Audited Consolidated Financial Statements of

Route1 Inc.

For the years ended December 31, 2023 and 2022

Independent Auditor's Report

To the Shareholders of Route1 Inc.:

Opinion

We have audited the consolidated financial statements of Route1 Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2023 and December 31, 2022, and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of material accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Goodwill Impairment Analysis

Key Audit Matter Description

As described in Note 7 to the consolidated financial statements, the Company's goodwill balance was $3,266,775 as of December 31, 2023. Goodwill is tested for impairment annually, or whenever certain events or changes in circumstances indicate that the carrying value of goodwill may be greater than the recoverable amount. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of cash inflows of other assets or groups of assets (a cash generating unit ("CGU")). Management uses the higher of the value in use and fair value less cost of disposal approach to determine the recoverable amount for all its CGUs.

We considered this to be a key audit matter due to the significant judgment made by management in estimating the recoverable amount for goodwill and a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to management's estimates. This resulted in an increased extent of audit effort, including the involvement of internal valuation specialists.

Audit Response

We responded to this matter by performing procedures in relation to the goodwill impairment analysis. Our audit work in relation to this included, but was not restricted to, the following:

- Evaluated the appropriateness of the discounted cash flow models by testing the completeness, accuracy, and relevance of underlying data used in the cash flow models.
- Obtained an understanding of management's internal control process as it relates to the determination of key inputs and assumptions.
- Evaluated management's assumptions related to revenue growth rates and ratio of expenses after considering (i) the current and past performance of the CGU, (ii) the consistency with forecasts per industry data, and (iii) whether these assumptions were consistent with evidence obtained in other areas of the audit.
- With the assistance of internal valuation specialists, evaluated the reasonableness of management's impairment model and evaluated management's assumptions related to the pre-tax discount rate.
- Performed a sensitivity analysis by developing a range of independent estimates of the weighted average cost of capital.
- Assessed the appropriateness of the disclosures relating to the assumptions used in the impairment assessments in the notes to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

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

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Blair Michael Mabee.

MNP LLP

Mississauga, Ontario — Chartered Professional Accountants

April 24, 2024 — Licensed Public Accountants

TABLE OF CONTENTS

Route1 Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Route1 Inc.

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

	Note	December 31, 2023	December 31, 2022
Assets			
Current assets			
Cash and cash equivalents		**$38,348**	$78,505
Accounts receivable		**2,066,028**	1,861,553
Other receivables		**104,653**	191,092
Inventory	3	**672,213**	2,146,011
Prepaid expenses		**178,519**	585,387
Contract costs	9	**11,603**	38,147
Total current assets		**3,071,364**	4,900,695
Non-current assets			
Right-of-use assets	5	**1,242,297**	1,755,577
Furniture and equipment	5	**111,110**	462,292
Intangible assets	6	**1,843,195**	1,891,316
Goodwill	7	**3,266,775**	3,345,320
Other Assets		**6,647**	-
Total non-current assets		**6,470,024**	7,454,505
Total assets		**$9,541,388**	$12,355,200
Liabilities			
Current liabilities			
Bank indebtedness	8	**2,898,495**	$2,420,162
Accounts payable and other liabilities	12	**3,435,025**	4,591,024
Contract liability	9	**891,638**	985,242
Lease liabilities	4	**504,137**	460,523
Notes payable	10	**359,994**	367,776
Total current liabilities		**8,089,289**	8,824,727
Non-current liabilities			
Contract liability	9	**9,985**	22,160
Lease liabilities	4	**857,769**	1,412,667
Notes payable	10	**-**	329,994
Total non-current liabilities		**867,754**	1,764,821
Total liabilities		**8,957,043**	10,589,548
Shareholders' equity			
Capital and reserve			
Common shares	11	**23,994,270**	23,994,270
Contributed surplus – stock compensation reserve	11	**17,342,204**	17,268,374
Accumulated other comprehensive income		**172,973**	145,173
Deficit		**(40,925,102)**	(39,642,165)
Total shareholders' equity		**584,345**	1,765,652
Total shareholders' equity and liabilities		**$9,541,388**	$12,355,200

Commitments and contingencies (note 13)

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

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

Route1 Inc.

