Audited Consolidated Financial Statements of

Route1 Inc.

For the years ended December 31, 2020 and 2019

Grant Thornton

Independent Auditor's Report

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To the Shareholders of Route1 Inc.

Opinion
We have audited the consolidated financial statements of Route1 Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

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

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.
If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

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

Grant Thornton LLP

Toronto, Canada
April 28, 2021

Chartered Professional Accountants
Licensed Public Accountants

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Route1 Inc.

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

	Note	December 31, 2020	December 31, 2019
Assets			
Current assets			
Cash and cash equivalents		**$1,137,474**	$125,544
Accounts receivable		**3,310,701**	4,964,615
Other receivables		**657,573**	134,640
Inventory	3	**678,801**	451,564
Prepaid expenses		**476,680**	497,748
Other current assets		**146,844**	32,027
Total current assets		**6,408,073**	6,206,138
Non-current assets			
Deferred tax asset	22	**1,484,000**	1,484,000
Right-of-use assets	5	**2,152,444**	419,010
Furniture and equipment	5	**893,259**	1,214,264
Intangible assets	6	**1,268,684**	1,265,741
Goodwill	7	**1,969,734**	2,019,031
Other non-current assets		**-**	21,845
Total non-current assets		**7,768,121**	6,423,891
Total assets		**$14,176,194**	$12,630,029
Liabilities			
Current liabilities			
Bank indebtedness	12	**$777,299**	$1,359,695
Accounts payable and other liabilities		**4,063,359**	5,147,494
Contract liability	13	**3,627,223**	1,750,169
Lease liabilities	4	**552,980**	389,480
Notes payable	14	**758,044**	388,014
Total current liabilities		**9,778,905**	9,034,852
Non-current liabilities			
Deferred tax liability	22	**159,736**	193,164
Contract liability	13	**100,051**	158,146
Other non-current liabilities		**-**	439,860
Lease liabilities	4	**1,740,174**	257,981
Litigation funding liability	9,10	**-**	898,645
Notes payable	14	**256,796**	667,656
Total non-current liabilities		**2,256,757**	2,615,452
Total liabilities		**12,035,662**	11,650,304
Shareholders' equity			
Capital and reserve			
Common shares	16	**23,370,074**	22,042,233
Warrants	16	**1,683,704**	534,000
Contributed surplus – stock compensation reserve	16	**15,311,537**	14,840,861
Accumulated other comprehensive (loss) income		**(78,625)**	1,547
Deficit		**(38,146,158)**	(36,438,916)
Total shareholders' equity		**2,140,532**	979,725
Total shareholders' equity and liabilities		**$14,176,194**	$12,630,029

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

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

Route1 Inc.

For the years ended December 31, 2020 and 2019
(stated in Canadian dollars)

	Note	2020	2019
Revenue			
Subscription revenue and services	23	**$9,574,317**	$7,833,425
Devices and appliance	23	**20,038,257**	16,168,992
Other	23	**94,078**	7,208
Total revenue		**29,706,652**	24,009,625
Cost of revenue	3	**18,634,617**	14,978,189
Gross profit		**11,072,035**	9,031,436
Operating expenses			
General administration		**5,686,369**	4,302,181
Research and development		**763,311**	609,465
Selling and marketing		**3,486,123**	3,302,438
Total operating expenses before stock-based compensation		**9,935,803**	8,214,084
Stock-based compensation	16	**496,872**	322,569
Total operating expenses		**10,432,675**	8,536,653
Operating profit before other income (expense)		**639,360**	494,783
Other income (expense)			
Patent litigation	9	**(1,609,807)**	(1,289,016)
Gain on litigation settlement		**162,768**	-
Interest expense		**(162,553)**	(89,341)
Foreign exchange (loss) gain		**(70,572)**	8,359
Gain (loss) on asset disposal		**154**	(16,458)
Acquisition expense		**(13,885)**	(73,780)
Other expenses	21	**(656,142)**	(261,874)
Total other income (expense)		**(2,350,037)**	(1,722,110)
Loss before income taxes		**(1,710,677)**	(1,227,327)
Income tax recovery	22	**3,435**	673,150
Net loss for the year		**(1,707,242)**	(554,177)
Other comprehensive income (loss)			
Foreign currency translation		**(80,172)**	4,874
Comprehensive loss		**($1,787,414)**	($549,303)
Basic and diluted loss per share	18	**($0.05)**	($0.02)
Weighted average number of common shares outstanding		**35,499,546**	36,415,781

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Route1 Inc.

For the years ended December 31, 2020 and 2019
(stated in Canadian dollars)

	Note	Common Shares	Warrants	Contributed Surplus	Accumulated Other Compre-hensive 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
Repurchase of capital stock for cancellation	15	(634,573)	-	-	-	-	(634,573)
Adoption of IFRS 16		-	-	-	3,367	(127,298)	(123,931)
Exercise of stock options	16	86,254	-	(34,404)	-	-	51,850
Stock-based compensation	16	-	-	322,569	-	-	322,569
Consideration issued for PCS Mobile acquisition	11	456,960	-	-	-	-	456,960
Issuance costs	16	(8,810)	-	-	-	-	(8,810)
Comprehensive income (loss)		-	-	-	4,874	(554,177)	(549,303)
Balance at December 31, 2019		$22,042,233	$534,000	$14,840,861	$1,547	($36,438,916)	$979,725

	Note	Common Shares	Warrants	Contributed Surplus	Accumulated Other Compre-hensive 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 capital stock for cancellation	15	(496,468)	-	-	-	-	(496,468)
Exercise of stock options	16	56,196	-	(26,196)	-	-	30,000
Stock-based compensation	16	-	-	496,872	-	-	496,872
Issuance of common shares	16	1,823,116	-	-	-	-	1,823,116
Issuance of warrants	16	-	1,191,889	-	-	-	1,191,889
Issuance costs	16	(55,003)	(42,185)	-	-	-	(97,188)
Comprehensive loss		-	-	-	(80,172)	(1,707,242)	(1,787,414)
Balance at December 31, 2020		$23,370,074	$1,683,704	$15,311,537	($78,625)	($38,146,158)	$2,140,532

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Route1 Inc.

