



*Interim Condensed Consolidated Financial Statements of*

**Route1 Inc.**

*September 30, 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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# INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

## Route1 Inc.

As at September 30, 2020 and December 31, 2019  
(stated in Canadian dollars)

	Note	September 30, 2020 Unaudited	December 31, 2019 Audited
<b>Assets</b>			
Current assets			
Cash and cash equivalents	21	\$ -	\$ 125,544
Restricted cash	5	2,226,065	-
Accounts receivable	21	4,847,460	4,964,615
Other receivables	21	151,944	134,640
Inventory	3	743,738	451,564
Prepaid expenses		622,435	497,748
Other current assets		244,633	32,027
<b>Total current assets</b>		<b>8,836,275</b>	<b>6,206,138</b>
Non-current assets			
Deferred tax asset		1,484,000	1,484,000
Right-of-use assets	6	1,005,721	419,010
Furniture and equipment	6	994,217	1,214,264
Intangible assets	7	1,361,300	1,265,741
Goodwill	8	2,063,642	2,019,031
Other non-current assets		3,874	21,845
<b>Total non-current assets</b>		<b>6,912,754</b>	<b>6,423,891</b>
<b>Total assets</b>		<b>\$15,749,029</b>	<b>\$12,630,029</b>
<b>Liabilities</b>			
Current liabilities			
Bank indebtedness	12	\$ 1,488,816	\$ 1,359,695
Accounts payable and other liabilities	21	5,666,984	5,147,494
Contract liability	13,21	5,039,092	1,750,169
Lease liabilities	5	418,699	389,480
Notes payable	14,21	771,667	388,014
<b>Total current liabilities</b>		<b>13,385,258</b>	<b>9,034,852</b>
Non-current liabilities			
Deferred tax liability		172,273	193,164
Contract liability	13,21	101,101	158,146
Other non-current liabilities	21	85,447	439,860
Lease liabilities	5	720,587	257,981
Litigation funding liability	9,10	898,645	898,645
Notes payable	14,21	348,980	667,656
<b>Total non-current liabilities</b>		<b>2,327,033</b>	<b>2,615,452</b>
<b>Total liabilities</b>		<b>15,712,291</b>	<b>11,650,304</b>
<b>Shareholders' equity</b>			
Capital and reserve			
Common shares	15,16,20	21,554,787	22,042,233
Warrants	16,20	534,000	534,000
Contributed surplus – stock compensation reserve	16,20	15,167,195	14,840,861
Accumulated other comprehensive income (loss)		(9,072)	1,547
Deficit		(37,210,172)	(36,438,916)
<b>Total shareholders' equity</b>		<b>36,738</b>	<b>979,725</b>
<b>Total shareholders' equity and liabilities</b>		<b>\$15,749,029</b>	<b>\$12,630,029</b>
Commitments and contingencies	19		
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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 and nine months ended September 30, 2020 and 2019  
(stated in Canadian dollars)

