

ROUTE1 INC.**MANAGEMENT DISCUSSION AND ANALYSIS****YEAR ENDED DECEMBER 31, 2007**

The following discussion and analysis of the financial condition and results of operations (“**MD&A**”) of Route1 Inc. (also referred to as “**we**”, “**us**”, “**our**”, “**Route1**”, or the “**Company**”), prepared as of April 28, 2008, should be read in conjunction with the Company’s audited consolidated financial statements (and related notes) as at and for the years ended December 31, 2007 and 2006, which have been prepared in accordance with Canadian Generally Accepted Accounting Principles (“**GAAP**”).

FORWARD-LOOKING STATEMENTS

The following discussion may contain forward looking statements about matters that involve risk and uncertainties, such as statements of Route1’s plans, objectives, expectations and intentions, as well as financial trends. The discussion also includes cautionary statements about these matters. You should read the cautionary statements made below as being applicable to all forward-looking statements wherever they appear in this document. In drawing a conclusion or making a forecast or projection set out in the forward-looking information, the Company takes into account the following material factors and assumptions in addition to the above factors: the Company’s ability to execute on its business plan; the acceptance of the Company’s devices and services by its customers; the timing of execution of outstanding or potential customer orders by the Company; the sales opportunities available to the Company; the Company’s subjective assessment of the likelihood of success of a sales lead or opportunity; the Company’s historic ability to generate sales leads or opportunities; and that sales will be completed at or above the Company’s estimated margins. This list is not exhaustive of the factors that may affect our forward-looking information. These and other factors should be considered carefully and readers should not place undue reliance on such forward-looking information.

Factors that could cause Route1’s actual results to differ materially from the forward-looking statements are contained herein and include, but are not limited to, overall economic conditions, competitive pressures and uncertain technology changes. Additional information concerning risks and uncertainties affecting Route1’s business and other factors that could cause financial results to fluctuate is set forth later in this document, as well as elsewhere herein, and is contained in Route1’s filing with Canadian securities regulatory authorities, available on the SEDAR website (www.sedar.com) under Route1 Inc. and on the Company’s website (www.route1.com).

This MD&A includes additional disclosures on the critical accounting policies and estimates, additional disclosure on the annual selected financial information, additional discussion and analysis on the factors affecting the Company’s financial performance, additional disclosure on future liquidity and capital needs including the addition of a tabular presentation of contractual obligation, additional disclosure on the last eight quarters, and details of related party transactions. The Company does not believe that any of the additional information provided that has not otherwise been disclosed in other filings is material in nature.

OVERVIEW

Route1 is the trusted provider of security and identity management network solutions that are redefining today's digital landscape. At the heart of Route1's solutions is MobiNET™, a communications and service delivery platform focused on identity management and entitlement-based access to resources. Leveraging the power of MobiNET is the award-winning MobiKEY™, an ultra-portable computing device that securely connects users to the myriad of MobiNET services from any Internet-enabled Windows-based PC. This patent-pending computing solution is embedded on a smart-card enabled, cryptographic USB device, making it one of the most powerful and easy-to-use secure computing solutions available today. MobiKEY provides secure remote access to data, applications, network resources, and web content with services such as TruOFFICE™ and PurLINK™. Route1's patent-pending solutions, based on FIPS-140-2 cryptographic modules, meet the stringent security needs and high standards mandated by all levels of government. They have been evaluated by ICSA Labs and certified by the CSE. As a Company with high regard for intellectual property, Route1 continues to encourage and nurture innovation across its talented team.

HIGHLIGHTS

- In January 2007, Citrus and Chemical Bank deployed the Route1 MobiKEY to ensure its employees have fully encrypted, secure remote access to desktop and network resources, as part of the bank's business continuity plan in the event of employee illness, a pandemic or other unforeseen event. It also provided key banking personnel and commercial loan officers with a highly secure way to access desktop computers and the corporate network when away from the office.
- In January 2007, launched the MobiKEY Administration and Provisioning portal (MAP), designed to provide enterprises with greater control over user access to network applications and resources with the Route1 MobiKEY. Ideal for large-scale enterprise deployments from 50 to tens of thousands of MobiKEY subscribers, MAP enables network administrators to easily add and remove users, revoke digital certificates, conduct audits on usage, and modify subscriber rights and privileges.
- In February 2007, unveiled the MobiNET Aggregation Gateway (MAG), a sophisticated appliance-based solution that provides enterprises subscribing to Route1 MobiNET-enabled services, with greater manageability of data traffic that flows across the network. The Florida Public Service Commission (PSC) was among the first to purchase MAG. The PSC installed MAG in the statewide data center run by the Department of Management Services (DMS), which provides administrative services to the State of Florida government and operates as an Internet Services Provider (ISP) to state agencies.
- In February 2007, changed the composition of its board of directors. John Denham, Edward Boyd and Tim Hyland resigned, and joining the board as independent directors, were Brian W. Jamieson, Dean Peloso and Robert J. Tweedy.
- In February 2007, Anthony F. Rzepka, C.A., joined the company's management team as Executive Vice-President and Chief Financial Officer.
- In March 2007, launched TruOFFICE the first in a series of services powered by MobiNET. Additional secure services will include web-based applications, VoIP, Digital Rights Management, and custom third-party applications. MobiKEY, with TruOFFICE, represents the first step in Route1's strategy to unbundle the hardware and services it delivers.
- In March 2007, three German-based companies deployed a white-labeled version of the MobiKEY with TruOFFICE. These companies, which are among the growing list of European organizations that have adopted Route1's identity management service, included event facility

Messe Düsseldorf, services company Rentokil DE, and Taylor Wessing, a well known European full-service law firm.