For the years ended December 31, 2020 and 2019
(stated in Canadian dollars)

	2020	2019
Net cash (outflow) inflow related to the following activities		
Operating activities		
Net loss	**($1,707,242)**	($554,177)
Items not affecting cash and cash equivalents		
Depreciation and amortization	**1,323,402**	1,123,752
Interest accretion on notes payable	**25,878**	12,899
Interest on lease liabilities	**44,761**	28,831
Deferred taxes	**(30,357)**	(741,933)
Litigation funding	**(898,645)**	-
Litigation settlement	**(277,321)**	-
Stock-based compensation	**496,872**	322,569
Net changes in working capital balances		
Decrease (increase) in accounts receivable	**1,593,556**	(1,330,135)
Increase in other receivables	**(537,114)**	(90,791)
(Increase) decrease in inventory	**(259,938)**	1,032,141
Increase in other assets	**(114,816)**	(16,653)
Increase in prepaid expenses	**(241,322)**	(203,159)
(Decrease) increase in accounts payable and other liabilities	**(998,661)**	639,222
Increase in contract liability	**1,837,222**	16,459
Net cash generated by operating activities	**256,275**	328,228
Investing activities		
Acquisition of furniture, and equipment	**(373,249)**	(595,801)
Disposal of furniture and equipment	**2,737**	13,287
Acquisition of intangible assets	**(109,388)**	(103,685)
Cash paid in business combination	**-**	(1,347,961)
Cash acquired in business combination	**-**	260,607
Other assets	**21,845**	(21,845)
Net cash used by investing activities	**(458,055)**	(1,795,398)
Financing activities		
Repayment of notes payable	**(427,324)**	(156,052)
Issuance of promissory notes	**357,372**	-
Repayment of lease liabilities	**(413,508)**	(431,598)
Repurchase of common shares for cancellation	**(496,468)**	(634,573)
Issuance of common shares – net	**30,000**	43,040
Proceeds of private placement - net	**2,917,817**	-
Decrease in other non-current liabilities	**(83,711)**	(64,187)
(Repayment of) proceeds from bank indebtedness	**(568,812)**	1,359,695
Proceeds from litigation funding	**-**	505,623
Net cash generated by financing activities	**1,315,366**	621,948
Net increase (decrease) in cash and cash equivalents for the year	**1,113,586**	(845,222)
Effects of exchange rate changes on cash	**(101,656)**	(102,429)
Cash and cash equivalents, beginning of year	**125,544**	1,073,195
Cash and cash equivalents, end of year	**$1,137,474**	$125,544

Non-cash transactions	**2020**	2019
(Acquisition) disposal of right-of-use assets	**($2,170,114)**	$89,203
Issuance of lease liabilities	**2,087,306**	-

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

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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 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, Scottsdale, 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 and the United States, 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 2021 and beyond.

The impact of COVID-19 on the balance of the Company's business had initially 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 are taking steps to reopen the economy, facilities are reopening and installation activities are moving forward.

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

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

2.1 Statement of compliance

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

The consolidated financial statements were approved and authorized for issuance by the Company's Board of Directors on April 28, 2021.

2.2 Basis of consolidation

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

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

2.3 Share consolidation (reverse stock split)

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

2.4 Basis of preparation

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

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

(a) Foreign currency translation

Functional and presentation currency

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

Foreign operations

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

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

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

Foreign currency transactions and balances

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

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash deposits available on demand with Schedule 1 banks in Canada and their subsidiaries in the United States, a large money centre bank and a large regional banks in the United States. Bank indebtedness is considered a financing activity.

(c) Financial instruments

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

Financial assets	***Classification***
Cash and cash equivalents	Amortized cost
Accounts receivable	Amortized cost
Other receivables	Amortized cost
Financial liabilities	
Bank indebtedness	Amortized cost
Accounts payable and other liabilities	Amortized cost
Notes payable	Amortized cost

(d)(i) Amortized cost

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

(d)(ii) Other liabilities

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities.

(d)(iii) Effective interest method

The Company uses the effective interest method to recognize interest income or expense, which includes transaction costs or fees, premiums or discounts, earned or incurred for financial instruments.

(e) Impairment of financial assets

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

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

(f) De-recognition of financial liabilities

The Company de-recognizes financial liabilities when the obligations are discharged, cancelled or expire.

(g) Inventory

Inventory is valued at the lower of cost and net realizable value with cost being calculated on a weighted average basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

(h) Furniture and equipment

Furniture and equipment are recorded at cost and subsequently recorded at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided over the estimated useful life of the assets less any impairment loss or reversal as follows:

Furniture and equipment	-	straight-line over 36 months
Right-of-use asset	-	straight-line over the remaining lease term
TaaS computer equipment	-	straight-line over 36 months
Computer equipment	-	straight-line over 36 months

The Company assesses the depreciation method and rate as well as the residual value of furniture and equipment at the end of each financial year.

(i) Intangible assets

Intangible assets are recorded at cost less accumulated depreciation and any accumulated impairment loss. Depreciation is provided over the estimated useful life of the assets less any impairment loss or reversal as follows:

License agreement	-	straight-line over 48 months
Computer software	-	straight-line over 12 months
Computer software (applications)	-	straight-line over 60 months
Internally generated applications	-	straight-line over 36 months
Patents	-	straight-line over the life of the patent
Customer relationships	-	straight-line over 120 months
Vendor relationships	-	straight-line over 120 months
Trademarks and tradenames	-	straight-line over 120 months
Website & brand	-	straight-line over 24 months

The Company assesses the depreciation method and rate as well as the residual value of intangible assets at the end of each financial year.

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

The Company tests whether goodwill has suffered any impairment on an annual basis. For the 2020 reporting period, the recoverable amount of the cash generating units (“CGUs”) was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management.

