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**ROUTE1 INC.****MANAGEMENT DISCUSSION AND ANALYSIS****FOR THE YEAR ENDED DECEMBER 31, 2008****AS AT APRIL 15, 2009**

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 in accordance with National Instrument 51-102F1, and has been reviewed and approved by the Company’s Board of Directors prior to filing and 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, 2008 and 2007, 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](http://www.sedar.com)) under Route1 Inc. and on the Company’s website ([www.route1.com](http://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.

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## OVERVIEW

Route1 delivers award-winning security and identity management solutions to customers world-wide. These solutions provide universal, secure access to all digital resources and sensitive data. 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. Route1's patent-pending solutions are based on FIPS-140-2 cryptographic modules, and simplify the process of meeting increasingly stringent regulatory requirements around privacy and security.

## HIGHLIGHTS

- Throughout fiscal 2008 we have implemented a cost reduction plan, in order to reduce spending and overall operating expenses, which resulted in a reduction of 18% or \$1.3 million. To date, the cost reductions have not impacted on the Company's ability to execute on current contracts or pursue identified new opportunities; which we expect to continue into 2009.
- 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 \$333,000 was recorded during 2007. In April 2008, the Company had successfully resolved one of the disputes representing approximately 1/2 of such amounts.
- In April 2008, 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.
- Route1 MobiKEY named Reader Trust finalist in 2008 SC Magazine Awards Program. The nomination validates MobiKEY as a valued and trusted *Identity Management Solution*. "With this finalist nomination, *SC Magazine* readers are recognizing Route1 as a key ally in their mission to safeguard businesses, customers and critical data," said *SC Magazine* Editor-in-Chief Illena Armstrong.
- In June 2008, Route1 announced a partnership with Qwest Government Services (a subsidiary of Qwest Communications Inc. NYSE: Q) ("Qwest") to make Route1 solutions available to agencies under the Washington Interagency Telecommunications Systems (WITS) 2001 Crossover contract. The companies jointly exhibited the Route1 solutions at the AFCEA Identity Management Summit at the Ronald Reagan International Trade Center in Washington, D.C. on June 26 and 27.
- In October 2008, Route1 announced the September delivery of an additional 1,438 Route1 MobiKEYs and TruOFFICE subscription-based services to the United States Customs and Border Protection (CBP), a part of the Department of Homeland Security (DHS). DHS will deploy these additional 1,438 MobiKEYs to their civilian agency workers who will be able to securely access their digital resources and sensitive data from anywhere, and at any time.
- In October 2008, Route1 announced that Cadillac Fairview selected Route1's TruOFFICE subscription-based service powered by its MobiNET for its disaster recovery and business continuity solution for its operational and management staff. This will allow Cadillac Fairview's operational and management staff to simply and securely connect to their digital resources from anywhere, at any time, as if they never left the office. In the event of any business disruption, whether it's a blackout, snow storm, transit failure or illness, staff members are able to seamlessly continue business operations from home using TruOFFICE.
- In January 2009, the company announced that they have signed an agreement granting Qwest the exclusive rights to resell Route1 security and identity management solutions to the U.S. Federal Government in 2009. As part of the agreement, Qwest has committed to purchase a minimum of 30,000

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Route1 MobiNET devices along with TruOFFICE subscription-based services, which is valued at approximately US\$8.0 million in 2009. The potential reoccurring annual revenue stream to Route1 from these 30,000 TruOFFICE subscription-based services is estimated at US\$5.5 million. In addition to the purchase commitment, Qwest will provide advertising and marketing support to promote Route1's solutions to various U.S. Federal departments and agencies. Qwest will also provide network-hosting services to Route1 from their facilities.

## SELECTED FINANCIAL INFORMATION

The following table sets out selected audited financial information of the Company on a consolidated basis for the last three years ended December 31, 2008, 2007 and 2006.

