



Interim Condensed Consolidated Financial Statements of

Route1 Inc.

September 30, 2021 and 2020

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Route1 Inc.

As at September 30, 2021 and December 31, 2020
(stated in Canadian dollars)

	Note	September 30, 2021 Unaudited	December 31, 2020 Audited
Assets			
Current assets			
Cash and cash equivalents		\$727,446	\$1,137,474
Accounts receivable		5,329,702	3,310,701
Other receivables		205,811	657,573
Inventory	3	769,786	678,801
Prepaid expenses		424,453	476,680
Contract costs	12	81,436	-
Other current assets		4,572	146,844
Total current assets		7,543,206	6,408,073
Non-current assets			
Deferred tax asset		1,484,000	1,484,000
Right-of-use assets	5	1,760,447	2,152,444
Furniture and equipment	5	1,018,539	893,259
Intangible assets	6	2,025,132	1,268,684
Goodwill	7	3,001,590	1,969,734
Total non-current assets		9,289,708	7,768,121
Total assets		\$16,832,914	\$14,176,194
Liabilities			
Current liabilities			
Bank indebtedness	11	1,593,105	777,299
Accounts payable and other liabilities		5,065,761	4,063,359
Contract liability	12	3,771,259	3,627,223
Lease liabilities	4	416,442	552,980
Notes payable	13	695,519	758,044
Total current liabilities		11,542,086	9,778,905
Non-current liabilities			
Deferred tax liability		145,744	159,736
Contract liability	12	77,303	100,051
Lease liabilities	4	1,452,915	1,740,174
Notes payable	13	632,372	256,796
Total non-current liabilities		2,308,334	2,256,757
Total liabilities		13,850,420	12,035,662
Shareholders' equity			
Capital and reserve			
Common shares	14,15	23,700,961	23,370,074
Warrants	15	1,149,704	1,683,704
Contributed surplus – stock compensation reserve	15	15,789,754	15,311,537
Accumulated other comprehensive income (loss)		(49,156)	(78,625)
Deficit		(37,608,769)	(38,146,158)
Total shareholders' equity		2,982,494	2,140,532
Total shareholders' equity and liabilities		\$16,832,914	\$14,176,194

Commitments and contingencies

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

Route1 Inc.

For the three and nine months ended September 30, 2021 and 2020
(stated in Canadian dollars)

	Note	Three months ended September 30 Unaudited		Nine months ended September 30 Unaudited	
		2021	2020	2021	2020
Revenue					
Subscription revenue and services	21	\$2,296,633	\$2,599,425	\$7,724,873	\$7,046,197
Devices and appliance	21	4,960,413	6,523,329	12,409,886	15,401,525
Other	21	30,587	24,737	101,925	31,753
Total revenue		7,287,633	9,147,491	20,236,684	22,479,475
Cost of revenue	3	4,696,188	6,134,052	11,786,508	14,319,512
Gross profit		2,591,444	3,013,439	8,450,176	8,159,963
Operating expenses					
General administration		1,517,909	1,456,475	4,441,510	4,297,480
Research and development		247,811	188,751	652,623	563,166
Selling and marketing		671,361	916,970	2,335,335	2,605,645
Total operating expenses before stock-based compensation		2,437,081	2,562,196	7,429,468	7,466,291
Stock-based compensation		104,610	76,126	478,217	326,334
Total operating expenses		2,541,691	2,638,322	7,907,685	7,792,625
Operating profit before other income (expense)		49,753	375,117	542,491	367,338
Other income (expense)					
Patent litigation	8	-	(381,162)	-	(551,774)
Interest expense		(130,688)	(30,183)	(221,991)	(110,154)
Foreign exchange gain (loss)		64,013	(43,733)	51,668	(32,951)
Gain (loss) on asset disposal		-	-	(2,877)	154
Gain on litigation settlement		-	218,391	-	218,391
Other expense	20	(11,020)	(620,392)	232,720	(620,392)
Acquisition expense	9	(39,656)	2,260	(78,617)	(13,885)
Total other income (expense)		(117,351)	(854,819)	(19,097)	(1,110,611)
Income (loss) before income taxes		(67,598)	(479,702)	523,394	(743,273)
Income tax recovery (expense)		6,288	(48,603)	13,994	(27,983)
Net income (loss) for the period		(61,310)	(528,305)	537,388	(771,256)
Other comprehensive income (loss)					
Foreign currency translation		118,613	(40,449)	29,464	(10,619)
Comprehensive income (loss)		\$57,303	(\$568,754)	\$566,852	(\$781,875)
Basic earnings (loss) per share	17	(\$0.00)	(\$0.01)	\$0.01	(\$0.02)
Diluted earnings per share	17	N/A	N/A	\$0.01	N/A
Weighted average number of common shares outstanding		39,719,246	35,297,805	39,501,583	35,672,992
Diluted average number of shares outstanding		N/A	N/A	40,586,803	N/A

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Route1 Inc.