(j) Impairment of furniture and equipment and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and finite lived intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable

amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs; or otherwise, they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified. Recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

(k) Leases:

Definition of a lease:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As a lessee:

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

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

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

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

Sub-lease:

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

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

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

(l) Revenue recognition

To determine whether to recognize revenue, the Company follows a 5-step process:
1) Identifying a contract with a customer
2) Identifying the performance obligations
3) Determining the transaction price
4) Allocating the transaction price to the performance obligations
5) Recognizing revenue when/as performance obligation(s) are satisfied

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

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

The Company recognizes contract liabilities (deferred revenue) for consideration received in respect to unsatisfied performance obligations. The Company recognizes contract costs for incremental costs of obtaining a contract with a customer, and consists of sales commissions and cost of product sold. Capitalized costs are amortized consistent with the transfer of the related products and services. The following paragraphs describe the specific revenue recognition policies for each major component of revenue.

(i) Devices

Revenues from the sale of ruggedized computing equipment and related accessories are recognized when title (control) is transferred to the customer and all significant contractual obligations that affect the customer's final acceptance have been fulfilled.

(ii) Appliances

Revenues from the sale of a DEFIMNET© platform and a MobiNET© Aggregation Gateway appliance are recognized when title (control) is transferred to the customer and all significant contractual obligations that affect the customer's final acceptance have been fulfilled.

(iii) Subscription Revenue and Services

Revenue from MobiKEY© and other application software subscription-based services, and DEFIMNET© platform and other appliance licensing or maintenance is recognized ratably over the term of the contract on a daily basis when the service is provided.

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

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

(iv) Technology as a Service Revenue

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

(m) Research and development

Research expenditures are charged as an operating expense of the Company as incurred. Expenditures for development of software and equipment are capitalized and amortized only when all of the following criteria are demonstrated:

(i) The technical feasibility of completing the asset so that it will be available for use or sale

(ii) The Company intends to complete the asset and use or sell it

(iii) The Company has the ability to use or sell the asset

(iv) How the intangible asset will generate probable economic benefits

(v) The Company has available adequate technical, financial and other resources to complete the development and to use or sell the asset

(vi) The Company can reliably measure the expenditure attributable to the asset during its development

Scientific research and economic development ("SR&ED") credits and government grants

SR&ED credits are estimated and recognized rateably throughout the year based on management's expectation of projects undertaken for the current year that will comply with the conditions attaching to them. SR&ED credits reduce research and development expenses. Similarly, government grants, recorded as other revenue, are recognized when all conditions have been met, the grant has been earned and the grant is non-refundable. For the year ended December 31, 2020, the Company accrued $109,308 for SR&ED credits (December 31, 2019 - $110,000), which are included in Other Receivables.

(n) Stock-based compensation

Equity-settled share-based payments to employees and others providing services to the Company are measured at the fair value of the equity instruments at the grant date. The Company calculates stock-based compensation using the Black-Scholes option pricing model to value the options at the grant date, and subsequently expenses such value rateably over the vesting term.

Equity-settled share-based payment transactions related to services provided by non-employees are measured at the fair value of the services received. If the services cannot be measured reliably, the transaction is measured at the fair value of the equity instrument issued.

(o) Legal claims

In the normal course of operations, the Company may be subject to litigation claims from customers, suppliers, patent holders, resellers and former employees. A provision is recognized when the probability that payment will occur is more likely than not. The Company regularly reviews any outstanding claims to see if they meet the criteria. A provision is calculated based on management's best estimate of probable outflow of economic resources.

(p) Income taxes

Income tax currently payable (if any) is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(q) Recognition of deferred tax assets and liabilities

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. The Company's asset/liability for deferred tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period and rates expected to apply when the deferred tax asset or deferred tax liability is settled.

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

(r) Earnings/Loss per share

Basic earnings per share are computed by dividing the income/loss by the weighted average shares outstanding during the reporting period.

The Company calculates the dilutive effect of options and warrants on earnings per share. Diluted earnings per share is computed similarly to basic earnings per share, except the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period.

(s) Business Combination

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

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

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

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

2.5 Use of estimates

In preparation of the Company's consolidated financial statements in accordance with IFRS, management is required to make estimates and assumptions that affect the reported amount of assets, liabilities, and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates used in the Company's consolidated financial statements and such differences could be material.

2.6 Critical judgments

The following are the critical judgments, apart from those involving estimations (see below), that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Revenue recognition:	In making their judgment, management considers the detailed criteria for the recognition of revenue from the sale of goods and services set out in IFRS 15. The Company recognizes revenue when it is realized and earned. The Company considers revenue realized and earned when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods (or service has been performed); the Company does not retain any managerial involvement; it is probable that the economic benefits associated with the transaction will flow to the Company; and the amount of revenue can be measured reliably. Where appropriate, device revenue related to subscriptions and the associated costs of such revenue will be recognized rateably over the life of the nearest term subscription contract. Extended warranties that are sold to customers as an optional service, including "Comprehensive Maintenance" contracts and warranties beyond that provided by the manufacturer, are treated as a "service-type" warranty under IFRS 15. "Service-type" warranties are treated as separate performance obligation, and related revenue is deferred over the period for which there is a performance obligation.
	The Company has applied judgment to determine that it is acting as a principal and gross revenue for sale of devices recognized when title is transferred to the customer and all significant contractual obligations that affect the customer's final acceptance have been fulfilled.
Functional currency:	In making a judgment as to which currency is the functional currency of the Company and its subsidiaries, management considers the currency that influences the cost of providing the goods and services in each jurisdiction in which the Company operates.
Capitalization of development costs:	Management exercises judgment when establishing whether the criteria under IAS 38, "Intangible Assets", for development costs have been met, specifically the technical feasibility of the products in development and the ability to generate probable future economic benefits.
Business combinations:	Determination of whether a group of assets acquired and liabilities assumed constitute the acquisition of a business or an asset may require the Company to make certain judgments as to whether or not the assets acquired and liabilities assumed include the inputs, processes and outputs necessary to constitute a business as defined in IFRS 3, "Business Combinations".

