



Interim Condensed Consolidated Financial Statements of

Route1 Inc.

March 31, 2023 and 2022

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 March 31, 2023 and December 31, 2022
(stated in Canadian dollars)

	Note	March 31, 2023 Unaudited	December 31, 2022 Audited
Assets			
Current assets			
Cash and cash equivalents		\$80,598	\$78,505
Accounts receivable		2,303,313	1,861,553
Other receivables		127,708	191,092
Inventory	3	947,175	2,146,011
Prepaid expenses		202,951	585,357
Contract costs	9	29,682	38,147
Total current assets		3,691,427	4,900,695
Non-current assets			
Right-of-use assets	5	1,640,578	1,755,577
Furniture and equipment	5	359,442	462,292
Intangible assets	6	1,975,262	1,891,316
Goodwill	7	3,342,603	3,345,320
Other Assets		6,801	-
Total non-current assets		7,324,686	7,454,505
Total assets		\$11,016,113	\$12,355,200
Liabilities			
Current liabilities			
Bank indebtedness	8	\$2,793,659	\$2,420,162
Accounts payable and other liabilities		3,396,424	4,591,024
Contract liability	9	915,093	985,242
Lease liabilities	4	484,101	460,523
Notes payable	10	411,363	367,776
Total current liabilities		8,000,640	8,824,727
Non-current liabilities			
Contract liability	9	18,259	22,160
Lease liabilities	4	1,278,323	1,412,667
Notes Payable	10	219,994	329,994
Total non-current liabilities		1,516,576	1,764,821
Total liabilities		9,517,216	10,589,548
Shareholders' equity			
Capital and reserve			
Common shares	12	23,994,270	23,994,270
Warrants	12	-	-
Contributed surplus – stock compensation reserve	12	17,304,925	17,268,374
Accumulated other comprehensive income (loss)		147,343	145,173
Deficit		(39,947,641)	(39,642,165)
Total shareholders' equity		1,498,898	1,765,652
Total shareholders' equity and liabilities		\$11,016,113	\$12,355,200

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 AND COMPREHENSIVE INCOME (LOSS)

Route1 Inc.

As at March 31, 2023 and March 31, 2022
(stated in Canadian dollars)

	Note	March 31, 2023	March 31, 2022
Revenue			
Subscription revenue and services	18	\$1,085,703	\$1,911,292
Devices and appliance	18	3,485,947	2,781,237
Other	18	2,867	2,939
Total revenue		4,574,517	4,695,468
Cost of revenue	3	2,896,648	2,572,331
Gross profit		1,677,869	2,123,137
Operating expenses			
General administration		1,331,965	1,298,860
Research and development		93,119	266,299
Selling and marketing		379,980	446,695
Total operating expenses before stock-based compensation		1,805,064	2,011,854
Stock-based compensation	12	36,552	91,998
Total operating expenses		1,841,616	2,103,852
Operating profit before other income (expense)		(163,747)	19,285
Other income (expense)			
Interest expense		(114,528)	(51,692)
Foreign exchange gain (loss)		(18,630)	(12,993)
Gain (loss) on asset disposal		-	22,486
Other expense		(6,130)	(6,953)
Total other income (expense)		(139,288)	(49,152)
Income (loss) before income taxes		(303,035)	(29,867)
Income tax (recovery) expense		2,441	(30,937)
Net income (loss) for the period		(305,476)	1,070
Other comprehensive income (loss)			
Foreign currency translation		2,170	(46,860)
Comprehensive income (loss)		(\$303,306)	(\$45,790)
Basic and diluted income (loss) per share	14	(\$0.01)	\$0.00
Weighted average number of common shares outstanding	14	42,497,156	39,709,463
Diluted weighted average number of commons shares outstanding		N/A	39,709,463

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Route1 Inc.

For the Periods ended March 31, 2023 and March 31, 2022
(stated in Canadian dollars)

	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	12	-	-	91,998	-	-	91,998
Comprehensive income (loss)		-	-	-	(46,860)	1,070	(45,790)
Balance at March 31, 2022		\$23,700,961	\$1,149,704	\$15,971,052	(\$124,631)	(\$37,922,881)	\$2,774,205
Balance at January 1, 2023		\$23,994,270	-	\$17,268,373	\$145,173	(\$39,642,165)	\$1,765,652
Stock-based compensation	12	-	-	36,552	-	-	36,552
Comprehensive income (loss)		-	-	-	2,170	(305,476)	(303,306)
Balance at March 31, 2023		\$23,994,270	-	\$17,304,925	\$147,343	(\$39,947,641)	\$1,498,898

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

Route1 Inc.