For the three and nine months ended September 30, 2021 and 2020
(stated in Canadian dollars)

	Note	Common Shares	Warrants	Contributed Surplus	Accumulated Other Comprehensive Income (loss)	Deficit	Total shareholders' equity
Balance at January 1, 2020		\$22,042,233	\$534,000	\$14,840,861	\$1,547	(\$36,438,916)	\$979,725
Repurchase of capital stock for cancellation	15	(43,990)	-	-	-	-	(43,990)
Stock-based compensation	16	-	-	109,038	-	-	109,038
Comprehensive income (loss)		-	-	-	88,031	(182,850)	(94,819)
Balance at March 31, 2020		\$21,998,243	\$534,000	\$14,949,899	\$89,578	(\$36,621,766)	\$949,954
Repurchase of capital stock for cancellation	15	(194,378)	-	-	-	-	(194,378)
Stock-based compensation	16	-	-	141,170	-	-	141,170
Comprehensive loss		-	-	-	(58,201)	(60,101)	(118,302)
Balance at June 30, 2020		\$21,803,865	\$534,000	\$15,091,069	\$31,377	(\$36,681,867)	\$778,444
Repurchase of capital stock for cancellation	15	(249,078)	-	-	-	-	(249,078)
Stock-based compensation	16	-	-	76,126	-	-	76,126
Comprehensive loss		-	-	-	(40,449)	(528,305)	(568,754)
Balance at September 30, 2020		\$21,554,787	\$534,000	\$15,167,195	(\$9,072)	(\$37,210,172)	\$36,738

	Note	Common Shares	Warrants	Contributed Surplus	Accumulated Other Comprehensive Income (loss)	Deficit	Total shareholders' equity
Balance at January 1, 2021		\$23,370,074	\$1,683,704	\$15,311,537	(\$78,625)	(\$38,146,158)	\$2,140,532
Stock-based compensation	16	-	-	200,784	-	-	200,784
Exercise of warrants	15	534,000	(534,000)	-	-	-	-
Share repurchase costs	15	(2,500)	-	-	-	-	(2,500)
Comprehensive income (loss)		-	-	-	(34,087)	137,918	103,831
Balance at March 31, 2021		\$23,901,574	\$1,149,704	\$15,512,321	\$(112,712)	(\$38,008,240)	\$2,442,647
Stock-based compensation	16	-	-	172,823	-	-	172,823
Repurchase of capital stock for cancellation	15	(115,362)	-	-	-	-	(115,362)
Comprehensive income (loss)		-	-	-	(55,057)	460,781	405,724
Balance at June 30, 2021		\$23,786,212	\$1,149,704	\$15,685,144	(\$167,769)	(\$37,547,459)	\$2,905,832
Repurchase of capital stock for cancellation	15	(82,751)	-	-	-	-	(82,751)
Stock-based compensation	16	-	-	104,610	-	-	104,610
Share repurchase costs	15	(2,500)	-	-	-	-	(2,500)
Comprehensive income (loss)		-	-	-	118,613	(61,310)	57,303
Balance at September 30, 2021		\$23,700,961	\$1,149,704	\$15,789,754	(\$49,156)	(\$37,608,769)	\$2,982,494

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

Route1 Inc.

For the nine months ended September 30, 2021 and 2020
(stated in Canadian dollars)

	September 30, 2021	September 30, 2020
Net cash (outflow) inflow related to the following activities		
Operating activities		
Net income (loss)	\$537,388	(\$771,526)
Items not affecting cash and cash equivalents		
Depreciation and amortization	968,467	999,934
Interest accretion on notes payable	12,092	26,265
Interest on lease liabilities	55,306	26,235
Deferred taxes	(13,871)	(25,499)
Stock-based compensation	478,217	326,334
Net changes in working capital balances		
(Increase) decrease in accounts receivable	(1,755,294)	204,614
(Increase) decrease in other receivables	439,170	(25,875)
(Increase) decrease in inventory	226,640	(298,769)
(Increase) decrease in contract costs	105,032	(211,166)
(Increase) decrease in other assets	19,056	(1,440)
(Increase) decrease in prepaid expenses	53,384	(128,624)
Increase in accounts payable and other liabilities	467,661	423,160
Increase (decrease) in contract liability	(16,704)	3,224,765
Net cash generated by operating activities	1,576,544	3,768,408
Investing activities		
Acquisition of furniture and equipment	(546,761)	(303,485)
Disposal of furniture and equipment	59,113	2,737
Acquisition of right of use assets	-	(833,318)
Acquisition of intangible assets	(35,665)	(246,222)
Cash paid in business combination	(1,637,220)	-
Cash acquired in business combinations	41,963	-
Other assets	(16,704)	17,971
Net cash used by investing activities	(2,118,570)	(1,362,317)
Financing activities		
Issuance (repayment) of notes payable	(47,276)	3,184
Increase in/(repayment of) lease liabilities	(475,675)	454,577
Repurchase of common shares for cancellation	(198,113)	(487,446)
Share repurchase costs	(5,000)	-
Decrease in long-term liabilities	-	(363,086)
Proceeds from bank indebtedness	823,719	106,484
Net cash generated (used) by financing activities	97,655	(286,287)
Net increase (decrease) in cash and cash equivalents for the period	(444,371)	2,119,804
Effects of exchange rate changes on cash	34,343	(19,283)
Cash and cash equivalents, beginning of period	1,137,474	125,544
Cash and cash equivalents, end of period	\$727,446	\$2,226,065