2.7 Significant estimates

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Allowance for doubtful accounts: Impairment of financial assets is based on an expected credit loss ("ECL") model under IFRS 9. ECLs are a probability-weighted estimate of credit losses. The Company calculated ECLs based on consideration of customer-specific factors and actual historical credit loss experience. The Company does not anticipate any credit losses, and to the extent that any credit losses are experienced, they are expected to be immaterial, therefore no allowance for doubtful accounts is required as at December 31, 2020 and 2019.

Allowance for inventory obsolescence: The Company reviewed the recoverable amount of its inventory for year ended December 31, 2020 and determined that no write-down was required.

Valuation of deferred tax asset: The Company estimates the probability that taxable profits will be available to be offset against deductible temporary differences and thus give rise to a deferred tax asset. The Company has reviewed the expected profitability and determined that a deferred tax asset should be recognized at December 31, 2020, as it is probable that the asset will be utilized.

Valuation of warrants and stock-based compensation: The Company estimates the fair value of stock-based compensation issued for goods or services based on the Black-Scholes Option Pricing Model for warrants and share options with a service condition. Inputs into the model include expected life, volatility, risk free rate, forfeiture rate and dividend yield. The Company has judged that the fair value of the services could not be determined; therefore, the fair value of the shares, share options and warrants was used in the measurement of the transactions. The Black-Scholes Option Pricing Model was used to value the warrants issued as part of the equity private placement. These methods of valuation were applied to the equity transactions during the year (Note 16, **"SHARE CAPITAL, WARRANTS AND CONTRIBUTED SURPLUS"**).

Valuation of assets acquired in Business Combinations: The Company estimates the value of the assets acquired in the business combinations on the basis of fair value to the ongoing operations of the acquired businesses. For additional information, See Note 11 **"BUSINESS COMBINATION"** of these financial statements.

Recognition of SR&ED tax credits/Government grants:	The Company estimates SR&ED credits based on historical and forward-looking analysis. SR&ED credits are estimated and recognized rateably throughout the year based on management's expectation of projects undertaken for the current year that will comply with the conditions attaching to them. Similarly, government grants, recorded as other revenue, are recognized when all conditions have been met, the grant has been earned and the grant is non-refundable.
Goodwill impairment	The Company estimates recoverable amount of the cash generating units based on discounted future cash flow projections that require significant judgment. See Note 7.

2.8 Future accounting policy changes

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

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

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 year ended December 31, 2020, the cost of revenue recognized as an expense was $18,634,617 (December 31, 2019 - $14,978,189).

4. LEASES

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

The minimum annual basic rent commitments are as follows:

	December 31, 2020
2021	$877,143
2022	532,661
2023 & beyond	1,783,512
Minimum lease payments	3,193,316
Less: interest portion at rates between 3.81% and 5%	217,581
Net minimum lease payments	2,974,735
Less: Short-term or low value lease payments	682,581
	2,293,154
Less: current portion	552,980
Long-term portion	$1,740,174

The office locations have been recognized in right-of-use assets at the present value of minimum lease payments, less accumulated depreciation. Also, the Company has recognized depreciation and interest costs, instead of operating lease expense. During the year ended December 31, 2020, the Company recognized $360,899 of depreciation and $44,761 of interest expense from these leases (December 31, 2019 - $269,518 and $40,396). For the year ended December 31, 2020, the Company also recognized $1,616 (December 30, 2019 - $2,556) of interest income related to a sublease of the Burlington, Ontario premises which was initiated in January 2019.

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

	December 31, 2020
Short-term leases	$43,036
Non-lease components	253,818
	$296,854

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

Cost	**Right-of-use Asset**	**Computer Equipment**	**Furniture and Equipment**	**TaaS Computer Equipment**	**Total**
Balance at January 1, 2019	$ -	$1,790,263	$377,252	$1,364,956	$3,532,471
Additions	-	473,958	16,732	105,111	595,801
Additions from acquisition	-	-	38,445	21,563	60,008
Adoption of IFRS 16	776,491	-	-	-	776,491
Disposals	(89,203)	-	(13,287)	-	(102,490)
Balance at December 31, 2019	687,288	2,264,221	419,142	1,491,630	4,862,281
Additions	**2,170,114**	**230,743**	**119,073**	**23,433**	**2,543,363**
Disposals	**(155,638)**	**-**	**(4,002)**	**-**	**(159,640)**
Effect of exchange rate changes	**(91,010)**	**-**	**(6,654)**	**(21,967)**	**(119,631)**
Balance at December 31, 2020	**2,610,754**	**2,494,964**	**527,559**	**1,493,096**	**7,126,373**

Accumulated depreciation and impairment	**Right-of-use Asset**	**Computer Equipment**	**Furniture and Equipment**	**TaaS Computer Equipment**	**Total**
Balance at January 1, 2019	-	(1,620,404)	(251,776)	(377,789)	(2,249,969)
Depreciation expense	(269,518)	(78,412)	(71,398)	(560,918)	(980,246)
Disposals	1,240	-	-	-	1,240
Effect of exchange rate changes	-	(32)	-	-	(32)
Balance at December 31, 2019	(268,278)	(1,698,848)	(323,174)	(938,707)	(3,229,007)
Depreciation expense	**(360,899)**	**(181,959)**	**(59,836)**	**(481,376)**	**(1,084,070)**
Disposals	**155,638**	**-**	**1,368**	**-**	**157,006**
Effect of exchange rate changes	**15,229**	**-**	**4,532**	**55,640**	**75,401**
Balance at December 31, 2020	**(458,310)**	**(1,880,807)**	**(377,110)**	**(1,364,443)**	**(4,080,670)**

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
Balance at December 31, 2020	**$2,152,444**	**$614,157**	**$150,449**	**$128,653**	**$3,045,703**

As at December 31, 2020, the net book value of Technology as a Service ("TaaS") assets was $128,653 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 one TaaS customer with contracts in place.

For the year ended December 31, 2020, depreciation and amortization expense of $1,323,402 (December 31, 2019 - $1,123,752) was recognized in general administration expense.