- In April 2007, the Butler Group completed an independent technology audit of the Route1 MobiKEY with TruOFFICE. In its evaluation, the Butler Group considered Route1's technology to be market leading, and anticipates it to gain rapid traction with users due to the benefits it delivers. The report states, "Butler Group is unaware of any other vendor with a product similar to MobiKEY, and we consider it a market-leading innovative solution that, with the MobiNET infrastructure as a global service, should gain significant traction in the remote working market."
- In June 2007, participated in the Coalition Warrior Interoperability Demonstration (CWID). It was the Chairman of the Joint Chiefs of Staff's annual event enabling US Combatant Commands and the international military and defense community to investigate new and emerging technologies. The intent of CWID was to investigate technologies capable of being placed into an operational environment within 12-18 months.
- In August 2007, Jeffrey Denberg joined the company's management team as Senior Vice President of Sales.
- In October 2007, entered into an OEM Distribution Agreement with Novatel Wireless, a leading global provider of 3G wireless broadband access solutions. Route1's subscription-based services, including TruOFFICE™, will be integrated into the Novatel Wireless product line of next generation wireless modems.
- In October 2007, announced the availability of its PurLINK Service on the EnterpriseLIVE Platform, its high assurance identity-based access products and services focused on securing web content. The PurLINK™ service enables organizations to authenticate users and provide entitlement-based access to online systems secured by EnterpriseLIVE™. EnterpriseLIVE is a family of appliance-based platforms built for Financial Services, Military, Government, Telecommunication Service Providers, and Web 2.0 communities to secure content. EnterpriseLIVE has the flexibility to be hosted and managed by either Route1, telecommunication service providers, or by an organization's internal IT resources.
- In November 2007, completed a private placement offering of 64,720,666 units at a price of \$0.12 per unit for net proceeds of \$6,984.800. Each unit was comprised of one (1) common share and one-half (0.5) common share purchase warrant.
- In January 2008, filed Statements of Claim against certain reseller customers relating to non-payment of invoices. The customers entered into binding written agreements to purchase MobiKEYs that were delivered in 2007 for which revenue of approximately \$500,000 was initially recorded during the nine months ended September 30, 2007. In April 2008, the Company had resolved one of the disputes representing approximately 1/3 of such amounts.
- In April 2007, finalized a collaborative agreement with Giesecke & Devrient (G&D) to develop and market devices utilizing Route1's MobiNET platform. The new Route1 MobiKEY was demonstrated in the Route1/G&D booth at the 2008 RSA Conference, held in San Francisco from April 7 – 11. It showcased the ability to deliver Route1 services and solutions, powered by MobiNET, on a variety of G&D's form-factors within the StarSign family, including the StarSign Mobility Token and the StarSign USB Token microSD.

SELECTED ANNUAL INFORMATION

The following table sets out selected audited financial information of the Company on a consolidated basis for the last three (3) fiscal years.

(in thousands of Canadian dollars, except per share amounts)

	Year ended		
	Dec 31 2007	Dec 31 2006	Dec 31 2005
STATEMENT OF OPERATIONS			
Devices	\$633	\$383	\$56
Services	374	152	15
Total revenues	1,007	535	71
Cost of revenues	1,292	1,383	579
Gross loss	(285)	(847)	(508)
OPERATING EXPENSES			
General and administrative	2,334	2,990	2,784
Research and development	2,245	2,254	1,655
Selling and marketing	2,308	3,016	1,041
Amortization	285	285	309
LOSS BEFORE UNDERNOTED	(7,457)	(9,392)	(6,299)
Write-down on investment in Hypernet	(75)	-	-
Interest income	68	61	48
Income (loss) from discontinued operations	-	457	(156)
Net loss for the year	\$(7,464)	\$(8,874)	\$(6,406)
Loss per share	\$(0.03)	\$(0.05)	\$(0.05)
CASH FLOW INFORMATION			
Operations (including non-cash working capital changes)	\$(6,720)	\$(8,229)	\$(5,601)
Discontinued operations	-	-	(156)
Investing	(334)	(167)	(732)
Financing	11,871	9,044	5,031
Cash flow	4,817	648	(1,458)
Cash and cash equivalents beginning of year	1,486	838	2,296
Cash and cash equivalents, end of year	\$6,303	\$1,486	\$838
BALANCE SHEET INFORMATION			
Working capital	\$6,196	\$1,047	\$354
Total assets	8,325	3,589	2,709
Obligation under capital lease	91	309	496
Shareholders' equity	6,652	1,768	1,253

RESULTS OF OPERATIONS – 2007 COMPARED TO 2006

Revenue

Revenues for 2007 were \$1,007,200, an increase of \$471,747 or 88%, from \$535,453 in the preceding year.

Revenues from our device segment for 2007 were \$633,329, an increase of \$249,455 or 65%, from \$383,874 in the preceding year, due to an increase in the number of devices sold in 2007 as compared to the prior year as the marketplace becomes more familiar with the Company's solutions

Revenues from our services segment for 2007 were \$373,871, an increase of \$221,992 or 146%, from \$151,879 in the preceding year, due to the continued growth in the service subscriber base.

Gross loss

Gross margin is equivalent to revenues minus the cost of revenues. The cost of revenues primarily includes the cost of the devices sold, as well as that of their shipping and packing, plus the cost to operate and maintain the MobiNET (the Company's infrastructure for its services based subscriptions services).