For the three months ended March 31, 2023 and March 31, 2022
(stated in Canadian dollars)

	Note	March 31, 2023	March 31, 2022
Net cash (outflow) inflow related to the following activities			
Operating activities			
Net income (loss)		(\$305,476)	\$1,071
Items not affecting cash and cash equivalents			
Depreciation and amortization	5, 6	345,778	335,303
Interest accretion on notes payable		778	1,798
Interest on lease liabilities	4	23,861	14,754
Deferred taxes		-	(30,937)
Gain on asset disposal		-	(22,483)
Stock-based compensation	11	36,552	91,998
Net changes in working capital balances			
Accounts receivable		(449,659)	2,529,826
Other receivables		63,241	(45,475)
Inventory		1,195,932	37,022
Contract costs		8,427	12,733
Prepaid expenses		382,109	(2,362)
Accounts payable and other liabilities		(1,189,773)	(1,732,163)
Contract liability		(73,536)	(446,976)
Net cash generated by operating activities		38,233	744,109
Investing activities			
Acquisition of furniture and equipment	5	-	-
Disposal of furniture and equipment	5	-	22,483
Acquisition of intangible assets	6	(215,041)	(14,353)
Net cash generated (used) by investing activities		(215,041)	8,130
Financing activities			
Repayment of notes payable	10	(66,328)	(165,212)
Repayment of lease liabilities	4	(133,394)	(115,599)
Proceeds from (repayment of) bank indebtedness	8	373,497	(29,739)
Net cash used by financing activities		173,775	(310,550)
Net increase (decrease) in cash and cash equivalents for the period		(3,033)	441,689
Effects of exchange rate changes on cash		5,126	(23,384)
Cash and cash equivalents, beginning of period		78,505	62,568
Cash and cash equivalents, end of period		\$80,598	\$480,873

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Route1 Inc.

March 31, 2023 and 2022 (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. 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 Inc. is an advanced North American engineering and professional services company using data capture technologies. The Company brings security and operations together with real-time actionable intelligence to enhance safety and security, drive greater profitability and improve operational efficiencies. With a deep-rooted background in software development, network operations, and cybersecurity, Route1 has ushered in a unique and valuable approach to the turn-key engineering and professional services arena. Route1’s services follow a complete life-cycle model, ensuring the evolution of your technology to meet the client’s desired outcomes.

With offices and staff in Scottsdale, AZ, Chattanooga, TN, Denver, CO 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.

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, 2022.

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, 2022.

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, 2022.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Route1 Inc.

March 31, 2023 and 2022 (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 March 31, 2023, the cost of revenue recognized as an expense was \$2,896,648 (March 31, 2022 - \$2,572,331).

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; 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:

	March 31, 2023
2023	\$403,389
2024	546,762
2025 and beyond	1,001,698
Minimum lease payments	<u>1,951,849</u>
Less: interest portion at rates between 3.81% and 8.25%	189,425
Net minimum lease payments	<u>1,762,424</u>
Less: current portion	484,101
Long-term portion	<u>\$1,278,323</u>

The office locations have been recognized in right-of-use assets at the present value of minimum lease payments, less accumulated depreciation. During the three months ended March 31, 2023, the Company recognized \$113,831 (March 31, 2022 - \$102,814) of depreciation and \$23,861 (March 31, 2022 - \$14,754) of interest expense from these leases.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Route1 Inc.

