ROUTE1 INC.

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED MARCH 31, 2009

AS AT MAY 19, 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 unaudited interim consolidated financial statements and related notes as at and for the three months ended March 31, 2009, and 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**"), and the Company's annual management discussion and analysis dated April 15, 2009.

FORWARD-LOOKING STATEMENTS

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

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

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

OVERVIEW

Route1 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

- In January 2009, the Company announced that it has 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 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.
- In April 2009, the Company announced the successful installation of its DEFIMNET™ (DEFense Identity Management NETwork), its military version of its service delivery platform for identity and entitlement management, at a United States Government's Department of Homeland Security ("DHS") site. DEFIMNET was developed and designed to reside within all levels of classified and unclassified networks, to interact with other defense network systems. DEFIMNET is sanctioned for use by military units to command and control confidentiality, integrity and availability of secure and real-time data. This initial three-year agreement announced in October 2008 for the installation and maintenance of DEFIMNET is valued in excess of US$2 million to the Company and is being delivered through Route1's reseller partner, Qwest Government Services Inc. ("Qwest") under the Washington Interagency Telecommunications System (WITS) 2001 Crossover contract. Based on preliminary discussions and the leverage strength of DEFIMNET, management expects with the completion of the installation, will see DHS's subscriber base to significantly grow for the Company's TruOFFICE™ subscription-based services over the next 12 to 18 months.

SELECTED FINANCIAL INFORMATION

The following table sets out selected unaudited interim financial information of the Company on a consolidated basis for the three months ended March 31, 2009, and 2008.

(in thousands of Canadian dollars, except per share amounts)	As at and for the three months ended			
	Mar 31, 2009	Mar 31, 2008	Change $	Change %
STATEMENT OF OPERATIONS				
Devices	**$ 101**	$ 78	$ 23	29 %
Services	**338**	116	222	191
Total revenues	**439**	194	245	126
Cost of revenues	**121**	176	(55)	(31)
Gross margin	**318**	18	300	1,666
Operating expenses				
General administration	**461**	717	(256)	(36)
Research and development	**487**	582	(95)	(16)
Selling and marketing	**285**	328	(43)	(13)
Amortization	**32**	66	(34)	(52)
Total operating expenses	**1,265**	1,693	(428)	(25)
Loss before undernoted	**(947)**	(1,675)	728	43
Interest income	**3**	42	(39)	(93)
Net loss for the period	**$ (944)**	$ (1,633)	$ 689	42%
Loss per share	**$ (0.00)**	$ (0.00)	-	-
CASH FLOW INFORMATION				
Operating activities	**$ (1,359)**	$ (1,526)	$ 167	
Investing activities	**(3)**	(46)	43	
Financing activities	**(3)**	(54)	51	
Net cash inflow (outflow)	**(1,365)**	(1,626)	$261	
Cash, beginning of period	**2,120**	6,303	(4,183)	
Cash, end of period	**$ 755**	$ 4,677	$ (3,922)	
Working capital	**$ 608**	$ 4,806	$ (4,198)	
Total assets	**$ 2,865**	$ 6,778	$ (3,913)	
Obligation under capital lease	**$ -**	$ 38	$ 38	
Shareholders' equity	**$ 698**	$ 5,167	$ (4,469)	

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 three months ended March 31, 2009, the Company incurred a net loss of $944,058, an accumulated deficit of $31,744,035 and shareholders' equity of $697,908 as at March 31, 2009. 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 the current period are not necessarily indicative of the results to be expected for any future periods. On April 29, 2009 the Company announced the completion of the installation of the DEFIMNET for the U.S. Government's Department of Homeland Security, which includes a final installment payment amounting to approximately US$525,000. In addition, Qwest Government Services Inc. committed to purchase a minimum of 30,000 MobiKEY devices along with 30,000 TruOFFICE subscription-based services in 2009, which is valued at approximately US$8.0 million, that the Company has started delivering on in the second quarter of 2009 and should be receiving payments in respect of.

COMPARISON FOR THE THREE MONTHS ENDED MARCH 31, 2009 T0 2008

Revenue

Revenues for the three months ended March 31, 2009 were $438,519, representing an increase of $244,222 or 126%, from $194,297 for the same period in 2008, with the change discussed by segment below.

