

ROUTE1 INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2019

As at April 22, 2020

The following discussion and analysis of the financial condition and results of operations (this “**MD&A**”) of Route1 Inc. (also referred to as “**we**”, “**us**”, “**our**”, “**Route1**”, or the “**Company**”), should be read in conjunction with the Company’s consolidated financial statements and related notes as at and for the year ended December 31, 2019. These consolidated financial statements, including comparatives, have been prepared in accordance with the International Financial Reporting Standards (“**IFRS**”) issued by the International Accounting Standards Board (“**IASB**”) and Interpretations of the International Financial Reporting Interpretations Committee (“**IFRIC**”).

This Management Discussion & Analysis (“**MD&A**”) has been reviewed and approved by the Company’s Board of Directors prior to filing.

The information in this MD&A is current to April 22, 2020 and all amounts are in Canadian dollars, unless otherwise noted.

FORWARD-LOOKING STATEMENTS

The following discussion may contain forward-looking statements about matters that involve risks and uncertainties, such as statements of Route1’s plans, objectives, expectations and intentions, as well as financial trends. The discussion also includes cautionary statements about these matters. You should read the cautionary statements made below as being applicable to all forward-looking statements wherever they appear in this document. In drawing a conclusion or making a forecast or projection set out in the forward-looking information, the Company takes into account the following material factors and assumptions in addition to the above factors: the Company’s ability to execute on its business plan; the integration of acquired businesses; the acceptance of the Company’s devices and services by its customers; the timing of execution of outstanding or potential customer orders by the Company; the sales opportunities available to the Company; the Company’s subjective assessment of the likelihood of success of a sales lead or opportunity; the Company’s historic ability to generate sales leads or opportunities; and that sales will be completed at or above the Company’s estimated margins. This list is not exhaustive of the factors that may affect our forward-looking information. These and other factors should be considered carefully and readers should not place undue reliance on such forward-looking information.

Factors that could cause Route1’s actual results to differ materially from the forward-looking statements are contained herein and include, but are not limited to, overall economic conditions, competitive pressures, successfully integrating acquired businesses and unexpected technology changes. Additional information concerning risks and uncertainties affecting Route1’s business and other factors that could cause financial results to fluctuate is set forth later in this document, as well as elsewhere herein, and is contained in Route1’s filing with Canadian securities regulatory authorities, available on the SEDAR website (www.sedar.com) under Route1 Inc. and on the Company’s website (www.route1.com).

This MD&A includes additional disclosures on the critical accounting policies and estimates, additional disclosure on the quarterly selected financial information, additional discussion and analysis on the factors

affecting the Company's financial performance, additional disclosure on future liquidity and capital needs including the addition of a tabular presentation of contractual obligations, additional disclosure on the last eight quarters, and details of related party transactions. The Company does not believe that any of the additional information provided, and that has not been otherwise disclosed in other filings, is material in nature.

INTELLECTUAL PROPERTY NOTICES

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OVERVIEW

Route1, also operating under the tradenames GroupMobile and PCS Mobile, is an advanced North American technology company that empowers their clients with data-centric solutions necessary to drive greater profitability, improve operational efficiency and gain sustainable competitive advantages, while always emphasizing a strong cybersecurity and information assurance posture. Route1 delivers exceptional client outcomes through real-time secure delivery of actionable intelligence to decision makers, whether it be in a manufacturing plant, in-theater or in a university parking lot.

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.

HIGHLIGHTS

On January 21, 2019, the Company announced the release of MobiKEY for iOS v. 5.4.51 with support for the U.S. Department of Defense, Defense Information Systems Agency's ("DISA") Purebred technology.

On April 25, 2019, the Company announced its fourth quarter and fiscal year financial results for the period ended December 31, 2018. Total revenue for the year was \$26,230,746, Adjusted EBITDA was \$144,000 and the net loss for the year was \$434,344.

On June 14, 2019, the Company announced that it signed an agreement to acquire Portable Computer Systems, Inc (“PCS Mobile”) for US \$2.5 million:

- PCS Mobile is a computer reseller with expertise in mobile data applications, including wireless products for in-vehicle use. The company offers guidance and state-of-the-art mobile devices for a wide range of applications including utilities, telecommunications, field services, insurance, healthcare, Fire/EMT, police and public safety as well as state and local government.
- Based on prior year’s results, Route1 expects PCS Mobile to add annualized revenue of approximately US \$15 million with a gross margin of 14% to 16%. The EBITDA contribution from PCS Mobile is expected to be consistent with current Route1 results.
- The addition of Genetec’s license plate recognition (LPR) solutions enhances Route1’s data security and data analytics portfolio of application software owned or resold with application enhancements.
- Route1 will pay US \$1,030,000 in cash, US \$500,000 in Route1 common shares, US \$250,000 in an unsecured note, Note A, and US \$720,000 in an unsecured note, Note B.
- Route1 is acquiring PCS Mobile to bring the “new” GroupMobile business model to the southwestern US – geographic expansion, add to the size and quality of the GroupMobile sales team, and leverage PCS Mobile’s current and future placement of rugged mobile devices and license plate recognition technology.

On June 28, 2019, the Company closed the purchase of PCS Mobile, which was previously announced on June 14, 2019.

On July 26, 2019, the Company announced that it intends to apply to the Toronto Venture Exchange in order to consolidate its outstanding common shares on the basis of one new share for ten existing shares.

- Upon completion of the share consolidation, and using the common shares outstanding count of 373,455,000 on July 26, 2019, Route1 will have 37,345,500 common shares outstanding.
- The proposed share consolidation is subject to all regulatory approvals. The shareholders of the Company previously authorized the Company to undertake a share consolidation at the annual and general and special meeting held on November 26, 2018.

On August 8, 2019, The Company provided an update on its litigation with AirWatch LLC (“AirWatch”) and a business update:

Air Watch Litigation

- On August 7, 2019, after the stock market closed, Route1 was provided with an order that was issued by the Honorable Kent A. Jordan, in relation to Route1’s action against AirWatch in federal court in Delaware alleging that AirWatch is infringing Route1’s U.S. Patent No 7,814,216.
- The order granted AirWatch’s motion for summary judgement of non-infringement (the “Order”). Route1 is considering the impact of the Order and its’ next steps, and will provide shareholders with timely information and the Company’s plan of action, once it is determined.

Business Update

- In July 2019, Route1 had revenue of approximately CAD \$3.9 million and gross profit of CAD \$1.1 million. These operating results include a full month of operational activity after the PCS Mobile acquisition.
- Route1’s patent-pending ScreenSTOP powered by MobiNET’s intelligent in-motion detection technology solution allows for sub-one-second screen masking for vehicles in motion, eliminating the hazards associated with in-vehicle computer displays installed on forklifts and other apparatuses both in forward or reverse movement.
- ScreenSTOP powered by MobiNET, eliminates deficiencies of motion detection techniques that have drawbacks including taking far too long to respond to vehicle movement, false vibration activations and weak signal detection by GPS receivers that are placed indoors.

On August 9, 2019, The Company announced that it had received conditional approval from the TSX Venture Exchange for the previously announced share consolidation:

- Effective at the opening of the market on Tuesday, August 13, 2019, the common shares of Route1 will commence trading on the TSX Venture Exchange on a consolidated basis.
- Route1 will consolidate its common shares outstanding on a ten (10) old for one (1) new basis. On the opening of the market on August 13, 2019, and using common shares outstanding of 369,689,000 as of August 9, 2019, Route1 will have 36,968,900 common shares outstanding.

On August 28, 2019, The Company announced its financial results for the period ended June 30, 2019.

- Route1 generated net cash flow from operating activities of approximately \$0.97 million during Q2 2019 compared with cash generated from operating activities of \$0.57 million in Q2 2018.
- Non-cash working capital generated was \$1.17 million in Q2 2019 compared to \$0.33 million of cash generated in the same period a year earlier.
- Net cash used by the day-to-day operations for the three months ended June 30, 2019 was \$0.21 million compared to cash generated of \$0.24 million in Q1 2018.

