*Interim Condensed Consolidated Financial Statements of*

# Route1 Inc.

*June 30,2022 and 2021*

**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 June 30, 2022 and December 31, 2021
### (stated in Canadian dollars)

| | Note | June 30, 2022 Unaudited | December 31, 2021 Audited |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | | **299,239** | $62,568 |
| Accounts receivable | | **2,992,153** | 4,396,886 |
| Other receivables | | **200,812** | 186,573 |
| Inventory | | **630,415** | 682,256 |
| Prepaid expenses | | **416,384** | 330,584 |
| Contract costs | 10 | **54,486** | 66,763 |
| **Total current assets** | | **4,593,490** | 5,725,630 |
| Non-current assets | | | |
| Deferred tax asset | | **1,484,000** | 1,484,000 |
| Right-of-use assets | 5 | **1,945,094** | 1,634,969 |
| Furniture and equipment | 5 | **677,421** | 908,489 |
| Intangible assets | 6 | **2,026,627** | 2,212,411 |
| Goodwill | 7 | **3,182,797** | 3,131,422 |
| **Total non-current assets** | | **9,315,939** | 9,371,291 |
| **Total assets** | | **$13,909,429** | $15,096,921 |
| **Liabilities** | | | |
| Current liabilities | | | |
| Bank indebtedness | 9 | **1,972,271** | $1,826,640 |
| Accounts payable and other liabilities | | **4,173,913** | 4,564,165 |
| Contract liability | 10 | **1,609,320** | 2,632,310 |
| Lease liabilities | 4 | **414,841** | 377,967 |
| Notes payable | 11 | **842,027** | 1,161,851 |
| **Total current liabilities** | | **9,012,372** | 10,562,933 |
| Non-current liabilities | | | |
| Deferred tax liability | | **366,896** | 401,344 |
| Contract liability | | **31,926** | 52,526 |
| Lease liabilities | 4 | **1,615,096** | 1,352,121 |
| **Total non-current liabilities** | | **2,013,918** | 1,805,991 |
| **Total liabilities** | | **11,026,290** | 12,368,924 |
| **Shareholders' equity** | | | |
| Capital and reserve | | | |
| Common shares | 13 | **23,699,791** | 23,700,961 |
| Warrants | 13 | **-** | 1,149,704 |
| Contributed surplus – stock compensation reserve | 13 | **16,036,290** | 15,879,054 |
| Accumulated other comprehensive income (loss) | | **(23,081)** | (77,771) |
| Deficit | | **(36,829,861)** | (37,923,951) |
| **Total shareholders' equity** | | **2,883,139** | 2,727,997 |
| **Total shareholders' equity and liabilities** | | **$13,909,429** | $15,096,921 |

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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 six months ended June 30, 2022 and 2021**
**(stated in Canadian dollars)**

| | Note | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|---|
| | | Unaudited | | Unaudited | |
| | | **2022** | 2021 | **2022** | 2021 |
| **Revenue** | | | | | |
| Subscription revenue and services | **19** | **$1,854,422** | $2,670,702 | **$3,765,714** | $5,428,242 |
| Devices and appliance | **19** | **5,250,703** | 3,663,081 | **8,031,940** | 7,449,473 |
| Other | **19** | **9,535** | 3,997 | **12,474** | 71,339 |
| **Total revenue** | | **7,114,660** | 6,337,780 | **11,810,128** | 12,949,054 |
| **Cost of revenue** | **3** | **5,015,281** | 3,442,874 | **7,587,612** | 7,090,319 |
| **Gross profit** | | **2,099,379** | 2,894,906 | **4,222,516** | 5,858,735 |
| **Operating expenses** | | | | | |
| General administration | | **1,344,435** | 1,452,614 | **2,643,294** | 2,923,601 |
| Research and development | | **212,923** | 200,908 | **479,222** | 404,814 |
| Selling and marketing | | **414,393** | 797,124 | **861,088** | 1,663,974 |
| **Total operating expenses before stock-based compensation** | | **1,971,751** | 2,450,646 | **3,983,604** | 4,992,389 |
| Stock-based compensation | | **65,238** | 172,823 | **157,236** | 373,607 |
| **Total operating expenses** | | **2,036,989** | 2,623,469 | **4,140,840** | 5,365,996 |
| **Operating profit (loss) before other income (expense)** | | **62,390** | 271,437 | **81,676** | 492,739 |
| **Other income (expense)** | | | | | |
| Interest expense | | **(58,422)** | (45,215) | **(110,114)** | (91,303) |
| Foreign exchange gain (loss) | | **(94)** | (11,320) | **(13,087)** | (12,345) |
| Gain (loss) on asset disposal | | **-** | - | **22,483** | (2,877) |
| Other income (expense) | | **(68,401)** | 243,740 | **(75,351)** | 243,740 |
| Acquisition expense | | **-** | (864) | | (38,961) |
| **Total other income (expense)** | | **(126,917)** | 186,341 | **(176,069)** | 98,254 |
| **Income (loss) before income taxes** | | **(64,527)** | 457,778 | **(94,393)** | 590,993 |
| **Income tax recovery** | | **7,842** | 3,003 | **38,779** | 7,705 |
| **Net income (loss) for the period** | | **(56,685)** | 460,781 | **(55,614)** | 598,698 |
| **Other comprehensive income (loss)** | | | | | |
| Foreign currency translation | | **101,550** | (55,058) | **54,689** | 40,169 |
| **Comprehensive income (loss)** | | **$44,865** | $405,723 | **($925)** | 638,867 |
| **Basic earnings (loss) per share** | **15** | **($0.00)** | $0.01 | **($0.00)** | $0.02 |
| **Diluted earnings per share** | **15** | **N/A** | $0.01 | **N/A** | $0.01 |
| **Weighted average number of common shares outstanding** | | **39,709,463** | 39,961,056 | **39,709,463** | 39,390,947 |
| **Diluted average number of shares outstanding** | | **39,709,463** | 40,892,207 | **39,709,463** | 41,507,127 |