Revenues from our device (i.e. MobiKEY and EnterpriseLIVE AG) segment for the three months ended March 31, 2009 were $101,121, representing an increase of $23,097 or 30%, from $78,024 for the same period in the 2008, this is due to more devices being sold in the three months ended March 31, 2009 as compared to the same period in 2008.

Revenues from our services (i.e. TruOFFICE subscription-based services and MAP – MobiNET Administration and Provisioning Portal) segment for the three months ended March 31, 2009 were $337,398, representing an increase of $221,125 or 190%, from $116,273 for the same period in 2008. 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 March 31, 2009 increased by $41,413 to $1,748,406 from $1,706,993 as at December 31, 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 MobiKEY 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. The Company has started delivering on this agreement in the second quarter of 2009.

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 March 31, 2009 were $120,537, representing a decrease of $56,058 or 32% from $176,595 for the same period in 2008. This can be attributable to the 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, which were offset partially by an increase in MobiKEY costs due to higher sales in the current quarter.

Gross margin for the three months ended March 31, 2009 was $317,982, representing an improvement of $300,280 from a gross margin of $17,702 for the same period in 2008. 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 2008.

Operating Expenses

Operating expenses consist of general administration, research and development, selling and marketing, and amortization. Operating expenses for the three months ended March 31, 2009 were $1,265,276,

representing a decrease of $427,151 or 25%, from $1,692,427 for the same period in 2008; 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 March 31, 2009 were $461,406, representing a decrease of $255,874 or 36%, from $717,280 for the same period in 2008 and can be summarized as follows:

- Professional fees, such as recruitment and consulting, decreased by approximately $97,000 for the three months ended March 31, 2009 as compared to the same period in 2008;
- Salaries and benefits decreased by approximately $94,000 for the three months ended March 31, 2009 as compared to the same period in 2008, this is due to a reduction in head count in this department compared to 2008;
- Legal and accounting fees decreased by approximately $50,000 for the three months ended March 31, 2009 as compared to the same period in 2008, due to fewer regulatory and legal matters during the current quarter;
- Gains recorded on foreign currency translation increased by approximately $5,000 for the three months ended March 31, 2009 as compared to the same period in 2008, and
- Other overhead type expenses such as telephone, equipment leasing, postage & courier, gain on foreign exchange and computer related expenses decreased by approximately $10,000 for the three months ended March 31, 2009 as compared to the same period in 2008; due to the overall head count in employees for the Company;

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 March 31, 2009 were $486,767, representing a decrease of $95,248 or 16%, from $582,015 for the same period in 2008 and can all be attributed to:

- Salaries and benefits including stock-based compensation expenses decreased by approximately $70,000 for the three months ended March 31, 2009 as compared to the same period in 2008, as a result of a decrease in head count in this department, and
- Consulting fees decreased by approximately $25,000 for the three months ended March 31, 2009 as compared to the same period in 2008, as a direct result of the Company's cost rationalize and reduction program.

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 March 31, 2009 were $285,140, representing a decrease of $42,145 or 13%, from $327,285 for the same period in 2008 and can be summarized as follows:

- Salaries and benefits including stock-based compensation expenses decreased by approximately $37,000 for the three months ended March 31, 2009 as compared to the same period in 2008, this is attributed to a decrease in head count in this department, and
- Marketing costs and tradeshow fees decreased by approximately $8,000 for the three months ended March 31, 2009 as compared to the same period in 2008, this is attributed to reduction in lead generation related expenses.

Amortization

Amortization expense for the three months ended March 31, 2009 was $31,963, representing a decrease of $33,884, from $65,847 for the same period in 2008. The decrease can be attributed to computer hardware assets fully amortized in 2008 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 March 31, 2009 was $3,236, representing a decrease of $38,939, from $42,175 for the same period in 2008. This decrease was primarily due to lower average cash balance in the current quarter as compared to the same period in 2008, resulting in a decrease of $41,744 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 March 31, 2009 was $944,058 or $nil per share, representing an improvement of $688,492, or 42%, from a net loss of $1,632,550 or $ nil per share for the same period in 2008.