March 31, 2023 and 2022 (stated in Canadian dollars)

The expense relating to payments not included in the measurement of the lease liability (including but not limited to property taxes, operating expenses, utilities and additional services) is as follows:

	March 31, 2023
Short-term leases	\$-
Non-lease components	575,894
	<u>\$575,894</u>

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

Cost	Right-of-use Asset	Computer Equipment	Furniture and Equipment	Total
Balance at December 31, 2022	3,051,402	2,885,304	723,867	\$6,660,573
Additions	-	-	-	-
Disposals	-	-	-	-
Effect of exchange rate changes	(1,870)	-	(339)	(2,209)
Balance at March 31, 2023	3,049,532	2,885,304	723,528	6,658,364

Accumulated depreciation and impairment	Right-of-use Asset	Computer Equipment	Furniture and Equipment	Total
Balance at December 31, 2022	(1,295,825)	(2,536,680)	(610,199)	(4,442,704)
Depreciation expense	(113,831)	(75,229)	(26,246)	(215,306)
Disposals	-	-	-	-
Effect of exchange rate changes	703	-	(1,037)	(334)
Balance at March 31, 2023	(1,408,953)	(2,611,909)	(637,482)	(4,658,344)

Net book value	Right-of-use Asset	Computer Equipment	Furniture and Equipment	Total
Balance at December 31, 2022	\$1,755,577	\$348,624	\$113,668	\$2,217,869
Balance at March 31, 2023	\$1,640,579	\$273,395	\$86,046	\$2,000,020

For the three months ended March 31, 2023, depreciation and amortization expense of \$215,306 (March 31, 2022 - \$215,978) was recognized in general administration expense.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Route1 Inc.

March 31, 2023 and 2022 (stated in Canadian dollars)

6. INTANGIBLE ASSETS

Cost	Patents	Software	Customer Relationships	Vendor Relationships	Trademarks & Tradenames	Total Intangible Assets
Balance at December 31, 2022	193,408	1,192,937	1,757,401	474,040	169,300	3,787,086
Additions		215,041	-		-	215,041
Effect of exchange rate changes	-	5	(1,427)	(385)	(138)	(1,943)
Balance at March 31, 2023	193,408	1,407,977	1,755,974	473,655	169,162	4,000,184

Accumulated depreciation and impairment	Patents	Software	Customer Relationships	Vendor Relationships	Trademarks & Tradenames	Total Intangible Assets
Balance at December 31, 2022	(100,752)	(1,078,235)	(491,613)	(165,916)	(59,257)	(1,895,772)
Depreciation expense	(5,197)	(49,126)	(60,096)	(11,829)	(4,224)	(130,472)
Effect of exchange rate changes	-	-	1,154	122	45	1,321
Balance at March 31, 2023	(105,949)	(1,127,361)	(550,555)	(177,623)	(63,436)	(2,024,923)

Net book value	Patents	Software	Customer Relationships	Vendor Relationships	Trademarks & Tradenames	Total Intangible Assets
Balance at December 31, 2022	\$92,656	\$114,702	\$1,265,788	\$308,125	\$110,043	\$1,891,316
Balance at March 31, 2023	\$87,459	\$280,616	\$1,205,420	\$296,032	\$105,724	\$1,975,262

For the three months ended March 31, 2023, depreciation and amortization expense of \$130,472 (March 31, 2022 - \$112,873) was recognized in general administration expense.

7. GOODWILL

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

Balance, December 31, 2022	3,345,320
Effect of exchange rates	(2,717)
Balance at March 31, 2023	\$3,342,603

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. BANK INDEBTEDNESS

The Company's credit facility consists of a revolving demand facility in the amount of \$1,225,000 (December 31, 2022 - \$1,225,000) and a \$150,000 credit card facility (December 31, 2022 - \$150,000). The operating facility carries an interest rate equal to the lender's prime rate of interest plus 1.5%

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Route1 Inc.

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(December 31, 2022 – prime rate of interest plus 1.5%). As at March 31, 2023, the interest rate was 8.2% (December 31, 2022 – 7.95%). The credit facility is secured by the assets of Route1 Inc. and guaranteed by GMI. As at March 31, 2023, the balance drawn on the revolving demand facility was \$1,215,000 (December 31, 2022 - \$1,175,000).

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 March 31, 2023, the interest rate was 8.5% (December 31, 2022 – 8%). The availability under the facility is based on a percentage of the aggregate of certain accounts receivable and inventory. The facility is secured by the assets of PCS and is guaranteed by the Company and a wholly owned subsidiary of the Company. As at March 31, 2023, the balance drawn on the revolving demand facility was \$1,578,659 (December 31, 2022 - \$1,245,162). 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, 2022.