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 six months ended June 30, 2022 and 2021
### (stated in Canadian dollars)

| | 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 | 14 | - | - | 200,784 | - | - | 200,784 |
| Exercise of warrants | 14 | 534,000 | (534,000) | - | - | - | - |
| Issuance costs | 14 | (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) | ($38,008,236) | $2,442,651 |
| Stock-based compensation | 14 | - | - | 172,823 | - | - | 172,823 |
| Repurchase of common shares for cancellation | 14 | (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) | ($37,547,455) | $2,905,836 |

| | Note | Common Shares | Warrants | Contributed Surplus | Accumulated Other Comprehensive Income (loss) | Deficit | Total shareholders' equity |
|---|---|---|---|---|---|---|---|
| Balance at January 1, 2022 | | $23,700,961 | $1,149,704 | $15,879,054 | ($77,771) | ($37,923,951) | $2,727,997 |
| Stock-based compensation | 13 | - | - | 91,998 | - | - | 91,998 |
| Comprehensive income (loss) | | - | - | - | (46,860) | 1,071 | (45,789) |
| Balance at March 31, 2022 | | $23,700,961 | $1,149,704 | $15,971,052 | ($124,631) | ($37,922,880) | $2,774,206 |
| Issuance Costs | | (1,170) | | | | | (1,170) |
| Stock-based compensation | 13 | - | - | 65,238 | - | - | 65,238 |
| Warrant expiration | | | (1,149,704) | | | 1,149,704 | - |
| Comprehensive income (loss) | | - | - | - | 101,550 | (56,685) | 44,865 |
| Balance at June 30, 2022 | | $23,699,791 | $0 | $16,036,290 | ($23,081) | ($36,829,861) | $2,883,139 |