For the years ended December 31, 2023 and 2022
(stated in Canadian dollars)

	Note	2023	2022
Revenue			
Subscription revenue and services	**17**	**$4,456,513**	$6,194,383
Devices and appliance	**17**	**13,103,550**	15,829,913
Other	**17**	**17,754**	20,916
Total revenue		**17,577,817**	22,045,212
Cost of revenue	**3**	**11,702,828**	14,462,458
Gross profit		**5,874,989**	7,582,754
Operating expenses			
General administration	**11, 12**	**5,024,640**	5,209,043
Research and development		**146,555**	693,037
Selling and marketing		**1,267,488**	1,742,607
Total operating expenses before stock-based compensation		**6,438,683**	7,644,687
Stock-based compensation	**11, 12**	**73,830**	239,616
Total operating expenses		**6,512,513**	7,884,303
Operating loss before other income (expense)		**(637,524)**	(301,549)
Other income (expense)			
Interest expense		**(504,275)**	(275,023)
Foreign exchange (loss) gain		**(103,400)**	10,532
Gain on asset disposal		**5,119**	22,483
Other income (expenses)		**-**	(75,351)
Total other expense		**(602,556)**	(317,359)
Loss before income taxes		**(1,240,080)**	(618,908)
Income tax (recovery) expense	**16**	**42,857**	1,099,306
Net loss for the year		**(1,282,937)**	(1,718,214)
Other comprehensive income (loss)			
Foreign currency translation		**27,800**	222,944
Comprehensive loss		**($1,255,137)**	($1,495,270)
Basic and diluted loss per share		**($0.03)**	($0.04)
Weighted average number of common shares outstanding	**11**	**42,497,156**	39,816,388

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Route1 Inc.

For the years ended December 31, 2023 and 2022
(stated in Canadian dollars)

	Note	Common Shares	Warrants	Contributed Surplus	Accumulated Other Comprehensive Income	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
Share issuance costs	11	(5,698)	-	-	-	-	(5,698)
Share repurchase costs	11	(1,170)	-	-	-	-	(1,170)
Shares issued	11	300,177					300,177
Stock-based compensation	11	-	-	239,616	-	-	239,616
Warrant expiration	11	-	(1,149,704)	1,149,704	-	-	-
Comprehensive income (loss)		-	-	-	222,944	(1,718,214)	(1,495,270)
Balance at December 31, 2022		$23,994,270	-	$17,268,374	$145,173	($39,642,165)	$1,765,652

	Note	Common Shares	Warrants	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Shareholders' Equity
Balance at January 1, 2023		**$23,994,270**	**-**	**$17,268,374**	**$145,173**	**($39,642,165)**	**$1,765,652**
Stock-based compensation	12	-	-	73,830	-	-	73,830
Comprehensive income (loss)		-	-	-	27,800	(1,282,937)	(1,255,137)
Balance at December 31, 2023		**$23,994,270**	**-**	**$17,342,204**	**$172,973**	**$($40,925,102)**	**$584,345**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Route1 Inc.

For the years ended December 31, 2023 and 2022
(stated in Canadian dollars)

		2023	2022
Net cash (outflow) inflow related to the following activities			
Operating activities			
Net loss		**($1,282,937)**	($1,718,214)
Items not affecting cash and cash equivalents			
Depreciation and amortization	**5, 6**	**1,277,879**	1,368,716
Interest accretion on notes payable		**-**	4,687
Interest on lease liabilities	**4**	**87,226**	70,248
Deferred taxes	**16**	**(42)**	1,099,306
Stock-based compensation	**11**	**73,830**	239,616
Net changes in working capital balances			
Accounts receivable		**(265,838)**	2,861,378
Other receivables		**70,800**	5,162
Inventory		**1,465,391**	(1,423,527)
Prepaid expenses		**404,305**	(249,738)
Contract costs		**26,195**	31,374
Accounts payable and other liabilities		**(1,079,721)**	25,079
Contract liability		**(90,269)**	(1,711,815)
Net cash generated by operating activities		**686,819**	602,272
Investing activities			
Acquisition of furniture, and equipment	**5**	**(732)**	(7,600)
Disposal of furniture, and equipment	**5**	**-**	22,483
Acquisition of intangible assets	**6**	**(467,209)**	(14,353)
Net cash (used in) generated by investing activities		**(467,941)**	530
Financing activities			
Repayment of notes payable	**10**	**(337,687)**	(477,457)
Repayment of lease liabilities	**4**	**(527,368)**	(494,123)
Share repurchase costs		**-**	(1,170)
Proceeds from (repayment of) bank indebtedness	**8**	**517,294**	515,162
Net cash used in by financing activities		**(347,761)**	(457,588)
Net increase (decrease) in cash and cash equivalents for the year		**(128,883)**	145,213
Effects of exchange rate changes on cash		**88,726**	(129,276)
Cash and cash equivalents, beginning of year		**78,505**	62,568
Cash and cash equivalents, end of year		**38,348**	$78,505

Supplemental cash flow information	**2023**	2022
Interest payments	**416,931**	190,244
Corporate tax payments	**42,857**	34,242

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

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, Cincinnati, OH, 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.

On December 31, 2023, the Company's wholly-owned subsidiaries: Portable Computer Systems, Inc. ("PCS") and Spyrus Solutions Inc. ("Spyrus") merged with the surviving entity being PCS.

2. MATERIAL ACCOUNTING POLICIES AND BASIS OF PREPARATION

2.1 Statement of compliance

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

The consolidated financial statements were approved and authorized for issuance by the Company's Board of Directors on April 24, 2024.

