Interim Condensed Consolidated Financial Statements of

Route1 Inc.

March 31, 2020 and 2019

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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As at March 31, 2020 and December 31, 2019
(stated in Canadian dollars)

	Note	**March 31, 2020 Unaudited**	December 31, 2019 Audited
Assets			
Current assets			
Cash and cash equivalents	18,19	**$115,561**	$125,544
Accounts receivable	18,19	**2,982,903**	4,964,615
Other receivables	19	**144,635**	134,640
Inventory	3	**502,337**	451,564
Prepaid expenses		**556,823**	497,748
Other current assets		**88,747**	32,027
Total current assets		**4,391,006**	6,206,138
Non-current assets			
Deferred tax asset		**1,484,000**	1,484,000
Right-of-use assets	5	**822,189**	419,010
Furniture and equipment	5	**1,120,599**	1,214,264
Intangible assets	6	**1,472,640**	1,265,741
Goodwill	7	**2,194,833**	2,019,031
Other non-current assets		**15,924**	21,845
Total non-current assets		**7,110,185**	6,423,891
Total assets		**11,501,191**	12,630,029
Liabilities			
Current liabilities			
Bank indebtedness	10	**1,382,575**	1,359,695
Accounts payable and other liabilities	18,19	**3,725,387**	5,147,494
Contract liability	11,19	**1,571,419**	1,750,169
Lease liabilities	4	**421,952**	389,480
Notes payable	12,19	**430,976**	388,014
Total current liabilities		**7,532,309**	9,034,852
Non-current liabilities			
Deferred tax liability		**209,400**	193,164
Contract liability	11,19	**186,874**	158,146
Other non-current liabilities	19	**480,466**	439,860
Lease liabilities	4	**595,719**	257,981
Litigation funding liability	8,9	**898,645**	898,645
Notes payable	12,19	**647,824**	667,656
Total non-current liabilities		**3,018,928**	2,615,452
Total liabilities		**10,551,237**	11,650,304
Shareholders' equity			
Capital and reserve			
Common shares	13,14	**21,998,243**	22,042,233
Warrants	14	**534,000**	534,000
Contributed surplus – stock compensation reserve	14	**14,949,899**	14,840,861
Accumulated other comprehensive income (loss)		**89,578**	1,547
Deficit		**(36,621,766)**	(36,438,916)
Total shareholders' equity		**949,954**	979,725
Total shareholders' equity and liabilities		**$11,501,191**	$12,630,029

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

Route1 Inc.

For the three months ended March 31, 2020 and 2019
(stated in Canadian dollars)

	Note	March 31, 2020	March 31, 2019
Revenue			
Subscription revenue and services	**20**	**$1,957,722**	$1,576,113
Devices and appliance	**20**	**4,401,363**	1,883,336
Other		**4,237**	2,670
Total revenue		**6,363,322**	3,462,119
Cost of revenue	**3**	**3,997,752**	1,699,993
Gross profit		**2,365,570**	1,762,126
Operating expenses			
General administration		**1,359,220**	996,617
Research and development		**170,562**	84,585
Selling and marketing		**803,833**	612,105
Total operating expenses before stock-based compensation		**2,333,615**	1,693,307
Stock-based compensation	**14**	**109,038**	36,119
Total operating expenses		**2,442,653**	1,729,426
Operating profit (loss) before other income (expense)		**(77,083)**	32,700
Other income (expense)			
Patent litigation	**8**	**(104,101)**	(527,080)
Interest expense		**(44,701)**	(11,463)
Foreign exchange gain		**42,881**	9,651
Gain (loss) on asset disposal		**154**	(16,462)
Total other income (expense)		**(105,767)**	(545,354)
Loss before income taxes		**(182,850)**	(512,654)
Income tax expense		**-**	-
Net loss for the period		**(182,850)**	(512,654)
Other comprehensive income (loss)			
Foreign currency translation		**88,031**	(4,811)
Comprehensive loss		**($94,819)**	($517,465)
Basic and diluted loss per share	**16**	**($0.01)**	($0.01)
Weighted average number of common shares outstanding		**35,859,005**	36,305,500

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Route1 Inc.