9. CONTRACT LIABILITIES AND CONTRACT COSTS

Contract liabilities are comprised of:

	March 31, 2023	December 31, 2022
Balance, beginning of year	\$1,007,402	\$2,684,836
Revenue deferred in previous period and recognized in current period	(617,443)	(2,580,787)
Net additions arising from operations	543,904	868,972
Effect of exchange rates	(511)	34,381
Total contract liability	<u>\$933,352</u>	<u>\$1,007,402</u>

Revenue to be recognized in the future:

Within one year	\$915,093	\$985,242
Between two to five years	18,259	22,160
Total	<u>\$933,352</u>	<u>\$1,007,402</u>

Subscription revenue and services contract liability is mainly comprised of subscriptions to the MobiKEY software application and service, 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 March 31, 2023, the balance was \$29,682 (December 31, 2022 - \$38,147).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Route1 Inc.

March 31, 2023 and 2022 (stated in Canadian dollars)

10. NOTES PAYABLE

	March 31, 2023	December 31, 2022
Promissory Note A (US \$90,000, 2021 US \$90,000)	\$-	\$-
Amended Promissory Note A (US \$92,700)	31,363	62,776
Promissory Note B (US \$Nil, 2021 US \$120,000)	-	-
	<u>31,363</u>	<u>62,776</u>
Less: unamortized deferred debt discount	-	-
	<u>31,363</u>	<u>62,776</u>
Promissory Note C	599,994	634,994
Promissory Note D	-	-
	<u>631,357</u>	<u>697,770</u>
Less: current portion of notes payable	<u>(411,363)</u>	<u>(367,776)</u>
Long-term portion	<u>\$219,994</u>	<u>\$329,994</u>

The U.S. dollar denominated debt was translated into Canadian dollars at the period end exchange rate of US \$1 = C \$1.3533 (December 31, 2022 – US \$1 = C \$1.3544).

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 in the amount of US \$92,700 was amended to provide for repayment at a rate of US \$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. Note B was fully paid as of June 30, 2022.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Route1 Inc.

March 31, 2023 and 2022 (stated in Canadian dollars)

may be repaid without premium, penalty or bonus. The original note maturity of September 30, 2021 was extended to October 31, 2022.

On October 25, 2022, the maturity was extended to April 30, 2024. As at October 31, 2022 the amount drawn was \$632,347. The Company incurred renewal fees of \$12,647. The total amount of the note, \$644,994 bears interest at 12% per annum and has a monthly repayment schedule.

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 March 31, 2023, the balance drawn on the promissory note was \$599,994 (December 31, 2022 - \$634,994). The note was extended for working capital purposes.

Principal debt repayment in the current fiscal year is as follows:

	<u>Cash Repayment</u>	<u>Reduction of Recorded Liability</u>
2023	\$411,363	\$411,363

11. SHARE REPURCHASE PROGRAM

On September 28, 2021, the Company received approval from the TSX Venture Exchange to make a Normal Course Issuer Bid ("2021 NCIB"). The 2021 NCIB permitted 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 was 1,985,473. Purchases under the 2021 NCIB occurred during the 12-month period that commenced September 28, 2021 and ended September 27, 2022. For the period January 1, 2022 to September 27, 2022, the Company purchased no shares for cancellation under the 2021 NCIB.

12. 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Route1 Inc.

March 31, 2023 and 2022 (stated in Canadian dollars)

	Number of Common Shares	Common Shares \$
Balance, January 1, 2022	39,709,463	\$23,700,961
Share repurchase costs	-	(1,170)
Share issuance costs	-	(5,698)
Shares issued December 14, 2022	2,787,693	300,177
Balance, December 31, 2022	42,497,156	\$23,994,270
Balance, March 31, 2023	42,497,156	\$23,994,270

- There are 2,925,000 (December 31, 2022 – 2,925,000) common share purchase options (“Options”) outstanding to acquire 2,925,000 (December 31, 2022 – 2,925,000) 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. 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	<u>\$0.334</u>

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, June 30, 2021	3,574,411	\$1,149,704
Expired unexercised	(3,574,411)	(\$1,149,704)
Balance, December 31, 2022	-	-

Stock-based Compensation

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Route1 Inc.