	Note	Three months ended September 30 Unaudited		Nine months ended September 30 Unaudited	
		2020	2019	2020	2019
<b>Revenue</b>					
Subscription revenue and services	22	\$2,599,425	\$2,136,191	\$7,046,197	\$5,322,098
Devices and appliances	22	6,523,329	6,575,428	15,401,525	10,277,826
Other		24,737	2,274	31,753	6,325
<b>Total revenue</b>		<b>9,147,491</b>	<b>8,713,893</b>	<b>22,479,475</b>	<b>15,606,249</b>
<b>Cost of revenue</b>	3	<b>6,134,052</b>	<b>5,952,728</b>	<b>14,319,512</b>	<b>9,324,790</b>
<b>Gross profit</b>		<b>3,013,439</b>	<b>2,761,165</b>	<b>8,159,963</b>	<b>6,281,459</b>
<b>Operating expenses</b>					
General administration		1,456,475	1,156,666	4,297,480	3,169,323
Research and development		188,751	185,825	563,166	417,010
Selling and marketing		916,970	993,648	2,605,645	2,267,298
<b>Total operating expenses before stock-based compensation</b>		<b>2,562,196</b>	<b>2,336,139</b>	<b>7,466,291</b>	<b>5,853,631</b>
Stock-based compensation	16	76,126	106,367	326,334	224,925
<b>Total operating expenses</b>		<b>2,638,322</b>	<b>2,442,506</b>	<b>7,792,625</b>	<b>6,078,556</b>
<b>Operating profit before other income (expense)</b>		<b>375,117</b>	<b>318,659</b>	<b>367,338</b>	<b>202,903</b>
<b>Other income (expense)</b>					
Patent litigation	9,10	(381,162)	(278,670)	(551,774)	(1,094,657)
Interest expense		(30,183)	(32,780)	(110,154)	(55,316)
Foreign exchange gain (loss)		(43,733)	(6,549)	(32,951)	11,872
Gain (loss) on asset disposal		-	-	154	(16,462)
Other expense		(620,392)	-	(620,392)	-
Gain on litigation settlement		218,391	-	218,391	-
Acquisition (expense) recovery		2,260	-	(13,885)	(73,780)
<b>Total other income (expense)</b>		<b>(854,819)</b>	<b>(317,999)</b>	<b>(1,110,611)</b>	<b>(1,228,343)</b>
<b>Income (loss) before income taxes</b>		<b>(479,702)</b>	<b>660</b>	<b>(743,273)</b>	<b>(1,025,440)</b>
<b>Income tax expense</b>		<b>(48,603)</b>	<b>-</b>	<b>(27,983)</b>	<b>(40,104)</b>
<b>Net income (loss) for the period</b>		<b>(528,305)</b>	<b>660</b>	<b>(771,256)</b>	<b>(1,065,544)</b>
<b>Other comprehensive income (loss)</b>					
Foreign currency translation		(40,449)	(21,536)	(10,619)	(23,518)
<b>Comprehensive loss</b>		<b>(\$568,754)</b>	<b>(\$20,876)</b>	<b>(\$781,875)</b>	<b>(\$1,089,062)</b>
<b>Basic and diluted income (loss) per share</b>	18	<b>(\$0.01)</b>	<b>\$0.00</b>	<b>(\$0.02)</b>	<b>(\$0.03)</b>
<b>Weighted average number of common shares outstanding</b>		<b>35,297,805</b>	<b>36,854,532</b>	<b>35,627,992</b>	<b>36,519,132</b>

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



# INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

## Route1 Inc.

For nine months ended September 30, 2020 and 2019  
(stated in Canadian dollars)

	Note	September 30, 2020	September 30, 2019
<b>Net cash inflow (outflow) related to the following activities</b>			
<b>Operating activities</b>			
Net loss		(\$771,256)	(\$1,065,544)
Items not affecting cash and cash equivalents			
Depreciation and amortization		999,934	837,585
Interest accretion on notes payable		26,265	6,737
Interest on lease liabilities		26,335	-
Recovery of deferred tax liability expense		(25,499)	-
Stock-based compensation	16	326,334	224,925
		582,113	3,703
Net changes in working capital balances			
Decrease (increase) in accounts receivable		204,614	(766,377)
Increase in other receivables		(25,875)	(9,385)
Decrease (increase) in inventory		(298,769)	701,035
Increase in other assets		(1,440)	(23,542)
Increase in prepaid expenses		(128,624)	(158,822)
Decrease (increase) in deferred expenses		(211,166)	6,035
Increase (decrease) in accounts payable and other liabilities		423,160	(152,351)
Increase in contract liability		3,224,765	664,317
		3,186,665	260,910
Net cash generated by operating activities		3,768,778	264,613
<b>Investing activities</b>			
Acquisition of furniture and equipment	6	(303,485)	(523,491)
Disposal of furniture and equipment	6	2,737	13,287
Disposal (acquisition) of right of use assets	6	(833,318)	89,203
Acquisition of intangible assets	7	(246,222)	(83,146)
Cash acquired in business combination		-	259,161
Other assets		17,971	(27,960)
Investment in subsidiary		-	(1,347,961)
Net cash used by investing activities		(1,362,317)	(1,620,907)
<b>Financing activities</b>			
Repayment of notes payable	14	3,184	(79,372)
Repurchase of common shares for cancellation	15	(487,446)	(506,802)
Increase (decrease) in lease liabilities		454,577	(299,733)
Increase in other non-current liabilities		-	(159,153)
Decrease in long-term liabilities		(363,086)	-
Issuance of share capital - net		-	45,790
Bank indebtedness		106,484	1,144,159
Proceeds from litigation funding		-	505,623
Net cash generated (used) by financing activities		(286,287)	650,512
<b>Net increase (decrease) in cash and cash equivalents for the period</b>		<b>2,120,174</b>	<b>(705,782)</b>
<b>Effects of exchange rate changes on cash</b>		<b>(19,653)</b>	<b>(47,877)</b>
<b>Cash and cash equivalents, beginning of period</b>		<b>125,544</b>	<b>1,073,195</b>
<b>Cash and cash equivalents, end of period</b>		<b>\$2,226,065</b>	<b>\$319,536</b>

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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Route1 Inc.