For the three months ended March 31, 2020 and 2019
(stated in Canadian dollars)

	Note	Common Shares	Warrants	Contributed Surplus	Accumulated Other Comprehensive Income (loss)	Deficit	Total shareholders' equity
Balance at January 1, 2019		**$22,142,102**	**$534,000**	**$14,552,696**	**($6,694)**	**($35,757,441)**	**$1,464,963**
Stock-based compensation	**14**	**-**	**-**	**36,119**	**-**	**-**	**36,119**
Adoption of IFRS 16		**-**	**-**	**-**	**3,367**	**(127,298)**	**(123,931)**
Comprehensive income (loss)		**-**	**-**	**-**	**(4,811)**	**(512,654)**	**(517,465)**
Balance at March 31, 2019		**$22,142,402**	**$534,000**	**$14,588,815**	**($8,138)**	**($36,397,393)**	**$859,686**

	Note	**Common Shares**	**Warrants**	**Contributed Surplus**	**Accumulated Other Comprehensive Income (loss)**	**Deficit**	**Total shareholders' equity**
Balance at January 1, 2020		**$22,042,233**	**$534,000**	**$14,840,861**	**$1,547**	**($36,438,916)**	**$979,725**
Repurchase of common shares for cancellation	**13**	**(43,990)**	**-**	**-**	**-**	**-**	**(43,990)**
Stock-based compensation	**14**	**-**	**-**	**109,038**	**-**	**-**	**109,038**
Comprehensive income (loss)		**-**	**-**	**-**	**88,031**	**(182,850)**	**(94,819)**
Balance at March 31, 2020		**$21,998,243**	**$534,000**	**$14,949,899**	**$89,578**	**($36,621,766)**	**$949,954**

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Route1 Inc.

For the three months ended March 31, 2020 and 2019
(stated in Canadian dollars)

	Note	March 31, 2020	March 31, 2019
Net cash (outflow) inflow related to the following activities			
Operating activities			
Net loss		**($182,850)**	($512,654)
Items not affecting cash and cash equivalents			
Depreciation and amortization		**326,990**	253,617
Interest accretion on notes payable		**8,984**	-
Interest on lease liabilities		**6,901**	-
Stock-based compensation		**109,038**	36,119
		269,063	(222,918)
Net changes in working capital balances			
Decrease in accounts receivable		**2,208,596**	(1,944,884)
Increase in other receivables		**536**	20,931
Increase in inventory		**(21,534)**	(13,074)
Increase in other assets		**(475)**	(22,580)
Increase in prepaid expenses		**(50,582)**	(125,559)
Increase in deferred expenses		**(56,246)**	4,396
Decrease in accounts payable and other liabilities		**(1,689,616)**	592,106
Decrease in contract liability		**(187,616)**	1,094,238
		203,063	(394,427)
Net cash generated (used) by operating activities		**472,126**	(617,345)
Investing activities			
Acquisition of furniture and equipment		**(33,871)**	(202,605)
Disposal of furniture and equipment		**2,737**	-
Acquisition of right of use assets		**(432,446)**	89,203
Acquisition of intangible assets		**(175,371)**	(114,233)
Other assets		**5,921**	(39,963)
Net cash generated (used) by investing activities		**(633,030)**	(267,598)
Financing activities			
Repayment of notes payable		**(78,008)**	-
Repurchase of common shares for cancellation		**(43,990)**	-
Increase/(decrease) in lease liabilities		**312,379**	(98,374)
Increase in other non-current liabilities		**-**	34,759
Repayment of bank indebtedness		**(25,763)**	-
Proceeds from litigation funding		**-**	264,674
Net cash generated (used) by financing activities		**164,618**	201,059
Net increase (decrease) in cash and cash equivalents for the period		**3,714**	(683,884)
Effects of exchange rate changes on cash		**(13,697)**	(21,916)
Cash and cash equivalents, beginning of period		**125,544**	1,073,195
Cash and cash equivalents, end of period		**$115,561**	$367,395

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

1. NATURE AND DESCRIPTION OF THE COMPANY

Route1 Inc. ("Route1" or "the Company") is a publicly traded company on the TSX Venture Exchange and the OTCQB Venture Market. The Company is incorporated under the laws of the Province of Ontario by articles of amalgamation dated January 1, 2006. The registered office of the Company is 8 King Street East, Suite 600, Toronto, Ontario, M5C 1B5.

