,634
2022	272,748	268,022
	$1,103,980	$1,055,670

17. 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 1,608,700 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 December 31, 2019 were 382,000 common shares.

For the year ended December 31, 2018, the Company purchased 913,841 shares for cancellation under various NCIBs at an average price of approximately $0.46 per share.

December 31, 2019 and 2018 (stated in Canadian dollars)

For the year ended December 31, 2019, the Company purchased 1,624,100 shares for cancellation under the NCIBs at an average price of approximately $0.39 per share.

18. SHARE CAPITAL, WARRANTS AND CONTRIBUTED SURPLUS

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. As a result of the share consolidation, all amounts have been adjusted retroactively.

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.

	Number of Common Shares	**Common Shares $**
Balance, January 1, 2018	34,719,341	$22,150,751
Shares issued March 22, 2018	2,500,000	408,000
Shares repurchased for cancellation	(913,841)	(416,349)
Balance, December 31, 2018	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	**(1,624,100)**	**(634,573)**
Share issuance costs	**-**	**(8,810)**
Balance, December 31, 2019	**35,905,100**	**$22,042,233**

- 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.

December 31, 2019 and 2018 (stated in Canadian dollars)

Warrants Outstanding

	Number of Warrants	Warrant $
Balance, January 1, 2018	-	$ -
Issued as partial consideration for the acquisition of GMI	30,000,000	534,000
Exercised	-	-
Expired	-	-
Balance, December 31, 2018	30,000,000	534,000
Issued	**-**	**-**
Exercised	**-**	**-**
Expired	**-**	**-**
Balance, December 31, 2019	**30,000,000**	**$534,000**

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 GMI	$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 GMI. A total fair value of $534,000 was determined.

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.

December 31, 2019 and 2018 (stated in Canadian dollars)

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

Options Outstanding	**December 31, 2019** Number of Options	**December 31, 2019** Weighted Average Exercise Price	December 31, 2018 Number of Options	December 31, 2018 Weighted Average Exercise Price
Balance, beginning of the year	**2,637,700**	**$0.53**	2,768,900	$0.53
Options granted during the year	**1,180,000**	**0.60**	800,000	0.54
Options expired during the year	**(87,500)**	**0.50**	-	-
Options exercised during the year	**(103,700)**	**0.50**	-	-
Options forfeited during the year	**(229,000)**	**0.60**	(931,200)	0.53
Balance, end of the year	**3,397,500**	**$0.55**	2,637,700	$0.53

The average trading price at the time of the exercise of the options noted above was $0.65 per share.

Exercise Price	**Options Outstanding December 31, 2019** Number of Options	**Options Outstanding December 31, 2019** Weighted Average Remaining Contractual Life (Years)	**Options Exercisable December 31, 2019** Number of Options	**Options Exercisable December 31, 2019** Weighted Average Remaining Contractual Life (Years)
$0.50	**1,222,500**	**2.9**	**642,500**	**1.7**
$0.55	**1,475,000**	**0.7**	**1,335,000**	**0.5**
$0.65	**700,000**	**4.3**	**-**	**-**
	3,397,500	**2.2**	**1,977,500**	**0.8**

Exercise Price	Options Outstanding December 31, 2018 Number of Options	Options Outstanding December 31, 2018 Weighted Average Remaining Contractual Life (Years)	Options Exercisable December 31, 2018 Number of Options	Options Exercisable December 31, 2018 Weighted Average Remaining Contractual Life (Years)
$0.50	**1,037,700**	**2.5**	572,700	1.7
$0.55	**1,600,000**	**1.7**	1,400,000	1.3
	2,637,700	**2.0**	1,972,700	1.4

For the year ended December 31, 2019, the Company recorded stock-based compensation expense of $322,569 (December 31, 2018 - $144,440).

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.

December 31, 2019 and 2018 (stated in Canadian dollars)

All outstanding share options expected to vest 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.

Option Valuation

	2019	2018
Share price on issue date	**$0.50 - $0.70**	$0.50 - $0.55
Risk free interest rate	**2.06%**	2.06%
Expected life (years)	**5**	5
Expected volatility	**193%**	201% - 202%
Forfeiture rate	**Nil**	Nil
Dividend yield	**Nil**	Nil
Fair value of options issued during the year	**$0.484 – $0.68**	$0.488 - $0.537

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.

	December 31, 2019	December 31, 2018
Balance, beginning of the year	**$14,552,696**	$14,408,256
Options expensed in the year	**322,569**	144,440
Options exercised in the year	**(34,404)**	-
Balance, end of the year	**$14,840,861**	$14,552,696

19. 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. 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 $185,979 for the period between January 1, 2019 and May 31, 2019 (December 31, 2018 - $378,550). From June 1, 2019 through December 31, 2019, Mr. Busseri was employed by the Company and payments made are included as part of key management. The Company also incurred stock-based compensation expense in the amount of $1,535 (December 31, 2018 - $9,916).