6. INTANGIBLE ASSETS

Cost	**Patents**	**Software**	**Brand**	**Customer Relationships**	**Vendor Relationships**	**Trademarks & Tradenames**	**Total Intangible Assets**
Balance at January 1, 2019	$151,850	$606,559	$109,917	$343,353	$ -	$ -	$1,211,679
Additions	38,416	52,961	12,308	-	-	-	103,685
Additions from acquisition	-	-	-	163,588	458,045	163,588	785,221
Balance at December 31, 2019	190,266	659,520	122,225	506,941	458,045	163,588	2,100,585
Additions	**3,142**	**106,246**	**-**	**-**	**-**	**-**	**109,388**
Internally generated intangible assets	**-**	**150,707**	**-**	**-**	**-**	**-**	**150,707**
Effect of exchange rate changes	**-**	**-**	**-**	**(9,120)**	**(12,425)**	**(4,438)**	**(25,983)**
Balance at December 31, 2020	**193,408**	**916,473**	**122,225**	**497,821**	**445,620**	**159,150**	**2,334,697**

Accumulated depreciation and impairment	**Patents**	**Software**	**Brand**	**Customer Relationships**	**Vendor Relationships**	**Trademarks & Tradenames**	**Total Intangible Assets**
Balance at January 1, 2019	(33,113)	(536,184)	(85,521)	(34,650)	-	-	(689,468)
Depreciation expense	(9,306)	(54,581)	(21,379)	(30,360)	(23,139)	(6,611)	(145,376)
Balance at December 31, 2019	(42,419)	(590,765)	(106,900)	(65,010)	(23,139)	(6,611)	(834,844)
Depreciation expense	**(11,829)**	**(94,548)**	**(11,829)**	**(56,789)**	**(45,963)**	**(18,374)**	**(239,332)**
Effect of exchange rate changes	**-**	**-**	**-**	**4,791**	**2,259**	**1,113**	**8,163**
Balance at December 31, 2020	**(54,248)**	**(685,313)**	**(118,729)**	**(117,008)**	**(66,843)**	**(23,872)**	**(1,066,013)**

Net book value	**Patents**	**Software**	**Brand**	**Customer Relationships**	**Vendor Relationships**	**Trademarks & Tradenames**	**Total Intangible Assets**
Balance at December 31, 2019	147,847	68,755	15,326	441,931	434,906	156,977	1,265,741
Balance at December 31, 2020	**$139,160**	**$231,160**	**$3,496**	**$380,813**	**$378,777**	**$135,278**	**$1,268,684**

7. GOODWILL

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

Balance, January 1, 2019	$461,889
Acquisition of PCS (Note 11)	1,557,142
Balance at December 31, 2019	2,019,031
Effect of exchange rates	**(49,297)**
Balance at December 31, 2020	**$1,969,734**

Management has determined that both GMI and PCS are CGUs, and goodwill has been allocated in the amounts of $455,591 and $1,514,143, respectively.

For the year ended December 31, 2020, the Company determined that for both the GMI CGU and the PCS CGU, the recoverable amount was higher than their carrying amount. The recoverable amounts of the CGUs were determined based on value-in-use calculations, using management's discounted cash flow projections over a period of 5 years. In calculating the recoverable amount of the CGUs, a pre-tax discount rate is used. The pre-tax discount rate applied was 7.5%, which was set considering the average borrowing cost of the Company and certain risk premiums, based on management's past experience. Management also used various higher discount rates to test the sensitivity of the value of the CGUs.

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

8. TECHNOLOGY AS A SERVICE (TAAS) REVENUE

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

Not later than one year	$373,696
Later than one year and not later than five years	-
Later than five years	-
	$373,696

Subsequent to the year end, a TaaS customer bought out the remainder of its contract and purchased the equipment from the Company pursuant to the terms of the TaaS contract. This amount has been included in the table above. For the year ended December 31, 2020, the Company recognized TaaS revenue of $1,081,456 (December 31, 2019 - $1,292,090).

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 year ended December 31, 2020, were $1,609,807 (December 31, 2019 - $1,289,016). In 2020, patent litigation expenses include the costs related to the settlement with AirWatch net of the recovery of the litigation financing liability (Note 10).

The following were the key events during the course of the patent litigation:

- 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.
- On July 24, 2017, AirWatch filed its answer, defenses and counterclaims to the Company's complaint. 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").
- On March 20, 2018, the USPTO upheld Route1's position and denied the institution of the IPR.
- 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.
- 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 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.
- On August 24, 2020, the Court 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$1,666,673.
- On September 22, 2020, the Company posted a fully collateralized bond with the court in the amount of US$1,669,840 ($2,226,065) including statutory interest for one year.
- On December 29, 2020, the Company and VMWare, Inc. reached a settlement to conclude the litigation in both Canada and the United States whereby the Company would pay VMWare, Inc. US$1,400,000 by March 31, 2021 from the proceeds of the bond. The payment was made subsequent to the year end.

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).

The reimbursements received from Bench Walk pursuant to its investment had been accounted for as a long-term liability within the consolidated financial statements. As a result of the litigation settlement with VMWare (Note 9), the liability of $898,645 has been reversed and has been recorded as an offset to patent litigation expense for the year ended December 31, 2020.

During 2020, the Company received no reimbursements of expenses incurred from January 1, 2020 to December 31, 2020 (January 1, 2019 to December 31, 2019 – $659,349 (US $497,514)). In total, the Company received $898,645 (US $688,726) under the funding agreement. The Company and Bench Walk have no further obligations to each other pursuant to the funding agreement.

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
	$3,012,883

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

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

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

The acquisition of PCS was accounted for using the acquisition method of accounting in accordance with IFRS 3 with the results of operations consolidated with those of the Company effective June 28, 2019. The goodwill recorded on the balance sheet represents the purchase price paid in excess of the fair value of the assets acquired is not tax deductible. The goodwill is attributed to the workforce and profitability of PCS. Transaction costs of $73,780 related to the acquisition of PCS have been expensed and included in operating expenses in the consolidated statements of comprehensive income.

PCS's contribution to revenue and gross profit had the acquisition occurred as of January 1, 2019, in management's opinion, is not reliably determinable.