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

With offices and staff in Boca Raton, FL, Chandler, AZ, Chattanooga TN, Denver, CO, Glen Allen, VA, and Toronto, Canada, Route1 provides leading-edge solutions to public and private sector clients around the world. Route1 is listed in Canada on the TSX Venture Exchange under the symbol ROI and on the OTCQB in the United States under the symbol ROIUF.

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

The Company has one reportable segment.

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 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 occurred in the last two weeks of March 2020 and continued into the second quarter.

The impact of COVID-19 on the balance of the Company's business has been the disruption in the supply chain for ruggedized devices and accessories during the first quarter of 2020 that has subsequently been corrected, client facility shutdowns and deferral of installation services for certain license plate recognition projects. As various states across the United States take steps to reopen the economy, facilities will reopen and installation activities will resume.

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

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 – "*Interim Financial Reporting*" ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain disclosures included in annual financial statements prepared in accordance with IFRS have been condensed or omitted and these unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2019.

The accounting policies applied in preparation of these interim condensed consolidated financial statements are consistent with those applied and disclosed in the Company's consolidated financial statements for the year ended December 31, 2019.

The preparation of interim condensed consolidated financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The interim results are not necessarily indicative of results for a full year. The critical judgments and estimates applied in the preparation of the Company's interim condensed consolidated financial statements are consistent with those applied to the Company's consolidated financial statements for the year ended December 31, 2019.

Certain comparative figures have been adjusted to conform to the current period's presentation.

These interim condensed consolidated financial statements are presented in Canadian dollars ("Cdn $"), which is also the functional currency of the Company.

3. COST OF REVENUE

Cost of revenue includes the cost of devices, salaries of select staff, hosting of our MobiNET© and royalty related fees. For the three months ended March 31, 2020, the cost of revenue recognized as an expense was $3,997,752 (March 31, 2019 - $1,699,993).

4. LEASES

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

March 31, 2020 and 2019 (stated in Canadian dollars)

The minimum annual basic rent commitments are as follows:

	March 31, 2020
2020	$506,753
2021	555,296
2022 and beyond	397,916
Minimum lease payments	1,459,965
Less: interest portion	70,050
Net minimum lease payments	1,389,915
Less: Short-term or low value lease payments	372,244
	1,017,671
Less: current portion	421,952
	$595,719

The office locations have been recognized in right-of-use assets at the present value of minimum lease payments, less accumulated depreciation. Also, in relation to those leases under IFRS 16, the Company has recognized depreciation and interest costs, instead of operating lease expense. During the three months ended March 31, 2020, the Company recognized $72,886 (March 31, 2019 - $67,835) of depreciation and $7,646 (March 31, 2019 - $12,104) of interest expense from these leases. The Company also recognized $508 (March 31, 2019 - $641) of interest income related to a sublease of the Burlington, Ontario premises which commenced in January 2019.

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

	March 31, 2020
Short-term leases	$43,036
Non-lease components	70,922
	$113,958

March 31, 2020 and 2019 (stated in Canadian dollars)

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

Cost	Right-of-use Asset	Computer Equipment	Furniture and Equipment	TaaS Computer Equipment	Total Furniture and Equipment
Balance at December 31, 2019	$687,288	$2,264,221	$419,142	$1,491,630	$4,862,281
Additions	432,446	13,401	20,470	-	466,317
Disposals	-	-	(4,002)	-	(4,002)
Effect of exchange rate changes	61,025	-	11,631	148,320	220,976
Balance at March 31, 2020	1,180,759	2,277,622	447,241	1,639,950	5,545,572

Accumulated depreciation and impairment	Right-of-use Asset	Computer Equipment	Furniture and Equipment	TaaS Computer Equipment	Total Furniture and Equipment
Balance at December 31, 2019	(268,278)	(1,698,848)	(323,174)	(938,707)	(3,229,007)
Depreciation expense	(73,629)	(34,409)	(17,288)	(142,687)	(268,013)
Disposals	-	-	1,419	-	1,419
Effect of exchange rate changes	(16,663)	-	(6,466)	(84,054)	(107,183)
Balance at March 31, 2020	(358,570)	(1,733,257)	(345,509)	(1,165,448)	(3,602,784)