Dr. Barry West joins the Board

- Dr. Barry West is a career technologist and business leader with over 30 years in the information technology field with an emphasis on cybersecurity and cloud computing.
- Barry is currently the Founder and CEO of West Wing Advisory Services, LLC. Dr. West retired in May 2018 as the Senior Advisor and Senior Accountable Official for Risk Management at the U.S. Department of Homeland Security (“DHS”). This included spearheading the Cybersecurity Executive Order.
- In all, Barry has 28 years of US Government service including being the Chief Information Officer at six different US Government agencies or organizations: Federal Deposit Insurance Corporation, the Pension Benefit Guaranty Corporation, the Department of Commerce, Federal Emergency Management Agency during Hurricane Katrina, and the National Weather Service. He also was briefly the Acting Deputy CIO at DHS prior to his retirement.

On September 20, 2019, The Company announced the launch of its new solution ScreenSTOP powered by MobiNET, the first of its kind technology in the manufacturing, warehousing and logistics marketplace.

- ScreenSTOP provides the ability to “mask” the on-board computer screen instantly to prevent user distraction during the operation of heavy lift vehicles.
- Previously, the only technologies available were those able to “blank” the screen with a longer reaction time of between three (3) to seven (7) seconds, an all or nothing scenario versus Route1’s ScreenSTOP “masking” which allows customizable content such as next stop to be visible through the masked screens delivered with millisecond reaction times.
- ScreenSTOP provides heavy lift vehicles operators with the ability to get their work done on schedule with no obstacles or lag time and fewer distractions.

On September 24, 2019, The Company announced that it has provided the TSX Venture Exchange (the “Exchange”) its Notice of Intention (the “Notice”) to move forward with a further normal course issuer bid (“NCIB”), subject to approval by the Exchange.

- The Notice provides that Route1 may, during the 12-month period commencing September 27, 2019 and ending September 26, 2020, purchase on the Exchange up to 1,816,855 common shares in total, being approximately 5% of the outstanding common shares as at September 23, 2019.
- The price which Route1 will pay for any such shares will be the market price at the time of acquisitions, provided, however, that Route1 will not pay more than \$0.60 per common share. The

actual number of common shares which may be purchased pursuant to the NCIB and the timing of any purchases will be determined by management of Route1.

- All common shares purchased pursuant to the NCIB will be purchased for cancellation, and all such purchases will be made on the open market through the facilities of the Exchange. The NCIB will be conducted through Paradigm Capital Inc., a member of the Exchange.

On October 7, 2019, The Company provided an update on its litigation with AirWatch LLC (“AirWatch”).

- Route1 appealed to the United States Court of Appeals for the Federal Circuit from the district court’s August 7, 2019 decision finding that AirWatch has not infringed Route1’s U.S. Patent No 7,814,216.
- That district court’s decision became appealable after the stipulated dismissal of AirWatch’s counterclaim challenging the validity of Route1’s U.S. Patent No 7,814,216.
- Route1 expects that briefing on the appeal will begin around the end of this year and that all briefing on the appeal has been completed during the first quarter of 2020.

On October 17, 2019, The Company provided an operations update after the completion of its third quarter that ended September 30, 2019.

- On a quarter to quarter basis, revenue increased from \$3,430 to \$8,714 (in 000s of CAD dollars), primarily driven by the acquisition of PCS Mobile.
- Gross profit increased to \$2,761 from \$1,758 (in 000s of CAD dollars).

On October 29, 2019, the Company announced that Tony Busseri, Route1’s Chief Executive Officer is scheduled to present at the 147th National Investment Banking Association (NIBA) conference.

On November 26, 2019, the Company announced its third quarter (Q3) financial results for the period ended September 30, 2019.

- Route1 generated net cash flow from operating activities of approximately \$0.43 million during Q3 2019 compared with \$0.43 million in Q3 2018. Non-cash working capital used was \$0.41 million in Q3 2019 compared to \$0.97 million in cash generated during the same period a year earlier. Net cash generated by the day-to-day operations for the three months ended September 30, 2019 was nil compared to \$1.40 million in Q3 2018.
- For the three months ended September 30, 2019, the Company purchased 1,179,900 shares for cancellation under the NCIB at an average price of approximately \$0.395 per share. For the nine months ended September 30, 2019, the Company purchased 1,257,100 shares for cancellation under the NCIB at an average price of approximately \$0.403 per share.

On December 2, 2019, the Company announced that it received approval for all proposals submitted to shareholders at the Company’s annual general and special meeting of shareholders, which was held earlier that day in Toronto, Ontario.

- Following the Meeting, the Board of Directors met and selected Mr. Harris to continue to serve as Chairman of the Board of Route1.
- Grant Thornton LLP were appointed as the Company's auditors in respect of the year ending December 31, 2019.
- Route1’s stock option plan was re-approved.

On January 31, 2020, the Company announced that at Genetec’s Connect 20 event held the previous night in San Diego, California, Route1’s wholly owned subsidiary PCS Mobile was named the “Genetec AutoVu Premier Partner of the Year – North America”.

- The Genetec AutoVu™ automatic license plate recognition or ALPR system automates license plate reading and identification, making it easier for law enforcement and for municipal and commercial organizations to locate vehicles of interest and enforce parking restrictions.

- PCS Mobile has been successful as a premier partner for Genetec AutoVu for more than five years in the states of Arizona, California, Colorado, Nevada, New Mexico, Oregon and Washington.

On February 3, 2020, the Company announced that Dr. Barry C. West has stepped down as a member of Route1's Board of Directors and accepted an invitation from the Company to Chair its U.S. Government Advisory board.

On March 16, 2020, the Company provided an update on the use of its MobiKEY technology during the COVID-19 outbreak.

- Over the last five business days previous to this date, there has been a significant spike in the demand for MobiKEY enabling devices, particularly Fusion3 devices, and MobiKEY software subscription sales and quote activity for both Department of Defense ("DoD") and certain civilian agencies of the U.S. government as well as financial services companies and banks across North America.
- Route1 added 209 paying MobiKEY subscribers and sold 174 MobiKEY Fusion3 devices. Based on purchase orders in hand and funds obligated to purchase, Route1 expects to add more than 500 additional paying MobiKEY subscribers and sell 3,000 additional MobiKEY Fusion3 devices over the next five to seven business days.
- Route1 expects to make a further order for 5,000 MobiKEY Fusion3 devices early next week, however this number could grow based on quick responses from clients. Subsequent to the issuance of this press release an order for 6,000 devices was placed.

On March 19, 2020, the Company announce today an update on its business operations.

- The Company announced Q4 2019 gross profit of \$2,750 (in 000s of Canadian dollars) compared to \$1,858 (in 000s of Canadian dollars) for Q4 2018

Corporate Development

- In order to expand our enterprise and public safety client base, and grow profitability through the leveraging of our human and technology capital, on April 3, 2020 Route1 will acquire the assets of Mobile-Tek Consulting, LLC, a reseller of rugged mobile device hardware. Route1 will pay cash of US \$50,000 in two instalments for the assets of the company and also assume US \$25,000 in net working capital.
- Based in Cincinnati, Ohio, Mobile-Tek sells rugged devices and applications including but not limited to Panasonic Toughbook mobile computers, Fujitsu and Getac rugged and semi-rugged tablets, Zebra handheld devices, and accessories from Gamber-Johnson and Havis to public safety and enterprise clients principally in the states of Ohio, West Virginia, Michigan, Indiana and Kentucky. The company also refurbishes off warranty rugged devices and resells them.

Airwatch Litigation

- 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 finding that AirWatch has not infringed Route1's U.S. Patent No 7,814,216. Briefings will be complete on March 20, 2020, and Route1 expects that a decision is likely in the fourth quarter of 2020 or first quarter of 2021.

VMWare Canadian Lawsuit

- 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 were 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 in Q1 2020.