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
(in thousand of Canadian dollars, except per share data)

	Mar 31 2009	Dec 31 2008	Sep 30 2008	June 30 2008	Mar 31 2008	Dec 31 2007	Sep 30 2007[1]	Jun 30 2007[1]
STATEMENT OF OPERATIONS								
Devices	**$101**	$25	$287	$55	$78	$46	$43	$251
Services	**338**	307	171	130	116	98	92	70
Total revenues	**439**	332	458	185	194	144	135	321
Cost of revenues	**121**	165	287	183	176	257	254	415
Gross margin (loss)	**318**	167	171	2	18	(113)	(119)	(94)
Operating expenses								
General administration	**461**	277	678	714	717	667	557	635
Research and development	**487**	409	413	543	582	523	564	679
Selling and marketing	**285**	281	344	386	328	424	500	640
Amortization	**32**	36	50	62	66	72	76	74
Total operating expenses	**1,265**	1,003	1,485	1,705	1,693	1,686	1,697	2,028
Loss before under noted	**(947)**	(836)	(1,314)	(1,703)	(1,675)	(1,799)	(1,816)	(2,122)
Interest income	**3**	6	10	23	42	18	15	25
Write-off of investment	**-**	-	-	-	-	(75)	-	-
Net loss for the period	**$(944)**	$(830)	$(1,304)	$(1,680)	$(1,633)	$(1,856)	$(1,801)	(2,097)
Loss per share	**$(0.00)**	$(0.00)	$(0.00)	$(0.00)	$(0.00)	$(0.00)	$(0.01)	$(0.01)
CASH FLOW INFORMATION								
Operating activities	**$(1,359)**	$548	$(1,328)	$(1,784)	$(1,526)	$(1,381)	$(1,730)	$(2,040)
Investing activities	**(3)**	(4)	(3)	(47)	(46)	(75)	-	(75)
Financing activities	**(3)**	(9)	99	(30)	(54)	6,984	85	700
Net cash inflow (outflow)	**(1,365)**	535	(1,232)	(1,861)	(1,626)	5,528	(1,645)	(1,415)
Cash, beginning of period	**2,120**	1,585	2,817	4,677	6,303	775	2,420	3,835
Cash, end of period	**$755**	$2,120	$1,585	$2,816	$4,677	$6,303	$775	$2,420
BALANCE SHEET INFORMATION								
Working capital	**$608**	$1,433	$2,162	$3,262	$4,807	$6,196	$718	$2,227
Total assets	**$2,865**	$4,221	$4,382	$5,028	$6,778	$8,325	$3,013	$4,847
Shareholders' equity	**$698**	$1,591	$2,403	$3,552	$5,167	$6,652	$1,358	$2,992

Note:
(1) Restated

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

LIQUIDITY AND CAPITAL RESOURCES

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

Cash flow used in operating activities

Cash flow used by operating activities for the three months ended March 31, 2009 was $1,359,692, compared to $1,525,791 in the same period in 2008, representing an improvement of $166,099. Cash used in the day to day operations for the three months ended March 31, 2009 decreased by $516,170 as compared to the same period in the prior year, offset by increase in cash use related to non-cash working capital activities of $350,071 such as: a reduction in accounts payable and accrued liabilities of $487,307, an increase in accounts receivable of $127,915, an increase in other receivables of $11,222, offset by a decrease in prepaid expenses of $185,382, a decrease inventory of $55,709, and a decreased in deferred revenues of $35,282.

Cash flow used in investing activities

Cash flow used in investing activities for the three months ended March 31, 2009 was $2,805, compared to $46,136 in the same period in 2008, representing a decrease in the use of cash of $43,331. The majority of the decrease can be attributed a decrease in the acquisition of capital assets of $20,164 combined with a decrease in notes receivable of $23,167.

Cash flow provided by financing activities

Cash flow used by financing activities for the three months ended March 31, 2009 was $2,700 compared to cash used of $54,324 for the same period in 2008, representing a decrease in cash used of $51,624. This was due to a reduction in cash used in repayment of obligations under capital leases of $49,980 as well as the decrease of $1,644 for issuance costs of share capital for the same period in 2008.

The cash balance of the Company at March 31, 2009 decreased by $1,365,197 to $755,136 compared to $2,120,333 at December 31, 2008. Current assets at March 31, 2009 were $2,701,472 compared to $4,014,942 at December 31, 2008. Working capital decreased by $824,190 to $608,820 as of March 31, 2009, from $1,433,010 as of December 31, 2008.