Net book value	Right-of-use Asset	Computer Equipment	Furniture and Equipment	TaaS Computer Equipment	Total Furniture and Equipment
Balance at December 31, 2019	419,010	565,373	95,968	552,923	1,633,274
Balance at March 31, 2020	**$822,189**	**$544,365**	**$101,732**	**$474,502**	**$1,942,788**

As at March 31, 2020, the net book value of Technology as a Service (“TaaS”) assets was $474,502 representing computing equipment and related accessories owned by the Company and leased out to clients pursuant to contracts typically with a duration of 36 months. These assets are depreciated over the life of the contracts. The Company provides certain management services for this equipment including provision of equipment and related accessories, software, management, maintenance, support and documentation. The Company currently has five TaaS customers with contracts in place.

For the three months ended March 31, 2020, depreciation and amortization expense of $268,013 (March 31, 2019 - $233,938) was recognized in general administration expense.

March 31, 2020 and 2019 (stated in Canadian dollars)

6. INTANGIBLE ASSETS

Cost	**Patents**	**Software**	**Brand**	**Customer Relationships**	**Vendor Relationships**	**Trademarks & Tradenames**	**Total Intangible Assets**
Balance at December 31, 2019	$190,266	$659,520	$122,225	$506,941	$458,045	$163,588	$2,100,585
Additions	**-**	**9,250**	**15,414**	**-**	**-**	**-**	**24,664**
Intangible assets under construction	**-**	**150,707**	**-**	**-**	**-**	**-**	**150,707**
Effect of exchange rate changes	**-**	**-**	**-**	**47,770**	**38,500**	**13,750**	**100,020**
Balance at March 31, 2020	**190,266**	**819,477**	**137,639**	**554,711**	**496,545**	**177,338**	**2,375,976**

Accumulated depreciation and impairment	**Patents**	**Software**	**Brand**	**Customer Relationships**	**Vendor Relationships**	**Trademarks & Tradenames**	**Total Intangible Assets**
Balance at December 31, 2019	(42,419)	(590,765)	(106,900)	(65,010)	(23,139)	(6,611)	(834,844)
Depreciation expense	**(2,500)**	**(16,187)**	**(5,208)**	**(17,347)**	**(12,014)**	**(5,721)**	**(58,977)**
Effect of exchange rate changes	**-**	**-**	**-**	**(6,459)**	**(2,088)**	**(968)**	**(9,515)**
Balance at March 31, 2020	**(44,919)**	**(606,952)**	**(112,108)**	**(88,816)**	**(37,241)**	**(13,300)**	**(903,336)**

Net book value	**Patents**	**Software**	**Brand**	**Customer Relationships**	**Vendor Relationships**	**Trademarks & Tradenames**	**Total Intangible Assets**
Balance at December 31, 2019	147,847	68,755	15,325	441,931	434,906	156,977	1,265,741
Balance at March 31, 2020	**$145,347**	**$212,525**	**$25,531**	**$465,895**	**$459,304**	**$164,038**	**$1,472,640**

For the three months ended March 31, 2020, depreciation and amortization expense of $58,977 (March 31, 2019 - $19,679) was recognized in general administration expense.

7. GOODWILL

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

Balance, January 1, 2020	$2,019,031
Effect of exchange rates	**175,802**
Balance at March 31, 2020	**$2,194,833**

The Company performs impairment assessments of goodwill at year-end or when an event occurs that impacts the value of the entities that gave rise to the goodwill.

8. PATENT LITIGATION

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

Patent litigation expenses for the three months ended March 31, 2020, were $104,101 (March 31, 2019 - $527,080).

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

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

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

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

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

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

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

On August 7, 2019, Route1 was provided with a court order in relation to Route1's action against AirWatch. The court granted AirWatch's motion for summary judgment for non-infringement (the

"Order"). On October 7, 2019, Route1 appealed to the United States Court of Appeals for the Federal Circuit from the district court's August 7, 2019 decision. The district court's decision became appealable after the stipulated dismissal of AirWatch's counterclaim challenging the validity of the 216 Patent. Briefing on the appeal was completed during the first quarter of 2020.

