



*Interim Condensed Consolidated Financial Statements of*

**Route1 Inc.**

*September 30, 2011 and 2010*



**NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

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# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## Route1 Inc.

As at September 30, 2011, December 31, 2010 and January 1, 2010  
(unaudited, stated in Canadian dollars)

	Note	September 30 2011	December 31 2010 (1)	January 1 2010 (1)
<b>Assets</b>				
Current assets				
Cash and cash equivalents		\$ 23,728	\$ 484,457	\$ 640,045
Accounts receivable		1,052,572	475,302	88,583
Other receivables		53,328	27,471	34,954
Notes receivable		-	-	173,000
Inventory	16	984,370	840,916	900,775
Prepaid expenses		212,318	216,076	128,630
		<b>2,326,316</b>	<b>2,044,222</b>	<b>1,965,987</b>
Non-current Assets				
Property, plant and equipment	6	286,282	185,941	74,571
Intangible assets	7	3,770	41,351	-
		<b>290,052</b>	<b>227,292</b>	<b>74,571</b>
<b>Total assets</b>		<b>\$ 2,616,368</b>	<b>\$ 2,271,514</b>	<b>\$ 2,040,558</b>
Current liabilities				
Bank indebtedness	5	\$ 85,434	\$ -	\$ 854,717
Accounts payable and other liabilities		1,048,421	988,443	1,197,258
Deferred revenue	17	2,045,032	1,695,990	1,535,823
		<b>3,178,887</b>	<b>2,684,433</b>	<b>3,587,798</b>
Non-current liabilities				
Other liabilities		-	153,333	-
Deferred revenue	17	23,201	26,151	32,861
		<b>23,201</b>	<b>179,484</b>	<b>32,861</b>
<b>Total liabilities</b>		<b>\$ 3,202,088</b>	<b>\$ 2,863,917</b>	<b>\$ 3,620,659</b>
<b>Shareholders' deficiency and liabilities</b>				
Capital				
Common shares	8	\$ 24,181,989	\$ 24,112,764	\$ 23,977,296
Warrants	8	1,746,027	1,746,027	2,949,072
Contributed surplus – stock compensation reserve	8	10,627,972	9,860,864	5,710,347
Deficit		(37,141,708)	(36,312,058)	(34,216,816)
<b>Total shareholders' deficiency</b>		<b>(585,720)</b>	<b>(592,403)</b>	<b>(1,580,101)</b>
<b>Total shareholders' deficiency and liabilities</b>		<b>\$ 2,616,368</b>	<b>\$ 2,271,514</b>	<b>\$ 2,040,558</b>

(1) Refer to Note 3 for effects of adoption of IFRS

Approved by the Board of Directors:

Director:

● “signed”

Michael F. Doolan

Director:

● “signed”

Tony Busseri

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

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(LOSS)**

**Route1 Inc.**

**For the three and nine months ended September 30, 2011 and 2010  
(unaudited, stated in Canadian dollars)**

		Three months ended September 30		Nine months ended September 30	
	Notes	2011	2010	2011	2010
<b>Continuing Operations</b>					
<b>Revenue</b>					
Devices and Appliances	17	\$ 173,062	\$ 385,665	\$ 463,734	\$ 644,111
Services	17	1,226,101	995,082	3,591,023	2,949,086
		1,399,163	1,380,747	4,054,757	3,593,197
<b>Cost of revenue</b>		<b>266,137</b>	349,467	<b>762,174</b>	594,724
<b>Gross profit</b>		<b>1,133,026</b>	1,031,280	<b>3,292,583</b>	2,998,473
<b>Operating Expenses</b>					
General administration		759,734	632,647	2,139,256	1,735,278
Research and development		261,526	521,567	569,609	1,412,938
Selling and marketing		182,584	183,994	470,856	541,660
		1,203,844	1,338,208	3,179,721	3,689,876
<b>Operating profit (loss) for the period</b>		<b>(70,818)</b>	(306,928)	<b>112,862</b>	(691,403)
<b>Other expenses</b>					
Stock-based compensation		(361,865)	(379,844)	(767,108)	(824,137)
Interest income		450	21	1,454	3,589
Interest expense		(4,722)	(474)	(5,227)	(19,548)
Foreign exchange gain (loss)		71,473	(11,553)	89,320	(113,346)
Severance charges	18	(260,953)	(460,000)	(260,953)	(460,000)
		(555,617)	(851,850)	(942,514)	(1,413,442)
<b>(Loss) before taxes</b>		<b>(626,435)</b>	(1,158,778)	<b>(829,652)</b>	(2,104,845)
<b>Income tax expense</b>		-	-	-	-
<b>(Loss) from operations</b>		<b>(626,435)</b>	(1,158,778)	<b>(829,652)</b>	(2,104,845)
<b>Total comprehensive income (loss) for the period</b>		<b>(626,435)</b>	(1,158,778)	<b>(829,652)</b>	(2,104,845)
<b>Basic and diluted loss per share</b>		<b>\$(0.00)</b>	\$(0.00)	<b>\$(0.00)</b>	\$(0.00)
<b>Weighted average number of common shares outstanding</b>		<b>388,907,652</b>	388,388,115	<b>388,667,537</b>	380,175,660

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

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**Route1 Inc.**

**For the nine months ended September 30, 2011 and 2010**  
**(unaudited, stated in Canadian dollars)**

	<b>Common Shares</b>	<b>Warrants</b>	<b>Contributed Surplus</b>	<b>Deficit</b>	<b>Total shareholder's (deficiency) equity</b>
Balance at January 1, 2010	\$23,977,296	\$2,949,072	\$5,710,347	\$(34,216,816)	\$ (1,580,101)
Proceeds from shares issued	135,468				135,468
Proceeds from warrants issued		1,746,027			1,746,027
Expiration of warrants					-
Stock-based compensation			113,156		113,156
Comprehensive loss				(328,338)	(328,338)
<b>Balance at March 31, 2010</b>	<b>\$24,112,764</b>	<b>\$4,695,099</b>	<b>\$5,823,503</b>	<b>\$(34,545,154)</b>	<b>\$ 86,212</b>
Proceeds from shares issued					-
Proceeds from warrants issued					-
Expiration of warrants		(2,949,072)	2,949,072		-
Stock-based compensation			331,137		331,137
Comprehensive loss				(617,728)	(617,728)
<b>Balance at June 30, 2010</b>	<b>\$24,112,764</b>	<b>\$1,746,027</b>	<b>\$9,103,712</b>	<b>\$(35,162,882)</b>	<b>\$ (200,379)</b>
Proceeds from shares issued					-
Proceeds from warrants issued					-
Expiration of warrants					-
Stock-based compensation			379,844		379,844
Comprehensive loss				(1,158,778)	(1,158,778)
<b>Balance at September 30, 2010</b>	<b>\$24,112,764</b>	<b>\$1,746,027</b>	<b>\$9,483,556</b>	<b>\$(36,321,660)</b>	<b>\$ (979,313)</b>

Continued on the following page.