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

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

## Route1 Inc.

### For the six months ended June 30, 2022 and 2021
### (stated in Canadian dollars)

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| Net cash (outflow) inflow related to the following activities | | |
| | | |
| Operating activities | | |
| Net income (loss) | **($55,614)** | $598,698 |
| Items not affecting cash and cash equivalents | | |
| Depreciation and amortization | **667,082** | 657,688 |
| Interest accretion on notes payable | **3,006** | 8,864 |
| Interest on lease liabilities | **28,640** | 38,326 |
| Deferred taxes | **(38,779)** | (9,278) |
| Stock-based compensation | **157,236** | 373,607 |
| Net changes in working capital balances | | |
| (Increase) decrease in accounts receivable | **1,517,412** | (146,553) |
| Decrease in other receivables | **(11,101)** | 365,448 |
| (Increase) decrease in inventory | **56,649** | 46,925 |
| Decrease in contract costs | **13,036** | 56,443 |
| (Increase) decrease in other assets | **-** | 8,219 |
| Increase in prepaid expenses | **(84,929)** | (68,107) |
| Increase in deferred expenses | **-** | - |
| (Decrease) increase in accounts payable and other liabilities | **(480,127)** | 20,980 |
| Increase (decrease) in contract liability | **(1,053,410)** | (810,129) |
| Net cash generated by operating activities | **719,101** | 1,141,131 |
| | | |
| Investing activities | | |
| Acquisition of furniture, and equipment | **(6,169)** | (229,985) |
| Disposal of furniture and equipment | **22,483** | 59,113 |
| Acquisition of right of use assets | **-** | - |
| Acquisition of intangible assets | **(14,353)** | (28,085) |
| Cash paid in business combination | **-** | (1,637,220) |
| Cash acquired in business combination | **-** | 25,984 |
| Net cash generated (used) by investing activities | **1,961** | (1,810,193) |
| | | |
| Financing activities | | |
| Repayment of notes payable | **(327,010)** | (247,858) |
| Increase in/(repayment of) lease liabilities | **(225,818)** | (327,771) |
| Repurchase of common shares for cancellation | **-** | (115,362) |
| Share issuance costs | **(1,170)** | (2,500) |
| (Repayment of) proceeds from bank indebtedness | **126,260** | 340,293 |
| Net cash used by financing activities | **(427,738)** | (353,198) |
| | | |
| Net decrease in cash and cash equivalents for the period | **293,324** | (1,022,260) |
| Effects of exchange rate changes on cash | **(56,653)** | 50,533 |
| Cash and cash equivalents, beginning of period | **62,568** | 1,137,474 |
| Cash and cash equivalents, end of period | **$299,239** | $165,747 |

| **Non-cash transactions** | **2022** | 2021 |
|---|---|---|
| Acquisition of right-of-use assets | **(484,700)** | - |
| Issuance of lease liabilities | **472,821** | - |

## 1. NATURE AND DESCRIPTION OF THE COMPANY

Route1 Inc. ("Route1" or "the Company") is a publicly traded company on the TSX Venture Exchange. 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 1801, 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.

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 Spyrus Solutions, Inc. ("Spyrus"). 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 severely impacted many local economies around the globe. In many countries, including Canada and the United States, businesses were forced to cease or limit operations for long or indefinite periods of time. Governments and central banks responded with monetary and fiscal interventions to stabilize economic conditions and continued to do so. Central banks in developed countries have recently begun to indicate that monetary policy may become more restrictive in 2022 and beyond. In addition, the central banks have begun raising interest rates and reducing their balance sheets.

The COVID-19 pandemic has affected the Company's business both positively and negatively. The Company's secure remote access technology initially benefited from the requirements to telework both in government and business. Some of this increase in MobiKEY users has not been sustained as more employees return to the office.

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 also occurred as a result of the virus. At the present time, the economy in the United States has broadly reopened and the Company's business has returned to a more normal level as facilities have reopened and installation activities are moving forward. The most significant lasting impact of the pandemic has been and continues to be the increased lead times for deliveries of products from certain manufacturers especially those whose products require components from and manufacturing of products in Asia. In addition, projects that are dependent on the delivery of automotive vehicles have been delayed as delivery times and prices of those vehicles 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. The recent rise in COVID-19 cases in Asia has further exacerbated the supply chain issues.

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, 2021.

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, 2021.

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, 2021.

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

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

June 30, 2022 and 2021 (stated in Canadian dollars)

## 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 June 30, 2022, the cost of revenue recognized as an expense was $5,015,281 (June 30, 2021 - $3,442,874).

## 4. LEASES

The Company has entered into a variety of premise lease agreements for office locations in Toronto, 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:

| | June 30, 2022 |
|---|---|
| 2022 | $319,518 |
| 2023 | 587,157 |
| 2024 and beyond | 1,964,031 |
| Minimum lease payments | 2,860,822 |
| | |
| Less: interest portion at rates between 3.81% and 8.25% | 252,579 |
| Net minimum lease payments | 2,619,225 |
| Less: Short-term or low value lease payments | 578,305 |
| | 2,040,920 |
| | |
| Less: current portion | 414,841 |
| Long-term portion | $1,615,096 |

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 June 30, 2022, the Company recognized $95,822 (June 30, 2021 - $163,593) of depreciation and $13,886 (June 30, 2021 - $23,050) of interest expense from these leases.