2.2 Basis of consolidation

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

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Route 1 Security Corporation, Portable Computer Systems, Inc. ("PCS") and Group Mobile Int'l, LLC ("GMI").

2.3 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets. Certain amounts have been reclassified to conform with the current year's presentation.

The Company has one segment for financial reporting purposes which comprises the sale and distribution of rugged devices, license plate recognition equipment and secure data access.

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

(a) Foreign currency translation

Functional and presentation currency

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

Foreign operations

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

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

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

Foreign currency transactions and balances

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

(b) Cash and cash equivalents

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

(c) Financial instruments

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

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

Amortized cost

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

Other liabilities

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

Effective interest method

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

Impairment of financial assets

The Company measures a loss allowance based on the lifetime expected credit losses. Lifetime expected credit losses are estimated based on factors such as the Company's past experience of collecting payments, the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables, financial difficulty of the borrower, and it becoming probable that the borrower will enter bankruptcy or financial re-organization. Financial assets are written off when there is no reasonable expectation of recovery.

De-recognition of financial liabilities

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

(d) Inventory

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

(e) Furniture and equipment

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

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

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

(f) Intangible assets

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

Computer software	-	straight-line over 12 months
Computer software (applications)	-	straight-line over 60 months
Patents	-	straight-line over the life of the patent
Customer relationships	-	straight-line over 120 months
Vendor relationships	-	straight-line over 120 months
Trademarks and tradenames	-	straight-line over 120 months

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

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

The Company tests whether goodwill has suffered any impairment on an annual basis. For the 2023 reporting period, the recoverable amount of the cash generating units ("CGUs") was determined based on discounted cash flow calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management.

(g) Impairment of furniture and equipment and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and finite lived intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs; or otherwise, they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified. Recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or CGU) is estimated to be less than it’s carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

(h) Leases

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

As a lessee:

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

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

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

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

Sub-lease:

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

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

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

(i) Revenue recognition

To determine whether to recognize revenue, the Company follows a 5-step process:

1. Identifying a contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied

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

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

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

Devices

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

Appliances

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

Subscription Revenue and Services

Revenue from MobiKEY© and other application software subscription-based services, and DEFIMNET© platform and other appliance licensing or maintenance is recognized ratably over the term of the contract on a daily basis when the service is provided.
In instances where the Company bills the customer prior to performing the service in all aspects of its business, the prepayment amount is recorded as contract liability.
Revenue from installation and hardware maintenance and organization services provided to customers is recognized when the service is provided.

Technology as a Service Revenue

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

(j) Research and development

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

a. The technical feasibility of completing the asset so that it will be available for use or sale
b. The Company intends to complete the asset and use or sell it
c. The Company has the ability to use or sell the asset
d. How the intangible asset will generate probable economic benefits
e. The Company has available adequate technical, financial and other resources to complete the development and to use or sell the asset
f. The Company can reliably measure the expenditure attributable to the asset during its development

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

SR&ED credits are estimated and recognized rateably throughout the year based on management's expectation of projects undertaken for the current year that will comply with the conditions attaching to them. SR&ED credits reduce research and development expenses. Similarly, government grants, recorded as other revenue, are recognized when all conditions have been met, the grant has been earned and the grant is non-refundable. For the year ended December 31, 2023, the Company accrued $25,000 for SR&ED credits (December 31, 2022 - $84,996), which are included in Accounts Receivable.

(l) Stock-based compensation

Equity-settled share-based payments to employees and others providing services to the Company are measured at the fair value of the equity instruments at the grant date. The Company calculates stock-based compensation using the Black-Scholes option pricing model to value the options at the grant date, and subsequently expenses such value rateably over the vesting term.
Equity-settled share-based payment transactions related to services provided by non-employees are measured at the fair value of the services received. If the services cannot be measured reliably, the transaction is measured at the fair value of the equity instrument issued.

(m) Legal claims

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

(n) Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case the income tax is also recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to offset the amounts and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(o) Recognition of deferred tax assets and liabilities

Deferred tax is recognized in respect of all qualifying temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

(p) Earnings/Loss per share

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

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

2.4 Use of estimates

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

2.5 Critical judgments

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

Revenue recognition:

In making their judgment, management considers the detailed criteria for the recognition of revenue from the sale of goods and services set out in IFRS 15. The Company recognizes revenue when it is realized and earned. The Company considers revenue realized and earned when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods (or service has been performed); the Company does not retain any managerial involvement; it is probable that the economic benefits associated with the transaction will flow to the Company; and the amount of revenue can be measured reliably. Where appropriate, device revenue related to subscriptions and the associated costs of such revenue will be recognized rateably over the life of the nearest term subscription contract. Extended warranties that are sold to customers as an optional service, including "Comprehensive Maintenance" contracts and warranties beyond that provided by the manufacturer, are treated as a "service-type" warranty under IFRS 15. "Service-type" warranties are treated as separate performance obligation, and related revenue is deferred over the period for which there is a performance obligation.