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**Route1 Inc.**

**For the nine months ended September 30, 2011 and 2010**  
**(unaudited, stated in Canadian dollars)**

	<b>Common Shares</b>	<b>Warrants</b>	<b>Contributed Surplus</b>	<b>Deficit</b>	<b>Total shareholder's (deficiency) equity</b>
Balance at January 1, 2011	\$24,112,764	\$1,746,027	\$9,860,864	\$(36,312,058)	\$ (592,403)
Proceeds from shares issued					-
Proceeds from warrants issued					-
Stock-based compensation			105,461		105,461
Comprehensive income				60,822	60,822
<b>Balance at March 31, 2011</b>	<b>\$24,112,764</b>	<b>\$1,746,027</b>	<b>\$ 9,966,325</b>	<b>\$(36,251,236)</b>	<b>\$ (426,120)</b>
Proceeds from shares issued	50,700				50,700
Proceeds from warrants issued					-
Stock-based compensation			299,782		299,782
Comprehensive loss				(264,037)	(264,037)
<b>Balance at June 30, 2011</b>	<b>\$24,163,464</b>	<b>\$1,746,027</b>	<b>\$10,266,107</b>	<b>\$(36,515,273)</b>	<b>\$ (339,675)</b>
Proceeds from shares issued	18,525				18,525
Proceeds from warrants issued					-
Stock-based compensation			361,865		361,865
Comprehensive loss				(626,435)	(626,435)
<b>Balance at September 30, 2011</b>	<b>\$24,181,989</b>	<b>\$1,746,027</b>	<b>\$10,627,972</b>	<b>\$(37,141,708)</b>	<b>\$ (585,720)</b>

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

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

### Route1 Inc.

For the three and nine months ended September 30, 2011 and 2010  
(unaudited, stated in Canadian dollars)

	Three months ended September 30		Nine months ended September 30	
Notes	2011	2010	2011	2010
<b>Net cash inflow (outflow) related to the following activities</b>				
<b>Operating activities</b>				
Loss from operations	\$ (626,435)	\$(1,158,778)	\$ (829,652)	\$(2,104,845)
Items not affecting cash and cash equivalents				
Depreciation and amortization	34,461	22,735	125,086	71,634
Stock-based compensation	8 361,865	379,844	767,108	824,137
	(230,109)	(756,199)	62,542	(1,209,074)
Net changes in working capital balances				
(Increase) in accounts receivable	(500,993)	(685,160)	(577,270)	(987,809)
(Increase)/ decrease in other receivables	(10,234)	(9,406)	(25,857)	8,143
(Increase)/ decrease in inventories	(309,933)	154,163	(143,454)	138,592
Decrease/ (increase) in prepaid expenses	55,891	82,582	3,758	(17,301)
Increase /(decrease) in payable and other liabilities	182,610	482,679	(93,353)	19,595
Increase in deferred revenue	583,306	(2,089)	346,092	630,485
Net cash (used) generated in operating activities	(229,462)	(733,430)	(427,542)	(1,517,369)
<b>Investing activities</b>				
Payment for acquisition of property, plant and equipment	(105,584)	(56,516)	(187,846)	(175,760)
Proceeds from notes receivable	-	-	-	173,000
Net cash (used) generated in investing activities	(105,584)	(56,516)	(187,846)	(2,760)
<b>Financing activities</b>				
Increase/(decrease) of obligations under bank indebtedness	85,434	-	85,434	(854,717)
Proceeds from the issuance of common shares and warrants – net	18,525	-	69,225	1,881,495
Net cash (used) generated by financing activities	103,959	-	154,659	1,026,778
<b>Net (decrease) increase in cash and cash equivalents for the period</b>	<b>(231,087)</b>	<b>(789,946)</b>	<b>(460,729)</b>	<b>(493,351)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>254,815</b>	<b>936,640</b>	<b>484,457</b>	<b>640,045</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 23,728</b>	<b>\$ 146,694</b>	<b>\$ 23,728</b>	<b>\$ 146,694</b>
<b>Supplementary information</b>				
Interest paid	\$ 4,722	\$ 474	\$ 5,227	\$ 19,548

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

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2011 (unaudited, stated in Canadian dollars)

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#### 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 amendment dated October 14, 2004 followed by articles of continuance dated November 10, 2004. The registered office of the company is 8 King Street East, Suite 600, Toronto, Ontario, M5C 1B5. The Company is organized and managed as a single reportable business entity and the Company’s operations are not subject to factors such as seasonality.

Route1 delivers industry-leading security and identity management solutions to enterprises worldwide – businesses, government and military which need universal, secure access to all digital resources and sensitive data. These customers depend on The Power of MobiNET - Route1’s communications and service delivery platform. MobiNET provides identity assurance and individualized access to networks and data. Route1’s patented solutions are based on FIPS 140-2 cryptographic modules, and simplify the process of meeting increasingly stringent regulatory requirements for privacy and security. For more information, visit the Company’s website at: [www.route1.com](http://www.route1.com).

#### 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

##### *Statement of compliance*

The condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*. They have been prepared using the accounting policies the Company expects to adopt in its consolidated financial statements as at and for the financial year ending December 31, 2011 that were described in Note 3 of the Company’s first quarter condensed interim consolidated financial statements as at and for the three months ended March 31, 2011, except as described in Note 3 to these condensed interim consolidated financial statements

As these interim consolidated financial statements are prepared using International Financial Reporting Standards (“IFRS”), certain disclosures that are required to be included in the annual financial statements prepared in accordance with IFRS that were not included in the Company’s most recent annual financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”) were included in the Company’s condensed interim consolidated financial statements as at and for the three and nine months ended September 30, 2011.

##### *Going concern consideration*

While the accompanying condensed interim consolidated financial statements have been prepared on a going concern basis which assumes that the Company will realize its assets and discharge its liabilities and commitments in the normal course of business, conditions such as raising sufficient capital or generating enough cash flow from operations will need to be met to support the validity of this assumption.

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2011 (unaudited, stated in Canadian dollars)

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#### 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

For the three months ended September 30, 2011 and 2010, the Company incurred a loss of \$626,435 and a loss of \$1,158,778 respectively.

For the nine months ended September 30, 2011 and 2010, the Company incurred a loss of \$829,652 and a loss of \$2,104,745 respectively and has an accumulated deficit of \$37,141,708 as at September 30, 2011.

If the going concern assumption were not appropriate to these financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, the reported net profit and the balance sheet classifications used.

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

##### *Principles of consolidation*

These condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary companies, Route1 Technologies Inc., Route1 Security Corporation, Prospectus Group Inc. and The Clones Society Inc.

##### *Basis of preparation*

The condensed interim 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.

##### *Functional and presentation currency and foreign currency translation*

These condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company's and its wholly-owned subsidiary companies' functional currency. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the balance sheet date; non-monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at historical exchange rates; revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the average exchange rate for the period. Foreign exchange gains and losses on translation are included in the consolidated statements of comprehensive income (loss) in the period in which they occur.

##### *Cash and cash equivalent*

Cash equivalents consist of cash deposits with chartered banks both in Canada and the United States of America that are available on demand.

##### *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.

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2011 (unaudited, stated in Canadian dollars)

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#### 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

<b>Financial assets</b>	<b>Classification</b>	<b>Measurement</b>
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Other receivables	Loans and receivables	Amortized cost
Notes receivable	Loans and receivables	Amortized cost
<b>Financial liabilities</b>		
Bank Indebtedness	Other liabilities	Amortized cost
Accounts payable and other liabilities	Other liabilities	Amortized cost

##### *Loans and receivables*

Loans and receivables are accounted for at amortized cost using the effective interest method.

##### *Other liabilities*

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities, other than derivative instruments.

##### *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.

##### *Allowance for doubtful accounts*

The allowance for doubtful accounts receivable is determined based on management's assessment of the collectability of specific customer balances, considering general and industry economic and market conditions as well as other credit information available for the customer. Recoveries of the allowances are recorded when payment is received.

##### *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 cost of completion and cost necessary to make the sale.

##### *Investments*

Investments not subject to significant influence are recorded at cost less any impairment to their value.

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2011 (unaudited, stated in Canadian dollars)

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#### 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

##### *Property, Plant and Equipment*

Property, Plant and Equipment are recorded at cost and subsequently recorded at cost less accumulated amortization. Amortization 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
Computer equipment	-	straight-line over 36 months
Leasehold improvements	-	straight-line over 60 months or the term of the lease (whichever is shorter)

##### *Intangible assets*

Intangible assets are recorded at cost and subsequently recorded at cost less accumulated amortization. Amortization 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

##### *Revenue recognition*

The Company recognizes revenue when it is realized and earned. The Company considers revenue realized or realizable and earned when the product has been delivered or the services have been provided to the customer, the sales price is fixed or determinable and collectability is reasonably assured. The following paragraphs describe the specific revenue recognition policies for each major component of revenue.