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

| | June 30, 2022 |
|---|---|
| Short-term leases | - |
| Non-lease components | $77,226 |
| | $77,226 |

June 30, 2022 and 2021 (stated in Canadian dollars)

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

| Cost | Right-of-use Asset | Computer Equipment | Furniture and Equipment | Total |
|---|---|---|---|---|
| Balance at December 31, 2021 | $2,419,426 | $2,877,703 | $697,216 | $5,994,345 |
| **Additions** | **484,700** | **6,169** | **-** | **490,869** |
| **Additions from acquisition** | **-** | **-** | **-** | **-** |
| **Disposals** | **-** | **-** | **-** | **-** |
| **Effect of exchange rate changes** | **35,374** | **-** | **6,402** | **41,776** |
| Balance at June 30, 2022 | **2,939,500** | **2,883,872** | **703,618** | **6,526,990** |

| Accumulated depreciation and impairment | Right-of-use Asset | Computer Equipment | Furniture and Equipment | Total |
|---|---|---|---|---|
| Balance at December 31, 2021 | (784,457) | (2,183,068) | (483,362) | (3,450,887) |
| **Depreciation expense** | **(198,651)** | **(184,321)** | **(55,436)** | **(438,408)** |
| **Disposals** | **-** | **-** | **-** | **-** |
| **Effect of exchange rate changes** | **(11,298)** | **-** | **(3,880)** | **(15,178)** |
| Balance at June 30, 2022 | **(994,406)** | **(2,367,389)** | **(542,678)** | **(3,904,473)** |

| Net book value | Right-of-use Asset | Computer Equipment | Furniture and Equipment | Total |
|---|---|---|---|---|
| Balance at December 31, 2021 | $1,634,969 | $694,635 | $213,854 | $2,543,458 |
| **Balance at June 30, 2022** | **$1,945,094** | **$516,483** | **$160,940** | **$2,622,517** |

For the three months ended June 30, 2022, depreciation and amortization expense of $215,978 (June 30, 2021 - $237,914) was recognized in general administration expense.

For the six months ended June 30, 2022, depreciation and amortization expense of $438,408 (June 30, 2021 - $514,507) was recognized in general administration expense.

June 30, 2022 and 2021 (stated in Canadian dollars)

## 6. INTANGIBLE ASSETS

| Cost | Patents | Software | Customer Relationships | Vendor Relationships | Trademarks & Tradenames | Total Intangible Assets |
|---|---|---|---|---|---|---|
| Balance at December 31, 2021 | $193,408 | $1,178,585 | $1,645,034 | $443,730 | $158,475 | $3,619,230 |
| **Additions** | | **14,353** | **-** | | **-** | **14,353** |
| **Effect of exchange rate changes** | **-** | **-** | **26,989** | 7,280 | 2,600 | 36,869 |
| **Balance at June 30, 2022** | **193,408** | **1,192,938** | **1,672,023** | **451,010** | **161,075** | **3,670,452** |

| Accumulated depreciation and impairment | Patents | Software | Customer Relationships | Vendor Relationships | Trademarks & Tradenames | Total Intangible Assets |
|---|---|---|---|---|---|---|
| Balance at December 31, 2021 | (69,993) | (940,407) | (245,868) | (110,933) | (39,618) | (1,406,819) |
| **Depreciation expense** | **(6,586)** | **(88,490)** | **(103,406)** | **(22,247)** | **(7,945)** | **(228,674)** |
| **Effect of exchange rate changes** | **-** | **-** | **(5,450)** | **(2,125)** | **(759)** | **(8,334)** |
| **Balance at June 30, 2022** | **(76,579)** | **(1,028,897)** | **(354,724)** | **(135,305)** | **(48,322)** | **(1,643,827)** |

| Net book value | Patents | Software | Customer Relationships | Vendor Relationships | Trademarks & Tradenames | Total Intangible Assets |
|---|---|---|---|---|---|---|
| Balance at December 31, 2021 | **$123,415** | **$238,177** | **$1,399,165** | **$332,797** | **$118,857** | **$2,212,411** |
| **Balance at June 30, 2022** | **$116,829** | **$164,041** | **$1,317,299** | **$315,705** | **$112,753** | **$2,026,625** |

For the three months ended June 30, 2022, depreciation and amortization expense of $115,801 (June 30, 2021 - $65,032) was recognized in general administration expense.

For the six months ended June 30, 2022, depreciation and amortization expense of $228,674 (June 30, 2021 - $115,628) was recognized in general administration expense.

June 30, 2022 and 2021 (stated in Canadian dollars)

## 7. GOODWILL

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

| | |
|---|---|
| Balance, December 31, 2021 | $3,131,422 |
| **Effect of exchange rates** | **51,375** |
| **Balance at June 30, 2022** | **$3,182,797** |

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. 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 US $1,300,000 cash paid at closing (CAD $1,637,220). The US/CAD exchange rate on March 29, 2021 was US $1 = CAD $1.2594.