The Company has applied judgment to determine that it is acting as a principal and gross revenue for sale of devices recognized when title is transferred to the customer and all significant contractual obligations that affect the customer's final acceptance have been fulfilled.

Functional currency: In making a judgment as to which currency is the functional currency of the Company and its subsidiaries, management considers the currency that influences the sales prices and cost of providing the goods and services in each jurisdiction in which the Company operates.

Capitalization of development costs: Management exercises judgment when establishing whether the criteria under IAS 38, "Intangible Assets", for development costs have been met, specifically the technical feasibility of the products in development and the ability to generate probable future economic benefits.

Going Concern: At each yearly reporting period, management exercises judgement in assessing the Company's ability to continue as a going concern by reviewing the Company's performance, resources and future obligations. The conclusion that the Company will be able to continue as a going concern is subject to critical judgments of management with respect to assumptions surrounding short and long-term operating budgets, expected profitability, investment and financing activities and management's strategic planning. The assumptions used in management's going concern assessment are derived from actual operating results along with industry and market trends. Management believes there is sufficient capital to meet the company's business obligations for at least the next 12 months, after considering expected cash flows, capital commitments, future financing, debt servicing and the Company's cash position at year-end.

Determination of Combination of CGUs: As at December 31, 2023, and for the purposes of the impairment test, the Company made a change to the aggregation of assets to its cash-generating units identified. Historically, GMI, PCS and Spyrus were considered separately. The change is attributable to the fact that most operating activity now runs through PCS.

2.6 Significant estimates

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

Allowance for doubtful accounts:	Impairment of financial assets is based on an expected credit loss ("ECL") model under IFRS 9. ECLs are a probability-weighted estimate of credit losses. The Company calculated ECLs based on consideration of customer-specific factors and actual historical credit loss experience. The Company does not anticipate any credit losses, and to the extent that any credit losses are experienced, they are expected to be immaterial, therefore no allowance for doubtful accounts was required as at December 31, 2023 and 2022.
Allowance for inventory obsolescence:	The Company considers factors such as the aging of and future demand for inventory, the expected future selling price the Company expects to realize by selling the inventory. Reserves for excess and obsolete inventory are based upon quantities on hand and projected volumes from demand forecasts. The Company reviewed the recoverable amount of its inventory for the years ended December 31, 2023 and 2022 and determined that no write-down was required.
Valuation of warrants and stock-based compensation:	The Company estimates the fair value of stock-based compensation issued for goods or services based on the Black-Scholes Option Pricing Model for warrants and share options with a service condition. Inputs into the model include expected life, volatility, risk free rate, forfeiture rate and dividend yield. The Company has judged that the fair value of the services could not be determined; therefore, the fair value of the shares, share options and warrants was used in the measurement of the transactions. The Black-Scholes Option Pricing Model was used to value the warrants issued as part of the equity private placement. These methods of valuation were applied to the equity transactions during the year (Note 11).
Goodwill impairment	The Company estimates recoverable amount of the cash generating units based on discounted future cash flow projections that require significant judgment. See Note 7.

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

2.7 Future accounting policy changes

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

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

3. INVENTORY AND COST OF REVENUE

	December 31, 2023	December 31, 2022
MobiKEY related inventory	**$195,727**	$200,333
PocketVault P-3X finished product and raw material inventory	**178,954**	252,814
License plate recognition technology project related inventory	**107,502**	1,505,507
Other rugged device and information technology inventory	**190,030**	187,357
	$672,213	$2,146,011

Cost of revenue includes the cost of devices, salaries of select staff, hosting of our MobiNET and royalty related fees. Cost of devices during fiscal year 2023 was $10,012,405 (2022 - $13,233,809).

For the year ended December 31, 2023, the cost of revenue recognized as an expense was $11,702,828 (December 31, 2022 - $14,462,458).

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.

	December 31, 2023
Opening lease liability	$1,873,190
Less: Payments	527,143
Less: Lease modifications	46,690
Add: Interest expense	87,226
Effects of foreign exchange	(24,677)
Ending lease liability	$1,361,906

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

The minimum annual basic rent commitments are as follows:

	December 31, 2023
2024	$501,736
2025	427,825
2026 & beyond	590,491
Minimum lease payments	1,520,052
Less: interest portion at rates between 3.81% and 8.25%	158,146
Net minimum lease payments	1,361,906
Less: current portion	504,137
Long-term portion	$857,769

The office locations have been recognized in right-of-use assets at the present value of minimum lease payments, less accumulated depreciation.