##### *Devices*

Revenues from the sale of MobiKEY<sup>®</sup> devices and MobiKEY Fusion<sup>™</sup> devices are recognized when title 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<sup>®</sup> platform and an EnterpriseLIVE AG appliance are recognized when title is transferred to the customer and all significant contractual obligations that affect the customer's final acceptance have been fulfilled.

##### *Service*

Revenue from TruOFFICE<sup>®</sup> subscription-based services, and DEFIMNET<sup>®</sup> platform and other appliance licensing or maintenance is recognized rateably over the term of the contract on a monthly basis when the service is provided. In instances where the Company bills the customer prior to performing the service, the prepayment amount is recorded as deferred revenue.

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2011 (unaudited, stated in Canadian dollars)

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#### 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

##### *Multiple-element arrangements*

The Company enters into transactions that represent multiple-element arrangements which may include any combination of device and service. These multiple-element arrangements are assessed to determine whether they can be separated into more than one unit of accounting or element for the purpose of revenue recognition. When the appropriate criteria for separating revenue into more than one unit of accounting are met and there is evidence of fair value for all units of accounting or elements in an arrangement, the arrangement consideration is allocated to the separate units of accounting or elements based on the residual method which allocates each undelivered component its fair value and the remaining amount is allocated to the undelivered element. This evidence of fair value is established through prices charged for each revenue element when that element is sold separately. The revenue recognition policies described above are then applied to each unit of accounting.

##### *Research and development*

Currently, research and development expenditures are charged as an operating expense of the Company as incurred. Expenditures for research and development equipment are capitalized and amortized only when the criteria for capitalization and amortization are met. To date, no development expenditures have been capitalized.

##### *Income taxes*

The Company follows the liability method of accounting for income taxes. Under this method deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

##### *Recognition of Deferred Tax Assets*

The recognition of deferred tax assets is based upon whether it is probable that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted and deferred tax assets can be utilized. Recognition therefore involves a degree of estimation and judgement regarding the future financial performance of the particular legal entity in which the deferred tax assets have been recognized.

##### *Earnings (loss) per share*

Basic earnings (loss) per share are computed by dividing the profit (loss) by the weighted average shares outstanding during the reported period.

The Company calculates the dilutive effect of options and warrants on earnings (loss) per share. Diluted earnings (loss) per share is computed similarly to basic earnings (loss) 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

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2011 (unaudited, stated in Canadian dollars)

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#### 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

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.

##### *Use of estimates*

In preparation of the Company's condensed interim 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 condensed interim consolidated financial statements and such differences could be material. Examples of significant estimates include:

- the allowance for doubtful accounts;
- the allowance for inventory obsolescence;
- the estimated useful lives of Property, plant and equipment;
- the recoverability of investments;
- the impairment of assets
- the valuation of deferred tax assets
- the calculation of warrants; and
- the calculation of stock based compensation expense

##### *Stock-based compensation*

The Company has a stock-based compensation plan, which is described in note 8. The Company adopted the recommendation of the Canadian Institute of Chartered Accountants ("CICA") with respect to stock-based compensation issued to employees. The fair value of stock options granted under the stock option plan is determined using the Black-Scholes Option Pricing Model (key estimates used are rate of forfeiture, expected life, volatility of stock price and risk free interest rate) and is amortized to income on a graded vested basis over the vesting period and a corresponding increase to contributed surplus. Any consideration paid by the employees or non-employees on exercise of the options is credited to share capital, and the contributed surplus balance is reduced as stock options are exercised and credited to share capital.

##### *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 the event 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.

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2011 (unaudited, stated in Canadian dollars)

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### 3. TRANSITION TO IFRS

The Company has adopted IFRS effective for interim and annual periods commencing January 1, 2011, including the preparation and reporting of one year of comparative figures. The opening balance sheet has been prepared as of January 1, 2010. Prior to the adoption of IFRS the Company prepared its financial statements in accordance with Canadian generally accepted accounting principles (“GAAP”). The Company’s consolidated financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS.

#### *Elected exemptions applied from full retrospective application*

In preparing these condensed interim consolidated financial statements in accordance with IFRS 1, “First-time adoption of International Reporting Standards” (“IFRS 1”), the Company has applied certain of the optional exemptions from full retrospective application of IFRS. The optional exemptions applied are as follows:

a) **Business Combinations (IFRS 3 2008)**

The Company was formed through a reverse takeover in 2004 which meets the definition of business combination under IFRS. The Company has applied the business combinations exemption in IFRS 1 to not apply IFRS 3 2008 retrospectively to past business combinations. Accordingly the Company has not restated business combinations that took place prior to the transition date.

b) **Share-based payment transactions (IFRS 2)**

The Company has elected to adopt under IFRS 1 the option to apply IFRS 2 retrospectively only to share-based options granted that are unvested as at transition date of January 1, 2010. The Company has stock option plans that qualify as share based payments under IFRS 2 granted to directors, officers and employees.

c) **Borrowing costs (IAS 23)**

The Company elects to apply IAS 23 on a prospective basis from the date of transition of January 1, 2010.

d) **Leases (IAS 17 and IFRIC 4)**

The Company has no arrangements that are deemed as leases under IAS 17, hence no impact of IFRIC 4. The only leasing arrangement the Company has is that of its premises. This is classified as an operating lease under IAS 17.

e) **Intangible assets (IAS 38)**

The Company values all of its intangible assets using the cost model and not the revaluation model that IFRS allows. System Computer Software is the only asset the Company currently classifies as an intangible asset and is amortized over 12 months hence the Company does not perform an impairment test on its intangible asset because the risk of impairment is insignificant. Computer Software for appliances will be amortized over 60 months and impairment valuation will be performed annually.

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2011 (unaudited, stated in Canadian dollars)

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#### 3. TRANSITION TO IFRS (continued)

f) **Fair value or revaluation as deemed cost (IAS 16 and 38) Property, Plant and Equipment.**

The Company has elected not to apply the IFRS 1 election and reset the deemed cost of assets to fair value on transition date but has retrospectively applied IAS 16. The Company has also elected to use the cost model method on property, plant and equipment on transition date. This is generally consistent with GAAP treatment. Property, plant and equipment will be recorded at cost, less depreciation and impairment. The Company currently does not have any Property or Plants or Investment property.

IFRS 1 Exemptions and Exceptions which are not applicable to the Company are as follows:

1. Employee benefits (IAS 19)
2. Cumulative translation differences (IAS 21)
3. Compound Financial Instruments (IAS 32 & 39)
4. Investments in subsidiaries, jointly controlled entities and associates (IAS 27 & IAS 31)
5. Insurance contracts (IFRS 4)
6. Decommissioning liabilities (IAS 37 and IAS 16)
7. Fair value measurement of financial assets or financial liabilities at initial recognition (IAS 39)
8. Service Concession agreements (IFRIC 12)
9. Transfer of assets from customers (IFRIC 18)

*Mandatory exemptions to retrospective application*

In preparing these condensed interim consolidated financial statements in accordance with IFRS 1, the Company has applied certain full retrospective application of IFRS. The mandatory exemptions applied from full retrospective application of IFRS are as follows:

a) **Estimates**

Hindsight was not used to create or revise estimates and accordingly estimates previously made by the Company under GAAP are consistent with their application under IFRS.