September 30, 2020 and 2019 (stated in Canadian dollars)

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### 1. NATURE AND DESCRIPTION OF THE COMPANY

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

Route1 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, Cincinnati, OH, 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 significant volatility. 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 continue to be reflected in the financial results for the third quarter of 2020 and beyond as the Company received a major contract in the latter part of the third 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 mostly been corrected. In addition, client facility shutdowns and deferral of installation services for certain license plate recognition projects have also occurred as a result of the virus. 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.



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Route1 Inc.

September 30, 2020 and 2019 (stated in Canadian dollars)

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### 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 September 30, 2020, the cost of revenue recognized as an expense was \$6,134,052 (September 30, 2019 - \$5,952,728). For the nine months ended September 30, 2020, the cost of revenue recognized as an expense was \$14,319,512 (September 30, 2019 - \$9,324,790).

### 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; Cincinnati, Ohio; 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.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2020 and 2019 (stated in Canadian dollars)

The minimum annual basic rent commitments are as follows:

	September 30, 2020
2020	\$178,009
2021	641,910
2022 and beyond	736,532
Minimum lease payments	<u>1,556,451</u>
Less: interest portion	77,048
Net minimum lease payments	<u>1,479,404</u>
Less: Short-term or low value lease payments	340,118
	<u>1,139,286</u>
Less: current portion	418,699
	<u><u>\$720,587</u></u>

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 September 30, 2020, the Company recognized \$92,606 (September 30, 2019 - \$66,266) of depreciation and \$9,964 (September 30, 2019 - \$11,054) of interest expense from these leases. The Company also recognized \$617 (September 30, 2019 - \$639) 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:

	September 30, 2020
Short-term leases	\$43,036
Non-lease components	203,395
	<u>\$246,431</u>

## 5. RESTRICTED CASH

The Company has a restricted cash balance of \$2,226,065. The Company deposited cash to fully collateralize a letter of credit in favour of the surety that posted a bond with the United States District Court for the District of Delaware in connection with the Company's patent litigation in the United States. For further information, see Note 9, "PATENT LITIGATION" of these financial statements.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2020 and 2019 (stated in Canadian dollars)

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

Cost	Right-of-use Asset	Computer Equipment	Furniture and Equipment	TaaS Computer Equipment	Total
Balance at December 31, 2019	\$687,288	\$2,264,221	\$419,142	\$1,491,630	\$4,862,281
<b>Additions</b>	<b>833,318</b>	<b>227,172</b>	<b>52,880</b>	<b>23,433</b>	<b>1,136,803</b>
<b>Disposals</b>	<b>(155,638)</b>	<b>-</b>	<b>(4,002)</b>	<b>-</b>	<b>(159,640)</b>
Effect of exchange rate changes	8,359	-	2,940	49,216	60,515
<b>Balance at September 30, 2020</b>	<b>1,373,327</b>	<b>2,491,393</b>	<b>470,960</b>	<b>1,564,279</b>	<b>5,899,959</b>

Accumulated depreciation and impairment	Right-of-use Asset	Computer Equipment	Furniture and Equipment	TaaS Computer Equipment	Total
Balance at December 31, 2019	(268,278)	(1,698,848)	(323,174)	(938,707)	(3,229,007)
<b>Depreciation expense</b>	<b>(257,703)</b>	<b>(114,644)</b>	<b>(48,357)</b>	<b>(403,264)</b>	<b>(823,968)</b>
<b>Disposals</b>	<b>155,638</b>	<b>-</b>	<b>1,368</b>	<b>-</b>	<b>157,006</b>
Effect of exchange rate changes	2,736	-	1,025	(7,813)	(4,052)
<b>Balance at September 30, 2020</b>	<b>(367,607)</b>	<b>(1,813,492)</b>	<b>(369,138)</b>	<b>(1,349,784)</b>	<b>(3,900,021)</b>

Net book value	Right-of-use Asset	Computer Equipment	Furniture and Equipment	TaaS Computer Equipment	Total
Balance at December 31, 2019	419,010	565,373	95,968	552,923	1,633,274
<b>Balance at September 30, 2020</b>	<b>\$1,005,720</b>	<b>\$677,901</b>	<b>\$101,822</b>	<b>\$214,495</b>	<b>\$1,736,938</b>

As at September 30, 2020, the net book value of Technology as a Service (“TaaS”) assets was \$214,495 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 two TaaS customers with contracts in place.