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Route1 Inc.

September 30, 2021 and 2020 (stated in Canadian dollars)

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.

On March 29, 2021 the Company completed the acquisition of 100% of the membership interests of DataSource Mobility, LLC. (“DSM”). There were no material events between acquisition date and March 31, 2021. DSM has been included in the Company’s consolidated financial statements from April 1, 2021.

On September 15, 2021, the Company completed the acquisition of 100% of the outstanding shares of Spyryus Solutions, Inc. (“Spyryus”). Spyryus has been included in the Company’s consolidated financial statements from the date of acquisition to September 30, 2021.

The Company has four operating segments: Route1 Inc. and Route 1 Security Corporation, Portable Computer Systems, Inc. (“PCS”), Group Mobile Int’l, LLC (“GMI”) and Spyryus Solutions Inc. (“Spyryus”). 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. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions and continue to do so. Central banks in developed countries have begun to indicate that monetary policy may become more restrictive in the coming year.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Route1 Inc.

September 30, 2021 and 2020 (stated in Canadian dollars)

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. While some of the increase in MobiKEY users has not been renewed, the Company believes that its sustained user base 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. 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 in most cases. Certain of the Company's customers including educational institutions continue to delay procurement as a result of not resuming pre-pandemic activity levels. Recently, the Company has experienced increased lead times for deliveries of products from certain manufacturers. In addition, projects that are dependent on the delivery of automotive vehicles have been delayed as delivery times and prices have increased. The global supply situation has been exacerbated by the reopening of developed economies and the continued limited ability of lesser developed economies to meet the increased demand.

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

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 – “*Interim Financial Reporting*” (“IAS 34”) using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain disclosures included in annual financial statements prepared in accordance with IFRS have been condensed or omitted and these unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2020.

The accounting policies applied in preparation of these interim condensed consolidated financial statements are consistent with those applied and disclosed in the Company's consolidated financial statements for the year ended December 31, 2020.

The preparation of interim condensed consolidated financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The interim results are not necessarily indicative of results for a full year. The critical judgments and estimates applied in the preparation of the Company's interim condensed consolidated financial statements are consistent with those applied to the Company's consolidated financial statements for the year ended December 31, 2020.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Route1 Inc.

September 30, 2021 and 2020 (stated in Canadian dollars)

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

3. COST OF REVENUE

Cost of revenue includes the cost of devices, salaries of select staff, hosting of our MobiNET© and royalty related fees. For the three months ended September 30, 2021, the cost of revenue recognized as an expense was \$4,696,188 (September 30, 2020 - \$6,134,052).

4. LEASES

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

The minimum annual basic rent commitments are as follows:

	September 30,
	2021
2021	\$194,062
2022	488,008
2023 and beyond	1,478,311
Minimum lease payments	2,160,381
Less: interest portion at rates between 3.81% and 5%	176,097
Net minimum lease payments	1,984,284
Less: Short-term or low value lease payments	114,927
	1,869,357
Less: current portion	416,442
Long-term portion	\$1,452,915

The office locations have been recognized in right-of-use assets at the present value of minimum lease payments, less accumulated depreciation. Also, in relation to those leases under IFRS 16, the Company has recognized depreciation and interest costs instead of operating lease expense. During the three months ended September 30, 2021, the Company recognized \$119,621 (September 30, 2020 - \$92,606) of depreciation and \$16,980 (September 30, 2020 - \$9,964) of interest expense from these leases. The Company also recognized \$52 (September 30, 2020 - \$617) of interest income related to a sublease of the Burlington, Ontario premises which commenced in January 2019.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Route1 Inc.