The cost of revenues decreased by \$89,970 or 7% to \$1,292,587 for 2007 from \$1,382,557 for 2006 and can be summarized as follows:

- the cost of the devices increased by \$117,000 or 31% year over year, due to an increase in the number of devices sold in the year;
- the costs of operating and managing the MobiNET subscription-based services decreased by \$118,000 from year over year, as a result of a decrease in head count in this department and the salaries and benefits associated with such; and
- hardware amortization and facilities hosting costs, which are not variable with revenues and are not expected to increase significantly in the short term as the subscribers base increases, decreased by \$87,000 year over year mainly due to a decrease in the amortization expense.

Gross loss for 2007 was \$285,387, an improvement of \$561,717, from \$847,104 in the preceding year, \$471,747 related to the increase in revenues and \$89,970 to the improvement in the cost of revenues.

Operating Expenses

Operating expenses consist of general administration expenses, research and development expenses, selling and marketing expenses, and amortization. Operating expenses for 2007 were \$7,171,722, a decrease of \$1,373,541 or 16%, from \$8,545,263 in the preceding year; such decrease is discussed in detail below.

General administration

General administration expenses consist primarily of salaries and benefits for administration staff, legal, audit and other professional fees, rent, telephone, computer related, directors' fees, insurance, bad debts, public company costs, and other overhead expenditures.

General administration expenses for 2007 were \$2,334,188, a decrease of \$655,532, or 22%, from \$2,989,720 in the preceding year and can be summarized as follows:

- Salaries and benefits decreased by \$522,000 or 39% year over year, this is attributed to a decrease in head count in this department and the salaries and benefits associated with such and non-recurring severance cost recorded in 2006;
- Legal, audit and other professional fees decreased by \$151,000 or 22% due to non-recurring subcontracting services recorded in 2006 that were not present in 2007, such as recruitment fees and legal fees associated with the filing various trademark and patent applications with various government authorities;
- Telephone expense decreased by \$20,000 or 14% year over year due to reduction in the cost of mobile devices as a result of a decrease in the number of employees; and

- Directors' fees increased by \$74,000 year over year as the Company replaced internal employed directors with external independent directors, who are paid a fee for their services to the Company.

Research and development

Research and development expenses consists of salaries and benefits for the research and development department, and other professional fees associated with sub-contracting of some of the development work. The Company's research and development team is located at its headquarters in Toronto, Ontario.

Research and development expenses for 2007 were \$2,244,611, a decrease of \$10,270, from \$2,254,881 in the preceding year and can be summarized as follows:

- Salaries and benefits increased by \$40,000 or 2% year over year, this is attributed to a net increase in head count in this department and the salaries and benefits associated with such; and
- other professional fees decreased by \$50,000 or 56% due to a reduction in development services that were sub-contract out to a third party which were replaced with by new employee hires.

Selling and marketing

Selling and marketing expenses consist primarily of salaries and commissions, agent fees, marketing and trade shows, and travel and entertainment.

Selling and marketing expenses for 2007 were \$2,308,331, a decrease of \$707,824 or 23%, from \$3,016,155 in the preceding year and can be summarized as follows:

- Salaries and benefits decreased by \$396,000 or 22% year over year, this is attributed to a decrease in head count in this department and the salaries and benefits associated with such and non-recurring severance cost recorded in 2006;
- agent fees decreased by \$49,000 or 22% year over year, this is attributed to the termination of these relationships in 2007;
- marketing and tradeshow decreased by \$94,000 or 21% year over year, this is attributed to the reduction in the number of tradeshow attended in 2007 as compared to 2006, and a reduction in the use of external sub-contract marketing professionals; and
- travel and entertainment decreased by \$123,000 or 31% year over year, this is attributed to a decrease in head count in this department.

Amortization

Amortization expenses for 2007 were \$284,592, a nominal increase of \$85, from \$284,507 in the preceding year.

Other Expenses (Income)

Write-down of Hypernet Inc.

The Company's investment in Hypernet Inc. ("Hypernet") has been carried on the balance sheet at cost prior to this year. During the fourth quarter of 2007, the Company recorded a write-down of \$74,999 as a result of a five (5) year revenue and discounted cash flow analysis performed by the Company on Hypernet's most recent financial statements. The Company holds first preferred shares in Hypernet,

which Hypernet shall redeem all or a portion of the first preferred shares based on a percentage of Hypernet revenues exceeding a certain level. Based on Hypernet's recent financial performance, the Company no longer believes that this threshold would be achieved, that there was an impairment in the carrying value and has adjusted its carrying cost to \$1.

Interest income

Interest income for 2007 was \$67,687, an increase of \$6,531 or 11%, from \$61,156 in the preceding fiscal year, due to a higher average cash balance in 2007 as a result of common share purchase warrants being exercised in the earlier part of 2007 that were associated two (2) equity offerings completed in 2006.

Income from discontinued operations

The Company recorded income in 2006 as related to the discontinuance of operations and the voluntary bankruptcy of The Clones Society Inc., a subsidiary. The bankruptcy was finalized in 2006 with all the debts and liabilities outstanding being satisfied.

Net loss

Net loss for 2007 was \$7,464,421 or \$0.03 per share, an improvement of \$1,409,790, or 16%, from \$8,874,211 or \$0.05 per share in 2006. Net loss from continuing operations was \$7,389,422 or \$0.03 per share, an improvement of \$1,941,789 or 21%, from \$9,331,211 or \$0.05 per share in 2006.

The weight average number of common shares outstanding increased by 99,765,408 to 286,651,757 in 2007 from 186,886,349 in 2006. The increase is primarily due to a private placement that occurred in November 2007 and the exercise of common share purchase warrants from earlier private placements.