For the three months ended September 30, 2020, depreciation and amortization expense of \$267,544 (September 30, 2019 - \$250,126) was recognized in general administration expense. For the nine months ended September 30, 2020, depreciation and amortization expense of \$823,968 (September 30, 2019 - \$719,984) was recognized in general administration expense.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2020 and 2019 (stated in Canadian dollars)

#### 7. 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
<b>Additions</b>	<b>3,142</b>	<b>21,050</b>	<b>71,323</b>	-	-	-	<b>95,515</b>
Intangible assets under construction	-	150,707	-	-	-	-	150,707
Effect of exchange rate changes	-	-	-	14,614	8,820	3,150	26,584
<b>Balance at September 30, 2020</b>	<b>193,408</b>	<b>831,277</b>	<b>193,548</b>	<b>521,555</b>	<b>466,865</b>	<b>166,738</b>	<b>2,373,391</b>

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	(8,332)	(52,264)	(22,656)	(43,985)	(34,469)	(14,260)	(175,966)
Effect of exchange rate changes	-	-	-	(560)	(750)	29	(1,281)
<b>Balance at September 30, 2020</b>	<b>(50,751)</b>	<b>(643,029)</b>	<b>(129,556)</b>	<b>(109,554)</b>	<b>(58,358)</b>	<b>(20,842)</b>	<b>(1,012,091)</b>

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
<b>Balance at September 30, 2020</b>	<b>\$142,657</b>	<b>\$188,248</b>	<b>\$63,992</b>	<b>\$412,001</b>	<b>\$408,507</b>	<b>\$145,895</b>	<b>\$1,361,300</b>

For the three months ended September 30, 2020, depreciation and amortization expense of \$60,338 (September 30, 2019 - \$68,974) was recognized in general administration expense. For the nine months ended September 30, 2020, depreciation and amortization expense of \$175,966 (September 30, 2019 - \$118,900) was recognized in general administration expense.

#### 8. GOODWILL

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

Balance, January 1, 2020	\$2,019,031
Effect of exchange rates	<u>44,611</u>
<b>Balance at September 30, 2020</b>	<b><u>\$2,063,642</u></b>

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.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2020 and 2019 (stated in Canadian dollars)

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#### 9. PATENT LITIGATION

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

Patent litigation expenses for the three months ended September 30, 2020, were \$387,642 (September 30, 2019 - \$278,670). Patent litigation expenses for the nine months ended September 30, 2020, were \$558,254 (September 30, 2019 - \$1,094,657).

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.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

#### September 30, 2020 and 2019 (stated in Canadian dollars)

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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 in April 2020. The Federal Circuit Court of Appeal heard the appeal on the briefs on September 3, 2020. On October 8, 2020, the Federal Circuit Court of Appeal affirmed the district court's prior decision granting summary judgment to AirWatch on Route1's claim for infringement of the 216 Patent.

On October 28, 2019, AirWatch filed a motion in district court for an exceptional case finding and for attorneys' fees. 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.

On August 24, 2020, the United States District Court for the District of Delaware issued an order granting AirWatch's motion for attorneys' fees in part and denying it in part, ordering a payment to AirWatch in the amount of US\$1,666,672.78. On September 22, 2020, Route1 appealed the decision to the United States Court of Appeals for the Federal Circuit. The federal rules provide an automatic stay of execution of the judgment for 30 days. Upon commencing the appeal, Route1 secured a stay of execution during the appeal by posting a supersedeas bond in the amount of US\$1,669,840 (\$2,226,065) including statutory interest for one year.

#### 10. 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).

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### Route1 Inc.

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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 would have been successful, Bench Walk would have reimbursed the Company for its portion of the expenses incurred. Upon receipt of the decision of the United States Federal Circuit Court of Appeal granting summary judgment to AirWatch on October 7, 2020, Bench Walk terminated its financing arrangement with Route1 on a non-recourse basis to Route1. Neither Route1 nor Bench Walk have any further obligations to each other under the litigation funding agreement in respect of the AirWatch litigation in the United States.