September 30, 2021 and 2020 (stated in Canadian dollars)

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

	September 30, 2021
Short-term leases	-
Non-lease components	\$160,343
	<u>\$160,343</u>

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

Cost	Right-of-use Asset	Computer Equipment	Furniture and Equipment	TaaS Computer Equipment	Total
Balance at December 31, 2020	\$2,610,754	\$2,494,964	\$527,559	\$1,493,096	\$7,126,373
Additions	-	378,949	167,812	-	546,761
Additions from acquisition	-	-	1,258	-	1,258
Disposals	(172,455)	-	-	(142,206)	(314,661)
Effect of exchange rate changes	(8,159)	-	(420)	(24)	(8,603)
Balance at September 30, 2021	2,430,140	2,873,913	696,209	1,350,866	7,351,128

Accumulated depreciation and impairment	Right-of-use Asset	Computer Equipment	Furniture and Equipment	TaaS Computer Equipment	Total
Balance at December 31, 2020	(458,310)	(1,880,807)	(377,110)	(1,364,443)	(4,080,670)
Depreciation expense	(386,296)	(214,793)	(77,766)	(66,035)	(744,890)
Disposals	172,455	-	-	80,216	252,671
Effect of exchange rate changes	2,458	-	(1,107)	(604)	747
Balance at September 30, 2021	(669,693)	(2,095,600)	(455,983)	(1,350,866)	(4,572,142)

Net book value	Right-of-use Asset	Computer Equipment	Furniture and Equipment	TaaS Computer Equipment	Total
Balance at December 31, 2020	\$2,152,444	\$614,157	\$150,449	\$128,653	\$3,045,703
Balance at September 30, 2021	\$1,760,447	\$778,313	\$240,225	\$-	\$2,778,986

For the three months ended September 30, 2021, depreciation and amortization expense of \$230,383 (September 30, 2020 - \$267,544) was recognized in general administration expense.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Route1 Inc.

September 30, 2021 and 2020 (stated in Canadian dollars)

For the nine months ended September 30, 2021, depreciation and amortization expense of \$744,890 (September 30, 2020 - \$823,968) was recognized in general administration expense.

6. INTANGIBLE ASSETS

Cost	Patents	Software	Brand	Customer Relationships	Vendor Relationships	Trademarks & Tradenames	Total Intangible Assets
Balance at December 31, 2020	\$193,408	\$916,473	\$122,225	\$497,821	\$445,620	\$159,150	\$2,334,697
Additions	-	35,665	-	-	-	-	35,665
Additions from acquisition	-	-	-	935,976	-	-	935,976
Effect of exchange rate changes	-	-	-	9,594	315	113	10,022
Balance at September 30, 2021	193,408	952,138	122,225	1,443,391	445,935	159,263	3,316,360

Accumulated depreciation and impairment	Patents	Software	Brand	Customer Relationships	Vendor Relationships	Trademarks & Tradenames	Total Intangible Assets
Balance at December 31, 2020	(54,248)	(685,313)	(118,729)	(117,008)	(66,843)	(23,872)	(1,066,013)
Depreciation expense	(11,809)	(98,882)	(2,947)	(64,973)	(32,912)	(11,754)	(223,277)
Effect of exchange rate changes	-	-	-	(1,119)	(612)	(207)	(1,938)
Balance at September 30, 2021	(66,057)	(784,195)	(121,676)	(183,100)	(100,367)	(35,833)	(1,291,228)

Net book value	Patents	Software	Brand	Customer Relationships	Vendor Relationships	Trademarks & Tradenames	Total Intangible Assets
Balance at December 31, 2020	\$139,160	\$231,160	\$3,496	\$380,813	\$378,777	\$135,278	\$1,268,684
Balance at September 30, 2021	\$127,351	\$167,943	\$549	\$1,260,292	\$345,568	\$123,429	\$2,025,132

For the three months ended September 30, 2021, depreciation and amortization expense of \$80,096 (September 30, 2020 - \$60,338) was recognized in general administration expense.

For the nine months ended September 30, 2021, depreciation and amortization expense of \$223,277 (September 30, 2020 - \$175,966) was recognized in general administration expense.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Route1 Inc.

September 30, 2021 and 2020 (stated in Canadian dollars)

7. GOODWILL

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

Balance, December 31, 2020	\$1,969,734
Acquisition of DSM (Note 9)	1,018,574
Effect of exchange rates	13,282
Balance at September 30, 2021	\$3,001,590

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

8. PATENT LITIGATION

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

Patent litigation expenses for the three and nine months ended September 30, 2021, were both \$0 (September 30, 2020 - \$381,162 and \$551,774, respectively). In 2020, patent litigation expenses include the costs related to the settlement with AirWatch net of the recovery of the litigation financing liability. The litigation was settled on December 29, 2021 and no further expenses have been incurred after that date.

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.
- In December 2018, Route1 Inc. commenced a patent infringement lawsuit in Canada against VMware, Inc.
- 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.
- 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Route1 Inc.