SUMMARY OF QUARTERLY RESULTS

The following table sets out selected unaudited financial information of the Company on a consolidated basis for the last eight quarters. The information has been derived from the Company's quarterly unaudited consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the consolidated financial statements and are approved by the Company's board of directors. The Company's quarterly operating results have varied substantially in the past and may vary substantially in the future. Accordingly, the information below is not necessarily indicative of results for any future quarter.

(in thousand of Canadian dollars, except per share date)	As at and for the three months ended							
	Dec 31 2007	Sep 30 2007 ⁽¹⁾	Jun 30 2007 ⁽¹⁾	Mar 31 2007	Dec 31 2006	Sep 30 2006 ⁽¹⁾	Jun 30 2006	Mar 31 2006
STATEMENT OF OPERATIONS								
Devices	\$46	\$43	\$251	\$294	\$4	\$131	\$128	\$120
Services	98	92	70	114	79	40	26	7
Total revenues	144	135	321	408	83	171	154	127
Cost of revenues	257	254	415	367	228	348	418	388
Gross (loss) margin	(113)	(119)	(94)	41	(145)	(177)	(264)	(261)
OPERATING EXPENSES								
General and administrative	667	557	635	475	1,019	620	745	606
Research and development	523	564	679	479	565	484	675	530
Selling and marketing	424	500	640	744	1,050	879	659	428
Amortization	72	76	74	62	48	68	82	87
LOSS BEFORE UNDERNOTED	(1,799)	(1,816)	(2,122)	(1,719)	(2,827)	(2,227)	(2,426)	(1,912)
Write-off of investment	(75)	-	-	-	-	-	-	-
Interest income	18	15	25	10	25	10	16	10
Income from discontinued operations	-	-	-	-	-	-	-	457
Net loss for the period	\$(1,856)	\$(1,801)	(2,097)	(1,709)	\$(2,802)	\$(2,217)	\$(2,410)	\$(1,446)
Loss per share	\$(0.00)	\$(0.01)	\$(0.01)	\$(0.01)	\$(0.01)	\$(0.01)	\$(0.01)	\$(0.01)
CASH FLOW INFORMATION								
Operations (including non-cash working capital Changes)	\$(1,381)	\$(1,730)	\$(2,040)	\$(1,568)	\$(2,410)	\$(2,181)	\$(2,015)	\$(1,622)
Investing	(75)	-	(75)	(186)	43	(91)	(138)	19
Financing	6,984	85	700	4,103	(81)	4,687	(53)	4,492
Cash flow	5,528	(1,645)	(1,415)	2,349	(2,448)	2,415	(2,207)	2,889
Cash and cash equivalents, beginning of period	775	2,420	3,835	1,486	3,935	1,520	3,727	838
Cash and cash equivalents, end of period	\$6,303	\$775	\$2,420	\$3,835	\$1,486	\$3,935	\$1,520	\$3,727
BALANCE SHEET INFORMATION								
Working capital	\$6,196	\$718	\$2,227	\$3,465	\$1,047	\$3,786	\$1,222	\$3,622
Total assets	8,325	3,013	4,847	6,031	3,589	5,920	3,201	5,361
Shareholders' equity	6,652	1,358	2,992	4,277	1,768	4,539	2,107	4,381

Note:

(1) Restated

The Company's revenues and financial results are difficult to forecast and have historically fluctuated on a quarterly basis, and it is expected that quarterly revenues and financial results will continue to fluctuate in the future as the Company continues its transition from the development stage to the marketing and commercialization stage. Fluctuations in results related to the growth of the Company's revenues, the timing of revenues being recognized and sales to customers, which may place large single orders in any one quarter, and to the timing of staffing and infrastructure additions to support growth.

LIQUIDITY AND CAPITAL RESOURCES

Management continually assesses liquidity in terms of the ability to generate sufficient cash flow to fund the business. Net cash flow is affected by the following items: i) operating activities, including the level of accounts receivable, inventory, prepaids, accounts payable and deferred revenues; ii) investing activities, including the purchase of capital assets; and iii) financing activities, including the issuance of capital stock.

Cash flow used in continuing operating activities

Cash flow used by continuing operating activities in 2007 was \$6,719,535, compared to \$8,228,962 in the preceding year, representing an improvement of \$1,509,427. This improvement is attributed to a reduction in cash employed in operations of \$1,954,794 offset by an increase in investment in working capital of \$445,367.

Cash flow used in investing activities

Cash flow used in investing activities in 2007 was \$334,793, compared to \$167,354 in the preceding year, representing an increase of \$167,439. Cash used during the year was primarily for acquisition of capital assets of \$257,417 and advance on notes receivable of \$77,376.

Cash flow provided by financing activities

Cash flow provided by financing activities in 2007 was \$11,871,315, compared to \$9,044,318 in the preceding year, representing an increase of \$2,826,997. The cash generated by financing activities during the year was primarily from: i) the receipt of \$5,104,962 from the exercise of 42,959,832 common share purchase warrants related to March 2006 and September 2006 private placements, and ii) the completion of a private placement in November 2007 for net proceeds of \$6,984,800, offset by the repayment of \$218,447 of obligations under capital leases.

The cash position of the Company at December 31, 2007 was \$6,303,351 compared to \$1,486,364 at December 31, 2006. Current assets at December 31, 2007 were \$7,854,557 compared to \$2,762,978 at December 31, 2006. Working capital increased to \$6,196,277 as of December 31, 2007, from \$1,046,846 as of December 31, 2006.

The current business plan contemplates revenue growth in 2008 attributable primarily to an increase in the number of devices sold to customers combined with an increase in the services subscriber base. Management believes that existing cash resources and cash generated from its current business plan is sufficient to fund operations in the short term, however if such business plans do not materialize, the Company will have to commence rationalizing its operations and exploring other possible sources of financing.