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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:

	March 31, 2023		December 31, 2022	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options Outstanding				
Balance, beginning of the period	3,225,000	\$0.60	3,225,000	\$0.60
Options granted during the period	-	-	-	-
Options expired during the period	(100,000)	0.62	(100,000)	0.50
Options exercised during the period	-	-	-	-
Options forfeited during the period	(200,000)	1.05	(200,000)	1.05
Balance, end of the period	<u>2,925,000</u>	<u>\$0.62</u>	<u>2,925,000</u>	<u>\$0.62</u>

Exercise Price	Options Outstanding March 31, 2023		Options Exercisable March 31, 2023	
	Number of Options	Weighted Average Remaining Contractual Life (Years)	Number of Options	Weighted Average Remaining Contractual Life (Years)
\$0.50	650,000	3.1	100,000	0.5
\$0.55	200,000	0.4	200,000	0.4
\$0.62	300,000	2.4	90,000	2.4
\$0.65	500,000	1.1	500,000	1.1
\$0.68	1,275,000	2.1	765,000	2.1
	<u>2,925,000</u>	<u>2.0</u>	<u>1,655,000</u>	<u>1.5</u>

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Exercise Price	Options Outstanding December 31, 2022		Options Exercisable December 31, 2022	
	Number of Options	Weighted Average Remaining Contractual Life (Years)	Number of Options	Weighted Average Remaining Contractual Life (Years)
\$0.50	650,000	3.3	100,000	0.7
\$0.55	200,000	0.6	200,000	0.6
\$0.62	300,000	2.7	90,000	2.7
\$0.65	500,000	1.3	500,000	1.3
\$0.68	1,275,000	2.3	765,000	2.3
	<u>2,925,000</u>	<u>2.3</u>	<u>1,655,000</u>	<u>1.8</u>

For the quarter ended March 31, 2023, the Company recorded stock-based compensation expense of \$36,552 (March 31, 2022 - \$91,998).

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.

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.

	March 31, 2023	December 31, 2022
Balance, beginning of the year	\$17,268,374	\$15,879,054
Options expensed in the year	36,552	239,616
Options exercised in the year	-	-
Warrants expiration in the year	-	1,149,704
Balance, end of the year	<u>\$17,304,926</u>	<u>\$17,268,374</u>

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13. 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 \$53,639 for the quarter (March 31, 2022 - \$90,237). These transactions are in the normal course of operations and are paid or payable for directorship services. As at March 31, 2023, accounts payable included \$193,045 owing to directors (March 31, 2022 - \$210,326). The Company also incurred stock-based compensation expense related to stock options granted to directors in the amount of \$6,780 for the quarter ended March 31, 2023 (March 31, 2022 - \$25,821).
- The Company made payments (including HST) to Chodos Capital Group Inc. for management services provided by Mr. Peter Chodos, a director and the Executive Vice President, Corporate Development of the Company, in the amount of \$61,444 for the quarter ended March 31, 2023 (March 31, 2022 - \$80,230). The Company also incurred stock-based compensation expenses related to stock options granted to Mr. Chodos in the amount of \$9,588 (March 31, 2022 - \$22,551). Prior to November 1, 2022, Mr. Chodos was employed by the Company and payments made are included as part of key management. Payments made to Mr. Chodos as an independent contractor are not included as part of key management.
- The Company made payments to or incurred expenses for key management (President and Chief Executive Officer, Chief Operating Officer and Chief Financial Officer) in the quarter ended March 31, 2023 as follows, with 2022 comparatives:

	March 31, 2023	March 31, 2022
Short-term employee benefit	\$197,701	\$185,864
Stock-based compensation expense	15,396	89,577
	\$213,097	\$346,063

14. EARNINGS PER SHARE

The Company uses the treasury stock method to calculate basic and diluted earnings per share. Basic earnings per share have been calculated based on the weighted average number of common shares without the inclusion of dilutive effects. Diluted earnings per share are calculated based on the weighted average number of common shares plus dilutive common share equivalents outstanding which consist of options and warrants to purchase common shares. For the period ending March 31, 2023, the dilution calculation did not increase the diluted average number of shares outstanding. For the period ending March 31, 2022, the dilution calculation did not increase the diluted average number of shares outstanding.

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	Three months ended March 31, 2023	Three months ended March 31, 2022
Net income (loss)	(\$305,476)	\$1,071
Weighted average number of common shares outstanding	42,497,156	39,709,463
Diluted weighted average number of common shares outstanding	N/A	39,709,463
Basic and diluted income (loss) per common share	(\$0.01)	\$0.00
Dilutive instruments not included in the calculation		
Stock options	1,655,000	1,072,500
Warrants	-	3,574,411

15. 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.