On March 23, 2020, the Company provided an update to its March 16, 2020 news release in regards to the use of its MobiKEY technology during the COVID-19 outbreak.

- Sale and quote activity for both Department of Defense (“DoD”) and certain civilian agencies of the U.S. government as well as Corporate America and Canada has dramatically increased as the working implications of COVID-19, particularly the requirement to work from home, have been mandated by most levels of government and business.
- Last week Route1 added 654 paying MobiKEY subscribers and sold 3,157 MobiKEY Fusion3 and MobiKEY Classic 3 devices.
- Last week Route1 placed an order for 6,000 MobiKEY Fusion3 devices. The Company currently has a purchase order backlog in excess of 4,000 MobiKEY Fusion3 devices, with the majority of the backlog for clients with an enterprise license agreement – thus there is not a 1:1 relationship between device sales and new subscriptions.

BASIS OF PRESENTATION

Route1 acquired Group Mobile Int’l, LLC (“Group Mobile” or “GMI”) on March 22, 2018. The operations of Group Mobile for the nine remaining days in March 2018 were included in the interim unaudited condensed consolidated financial statements for the period ended March 31, 2018. The operations of Group Mobile have been included for all subsequent periods.

Route1 acquired Portable Computer Systems, Inc. (“PCS”) on June 28, 2019. No operational activity occurred between the acquisition date and June 30, 2019. The operations of PCS have been included for all subsequent periods.

NON-IFRS FINANCIAL MEASURE: Adjusted EBITDA

Within this MD&A, we use the term Adjusted EBITDA (earnings before interest, income taxes, depreciation and amortization, stock-based compensation, patent litigation, restructuring and other costs). Adjusted EBITDA does not have any standardized meaning prescribed under IFRS and is therefore unlikely to be comparable to similar measures presented by other companies.

Adjusted EBITDA allows us to compare our operating performance over time on a consistent basis. We believe that certain investors and analysts use Adjusted EBITDA to measure a company’s ability to service debt and to meet other payment obligations, or as a common valuation measurement in the technology industry.

The table below reconciles Adjusted EBITDA to operating profit before other income (expense) for the quarters presented.

<i>In thousands of Canadian dollars</i>	For the Quarters Ended				
	Dec 31	Sept 30	June 30	Mar 31	Dec 31
	2019	2019	2019	2019	2018
Adjusted EBITDA	\$676	\$743	\$200	\$322	\$331
Depreciation and amortization	(286)	(318)	(266)	(254)	(187)
Stock-based compensation	(98)	(106)	(82)	(36)	(32)
Operating profit before other income (expense)	\$292	\$319	(\$148)	\$32	\$112

SELECTED FINANCIAL INFORMATION

The following table outlines selected financial information of the Company on a consolidated basis for the three months and year ended December 31, 2019 and 2018.

	For the Three Months Ended		For the Year Ended	
	Dec-31	Dec-31	Dec-31	Dec-31
	2019	2018	2019	2018
STATEMENT OF OPERATIONS				
Revenue				
Subscription revenue and services	\$2,511	\$1,628	\$7,833	\$6,209
Devices and appliances	5,891	2,440	16,169	19,972
Other	1	6	7	49
Total revenue	8,403	4,074	24,010	26,231
Cost of revenue	5,653	2,216	14,978	18,732
Gross profit	2,750	1,858	9,031	7,499
Operating expenses				
General administration	1,133	942	4,302	4,076
Research and development	192	164	609	731
Selling and marketing	1,035	608	3,302	2,085
Total operating expenses	2,360	1,715	8,214	6,892
Operating profit (loss) before stock-based compensation and patent litigation	390	144	817	607
Patent litigation	(195)	(479)	(1,289)	(841)
Stock-based compensation	(98)	(32)	(322)	(144)
Operating profit (loss) after stock-based compensation and patent litigation	97	(368)	(794)	(378)
Gain (loss) on acquisition	-	-	-	-
Acquisition expenses	-	(17)	(74)	(143)
Interest income (expense)	(34)	-	(89)	-
Foreign exchange gain (loss)	(4)	29	8	88
Asset disposal gain (loss)	-	-	(16)	-
Other expenses	(262)	-	(262)	-
Total income (loss) for the period before income tax	(203)	(355)	(1,227)	(434)
Income taxes	713	-	673	-
Total income (loss) for the period after income tax	510	(355)	(554)	(434)
Other comprehensive income				
Foreign currency translation	29	(5)	5	(7)
Comprehensive income (loss)	\$539	(\$360)	(\$549)	(\$441)
Earnings (Loss) per share	\$0.01	(\$0.01)	(\$0.02)	(\$0.01)

(in thousands of Canadian dollars, except per share amounts)

For the Three Months Ended

For the Year Ended

CASH FLOW INFORMATION

Operating activities	\$64	(\$928)	\$328	\$419
Investing activities	(174)	(343)	(1,795)	(408)
Financing activities	(28)	8	622	(23)
Net cash outflow	(138)	(1,264)	(845)	(12)
Consolidation currency adjustment	(56)	48	(102)	48
Cash, beginning of period	320	2,289	1,073	1,037
Cash, end of period	\$126	\$1,073	\$126	\$1,073
Working capital	(\$2,829)	(\$370)	(\$2,829)	(\$370)
Total assets	\$12,630	\$6,673	\$12,630	\$6,673
Shareholders' equity	\$980	\$1,465	\$980	\$1,465

COMPARISON FOR THE THREE MONTHS ENDED DECEMBER 31, 2019 AND 2018

Revenue

Revenue for the three months ended December 31, 2019 was \$8,403,376, representing an increase of \$4,329,034 from \$4,074,342 for the same period in 2018. The comparison, discussed by segment, is as follows:

Subscription Revenue and Services

Revenue from the subscription revenue and services segment includes: (a) application software subscription based revenue (MobiKEY, ActionPLAN, *Powered by MobiNET*, DerivID and MobiENCRYPT); (b) DEFIMNET platform and other appliance licensing or yearly maintenance; (c) technology as a service (“TaaS”) under term contracts; and (d) other services.

For the three months ended December 31, 2019, revenue from the subscription revenue and services segment was \$2,511,327, representing an increase of \$883,751 from \$1,627,576, for the same period in 2018. The increase was the result of the inclusion of PCS service revenues for the quarter and the reclassification of service revenues originally classified as device revenues

Subscription revenue and services, as a percentage of total revenue, represented 29.9% for the current period compared to 39.9% for the prior year period.

Subscription revenue and services by quarter <i>(in thousands of Canadian dollars)</i>	Dec 31 2019	Sept 30 2019	June 30 2019	Mar 31 2019	Dec 31 2018
Application software	1,202	1,182	1,196	1,186	1,168
Technology as a service (TaaS)	353	322	311	307	329
Other services	956	632	103	83	130
Total	2,511	2,136	1,610	1,576	1,628

Devices and Appliances

Revenue from MobiKEY devices (MC3 device, the MobiKEY Fusion device and the MobiKEY Fusion3 device) and appliances (the DEFIMNET platform and the MobiNET Aggregation Gateway), Group Mobile ruggedized computing devices and accessories, and PCS ruggedized computing devices, license plate recognition equipment and accessories for the three months ended December 31, 2019 was \$5,891,166, representing an increase of \$3,450,688 from \$2,440,478 for the same period in 2018. The increase is reflective of the variability in device revenue as well as the inclusion of PCS device revenues for the quarter.

Devices and appliances revenue as a percentage of total revenue represents 70.1% of total revenue for the current period compared to 60.1% for the prior year period.

Other revenue

Other revenue for the three months ended December 31, 2019 was \$883 compared to \$6,287 for the same period in 2018. The decrease is attributable to a grant received from the Ontario Centres of Excellence in the comparable period in 2018.

Gross Profit

Gross profit is revenue minus the cost of revenue. The cost of revenue includes the cost of our devices and appliances sold to clients, the cost to operate and maintain the Route1 MobiNET platform as well as the cost of shipping and packaging.