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.

The goodwill recorded on the statement of financial position represents the purchase price paid in excess of the fair value of the assets. The Company expects the DSM acquisition to allow it to expand the Company's business model in Texas, through adding Texas-based customers. Further, by leveraging DSM's current and future rugged mobile device sales, it will allow the Company to expand its field service installation business as well as open additional opportunities to sell data security and analytics software applications and capabilities.

The intangible assets recorded on the balance sheet represent the fair value of the customer lists acquired.

The operating results of DSM have been combined with PCS. Accordingly, separate disclosure of revenue and profit generated by DSM since acquisition is impracticable.

June 30, 2022 and 2021 (stated in Canadian dollars)

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 |
| Current assets | 207,476 | 261,295 |
| Furniture and equipment | 1,000 | 1,258 |
| Intangible assets | 450,153 | 566,924 |
| Goodwill | 922,891 | 1,162,289 |
| Non-current assets | 1,374,044 | 1,730,471 |
| Total assets | 1,581,520 | 1,991,766 |
| | | |
| **Liabilities Assumed** | | |
| Accounts payable and other liabilities | 167,406 | 210,831 |
| Deferred tax liability | 114,114 | 143,715 |
| Total liabilities | 281,520 | 354.546 |
| Fair value of net assets acquired | 1,300,000 | 1,637,220 |
| | | |
| **Net consideration issued** | $1,300,000 | $1,637,720 |

## 9. BANK INDEBTEDNESS

The Company's credit facility consists of a revolving demand facility in the amount of $1,025,000 (December 31, 2021 - $1,025,000) and a $150,000 credit card facility (December 31, 2021 - $150,000). The operating facility carries an interest rate equal to the lender's prime rate of interest plus 1.5% (December 31, 2021 – prime rate of interest plus 1.5%). As at June 30, 2022, the interest rate was 5.2% (December 31, 2021 – 3.95%). The credit facility is secured by the assets of Route1 Inc. and guaranteed by GMI. As at June 30, 2022, the balance drawn on the revolving demand facility was $984,242 (December 31, 2021 - $875,000).

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 June 30, 2022, the interest rate was 5.25% (December 31, 2021 – 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 June 30, 2022, the balance drawn on the revolving demand facility was $988,029 (December 31, 2021 - $951,640). PCS is required to maintain a Fixed Charge Coverage Ratio equal to or greater than 1.10:1 on an annual basis. This covenant was met as of December 31, 2021.

June 30, 2022 and 2021 (stated in Canadian dollars)

## 10. CONTRACT LIABILITIES AND CONTRACT COSTS

Contract liabilities are comprised of:

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Balance, beginning of year | **$2,684,836** | $3,727,274 |
| Revenue deferred in previous period and recognized in current period | **(2,128,187)** | (3,538,771) |
| Business acquisition | **-** | 138,781 |
| Revenue deferred on business acquisition and recognized in current period | **-** | (60,542) |
| Net additions arising from operations | **1,076,060** | 2,406,068 |
| Effect of exchange rates | **8,537** | 12,026 |
| Total contract liability | **$1,641,246** | $2,684,836 |

Revenue to be recognized in the future:

| | | |
|---|---|---|
| Within one year | **$1,609,320** | $2,632,310 |
| Between two to five years | **31,926** | 52,526 |
| Total | **$1,641,246** | $2,684,836 |

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 at June 30, 2022, the balance was $54,486 (December 31, 2021 - $66,763).

## 11. NOTES PAYABLE

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Promissory note A (US $90,000, 2021 US $90,000) | **$0** | $114,102 |
| Amended Promissory note A (US $92,700) | **119,453** | |
| Promissory note B (US $Nil, 2021 US $120,000) | **-** | 152,136 |
| | **119,453** | 266,238 |
| Less: unamortized deferred debt discount | **-** | (2,997) |
| | **119,453** | 263,241 |
| Promissory note C | **632,372** | 632,372 |
| Promissory note D | **90,202** | 266,238 |
| | **842,027** | 1,161,851 |
| Less: current portion of notes payable | **(842,027)** | (1,161,851) |
| Long-term portion | **$-** | $- |

June 30, 2022 and 2021 (stated in Canadian dollars)

The U.S. dollar denominated debt was translated into Canadian dollars at the period end exchange rate of US $1 = C $1.2886 (December 31, 2021 – US $1 = C $1.2678).

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 |

On June 28, 2022, Promissory Note A was amended to provide for repayment at a rate of $7,725 per month for the 12 months ending June 28, 2023 plus interest at a rate of 6% per annum on the declining balance. All other terms remain the same.