IFRS 1 Mandatory Exemptions which are not applicable to the Company are as follows:

1. Derecognition of financial assets and financial liabilities
2. Hedge accounting
3. Non-Controlling Interests

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

**September 30, 2011 (unaudited, stated in Canadian dollars)**

#### 3. TRANSITION TO IFRS (continued)

*Reconciliation of equity (deficiency) as reported under Canadian GAAP and IFRS*

The following is a reconciliation of the Company's total equity reported in accordance with Canadian GAAP to its equity (deficiency) in accordance with IFRS at the transition date:

	Footnote	Share Capital	Warrants	Contributed Surplus	Deficit	Total Equity
As reported under GAAP – Dec 31, 2009		\$23,977,296	\$2,949,072	\$5,702,410	\$(34,208,879)	\$(1,580,101)
Differences increasing (decreasing) reported amount:						
IFRS Adjustment	(a)			7,937	(7,937)	-
As reported under IFRS - Jan 1, 2010		\$23,977,296	\$2,949,072	\$5,710,347	\$(34,216,816)	\$(1,580,101)

The following is a reconciliation of the Company's total equity reported in accordance with Canadian GAAP to its equity (deficiency) in accordance with IFRS at September 30, 2010:

	Footnote	Share Capital	Warrants	Contributed Surplus	Deficit	Total Equity
As reported under GAAP – September 30, 2010		\$24,112,764	\$1,746,027	\$9,219,027	\$(36,057,132)	\$(979,314)
Differences increasing (decreasing) reported amount:						
IFRS Adjustment	(a)			264,529	(264,529)	-
As reported under IFRS - September 30, 2010		\$24,112,764	\$1,746,027	\$ 9,483,556	\$(36,321,661)	\$(979,314)

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2011 (unaudited, stated in Canadian dollars)

#### 3. TRANSITION TO IFRS (continued)

The following is a reconciliation of the Company's total equity reported in accordance with Canadian GAAP to its equity (deficiency) in accordance with IFRS at December 31, 2010:

	Footnote	Share Capital	Warrants	Contributed Surplus	Deficit	Total Equity
As reported under GAAP – December 31, 2010		\$24,112,764	\$1,746,027	\$9,515,755	\$(35,966,949)	\$(592,403)
Differences increasing (decreasing) reported amount:						
IFRS Adjustment	(a)			345,109	(345,109)	-
As reported under IFRS – December 31, 2010		\$24,112,764	\$1,746,027	\$9,860,864	\$(36,312,058)	\$(592,403)

- (a) Under IFRS 2 all unvested options of each instalment were recognized as compensation expense based on a graded vesting method net of a forfeiture estimate as compared to the straight-line method expensed under GAAP. As well, under IFRS 2 the Company records expenses according to the vesting periods of 30% in year 1, 30% in year 2 and 40% in year 3 whereas under GAAP vesting had to be expensed at three equal vesting portions or 33.33% for each year. In addition, the Company retrospectively adjusted for share-based options granted to “consultants” under GAAP as “others providing similar service as employees” allowable under IFRS 2 if certain conditions were met.

#### *Reconciliation of Comprehensive loss as reported under Canadian GAAP and IFRS*

The following is a reconciliation of the Company's Comprehensive loss reported in accordance with Canadian GAAP to its Comprehensive loss in accordance with IFRS:

	Three months ended September 30, 2010	Nine months ended September 30, 2010	Year ended December 31, 2010
As reported under GAAP	(1,057,655)	(1,848,253)	(1,758,070)
IFRS adjustment	(101,123)	(256,592)	(337,172)
As reported under IFRS	(1,158,778)	(2,104,845)	(2,095,242)

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2011 (unaudited, stated in Canadian dollars)

### 3. TRANSITION TO IFRS (continued)

*Reconciliation of property, plant and equipment as reported under Canadian GAAP and IFRS*

The following is a reconciliation of the Company's *property, plant and equipment* reported in accordance with Canadian GAAP to its *property, plant and equipment* in accordance with IFRS at transition date (Note that adjustments consist of eliminating assets with \$nil net book value and reclassing Computer software as an Intangible asset):

As reported under GAAP	31-Dec-09		
	Cost	Accumulated Depreciation	Net Book Value
Furniture and equipment	\$ 235,950	\$ 234,178	\$ 1,772
Computer equipment	1,351,576	1,283,982	67,594
Computer software	607,691	607,691	-
Leasehold improvements	69,769	64,564	5,205
	<u>\$2,264,986</u>	<u>\$ 2,190,415</u>	<u>\$ 74,571</u>
<b>Adjustments</b>	<b>1-Jan-10</b>		
	Cost	Accumulated Depreciation	Net Book Value
Furniture and equipment	(227,417)	(227,417)	-
Computer equipment	(1,024,582)	(1,024,582)	-
Computer software	(607,691)	(607,691)	-
Leasehold improvements	-	-	-
	<u>(1,859,690)</u>	<u>(1,859,690)</u>	<u>-</u>
<b>Opening Balance IFRS</b>	<b>1-Jan-10</b>		
	Cost	Accumulated Depreciation	Net Book Value
Furniture and equipment	\$ 8,533	\$ 6,761	\$ 1,772
Computer equipment	326,994	259,400	67,594
Computer software	-	-	-
Leasehold improvements	69,769	64,564	5,205
	<u>\$ 405,296</u>	<u>\$ 330,725</u>	<u>\$ 74,571</u>

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2011 (unaudited, stated in Canadian dollars)

### 3. TRANSITION TO IFRS (continued)

The following is a reconciliation of the Company's *property, plant and equipment* reported in accordance with Canadian GAAP to its *property, plant and equipment* in accordance with IFRS at December 31, 2010 (Note that adjustments consist of eliminating assets with \$nil net book value and reclassing Computer software as an Intangible asset:

As reported under GAAP	31-Dec-10		
	Cost	Accumulated Depreciation	Net Book Value
Furniture and equipment	\$ 235,950	\$ 235,950	\$ -
Computer equipment	1,538,063	1,362,759	175,304
Computer software	662,236	620,885	41,351
Leasehold improvements	87,187	76,550	10,637
	<u>\$2,523,436</u>	<u>\$2,296,144</u>	<u>\$227,292</u>
<b>Adjustments</b>	<b>31-Dec-10</b>		
	Cost	Accumulated Depreciation	Net Book Value
Furniture and equipment	(235,950)	(235,950)	-
Computer equipment	(1,276,637)	(1,276,637)	-
Computer software	(662,236)	(620,885)	(41,351)
Leasehold improvements	(69,769)	(69,769)	-
	<u>(2,244,592)</u>	<u>(2,203,241)</u>	<u>(\$41,351)</u>
<b>Balance IFRS</b>	<b>31-Dec-10</b>		
	Cost	Accumulated Depreciation	Net Book Value
Furniture and equipment	\$-	\$-	\$-
Computer equipment	261,426	86,122	175,304
Computer software	-	-	-
Leasehold improvements	17,418	6,781	10,637
	<u>\$278,844</u>	<u>\$92,903</u>	<u>\$185,941</u>

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2011 (unaudited, stated in Canadian dollars)

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### 3. TRANSITION TO IFRS (continued)

#### *Reconciliation of Intangible assets as reported under Canadian GAAP and IFRS*

The following is a reconciliation of the Company's Intangible assets reported in accordance with Canadian GAAP to its Intangible assets in accordance with IFRS at transition date (Note that adjustments consist of eliminating assets with \$nil net book value):

As reported under GAAP	31-Dec-09		
	Cost	Accumulated Amortization	Net Book Value
Computer software	607,691	607,691	-
	<u>\$ 607,691</u>	<u>\$ 607,691</u>	<u>\$ -</u>
<b>Adjustments</b>	<b>1-Jan-10</b>		
	Cost	Accumulated Amortization	Net Book Value
Computer software	(607,691)	(607,691)	-
	<u>(607,691)</u>	<u>(607,691)</u>	<u>-</u>
<b>Opening Balance IFRS</b>	<b>1-Jan-10</b>		
	Cost	Accumulated Amortization	Net Book Value
Computer software	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2011 (unaudited, stated in Canadian dollars)

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#### 3. TRANSITION TO IFRS(continued)

The following is a reconciliation of the Company's Intangible assets reported in accordance with Canadian GAAP to its Intangible assets in accordance with IFRS at December 31, 2010 (Note that adjustments consist of eliminating assets with \$nil net book value):

As reported under GAAP	31-Dec-10		
	Cost	Accumulated Amortization	Net Book Value
Computer software	662,236	620,885	41,351
	<u>\$ 662,236</u>	<u>\$ 620,885</u>	<u>\$ 41,351</u>
<b>Adjustments</b>	<b>31-Dec-10</b>		
	Cost	Accumulated Amortization	Net Book Value
Computer software	(607,691)	(607,691)	-
	<u>(607,691)</u>	<u>(607,691)</u>	<u>-</u>
<b>Balance IFRS</b>	<b>31-Dec-10</b>		
	Cost	Accumulated Amortization	Net Book Value
Computer software	54,545	13,194	41,351
	<u>\$54,545</u>	<u>\$13,194</u>	<u>\$41,351</u>

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2011 (unaudited, stated in Canadian dollars)

#### 3. TRANSITION TO IFRS (continued)

The following is a summary reconciliation of the Company's Balance Sheet previously reported in accordance with Canadian GAAP compared to the Balance Sheet reported under IFRS at January 1, 2010 and December 31, 2010.