The cost of revenue for the three months ended December 31, 2019 was \$5,653,399, representing an increase of \$3,437,425 from \$2,216,030 for the same period in 2018. The increase in cost of revenue is a result of increased device and appliance revenue resulting from the inclusion of PCS device revenues and cost of revenues for the quarter.

Gross profit for the three months ended December 31, 2019 was \$2,749,977 or 32.7% of gross revenue, representing an increase of \$891,610 from a gross profit of \$1,858,312 or 45.6% of gross revenue for the same period in 2018.

Expenses

Operating expenses consist of general administration, research and development, and selling and marketing. Operating expenses for the three months ended December 31, 2019 were \$2,360,453, representing an increase of \$645,900 from \$1,714,553, for the same period in 2018.

General administration

General administration expenses consist primarily of salaries and benefits for administrative staff, professional fees, rent, telephone, computer related expenses, directors' fees, insurance, public company and regulatory costs, depreciation and amortization and other indirect costs.

General administration expenses for the three months ended December 31, 2019 were \$1,132,858, representing an increase of \$191,031 from \$941,827 for the same period in 2018. The majority of the change can be summarized as follows:

- The adoption of IFRS 16 resulted in a decrease in rent of approximately \$91,000 and an increase in amortization of approximately \$66,000 compared to 2018.
- Increased rent expense of \$48,000 due to the acquisition of PCS.
- Increased director fees of \$28,000.
- Increased amortization expense of approximately \$33,000, primarily due to the addition of technology as a service (TaaS) assets.
- Increased salary expenses of approximately \$100,000, with \$58,000 resulting from the acquisition of PCS and \$42,000 resulting from increased salaries and headcount changes.
- Increased professional fees expense of approximately \$54,000 due to increased communications costs, as well as increased accounting and legal fees.
- Decrease in other costs of approximately \$50,000 resulting from a reversal of certain accruals in the amount of approximately \$100,000 related to the acquisition of Group Mobile and offset by increased costs of approximately \$50,000 related to bad debts expense and increased charitable donations.
- Decreased insurance expenses of \$10,000 resulting from changes made to consolidate and reduce insurance costs as well as the reversal of certain insurance accruals that had been made in PCS.

Research and development

Research and development expenses consist of salaries and benefits for the research and development department, and other professional fees associated with development work.

Research and development expenses for the three months ended December 31, 2019 were \$192,456, representing an increase of \$28,115 from \$164,341 for the same period in 2018. The majority of the change can be summarized as follows:

- Training costs increased by approximately \$5,000 to cross-train staff on the new license plate recognition equipment line offered by PCS.
- Salaries and benefits increased by approximately \$3,000. The increase is primarily related to salary increases for some staff and exchange rate fluctuations.
- The accrual for expected SR&ED recoveries decreased by approximately \$21,000, as a result of continued evaluation of the estimated amount of eligible expenditures.

Selling and marketing

Selling and marketing expenses consist primarily of salaries and commissions, agent fees, marketing and trade shows, and travel and entertainment.

Selling and marketing expenses for the three months ended December 31, 2019 were \$1,035,140, representing an increase of \$426,755 from \$608,385 for the same period in 2018. The majority of the change can be summarized as follows:

- Increased salary expenses of approximately \$292,000, of which approximately \$190,000 is related to the acquisition of PCS and \$102,000 related to an increase in sales personnel.
- Increased commissions costs of approximately \$13,000 with an increase of approximately \$59,000 due to the addition of PCS offset by a decrease of approximately \$46,000 as a result of decreased gross margins.
- Increased travel and tradeshow expenses of approximately \$122,000 with an increase of \$25,000 resulting from the acquisition of PCS and approximately \$97,000 due to increased sales travel.

Other Items

Stock-based compensation

Stock-based compensation was \$97,644 for the three months ended December 31, 2019, an increase of \$65,821 from \$31,823 for the same period in 2018. The contributing factor to the increased expense was the higher number of options granted in 2019 compared to 2018, resulting in a higher number of options vesting during the three months ended December 31, 2019 as compared to the same period in 2018.

Patent litigation expenses

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. The expense incurred for the three months ended December 31, 2019 was \$194,359, a decrease of \$284,923 from \$479,282 for the same period in 2018.

For additional information see “**PATENT LITIGATION**” of this MD&A.

Acquisition Expenses

Acquisition expenses for the three months ended December 31, 2019 were \$nil compared to \$16,640 for the same period in 2018. For additional information, see “**BUSINESS COMBINATION**” of this MD&A.

Foreign exchange (loss) gain

Foreign exchange gains or losses are primarily attributable to fluctuations in the Canadian/U.S. dollar exchange rates. The loss attributable to foreign exchange translation on balance sheet items such as Accounts Receivable, Accounts Payable and bank accounts denominated in foreign currencies was \$3,513 for the three months ended December 31, 2019, a decrease of \$32,594 from a gain of \$29,081 for the same period in 2018. There was low volatility of the Canadian dollar against the U.S. dollar during the fourth quarter of 2019, from a high of \$1.2970 to a low of \$1.3330, whereas there was greater volatility during the fourth quarter of 2018, with a high of \$1.2803 to a low of \$1.3642.

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. There were no such forward contracts outstanding as of December 31, 2019.

Comprehensive (Loss) Income After Taxes

Comprehensive income for the three months ended December 31, 2019 was \$539,759, representing a decrease of \$899,210 from a comprehensive loss of \$359,451 for the same period in 2018.

COMPARISON FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

Revenue

Revenue for the year ended December 31, 2019 was \$24,009,625, representing a decrease of \$2,221,121 from \$26,230,746 for the same period in 2018. The comparison, discussed by segment, is as follows:

Subscription Revenue and Services

Revenue from the subscription revenue and services segment includes: (a) application software subscription based revenue (MobiKEY, ActionPLAN, *Powered by MobiNET*, DerivID and MobiENCRYPT); (b) DEFIMNET platform and other appliance licensing or yearly maintenance; (c) technology as a service ("TaaS") under term contracts; and (d) other services.

For the year ended December 31, 2019, revenue from the subscription revenue and services segment was \$7,833,425, representing an increase of \$1,624,047 from \$6,209,378, for the same period in 2018. This increase was the result of increased service revenues from TaaS, maintenance agreements and the inclusion of PCS service revenue for the second half of 2019.

Subscription revenue and services, as a percentage of total revenue, represented 32.6% for the current year as compared to 23.7% for the prior year period.

Devices and Appliances

Revenue from MobiKEY devices (MC3 device, the MobiKEY Fusion device and the MobiKEY Fusion3 device) and appliances (the DEFIMNET platform and the MobiNET Aggregation Gateway) and Group Mobile ruggedized computing devices and accessories for the year ended December 31, 2019 was \$16,168,992, representing a decrease of \$3,803,151 from \$19,972,143 for the same period in 2018. The decrease was reflective of the variability in device revenue including a single sale of \$5,692,879 to one customer in 2018.

Devices and appliances revenue as a percentage of total revenue represents 67.4% of total revenue for the current period compared to 76.1% for the prior year period.

Other revenue

Other revenue for the year ended December 31, 2019 was \$7,208 compared to \$49,225 for the same period in 2018. The decrease is attributable to a reduction in the grant received from the Ontario Centres of Excellence in 2018.

Gross Profit

Gross profit is revenue minus the cost of revenue. The cost of revenue includes the cost of our devices and appliances sold to clients, the cost to operate and maintain the Route1 MobiNET platform as well as the cost of shipping and packaging.

The cost of revenue for the year ended December 31, 2019 was \$14,978,189, representing a decrease of \$3,753,682 from \$18,731,871 for the same period in 2018. The decrease in cost of revenue for the year is the result of a large order for devices generated by Group Mobile in the 3rd quarter of 2018.