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

	As at and for the year ended		
	Dec 31, 2008	Dec 31, 2007	Dec 31, 2006
<b>STATEMENT OF OPERATIONS</b>			
Devices	\$ 444	\$ 633	\$ 383
Services	725	374	152
Total revenues	1,169	1,007	535
Cost of revenues	811	1,292	1,383
Gross margin (loss)	358	(285)	(847)
Operating expenses			
General administration	2,387	2,334	2,990
Research and development	1,947	2,245	2,254
Selling and marketing	1,338	2,308	3,016
Amortization	214	285	285
Total operating expenses	5,886	7,172	8,545
Loss before undernoted	(5,528)	(7,457)	(9,392)
Interest income	81	68	61
Write-down on investment	-	(75)	-
Income from discontinued operations	-	-	457
Net loss for the year	\$ (5,447)	\$ (7,464)	\$ (8,874)
Loss per share	\$ (0.02)	\$ (0.03)	\$ (0.05)
<b>CASH FLOW INFORMATION</b>			
Operating activities	\$ (4,089)	\$ (6,720)	\$ (8,229)
Investing activities	(100)	(334)	(167)
Financing activities	6	11,871	9,044
Net cash inflow (outflow)	(4,183)	4,817	648
Cash, beginning of year	6,303	1,486	838
Cash, end of year	\$ 2,120	\$ 6,303	\$ 1,486
<b>BALANCE SHEET INFORMATION</b>			
Working capital	\$ 1,433	\$ 6,196	\$ 1,047
Total assets	\$ 4,221	\$ 8,325	\$ 3,589
Obligation under capital lease	\$ 3	\$ 91	\$ 309
Shareholders' equity	\$ 1,591	\$ 6,652	\$ 1,768

## GOING CONCERN ASSUMPTION

Our consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to meet its commitments, realize its assets and discharge its liabilities in the normal course of business. For the year ended December 31, 2008, the Company incurred a net loss of \$5,446,681, a deficit of \$30,799,997 and shareholders' equity of \$1,591,176 as at December 31, 2008. Continuation of the Company as a going concern is dependent upon achieving profitable operations, and the ability of the Company to obtain financing when necessary. If the going concern assumption were not appropriate for our consolidated financial statements, adjustments would be necessary in the carrying values of assets and liabilities, the reported net loss and the balance sheet classification used. Operating results for fiscal 2008 are not necessarily indicative of the results to be expected for any future periods.

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## COMPARISON FOR THE YEAR ENDED DECEMBER 31, 2008 TO 2007

### Revenue

Revenues for the year ended December 31, 2008 were \$1,169,462, representing an increase of \$162,262 or 16%, from \$1,007,200 for the same period in 2007, with the change discussed by segment below.

Revenues from our device (i.e. MobiKEY and EnterpriseLIVE AG) segment for year ended December 31, 2008 were \$444,110, representing a decrease of \$189,219 or 30%, from \$633,329 for the same period in 2007. In 2007, large quantities of devices were sold to two reseller customers totaling approximately \$337,000 which did not recur for the current year, and which was partially offset by an increase in devices sold during the current year to the Dutch Government's Ministry of Foreign Affairs and also to the United States Government's Department of Homeland Security through our new reseller Qwest, collectively totaling approximately \$167,000.

Revenues from our services (i.e. TruOFFICE subscription-based services and MAP – MobiNET Administration and Provisioning Portal) segment for the year ended December 31, 2008 were \$725,352, representing an increase of \$351,481 or 94%, from \$373,871 for the same period in 2007. This increase represents the continued growth in our subscriber base for MobiNET subscription-based services, from renewed subscriptions for prior years combined with new subscribers added during the current year.

Deferred revenue for the year ended December 31, 2008 increased by \$1,318,656 to \$1,706,993 from \$388,337 as at December 31, 2007, this revenue will be recognized into income when such services are delivered and/or performed in future periods.

In January 2009, the Company signed an agreement granting Qwest the exclusive rights to resell Route1 devices and services to the U.S. Federal Government for 2009. Qwest has committed to purchasing a minimum of 30,000 Route1 MobiNET devices along with TruOFFICE subscription-based services in 2009 which is valued at approximately US\$8.0 million, with a potential reoccurring annual revenue stream from such subscriptions valued at approximately US\$5.5 million.

### Gross Margin

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 subscriptions-based services).

The cost of revenues for the year ended December 31, 2008 were \$811,467, representing a decrease of \$481,120 or 37%, from \$1,292,587 for the same period in 2007. This can be attributable to the reduction in the number of devices that were sold in the current year as compared to the same period in 2007, combined with a decrease in operating salaries and benefits as a result of a reduction in head count, and a reduction in amortization expense as related to the computer hardware associated with operating the MobiNET.

Gross margin for the year ended December 31, 2008 was \$357,995, representing an improvement of \$643,382, from a loss of \$285,387 for the same period in 2007. The improvement is the result of an increase in service revenues as a percentage of total revenues which generates higher margins than devices revenues as compared to same period in 2007.

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## Operating Expenses

Operating expenses consist of general administration, research and development, selling and marketing, and amortization. Operating expenses for the year ended December 31, 2008 were \$5,885,896, representing a decrease of \$1,285,826 or 18%, from \$7,171,722 for the same period in 2007; with the change discussed in detail below.