December 31, 2019 and 2018 (stated in Canadian dollars)

- The Company incurred expenses (including CPP and EHT) payable to and on behalf of the independent members of the Board of Directors of $355,379 (December 31, 2018 - $308,834). These transactions are in the normal course of operations and are paid or payable for directorship services. As at December 31, 2019, accounts payable included $102,088 owing to directors (December 31, 2018 - $90,342). The Company also incurred stock-based compensation expense related to stock options granted to directors in the amount of $94,678 (December 31, 2018 - $20,976).
- 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 year ended December 31, 2019 as follows, with 2018 comparatives.

	December 31, 2019	December 31, 2018
Short-term employee benefit	**$884,475**	$733,920
Stock-based compensation expense	**62,353**	56,863
	$946,828	$790,783

20. 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. For the years ended December 31, 2019 and 2018 all outstanding options and warrants were considered anti-dilutive because the Company recorded a loss over these years.

	Year Ended December 31, 2019	Year Ended December 31, 2018
Net loss	**($554,177)**	($434,344)
Weighted average number of common shares outstanding	**36,415,781**	36,367,106
Basic and diluted loss per share	**($0.02)**	($0.01)

21. 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.

22. 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 share capital, warrant reserve and contributed surplus as capital, the balance of which is $37,417,094 at December 31, 2019 ($37,229,098 at December 31, 2018).

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.

In the normal course of business operations of 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 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.

23. FINANCIAL INSTRUMENTS - RISK MANAGEMENT

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within a three-level hierarchy, based on observability of significant inputs, as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; or
Level 3: Unobservable inputs for the asset or liability.

Inputs into the determination of the fair value require management judgment or estimation. The Company's notes payable are valued using Level 2 inputs, such as the market rate of interest for a similar security.

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	
Other receivables	Yes		Yes	
Bank indebtedness		Yes	Yes	Yes
Accounts payable and other liabilities		Yes	Yes	
Notes payable		Yes	Yes	

Credit risk

Credit risk arises from cash held with banks and credit exposure to customers, including outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value (net of allowances) of the financial assets. The objective of managing credit risk is to prevent losses on financial assets. The Company assesses the credit quality of counterparties, taking into account their financial position, past experience and other factors. During the year ended December 31, 2019, the largest single customer represented approximately $2,651,000 of revenue (December 31, 2018 - $8,392,000).

Cash and cash equivalents consist of bank balances. Credit risk associated with cash is minimized substantially by ensuring that these financial assets are held in highly rated financial institutions. At

December 31, 2019 and 2018 (stated in Canadian dollars)

December 31, 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 $125,544 (December 31, 2018 - $1,073,195).

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 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. Subsequent recoveries of amounts previously written off reduce other expenses in the statement of comprehensive income. As at December 31, 2019, the largest single customer's account receivable represented $1,148,251 (December 31, 2018 – $304,380) of the total accounts receivable. This account receivable was collected in full subsequent to the year end.

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

	December 31, 2019	December 31, 2018
Current	**$3,704,055**	$1,644,057
Past due		
1 – 60 days	**1,066,043**	201,534
Greater than 60 days	**194,517**	13,160
Less: Allowance for doubtful accounts	**-**	-
Total accounts receivable, net	**$4,964,615**	$1,858,751

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.

December 31, 2019 and 2018 (stated in Canadian dollars)

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 marketplace. The following table details the Company's contractual maturities for its financial liabilities, including interest payments and operating lease commitments, as at December 31, 2019:

	2020	2021	2022 and Beyond	Total
Accounts payable and other liabilities	$5,147,494	$439,860	$-	$5,587,354
Notes payable	415,616	415,616	272,748	1,103,980
Lease commitments	650,844	445,692	36,050	1,132,586
	$6,213,954	$1,301,168	$308,798	$7,823,920

Bank indebtedness does not have a contractual maturity and as such has not been included in the above table.

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 December 31, 2019, the Company had non-Canadian dollar net monetary assets of approximately US $443,000 (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 December 31, 2019 would have resulted in a gain or loss in the amount of $22,150 (December 31, 2018 – gain or loss of $137,650).

Interest rate

The Company has cash balances and bank indebtedness which may be exposed to interest rate fluctuations. At December 31, 2019, cash balances were $125,544 (December 31, 2018 - $1,073,195), bank indebtedness balances were $1,359,695 (December 31, 2018 – $nil) and the interest rate sensitivity is not material.

December 31, 2019 and 2018 (stated in Canadian dollars)

24. INCOME TAXES

The Company has increased the benefit of deferred tax asset recognized for its Canadian entity Route1 Inc. to $1,484,000 after previously recognizing $742,067, an increase of $741,933. No deferred tax assets have been recognized on the U.S. operations. The recognition of the deferred tax asset in Canada is based on the unused tax losses that are considered to be offset against the Canadian entity's taxable profits expected to arise in the foreseeable future. Management has based its assessment on the budget previously approved, its ability to meet this budget and its forecast moving forward. The analysis of the Company's deferred tax assets and deferred tax liabilities is as follows:

	Dec 31, 2019	Dec 31, 2018
Deferred tax assets		
Property, furniture and equipment and intangible assets	**$1,228,447**	$1,053,146
Tax losses carry-forwards	**4,331,196**	4,645,557
Unamortized Scientific Research and Development Pools	**3,431,732**	3,195,765
Investment Tax Credit	**3,208,715**	3,039,636
Other	**284,832**	137,036
Deferred tax asset	**12,484,922**	12,071,140
Deferred tax asset not recognized	**(11,000,922)**	(11,329,073)
	$1,484,000	$742,067
Deferred tax liability		
Intangible assets acquired in the acquisition of PCS	**$193,164**	-

The Canadian income tax recovery was $741,933 due to recognition of deferred tax assets. The Canadian federal tax is 15.0% and the Ontario rate is 11.5% (combined rate of 26.5%). The US subsidiaries have a tax payable of $68,783 due to state minimum taxes. The US federal rate of 21.0% plus a representative state tax rate of 3.6% was used to calculate a blended tax rate of 25.2% in 2019 (2018 – 24.4%) based on the respective Canadian/US income or losses before tax.

	2019	2018
Loss before tax	**($1,227,327)**	($434,344)
Blended domestic and foreign tax rate for the Company	**25.2%**	25.8%
Expected tax recovery	**309,286**	112,061
U.S. state taxes paid	**(68,783)**	-
Adjustment for utilization of tax loss carryforwards	**386,852**	240,906
Adjust for tax loss carryforwards generated in the current year	**(118,315)**	(73,500)
Increase in recognition of deferred tax asset	**741,933**	-
Adjustment for temporary differences	**(499,566)**	(213,783)
Adjustment for non-deductible expenses	**(78,257)**	(65,684)
Actual tax recovery	**$673,150**	$ -

December 31, 2019 and 2018 (stated in Canadian dollars)

Tax (expense) recovery comprises:		
- Current tax expense	**($68,783)**	**$-**
- Deferred tax expense	**741,933**	**-**
Tax recovery	**$673,150**	**$-**

The Company has non-capital losses for tax purposes of approximately $14,631,000 that may be used to reduce Canadian taxable income in the future. Some of the potential tax benefits pertaining to these tax losses have been recognized in the financial statements. If not fully utilized, these losses will expire as follows:

2026	$1,147,000
2027	7,309,000
2028	4,078,000
2029	2,097,000
	$14,631,000

The Company has net operating loss for the tax purposes of approximately $2,121,000 that may be used to reduce US taxable income in the future. The tax benefits pertaining to these losses have not been recognized in the financial statements. If not utilized, these losses will expire as follows:

2034	$400,000
2035	1,051,000
Remaining	670,000
	$2,121,000

The remaining losses of $670,000 do not expire, but cannot be used to offset more than 80% of taxable income in the year.

25. REVENUE AND SEGMENTED INFORMATION

Revenue for the recurring revenue and services is reported as a 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 December 31, 2019, the Company had $1,908,315 (December 31, 2018 - $1,687,389) in contract liability.

The following table provides a presentation of the Company's revenue streams for the year ended December 31, 2019 and 2018:

	2019		2018	
	Revenue	**% of Total**	Revenue	% of Total
Subscription revenue and services	**$7,833,425**	**32.6**	$6,209,378	23.7
Devices and appliances	**16,168,992**	**67.4**	19,972,143	76.1
Other	**7,208**	**0.0**	49,225	0.2
	$24,009,625	**100.0**	$26,230,746	100.0

December 31, 2019 and 2018 (stated in Canadian dollars)

The following table provides a geographic presentation of the Company's revenue streams for the year ended December 31, 2019 and 2018:

	2019		2018	
	Revenue	**% of Total**	Revenue	% of Total
USA	**$23,852,020**	**99.3**	$25,967,905	99.0
Canada	**157,605**	**0.7**	262,841	1.0
	$24,009,625	**100.0**	$26,230,746	100.0

The following table provides a geographic presentation of the Company's right-of-use assets, furniture and equipment and intangible assets for the year ended December 31, 2019 and 2018:

	2019		2018	
	Assets	**% of Total**	Assets	% of Total
USA	**$1,866,553**	**65.5**	$1,342,352	74.4
Canada	**1,032,462**	**34.5**	462,361	25.6
	$2,899,015	**100.0**	$1,804,713	100.0

26. SUBSEQUENT EVENTS

Since December 31, 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including Canada, businesses are being forced to cease or limit operations for long or indefinite periods of time. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

The Company has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended December 31, 2019 have not been adjusted to reflect their impact.

The COVID-19 pandemic has affected the Company's business both positively and negatively. The Company's secure remote access technology has benefited from the requirements to telework. Sales of MobiKEY© subscriptions and related enabling devices have increased and will be primarily reflected in the financial results for the second quarter of 2020 and beyond as many of the new MobiKEY© sales transpired in the last two weeks of March 2020 and into the second quarter.

The impact of COVID-19 on the balance of Company's business was the disruption in the hard good supply chain in January and February 2020 that has subsequently been corrected, client facility shutdowns and deferral of installation services for certain license plate recognition projects.

On April 9, 2020, Route1 hired three employees from MobileTek Consulting LLC being all of the remaining employees of MobileTek. In addition, all of the un-invoiced customer purchase orders as well as some inventory will become part of Route1's ongoing ruggedized device business. No consideration was exchanged in this transaction.