	Footnote	GAAP 1- Jan 2010	IFRS Adjustment	IFRS 1-Jan 2010 (1)
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents		640,045		640,045
Accounts receivable		88,583		88,583
Other receivables		34,954		34,954
Notes receivable		173,000		173,000
Inventory		900,775		900,775
Prepaid expenses		128,630		128,630
		1,965,987		1,965,987
<b>Non-current Assets</b>				
Property, plant and equipment		\$74,571		\$74,571
Intangible assets		-		-
		74,571		74,571
<b>Total assets</b>		2,040,558		2,040,558
<b>Current liabilities</b>				
Bank indebtedness		854,717		854,717
Accounts payable and other liabilities		1,197,258		1,197,258
Deferred revenue		1,535,823		1,535,823
		3,587,798		3,587,798
<b>Non-current liabilities</b>				
Other liabilities		-		-
Deferred revenue		32,861		32,861
		32,861		32,861
<b>Total liabilities</b>		3,620,659		3,620,659
<b>Shareholders' deficiency and liabilities</b>				
<b>Capital</b>				
Common shares		23,977,296		23,977,296
Warrants		2,949,072		2,949,072
Contributed surplus	(b)	5,702,410	7,937	5,710,347
Deficit	(b)	(34,208,879)	(7,937)	(34,216,816)
<b>Total shareholders' deficiency</b>		(1,580,101)	-	(1,580,101)
<b>Total shareholders' deficiency and liabilities</b>		\$2,040,558	-	\$2,040,558

(b) A reconciliation of the Company's total equity reported in accordance with Canadian GAAP to its equity (deficiency) in accordance with IFRS at the transition date

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

**September 30, 2011 (unaudited, stated in Canadian dollars)**

### 3. TRANSITION TO IFRS (continued)

Footnote	GAAP 31- Dec 2010	IFRS Adjustment	IFRS 31 Dec 2010 (1)
<b>Assets</b>			
<b>Current assets</b>			
	484,457		484,457
	475,302		475,302
	27,471		27,471
	-		-
	840,916		840,916
	216,076		216,076
	2,044,222		2,044,222
<b>Non-current Assets</b>			
	\$185,941	-	\$185,941
	41,351	-	41,351
	227,292	-	227,292
<b>Total assets</b>	2,271,514	-	2,271,514
<b>Current liabilities</b>			
	-		-
	988,443		988,443
	1,695,990		1,695,990
	2,684,433		2,684,433
<b>Non-current liabilities</b>			
	153,333		153,333
	26,151		26,151
	179,484		179,484
<b>Total liabilities</b>	2,863,917		2,863,917
<b>Capital</b>			
	24,112,764		24,112,764
	1,746,027		1,746,027
	9,515,755	345,109	9,860,864
	(35,966,949)	(345,109)	(36,312,058)
<b>Total shareholders' deficiency</b>	(592,403)	-	(592,403)
<b>Total shareholders' deficiency and liabilities</b>	\$2,271,514	-	\$2,271,514

(a) Please refer to page 14 of the financial statements

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2011 (unaudited, stated in Canadian dollars)

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#### 4. FUTURE ACCOUNTING POLICY CHANGES

##### Financial Instruments

The IASB has issued an amendment to IFRS 7, “Financial Instruments: Disclosures” (IFRS 7 amendment), requiring incremental disclosures regarding transfers of financial assets. This amendment is effective for annual periods beginning on or after July 1, 2011. The Company will apply this amendment at the beginning of its 2012 financial year. The Company does not expect the implementation to have any impact on the Company’s disclosures.

IFRS 9, “Financial Instruments” (“IFRS 9”) was issued by the IASB on November 12, 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The Company is currently evaluating the impact of IFRS 9 on its financial statements.

##### Consolidated Financial Statements

IFRS 10 *Consolidated Financial Statements*, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. Management anticipates that this standard will be adopted in the Company’s consolidated financial statements for the period beginning January 1, 2013 and has not yet had an opportunity to consider the potential impact of the adoption of IFRS 10.

## Route1 Inc.

September 30, 2011 (unaudited, stated in Canadian dollars)

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### 4. FUTURE ACCOUNTING POLICY CHANGES (continued)

#### Joint Arrangements

IFRS 11 Joint Arrangements, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. Management anticipates that this standard will be adopted in the Company's consolidated financial statements for the period beginning January 1, 2013 and has not yet had an opportunity to consider the potential impact of the adoption of IFRS 11.

#### Disclosure of Interests in Other Entities

IFRS 12 *Disclosure of Interests in Other Entities*, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. Management anticipates that this standard will be adopted in the Company's consolidated financial statements for the period beginning January 1, 2013 and has not yet had an opportunity to consider the potential impact of the adoption of IFRS 12.

#### Fair Value Measurement

IFRS 13 *Fair Value Measurement* defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 *Share-based Payment*; leasing transactions within the scope of IAS 17 *Leases*; measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted and management has not yet had an opportunity to consider the potential impact of the adoption of IFRS 13.

#### Related Party Disclosures

IAS 24 *Related Party Disclosures* (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities. The disclosure exemptions introduced in IAS 24 (as revised in 2009) do not affect the Company because the Company is not a government-related entity. However, disclosures regarding related party transactions and balances in these consolidated financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard.

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2011 (unaudited, stated in Canadian dollars)

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#### 4. FUTURE ACCOUNTING POLICY CHANGES (continued)

##### Deferred Taxes – Recovery of Underlying Assets

The IASB has issued an amendment to IAS 12, “Income Taxes” (“IAS 12 amendment”), which introduces an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. The IAS 12 amendment is effective for annual periods beginning on or after January 1, 2012. IAS 12 amendment is not applicable to the Company.

##### Presentation of Financial Statements

IAS 1 *Presentation of Financial Statements* was amended to improve the consistency and clarity of the presentation of items of other comprehensive income by adding the requirement to group items on the basis of whether they may be reclassified subsequently in profit or loss. Management anticipates that this standard will be adopted in the Company’s consolidated financial statements for the period beginning July 1, 2012 and has not yet had an opportunity to consider the potential impact of the adoption of IAS 1.

##### Employee Benefits

IAS 19 *Employee Benefits* was amended to provide users with a clearer picture of the commitments resulting from defined benefit plans. Amendments include the elimination of the corridor approach, requirement to present gains and losses related to defined benefits plans in other comprehensive income, and the addition of disclosure requirements to better show the characteristics of the defined benefit plans and risks arising from those plans. Management anticipates that this standard will be adopted in the Company’s consolidated financial statements for the period beginning January 1, 2013. The Company does not currently have defined benefit plans therefore adoption of IAS 19 will have no impact on the financial statements.

#### 5. CREDIT FACILITY

On October 5, 2010, the Company entered into a \$500,000 credit facility with a banking and financial services organization consisting of a revolving \$450,000 demand operating facility and a \$50,000 credit card limit. The credit facility will carry an interest rate equal to the lender’s prime rate of interest plus 2.00%. The credit facility was secured by the assets of the Company with access to the demand operating facility component based on the balance and term of the Company’s trade accounts receivables outstanding plus its available cash. The Company was required to maintain a current ratio in excess of 0.75:1.0 while any portion of the demand facility is outstanding. As at September 30, 2011 the Company had bank indebtedness of \$85,434 against its revolving demand operating facility and a current ratio of 0.73:1.0. This bank indebtedness was paid in full on October 5, 2011 and the credit facility was cancelled by Route1 Inc.