On October 28, 2019, AirWatch filed a motion in district court to claim cost reimbursement for the litigation. On March 31, 2020, the district court entered an order granting AirWatch's request for attorneys' fees in part, and directing further submissions from the parties regarding the amount of fees to be awarded.

9. PATENT LITIGATION FINANCING

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

i. The US $1,000,000 investment will be paid by Bench Walk to Route1 as follows:
   a) US $152,510 paid within 10 business days after signing, representing 40% of the patent litigation expenses incurred to date; and thereafter
   b) 40% of the ongoing litigation expenses incurred by Route1 in connection with legal costs and out of pocket expenses including experts incurred in bringing the lawsuit to a maximum of US $1,000,000 including the reimbursement in (a) above.

ii. Bench Walk is entitled to a share of any proceeds awarded to Route1 from the lawsuit equal to:
   a) the sum of all investments advanced by Bench Walk; plus
   b) the greater of (1) US $2,000,000 (US $3,000,000 if the lawsuit proceeds to trial); and (2) 10% of the award from the lawsuit.

iii. Provided that Route1 is not in breach of any of its obligations under the agreement, Bench Walk will have no recourse to any other assets of Route1.

iv. Should Route1 pursue any follow-on lawsuit and not seek to sell a portion or to engage in a transaction having substantially similar economic effect, Route1 shall pay to Bench Walk 5% of the gross proceeds awarded to Route1 from that follow-on lawsuit (subject to a maximum aggregate payment to Bench Walk under this provision of US $1,500,000).

The reimbursements received from Bench Walk pursuant to its investment have been accounted for as a long-term liability within the consolidated financial statements. All such amounts are non-recourse to the Company. In connection with the terms of the agreement, the Company does not have a present obligation to pay any amounts until such time as the litigation has been settled or an event of default has occurred. In the event of an award or settlement of the litigation, the Company will be obligated to pay Bench Walk the greater of 10% of such award or settlement and US $2,000,000; or US $3,000,000 if the litigation proceeds to trial.

During the fourth quarter of 2019, the Company and Bench Walk agreed that Bench Walk would not fund the legal expenses for the appeal of the Delaware District Court's summary judgment decision rendered in August 2019. If the appeal is successful, Bench Walk will reimburse the Company for its portion of the expenses incurred.

March 31, 2020 and 2019 (stated in Canadian dollars)

10. BANK INDEBTEDNESS

The Company's credit facility consists of a revolving demand facility in the amount of $875,000 (March 31, 2019 - $500,000) and a $100,000 credit card facility (March 31, 2019 - $100,000). In March 2020, the revolving demand facility was increased by 10% to $962,500 until July 20, 2020 as a result of the lender's credit policy during the COVID-19 pandemic. The operating facility carries an interest rate equal to the lender's prime rate of interest plus 1.5% (March 31, 2019 – prime rate of interest plus 1%). As at March 31, 2020, the interest rate was 3.95%. The credit facility is secured by the assets of Route1 Inc. and guaranteed by GMI. As at March 31, 2020, the balance drawn on the revolving demand facility was $844,812.

On June 28, 2019, the Company's wholly owned subsidiary, PCS, entered into an asset based revolving credit facility in the amount of US $1,500,000. The facility carries an interest rate of 50 basis points over the prime rate published daily in the Wall Street Journal. As at March 31, 2020, the interest rate was 3.75%. The availability under the facility is based on a percentage of the aggregate of certain accounts receivable and inventory. The facility is secured by the assets of PCS and is guaranteed by the Company and a wholly owned subsidiary of the Company. As at March 31, 2020, the balance drawn on the revolving demand facility was $537,763.

11. CONTRACT LIABILITY

Contract liability is comprised of:

	March 31, 2020	December 31, 2019
Subscription revenue and services – current	**$1,571,419**	$1,750,169
Subscription revenue and services – long-term	**186,874**	158,146
Total contract liability	**$1,758,293**	$1,908,315

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

12. NOTES PAYABLE

	March 31, 2020
Promissory note A (US $250,000; due 2022)	$354,675
Promissory note B (US $720,000; due 2022)	766,098
	1,120,773
Less: unamortized deferred debt discount	(41,973)
	1,078,800
Less: current portion of notes payable	(430,976)
	$647,824

The U.S. dollar denominated debt was translated into Canadian dollars at the period end exchange rate of US $1 = C $1.4187.