### *General administration*

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

General administration expenses for the year ended December 31, 2008 were \$2,386,826, representing an increase of \$52,638, or 2%, from \$2,334,188 for the same period in 2007 and can be summarized as follows:

- Salaries and benefits including stock-based compensation increased by approximately \$82,000 for the year ended December 31, 2008 as compared to the prior year, due to a full year of stock-based compensation recorded in the year ended December 31, 2008 for options issued in July 2007;
- Legal and accounting fees increased by approximately \$171,000 for the year ended December 31, 2008 as compared to the prior year due to various regulatory and legal matters that only occurred in this year;
- Professional fees including recruitment fees increased by approximately \$204,000 for the year ended December 31, 2008 as compared to the prior year; and
- Other overhead type expenses such as telephone, postage & courier, equipment leasing and computer related expenses decreased by approximately \$44,000 for the year ended December 31, 2008 as compared to the prior year, due to a reduction in overall head count for the Company; and
- Gains recorded on foreign exchange increased by approximately \$361,000 during the year ended December 31, 2008 as a result of the strengthening of United States Dollar (2008 – 1.2180 , 2007 – 0.9881) and Euro (2008 – 1.6992 , 2007 – 1.4428) against the Canadian dollar, of 23% and 18% respectively from exchange rates at December 31, 2007. These gains are primarily attributable to accounts receivable denominated in such currencies at year end.

### *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.

Research and development expenses for the year ended December 31, 2008 were \$1,946,968, representing a decrease of \$297,643 or 13%, from \$2,244,611 for the same period in 2007 and can be summarized as follows:

- Salaries and benefits including stock-based compensation decreased by approximately \$318,000 for the year ended December 31, 2008 as compared to the same period in 2007, this is attributed to a decrease in head count in this department; and
- Consulting fees which increased approximately \$21,000 for the year ended December 31, 2008 as compared to the same period in 2007, to address short term resource needs in this department without incurring the salary and associated costs of hiring new employees.

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### *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 year ended December 31, 2008 were \$1,338,306, representing a decrease of \$970,025 or 42%, from \$2,308,331 for the same period in 2007 and can be summarized as follows:

- Salaries and benefits including stock-based compensation decreased by approximately \$377,000 or 31% for the current year as compared to the same period in 2007, this is attributed to a decrease in head count in this department;
- Agent fees decreased by approximately \$173,000 during the year ended December 31, 2008 as compared to the same period in 2007, and was a combination of a reduction in contractual monthly payments in which such agreements were terminated in 2007 combined with a reduction in commissions paid on revenue generated from such channels;
- Marketing and tradeshow decreased by approximately \$192,000 for the year ended December 31, 2008 as compared to the same period in 2007, this is attributed to fewer tradeshow attended in 2008 and reduction and termination of agreements for consulting fees;
- Travel, meals and entertainment decreased by approximately \$152,000 for the year ended December 31, 2008 as compared to the same period, this is attributed to a decrease in head count of sales personnel in this department and the travel associated with such employees' activities, and travel to fewer tradeshow during the year ended December 31, 2008; and
- Product giveaways expense decreased by approximately \$70,000 for the year ended December 31, 2008 as compared to the same period in 2007, as a result of the Company's modification in its sales and go to market strategies.

### *Amortization*

Amortization expense for the year ended December 31, 2008 was \$213,796, representing a decrease of \$70,796, or 25% from \$284,592 for the same period in 2007. The decrease can be attributed to computer hardware assets fully amortized in 2007 and therefore no expense incurred in the current year, and an overall reduction in the asset base used in the calculation of amortization expense using the declining-balance method.

### *Interest income*

Interest income for the year ended December 31, 2008 was \$81,220, representing an increase of \$13,533, from \$67,687 for the same period in 2007, this primarily due to a higher average cash balance for the current year as a result of a private placement completed in November 2007 which raised approximately \$7.8 million as compared to the prior private placement completed in September 2006 which raised approximately \$5.5 million, combined with \$11,220 of interest recorded on the notes receivable for the current year.

### **Net loss**

Net loss from for the year ended December 31, 2008 was \$5,446,681 or \$0.02 per share, representing an improvement of \$2,017,740, or 27%, from a net loss of \$7,464,421 or \$0.03 per share for the same period in 2007.

## 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 reviewed and 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.