September 30, 2021 and 2020 (stated in Canadian dollars)

9. BUSINESS COMBINATION – DataSource Mobility, LLC

On March 29, 2021, the Company completed the acquisition of 100% of the membership interests of DataSource Mobility, LLC (“DSM”). The purchase consideration was USD \$1,300,000 cash paid at closing (CAD \$1,637,220). The USD/CAD exchange rate on March 29, 2021 was US \$1 = CAD \$1.2594.

Based in Clarksville, Tennessee, DSM is primarily a reseller of ruggedized tablets and laptops along with associated accessories. DSM offers guidance and state-of-the-art mobile devices for a wide range of sectors including public safety, utilities, field services, logistics and healthcare as well as state and local governments. DSM services customers primarily located in the Southeastern United States.

The acquisition of DSM was accounted for using the acquisition method of accounting in accordance with IFRS 3 with the results of operations consolidated with those of the Company effective March 29, 2021. No Material transactions have occurred between the acquisition date and September 30, 2021. The goodwill recorded on the balance sheet represents the purchase price paid in excess of the fair value of the assets. Transaction costs of \$864 related to the acquisition of DSM have been expensed and included in operating expenses in the consolidated statements of comprehensive income for the period ended September 30, 2021.

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	\$20,632	\$25,984
Accounts receivable	182,094	229,329
Prepaid expenses	4,750	5,982
Capital assets	1,000	1,258
Intangible assets	450,153	566,924
Goodwill	808,777	1,018,574
Total assets	1,467,406	1,848,051
Liabilities Assumed		
Accounts payable and other liabilities	163,520	205,937
Accrued liabilities	3,886	4,894
Total liabilities	167,406	210,831
Fair value of net assets acquired	1,300,000	1,637,220
Net Consideration Issued	\$1,300,000	\$1,637,220

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10. BUSINESS COMBINATION – Spyrus Solutions, Inc.

On September 15, 2021, the Company completed the acquisition of 100% of the outstanding shares of Spyrus Solutions, Inc. The prior owners of Spyrus received no cash consideration on the date of the acquisition as the Company agreed to the assumption of certain liabilities related to unpaid employee wages and obligations of approximately US \$0.58 million with US \$0.22 million paid at closing and the balance to be paid out over the subsequent 12 months. Route1 has also agreed to pay the prior owners of Spyrus additional compensation based on certain gross profit metrics being met (the “Earnout”). The Earnout payment for calendar years 2021 to 2024 will work as follows: (1) From date of closing to Dec 31, 2021, the prior owners will receive 20% of Spyrus’ gross profit above US \$1 million; and (2) For each of the calendar years 2022, 2023 and 2024, the prior owners will receive 20% of Spyrus’ gross profit once a minimum gross profit threshold of US \$1.5 million is met. If the gross profit in any one year exceeds US \$2.5 million, the Earnout percentage increases from 20% to 25%. The USD/CAD exchange rate on September 15, 2021 was US \$1 = CAD \$1.2651.

Based in San Jose, California, Spyrus develops and manufactures cryptographic products, including the SPYCOS smart card operating system, enabling strong protection for data-in-motion, data-at-rest and data-in-process. For more than 20 years, Spyrus has delivered encryption, authentication, and digital content security products to U.S. defense and civilian agencies, international government, financial, and healthcare enterprises.

The acquisition of Spyrus 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 September 15, 2021.

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

Assets Acquired	US Dollars	Canadian Dollars
Cash and cash equivalents	\$12,631	\$15,979
Accounts receivable	230,605	291,738
Prepaid expenses	1,391	1,760
Inventory	255,397	323,103
Contract costs	49,713	62,892
Intangible Assets	291,718	369,052
Total assets	841,455	1,064,524
Liabilities Assumed		
Accounts payable and other liabilities	451,755	571,515
Deferred revenue	109,700	138,781
Notes payable	280,000	354,228
Total liabilities	841,455	1,064,524
Fair value of net assets acquired	-	-
Net Consideration Issued	\$-	\$-

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11. BANK INDEBTEDNESS

The Company's credit facility consists of a revolving demand facility in the amount of \$875,000 (December 31, 2020 - \$875,000) and a \$150,000 credit card facility (December 31, 2020 - \$150,000). The operating facility carries an interest rate equal to the lender's prime rate of interest plus 1.5% (December 31, 2020 – prime rate of interest plus 1.5%). As at September 30, 2021, the interest rate was 3.95%. The credit facility is secured by the assets of Route1 Inc. and guaranteed by GMI. As at September 30, 2021, the balance drawn on the revolving demand facility was \$850,000. (December 31, 2020 - \$nil).

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 September 30, 2021, the interest rate was 3.75%. The availability under the facility is based on a percentage of the aggregate of certain accounts receivable and inventory. The facility is secured by the assets of PCS and is guaranteed by the Company and a wholly owned subsidiary of the Company. As at September 30, 2021, the balance drawn on the revolving demand facility was \$743,105 (December 31, 2020 - \$777,299). PCS is required to maintain a Fixed Charge Coverage Ratio equal to or greater than 1.10:1.