#### 11. BUSINESS COMBINATION – PCS

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

The purchase consideration has been accounted for as follows:

Cash	\$1,347,961
Notes payable, discounted	1,207,962
Common shares, discounted	456,960
	<u>\$3,012,883</u>

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

The Company issued 1,120,000 common shares as partial consideration for the acquisition. The fair value of the common shares issued as consideration was based on the closing price of a Route1 common share on the Toronto Venture Exchange on June 28, 2019 of \$0.50 per share. The common shares issued are subject to an escrow whereby 100% of the common shares may not be traded until June 28, 2020 after which 50% of the shares may be traded. The balance of the shares is released from escrow pro rata over the following six months such that by December 28, 2020, 1,120,000 shares will be freely tradable. Given the restrictions on trading, the value of the shares issued as purchase consideration was discounted to \$456,960. On June 28, 2019, the daily average exchange rate between the United States dollar and the Canadian dollar as reported by the Bank of Canada was US \$1=CDN \$1.3087.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

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The notes issued as part of the purchase consideration have been discounted to reflect a market-based rate of interest. Based on a market rate of interest of 6% per annum, the values of Notes A and B were discounted to market-based values of \$309,009 and \$898,953, respectively.

The acquisition of PCS was accounted for using the acquisition method of accounting in accordance with IFRS 3 with the results of operations consolidated with those of the Company effective June 28, 2019. The goodwill recorded on the balance sheet represents the purchase price paid in excess of the fair value of the assets acquired is not tax deductible. The goodwill is attributed to the workforce and profitability of PCS.

PCS has contributed incremental revenue of \$12,058,305 and gross profit of \$2,269,845 for the nine months ended September 30, 2020.

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.

	<b>US Dollars</b>	<b>Canadian Dollars</b>
<b>Assets Acquired</b>		
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	2,476,329	3,240,771
Furniture and equipment	45,853	60,008
Intangible assets	600,000	785,221
Goodwill	1,189,839	1,557,142
Non-current assets	1,835,692	2,402,371
Total assets	4,312,021	5,643,142
<b>Liabilities Assumed</b>		
Accounts payable and other liabilities	1,702,148	2,227,602
Contract liability	160,077	209,493
Deferred tax liability	147,600	193,164
Total liabilities	2,009,825	2,630,259
Fair value of net assets acquired	2,302,196	3,012,883
<b>Net consideration issued</b>	<b>\$2,302,196</b>	<b>\$3,012,883</b>



## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

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#### 12. BANK INDEBTEDNESS

The Company's credit facility, which was renewed on May 28, 2020, consists of a revolving demand facility in the amount of \$875,000, (September 30, 2019 - \$875,000) and a \$150,000 credit card facility (September 30, 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 reverted to \$875,000. The operating facility carries an interest rate equal to the lender's prime rate of interest plus 1.5% (September 30, 2019 – prime rate of interest plus 1%). As at September 30, 2020, the interest rate was 3.95%. The credit facility is secured by the assets of Route1 Inc. and guaranteed by GMI and PCS. As at September 30, 2020, the balance drawn on the revolving demand facility was \$620,000.

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 was renewed on July 31, 2020. The facility carries an interest rate of 50 basis points over the prime rate published daily in the Wall Street Journal. As at September 30, 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 September 30, 2020, the balance drawn on the revolving demand facility was \$870,448.

#### 13. CONTRACT LIABILITY

Contract liability is comprised of:

	<u>September 30, 2020</u>	December 31, 2019
Subscription revenue and services – current	<u>\$5,039,092</u>	\$1,750,169
Subscription revenue and services – long-term	<u>101,101</u>	158,146
Total contract liability	<u>\$5,140,193</u>	\$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.

#### 14. NOTES PAYABLE

	<u>September 30, 2020</u>
Promissory note A (US \$170,000)	\$226,763
Promissory note B (US \$420,000)	<u>560,238</u>
	787,001
Less: unamortized deferred debt discount	<u>(23,726)</u>
	763,275
Promissory note C	<u>357,372</u>
	1,120,647
Less: current portion of notes payable	<u>(771,667)</u>
	<u>\$348,980</u>

The U.S. dollar denominated debt was translated into Canadian dollars at the period end exchange rate of US \$1 = C \$1.3339.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Pursuant to the acquisition of PCS on June 28, 2019, the Company's wholly owned subsidiary, PCS, issued two notes (Promissory Notes A and B) 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.