	As at and for the three months ended							
	<i>(in thousand of Canadian dollars, except per share data)</i>							
	Dec 31 2008	Sep 30 2008	June 30 2008	Mar 31 2008	Dec 31 2007	Sep 30 2007 <sup>(1)</sup>	Jun 30 2007 <sup>(1)</sup>	Mar 31 2007
<b>STATEMENT OF OPERATIONS</b>								
Devices	\$25	\$287	\$55	\$78	\$46	\$43	\$251	\$294
Services	307	171	130	116	98	92	70	114
Total revenues	332	458	185	194	144	135	321	408
Cost of revenues	165	287	183	176	257	254	415	367
Gross margin (loss)	167	171	2	18	(113)	(119)	(94)	41
Operating expenses								
General administration	277	678	714	717	667	557	635	475
Research and development	409	413	543	582	523	564	679	479
Selling and marketing	281	344	386	328	424	500	640	744
Amortization	36	50	62	66	72	76	74	62
Total operating expenses	1,003	1,485	1,705	1,693	1,686	1,697	2,028	1,760
Loss before under noted	(836)	(1,314)	(1,703)	(1,675)	(1,799)	(1,816)	(2,122)	(1,719)
Interest income	6	10	23	42	18	15	25	10
Write-off of investment	-	-	-	-	(75)	-	-	-
Net loss for the period	\$(830)	\$(1,304)	\$(1,680)	\$(1,633)	\$(1,856)	\$(1,801)	(2,097)	(1,709)
Loss per share	\$(0.00)	\$(0.00)	\$(0.00)	\$(0.00)	\$(0.00)	\$(0.01)	\$(0.01)	\$(0.01)
<b>CASH FLOW INFORMATION</b>								
Operating activities	\$548	\$(1,328)	\$(1,784)	\$(1,526)	\$(1,381)	\$(1,730)	\$(2,040)	\$(1,568)
Investing activities	(4)	(3)	(47)	(46)	(75)	-	(75)	(186)
Financing activities	(9)	99	(30)	(54)	6,984	85	700	4,103
Net cash inflow (outflow)	535	(1,232)	(1,861)	(1,626)	5,528	(1,645)	(1,415)	2,349
Cash, beginning of period	1,585	2,817	4,677	6,303	775	2,420	3,835	1,486
Cash, end of period	\$2,120	\$1,585	\$2,816	\$4,677	\$6,303	\$775	\$2,420	\$3,835
<b>BALANCE SHEET INFORMATION</b>								
Working capital	\$1,433	\$2,162	\$3,262	\$4,807	\$6,196	\$718	\$2,227	\$3,465
Total assets	\$4,221	\$4,382	\$5,028	\$6,778	\$8,325	\$3,013	\$4,847	\$6,031
Shareholders' equity	\$1,591	\$2,403	\$3,552	\$5,167	\$6,652	\$1,358	\$2,992	\$4,277

*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.

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## COMPARISON FOR THE THREE MONTHS ENDED DECEMBER 31, 2008 AND 2007

### Revenue

Revenues for the three months ended December 31, 2008 were \$332,153, representing an increase of \$188,385 or 131%, from \$143,768 for the same period in 2007, with the change discussed by segment below.

Revenues from our device (i.e. MobiKEY and EnterpriseLIVE AG) segment for the three months ended December 31, 2008 were \$25,121, representing a decrease of \$20,737 or 45%, from \$45,858 for the same period in the 2007, this is due to fewer devices being sold in the three months ended December 31, 2008 as compared to the same period in 2007.

Revenues from our services (i.e. TruOFFICE subscription-based services and MAP – MobiNET Administration and Provisioning Portal) segment for the three months ended December 31, 2008 were \$307,033, representing an increase of \$209,123 or 214%, from \$97,910 for the same period in 2007. This increase represents the continued growth in our subscriber base for MobiNET subscription-based services, from renewed services in prior periods combined with new subscribers added during the current quarter.

Deferred revenue for the three months ended December 31, 2008 increased by \$364,034 to \$1,706,993 from \$1,342,959 as at September 30, 2008, this revenue will be recognized into income when such services are delivered and/or performed in future periods.

In January 2009, the Company signed an agreement granting Qwest the exclusive rights to resell Route1 devices and services to the U.S. Federal Government for 2009. Qwest has committed to purchasing a minimum of 30,000 Route1 MobiNET devices along with TruOFFICE subscription-based services in 2009 which is valued at approximately US\$8.0 million, with a potential reoccurring annual revenue stream from such subscriptions valued at approximately US\$5.5 million.

### Gross Margin

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 software based subscriptions services).

The cost of revenues for the three months ended December 31, 2008 were \$165,137, representing a decrease of \$92,147 or 36% to \$257,284 for the same period in 2007. This can be attributable to the reduction in the number of devices that were sold in the current quarter as compared to the same period in 2007, combined with a decrease in operating salaries and benefits as a result of a reduction in head count, and a reduction in amortization expense as related to the computer hardware associated with operating the MobiNET.