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

Assets Acquired	**US Dollars**	**Canadian Dollars**
Cash and cash equivalents	$199,134	$260,607
Accounts receivable	1,414,842	1,851,604
Inventory	845,564	1,106,589
Prepaid expenses	16,789	21,971
Current assets	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
Liabilities Assumed		
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
Net consideration issued	$2,302,196	$3,012,883

12. BANK INDEBTEDNESS

The Company's credit facility consists of a revolving demand facility in the amount of $875,000 (December 31, 2019 - $875,000) and a $150,000 credit card facility (December 31, 2019 - $100,000). The operating facility carries an interest rate equal to the lender's prime rate of interest plus 1.5% (December 31, 2019 – prime rate of interest plus 1.5%). As at December 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 December 31, 2020, the balance drawn on the revolving demand facility was $nil (December 31, 2019 - $799,812).

The Company's wholly owned subsidiary, PCS, has an asset-based revolving credit facility in the amount of US $1,500,000. The facility carries an interest rate of 50 basis points over the prime rate published daily in the Wall Street Journal. As at December 31, 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 December 31, 2020, the balance drawn on the revolving demand facility was $777,299 (December 31, 2019 - $559,883). PCS is required to maintain a Fixed Charge Coverage Ratio of greater or equal to 1.10:1.

On December 29, 2020, the Company entered into a settlement agreement in respect of its patent litigation. A letter of credit in the amount of US $1,669,840 (CAD $2,226,065) securing the required bond was drawn pursuant to the settlement agreement. See Note 9 for additional information.

13. CONTRACT LIABILITIES AND CONTRACT COSTS

Contract liabilities are comprised of:

	December 31, 2020	December 31, 2019
Balance, beginning of year	**$1,908,315**	$1,687,389
Revenue deferred in previous period and recognized in current period	**(1,808,726)**	(1,485,475)
Business acquisition (note 11)	**-**	209,493
Net additions arising from operations	**3,585,676**	1,485,937
Effect of exchange rates	**42,009**	10,971
Total contract liability	**$3,727,274**	$1,908,315

Revenue to be recognized in the future:

	December 31, 2020	December 31, 2019
Within one year	**$3,627,223**	$1,750,169
Between two to five years	**100,051**	158,146
Total	**$3,727,274**	$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.

Contract costs arise primarily as the result of the deferral of commissions and cost of sales on MobiKEY© services and device sales. They are included in prepaid expenses ($167,651 as at December 31, 2020 and $34,690 as at December 31, 2019) and other current assets ($123,216 as at December 31, 2020 and $7,995 as at December 31, 2019), respectively.

14. NOTES PAYABLE

	December 31, 2020	December 31, 2019
Promissory note A (US $170,000, 2019 US $250,000)	**$216,444**	$324,700
Promissory note B (US $360,000, 2019 US $600,000)	**458,352**	779,280
	674,796	1,103,980
Less: unamortized deferred debt discount	**(17,328)**	(48,310)
	657,468	1,055,670
Promissory note C	**357,372**	-
	1,014,840	1,055,670
Less: current portion of notes payable	**(758,044)**	(388,014)
Long-term portion	**$256,796**	$667,656

The U.S. dollar denominated debt was translated into Canadian dollars at the period end exchange rate of US $1 = C $1.2732 (December 31, 2019 – US $1 = C $1.2988.)

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.

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 note matures on September 15, 2021 unless the term is extended by mutual agreement. 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 December 31, 2020, 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.

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

	Cash Repayment	Reduction of Recorded Liability
2021	$764,796	$758,044
2022	267,372	256,796
	$1,032,168	$1,014,840

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 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 1,167,500 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.

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. Purchases for cancellation under the NCIB during the period from September 27, 2020 to December 31, 2020 were 15,000 common shares.

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

For the year ended December 31, 2020, the Company purchased 800,491 shares for cancellation under the NCIBs at an average price of approximately $0.62 per share.

16. 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 issued November 4, 2020	**60,000**	**56,196**
Shares issued December 16, 2020	**3,529,411**	**1,823,116**
Shares repurchased for cancellation	**(800,491)**	**(496,468)**
Share issuance costs	**-**	**(55,003)**
Balance, December 31, 2020	**38,694,020**	**$23,370,074**

- There are 3,312,500 common share purchase options ("Options") outstanding to acquire 3,312,500 common shares at various prices.
- The following common share purchase warrants are outstanding:
    - 3,000,000 common share purchase warrants with an expiry date of March 22, 2021, enabling the holder to purchase 3,000,000 common shares at an exercise price of $0.50 per share. The warrants may be exercised on a cash or cashless basis.
    - 3,574,411 common share purchase warrants with an expiry date of June 16, 2022, enabling the holder to purchase 3,573,411 common shares at an exercise price of $1.00 per share.

Private Equity Placement

On December 16, 2020, the Company completed a private placement of 3,529,411 units (comprised of one common share and one warrant) for gross proceeds of $3,000,000. A portion of the proceeds were allocated to warrants based on the valuation below with the residual value allocated to common shares.

Warrant Valuation

	December 16, 2020
Share price on issue date	$1.04
Risk free interest rate	0.25%
Expected life (years)	1.5
Expected volatility	80%
Dividend yield	Nil
Fair value of warrants issued	$0.334

The Black-Scholes option pricing model is used by the Company to determine the fair value of the warrants issued as part of the equity private placement in December 2020. A total fair value of $1,191,889 was determined.

Warrants Outstanding

	Number of Warrants	Warrant $
Balance, January 1, 2019	3,000,000	$534,000
Issued	-	-
Exercised	-	-
Expired	-	-
Balance, December 31, 2019	3,000,000	534,000
Issued	**3,574,411**	**1,191,889**
Issuance costs	**-**	**(42,185)**
Exercised	**-**	**-**
Expired	**-**	**-**
Balance, December 31, 2020	**6,574,411**	**$1,683,704**

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.