Gross profit for the year ended December 31, 2019 was \$9,031,436 or 37.6% of gross revenue, representing an increase of \$1,532,561 from a gross profit of \$7,498,875 or 28.6% of gross revenue for the same period in 2018.

Expenses

Operating expenses consist of general administration, research and development, and selling and marketing. Operating expenses for the year ended December 31, 2019 were \$8,214,084, representing an increase of \$1,322,029 from \$6,892,055, for the same period in 2018.

General administration

General administration expenses consist primarily of salaries and benefits for administrative staff, professional fees, rent, telephone, computer related expenses, directors' fees, insurance, public company and regulatory costs, depreciation and amortization and other indirect costs.

General administration expenses for the year ended December 31, 2019 were \$4,302,181, representing an increase of \$225,923 from \$4,076,258 for the same period in 2018. The majority of the change can be summarized as follows:

- The adoption of IFRS 16 resulted in a decrease in rent of approximately \$348,000 and an increase in amortization of approximately \$250,000 compared to 2018.
- Increased salary expenses of approximately \$239,000 primarily due to organizational growth through

the acquisition of Group Mobile and PCS.

- Increased professional communications fee expenses of approximately \$65,000 related to the use of an external advisory firm.
- Increased accounting expenses of approximately \$30,000 primarily related to the acquisition of PCS.
- Increased legal fees of approximately \$47,000 related to costs incurred as the result of employee terminations and increased monthly regulatory compliance costs.
- Increased amortization expense of approximately \$206,000 related to TaaS assets acquired through the acquisition of Group Mobile at the end of the first quarter of 2018 and PCS, as well as intangible assets added through the acquisition of PCS.
- Decreased contractual bonus expenses of approximately \$141,000 as an agreement was reached to terminate the individual for which bonuses were accrued based on the profitability of GMI.
- Increased rent expenses of approximately \$95,000 due to the acquisition of PCS.
- Increased director fees of approximately \$47,000.
- Decreased professional fees expenses of approximately \$38,000 related to decreased use of external consulting firms.
- Reduced other & miscellaneous costs of approximately \$226,000 comprised of a reduction of approximately \$260,000 resulting from a reversal of certain accruals related to the acquisition of Group Mobile, offset by increased costs of approximately \$34,000 primarily related to the addition of PCS.

Research and development

Research and development expenses consist of salaries and benefits for the research and development department, and other professional fees associated with development work.

Research and development expenses for the year ended December 31, 2019 were \$609,465, representing a decrease of \$121,103 from \$730,568 for the same period in 2018. The majority of the change can be summarized as follows:

- Salaries and benefits decreased by approximately \$158,000, primarily as a result of the capitalization of certain expenses related to new technologies which were developed.
- Training costs increased by approximately \$12,000 to cross-train staff on the new license plate recognition equipment line offered by PCS.
- The expense offset related to the accrual for expected SR&ED recoveries decreased by approximately \$26,000, as a result of continued evaluation of the estimated amount of eligible expenditures.

Selling and marketing

Selling and marketing expenses consist primarily of salaries and commissions, agent fees, marketing and trade shows, and travel and entertainment.

Selling and marketing expenses for the year ended December 31, 2019 were \$3,302,438, representing an increase of \$1,217,209 from \$2,085,229, for the same period in 2018. The majority of the change can be summarized as follows:

- Increased salary expenses of approximately \$781,000 due to increased sales and marketing head count from the acquisitions of Group Mobile and PCS.
- Increased commissions costs of approximately \$130,000 primarily due to the acquisition of Group Mobile and PCS.

- Increased travel and tradeshow expenses of approximately \$298,000.
- Increased brand building costs of \$19,000 due to search engine optimization expenditures.
- Decreased other expenses of approximately \$13,000 due to marketing development funds generated by PCS.

Other Items

Stock-based compensation

Stock-based compensation was \$322,569 for the year ended December 31, 2019, an increase of \$178,129 from \$144,440 for the same period in 2018. The contributing factor to the increased expense was the higher number of options vesting during the year as compared to 2018.

Patent litigation expenses

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. The expense incurred for the year ended December 31, 2019 was \$1,289,016, an increase of \$447,708 from \$841,308 for the same period in 2018. For additional information see “**PATENT LITIGATION**” of this MD&A.

Acquisition Expenses

Acquisition expenses for the year ended December 31, 2019 were \$73,780, a decrease of \$69,610 compared to \$143,390 for the same period in 2018. The acquisition expenses were incurred for the acquisition of Group Mobile on March 22, 2018 and PCS Mobile on June 28, 2019.

For additional information, see “**BUSINESS COMBINATION**” of this MD&A.

Foreign exchange (loss) gain

Foreign exchange gains or losses are primarily attributable to fluctuations in the Canadian/U.S. dollar exchange rates. The gain attributable to foreign exchange translation on balance sheet items such as Accounts Receivable, Accounts Payable and bank accounts denominated in foreign currencies was \$8,359 for the year ended December 31, 2019, a decrease of \$79,615 from a gain of \$87,974 for the same period in 2018. There was moderate volatility of the Canadian dollar against the U.S. dollar during 2019, from a high of \$1.2970 to a low of \$1.3527, whereas there was higher volatility during 2018, with a high of \$1.2288 to a low of \$1.3642.

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.

Comprehensive Loss After Taxes

Comprehensive loss for the year ended December 31, 2019 was \$549,303, representing a decrease of \$108,265 from a comprehensive loss of \$441,038 for the same period in 2018.

SUMMARY OF QUARTERLY RESULTS

The following table sets out selected unaudited financial information of the Company on a consolidated basis for the last eight quarters. The information has been derived from the Company's quarterly unaudited condensed interim consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the consolidated annual financial statements and are reviewed and approved by the Company's Board of Directors. The Company's quarterly operating results have varied substantially in the past and may vary substantially in the future. Accordingly, the information below is not necessarily indicative of results for any future quarter.

As at and for the three months period ended
(in thousands of Canadian dollars, except per share data)

	Dec-31	Sep-30	Jun-30	Mar-31	Dec-31	Sep-30	Jun-30	Mar-31
	2019	2019	2019	2019	2018	2018	2018	2018
STATEMENT OF OPERATIONS								
Revenue								
Subscription revenue and services	\$2,511	\$2,136	\$1,610	\$1,576	\$1,628	\$1,684	\$1,633	\$1,264
Devices and appliances	5,891	6,576	1,819	1,883	2,440	13,207	3,936	388
Other	1	2	1	3	6	4	7	32
Total revenue	8,403	8,714	3,430	3,462	4,074	14,895	5,577	1,684
Cost of revenue	5,653	5,953	1,672	1,700	2,216	12,311	3,620	585
Gross margin	2,750	2,761	1,758	1,762	1,858	2,584	1,957	1,099
Operating expenses								
General administration	1,133	1,157	1,015	997	942	1,349	1,090	695
Research and development	192	186	147	85	164	166	193	206
Selling and marketing	1,035	993	662	612	608	634	607	235
Total operating expenses	2,360	2,336	1,824	1,694	1,714	2,150	1,891	1,135
Operating profit (loss) before stock-based compensation and patent litigation	390	425	(66)	68	144	434	65	(36)
Patent litigation	(195)	(279)	(289)	(527)	(479)	(181)	(70)	(111)
Stock-based compensation	(98)	(106)	(82)	(36)	(32)	(43)	(23)	(46)
Operating profit (loss) after stock-based compensation and patent litigation	97	40	(437)	(495)	(367)	209	(27)	(193)
Acquisition expenses	-	-	(74)	-	(17)	-	-	(127)
Foreign exchange translation	(4)	(6)	9	10	29	(21)	40	40
Interest expense	(34)	(33)	(11)	(11)	-	-	-	-
Asset disposal gain (loss)	-	-	-	(16)	-	-	-	-
Other expenses	(262)	-	-	-	-	-	-	-
Total income (loss) for the period before income tax expense	(203)	1	(513)	(512)	(355)	188	13	(280)
Income tax expense	713	-	(40)	-	-	-	-	-
Total income (loss) for the period after income tax expense	510	1	(553)	(512)	(355)	188	13	(280)
Other comprehensive income								
Foreign currency translation	29	(22)	3	(5)	(5)	20	(10)	(12)
Comprehensive income (loss)	\$539	(\$21)	(\$550)	(\$517)	(\$359)	\$208	\$3	(\$292)
Earnings (loss) per share	\$0.01	\$0.00	(\$0.02)	(\$0.01)	(\$0.01)	\$0.01	\$0.00	(\$0.01)
Adjusted EBITDA	676	743	200	322	330	627	272	46