12. CONTRACT LIABILITIES AND CONTRACT COSTS

Contract liabilities are comprised of:

	September 30, 2021	December 31, 2020
Balance, beginning of period	\$3,727,274	\$1,908,315
Revenue deferred in previous period and recognized in current period	(3,443,307)	(1,808,726)
Net additions arising from operations	3,430,902	3,585,676
Net additions arising from acquisitions (note 10)	118,543	-
Effect of exchange rates	15,150	42,009
Total contract liability	<u>\$3,848,562</u>	<u>\$3,727,274</u>

Revenue to be recognized in the future:

Within one year	\$3,771,259	\$3,627,223
Between two to five years	77,303	100,051
Total	<u>\$3,848,562</u>	<u>\$3,727,274</u>

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, as well as cost of sales on a SpyruS device sale contract. As of September 30, 2021,

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these expenses total are disclosed in Current Assets in the amount of \$81,436. As of December 31, 2020, these costs were included in Other Current Assets in the amount of \$123,216.

13. NOTES PAYABLE

	September 30, 2021	December 31, 2020
Promissory note A (US \$90,000, 2020 US \$170,000)	\$114,669	\$216,444
Promissory note B (US \$180,000, 2020 US \$360,000)	229,338	458,352
	344,007	674,796
Less: unamortized deferred debt discount	(5,236)	(17,328)
	338,771	657,468
Promissory note C	632,372	357,372
Promissory note D	356,748	-
	1,327,891	1,014,840
Less: current portion of notes payable	(695,519)	(758,044)
Long-term portion	\$632,372	\$256,796

The U.S. dollar denominated debt was translated into Canadian dollars at the period end exchange rate of US \$1 = C \$1.2741 (December 31, 2020 – US \$1 = C \$1.2732)

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 October 31, 2022 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,

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Route 1 Security Corporation, and a general security agreement over all current and hereafter acquired personal property of the Company. The promissory note is subordinated to the Company's existing bank credit facilities in both Canada and the United States. At September 30, 2021, the balance drawn on the promissory note was \$632,372 (December 31, 2020 - \$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 and for working capital purposes.

On September 15, 2021, as part of the Spyrus acquisition, Spyrus issued promissory notes (Note D) to certain former employees in the amount of US\$280,000. The notes are fully subordinated, bear no interest and will mature on October 15, 2022.

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

	Cash Repayment	Reduction of Recorded Liability
2021	\$165,633	\$164,469
2022	1,167,494	255,564
	<u>\$1,333,127</u>	<u>\$1,163,422</u>

14. SHARE REPURCHASE PROGRAM

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 three months ended September 30, 2021, the Company purchased 60,000 (September 30, 2020 – 397,000) common shares for cancellation at an average price of \$0.59 (September 30, 2020 - \$0.63) per share.

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For the nine months ended September 30, 2021, the Company purchased 340,000 (September 30, 2020 – 785,500) common shares for cancellation at an average price of \$0.58 (September 30, 2020 - \$0.62) per share.

On September 28, 2021, 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 1,985,473. Purchases under the NCIB may occur during the 12-month period commencing September 28, 2021 and ending September 27, 2022, or the date upon which the maximum number of common shares has been purchased by the Company. There were no purchases for cancellation under the NCIB during the period from September 28, 2021 to September 30, 2021.

15. 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, December 31, 2020	38,694,020	\$23,370,074
Warrants exercised	1,355,443	534,000
Repurchased for cancellation	(340,000)	(198,113)
Share repurchase costs	-	(5,000)
Balance, September 30, 2021	39,709,463	\$23,700,961

- There are 2,825,000 common share purchase options (“Options”) outstanding to acquire 2,825,000 common shares at various prices.
- There are 3,574,411 common share purchase warrants outstanding with an expiry date of June 16, 2022, enabling the holders to purchase 3,574,411 common shares at an exercise price of \$1.00 per share.

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Private Placement of Common Shares and Warrants

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, 2020	3,000,000	\$534,000
Issued	3,574,411	1,191,889
Issuance Costs	-	(42,185)
Balance, December 31, 2020	6,574,411	1,683,704
Exercised	(3,000,000)	(534,000)
Balance, September 30, 2021	3,574,411	\$1,149,704

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.