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2011 (unaudited, stated in Canadian dollars)

#### 6. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment	Leasehold improvements	Furniture and Equipment	Total
<b>Cost</b>				
Balance Jan 1, 2010	1,351,576	69,769	235,950	<b>1,657,295</b>
Additions	186,487	17,418		<b>203,905</b>
Disposals	-	-	-	-
IFRS adjust zero NBV	(1,276,637)	(69,769)	(235,950)	<b>(1,582,356)</b>
Balance Dec 31, 2010	261,426	17,418	-	<b>278,844</b>
Additions	92,928	-	95,578	<b>188,506</b>
Disposals	(2,460)	-	-	<b>(2,460)</b>
IFRS adjust zero NBV	(53,673)			<b>(53,673)</b>
Balance Sept 30, 2011	298,221	17,418	95,578	<b>411,217</b>

#### Accumulated depreciation and impairment

	Computer equipment	Leasehold improvements	Furniture and Equipment	Total
Balance Jan 1, 2010	(1,283,982)	(64,564)	(234,178)	<b>(1,582,724)</b>
Depreciation expense	(78,777)	(11,986)	(1,772)	<b>(92,535)</b>
Impairment	-	-	-	-
IFRS adjust zero NBV	1,276,637	69,769	235,950	<b>1,582,356</b>
Balance Dec 31, 2010	(86,122)	(6,781)	-	<b>(92,903)</b>
Depreciation expense	(75,105)	(10,637)	(2,423)	<b>(88,165)</b>
Disposals	2,460			<b>2,460</b>
Impairment	-	-	-	-
IFRS adjust zero NBV	53,673			<b>53,673</b>
Balance June 30, 2011	(105,094)	(17,418)	(2,423)	<b>(124,935)</b>

For the three months ended September 30, 2011, depreciation expense of \$26,930 (September 30, 2010 - \$22,735) was recognized in General administration expense.

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2011 (unaudited, stated in Canadian dollars)

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#### 7. INTANGIBLE ASSETS

	Computer software	Total
<b>Cost</b>		
Balance Jan 1, 2010	607,691	<b>607,691</b>
Additions	54,545	<b>54,545</b>
Disposals	-	-
IFRS adjust zero NBV	(607,691)	<b>(607,691)</b>
Balance Dec 31, 2010	54,545	<b>54,545</b>
Additions	-	-
Disposals	(3,915)	<b>(3,915)</b>
Balance Sept 30, 2011	50,630	<b>50,630</b>
<b>Accumulated amortization and impairment</b>		
Balance Jan 1, 2010	(607,691)	<b>(607,691)</b>
Amortization expense	(13,194)	<b>(13,194)</b>
Impairment	-	-
IFRS adjust zero NBV	607,691	<b>607,691</b>
Balance Dec 31, 2010	(13,194)	<b>(13,194)</b>
Amortization expense	(33,666)	<b>(33,666)</b>
Impairment	-	-
Balance Sept 30, 2011	(46,860)	<b>(46,860)</b>

For the three month ended September 30, 2011, amortization expense of \$7,531 (June 30, 2010 - \$nil) was recognized in General administration expense.

#### 8. SHARE CAPITAL, WARRANTS AND CONTRIBUTED SURPLUS

The Company's authorized share capital consists of the following:

- Unlimited number of common shares with voting rights.
- 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.

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2011 (unaudited, stated in Canadian dollars)

#### 8. SHARE CAPITAL, WARRANTS AND CONTRIBUTED SURPLUS (continued)

The following is a summary of the issued and outstanding common shares of the Company:

	<u>Number of Shares</u>	<u>Common Shares</u>
Balance, January 1, 2011	388,388,115	\$ 24,112,764
Shares issued – during period	532,500	69,225
Balance, September 30, 2011	<u>388,920,615</u>	<u>\$ 24,181,989</u>

#### *Stock options*

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 of Directors 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 with respect to any year may not exceed 10% of the issued and outstanding shares of the Company at the time of the grant, calculated on a non-diluted basis.

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

	<u>September 30, 2011</u>		<u>December 31, 2010</u>	
	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	Number of Options	Weighted Average Exercise Price
Options Outstanding				
Balance, beginning of the period	<b>34,725,000</b>	<b>\$ 0.16</b>	12,020,360	\$ 0.13
Options granted during the period	<b>3,425,000</b>	<b>0.23</b>	30,000,000	0.14
Options expired during the period	-	-	(1,200,000)	0.21
Options exercised during the period	<b>(532,500)</b>	<b>0.13</b>	-	-
Options cancelled during the period	-	-	(2,820,360)	0.20
Options forfeited during the period	<b>(4,802,500)</b>	<b>0.13</b>	(3,275,000)	0.12
Balance, end of the period	<u><b>32,815,000</b></u>	<u><b>\$ 0.14</b></u>	<u>34,725,000</u>	<u>\$ 0.16</u>

The cancelled stock options represent those options that were not properly filed with TSX Venture Exchange which were cancelled January 23, 2010.

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2011 (unaudited, stated in Canadian dollars)

#### 8. SHARE CAPITAL, WARRANTS AND CONTRIBUTED SURPLUS (continued)

Exercise Price	Options Outstanding September 30, 2011		Options Exercisable September 30, 2011	
	Number of Options	Weighted Average Life (Years)	Number of Options	Weighted Average Life (Years)
\$ 0.10	13,250,000	3.0	5,925,000	3.0
\$ 0.13	5,265,000	3.5	1,650,000	3.5
\$ 0.15	6,900,000	3.4	2,070,000	3.4
\$ 0.16	625,000	4.0	625,000	4.0
\$ 0.20	3,500,000	3.9	1,050,000	3.9
\$ 0.25	2,625,000	4.5	-	-
\$ 0.275	650,000	4.3	-	-
	<b>32,815,000</b>	<b>3.3</b>	<b>11,320,000</b>	<b>3.2</b>

  

Exercise Price	Options Outstanding December 31, 2010		Options Exercisable December 31, 2010	
	Number of Options	Weighted Average Life (Years)	Number of Options	Weighted Average Life (Years)
\$ 0.10	13,250,000	3.9	2,400,000	3.9
\$ 0.13	10,375,000	4.2	-	-
\$ 0.15	6,950,000	4.3	-	-
\$ 0.20	3,500,000	4.6	-	-
\$ 0.275	650,000	5.0	-	-
	<b>34,725,000</b>	<b>4.2</b>	<b>2,400,000</b>	<b>3.9</b>

Ninety days following the termination of the relationship with the Company on October 27, 2009, the 1,200,000 vested stock options held by the former Executive Vice President, Chief Financial Officer and Treasurer expired. Those options expired on January 27, 2010.

During the nine months ended September 30, 2011, the Company recorded stock-based compensation expense of \$767,108 (December 31, 2010 - \$1,201,445 and September 30, 2010 - \$824,137), as derived using the Black-Scholes option valuation model.

The table below shows the assumptions used in determining stock based compensation expense, as derived under the Black-Scholes option pricing model as at June 30, 2011 and December 31, 2010:

	2011	2010
Risk free interest rate	<b>2.10%</b>	2.19%
Expected life (years)	<b>5</b>	5
Expected volatility	<b>120%</b>	125%
Dividend yield	<b>Nil</b>	Nil
Weighted average fair value of options granted	<b>\$ 0.25</b>	\$ 0.10

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2011 (unaudited, stated in Canadian dollars)

#### 8. SHARE CAPITAL, WARRANTS AND CONTRIBUTED SURPLUS (continued)

The Black-Scholes option valuation 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.

##### *Contributed surplus*

Contributed surplus represents the fair value of stock options granted under the stock option plan, determined using the Black-Scholes Option Pricing Model and is amortized to income on a graded vested basis over the vesting period and also a corresponding increase to contributed surplus. Any consideration paid by the employees or non-employees on the exercise of stock options is reflected as an increase to share capital, with a reduction in contributed surplus.