Gross margin for the three months ended December 31, 2008 was \$167,017, representing an improvement of \$280,533 from a loss of \$113,516 for the same period in 2007. The improvement is the result of an increase in service revenues as a percentage of total revenues which generates higher margins than devices revenues as compared to same period in 2007.

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## Operating Expenses

Operating expenses consist of general administration, research and development, selling and marketing, and amortization. Operating expenses for the three months ended December 31, 2008 were \$1,002,353, representing a decrease of \$684,006 or 41%, from \$1,686,359 for the same period in 2007; the decrease is discussed in detail below.

### *General administration*

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

General administration expenses for the three months ended December 31, 2008 were \$276,309, representing a decrease of \$390,806 or 59%, from \$667,115 for the same period in 2007 and can be summarized as follows:

- Professional fees increased by approximately \$23,000 for the three months ended December 31, 2008 as compared to the same period in 2007;
- Salaries and benefits decreased by approximately \$32,000 for the three months ended December 31, 2008 as compared to the same period in 2007, this is due to a reduction in head count in this department during the current quarter;
- Legal and accounting fees decreased by approximately \$34,000 for the three months ended December 31, 2008 as compared to the same period in 2007, due to various regulatory and legal matters;
- Other overhead type expenses such as telephone, postage & courier and computer related expenses decreased by approximately \$58,000 for the three months ended December 31, 2008 as compared to the same period in 2007; due to the overall head count in employees for the Company; and
- Gains recorded on foreign exchange amounts to approximately \$289,000 during the three months ended December 31, 2008 as a result of the strengthening of United States dollar (12/31/2008 – 1.2180, 9/30/2008 – 1.0642) and Euro (12/31/2008 – 1.6992, 9/30/2008 – 1.4980), against the Canadian dollar, of 14% and 13% respectively from September 30, 2008. These gains are primarily attributable to accounts receivable denominated in such currencies at current end.

### *Research and development*

Research and development expenses consist of salaries and benefits for the research and development department, and other professional fees associated with development work.

Research and development expenses for the three months ended December 31, 2008 were \$408,772, representing a decrease of \$114,125 or 22%, from \$522,897 for the same period in 2007 and can all be attributed to:

- A decrease in salaries and benefits including stock-based compensation expenses as a result of a decrease in head count in this department.

### *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 three months ended December 31, 2008 were \$281,333, representing a decrease of \$142,352 or 34%, from \$423,685 for the same period in 2007 and can be summarized as follows:

- Salaries and benefits decreased by approximately \$10,000 for the three months ended December 31, 2008 as compared to the same period in 2007, this is attributed to a decrease in head count in this department;
- Agent fees increased by approximately \$27,000 for the three months ended December 31, 2008 as compared to the same period in 2007, due to increased sales through our agents in the current quarter;
- Marketing costs and tradeshow fees decreased by approximately \$92,000 for the three months ended December 31, 2008 as compared to the same period in 2007, this is attributed to a recovery of an expense overstated in a prior quarter, as well as savings in investor relations and lead generation related expenses;
- Travel, meals and entertainment decreased by approximately \$20,000 for the three months ended December 31, 2008 as compared to the same period in 2007, this is attributed to a decrease in head count in this department and the expenses associated with those employees travel and entertainment;
- Product giveaways expense decreased by approximately \$45,000 for the three months ended December 31, 2008 as compared to the same period in 2007, as a result of the Company's modification in its sales and go to market strategies.

#### *Amortization*

Amortization expense for the three months ended December 31, 2008 was \$35,938, representing a decrease of \$36,723, from \$72,661 for the same period in 2007. The decrease can be attributed to computer hardware assets fully amortized in 2007 and therefore no expense incurred in the current quarter, and an overall reduction in the asset base used in the calculation of amortization expense using the declining-balance method.

#### *Interest income*

Interest income for the three months ended December 31, 2008 was \$5,802, representing a decrease of \$12,628, from \$18,430 for the same period in 2007. This decrease was primarily due to lower average cash balance in the current quarter as compared to the same period in 2007, resulting in a decrease of \$15,433 offset by the interest recorded on the notes receivable of \$2,805 for the current quarter.

#### **Net loss**

Net loss for the three months ended December 31, 2008 was \$829,535 or \$nil per share, representing an improvement of \$1,026,909, or 55%, from a net loss of \$1,856,444 or \$0.01 per share for the same period in 2007. In the prior period's net loss was a one-time write-down of an investment for \$74,999.