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:

	December 31, 2023	December 31, 2022
Short-term leases	-	
Non-lease components	$457,544	$599,310
	$457,544	$599,310

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

Cost	**Right-of-use Asset**	**Computer Equipment**	**Furniture and Equipment**	**TaaS Computer Equipment**	**Total**
Balance at January 1, 2022	$2,419,426	$2,877,703	$697,216	$1,344,186	$7,338,531
Additions	484,700	7,601	-	-	492,301
Effect of exchange rate changes	147,276	-	26,651	91,818	265,745
Balance at December 31, 2022	3,051,402	2,885,304	723,867	1,436,004	8,096,577
Additions	**-**	**732**	**-**	**-**	**732**
Disposals	**(46,690)**	**(98,234)**	**-**	**-**	**(144,924)**
Effect of exchange rate changes	**(53,183)**	**-**	**(20,809)**	**(33,716)**	**(107,708)**
Balance at December 31, 2023	**$2,951,529**	**$2,787,802**	**$703,058**	**$1,402,288**	**$7,844,677**

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

Accumulated depreciation and impairment	Right-of-use Asset	Computer Equipment	Furniture and Equipment	TaaS Computer Equipment	Total
Balance at January 1, 2022	$(784,457)	$(2,183,068)	$(483,362)	$(1,344,186)	$(4,795,073)
Depreciation expense	(456,272)	(353,612)	(109,003)	-	(918,887)
Effect of exchange rate changes	(55,096)	-	(17,834)	(91.818)	(164,748)
Balance at December 31, 2022	(1,295,825)	(2,536,680)	(610,199)	(1,436,004)	(5,878,708)
Depreciation expense	**(444,602)**	**(253,379)**	**(97,873)**	-	**(795,854)**
Disposals	**-**	**98,234**	**-**	-	**98,234**
Effect of exchange rate changes	**31,195**	**-**	**20,147**	33,716	**85,058**
Balance at December 31, 2023	**$(1,709,232)**	**$(2,691,825)**	**$(687,925)**	$(1,402,288)	**$(6,491,270)**

Net book value	Right-of-use Asset	Computer Equipment	Furniture and Equipment	TaaS Computer Equipment	Total
Balance at December 31, 2022	**$1,755,577**	**$348,624**	**$113,668**	$-	**$2,217,869**
Balance at December 31, 2023	**$1,242,297**	**$95,977**	**$15,133**	**$-**	**$1,353,407**

For the year ended December 31, 2023, depreciation and amortization expense of $795,854 (December 31, 2022 - $918,887) was recognized in general administration expense.

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

6. INTANGIBLE ASSETS

Cost	Patents	Computer Software	Customer Relationships	Vendor Relationships	Trademarks & Tradenames	Total Intangible Assets
Balance at January 1, 2022	$193,408	$1,178,584	$1,645,033	$443,730	$158,475	$3,619,230
Additions	-	14,353	-	-	-	14,353
Additions from acquisitions	-	-	-	-	-	-
Effect of exchange rate changes	-	-	112,368	30,310	10,825	153,503
Balance at December 31, 2022	193,408	1,192,937	1,757,401	474,040	169,300	3,787,086
Additions	-	467,209	-	-	-	467,209
Effect of exchange rate changes	-	(93)	(41,261)	(11,130)	(3,975)	(56,459)
Balance at December 31, 2023	193,408	1,660,053	1,716,140	462,910	165,325	4,197,836

Accumulated depreciation and impairment	Patents	Computer Software	Customer Relationships	Vendor Relationships	Trademarks & Tradenames	Total Intangible Assets
Balance at January 1, 2022	(69,993)	(940,407)	(245,868)	(110,933)	(39,618)	(1,406,819)
Depreciation expense	(30,759)	(137,828)	(219,730)	(45,326)	(16,187)	(449,830)
Effect of exchange rate changes	-	-	(26,015)	(9,656)	(3,452)	(39,123)
Balance at December 31, 2022	(100,752)	(1,078,235)	(491,613)	(165,916)	(59,257)	(1,895,772)
Depreciation expense	(15,462)	(165,469)	(236,929)	(47,279)	(16,885)	(482,025)
Effect of exchange rate changes	-	33	16,492	4,883	1,748	23,156
Balance at December 31, 2023	(116,214)	(1,243,671)	(712,050)	(208,312)	(74,394)	(2,354,641)

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 December 31, 2023	**$77,194**	**$416,382**	**$1,004,090**	**$254,598**	**$90,931**	**$1,843,195**

For the year ended December 31, 2023, depreciation and amortization expense of $482,025 (December 31, 2022 - $449,829) was recognized in general administration expense.

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

7. GOODWILL

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

Balance, January 1, 2023	$3,345,320
Effect of exchange rates	(78,545)
Balance at December 31, 2023	**$3,266,775**

Management has determined that both GMI and PCS function as one CGU as of December 31, 2023. For the year ended December 31, 2023, the Company determined that the recoverable amount was higher than the carrying amount. The recoverable amounts of the CGU were determined based on fair value less costs to sell calculation, using management's discounted cash flow projections over a period of five years.