The Company's need for capital expenditures is limited to such items as computer hardware and software, funds to support sales, marketing and general administration activities, and working capital. Since inception, the Company has financed its cash requirements primarily through the issuance of equity and through obligations under capital leases. Until the Company starts generating and receiving significant revenues from the sales of its devices and services, the primary source of funding for the Company is from private placements.

On an ongoing basis, the Company is investigating various financing options, including additional equity financings as well as other strategic funding that maybe of a non-dilutive nature, to fund the continuing

efforts to commercialize its devices and services. These events may or may not happen depending on the availability of funds under acceptable terms and conditions, and the availability of equity capital, and the price at which additional equity could be issued, is dependent upon the success of the Company and upon the state of the capital markets in general.

The following table discloses future payments as at December 31, 2007 committed by the Company over the next five (5) years. It includes both principal and interest obligation required under capital lease agreements and all other current contractual commitments.

Contractual Obligations	Payment Due by Period				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Obligations under capital leases	\$90,869	\$88,169	\$2,700	-	-
Operating leases	237,000	105,000	132,000	-	-
Total contractual obligations	\$327,869	\$193,169	\$134,700	-	-

OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

The Company had the following transactions with related parties during 2007.

Included in notes receivable as at December 31, 2007 is:

- \$60,000 due from an officer of the Company, unsecured and due on demand with interest at 6%;
- \$52,000 due from an officer of the Company, secured and repayable no later than June 2, 2008 with interest at 6%;
- \$50,000 due from an employee of the Company, secured and repayable no later than December 28, 2008 with interest at 6%;
- \$27,800 due from an employee of the Company, unsecured, due on demand and non-interest bearing;
- \$1,000 due from an employee of the Company, secured, due on demand and non-interest bearing; and
- \$833 due from an employee of the Company, secured and repayable no later January 15, 2008 with interest at 6%.

Subsequent to December 31, 2007, \$61,833 of these notes receivable have been repaid, and \$85,000 was advanced to an officer of the Company which is secured and repayable no later than December 28, 2009 with interest at 6%.

FOURTH QUARTER

Revenue

Revenues for the fourth quarter of 2007 were \$143,768, an increase of \$60,444 or 73%, from \$83,324 for the same period in the preceding year.

Revenues from our device segment for the fourth quarter of 2007 were \$45,329, an increase of \$40,555, from \$4,874 for the same period in the preceding year, due to an increase in the number of devices sold in the current period as compared to the prior period.

Revenues from our services segment for the fourth quarter of 2007 were \$98,439, an increase of \$19,989 or 25%, from \$78,450 for the same period in the preceding year, due to the continued growth in the service subscriber base.

Gross loss

Gross margin is equivalent to revenues minus the cost of revenues. The cost of revenues primarily includes the cost of the devices sold, as well as that of their shipping and packing, plus the cost to operate and maintain the MobiNET.

The cost of revenues increased by \$29,390 or 13% to \$257,284 for the fourth quarter of 2007 from \$227,894 for the same period in 2006 and can be summarized as follows:

- the cost of the devices increased by \$114,262 period over period, due to an increase in the number of devices sold in the period and a year end inventory adjustment;
- the costs of operating and managing the MobiNET subscription-based services decreased by \$35,484 period over period, as a result of an decrease in head count in this department and the salaries and benefits associated with such; and
- hardware amortization and facilities hosting costs, which are not variable with revenues and are not expected to increase significantly in the short term as the subscribers base increases, decreased by \$49,388 period over period mainly due to a decrease in the amortization expense.

Gross loss for the fourth quarter of 2007 was \$113,516, an improvement of \$31,054, from \$144,570 in the same period in the preceding year, \$60,444 related to the increase in revenues offset by \$29,390 increase in the cost of revenues.

Operating Expenses

Operating expenses consist of general administration expenses, research and development expenses, selling and marketing expenses, and amortization.

Operating expenses for the fourth quarter of 2007 were \$1,686,359, a decrease of \$996,493 or 37%, from \$2,682,852 for the same period in the preceding year; such decrease is discussed in detail below.

General administration

General administration expenses consist primarily of salaries and benefits for administration staff, legal, audit and other professional fees, rent, telephone, computer related, directors' fees, insurance, bad debts, public company costs, and other overhead expenditures.

General administration expenses for the fourth quarter of 2007 were \$667,115, a decrease of \$351,925, or 35%, from \$1,019,040 for the same period in the preceding year and can be summarized as follows:

- Salaries and benefits decreased by \$321,000 period over period, this is attributed to a non-recurring severance cost recorded in 2006.
- Legal, audit and other professional fees decreased by \$120,000 or 45% due to non-recurring sub-contracting services in the four quarter of 2006 that were not present in the four quarter of 2007, such as recruitment fees and legal fees associated with the filing various trademark and patent applications with various government authorities and an over-accrual of the accounting fees of \$68,000 in 2006;
- Bad debts expense increased by \$62,000 period over period; and
- Directors' fees increased by \$27,000 period over period as the Company replaced internal employed directors with external independent directors, who are paid a fee for their services to the Company.

Research and development

Research and development expenses consists of salaries and benefits for the research and development department, and other professional fees associated with sub-contracting of some of the development work. The Company's research and development team is located at its headquarters in Toronto, Ontario.

Research and development expenses for the fourth quarter of 2007 were \$522,897, a decrease of \$43,474, or 8% from \$566,371 for the same period in the preceding year and can be summarized as follows:

- Salaries and benefits decreased by \$48,000 or 9% period over period, this is attributed to a decrease in head count in this department period over period and the salaries and benefits associated with such; and
- other professional fees increased by \$5,000 related to sub-contract development work.