March 31, 2020 and 2019 (stated in Canadian dollars)

Pursuant to the acquisition of PCS on June 28, 2019, the Company's wholly owned subsidiary, PCS, issued two notes to the vendor of PCS. The terms of these notes are as follows:

Unsecured Promissory Note A	
Principal Amount	US $250,000
Interest Rate	3% per annum, payable annually
Repayment	US $80,000 on June 28, 2020; US $80,000 on June 28, 2021; and US $90,000 on June 28, 2022
Unsecured Promissory Note B	
Principal Amount	US $720,000
Interest Rate	2.37% per annum, payable monthly
Repayment	US $20,000 per month for 36 months commencing July 31, 2019

The notes are subordinated to the asset-based credit facility in PCS. The notes are guaranteed as to payment by the Company's wholly owned subsidiary, GMI.

Principal debt repayment, as at March 31, 2020, in each of the next three fiscal years is as follows:

	Cash Repayment	Reduction of Recorded Liability
2020	$368,862	$349,508
2021	453,984	436,527
2022	297,927	292,765
	$1,120,773	$1,078,800

13. 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 March 31, 2020 were 487,491 common shares.

In May 2020 the Company announced an amendment to the Normal Course Issuer Bid (NCIB), increasing the maximum purchase price per common share purchased under the NCIB to $0.75 from $0.60.

March 31, 2020 and 2019 (stated in Canadian dollars)

For the three months ended March 31, 2020, the Company purchased 105,491 (March 31, 2019 – nil) shares for cancellation under the NCIBs at an average price of approximately $0.42 per share.

14. SHARE CAPITAL, WARRANTS AND CONTRIBUTED SURPLUS

Pursuant to a resolution passed at the Company's annual meeting on November 26, 2018, the Company amended its Articles of Amalgamation on August 13, 2019 to consolidate the number of shares outstanding on the basis of one new common share for ten old common shares. As a result of the share consolidation, all amounts have been adjusted retroactively.

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

	Number of Common Shares	Common Shares $
Balance, January 1, 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	35,905,100	22,042,233
Shares repurchased for cancellation	(105,491)	(43,990)
Balance, March 31, 2020	35,799,609	$21,998,243

- 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.

March 31, 2020 and 2019 (stated in Canadian dollars)

Warrants Outstanding

	Number of Warrants	Warrant $
Balance, January 1, 2019	30,000,000	534,000
Issued	**-**	**-**
Exercised	**-**	**-**
Expired	**-**	**-**
Balance, March 31, 2020	**30,000,000**	**$534,000**

Warrant Valuation

	2018
Share price on issue date	$0.20
Risk free interest rate	1.94%
Expected life (years)	3
Expected volatility	207%
Dividend yield	Nil
Fair value of warrants issued as partial consideration for the acquisition of GMI	$0.178

The Black-Scholes option pricing model is used by the Company to determine the fair value of the warrants issued as partial consideration for the purchase of GMI. A total fair value of $534,000 was determined.

Stock-based compensation

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

March 31, 2020 and 2019 (stated in Canadian dollars)

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

Options Outstanding	**March 31, 2020** Number of Options	**March 31, 2020** Weighted Average Exercise Price	December 31, 2019 Number of Options	December 31, 2019 Weighted Average Exercise Price
Balance, beginning of the period	**3,397,500**	**$0.55**	2,637,700	$0.53
Options granted during the period	**-**	**-**	1,180,000	0.60
Options expired during the period	**-**	**-**	(87,500)	0.50
Options exercised during the period	**-**	**-**	(103,700)	0.50
Options forfeited during the period	**-**	**-**	(229,000)	0.60
Balance, end of the period	**3,397,500**	**$0.55**	3,397,500	$0.55

Exercise Price	**Options Outstanding March 31, 2020** Number of Options	**Options Outstanding March 31, 2020** Weighted Average Remaining Contractual Life (Years)	**Options Exercisable March 31, 2020** Number of Options	**Options Exercisable March 31, 2020** Weighted Average Remaining Contractual Life (Years)
$0.50	**1,222,500**	**2.6**	**642,500**	**1.4**
$0.55	**1,475,000**	**0.5**	**1,335,000**	**0.2**
$0.65	**700,000**	**4.1**	**-**	**-**
	3,397,500	**2.0**	**1,997,500**	**0.6**

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

For the three months ended March 31, 2020, the Company recorded stock-based compensation expense of $109,038 (March 31, 2019 - $36,119).