CASH FLOW INFORMATION

Operating activities	\$64	\$20	\$965	(\$721)	(\$928)	\$1,401	\$770	(\$627)
Investing activities	(174)	(154)	(1,303)	(164)	(343)	(24)	(221)	180
Financing activities	(28)	(247)	696	201	8	(159)	128	-
Net cash inflow (outflow)	(138)	(381)	358	(684)	(1,264)	1,218	481	(447)
Consolidation currency adjustment	(56)	(1)	(23)	(22)	48	(13)	3	10
Cash, beginning of period	320	702	367	1,073	2,289	1,084	600	1,037
Cash, end of period	\$126	\$320	\$702	\$367	\$1,073	\$2,289	\$1,084	\$600

BALANCE SHEET INFORMATION

Working capital	(\$2,829)	(\$2,643)	(\$2,406)	(\$927)	(\$370)	(\$36)	(\$355)	(\$577)
Total assets	\$12,630	\$11,780	\$12,268	\$8,803	\$6,673	\$8,733	\$7,892	\$9,179
Shareholders' equity	\$980	\$473	\$854	\$860	\$1,465	\$1,928	\$1,888	\$1,931

The Company's revenue and financial results are difficult to forecast and have historically fluctuated on a quarterly basis. It is expected that quarterly revenue and financial results will become more stable than previously; however, revenues may continue to fluctuate as the Company grows its revenues and customer base. Fluctuations in results are related to the growth of the Company's revenue, the timing of revenue being recognized and sales to customers, who may place large single orders in any one quarter, the timing of staffing and infrastructure additions to support growth and future acquisitions.

LIQUIDITY AND CAPITAL RESOURCES

Management continually assesses liquidity in terms of the ability to generate sufficient cash flow to fund the business. Net cash flow is affected by the following items: i) operating activities, including fluctuations in the levels of accounts receivable, inventory, prepaid expenses, accounts payable and contract liability; ii) investing activities, including the purchase of capital assets; and iii) financing activities, including the issuance of and/or repurchase of capital stock.

Cash generated in operating activities

The net cash flow generated from operating activities for the year ended December 31, 2019 was \$328,228, compared to \$419,463 in the same period in 2018, representing a decrease of \$91,235. Non-cash working capital generated was \$281,144 for the year ended December 31, 2019 compared to \$387,411 generated a year earlier, representing a decrease in cash generated of \$106,267. Net cash generated by the day-to-day operations for the year ended December 31, 2019 was \$47,084 compared to \$32,052 generated in 2018, representing an increase of \$15,032. The decrease in net cash generated by operating activities for the year ended December 31, 2019, compared to the prior year is due to increases in accounts receivable and prepaid expenses, offset by a decrease in inventory and increase in accounts payable.

Cash used in investing activities

Cash used in investing activities for the year ended December 31, 2019 was \$1,795,398 compared to cash used of \$407,994 in the same period in 2018, representing an increase of \$1,387,404. The increase in cash used is primarily driven by the acquisition of PCS.

Cash used in financing activities

Cash generated by financing activities was \$621,948 for the year ended December 31, 2019 compared to cash used of \$23,327 for the same period in 2018, an increase of \$645,275. The increase was primarily driven by an increase in bank indebtedness and proceeds from litigation financing, partially offset by a reduction in lease liabilities, repayment of notes payable and repurchase of common shares for cancellation.

The Company's current business plan projects further revenue growth in 2020 and beyond. The Company believes that its success in securing sales contract vehicles with the U.S. government will lead to growth within the U.S. government and future opportunities with other governments. The Company believes that sales from software applications will increase in 2020 and beyond as a result of an increase in teleworking and the development of new software applications. In addition, the Company expects to increase revenue in Group Mobile and PCS Mobile and expects to leverage these acquisitions by offering its products and services to corporate and industrial clients.

The Company's need for capital includes items such as computer hardware and software, expenditures to support sales, marketing and general administration activities and working capital. In addition, the Company will require capital to purchase equipment for its TaaS (technology as a service) business. The Company has financed its cash and/or capital requirements through operating cash flow, bank and other indebtedness, the issuance of equity.

On June 24, 2019, the Company increased its credit facility in Canada, consisting of a \$875,000 revolving demand facility and a \$100,000 credit card facility. The operating facility carries an interest rate equal to the lender's prime rate of interest plus 1.5%. The credit facility is secured by the assets of Route1 and guaranteed by a subsidiary of the Company. In March 2020, this facility was increased to \$962,500 for a four month period.

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

In the normal course of business operations of Group Mobile and PCS Mobile, the Company may be required to guarantee certain trade payables to the value-added distributors from which Group Mobile and PCS Mobile purchase product to sell to their customers. Such guarantees would be enforced only if Group Mobile or PCS Mobile 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 Group Mobile and PCS Mobile.

In the normal course of operations, Group Mobile and PCS Mobile 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.

INVENTORY

On a quarterly basis or when necessary, management reviews the carrying value of inventory. Inventory is valued at the lower of cost and net realizable value, which is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale. For the quarters ended December 31, 2019 and 2018, management determined no adjustment to the carrying value was required.

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).
- 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.

	Year Ended December 31, 2019	Year Ended December 31, 2018
Short-term employee benefit	\$884,475	\$733,920
Stock-based compensation expense	62,353	56,863
	<u>\$906,828</u>	<u>\$790,783</u>

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 has received further disclosure from VMware, Inc. As a result, on March 11, 2020 Route1 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. Route1 expects that briefing on the appeal will begin this year and that all briefing on the appeal will be completed during the first quarter of 2020.

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

BUSINESS COMBINATIONS

(i) Group Mobile Int'l, LLC

On March 22, 2018, the Company completed the acquisition of 100% of the membership interest of Group Mobile and, as consideration, Route1 issued a combination of common shares and common share purchase warrants with an aggregate value of \$942,000. With offices in Chandler, Arizona and Chattanooga, Tennessee, Group Mobile supplies rugged mobile technology solutions to leading automotive manufacturing companies and suppliers, other leading manufacturing and distribution companies, as well as local and state governments in the southeastern and southwestern United States.

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

The Company issued 2,500,000 common shares at a price of \$0.50 per common share and 30,000,000 three-year common share purchase warrants with an exercise price of \$0.50 per common share, exercisable at a ratio of ten warrants per common share. The fair value of the common shares issued as consideration was based on the closing price of a Route1 common share on the Toronto Venture Exchange on March 22, 2018 of \$0.20 per share, which has been discounted to \$0.1632 per share based on the restrictions on the sale of Route1 common shares issued as consideration for the purchase of Group Mobile as outlined in the Membership Purchase Agreement. The fair value of the warrants, using the Black Scholes method, was \$0.0178 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 Group Mobile 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 Group Mobile 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 acquisition of Group Mobile was accounted for using the acquisition method of accounting in accordance with IFRS 3 with the results of operations consolidated with those of the Company effective March 22, 2018. The goodwill is not tax deductible. Transaction costs of \$143,390 related to the acquisition of Group Mobile have been expensed and are included in operating expenses in the consolidated statements of comprehensive income.

Group Mobile 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.