On September 16, 2020, Route1 entered into a promissory note agreement with a private lender in the amount of \$650,000 (Promissory Note C). The note bears interest at 10% per annum and any amounts drawn must remain outstanding for a minimum of six months from the date of the agreement and thereafter may be repaid without premium, penalty or bonus. The promissory note is secured by a pledge of the shares of the Company's wholly owned subsidiary, Route 1 Security Corporation, and a general security agreement over all current and hereafter acquired personal property of the Company. The promissory note is subordinated to the Company's existing bank credit facilities in both Canada and the United States. At September 30, the balance drawn on the promissory note was \$357,372. The note was entered into in order to provide part of the collateral for the bond posted in connection with the Company's litigation in the United States.

##### Secured Promissory Note C

Interest Rate	10% per annum, payable monthly
Repayment	No fixed repayment term

Principal debt repayment, as at September 30, 2020, in each of the next three fiscal years is as follows:

	Cash Repayment	Reduction of Recorded Liability
2020	\$80,034	\$77,575
2021	784,220	767,807
2022	280,119	275,265
	<u>\$1,144,373</u>	<u>\$1,120,647</u>

## 15. 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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

#### September 30, 2020 and 2019 (stated in Canadian dollars)

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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 September 26, 2020 were 1,167,491 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.

For the three months ended September 30, 2020 the Company purchased 397,000 (September 30, 2019 – 1,179,900) shares for cancellation under the NCIB at an average price of approximately \$0.63 per share.

For the nine months ended September 30, 2020, the Company purchased 785,500 (September 30, 2019 – 1,257,100) shares for cancellation under the NCIB at an average price of approximately \$0.62 per share.

On September 28, 2020, 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 1,755,980. Purchases under the NCIB may occur during the 12-month period commencing September 27, 2020 and ending September 26, 2021, or the date upon which the maximum number of common shares has been purchased by the Company. There were no purchases for cancellation under the NCIB during the period from September 27, 2020 to September 30, 2020.

#### 16. SHARE CAPITAL, WARRANTS, OPTIONS 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.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

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	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	(1,624,091)	(634,573)
Share issuance costs	-	(8,810)
Balance, December 31, 2019	35,905,109	22,042,233
Shares repurchased for cancellation	(785,500)	(487,446)
Balance, September 30, 2020	<u>35,119,609</u>	<u>\$21,554,787</u>

- There are 3,232,500 common share purchase options (“Options”) outstanding to acquire 3,232,500 common shares at various prices.
- There are 30,000,000 common share purchase warrants outstanding with an expiry date of March 22, 2021, that enable the holder to purchase 3,000,000 common shares at an exercise price of \$0.50 per share.

#### Warrants Outstanding

	Number of Warrants	Warrant \$
Balance, January 1, 2020	30,000,000	\$534,000
<b>Issued</b>	-	-
<b>Exercised</b>	-	-
<b>Expired</b>	-	-
<b>Balance, September 30, 2020</b>	<b><u>30,000,000</u></b>	<b><u>\$534,000</u></b>

#### 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	<u>\$0.178</u>

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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#### September 30, 2020 and 2019 (stated in Canadian dollars)

unfettered discretion at the time such option is granted. Options are exercisable as determined by the Board at the date of the grant. Shares covered by options granted pursuant to the Plan may not exceed 10% of the issued and outstanding shares of the Company at the time of the grant, calculated on a non-diluted basis.

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

	September 30, 2020		December 31, 2019	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options Outstanding				
Balance, beginning of the period	3,397,500	\$0.55	2,637,700	\$0.53
Options granted during the period	1,725,000	0.67	1,180,000	0.60
Options expired during the period	(1,310,000)	0.55	(87,500)	0.50
Options exercised during the period	-	-	(103,700)	0.50
Options forfeited during the period	(580,000)	0.54	(229,000)	0.60
Balance, end of the period	3,232,500	\$0.62	3,397,500	\$0.55