Selling and marketing

Selling and marketing expenses consist primarily of salaries and commissions, agent fees, marketing and trade shows, and travel and entertainment.

Selling and marketing expenses for the fourth quarter of 2007 were \$423,685, a decrease of \$625,869 or 60%, from \$1,049,554 in the same period in the preceding year and can be summarized as follows:

- Salaries and benefits decreased by \$417,000 or 65% period over period, this is attributed to a decrease in head count in this department and the salaries and benefits associated with such and a non-recurring severance cost recorded in 2006;
- agent fees decreased by \$44,000 or 58% period over period, this is attributed to the termination of these relationships in early 2007;
- marketing and tradeshows decreased by \$78,000 or 45% period over period, this is attributed to the reduction use of external sub-contract marketing professionals; and
- travel and entertainment decreased by \$87,000 or 51% period over period, this is attributed to a decrease in head count in this department.

Other Expenses (Income)

Write-down of Hypernet Inc.

Hypernet Inc. (“Hypernet”) has been carried on the balance sheet at cost. During the fourth quarter of 2007, the Company recorded a write-down of \$74,999 as a result of a five (5) year revenue and discounted cash flow analysis performed by the Company on Hypernet’s most recent financial statements. The Company holds first preferred shares in Hypernet, which Hypernet shall redeem all or a portion of the first preferred shares based on a percentage Hypernet revenues exceeding a certain level, given the recent financial performance of Hypernet, the Company believed their was an impairment in the carrying value and has adjusted its carrying cost to \$1.

Interest income

Interest income for in the fourth quarter of 2007 was \$18,429, a decrease of \$7,059 or 28%, from \$25,488 for the same period in the preceding fiscal year, due to a lower average cash balance in the fourth quarter of 2007 as compared to the same period in 2006.

Amortization

Amortization expenses for the fourth quarter of 2007 were \$72,661, an increase of \$24,774, from \$47,887 for the same period in the preceding year.

Net loss

Net loss for the fourth quarter of 2007 was \$1,856,445 or \$nil per share, an improvement of \$945,489, or 34%, from \$2,801,934 or \$0.01 per share for the same period in 2006. Net loss from continuing operations was \$1,781,446 or \$nil per share, an improvement of \$1,020,488 or 36% from \$2,801,934 or \$0.01 per share for the same period in 2006.

PROPOSED TRANSACTIONS

The Company has not entered into or proposed to enter into any asset or business acquisition or disposition transactions.

CRITICAL ACCOUNTING ESTIMATES

The Company’s consolidated financial statements for the year ended December 31, 2007 have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). Management makes certain estimates and relies on certain assumptions relating to reporting the Company’s assets and liabilities as well as operating results in order to prepare the consolidated financial statements in conformity with Canadian GAAP. On an on-going basis, the Company evaluates its estimates and assumptions including those related to revenue, the valuation of accounts receivable, the estimation of useful lives of the various classes of capital assets, investments, stock-based compensation expense, and the measurement of income tax valuation allowances. Actual results could differ from those estimates, which are as follows:

- The Company’s revenue is derived from hardware sales and subscription services. The Company recognizes revenue in accordance with EIC 141, “Revenue Recognition”, and EIC 142, “Revenue Arrangements with Multiple Deliverables”.

- In the determination of the valuation of accounts receivable, including the allowance for doubtful accounts, the Company relies on current customer information, payment history and trends as well as future business and economic conditions.
- The determination of fair value of investments is based on a discounted cash flow model.
- The estimation of useful lives of the various classes of capital assets is based upon history and experience of similar assets within each class.
- The fair value of stock options is based on certain estimates applied to the Black-Scholes option-pricing model as disclosed in the Company's financial statements.
- The measurement of the income tax valuation allowance is based upon estimates of future taxable income and the expected timing of reversals of temporary differences..

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

In April 2005, the Accounting Standards Board (“AcSB”) issued new accounting standards; CICA Handbook Section 1530 “Comprehensive Income”, Section 3251 “Equity”, Section 3855 “Financial Instruments – Recognition and Measurement” and Section 3861 “Financial Instruments Disclosures”. On January 1, 2007, the Company adopted these new accounting standards, these standards have been adopted prospectively and comparative amounts for the prior year have not been restated. These sections require certain financial instruments to be recorded at their fair value.

They also introduce the concept of comprehensive income and accumulated other comprehensive income.

Comprehensive Income

Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in shareholders' equity from transactions and other events from non-owner sources. This standard requires certain gains and losses to be presented in other comprehensive income until it is considered appropriate to recognize into net income. Major components for this category include unrealized gains and losses on financial assets classified as available-for-sale and unrealized foreign currency translation amounts.

Accordingly, the Company now reports combined statements of operations and comprehensive loss. The comparative statements did not require restatement to reflect the application of this section.

Equity

Section 3241 replaces Section 3250 “Surplus”. This section describes the presentation of equity and changes in equity for a reporting period as a result of the application of Section 1530 “Comprehensive Income.”

Financial Instruments – Recognition and Measurement

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as loans and receivables, held-for-trading, held-to-maturity, available-for-sale, or other liabilities. The classification depends on the purpose for which the financial instruments were acquired, their characteristics and/or management's intent. Management determines the classification of financial assets and financial liabilities at initial recognition and, except in very limited circumstances, the classification is not changed subsequent to initial recognition.