16. 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 \$41,299,195 at March 31, 2023 (\$41,262,704 at December 31, 2022).

The Company manages its capital structure and adjusts 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

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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.

17. 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, 2022 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

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monitoring the Company's compliance with risk management policies. The Audit Committee regularly reports to the Board on its activities.

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

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

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

Credit risk

Credit risk arises from cash held with banks and credit exposure to customers, including outstanding accounts and other receivables. The maximum exposure to credit risk is equal to the carrying value (net of allowances) of the financial assets. The objective of managing credit risk is to prevent losses on financial assets. The Company assesses the credit quality of counterparties, taking into account their financial position, past experience and other factors. During the quarter ended March 31, 2023, the largest single customer represented approximately \$1,179,144 of revenue (March 31, 2022 - \$475,000).

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 March 31, 2023, the Company had cash consisting of deposits with a Schedule 1 bank in Canada, a large money centre bank in the U.S. and one large regional bank in the U.S. of \$80,598 (December 31, 2022 - \$78,505).

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,

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the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables, financial difficulty of the borrower, and it becoming probable that the borrower will enter bankruptcy or financial re-organization. Financial assets are written off when there is no reasonable expectation of recovery. Subsequent recoveries of amounts previously written off reduce other expenses in the statement of comprehensive income. As at March 31, 2023, the largest single customer's account receivable represented \$348,232 (December 31, 2022 - \$304,532) of the total accounts receivable. This account receivable was collected subsequent to the end of the period.

The following table outlines the details of the aging of the Company's receivables as at March 31, 2023 and December 31, 2022:

	March 31, 2023	December 31, 2022
Current	\$1,742,014	\$1,138,949
Past due		
1 – 60 days	262,120	433,974
Greater than 60 days	299,179	288,630
Total accounts receivable, net	\$2,303,313	\$1,861,553

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 March 31, 2023:

	2023	2024	2025 and Beyond	Total
Accounts payable and other liabilities	\$3,396,424	\$-	\$-	\$3,396,424
Notes payable	\$411,363	219,994	-	631,357
Lease commitments	403,389	546,762	1,001,698	1,951,849
	\$3,884,641	\$766,756	\$1,001,698	\$5,653,195

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

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Market risk

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

Foreign exchange

The functional currency of the parent company is Canadian dollars and the reporting currency is Canadian dollars. As at March 31, 2023, the Company had non-Canadian dollar net monetary liabilities of approximately US \$1,604,246 (March 31, 2022 – liabilities of approximately US \$1,038,000). An increase or decrease in the U.S. to Canadian dollar exchange rate by 5% as at March 31, 2023 would have resulted in a gain or loss in the amount of \$80,000 (March 31, 2022 – gain or loss of \$52,000).

Interest rate

The Company has cash balances and bank indebtedness which may be exposed to interest rate fluctuations. At March 31, 2023, cash balances were \$80,598 (December 31, 2022 - \$78,505) and bank indebtedness was \$2,793,659 (December 31, 2022 – \$2,420,162).

18. 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 March 31, 2023, the Company had \$933,3529 (December 31, 2022 \$1,007,402) in contract liabilities.

The following table provides a presentation of the Company's revenue streams for the quarter ended March 31, 2023 and 2022:

	2023		2022	
	Revenue	% of Total	Revenue	% of Total
Subscription revenue and services	\$1,085,703	40.7	\$1,911,292	40.7
Devices and appliances	3,485,947	59.2	2,781,237	59.2
Other	2,867	0.1	2,939	0.1
	\$4,574,517	100.0	\$4,695,468	100.0

The following table provides a geographic presentation of the Company's revenue streams for the quarter ended March 31, 2023 and 2022:

	2023		2022	
	Revenue	% of Total	Revenue	% of Total
USA	\$4,097,163	90	\$4,578,562	97.5
Canada & International	477,354	10	116,906	2.5
	\$4,574,517	100.0	\$4,695,468	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 March 31, 2023 and December 31, 2022:

	March 31, 2023		December 31, 2022	
	Assets	% of Total	Assets	% of Total
USA	\$3,593,654	90.4	\$3,965,705	90.4
Canada	376,152	9.6	419,532	9.6
	\$3,975,282	100.0	\$4,385,237	100.0