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## 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 operating activities*

Cash flow used by operating activities for the year ended December 31, 2008 was \$4,089,460, compared to \$6,719,535 in the same period in 2007, representing an improvement of \$2,630,075. Cash used in the day to day operations for the year ended December 31, 2008 improved by \$1,766,838 as compared to the same period in the prior year, combined with additional inflows related to non-cash working capital activities such as an increased in deferred revenues of \$1,110,550, a decrease in accounts receivable of \$509,226, a decrease in prepaid expenses of \$3,255, and a decrease in other receivables of \$1,601, that were offset by an increase in cash used in purchasing inventory of \$625,882, and a reduction in accounts payable and accrued liabilities of \$135,513.

### *Cash flow used in investing activities*

Cash flow used in investing activities for the year ended December 31, 2008 was \$99,673, compared to \$334,793 in the same period in 2007, representing a decrease in the use of cash of \$235,120. The majority of the decrease can be attributed a decrease in the acquisition of capital assets of \$192,131 combined with a decrease in notes receivable of \$42,989.

### *Cash flow provided by financing activities*

Cash flow provided by financing activities for the year ended December 31, 2008 was \$6,115 compared to cash provided of \$11,871,315 for the same period in 2007, representing a decrease in cash provided of \$11,865,200. This was due to a decrease in cash raised through private placement and the exercise of warrants of \$11,995,478 offset by a reduction in cash used in repayment of obligations under capital leases of \$130,278.

The cash balance of the Company at December 31, 2008 decreased by \$4,183,018 to \$2,120,333 compared to \$6,303,351 at December 31, 2007. Current assets at December 31, 2008 were \$4,014,942 compared to \$7,854,557 at December 31, 2007. Working capital decreased by \$4,763,267 to \$1,433,010 as of December 31, 2008, from \$6,196,277 as of December 31, 2007.

The Company's current business plan and sales forecast projects revenue growth in 2009, including but not limited to the contractual order placed by Qwest Government Services, Inc. in January 2009 for 30,000 MobiKEY devices and TruOFFICE subscriptions to be delivered in 2009 with an approximately value of US\$8 million, in exchange for the Company granting Qwest the exclusive rights to sell its products to the United States Government. The Company also believes that its announcement of its DEFIMENT™ transaction with the United States Department of Homeland Security in October 2008 will lead to future opportunities within other departments in the United States Government and also abroad with other governments.

The Company's need for capital expenditures is limited to such items as computer hardware and software, expenditures to support sales, marketing and general administration activities, and working capital. Since inception, the Company has financed its cash and/or capital requirements through the issuance of equity from private placements and through the issuance of obligations under capital leases. Until the Company

starts generating and receiving significant revenues and the resulting cash flow from the sales of its devices and services, historically the primary source of funding for the Company has been from private placements, which given the current economic times could prove to be difficult.

On an ongoing basis, the Company investigates 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, 2008 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	\$ 2,700	\$ 2,700	\$ -	\$ -	\$ -
Operating leases	252,000	120,000	132,000	-	-
Total contractual obligations	\$ 254,700	\$ 122,700	\$ 132,000	\$ -	\$ -

## OFF-BALANCE SHEET ARRANGEMENTS

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

## FUTURE INCOME TAXES

The Company follows the liability method of accounting for income taxes. Under this method future income 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 future income tax assets to the amount expected to be realized. As at December 31, 2008, we continue to carry a full valuation allowance against our income tax asset due to the uncertainty surrounding their full usage. There will be no income tax expenses against earning in Canada until either all unrecognized operating loss carry-forwards of approximately \$32,439,000 are used or expire. The carry-forwards expire between 2009 and 2028.

## TRANSACTIONS WITH RELATED PARTIES

The Company had the following transactions and/or outstanding amounts with related parties as at or for the year ended December 31, 2008:

- Exercise of warrants by an employee on July 10, 2008 of 1,000,000 shares at \$0.10 per share for proceeds of \$100,000.
- \$85,000 advanced in terms of a promissory note dated January 8, 2008 to an officer of the Company, secured and repayable no later than December 28, 2009 with interest at 6%.
- \$60,000 full repayment of a note on January 7, 2008 by an officer of the Company.
- \$1,833 full repayment of a note on January 15, 2008 by an employee of the Company.
- \$52,000 advance in terms of a promissory note dated December 27, 2007 to an officer of the Company, secured and due on demand with interest at 6%.
- \$50,000 advance in terms of a promissory note dated December 28, 2007 to an officer of the Company, secured and due on demand with interest at 6%.