At present, the Company's financial instruments comprise of the following:

a. Loans and receivables

Loans and receivables are initially recognized at fair value including the direct and incremental transaction costs and are subsequently measured at amortized cost, using the effective interest method. The classification of the Company's accounts receivable, other receivable, employee loans, notes receivable into loans and receivables did not have any material impact on the consolidation financial statements.

b. Held-for-trading

Financial assets and financial liabilities that are purchased and incurred with the intention of generating income in the near term are classified as held-for-trading. Financial instruments included in this category are initially recognized at fair value and transaction costs are taken directly to earnings along with gains and losses arising from changes in fair value. The Company has classified cash and cash equivalents, as held-for-trading, which did not have any material impact on the consolidated financial statements.

c. Held- to-maturity

Held-to-maturity investments are financial assets with fixed or determinable payments that the Company has the intention and ability to hold to maturity. These are initially recognized at fair value including direct and incremental transaction costs and are subsequently valued at amortized costs using the effective interest rate method. No financial assets were classified as held-to-maturity on January 1, 2007.

d. Available-for-sale

Available for sale assets are financial assets that are designated as available for sale and are not categorized into any other categories described above. These are initially recognized at fair value including direct and incremental transaction costs and are subsequently held at fair value, with gains and losses arising from changes in fair value included in other comprehensive income until the sale when the cumulative gain or loss is transferred to earnings, except for investments in equity instruments which do not have a quoted price in an active market, which are recorded at cost. The Company classified its investment in Hypernet as available for sale and, subject to review for impairment at each reporting date.

e. Other liabilities

Accounts payable and accrued liabilities were classified as "other liabilities". After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. No financial liabilities were classified as other liabilities on January 1, 2007.

Hedge

Section 3865 establishes standards that specifies the circumstances under which hedge accounting is permissible, how hedge accounting may be performed, and where the impacts should be recorded. The provisions of this standard introduce three specific types of hedging relationships: fair value hedges, cash flow hedges and hedges of a net investment in self-sustaining foreign operations. This standard did not affect the Company's financial position or results of operations.

Accounting Changes

On January 1, 2007, the Company adopted CICA Handbook section 1506 "Accounting Changes" which prescribes the criteria for changing accounting policies, together with the accounting treatment and

disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. This standard did not affect the Company's financial position or results of operations. The adoption of this standard requires that the Company disclose new primary sources of GAAP that have been issued, but not yet effective nor adopted by the Company.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The carrying amount of financial instruments including cash and cash equivalents, accounts receivable, other receivables, notes receivable and accounts payable and accrued liabilities approximates fair value because of the limited term of these instruments. The carrying amount of obligations under capital lease approximates fair value due to the market rate of interest associated with the instrument.

The Company is exposed to the following risks related to its financial assets and liabilities:

Credit risk

Credit risk arises from the possibility that the Company's customers may experience financial difficulty and be unable to fulfill their financial obligations. The Company, in the normal course of business, monitors the financial condition of its customers and reviews the credit history of each new customer. The Company establishes an allowance for doubtful accounts that corresponds to specific credit risk of its customers, historical trends, and economic circumstances. The Company's two largest customers accounted for approximately 32% of revenues in 2007 and approximately 55% of accounts receivable at December 31, 2007.

Interest rate risk

The Company interest rate risk is due to volatility in interest rates. This risk has been mitigated by borrowing at fixed rates.

Foreign exchange

A portion of our revenues and cost of sales has a functional currency other than the Canadian dollar; accordingly we are exposed to foreign exchange rate risk inherent in our revenues and cost of sales. Fluctuations in exchange rates may harm our operations and could result in exchange losses. The impact of future exchange rate fluctuations cannot be predicted with certainty; however our exposure to foreign currency rate risk is primarily associated with fluctuations in the Euro, and the United States dollar.

Although the Company has the ability to address these risks through the use of options, futures and forward contracts, it currently has not entered into such arrangements to reduce these risks.

Fair Value

As at December 31, 2007, the carrying values of accounts receivable, other receivables, notes receivable, accounts payable and accrued liabilities approximate their fair values due to their immediate or short-terms to maturity. The carrying amount of cash and cash equivalents, classified as held-for-trading, approximates cost, due to the short term nature of these instruments. The fair value of the investments in equity instruments classified as available for sale, specifically the Company's investment in Hypernet Inc, is estimated based on discounted revenue analysis to be \$1. Due to the use of judgment and uncertainties in the determination of estimated fair values, these values should not be interpreted as being realizable in the immediate term.

OTHER MD&A REQUIREMENTS

Disclosure of Outstanding Share Data

For the year ended December 31, 2007, the weighted average number of common shares outstanding used in calculating the loss per share was 286,651,757. The number of common shares outstanding as at December 31, 2007 was 349,388,115. For the year ended December 31, 2006, the weighted average number of common shares outstanding used in calculating the loss per share was 186,886,349. The number of common shares outstanding as at December 31, 2006 was 241,707,617. The increase in the number of common shares outstanding was attributable to the exercise of common share purchase warrants for 42,959,832 common shares, and the completion a common share private placement in November 2007 for 64,720,666 common shares. As at April 28, 2008, the share capital consisted of 349,388,115 common shares.

As at December 31, 2007, 10,598,660 common share stock options were outstanding with a weighted average exercise price of \$0.26 per share. Subsequent to December 31, 2007, 965,000 common share stock options have been cancelled with a weighted average exercise price of \$0.16 per share. On February 21, 2008, the Company issued to directors 1,125,000 common share stock options with an exercise price of \$0.08 per share. On April 28, 2008, 2,837,000 common share stock options expired with a weighted average exercise price of \$0.44 per share. As at April 28, 2008, 7,921,660 common share stock options were outstanding with a weighted average exercise price of \$0.18 per share.