In calculating the recoverable amount of the CGU, the long term growth rate applied was 2.3%. The pre-tax discount rate applied was 11.43%, which was set considering the average borrowing cost of the Company and certain risk premiums. Management also used various higher discount rates to test the sensitivity of the value of the CGU.

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

8. 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% (December 31, 2022 – prime rate of interest plus 1.5%). As at December 31, 2023, the interest rate was 8.7% (December 31, 2022 – 7.95%). The credit facility is secured by the assets of Route1 Inc. and guaranteed by GMI. As at December 31, 2023, the balance drawn on the revolving demand facility was $1,225,000 (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 December 31, 2023, the interest rate was 9.00% (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 December 31, 2023, the balance drawn on the revolving demand facility was $1,673,495 (December 31, 2022 - $1,245,162). PCS is required to maintain a Fixed Charge Coverage Ratio of greater or equal to 1.10:1 and this covenant was met as of December 31, 2023.

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

9. CONTRACT LIABILITIES AND CONTRACT COSTS

Contract liabilities are comprised of:

	December 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	**(2,466,818)**	(2,580,787)
Net additions arising from operations	**2,348,048**	868,972
Effect of exchange rates	**12,991**	34,381
Total contract liability	**$901,623**	$1,007,402

Revenue to be recognized in the future:

Within one year	**$891,638**	$985,242
Between two to five years	**9,985**	22,160
Total	**$901,623**	$1,007,402

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 December 31, 2023, the balance was $11,603 (December 31, 2022 - $38,147).

10. NOTES PAYABLE

	December 31, 2023	December 31, 2022
Promissory Note A		
Opening balance	**$62,766**	$114,102
Less: payments made	**(62,766)**	(51,336)
Closing balance	**$-**	$62,766
Promissory Note B		
Opening balance	**$-**	$152,136
Less: payments made	**-**	(152,136)
Closing balance	**$-**	$-
Promissory Note C		
Opening balance	**$634,994**	$632,372
Add; principal increase	**-**	2,622
Less: payments made	**(275,000)**	-
Closing balance	**$359,994**	$634,994

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

Promissory Note D		
Opening balance	**$-**	$266,238
Less: payments made	**-**	(266.638)
Closing balance	**$-**	$-
Total notes payable	**$359,994**	$697.760
Less: current portion of notes payable	**359,994**	367,776
Long term notes payable	**$-**	$329,984

Unsecured Promissory Note A

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. One of the two notes, Promissory Note A, remained outstanding as at December 31, 2022. The terms of the note are as follows:

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. Promissory Note A was fully repaid on June 28, 2023.

Promissory Note C

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.

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.

On September 15, 2023 the maturity was extended again to December 31, 2024.

The promissory note is secured by a pledge of the shares of the Company's wholly owned subsidiary, Route 1 Security Corporation, and a general security agreement over all current and hereafter acquired personal property of the Company. The promissory note is subordinated to the Company's existing bank credit facilities in both Canada and the United States. At December 31, 2023, the balance drawn on the promissory note was $359,994 (December 31, 2022 - $634,994). The note was extended for working capital purposes.

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

11. 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, 2022	39,709,463	$23,700,961
Share repurchase costs	-	(1,170)
Shares Issued December 16, 2022	2,787,693	300,177
Balance, December 31, 2022	42,497,156	$23,994,270
Balance, December 31, 2023	**42,497,156**	**$23,994,270**

On December 16, 2022, the Company completed the issuance of common shares of the Company to directors and executive management team members in lieu of cash compensation by issuing 2,787,693 common shares at a deemed price of $0.085 and $0.115 per share. The securities issued were subject to a four-month and one day hold period that expired on April 15, 2023.

Warrants Outstanding

	Number of Warrants	Warrant $
Balance, December 31, 2021	3,574,411	$1,149,704
Expired unexercised	(3,574,411)	($1,149,704)
Balance, December 31, 2022 and 2023	-	-

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.

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

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

Options Outstanding	**December 31, 2023** Number of Options	**December 31, 2023** Weighted Average Exercise Price	December 31, 2022 Number of Options	December 31, 2022 Weighted Average Exercise Price
Balance, beginning of the year	**2,925,000**	**$0.62**	3,225,000	$0.60
Options expired during the year	**(550,000)**	**0.55**	(100,000)	0.62
Options forfeited during the year	**(300,000)**	**0.56**	(200,000)	1.05
Balance, end of the year	**2,075,000**	**$0.65**	2,925,000	$0.62

Exercise Price	Options Outstanding December 31, 2023 Number of Options	Options Outstanding December 31, 2023 Weighted Average Remaining Contractual Life (Years)	Options Exercisable December 31, 2023 Number of Options	Options Exercisable December 31, 2023 Weighted Average Remaining Contractual Life (Years)
$0.50	**250,000**	**2.8**	**150,000**	**2.38**
$0.62	**275,000**	**1.7**	**275,000**	**1.7**
$0.65	**400,000**	**0.3**	**400,000**	**0.3**
$0.68	**1,150,000**	**1.3**	**1,150,000**	**1.3**
	2,075,000	**1.3**	**1,975,000**	**1.3**

For the year ended December 31, 2023, the Company recorded stock-based compensation expense of $73,830 (December 31, 2022 - $239,616).