Exercise Price	Options Outstanding September 30, 2020		Options Exercisable September 30, 2020	
	Number of Options	Weighted Average Remaining Contractual Life (Years)	Number of Options	Weighted Average Remaining Contractual Life (Years)
\$0.50	747,500	1.3	677,500	1.4
\$0.55	200,000	2.9	60,000	3.2
\$0.62	400,000	4.9	-	-
\$0.65	560,000	3.6	168,000	3.8
\$0.68	1,325,000	4.6	-	-
	3,232,500	3.7	905,500	1.7

Exercise Price	Options Outstanding December 31, 2019		Options Exercisable December 31, 2019	
	Number of Options	Weighted Average Remaining Contractual Life (Years)	Number of Options	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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

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For the three months ended September 30, 2020, the Company recorded stock-based compensation expense of \$76,126 (September 30, 2019 - \$106,367). For the nine months ended September 30, 2020, the Company recorded stock-based compensation expense of \$326,334 (September 30, 2019 - \$224,925).

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

All outstanding 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

	2020	2019
Share price on issue date	<b>\$0.60 - 0.68</b>	\$0.50 - \$0.70
Risk free interest rate	<b>0.34% - 0.42%</b>	2.06%
Expected life (years)	<b>5</b>	5
Expected volatility	<b>131% - 133%</b>	193%
Forfeiture rate	<b>Nil</b>	Nil
Dividend yield	<b>Nil</b>	Nil
Fair value of options issued during the year	<b>\$0.515 - \$0.586</b>	\$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.

	Nine months ended September 30, 2020	Year ended December 31, 2019
Balance, beginning of the period	<b>\$14,840,861</b>	\$14,552,696
Options expensed in the period	<b>326,334</b>	322,569
Options exercised in the period	-	(34,404)
Balance, end of the period	<b>\$15,167,195</b>	\$14,840,861

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

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#### 17. 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 \$90,238 for the quarter ended September 30, 2020 (September 30, 2019 - \$94,738) and \$273,757 for the nine months ended September 30, 2020 (September 30, 2019 - \$252,723). These transactions are in the normal course of operations and are paid or payable for directorship services. As at September 30, 2020, accounts payable included \$99,249 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 \$52,918 for the quarter ended September 30, 2020 (September 30, 2019 - \$36,171) and \$126,323 for the nine months ended September 30, 2020 (September 30, 2019 - \$66,757)
- The Company made payments to or incurred expenses for key management (President and Chief Executive Officer, Chief Technology Officer and the Chief Financial Officer) in the three and nine months ended September 30, 2020 as follows, with 2019 comparatives.

	<b>Three Months Ended September 30, 2020</b>	Three Months Ended September 30, 2019	<b>Nine Months Ended September 30, 2020</b>	Nine Months Ended September 30, 2019
Short-term employee benefit	<b>\$252,136</b>	\$292,559	<b>\$900,889</b>	\$635,076
Stock-based compensation expense	<b>84,890</b>	20,943	<b>166,260</b>	43,936
	<b>\$337,026</b>	\$313,502	<b>\$1,067,149</b>	\$679,012

#### 18. EARNINGS (LOSS) 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 nine months ended September 30, 2020 and 2019 all outstanding options and warrants were considered anti-dilutive because the Company recorded a loss over these periods.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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	<b>Three Months Ended September 30, 2020</b>	Three Months Ended September 30, 2019	<b>Nine Months Ended September 30, 2020</b>	Nine Months Ended September 30, 2019
Net income (loss)	(\$528,305)	\$660	(\$771,256)	(\$1,065,544)
Weighted average number of common shares outstanding	<b>35,297,805</b>	36,854,532	<b>35,627,992</b>	36,519,132
Basic and diluted income (loss) per share	<b>(\$0.01)</b>	\$0.00	<b>(\$0.02)</b>	(\$0.03)

## 19. 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.

## 20. 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 \$37,255,982 at September 30, 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.



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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.

#### 21. 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:

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	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 September 30, 2020, the largest single customer represented approximately \$986,000 of revenue (September 30, 2019 - \$871,000).