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 original note maturity of September 30, 2021 was extended to October 31, 2022 and can be further 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 June 30, 2022, the balance drawn on the promissory note was $632,372 (December 31, 2021 - $632,372). The note was entered into in order to provide part of the collateral for the bond posted in connection with the Company's previous litigation in the United States and for working capital purposes.

On September 15, 2021, as part of the Spyrus acquisition, the Company assumed 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. At June 30, 2022 the balance owing on the notes is $90,202 (US $70,000) – December 31, 2021 - $266,238 (US $210,000).
Principal debt repayment in the current fiscal year is as follows:

| | Cash Repayment | Reduction of Recorded Liability |
|---|---|---|
| 2022 | $782,301 | $782,301 |

**June 30, 2022 and 2021 (stated in Canadian dollars)**

## 12. SHARE REPURCHASE PROGRAM

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.

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 December 31, 2021.

For the three and six months ended June 30, 2022, the Company purchased no shares for cancellation (June 30, 2021, the Company purchased 280,000 common shares for cancellation at an average price of $0.57 per share).

## 13. SHARE CAPITAL, WARRANTS AND CONTRIBUTED SURPLUS

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, 2021 | 38,694,020 | $23,370,074 |
| Warrants exercised | 1,355,443 | 534,000 |
| Shares repurchased for cancellation | (340,000) | (198,113) |
| Share repurchase costs | - | (5,000) |
| Balance, December 31, 2021 | 39,709,463 | $23,700,961 |
| Share repurchase costs | | (1,170) |
| **Balance, June 30. 2022** | **39,709,463** | **$23,699,791** |

June 30, 2022 and 2021 (stated in Canadian dollars)

- There are 2,925,000 (December 31, 2021 – 3,225,000) common share purchase options ("Options") outstanding to acquire 2,925,000 (December 31, 2021 - 3,225,000) common shares at various prices.

*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. The warrants had an expiry date of June 16, 2022 and were exercisable at a price of $1.00 per share. Including a warrant commission, 3,574,411 common share purchase warrants were issued. A portion of the proceeds was 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 $1,149,704 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, June 30, 2021 | 3,574,411 | $1,149,704 |
| Expired unexercised | (3,574,411) | ($1,149,704) |
| Balance, June 30, 2022 | **NIL** | **$NIL** |

The common share purchase warrants expired June 16, 2022 and no warrants were exercised.

June 30, 2022 and 2021 (stated in Canadian dollars)

*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:

| | **June 30, 2022** | | December 31, 2021 | |
|---|---|---|---|---|
| Options Outstanding | **Number of Options** | **Weighted Average Exercise Price** | Number of Options | Weighted Average Exercise Price |
| Balance, beginning of the period | **3,225,000** | **$0.60** | 3,312,500 | $0.61 |
| Options granted during the period | **-** | **-** | 950,000 | 0.56 |
| Options expired during the period | **(100,000)** | **0.50** | (487,500) | 0.50 |
| Options exercised during the period | **-** | **-** | - | - |
| Options forfeited during the period | **(200,000)** | **1.05** | (550,000) | 0.64 |
| Balance, end of the period | **2,925,000** | **$0.58** | 3,225,000 | $0.60 |

| | Options Outstanding June 30, 2022 | | Options Exercisable June 30, 2022 | |
|---|---|---|---|---|
| Exercise Price | Number of Options | Weighted Average Remaining Contractual Life (Years) | Number of Options | Weighted Average Remaining Contractual Life (Years) |
| **$0.50** | **650,000** | **3.8** | **100,000** | **1.2** |
| **$0.55** | **200,000** | **1.2** | **200,000** | **1.2** |
| **$0.62** | **300,000** | **3.2** | **90,000** | **3.2** |
| **$0.65** | **500,000** | **1.8** | **500,000** | **1.8** |
| **$0.68** | **1,275,000** | **2.8** | **765,000** | **2.8** |
| | **2,925,000** | **2.8** | **1,655,000** | **2.2** |

June 30, 2022 and 2021 (stated in Canadian dollars)

| | Options Outstanding December 31, 2021 | | Options Exercisable December 31, 2021 | |
|---|---|---|---|---|
| Exercise Price | Number of Options | Weighted Average Remaining Contractual Life (Years) | Number of Options | Weighted Average Remaining Contractual Life (Years) |
| $0.50 | 750,000 | 3.8 | 200,000 | 0.9 |
| $0.55 | 200,000 | 1.6 | 200,000 | 1.6 |
| $0.62 | 300,000 | 3.7 | 90,000 | 3.7 |
| $0.65 | 500,000 | 2.3 | 300,000 | 2.3 |
| $0.68 | 1,275,000 | 3.3 | 382,500 | 3.3 |
| $1.05 | 200,000 | 2.0 | 200,000 | 2.0 |
| | 3,225,000 | 3.2 | 1,372,500 | 2.6 |

For the quarter ended June 30, 2022, the Company recorded stock-based compensation expense of $65.238 (June 30, 2021 - $172,823).