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## PROPOSED TRANSACTIONS

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

## CRITICAL ACCOUNTING ESTIMATES

The Company's audited consolidated financial statements for the year ended December 31, 2008 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 (i.e. MobiKEY) sales and subscription services (i.e. TruOFFICE). 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

On January 1, 2008, the Company adopted the following new accounting standards; CICA Handbook Section 1535 "Capital Disclosures", Section 3031 "Inventories", Section 3862 "Financial Instruments - Disclosures", and Section 3863 "Financial Instruments - Presentation". These standards have been adopted prospectively and comparative amounts for the prior year have not been restated.

### *Capital Disclosures*

In November 2006, the Canadian Institute of Chartered Accountants ("CICA") issued the new handbook Section 1535 "Capital Disclosures". This section requires an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Company. This new standard does not have a material effect on the Company's financial statements.

### *Inventories*

In June 2007, the Canadian Institute of Chartered Accountants ("CICA") issued the new handbook Section 3031 "Inventories" replacing Section 3030 "Inventories". The new Section is applicable to financial

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statements relating to fiscal years beginning on or after January 1, 2008. Accordingly, the Company adopted the new standard for its fiscal year beginning January 1, 2008. The new standard requires inventories to be measured at the lower of cost and net realizable value. This new standard does not have a material effect on the Company's financial statements.

#### *Financial Instruments*

Effective January 1, 2008, the Company adopted two new standards issued by the Canadian Institute of Chartered Accountants ("CICA"), Section 3862 "Financial Instruments – Disclosure," and Section 3863 "Financial Instruments - Presentation," which replaced Section 3861 "Financial Instruments – Disclosures and Presentation". This new presentation standard carries forward the former presentation requirements and increases the emphasis on the disclosure of risks associated with both recognized and unrecognized financial instruments and how those risks are managed. This new standard does not have a material effect on the Company's financial statements.

#### *International Financial Reporting Standards*

On February 13, 2008, the Canadian Accounting Standards Board ("AcSB") confirmed the mandatory International Financial Reporting Standards ("IFRS") changeover date for Canadian profit-oriented publicly accountable entities ("PAEs"). This means that PAEs will be required to prepare financial statements in accordance with IFRS for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require restatement for comparative purposes of amounts reported by the Company for annual and interim periods for the year ended December 31, 2010.

Canadian generally accepted accounting principles will be converged with IFRS through a combination of two methods: as current joint-convergence projects of the United States Financial Accounting Standards Board and the International Accounting Standards Board are agreed upon, they will be adopted by the AcSB and may be introduced in Canada before the completed changeover to IFRS; and standards not subject to a joint-convergence project will be exposed in an omnibus manner for introduction at the time of the complete changeover to IFRS.

As the International Accounting Standards Board currently, and expectedly, has projects underway that should result in new pronouncements that continue to evolve IFRS; this Canadian convergence initiative is in its infancy. The Company anticipates that it will not adopt IFRS for annual and interim reporting periods before our fiscal year beginning January 1, 2011. By the end of fiscal 2009, we will have completed an analysis of accounting policies and standards under IFRS. The analysis will include those policies we are required to us, as well as those we expect to apply where choices are permitted in preparing IFRS financial statements. It is currently our intention to provide this analysis in next year's MD&A. In addition, we will continue to investigate and implement the other key elements of the plan and provide an update in next year's MD&A.

#### *Goodwill and Intangible Assets*

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets which establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. CICA Handbook Section 1000, Financial Statement Concepts, was also amended to provide consistency with this new standard. The new and amended standards are effective for the Company beginning January 1, 2009.

## FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The carrying amount of financial instruments including cash, accounts receivable, other receivables, notes receivable and accounts payable and accrued liabilities approximates fair value because of the short-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 following table sets out the classification, carrying amount, and fair value of the Company's financial assets and liabilities as at December 31, 2008 and 2007:

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
FINANCIAL ASSET				
Held for trading				
Cash (i)	\$2,120,333	\$2,120,333	\$6,303,351	\$6,303,351
Loans and receivables				
Accounts receivable (i)	\$115,620	\$115,620	\$585,545	\$585,545
Other receivables (i)	\$18,873	\$18,873	\$19,399	\$19,399
Notes receivable (i)	\$198,220	\$198,220	\$163,833	\$163,833
FINANCIAL LIABILITIES				
Other liabilities				
Accounts payable and accrued liabilities (i)	\$920,541	\$920,541	\$1,193,872	\$1,193,872

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

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.

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

	Risks			
	Credit	Liquidity	Foreign Exchange	Interest Rate
Cash	Yes		Yes	Yes
Accounts receivable	Yes		Yes	
Other receivables	Yes			
Notes receivable	Yes			
Accounts payable and accrued liabilities		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 year ended December 31, 2008, the largest single customer represented approximately 27% of recorded revenues.