As at December 31, 2007, 107,748,365 common share purchase warrants were outstanding with a weighted average exercise price of \$0.13 per share. On March 9, 2008, 29,369,174 common share purchase warrants expired with an exercise price of \$0.155 per share. As at April 28, 2008, 78,379,191 common share purchase warrants were outstanding with a weighted average exercise price of \$0.13 per share.

Risk Factors and Uncertainty

Although management has a confident outlook for the Company and continually improves and adapts the Company's risk mitigation strategies, operating in the technology industry inherently involves a certain level of risk and uncertainty. The Company continues to expand and refine management controls, reporting systems, cost controls, and overall policies and procedures to minimize the impact of potential risks and uncertainties. In management's opinion, the following factors, among others, should be considered when evaluating the Company's business and its results of future operations:

- There is no assurance that any forward-looking statement will materialize.
- The results or events predicted herein may differ from the actual results or events.
- Unless otherwise indicated, forward-looking statements describe expectations as of April 28, 2008.
- Route1 disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.
- Route1 had a working capital surplus at December 31, 2007 of \$6,196,277, which may not be sufficient to support current operating levels and growth objectives for the next fiscal year;
- Third-party claims for infringement of intellectual property rights by Route1, and the outcome of any litigation with respect thereto, that could harm the Company's competitive advantage in the secure remote access industry;

- Route1's ability to successfully obtain patent or other proprietary or statutory protection for its technologies and products, that could also harm the Company's competitive advantage in the secure remote access industry;
- Route1's ability to obtain rights to use software or components supplied by third parties, which may not be sufficient to support future sales volumes;
- Route1's ability to enhance current products and develop and introduce new products; that could hinder the Company's continued growth;
- The efficient and uninterrupted operation of Route1's MobiNET, which could impact on the credibility of the Company's product and services;
- Route1's ability to establish new, and to build on existing its existing customer base, that could also hamper the Company's continued growth;
- The occurrence or perception of a breach of Route1's secure product and service offering, or an inappropriate disclosure of confidential information, which could also impact on the credibility of the Company's product and services;
- Intense competition within the secure remote access industry; that could hamper future sales volumes;
- Route1's reliance on its suppliers and the risk that suppliers will not be able to deliver components on a timely basis, which may not be sufficient to support future sales volumes;
- Effective management of growth and on-going development of the business;
- The market price of the Route1's common shares could be subject to wide fluctuations in response to Route1's financial results, changes in earnings estimates by analysts, changing conditions in the identity access management sector or changes in general market, economic or political conditions;
- Route1's articles permit the issuance of an unlimited number of common shares and if the Company was to issue a significant number of common shares, it would reduce the relative voting power of previously outstanding common shares. Such future issuances could be at prices less than the shareholders paid for their common shares of the Company. Significant issuance of Route1's common shares, or the perception that such issuances may occur, could impact, negatively or otherwise, the trading price of Route1's common shares;
- As of the date hereof, Route1's principal stockholders, directors and executive officers and entities affiliated with them owned approximately 15% of the outstanding share of common shares, not including options or warrants to purchase shares of common shares. As a result, these shareholders, acting together, would be able to influence or control matters requiring approval by our shareholders, including the election of directors, the adoption of equity incentive plans and the approval of mergers or other extraordinary transactions. These shareholders may have interests that differ from shareholders with smaller holdings. The concentration of ownership of Route1's common shares could have the effect of delaying, preventing or deferring a change in control of Route1, deprive its shareholder of an opportunity to receive a premium for their common shares as part of a sale of Route1 and affect the market price of its common shares;
- Government regulation of secure remote access industry, including but not limited to restrictions on encryption of MobiKEY and the MobiNET.

Disclosure Controls

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to permit timely decisions regarding public disclosure.

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of

December 31, 2007. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures, as defined in Multilateral Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings, are effective except as below noted, to ensure that the information required to be disclosed in reports that are filed or submitted under Canadian Securities legislation are recorded, processed, summarized and reported within the time period specified in those rules.

During the process of review and evaluation it was determined that certain weaknesses existed in the disclosure controls and procedures. As is indicative of many small companies, segregation of duties and the existence of full competencies in the complex areas of revenue recognition were identified as areas requiring improvement. The existence of these weaknesses is compensated for by the senior management and Audit Committee monitoring which exists and in the case of complex transactions, by consulting with external experts to assist management in their analysis. The Company is taking steps to augment and improve the procedure and controls impacting these areas of weakness.

The Company does not expect that its disclosure controls and procedures will prevent all error and all fraud, if any. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The Company considered these limitations during the development of its disclosure controls and procedures and will periodically re-evaluate them to ensure they provide reasonable assurance that such controls and procedures are effective.

Audit Committee

All members of the Audit Committee are independent and meet the qualifications of a financial expert.

Legal proceedings

The Company filed Statements of Claim against certain reseller customers relating to non-payment of invoices. The reseller customers have maintained that based on non-sanctioned verbal representations made to them by certain employees of the Company who are no longer employed with the Company; they were not obligated to make payment in accordance with the terms of the written binding purchase agreements. As reflect in the Statements of Claim, the reseller customers entered into binding written agreements with Route1 to purchase MobiKEYs that were delivered in 2007 for which revenue of approximately \$500,000 was initially recorded during 2007 on the strength of these agreements. In April 2008, the Company resolved one of these claims which represented approximately 1/3 of such amount.

Additional Information

Additional information about Route1 is available from Route1's website at www.route1.com, and the Sedar website at www.sedar.com, or by request from Route1's head office at 155 University Avenue, Suite 1920, Toronto, Ontario, Canada M5H 3B7 (telephone – 416-848-8391).