For the six months ended June 30, 2022, the Company recorded stock-based compensation expense of $157,236 (June 30, 2021 - $373,607).

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*

| | 2021 |
|---|---|
| Share price on issue date | $0.50 - $0.64 |
| Risk free interest rate | 0.77% - 1.30% |
| Expected life (years) | 5 |
| Expected volatility | 124% - 126% |
| Forfeiture rate | 3.5% - 75.0% |
| Dividend yield | Nil |
| Fair value of options issued during the period | $0.104 - $0.404 |

June 30, 2022 and 2021 (stated in Canadian dollars)

*Contributed surplus*

Contributed surplus represents 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.

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Balance, beginning of the period | **$15,879,054** | $15,311,537 |
| Options expensed in the period | **157,236** | 567,517 |
| Options exercised in the period | **-** | - |
| | **$16,036,290** | $15,879,054 |

## 14. 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 $101,115 for the quarter (June 30, 2021 - $125,001) and for the six-month period ended June 30, 2022 $202,198 (June 30, 2021 - $215,239). These transactions are in the normal course of operations and are paid or payable for directorship services. As at June 30, 2022, accounts payable included $203,356 owing to directors (June 30, 2021 - $138,926). The Company also incurred stock-based compensation expense related to stock options granted to directors in the amount of $21,183 and $47,104 respectively for the quarter and six-month periods ended June 30, 2022 (June 30, 2021 - $35,705 and $89,894).
- The Company made payments (including HST) to Chodos Capital Group Inc. for management services provided by Mr. Peter Chodos, a director and the CFO of the Company, in the amount of $80,230 for the quarter ended June 30, 2022 (June 30, 2021 - $nil). The Company also incurred stock-based compensation expenses related to stock options granted to Mr. Chodos in the amount of $21,498 (June 30, 2021 -$nil). Prior to November 1, 2021, Mr. Chodos 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, Executive Vice President and Chief Operating Officer and the Chief Financial Officer) in the quarter and six-month period ended June 30, 2022 as follows, with 2021 comparatives:

June 30, 2022 and 2021 (stated in Canadian dollars)

| | **Three months ended June 30, 2022** | Three months ended June 30, 2021 | **Six months ended June 30, 2022** | Six months ended June 30, 2021 |
|---|---|---|---|---|
| Short-term employee benefit | **$185,923** | $305,524 | **$371,787** | $562,010 |
| Stock-based compensation expense | **22,451** | 58,447 | **56,048** | 148,024 |
| | **$208,374** | $363,971 | **$427,835** | $710,034 |

### 15. 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 June 30, 2022, all outstanding options and warrants were considered anti-dilutive because the Company recorded a loss in the period.

| | **Three months ended June 30, 2022** | Three months ended June 30, 2021 | **Six months ended June 30, 2022** | Six months ended June 30, 2021 |
|---|---|---|---|---|
| Net income (Loss) | **($56,685)** | $460,781 | **($55,614)** | $598,698 |
| Weighted average number of common shares outstanding | **39,709,463** | 39,961,056 | **39,709,463** | 39,390,947 |
| Diluted weighted average number of common shares outstanding | **39,709,463** | 40,892,206 | **39,709,463** | 41,507,127 |
| Basic income (loss) per common share | **($0.00)** | $0.01 | **($0.00)** | $0.02 |
| Diluted income per common share | **N/A** | $0.01 | **N/A** | $0.01 |

### 16. 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.

## 17. 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 $39,736,081 at June 30, 2022 ($40,729,719 at December 31, 2021).

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.

## 18. 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 Spyrus on September 15, 2021 which could require a payment to the previous owners of Spyrus should the gross profit exceed certain targets. It is not anticipated that any payouts will be required under this provision.

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

June 30, 2022 and 2021 (stated in Canadian dollars)

Company assesses the credit quality of counterparties, taking into account their financial position, past experience and other factors. During the quarter ended June 30, 2022, the largest single customer represented approximately $1,433,553 of revenue (June 30, 2021 - $1,166,000).