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

March 31, 2020 and 2019 (stated in Canadian dollars)

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

Option Valuation

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

Contributed surplus

Contributed surplus represents expired warrants and the amortized fair value of stock options granted under the stock option plan, determined using the Black-Scholes option pricing model. The fair value is amortized to income on a graded, vested basis over the vesting period with a corresponding increase to contributed surplus. Upon exercise of stock options, the consideration paid by the holder is included in share capital and the related contributed surplus associated with the stock options exercised is transferred into share capital.

	Three months ended March 31, 2020	Year ended December 31, 2019
Balance, beginning of the period	**$14,840,861**	$14,552,696
Options expensed in the period	**109,038**	322,569
Options exercised in the period	**-**	(34,404)
Balance, end of the period	**$14,949,899**	$14,840,861

15. 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 incurred expenses (including CPP and EHT) payable to and on behalf of the independent members of the Board of Directors of $93,282 for the quarter ended March 31, 2020 (March 31, 2019 - $72,398). These transactions are in the normal course of operations and are paid or payable for directorship services. As at March 31, 2020, accounts payable included

March 31, 2020 and 2019 (stated in Canadian dollars)

$97,813 owing to or payable on behalf of the directors (December 31, 2019 - $102,088). The Company also incurred stock-based compensation expense related to stock options granted to directors in the amount of $31,512 for the quarter ended March 31, 2020 (March 31, 2019 - $2,065).

- The Company made payments to or incurred expenses for key management (Chief Executive Officer, Chief Technology Officer and the Chief Financial Officer) in the three months ended March 31, 2020 as follows, with 2019 comparatives.

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Short-term employee benefit	**$248,830**	$144,526
Stock-based compensation expense	**18,417**	15,499
	$267,247	$160,025

16. EARNINGS PER SHARE

The Company uses the treasury stock method to calculate basic and diluted earnings per share. Basic earnings per share have been calculated based on the weighted average number of common shares without the inclusion of dilutive effects. Diluted earnings per share are calculated based on the weighted average number of common shares plus dilutive common share equivalents outstanding which consist of options and warrants to purchase common shares. For the three months ended March 31, 2020 and 2019 all outstanding options and warrants were considered anti-dilutive because the Company recorded a loss over these periods.

	Three Months Ended March 31, 2020	**Three Months Ended March 31, 2019**
Net loss	**($182,850)**	($508,675)
Weighted average number of common shares outstanding	**35,859,005**	36,305,500
Basic and diluted loss per share	**($0.01)**	($0.01)

17. COMMITMENTS AND CONTINGENCIES

(i) Legal matters

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

(ii) Foreign exchange

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

18. CAPITAL MANAGEMENT

The Company's objectives when managing capital is to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk. The Company manages its share capital, warrant reserve and contributed surplus as capital, the balance of which is $37,482,142 at March 31, 2020 ($37,417,094 at December 31, 2019).

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

Capital management objectives, policies and procedures have not changed from the preceding period.

In the normal course of business operations of GMI and PCS, the Company may be required to guarantee certain trade payables to the value-added distributors from which GMI and PCS purchase product to sell to their customers. Such guarantees would be enforced only if GMI or PCS could not pay the distributor for goods acquired from such distributor and the amounts under such guarantees would vary from time to time based on the volume of purchases from the particular distributor. The Company has entered into these continuing, unconditional guarantees with several of the larger vendors/suppliers to GMI and PCS.

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

19. FINANCIAL INSTRUMENTS - RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

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

	Credit	**Liquidity**	**Foreign Exchange**	**Interest Rate**
Cash and cash equivalents	Yes		Yes	Yes
Accounts receivable	Yes		Yes	
Other receivables	Yes		Yes	
Bank indebtedness		Yes	Yes	Yes
Accounts payable and other liabilities		Yes	Yes	
Notes payable		Yes	Yes	

Credit risk

Credit risk arises from cash held with banks and credit exposure to customers, including outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value (net of allowances) of the financial assets. The objective of managing credit risk is to prevent losses on financial assets. The Company assesses the credit quality of counterparties, taking into account their financial position, past experience and other factors. During the quarter ended March 31, 2020, the largest single customer represented approximately $464,000 of revenue (March 31, 2019 - $1,856,000).