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

Options Outstanding	September 30, 2021		December 31, 2020	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of the year	3,312,500	\$0.61	3,397,500	\$0.55
Options granted during the year	400,000	0.64	1,925,000	0.71
Options expired during the year	(487,500)	0.50	(1,310,000)	0.55
Options exercised during the year	-	-	(60,000)	0.50
Options forfeited during the year	(400,000)	0.64	(640,000)	0.55
Balance, end of the year	2,825,000	\$0.62	3,312,500	\$0.61

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

Exercise Price	Options Outstanding September 30, 2021		Options Exercisable September 30, 2021	
	Number of Options	Weighted Average Remaining Contractual Life (Years)	Number of Options	Weighted Average Remaining Contractual Life (Years)
\$0.50	200,000	1.2	200,000	1.2
\$0.55	200,000	1.9	120,000	1.9
\$0.62	400,000	3.9	120,000	3.9
\$0.65	500,000	2.6	300,000	2.6
\$0.68	1,325,000	3.6	397,500	3.6
\$1.05	200,000	2.2	-	-
	2,825,000	3.2	1,137,500	2.7

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Exercise Price	Options Outstanding December 31, 2020		Options Exercisable December 31, 2020	
	Number of Options	Weighted Average Remaining Contractual Life (Years)	Number of Options	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	-	-
	<u>3,312,500</u>	<u>3.4</u>	<u>857,500</u>	<u>1.4</u>

For the quarter ended September 30, 2021, the Company recorded stock-based compensation expense of \$104,610 (September 30, 2020 - \$76,126).

For the nine months ended September 30, 2021, the Company recorded stock-based compensation expense of \$478,217 (September 30, 2020 - \$326,334).

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.

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Option Valuation

	2021	2020
Share price on issue date	\$0.64	\$0.60 - \$1.04
Risk free interest rate	0.77%	0.34% - 0.42%
Expected life (years)	5	3-5
Expected volatility	126%	119%-133%
Forfeiture rate	Nil	Nil
Dividend yield	Nil	Nil
Fair value of options issued during the period	\$0.539	\$0.515 - \$0.722

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.

	September 30, 2021	December 31, 2020
Balance, beginning of the period	\$15,311,537	\$14,840,861
Options expensed in the period	478,217	496,872
Options exercised in the period	-	(26,196)
Balance, end of the period	\$15,789,754	\$15,311,537

16. 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 \$123,569 for the quarter (September 30, 2020 - \$90,238) and for the nine-month period ended September 30, 2021 of \$338,808 (September 30, 2020 - \$273,757). These transactions are in the normal course of operations and are paid or payable for directorship services. As at September 30, 2021, accounts payable included \$140,259 owing to directors (September 30, 2020 - \$99,249). The Company also incurred stock-based compensation expense related to stock options granted to directors in the amount of \$29,760 and \$119,654, respectively, for the quarter and nine-month periods ended September 30, 2021 (September 30, 2020 - \$36,171 and \$126,323).

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- The Company made payments to or incurred expenses for key management (President and Chief Executive Officer, Chief Technology Officer, Chief Digital Officer and the Chief Financial Officer) in the quarter and nine-month period ended September 30, 2021 as follows, with 2020 comparatives:

	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Short-term employee benefit	\$329,452	\$322,610	\$1,047,262	\$1,142,150
Stock-based compensation expense	52,205	89,890	219,591	183,772
	\$381,657	\$412,500	\$1,266,583	\$1,325,922

17. EARNINGS PER SHARE

Basic earnings per share have been calculated based on the weighted average number of common shares without the inclusion of dilutive effects. 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 period ending September 30, 2020, all outstanding options and warrants were considered anti-dilutive because the Company recorded a loss in the period.

	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Net income (loss)	(\$61,310)	(\$528,305)	\$537,388	(\$771,256)
Weighted average number of common shares outstanding	39,719,246	35,297,805	39,501,583	35,627,992
Diluted weighted average number of common shares outstanding	N/A	N/A	40,586,803	N/A
Basic income (loss) per common share	(\$0.00)	(\$0.01)	\$0.01	(\$0.02)
Diluted income per common share	N/A	N/A	\$0.01	N/A

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18. 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.

19. 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 \$40,640,419 on September 30, 2021 (\$40,365,315 on December 31, 2020).

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

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

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

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

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20. 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 had an earn-out provision from the acquisition of GMI in fiscal 2018, which required 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.

The Company has an earn-out provision from the acquisition of Spyryus on September 15, 2021 which could require a payment to the previous owners of Spyryus should the gross profit exceed certain targets. For more information, see Note 10 to these financial statements.

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.

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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 quarter ended September 30, 2021, the largest single customer represented approximately \$1,367,000 of revenue (September 30, 2020 - \$541,000).

Cash and cash equivalents consist of bank balances. Credit risk associated with cash is minimized substantially by ensuring that these financial assets are held in highly rated financial institutions. At September 30, 2021, the Company had cash consisting of deposits with a Schedule 1 bank in Canada and a large money centre bank in the U.S. and a large regional bank in the U.S. of \$727,446 (December 31, 2020 - \$1,137,474).