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

As at March 22, 2018

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	<u>3,037</u>	<u>3,920</u>
Current Assets	<u>1,979,385</u>	<u>2,554,991</u>
Furniture and equipment	46,885	60,518
TaaS assets	741,716	957,406
Intangible assets	266,000	343,353
Goodwill	<u>357,832</u>	<u>461,889</u>
Non-current Assets	<u>1,412,433</u>	<u>1,823,167</u>
Total assets	<u>\$3,391,818</u>	<u>\$4,378,158</u>
 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	<u>271,241</u>	<u>350,118</u>
Total liabilities	<u>\$2,662,039</u>	<u>\$3,436,160</u>
Fair value of net assets acquired	<u>\$729,779</u>	<u>\$942,000</u>
 Net consideration issued	 <u>\$729,780</u>	 <u>\$942,000</u>

(ii) Portable Computer Systems, Inc.

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

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

The Company issued 1,120,000 common shares as partial consideration for the acquisition. The fair value of the common shares issued as consideration was based on the closing price of a Route1 common share on the Toronto Venture Exchange on June 28, 2019 of \$0.50 per share. The common shares issued are subject to an

escrow whereby 100% of the common shares may not be traded until June 28, 2020 after which 50% of the shares may be traded. The balance of the shares is released from escrow pro rata over the following six months such that by December 28, 2020, 1,120,000 shares will be freely tradable. Given the restrictions on trading, the value of the shares issued as purchase consideration was discounted to \$456,960. On June 28, 2019, the daily average exchange rate between the United States dollar and the Canadian dollar as reported by the Bank of Canada was US \$1=CDN \$1.3087.

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

The acquisition of PCS Mobile was accounted for using the acquisition method of accounting in accordance with IFRS 3 with the results of operations consolidated with those of the Company effective June 28, 2019. The goodwill recorded on the balance sheet is not tax deductible. Transaction costs of \$73,780 related to the acquisition of PCS Mobile have been expensed and included in operating expenses in the consolidated statements of comprehensive income.

PCS Mobile has contributed incremental revenue of \$8,841,261 and gross profit of \$1,950,182 for the six months ended December 31, 2019.

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

As at June 28, 2019

Assets Acquired	US Dollars	Canadian Dollars
Cash and cash equivalents	\$199,134	\$260,607
Accounts receivable	1,414,842	1,851,604
Inventory	845,564	1,106,589
Prepaid expenses	16,789	21,971
Current Assets	<u>2,476,329</u>	<u>3,240,771</u>
Property, furniture and fixtures	45,853	60,008
Intangible assets	600,000	785,220
Goodwill	1,189,839	1,557,142
Non-current Assets	<u>1,835,692</u>	<u>2,402,371</u>
Total assets	<u>\$4,312,021</u>	<u>\$5,643,142</u>
 Liabilities Assumed		
Accounts payable and other liabilities	\$1,702,148	\$2,227,602
Contract liability	160,077	340,363
Deferred tax liability	147,600	193,164
Total liabilities	<u>\$2,009,825</u>	<u>\$2,630,259</u>
Fair value of net assets acquired	<u>\$2,302,196</u>	<u>\$3,012,883</u>
 Net consideration issued	 <u>\$2,302,196</u>	 <u>\$3,012,883</u>

CRITICAL ACCOUNTING ESTIMATES

The consolidated financial statements have been prepared in accordance with IFRS. Management makes certain estimates and relies on certain assumptions relating to reporting the Company's assets and liabilities as well as operating results in order to prepare the audited financial statements in conformity with IFRS. On an on-going basis, the Company evaluates its estimates and assumptions including those related to revenue, the valuation of accounts receivable, the estimation of useful lives of the various classes of capital assets, the valuation of assets acquired in business combinations, stock-based compensation expense, and the measurement of income tax valuation allowances. Actual results could differ from those estimates, which are as follows:

- The Company's revenue is derived from (i) hardware sales (i.e. MC3 device, the MobiKEY Fusion3 device and the MobiKEY Fusion device) and subscription services (i.e. MobiKEY application software and Action Plan, *powered by MobiNET*); and (ii) sales of ruggedized computing devices and related accessories and services, as well as license plate recognition hardware and related services. The Company recognizes revenue in accordance with IFRS 15.
- In the determination of the valuation of accounts receivable, including the allowance for doubtful accounts, the Company relies on current customer information, payment history and trends as well as future business and economic conditions.
- The determination of inventory obsolescence allowance.
- The estimation of useful lives of the various classes of capital assets is based upon history and experience of similar assets within each class.
- The Company estimates the value of the value of the assets acquired in the business combinations on the basis of fair value to the ongoing operations of the acquired business.
- The fair value of stock options is based on certain estimates applied to the Black-Scholes option-pricing model as disclosed in the Company's financial statements.
- The recognition of SRED tax credits and government grants (if any).
- The measurement of the income tax valuation allowance is based upon estimates of future taxable income and the expected timing of reversals of temporary differences.

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, as well as for (2) leases of low value assets. The lease payments associated with these leases are recognized as expenses on a straight-line basis over the lease term.

iii. Sub-lease:

When the Company is an intermediate lessor, it determines at the lease inception date whether each sub-lease is a finance lease or an operating lease based on whether the contract transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, the sub-lease is a 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.

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

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

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

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Company did not recognize any additional right-of-use assets or lease liabilities as at December 31, 2019.

2.2 IFRIC 23, Uncertainty of Income Tax Treatments

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

At this time, management believes the impact of adoption on the Company's financial statements is not material.

FINANCIAL INSTRUMENTS

Establishing fair value

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

The following table sets out the classification, carrying amount, and fair value of the Company's financial assets and liabilities as at December 31, 2019 and December 31, 2018:

	December 31, 2019		December 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
FINANCIAL ASSETS				
Cash and cash equivalents	\$125,544	\$125,544	\$1,073,195	\$1,073,195
Accounts receivable	\$4,964,615	\$4,964,615	\$1,858,751	\$1,858,751
FINANCIAL LIABILITIES				
Bank indebtedness	\$1,359,695	\$1,359,695	-	-
Accounts payable and other liabilities	\$5,147,494	\$5,147,494	\$2,493,779	\$2,493,779
Notes payable	\$1,055,670	\$1,055,670	-	-

FINANCIAL INSTRUMENTS - RISK MANAGEMENT

The carrying amount of financial instruments including cash and cash equivalents, accounts receivable, other receivables 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.

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, 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.

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

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.

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.

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.

SHARE CAPITAL AND OPTIONS

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

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

As of December 31, 2019, the following was outstanding:

	<u>Number of Common Shares</u>	<u>Common Shares \$</u>
Balance, January 1, 2019	36,305,500	\$22,142,402
Shares issued April 19, 2019	103,700	86,254
Shares issued June 28, 2019	1,120,000	456,960
Shares repurchased for cancellation	(1,624,100)	(634,573)
Share issuance costs	-	(8,810)
Balance, December 31, 2019	<u>35,905,100</u>	<u>\$22,042,233</u>

	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	<u>36,305,500</u>	<u>\$22,142,402</u>

- There are 35,857,109 common shares outstanding as of April 22, 2020.
- 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.

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2019, there are no off-balance sheet arrangements.