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 September 30, 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 \$Nil (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 September 30, 2020, the largest single customer's account receivable represented \$819,449 (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 September 30, 2020 and December 31, 2019:

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	September 30, 2020	December 31, 2019
Current	\$4,097,987	\$3,704,055
Past due		
1 – 60 days	540,894	1,066,043
Greater than 60 days	208,579	194,517
Less: Allowance for doubtful accounts	-	-
Total accounts receivable, net	<u>\$4,847,460</u>	<u>\$4,964,615</u>

The following table outlines the details of the Company's other receivables as at September 30, 2020 and December 31, 2019:

	September 30, 2020	December 31, 2019
Other receivables	\$777,826	\$134,640
Less: Reserve	(625,882)	-
Total other receivables, net	<u>\$151,944</u>	<u>\$134,640</u>

In the third quarter of 2020, the Company was the victim of a fraud in the United States perpetrated by a group posing as legitimate customers with the goal of purchasing rugged devices. As soon as the Company became aware of the fraud, it took steps to contact and then work with both federal and local authorities. The reserve, after recovery of some of the rugged devices from these transactions, was \$625,882 (US\$469,212). The Company has paid its vendor of record the full amount and has no further financial obligations as a result of the fraud. The Company has been in contact with its insurers and to date has not received support for its claim under its policies. The Company expects to pursue coverage from its insurers to mitigate the loss incurred as a result of the fraud. There can be no assurance the Company will receive any amount of compensation.

#### *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 marketplace. The following table details the Company's contractual maturities for its financial liabilities, including interest payments and operating lease commitments, as at September 30, 2020:

	2020	2021	2022 and Beyond	Total
Accounts payable and other liabilities	\$5,666,984	\$85,447	\$-	\$5,752,431
Notes payable	80,034	784,220	280,119	1,144,373
Lease commitments	178,009	641,910	736,532	1,556,451
	<u>\$5,925,027</u>	<u>\$1,511,577</u>	<u>\$1,016,651</u>	<u>\$8,453,255</u>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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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 September 30, 2020, the Company had non-Canadian dollar net monetary liabilities of approximately US \$298,000 (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 September 30, 2020 would have resulted in a gain or loss in the amount of \$19,850 (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 September 30, 2020, cash balances were \$nil (December 31, 2019 - \$125,544), bank indebtedness balances were \$1,488,818 (December 31, 2019 – \$1,359,695) and the interest rate sensitivity is not material.

## 22. 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.

The following table provides a presentation of the Company's revenue streams for the quarter ended September 30, 2020 and 2019:

	2020		2019	
	Revenue	% of Total	Revenue	% of Total
Subscription revenue and services	\$2,599,425	28.4	\$2,136,191	24.5
Devices and appliances	6,523,329	71.3	6,575,428	75.5
Other	24,737	0.3	2,274	0.0
	<b>\$9,147,491</b>	<b>100.0</b>	<b>\$8,713,893</b>	<b>100.0</b>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

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The following table provides a presentation of the Company's revenue streams for the nine months ended September 30, 2020 and 2019:

	2020		2019	
	Revenue	% of Total	Revenue	% of Total
Subscription revenue and services	\$7,046,197	31.4	\$5,322,098	34.1
Devices and appliances	15,401,525	68.5	10,277,826	65.9
Other	31,753	0.1	6,325	0.0
	<b>\$22,479,475</b>	<b>100.0</b>	<b>\$15,606,249</b>	<b>100.0</b>

The following table provides a geographic presentation of the Company's revenue streams for the quarter ended September 30, 2020 and 2019:

	2020		2019	
	Revenue	% of Total	Revenue	% of Total
USA	\$9,124,056	99.7	\$8,683,104	99.6
Canada	23,435	0.3	30,789	0.4
	<b>\$9,147,491</b>	<b>100.0</b>	<b>\$8,713,893</b>	<b>100.0</b>

The following table provides a geographic presentation of the Company's revenue streams for the nine months ended September 30, 2020 and 2019:

	2020		2019	
	Revenue	% of Total	Revenue	% of Total
USA	\$22,369,869	99.5	\$15,502,210	99.3
Canada	109,607	0.5	104,039	0.7
	<b>\$22,479,476</b>	<b>100.0</b>	<b>\$15,606,249</b>	<b>100.0</b>

The following table provides a geographic presentation of the Company's right-of-use assets, furniture and equipment and intangible assets as at September 30, 2020 and December 31, 2019:

	2020		2019	
	Assets	% of Total	Assets	% of Total
USA	\$2,232,593	70.3	\$1,866,553	65.5
Canada	914,149	29.7	1,032,462	34.5
	<b>\$3,176,743</b>	<b>100.0</b>	<b>\$2,899,015</b>	<b>100.0</b>