*Cash*

Cash consists 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. As at December 31, 2008, the Company had cash consisting of cash on hand and deposits with banks of \$2,120,333 (2007 - \$6,303,351). During the year ended December 31, 2008, the Company did not hold any investments in asset-backed commercial paper.

*Accounts receivable*

Accounts receivable consists 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.

The carrying amount of accounts receivable are 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. At December 31, 2008, the largest single customer represented approximately 74% of accounts receivable.

The following table outlines the details of the aging of the Company's receivables as at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Current	<b>\$19,882</b>	\$58,500
Past due		
1 – 60 days	<b>15,244</b>	48,750
Greater than 60 days	<b>180,554</b>	601,295
Less: Allowance for doubtful accounts	<b>(100,060)</b>	(123,000)
Total accounts receivable, net	<b><u>\$115,620</u></b>	<u>\$585,545</u>

(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 receivables.

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 December 31, 2008:

	2009	2010	2011	Total
Accounts payable and accrued liabilities	\$920,541	\$ -	\$ -	\$920,541
Obligations under capital lease	2,700	-	-	\$2,700
Operating lease commitments	120,000	120,000	12,000	\$252,000
	<u>\$1,043,241</u>	<u>\$120,000</u>	<u>\$12,000</u>	<u>\$1,175,241</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 December 31, 2008, the Company's non Canadian dollar net monetary liabilities totalled approximately US\$26,300 and €34,000 and accordingly any changes in the respective exchange rates as at December 31, 2008 would have resulted in an exchange gain or loss 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. As at December 31, 2008, cash totalled \$2,120,333 (2007-\$6,303,351). An increase of 100 basis points in the market interest rate would have decreased net loss by approximately \$42,100 (a 100 basis point decrease would have had the equal but opposite effect) for the year ended December 31, 2008.

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## OTHER MD&A REQUIREMENTS

### *Disclosure of Outstanding Share Data*

As of the date of this document, the following was outstanding:

- 350,388,115 common shares issued and outstanding
- 36,243,573 common share purchase warrants (“Warrants”)
  - 36,243,573 Warrants at \$0.155/share expiring November 6, 2009
- 5,949,660 common share purchase options (“Options”) issued under the Company’s stock option plan
  - 899,500 Options issued on April 27, 2006 at \$0.30/share expiring April 27, 2011
  - 1,185,000 Options issued on October 12, 2006 at \$0.20/share expiring January 12, 2010
  - 1,790,160 Options issued on July 12, 2007 at \$0.205/share expiring July 16, 2012
  - 950,000 Options issued on December 19, 2007 at \$0.125/share expiring March 19, 2011
  - 1,125,000 Options issued on February 21, 2008 at \$0.08/share expiring February 21, 2013

### *Risk Factors and Uncertainty*

Although management has a positive 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:

- Management’s ability to secure additional financing in the marketplace on reasonable terms for a company of our size and financial status for short term working capital purposes. Access to such financing at acceptable commercial terms for a company of our size and financial status will be greatly dependent on the timing of recognition and receipt of cash on our current backlog, including but not limited to the US\$8.0 million exclusivity agreement with Qwest Government Services, Inc. to be delivered in fiscal 2009, on our ability to demonstrate execution of our business strategy and the general condition of the credit and/or equity markets and may be significantly dilutive to existing shareholders.
- The Company’s access to credit or capital could be further restricted by the current global financial crisis which has restricted credit availability worldwide and could also impact its ability to continue 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 the date of this document.
- 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, 2008 of \$1,433,010, which may not be sufficient to support current operating levels and growth objectives for the current 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 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.

#### *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 reflected 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 \$333,000 was recorded during 2007 on the strength of these agreements. In April 2008, the Company successfully resolved one of these claims which represented approximately 1/2 of such amount.

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### *Subsequent Events*

In January 2009, the Company signed an agreement granting Qwest Government Services, Inc., the exclusive rights to resell the Company's solution to the U.S. Federal Government for 2009. As part of the agreement, Qwest has committed to purchase a minimum of 30,000 Route1 MobiNET devices along with TruOFFICE subscription-based services, which is valued at approximately US\$8.0 million for 2009. The potential reoccurring annual revenue stream to Route1 from this commitment is valued at approximately US\$5.5 million. In addition to the purchase commitment for 2009, Qwest will provide advertising and marketing support to promote Route1's solutions to various U.S. Federal departments and agencies. Qwest will also provide network-hosting services to Route1 from their facilities.

### *Additional Information*

Additional information about Route1 is available from Route1's website at [www.route1.com](http://www.route1.com), the SEDAR website at [www.sedar.com](http://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).