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

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becoming probable that the borrower will enter bankruptcy or financial re-organization. Financial assets are written off when there is no reasonable expectation of recovery. Subsequent recoveries of amounts previously written off reduce other expenses in the statement of comprehensive income. As at September 30, 2021, the largest single customer's account receivable represented \$1,148,388 (December 31, 2020 - \$419,631) of the total accounts receivable. This account receivable was collected in full subsequent to the end of the period.

The following table outlines the details of the aging of the Company's receivables as at September 30, 2021 and December 31, 2020:

	September 30, 2021	December 31, 2020
Current	\$4,546,821	\$2,7304,560
Past due		
1 – 60 days	415,094	597,511
Greater than 60 days	367,787	408,630
Less: Allowance for doubtful accounts	-	-
Total accounts receivable, net	\$5,329,702	\$3,310,701

The following table outlines the details of the Company's other receivables as at September 30, 2021 and December 31, 2020:

	September 30, 2021	December 31, 2020
Other receivables	\$205,811	\$1,254,774
Less: Reserve	-	(597,401)
Total other receivables, net	\$205,811	\$657,373

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. 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. On June 1, 2021 the Company received payment for US \$438,642 from its insurers. Net of legal fees, the Company recorded a gain of \$343,701.

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.

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The Company's ability to manage its liquidity risk going forward will require some or all of the following: the ability to generate positive cash flows from operations and secure capital and/or credit facilities on reasonable terms in the current marketplace. The following table details the Company's contractual maturities for its financial liabilities, including interest payments and operating lease commitments, as at September 30, 2021:

	2021	2022	2023 and Beyond	Total
Accounts payable and other liabilities	\$4,981,520	\$84,241	\$-	\$5,065,761
Notes payable	165,633	1,167,494	-	1,333,127
Lease commitments	194,062	488,008	1,478,311	2,160,381
	\$5,341,215	\$1,739,743	\$1,478,311	\$8,559,269

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

Market risk

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

Foreign exchange

The functional currency of the parent company is Canadian dollars and the reporting currency is Canadian dollars. As at September 30, 2021, the Company had non-Canadian dollar net monetary assets of approximately US \$92,000 (September 30, 2020 – liabilities of approximately US \$298,000). An increase or decrease in the U.S. to Canadian dollar exchange rate by 5% as at September 30, 2021 would have resulted in a gain or loss in the amount of \$5,900 (September 30, 2020 – gain or loss of \$19,850).

Interest rate

The Company has cash balances and bank indebtedness which may be exposed to interest rate fluctuations. At September 30, 2021, cash balances were \$727,446 (December 31, 2020 - \$1,137,474) and bank indebtedness was \$1,593,105 (December 31, 2020 – \$777,299).

21. 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 September 30, 2021, the Company had \$3,848,562 (December 31, 2020 \$3,727,374) in contract liabilities.

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The following table provides a presentation of the Company's revenue streams for the quarter ended September 30, 2021 and 2020:

	2021		2020	
	Revenue	% of Total	Revenue	% of Total
Subscription revenue and services	\$2,296,633	31.5	\$2,599,425	28.4
Devices and appliances	4,960,413	68.1	6,523,329	71.3
Other	30,587	0.4	24,737	0.3
	\$7,287,633	100.0	\$6,968,661	100.0

The following table provides a presentation of the Company's revenue streams for the nine-month period ended September 30, 2021 and 2020:

	2021		2020	
	Revenue	% of Total	Revenue	% of Total
Subscription revenue and services	\$7,724,873	38.2	\$7,046,197	31.4
Devices and appliances	12,409,886	61.3	15,401,525	68.5
Other	101,925	0.5	31,753	0.1
	\$20,236,684	100.0	\$22,479,475	100.0

The following table provides a geographic presentation of the Company's revenue streams for the quarter ended September 30, 2021 and 2020:

	2021		2020	
	Revenue	% of Total	Revenue	% of Total
USA	\$7,272,912	99.8	9,124,056	99.7
Canada	14,721	0.2	23,435	0.3
	\$7,287,633	100.0	\$9,147,491	100.0

The following table provides a geographic presentation of the Company's revenue streams for the nine-month period ended September 30, 2021 and 2020:

	2021		2020	
	Revenue	% of Total	Revenue	% of Total
USA	\$20,176,566	99.7	22,369,869	99.5
Canada	60,118	0.3	109,607	0.5
	\$20,236,684	100.0	\$22,479,476	100.0

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The following table provides a geographic presentation of the Company's right-of-use assets, furniture and equipment and intangible assets for the periods ending September 30, 2021 and December 31, 2020:

	September 30, 2021		December 31, 2020	
	Assets	% of Total	Assets	% of Total
USA	\$4,228,717	88.0	\$2,232,593	70.3
Canada	575,401	12.0	914,149	29.7
	\$4,804,118	100.0	\$3,137,743	100.0