RISK FACTORS AND UNCERTAINTY

Although management has a positive outlook for the Company and continually improves and adapts the Company’s risk mitigation strategies, operating in the technology industry inherently involves a certain level of risk and uncertainty. In management’s opinion, the following risk factors, among others, should be considered when evaluating the Company’s business and its results of future operations:

- Management’s ability to secure additional financing, if needed, on reasonable terms. Access to such financing on acceptable commercial terms will be dependent on the timing of recognition and receipt of cash from our current receivables and contracts, on our ability to demonstrate execution of our business strategy and the general condition of the credit and/or equity markets. Such additional financing may be dilutive in nature to existing shareholders.
- The Company’s access to credit or capital could be restricted based on an economic downturn that would restrict credit availability worldwide and could also impact its ability to continue operations.
- A portion of the Company’s projected revenue in the short-term is tied to approximately US\$2 million in renewals from MobiKEY application software subscriptions with one or more U.S. Government (“USG”) accounts. If one or more USG accounts were to discontinue their relationship with the Company, such events could have a material adverse impact on the Company’s operating results and financial condition.
- The Company’s revenues are derived primarily from the United States and, with respect to MobiKEY application software subscriptions, from U.S. federal governmental agencies and departments as well as state and local governments and agencies. With a change in administration, governmental agencies and departments often defer material changes in their operations and purchases of products and services until a new cabinet is appointed, the political direction is confirmed and agency leadership is appointed. This deferral and possible change in political direction following an election could have a material adverse effect on the prospects, operations and results of operations of the Company.
- The current U.S. President has publicly supported certain policies, including those related to changes to international trade agreements and policies favoring U.S. persons and companies. There is continued uncertainty as to which measures and policies will be maintained by the United States government, governmental agencies and departments in 2020 and beyond. Certain of these measures, including trade and tariff uncertainty, could have a material and adverse effect on the Company.

- Certain Chief Information Officers of governmental agencies in the United States are required to resign following the election of a new President. There is no assurance that a resigning Chief Information Officer will be reappointed or that a newly appointed Chief Information Officer will be supportive (or continue to be supportive) of the Company's products and services. A change in the senior officers and decision makers in the U.S. government and its agencies could have a material adverse effect on the Company.
- In addition to the risks discussed above and as a consequence of this transition process, the confirmation of the approval and/or renewal of the Company's products and services could be delayed and/or not subject to the approval process experienced in the past and that such delay and/or change in process will make it difficult for the Company to effectively forecast revenues and to plan and budget its operations and this could have a material adverse effect on the Company.
- Funding of the United States government is a complex and contentious process and may result in temporary funding of government through continuing resolutions or government shutdowns. Such circumstances may result in delays in sales and renewals of existing contracts with government agencies.
- The defendant in the Company's complaint served on June 1, 2017 in the United States District Court for the District of Delaware has counterclaimed against the Company seeking declaratory judgments of non-infringement and invalidity of the Company's U.S. Patent No. 7,814,216 (the "216 Patent"). The Court found for the defendant and the finding is under appeal. The defendant has filed a motion with the Court requiring the Company to pay the defendant's legal costs. If the 216 Patent is found to be either invalid or patent ineligible and/or if the Company is required to pay the defendant's legal costs, the Company's business could be materially and adversely affected.
- The Company is currently defending the validity of its 216 Patent at the United States Patent and Trademark Office. Should the Company be unsuccessful, the Company's business may be adversely affected.
- The Company's ability to collect payment on a timely basis for products and services delivered may have a material adverse impact on the Company's liquidity position.
- Third-party claims for infringement of intellectual property rights by Route1, and the outcome of any litigation with respect thereto, may harm the Company's competitive advantage in the secure remote access industry;
- Should Route1 be unable to successfully obtain patent or other proprietary or statutory protection for its technologies and products, the Company's competitive advantage in the secure remote access industry may be harmed;
- Route1's ability to obtain rights to use certain software or components which are supplied by third parties may not be sufficient to support future sales volumes;
- Should Route1 be unable to run efficient and uninterrupted operation of its MobiNET platform, such inability could impact on the credibility of the Company's product and services;
- Should Route1 be unable to establish new customers, and to build on its existing customer base, such inability could also slow the Company's continued growth;
- Should Route1 be unable to integrate acquired businesses successfully, such inability could have an adverse effect on the Company;
- The occurrence of a breach or perception of a breach of Route1's secure product and service offering may have an impact on the credibility of the Company's product and services;
- The inappropriate disclosure of confidential information of the Company may have an impact on the credibility of the Company's product and services;
- Competition, both with existing providers as well as with any future providers entering the marketplace, within the secure remote access industry may hamper future sales growth;

-
- Route1's reliance on its suppliers and the risk that suppliers will not be able to deliver required components on a timely basis may slow future sales growth;
 - Any future government(s) regulation of the secure remote access industry, including but not limited to restrictions on encryption of the MobiKEY device and the MobiNET platform may limit future growth;
 - Any significant economic downturn in geographic areas where Route1 engages in business activities may cause those government agencies to reduce discretionary budget spending in areas such as secure access solutions, and purchases of other services and products offered by the Company.
 - Any delays in the budget approval process by the U.S. government may delay the procurement and spending in areas such as digital security solutions.
 - The Company's rugged mobile technology solutions and license plate recognition business depends on a small group of large vendors from whom the Company purchases equipment to sell to end users. The Company expects that purchases will be delivered by the vendor on a timely basis. Any disruption in the supply chain could adversely affect the business.
 - The Company is dependent on obtaining acceptable payment and credit terms with certain vendors. The lack of such terms could adversely affect the ability of the Company to purchase and sell product.
 - The Company depends on purchasing product from its vendors at acceptable prices and being able to sell the product to end users at acceptable margins. Unfavourable variances in the prices from vendors and the prices paid by end users would have an adverse effect on the business.
 - The Company resells its products and solutions to a wide variety of manufacturing companies and state and local governments. Any deterioration in the creditworthiness of the Company's customer base could have an adverse effect on the Company's ability to sustain the business without collecting the amounts due from customers.
 - The Company resells its products and sells its solutions to state and local governments and law enforcement agencies. Any delay or decrease in funding of these entities would have an adverse impact on the Company's business.
 - The products sold by the Company are subject to technological obsolescence. To the extent that the Company has non-current inventory, it could be subject to a loss on the sale or write-down of such old or obsolete inventory.
 - Counterparties to purchase and sale agreements of businesses may be in breach of their representations and warranties or covenants to the Company requiring the Company to seek indemnification or other contractual or legal remedy.
 - The majority of the Company's customers purchase product on a purchase-order basis. The Company is dependent on the strength of the economy as well as that of the customer and the customer's capital budget and ability to continue purchasing product sold by the Company.
 - The Company ships its product to customers through third parties and price increases and transportation disruptions could adversely affect the business.
 - The rugged mobile technology solutions business is highly competitive and profit margins can be adversely affected by a host of factors including the availability of sufficient working capital to operate the business. The required working capital may not be available to the Company on acceptable terms or in the amounts required to operate the business profitably.
 - The Company records transactions in Canadian dollars and conducts business primarily in the United States. The volatility of the Canadian dollar against the U.S. dollar can impact financial results negatively should the Canadian dollar appreciate significantly.
 - The Company is a Canadian corporation. While the Company has not yet been affected by the imposition of tariffs on various goods and services, any such tariffs may have an adverse impact on the Company's ability to be price competitive in the markets in which it operates.

- There is no assurance that any forward-looking statement will materialize. Unless otherwise indicated, forward-looking statements describe expectations as of the date of this document.
- Route1 disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

COVID-19

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.

Legal proceedings

In the course of operations, the Company may (i) be subject to litigation claims from customers, suppliers, patent holders, resellers and former employees and (ii) seek to enforce its intellectual and other property rights and rights to indemnification. A provision is recognized when the probability that the event will occur is greater than the probability that it will 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.

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.

REVENUE INFORMATION

Revenue for the recurring revenue and services component is reported as contract liability on the statement of financial position and is recognized as earned revenue for the period in which the

subscription and/or service is provided. For the sale of devices, revenue or contract liability is recognized at the time transfer of ownership of the device occurs. At December 31, 2019, the Company had \$2,039,185 (December 31, 2018 - \$1,687,389) in contract liability.

The following table provides a component 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	31.1	\$6,209,378	23.7
Devices and appliances	16,168,992	68.9	19,972,143	76.1
Other	7,208	0.0	49,225	0.2
	\$24,009,625	100.0	\$26,230,746	100.0

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

ADDITIONAL INFORMATION

Additional information about Route1 is available from Route1's website at www.route1.com, the SEDAR website at www.sedar.com, or by request from Route1's head office at 8 King Street East, Suite 600, Toronto, Ontario, Canada M5C 1B5 (telephone 416-848-8391).