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

Options Outstanding	**December 31, 2020** Number of Options	**December 31, 2020** Weighted Average Exercise Price	December 31, 2019 Number of Options	December 31, 2019 Weighted Average Exercise Price
Balance, beginning of the year	**3,397,500**	**$0.55**	2,637,700	$0.53
Options granted during the year	**1,925,000**	**0.71**	1,180,000	0.60
Options expired during the year	**(1,310,000)**	**0.55**	(87,500)	0.50
Options exercised during the year	**(60,000)**	**0.50**	(103,700)	0.50
Options forfeited during the year	**(640,000)**	**0.55**	(229,000)	0.60
Balance, end of the year	**3,312,500**	**$0.61**	3,397,500	$0.55

The average trading price at the time of the exercise of the options noted above was $0.64 per share.

Exercise Price	**Options Outstanding December 31, 2020** Number of Options	**Options Outstanding December 31, 2020** Weighted Average Remaining Contractual Life (Years)	**Options Exercisable December 31, 2020** Number of Options	**Options Exercisable December 31, 2020** Weighted Average Remaining Contractual Life (Years)
$0.50	**687,500**	**0.9**	**647,500**	**0.8**
$0.55	**200,000**	**2.7**	**60,000**	**2.7**
$0.62	**400,000**	**4.7**	**-**	**-**
$0.65	**500,000**	**3.3**	**150,000**	**3.3**
$0.68	**1,325,000**	**4.3**	**-**	**-**
$1.05	**200,000**	**3.0**	**-**	**-**
	3,312,500	**3.4**	**857,500**	**1.4**

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 year ended December 31, 2020, the Company recorded stock-based compensation expense of $496,872 (December 31, 2019 - $322,569).

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	**$0.60 - $1.04**	**$0.50 - $0.70**
Risk free interest rate	**0.34% - 0.42%**	**2.06%**
Expected life (years)	**3-5**	**5**
Expected volatility	**119%-133%**	**193%**
Forfeiture rate	**Nil**	**Nil**
Dividend yield	**Nil**	**Nil**
Fair value of options issued during the year	**$0.515 - $0.731**	**$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.

	December 31, 2020	December 31, 2019
Balance, beginning of the year	**$14,840,861**	$14,552,696
Options expensed in the year	**496,872**	322,569
Options exercised in the year	**(26,196)**	(34,404)
Balance, end of the year	**$15,311,537**	$14,840,861

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 $363,995 (December 31, 2019 - $355,379). These transactions are in the normal course of operations and are paid or payable for directorship services. As at December 31, 2020, accounts payable included $100,314 owing to 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 $180,512 (December 31, 2019 - $94,678.
- The Company made payments (including HST) to 1220764 Ontario Inc. for management services provided by Mr. Tony P. Busseri, a director and the CEO of the Company, in the amount of $185,979 for the period between January 1, 2019 and May 31, 2019. Commencing June 1, 2019, Mr. Busseri was employed by the Company and payments made are included as part of key management.
- 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 year ended December 31, 2020 as follows, with 2019 comparatives:

	December 31, 2020	December 31, 2019
Short-term employee benefit	**$1,149,564**	$884,475
Stock-based compensation expense	**255,837**	62,353
	$1,405,401	$946,828

18. LOSS PER SHARE

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

	Year Ended December 31, 2020	Year Ended December 31, 2019
Net loss	**($1,707,242)**	($554,177)
Weighted average number of common shares outstanding	**35,499,546**	36,415,781
Basic and diluted loss per share	**($0.05)**	($0.02)

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. No financial instruments were used for trading or speculative purposes in 2020 or 2019.

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 $40,365,315 at December 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 year.

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

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

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.

The Company has an earn-out provision from the acquisition of GMI in fiscal 2018, which requires a payment to the former owners of GMI should the gross profit of GMI be in excess of certain targets. The earn-out expired in March 2021, with no amounts being payable.

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 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 and other receivables. The maximum exposure to credit risk is equal to the carrying value (net of allowances) of the financial assets. The objective of managing credit risk is to prevent losses on financial assets. The Company assesses the credit quality of counterparties, taking into account their financial position, past experience and other factors. During the year ended December 31, 2020, the largest single customer represented approximately $1,560,000 of revenue (December 31, 2019 - $2,651,000).

Cash and cash equivalents consist of bank balances. Credit risk associated with cash is minimized substantially by ensuring that these financial assets are held in highly rated financial institutions. At December 31, 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 $1,137,474 (December 31, 2019 - $125,544).

Accounts receivable consist primarily of accounts receivable from invoicing for subscriptions, devices and services. Other receivables consist primarily of unbilled accounts receivable, marketing development funds, sales tax refunds to be received and an amount due for the refund of the excess of the posted bond over the patent litigation settlement amount. The Company's credit risk arises from the possibility that a customer which owes the Company money is unable or unwilling to meet its obligations in accordance with the terms and conditions in the contracts with the Company, which would result in a financial loss for the Company. This risk is mitigated through established credit management techniques, including monitoring customer's creditworthiness, setting exposure limits and monitoring exposure against these customer credit limits.

The Company measures a loss allowance based on the lifetime expected credit losses. Lifetime expected credit losses are estimated based on factors such as the Company's past experience of collecting payments, the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables, financial difficulty of the borrower, and it becoming probable that the borrower will enter bankruptcy or financial re-organization. Financial assets are written off when there is no reasonable expectation of recovery. Subsequent recoveries of amounts previously written off reduce other expenses in the statement of comprehensive income. As at December 31, 2020, the largest single customer's account receivable represented $419,631 (December 31, 2019 – $1,148,251) of the total accounts receivable. This account receivable was collected in full subsequent to the year end.