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
Balance beginning of period	\$ 10,266,107	\$ 5,710,347
Options expensed in period	361,865	1,201,445
Warrants expired in period	-	2,949,072
Balance end of period	<u>\$ 10,627,972</u>	<u>\$ 9,860,864</u>

##### *Warrants*

The following is a summary of the issued and outstanding warrants of the Company:

	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>
Balance, January 1, 2010	32,360,333	\$ 0.155
Warrants expired (b)	(32,360,333)	(\$ 0.155)
Warrants granted (a)	38,000,000	\$ 0.150
Balance, September 30, 2011	<u>38,000,000</u>	<u>\$ 0.150</u>

(a) 38,000,000 warrants were granted on February 26, 2010 with an exercise price of \$0.15 per share and value of \$1,746,027 expiring February 25, 2015. The Company used the Black Scholes model to fair value the warrants.

(b) 32,360,333 warrants expired on May 7, 2010 with an exercise price of \$0.155 per share and value of \$2,949,072.

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2011 (unaudited, stated in Canadian dollars)

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#### 9. RELATED PARTY TRANSACTIONS

The Company has directors and officers which are considered related parties. The Company had the following transactions and/or outstanding amounts with related parties for the three and nine months ended September 30, 2011:

- The Company made payments (including HST) to 1220764 Ontario Inc. for management services provided by Mr. Tony P. Busseri, a director of the Company in the amount of \$101,700 in the three months ended September 30, 2011 and \$305,100 in the nine months ended September 30, 2011. The transaction was measured at the 'exchange amount' agreed upon by the parties.
- The Company made payments or incurred expense due to key management (Chief Technology Officer, Chief Operating Officer and Vice President of Finance and Administration in the three and nine months ended September 30, 2011 and twelve months ended December 31, 2010 as follows:

	<b>Three Months Ended September 30, 2011</b>	<b>Nine Months Ended September 30, 2011</b>	<b>Twelve months Ended December 31, 2010</b>
Short-term employee benefits	\$ 148,854	\$ 442,547	\$ 489,116
Stock option expense	114,068	381,631	394,737
	<u>\$ 262,922</u>	<u>\$ 824,178</u>	<u>\$ 883,853</u>

#### 10. LOSS PER SHARE

The Company uses the treasury stock method to calculate basic and diluted earnings (loss) per share. Basic earnings (loss) per share have been calculated based on the weighted average number of common shares without the inclusion of dilutive effects. Diluted earnings (loss) per share are calculated based on the weighted average number of common shares plus dilutive common share equivalents outstanding which consist of options and warrants to purchase common shares.

	<b>September 30, 2011</b>	September 30, 2010
Net loss	\$ (829,652)	\$ (2,104,845)
Weighted average number of common shares outstanding	<u>388,667,537</u>	<u>380,175,660</u>
Basic and diluted loss per share	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>

The diluted loss per share is equal to the basic loss per share as the effects of the options and warrants are anti-dilutive.

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2011 (unaudited, stated in Canadian dollars)

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#### 11. COMMITMENTS AND CONTINGENCIES

(i) *Operating leases*

The Company is committed under operating lease agreements for the rental of real property. Minimum annual future lease payments are approximately as follows:

Not later than one year	\$ 159,665
Later than one year and not later than five years	1,204,328
Later than five years	1,145,271
	<u>\$ 2,509,264</u>

For the three month ended September 30, 2011, rent expense of \$72,734 (September 30, 2010 - \$53,944) was recognized in General administration expense.

(ii) *Legal matters*

In the normal course of operations, the Company may be subject to litigation and claims from customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts, where required. 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.

#### 12. INDEMNIFICATIONS

Under certain agreements and the bylaws of the Company, the Company is obligated to indemnify persons who serve as directors or officers (or both) of the Company, against certain costs, charges and expenses suffered or incurred by such person as a result of their service. Claims for indemnity pursuant to such agreements or the bylaws of the Company are subject to certain statutory and other legal limitations. Having regard to the nature of the indemnification obligations and the broad range of circumstances under which the Company may become obligated to make indemnification payments, the Company is unable to make a reasonable estimate of the maximum potential amount that it could be required to pay to persons entitled to indemnification from the Company. The Company has purchased insurance coverage to reduce the risks associated with its indemnification obligation.

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2011 (unaudited, stated in Canadian dollars)

#### 13. FINANCIAL INSTRUMENTS

a) Establishing fair value

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

The following table sets out the classification, carrying amount, and fair value of the Company's financial assets and liabilities as at September 30, 2011 and December 31, 2010:

	September 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
FINANCIAL ASSET				
Loans and receivables				
Cash and cash equivalents (i)	\$ 23,728	\$ 23,728	\$ 484,457	\$ 484,457
Accounts receivable (i)	\$ 1,052,572	\$ 1,052,572	\$ 475,302	\$ 475,302
Other receivables (i)	\$ 53,328	\$ 53,328	\$ 27,471	\$ 27,471
FINANCIAL LIABILITIES				
Other liabilities				
Bank Indebtedness	\$ 85,434	\$ 85,434	-	-
Accounts payable and other liabilities (i)	1,048,421	1,048,421	\$ 988,443	\$ 988,443

(i) The fair value of these instruments is their carrying amount due to their short-term nature.

b) Fair value hierarchy

Financial instruments recorded at fair value on the Consolidated Statement of Financial Position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- a. Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- b. Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- c. Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

**September 30, 2011 (unaudited, stated in Canadian dollars)**

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The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

#### **14. CAPITAL MANAGEMENT**

The Company's objectives when managing capital is to maintain a flexible capital structure which optimized the cost of capital at acceptable risk.

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

Capital management objectives, policies and procedures have not changed over the preceding year.

Under its borrowing agreement, the Company must satisfy certain restrictive covenants as to minimum financial ratios such as current ratio.

The Company was required to maintain a current ratio in excess of 0.75:1.0 while any portion of the demand facility was outstanding. As at September 30, 2011 the Company had bank indebtedness of \$85,434 against its revolving demand operating facility and a current ratio of 0.73:1.0. This bank indebtedness was paid in full on October 5, 2011 from operations and the credit facility was cancelled by Route1 Inc on October 21, 2011.

#### **15. FINANCIAL INSTRUMENTS - RISK MANAGEMENT**

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 of Directors 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.

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2011 (unaudited, stated in Canadian dollars)

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#### 15. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

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

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

(a) *Credit risk*

Credit risk arises from cash held with banks and credit exposure to customers, including outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value (net of allowances) of the financial assets. The objective of managing credit risk is to prevent losses on financial assets. The Company assesses the credit quality of counterparties, taking into account their financial position, past experience and other factors. During the three months ended September 30, 2011, the largest single customer represented approximately 33.4 % (a reseller with more than one customer) of recorded revenue.

*Cash and cash equivalents*

Cash and cash equivalents consist of bank balances. Credit risk associated with cash is minimized substantially by ensuring that these financial assets are invested in debt instruments of highly rated financial institutions. At September 30, 2011, the Company had cash consisting of cash on hand and deposits with banks of \$23,728 (December 31, 2010 - \$484,457).

*Accounts receivable*

Accounts receivable consist primarily of accounts receivable from invoicing of devices and services. 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.

*Bank indebtedness*

Bank indebtedness consists of cash owing to a financial institution for the use of the revolving demand credit facility. At September 30, 2011, the Company had bank indebtedness of \$85,434 (December 31, 2010 - \$nil). The Company fully paid this bank indebtedness on October 5, 2011.

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2011 (unaudited, stated in Canadian dollars)

#### 15. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the loss is recognized in the statement of operations. When a receivable balance is considered uncollectible, it is written off against the allowance for accounts receivable. Subsequent recoveries of amounts previously written off reduce other expenses in the statement of operations. As at September 30, 2011 the Company had fully written-off prior year allowances of invoices. At September 30, 2011, the largest single customer's accounts receivable represented approximately 58.3% (September 30, 2010 – 45.3%) of the total accounts receivable. Subsequent to September 30, 2011 all of the outstanding accounts receivable as at September 30, 2011 were paid in full.