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.

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

	December 31, 2023	December 31, 2022
Balance, beginning of the year	**$17,268,374**	$15,879,054
Options expensed in the year	**73,830**	239,616
Warrants expiration in the year	**-**	1,149,704
Balance, end of the year	**$17,342,204**	$17,268,374

12. RELATED PARTY TRANSACTION

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 $180,704 (December 31, 2022 - $354,155). These transactions are in the normal course of operations and are paid or payable for directorship services. As at December 31, 2023, accrued liabilities included $267,326 owing to directors (December 31, 2022 - $139,507). The Company also incurred stock-based compensation expense related to stock options granted to directors in the amount of $9,100 (December 31, 2022 - $49,176).
- 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 $243,656 in the year ended December 31, 2023 (December 31, 2022 - $289,701). The Company also incurred stock-based compensation expenses related to stock options granted to Mr. Chodos in the amount of $28,119 (December 31, 2022 -$68,531). Prior to November 1, 2021, 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 employees (President and Chief Executive Officer, Chief Operating Officer and Chief Financial Officer) in the year ended December 31, 2023 as follows, with 2022 comparatives.

	December 31, 2023	December 31, 2022
Short-term employee benefit	**$747,379**	$757,624
Stock-based compensation expense	**50,247**	87,144
	$797,626	$844,768

13. COMMITMENTS AND CONTINGENCIES

(i) Legal matters

In the normal course of operations, the Company may be subject to litigation and claims from customers, suppliers and former employees. Although it is not possible to estimate the extent of potential costs, if any, management believes that the ultimate resolution of such contingencies would not have a material adverse effect on the results of operations, financial position or liquidity of the Company.

(ii) Foreign exchange

From time to time the Company may enter into U.S. dollar forward contracts to mitigate possible foreign exchange risk. The timing and amount of foreign exchange contracts are estimated based on existing or anticipated sales, current conditions in the Company's markets, the estimated timing of payments denominated in Canadian dollars and the Company's past experience. The Company's policy is not to utilize financial instruments for trading or speculative purposes. No financial instruments were used for trading or speculative purposes in 2023 or 2022.

(iii) Contingencies

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.

14. 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 debt and shareholders equity.

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 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.

15. FINANCIAL INSTRUMENTS - RISK MANAGEMENT

The carrying amount of financial instruments including cash and cash equivalents, accounts receivable, other receivables, bank indebtedness, accounts payable and other liabilities approximates fair value because of the short-term nature of these instruments.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within a three-level hierarchy, based on observability of significant inputs, as follows:

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

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 does not have any assets or liabilities measured at fair value.

The Company has exposure to credit risk, liquidity risk and market risk associated with its financial assets and liabilities. The Board of Directors 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 of Directors 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, considering their financial position, past experience and other factors. During the year ended December 31, 2023, the largest single customer represented approximately $1,629,859 of revenue or 9.3% of total revenue (December 31, 2022 - $2,261,718 or 10.3% of total revenue).

Cash and cash equivalents consist of bank balances. Credit risk associated with cash is minimized substantially by ensuring that these financial assets are held in highly rated financial institutions. At December 31, 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 two large regional banks in the U.S. of $38,348 (December 31, 2022 - $78,505).

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

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

The Company measures a loss allowance based on the lifetime expected credit losses. Lifetime expected credit losses are estimated based on factors such as the Company's past experience of collecting payments, the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables, financial difficulty of the borrower, and it becoming probable that the borrower will enter bankruptcy or financial re-organization. Financial assets are written off when there is no reasonable expectation of recovery. Subsequent recoveries of amounts previously written off reduce other expenses in the consolidated statement of comprehensive loss. As at December 31, 2023, the largest single customer's account receivable represented $250,576 (December 31, 2022 – $304,532) of the total accounts receivable.

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

	December 31, 2023	December 31, 2022
Current	**$1,653,599**	$1,138,949
Past due		
1 – 60 days	**268,650**	433,974
Greater than 60 days	**143,779**	288,630
Total accounts receivable, net	**$2,066,028**	$1,861,553

The Company incurred bad debt charges on trade accounts receivable in the amount of $51,786 during the fiscal year ended December 31, 2023 ($31,322 for fiscal year 2022).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. In order to meet its financial liabilities, the Company has primarily relied and expects to continue to rely primarily on collecting its accounts receivable as they come due.