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

	December 31, 2020	December 31, 2019
Current	**$2,304,560**	$3,704,055
Past due		
1 – 60 days	**597,511**	1,066,043
Greater than 60 days	**408,630**	194,517
Less: Allowance for doubtful accounts	**-**	-
Total accounts receivable, net	**$3,310,701**	$4,964,615

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

	December 31, 2020	December 31, 2019
Other receivables	**$1,254,774**	$134,640
Less: Reserve	**(597,401)**	-
Total other receivables, net	**$657,373**	$134,640

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 $597,401 (US$469,212). The expense related to the reserve is included as part of Other Expenses on the Consolidated Statements of Loss and Comprehensive Loss. 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 December 31, 2020:

	2021	**2022**	**2023 and Beyond**	**Total**
Accounts payable and other liabilities	$4,063,359	$-	$-	$4,063,359
Notes payable	764,796	267,372	-	1,032,168
Lease commitments	877,143	532,661	1,783,512	3,193,316
	$5,705,298	$800,033	$1,783,512	$8,288,843

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

Market risk

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

Foreign exchange

The functional currency of the parent company is Canadian dollars and the reporting currency is Canadian dollars. As at December 31, 2020, the Company had non-Canadian dollar net monetary liabilities of approximately US $1,350,000 (December 31, 2019 – assets of approximately US $443,000). An increase or decrease in the U.S. to Canadian dollar exchange rate by 5% as at December 31, 2020 would have resulted in a gain or loss in the amount of $86,000 (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 December 31, 2020, cash balances were $1,137,474 (December 31, 2019 - $125,544), bank indebtedness balances were $777,299 (December 31, 2019 – $1,359,695) and the interest rate sensitivity is not material.

22. INCOME TAXES

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

	December 31, 2020	December 31, 2019
Deferred tax assets		
Property, furniture and equipment and intangible assets	**$1,105,788**	$1,228,447
Tax losses carry-forwards	**4,584,980**	4,331,196
Unamortized Scientific Research and Development Pools	**3,558,122**	3,431,732
Investment Tax Credit	**3,318,562**	3,208,715
Other	**11,135**	284,832
Deferred tax asset	**12,578,587**	12,484,922
Deferred tax asset not recognized	**(11,094,587)**	(11,000,922)
	$1,484,000	$1,484,000
Deferred tax liability		
Intangible assets acquired in the acquisition of PCS	**$159,736**	193,164

The U.S. income tax recovery was $3,435 due to the amortization of the deferred tax liability acquired in the acquisition of PCS net of the payment of state minimum taxes. The Canadian federal tax is 15.0% and the Ontario rate is 11.5% (combined rate of 26.5%). The US subsidiaries have a tax payable of $8,269 due to state minimum taxes. The US federal rate of 21.0% plus a representative state tax rate of 4.3% was used to calculate a blended tax rate of 25.3% in 2020 (2019 – 25.2%) based on the respective Canadian/US income or losses before tax.

	2020	2019
Loss before tax	**($1,710,677)**	($1,227,327)
Blended domestic and foreign tax rate for the Company	**25.6%**	25.2%
Expected tax recovery	**437,933**	309,286
U.S. state taxes paid	**(8,269)**	(68,783)
Adjustment for utilization of tax loss carryforwards	**194,803**	386,852
Adjust for tax loss carryforwards generated in the current year	**(389,860)**	(118,315)
Increase in recognition of deferred tax asset	**-**	741,933
Adjustment for temporary differences	**(82,793)**	(499,566)
Adjustment for non-deductible expenses	**(148,379)**	(78,257)
Actual tax recovery	**$3,435**	$673,150

Tax (expense) recovery comprises:		
- Current tax expense	**($26,922)**	($68,783)
- Deferred tax expense	**30,357**	741,933
Tax recovery	**$3,435**	$673,150

The Company has non-capital losses for tax purposes of approximately $14,400,000 that may be used to reduce Canadian taxable income in the future. Some of the potential tax benefits pertaining to these tax losses have been recognized in the financial statements. If not fully utilized, these losses will expire as follows:

2026	$916,000
2027	7,309,000
2028	4,078,000
2029	2,097,000
	$14,400,000

The Company has net operating loss for the tax purposes of approximately $3,040,000 that may be used to reduce US taxable income in the future. The tax benefits pertaining to these losses have not been recognized in the financial statements. If not utilized, these losses will expire as follows:

2034	$252,000
2035	1,062,000
Remaining	1,726,000
	$3,040,000

The remaining losses of $1,726,000 do not expire, but cannot be used to offset more than 80% of taxable income in the year.

23. REVENUE AND SEGMENTED INFORMATION

Revenue for the recurring revenue and services is reported as a contract liability on the statement of financial position and is recognized as earned revenue for the period in which the subscription and/or service is provided. For the sale of devices, revenue or contract liability is recognized at the time transfer of ownership of the device occurs. At December 31, 2020, the Company had $3,727,374 (December 31, 2019 - $1,908,315) in contract liability.

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

	2020		2019	
	Revenue	**% of Total**	Revenue	% of Total
Subscription revenue and services	**$9,574,317**	**32.2**	$7,833,425	32.6
Devices and appliances	**20,038,257**	**67.5**	16,168,992	67.4
Other	**94,078**	**0.3**	7,208	0.0
	$29,706,652	**100.0**	$24,009,625	100.0

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

	2020		2019	
	Revenue	**% of Total**	Revenue	% of Total
USA	**$29,503,033**	**99.3**	$23,852,020	99.3
Canada	**203,619**	**0.7**	157,605	0.7
	$29,706,652	**100.0**	$24,009,625	100.0

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

	2020		2019	
	Assets	**% of Total**	Assets	% of Total
USA	**$3,511,194**	**81.4**	$1,866,553	65.5
Canada	**803,193**	**18.6**	1,032,462	34.5
	$4,314,387	**100.0**	$2,899,015	100.0

24. SUBSEQUENT EVENTS

On March 19, 2021, the Company received notice that the holder of the 3,000,000 common share purchase warrants issued in connection with the acquisition of Group Mobile Int'l, LLC in March 2018 would exercise its right to purchase common shares on a cashless basis pursuant to the terms of the warrant agreement. The Company issued 1,355,443 common shares in connection with the exercise of the warrants.

On March 29, 2021, the Company acquired DataSource Mobility, LLC and its wholly owned subsidiary, VetSource Mobility, LLC (collectively "DSM") for US $1,300,000. Route1 has also agreed to share with DSM's prior owners the gross profit generated by defined DSM accounts once the actual gross profit exceeds a threshold for the balance of the 2021 calendar year and 2022 calendar year. The threshold is US $375,000 for the last nine months of 2021 and US $500,000 for calendar year 2022.