The following table outlines the details of the aging of the Company's receivables as at September 30, 2011 and December 31, 2010:

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
Current	\$ 311,549	\$ 17,160
Past due		
1 – 60 days	741,023	254,673
Greater than 60 days	-	203,469
Less: Allowance for doubtful accounts	-	-
Total accounts receivable, net	<u>\$ 1,052,572</u>	<u>\$ 475,302</u>

The following table outlines the details of the Allowance for Doubtful Accounts of the Company's receivables as at September 30, 2011 and December 31, 2010:

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
Opening balance in period	\$ -	\$ (18,460)
Collected in period	-	-
Increase in reserve in period	-	-
Write-off in period	-	18,460
Closing balance in period	<u>\$ -</u>	<u>\$ -</u>

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2011 (unaudited, stated in Canadian dollars)

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#### 15. FINANCIAL INSTRUMENTS - RISK MANAGEMENT (continued)

(b) *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 recently relied on collecting its accounts receivable, which by nature, are due predominately from government agencies with a high level of certainty of collection.

The Company's ability to manage its liquidity risk going forward will require some or all of the following: the ability to secure capital and/or credit facilities on reasonable terms in the current market place and its ability to generate positive cash flows from operations.

The following table details the Company's contractual maturities for its financial liabilities, including interest payments and operating lease commitments, as at September 30, 2011:

	2011	2012	2013 and beyond	Total
Accounts payable and accrued liabilities	\$ 895,088	\$ 153,333	\$ -	\$ 1,048,421
Operating lease commitments	-	215,806	2,293,458	2,509,264
	<u>\$ 895,088</u>	<u>\$ 369,139</u>	<u>\$ 2,293,458</u>	<u>\$ 3,557,685</u>

(c) *Market risk*

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

*Foreign exchange*

The functional currency of the parent company is Canadian dollars and the reporting currency is Canadian dollars. As at September 30, 2011, the Company had non Canadian dollar net monetary liabilities of approximately US\$7,350 and €2,842 (December 31, 2010 - approximately US\$4,609 and €nil). Any changes in the respective exchange rates as at September 30, 2011 would have resulted in non-material exchange gains or losses which would have been included in the determination of net income.

*Interest rate*

The Company has cash balances which are exposed to interest rate fluctuations. At September 30, 2011, cash totalled \$23,728 (December 31, 2010 - \$484,457).

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2011 (unaudited, stated in Canadian dollars)

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#### 16. INVENTORY

For the three months ended September 30, 2011, the cost of inventory recognized as an expense was \$93,848 (September 30, 2010 - \$126,655). For the nine months ended September 30, 2011, the cost of inventory recognized as an expense was \$260,327 (September 30, 2010 - \$170,320).

#### 17. REVENUE INFORMATION

The Company is organized and managed as a single reportable business entity with two distinct revenue streams, being devices and appliances, and services. The Company considers revenue realizable and earned when the product has been delivered or the services have been provided to the customer and collectability is reasonably assured. For sale of devices, revenue is recognized at the time of shipment of the device which constitutes transfer of ownership of the device. Revenue for the services component is reported as deferred revenue on the balance sheet and is recognized as earned revenue in the period which the service is provided. At September 30, 2011, the Company had \$2,068,233 (December 31, 2010 - \$1,722,141) in deferred revenue.

The following table provides a component presentation of the Company's revenue stream for the three months ended September 30, 2011 and 2010:

	2011		2010	
	Revenue	% of Total	Revenue	% of Total
Devices	\$ 173,062	12.4	\$ 385,665	27.9
Services	1,226,101	87.6	995,082	72.1
	<u>\$ 1,399,163</u>	<u>100.0</u>	<u>\$ 1,380,747</u>	<u>100.0</u>

For the three months ended September 30, 2011, a reseller selling the Company's Devices and Services to their multiple customers accounted for 33.4% of the Company's revenue stream.

The following table provides a component presentation of the Company's revenue stream for the nine months ended September 30, 2011 and 2010:

	2011		2010	
	Revenue	% of Total	Revenue	% of Total
Devices	\$ 463,734	11.4	\$ 644,111	17.9
Services	3,591,023	88.6	2,949,086	82.1
	<u>\$ 4,054,757</u>	<u>100.0</u>	<u>\$ 3,593,197</u>	<u>100.0</u>

For the nine months ended September 30, 2011, a reseller selling the Company's Devices and Services to their multiple customers accounted for 31.6% of the Company's revenue stream.

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2011 (unaudited, stated in Canadian dollars)

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#### 17. REVENUE INFORMATION (continued)

The following table provides a geographical presentation of the Company's revenue stream for the three months ended September 30, 2011 and 2010:

	2011		2010	
	Revenue	% of Total	Revenue	% of Total
USA	\$ 979,746	70.0	\$ 940,957	68.1
Europe	279,860	20.0	307,946	22.3
Canada	139,557	10.0	131,844	9.6
	<b>\$ 1,399,163</b>	<b>100.0</b>	<b>\$ 1,380,747</b>	<b>100.0</b>

The following table provides a geographical presentation of the Company's revenue stream for the nine months ended September 30, 2011 and 2010:

	2011		2010	
	Revenue	% of Total	Revenue	% of Total
USA	\$ 2,762,683	68.1	\$ 2,212,684	61.6
Europe	833,060	20.5	974,006	27.1
Canada	459,014	11.4	406,507	11.3
	<b>\$ 4,054,757</b>	<b>100.0</b>	<b>\$ 3,593,197</b>	<b>100.0</b>

#### 18. SEVERENCE CHARGES

Severance charges for the three months ended September 30, 2011 were \$260,953 (2010- \$460,000) and were a one-time expense the Company incurred to terminate the employment agreement of the Company's former Chief Technology Officer. Payment of this liability will be made on a monthly payment schedule and the liability will be fully discharged by January 31, 2013.

Severance charges for the three months ended September 30, 2010 were \$460,000 (2009- \$nil) and were a one-time expense the Company incurred to terminate the employment agreement of the Company's former President and CEO. The liability remaining as of September 30, 2010 had been recorded with both its short term (\$230,000) and long term components (\$210,833). Payment of this liability will be made on a bi-monthly payment schedule and the liability will be fully discharged by August 31, 2012.

#### 19. COMPARITIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the current year's presentation. Stock-based compensation expense has been reclassified from Operating expenses to other expenses on the consolidated statement of comprehensive loss and deficit

## CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Route1 Inc.

September 30, 2011 (unaudited, stated in Canadian dollars)

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#### 20. SUBSEQUENT EVENTS

- On October 4, 2011, the Company entered into a \$550,000 (December 31 2010 - \$500,000) credit facility with a different banking and financial services organization consisting of a revolving \$500,000 revolving demand operating facility and a \$50,000 VISA facility. The revolving demand credit facility will carry an interest rate equal to the lender's prime rate of interest plus 1.80%. The credit facility will be secured by the assets of the Company. No margining is required for outstanding amounts up to \$100,000; accessing an amount in excess of \$100,000 shall be based on the balance and term of the Company's trade accounts receivables outstanding plus the amount of SR&ED tax credits filed and refundable. The Company was required to maintain a current ratio in excess of 0.75:1.0 while any portion of the demand facility is outstanding and a Funded Debt to EBITDA (calculated on a yearly basis) of not greater than 2.50:1.
- On October 19, 2011, the Company announced it has been named to the prestigious Deloitte Technology Fast 50™, a ranking of the 50 fastest growing technology companies in Canada, based on the percentage of revenue growth over five years. Route1 is ranked #26 this year, with an increase in revenues of 903 percent from 2006 to 2010.
- On November 23, 2011, Amar S. Doman tendered his resignation from the Company's Board of Directors.