The Company's ability to manage its liquidity risk going forward will require some or all of the following: the ability to generate positive cash flows from operations and secure capital and/or credit facilities on reasonable terms in the current marketplace. The following table details the Company's contractual maturities for its financial liabilities, including interest payments and operating lease commitments, as at December 31, 2023:

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

	2024	2025	2026 and Beyond	Total
Accounts payable and other liabilities	$3,435,025	$-	$-	$3,435,025
Notes payable	359,994	-	-	384,946
Lease commitments	501,736	427,825	590,492	1,520,053
	$4,321,707	$427,825	$590,492	$5,340,024

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

Market risk

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

Foreign exchange

The functional currency of the parent company is Canadian dollars and the reporting currency is Canadian dollars. As at December 31, 2023, the Company had non-Canadian dollar net monetary liabilities of approximately US $1,593,849 (December 31, 2022 – liabilities of approximately US $2,487,892). An increase or decrease in the U.S. to Canadian dollar exchange rate by 5% as at December 31, 2023 would have resulted in a gain or loss in the amount of $105,401 (December 31, 2022 – gain or loss of $168,000).

Interest rate

The Company has cash balances and bank indebtedness which may be exposed to interest rate fluctuations. At December 31, 2023, cash balances were $38,348 (December 31, 2022 - $78,505), bank indebtedness balances were $2,898,495 (December 31, 2022 – $2,420,162).

16. INCOME AND DEFERRED TAXES

Income Taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2022 - 26.5%) to the effective tax rate is as follows:

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

	2023	2022
Net Income (Loss) before recovery of income taxes	**$(1,240,080)**	$(618,908)
Expected income tax (recovery) expense	**(328,621)**	(164,010)
Non-deductible & other expenses	**345,252**	(128,140)
Share issuance cost booked directly to equity	**-**	(1,510)
Adjustments in respect of prior periods	**-**	37,020
US State taxes paid	**42,857**	-
Change in tax benefits not recognized	**(16,631)**	1,355,946
Income tax (recovery)	**$42,857**	$1,098,610
The Company's income tax (recovery) is allocated as follows:		
Current tax (recovery) expense	**$42,857**	$16,600
Deferred tax (recovery) expense	**-**	1,082,710
	$42,857	$1,099,306

Deferred Taxes

The following table summarizes the components of deferred tax:

	2023	2022
Deferred Tax Assets		
Finance Lease Receivables	**$323,977**	$457,260
Operating tax losses carried forward - USA	**306,977**	-
Operating tax losses carried forward - Canada	**-**	-
	630,954	457,260
Deferred Tax Liabilities		
Right of use assets	**(323,977)**	(457,260)
Intangible Assets	**(306,977)**	-
	(630,954)	(457,260)
Net deferred tax	**$-**	$-

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Unrecognized Deferred Tax Assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

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

	2023	2022
Property, plant and equipment	**$6,511,333**	$6,182,540
Intangible assets	**-**	213,640
Share issuance costs	**27,026**	48,940
Capital lease Obligations	**119,609**	-
Operating tax losses carried forward - USA	**1,726,409**	1,128,460
Operating tax losses carried forward – Canada	**12,003,738**	11,721,550
Capital losses carried forward	**88,326**	88,330
SR&ED pool from T661	**14,890,044**	14,743,490
ORDTC	**804,096**	804,100
Other	**20,400**	59,000
	$34,190,981	$34,990,050

The Canadian operating tax loss carry forwards expire as noted in the table below. The U.S. operating tax losses can be carried forward indefinitely. The capital loss carry forward may be carried forward indefinitely, but can only be used to reduce capital gains. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

The Company's Canadian operating tax losses expire as follows:

2027	$5,618,847
2028	4,078,305
2029	2,096,543
2044	210,043
	12,003,738

17. REVENUE AND SEGMENTED INFORMATION

Revenue for the recurring revenue and services is reported as a contract liability on the consolidated statement of financial position and is recognized as earned revenue for the period in which the subscription and/or service is provided.

For the sale of devices, revenue or contract liability is recognized at the time transfer of ownership of the device occurs. At December 31, 2023, the Company had $901,623 (December 31, 2022 - $1,007,402) in contract liability.

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

	2023		2022	
	Revenue	**% of Total**	Revenue	% of Total
Subscription revenue and services	**$4,456,513**	**25.4**	$6,194,383	28.1
Devices and appliances	**13,103,550**	**74.5**	15,829,913	71.8
Other	**17,754**	**0.1**	20,916	0.1
	$17,577,817	**100.0**	$22,045,212	100.0

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

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

	2023		2022	
	Revenue	**% of Total**	Revenue	% of Total
USA	**$17,042,393**	**97.0**	$21,835,244	99.0
Canada	**393,131**	**2.2**	209,968	1.0
Other	**142,293**	**0.8**	-	-
	$17,577,817	**100.0**	$22,045,212	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 years ended December 31, 2023 and 2022

	2023		2022	
	Assets	**% of Total**	Assets	% of Total
USA	**$2,230,155**	**69.8**	$3,408,941	83.0
Canada	**966,447**	**30.2**	700,244	17.0
	$3,196,602	**100.0**	$4,109,185	100.0