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 June 30, 2022, the Company had cash consisting of deposits with a Schedule 1 bank in Canada , a large money centre bank in the U.S. and two large regional banks in the U.S. of $299,239 (December 31, 2021 - $62,568).

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 and sales tax refunds. 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 June 30, 2022, the largest single customer's account receivable represented $768,864 (June 30, 2021 - $786,064) of the total accounts receivable.

The following table outlines the details of the aging of the Company's receivables as at June 30, 2022 and December 31, 2021:

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Current | **$2,293,565** | $3,452,297 |
| Past due | | |
| 1 – 60 days | **476,432** | 675,991 |
| Greater than 60 days | **222,157** | 268,598 |
| Total accounts receivable, net | **$2,992,154** | $4,396,886 |

*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 June 30, 2022:

June 30, 2022 and 2021 (stated in Canadian dollars)

| | 2022 | 2023 | 2024 and Beyond | Total |
|---|---|---|---|---|
| Accounts payable and other liabilities | $4,173,913 | $- | $- | $4,173,913 |
| Notes payable | 842,027 | - | - | 842,027 |
| Lease commitments | 319,518 | 587,157 | 1,964,031 | 2,870,706 |
| | $5,335,458 | $587,157 | $1,964,031 | $7,886,646 |

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 June 30 2022, the Company had non-Canadian dollar net monetary liabilities of approximately US $1,403,813 (June 30, 2021 – liabilities of approximately US $1,212,000). An increase or decrease in the U.S. to Canadian dollar exchange rate by 5% as at June 30, 2022 would have resulted in a gain or loss in the amount of $90,448 (June 30, 2021 – gain or loss of $60,600).

*Interest rate*

The Company has cash balances and bank indebtedness which may be exposed to interest rate fluctuations. At June 30, 2022, cash balances were $299,939 (December 31, 2021 - $62,568) and bank indebtedness was $1,972,271 (December 31, 2021 – $1,826,640).

## 19. 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 June 30, 2022, the Company had $1,641,246 (December 31, 2021 $2,684,836) in contract liabilities.

The following table provides a presentation of the Company's revenue streams for the quarter ended June 30, 2022 and 2021:

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Revenue** | **% of Total** | Revenue | % of Total |
| Subscription revenue and services | **$1,854,422** | **26.1** | $2,670,702 | 42.1 |
| Devices and appliances | **5,250,703** | **73.8** | 3,663,081 | 57.8 |
| Other | **9,535** | **0.1** | 3,997 | 0.1 |
| | **$7,114,660** | **100.0** | $6,337,780 | 100.0 |

June 30, 2022 and 2021 (stated in Canadian dollars)

The following table provides a presentation of the Company's revenue streams for the six-month period ended June 30, 2022 and 2021:

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Revenue** | **% of Total** | Revenue | % of Total |
| Subscription revenue and services | **$3,765,714** | **31.9** | $5,428,242 | 41.9 |
| Devices and appliances | **8,031,940** | **68.0** | 7,449,473 | 57.5 |
| Other | **12,474** | **0.1** | 71,339 | 0.6 |
| | **$11,810,128** | **100.0** | $12,949,054 | 100.0 |

The following table provides a geographic presentation of the Company's revenue streams for the quarter ended June 30, 2022 and 2021:

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Revenue** | **% of Total** | Revenue | % of Total |
| USA | **$7,104,9158** | **99.8** | 6,317,660 | 99.7 |
| Canada | **9,745** | **0.2** | 20,120 | 0.3 |
| | **$7,114,660** | **100.0** | $6,337,780 | 100.0 |

The following table provides a geographic presentation of the Company's revenue streams for the six-month period ended June 30, 2022 and 2021:

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Revenue** | **% of Total** | Revenue | % of Total |
| USA | **$11,683,477** | **98.9** | 12,903,657 | 99.6 |
| Canada | **126,651** | **1.1** | 45,397 | 0.4 |
| | **$11,810,128** | **100.0** | $12,949,054 | 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 periods ending June 30, 2022 and December 31, 2021:

| | **June 30, 2022** | | December 31, 2021 | |
|---|---|---|---|---|
| | **Assets** | **% of Total** | Assets | % of Total |
| USA | **$3,819,004** | **82.1** | $4,223,555 | 88.8 |
| Canada | **830,138** | **17.9** | 532,314 | 11.2 |
| | **$4,327,110** | **100.0** | $4,755,869 | 100.0 |