March 31, 2020 and 2019 (stated in Canadian dollars)

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 March 31, 2020, 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 $115,561 (December 31, 2019 - $125,544).

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 March 31, 2020, the largest single customer's account receivable represented $319,060 (December 31, 2019 – $1,148,251) of the total accounts receivable. This account receivable was collected in full subsequent to the end of the period.

The following table outlines the details of the aging of the Company's receivables as at March 31, 2020 and December 31, 2019

	March 31, 2020	December 31, 2019
Current	**$2,638,493**	$3,704,055
Past due		
1 – 60 days	**238,250**	1,066,043
Greater than 60 days	**106,160**	194,517
Less: Allowance for doubtful accounts	**-**	-
Total accounts receivable, net	**$2,982,903**	$4,964,615

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.

March 31, 2020 and 2019 (stated in Canadian dollars)

The Company's ability to manage its liquidity risk going forward will require some or all of the following: the ability to generate positive cash flows from operations and secure capital and/or credit facilities on reasonable terms in the current marketplace. The following table details the Company's contractual maturities for its financial liabilities, including interest payments and operating lease commitments, as at March 31, 2020:

	2020	**2021**	**2022 and Beyond**	**Total**
Accounts payable and other liabilities	$3,725,387	$480,466	$-	$4,205,853
Notes payable	368,862	454,010	297,927	1,120,799
Lease commitments	515,187	555,296	397,916	1,468,399
	$4,609,436	$1,489,772	$695,843	$6,795,051

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

Market risk

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

Foreign exchange

The functional currency of the parent company is Canadian dollars and the reporting currency is Canadian dollars. As at March 31, 2020, the Company had non-Canadian dollar net monetary liabilities of approximately US $207,000 (December 31, 2019 – net monetary assets of approximately US $443,000). An increase or decrease in the U.S. to Canadian dollar exchange rate by 5% as at March 31, 2020 would have resulted in a gain or loss in the amount of $10,350 (December 31, 2019 – gain or loss of $22,150).

Interest rate

The Company has cash balances and bank indebtedness which may be exposed to interest rate fluctuations. At March 31, 2020, cash balances were $115,561 (December 31, 2019 - $125,544), bank indebtedness balances were $1,382,575 (December 31, 2019 – $1,359,695) and the interest rate sensitivity is not material.

20. REVENUE AND SEGMENTED INFORMATION

Revenue for the recurring revenue and services is reported as a contract liability on the statement of financial position and is recognized as earned revenue for the period in which the subscription and/or service is provided. For the sale of devices, revenue or contract liability is recognized at the time transfer of ownership of the device occurs.

March 31, 2020 and 2019 (stated in Canadian dollars)

The following table provides a presentation of the Company's revenue streams for the quarter ended March 31, 2020 and 2019:

	2020		2019	
	Revenue	**% of Total**	Revenue	% of Total
Subscription revenue and services	**$1,957,722**	**30.8**	$1,576,113	45.5
Devices and appliances	**4,401,363**	**69.1**	1,883,336	54.4
Other	**4,237**	**0.1**	2,670	0.1
	$6,363,322	**100.0**	$3,462,119	100.0

The following table provides a geographic presentation of the Company's revenue streams for the quarter ended March 31, 2020 and 2019:

	2020		2019	
	Revenue	**% of Total**	Revenue	% of Total
USA	**$6,335,232**	**99.6**	$3,428,769	99.0
Canada	**28,090**	**0.4**	33,350	1.0
	$6,363,322	**100.0**	$3,462,119	100.0

The following table provides a geographic presentation of the Company's right-of-use assets, furniture and equipment and intangible assets for the quarter ended March 31, 2020 and the year ended December 31, 2019:

	2020		2019	
	Assets	**% of Total**	Assets	% of Total
USA	**$1,804,840**	**61.4**	$1,866,553	65.5
Canada	**1,136,083**	**38.6**	1,032,462	34.5
	$2,940,923	**100.0**	$2,899,015	100.0