The Company's current business plan and sales forecast projects revenue growth for the remainder of 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 started delivering on this agreement in the second quarter of 2009 and should be receiving payments in respect of. 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 March 31, 2009 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
Operating leases	$ 240,000	$ 120,000	$ 120,000	$ -	$ -

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 three months ended March 31, 2009:

- Recorded interest income of $1,275 for the three months ended March 31, 2009, related to $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%. As at March 31, 2009 the total outstanding amount including interest amounted to $91,375.
- Recorded interest income of $780 for the three months ended March 31, 2009, related to $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%. As at March 31, 2009 the total outstanding amount including interest amounted to $55,900.
- Recorded interest income of $750 for the three months ended March 31, 2009, related to $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%. As at March 31, 2009 the total outstanding amount including interest amounted to $53,750.

PROPOSED TRANSACTIONS

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

CRITICAL ACCOUNTING ESTIMATES

The Company's unaudited interim consolidated financial statements for the three months ended March 31, 2009 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 unaudited interim 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 inventory obsolescence allowance.
- 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

Goodwill and Intangible Assets

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets* which supersedes Sections 3062 *Goodwill and Other Intangible Assets*. Section 3064 provides additional guidance on when expenditures qualify for recognition as intangible assets and requires that costs be deferred only when relating to an item meeting the asset definition. CICA Handbook Section 1000, Financial Statement Concepts, was also amended to provide consistency with this new standard. The Company adopted this standard for the fiscal year commencing January 1, 2009. The adoption of this standard has had no material impact on the Company's financial statements or disclosures.

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.

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 March 31, 2009 and December 31, 2008:

	March 31, 2009		December 31, 2008	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
FINANCIAL ASSET				
Held for trading				
Cash (i)	**$755,136**	**$755,136**	$2,120,333	$2,120,333
Loans and receivables				
Accounts receivable (i)	**$243,550**	**$243,550**	$115,620	$115,620
Other receivables (i)	**$29,473**	**$29,473**	$18,873	$18,873
Notes receivable (i)	**$201,025**	**$201,025**	$198,220	$198,220
FINANCIAL LIABILITIES				
Other liabilities				
Accounts payable and accrued liabilities (i)	**$418,544**	**$418,544**	$920,541	$920,541

(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 three months ended March 31, 2009, the largest single customer represented approximately 28% 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 March 31, 2009, the Company had cash consisting of cash on hand and deposits with banks of $755,136 (December 31, 2008 - $2,120,333). During the three months ended March 31, 2009, 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 March 31, 2009, the largest single customer represented approximately 37% of accounts receivable.

The following table outlines the details of the aging of the Company's receivables as at March 31, 2009 and December 31, 2008:

	March 31, 2009	December 31, 2008
Current	**$ 150,581**	$19,882
Past due		
1 – 60 days	**5,811**	15,244
Greater than 60 days	**185,002**	180,554
Less: Allowance for doubtful accounts	**(97,844)**	(100,060)
Total accounts receivable, net	**$243,550**	$115,620

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meets 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 March 31, 2009:

	2009	**2010**	**2011**	**Total**
Accounts payable and accrued liabilities	$418,543	$ -	$ -	$418,543
Operating lease commitments	108,000	120,000	12,000	$240,000
	$526,543	$120,000	$12,000	$658,543

(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 March 31, 2009, the Company had no non Canadian dollar net monetary liabilities (December 31, 2008 - approximately US$26,300 and €34,000) and accordingly any changes in the respective exchange rates as at March 31, 2009 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 March 31, 2009, cash totalled $755,136 (December 31, 2008 - $2,120,333). An increase of 100 basis points in the market interest rate would have decreased net loss by approximately $3,600 (a 100 basis point decrease would have had the equal but opposite effect) for the three months ended March 31, 2009.

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
- 7,222,876 common share purchase options ("Options") issued under the Company's stock option plan
  - 1,185,000 Options issued on October 12, 2006 at $0.20/share expiring January 12, 2010
  - 950,000 Options issued on December 19, 2007 at $0.125/share expiring March 19, 2011
  - 887,000 Options issued on April 27, 2006 at $0.30/share expiring April 27, 2011
  - 1,790,160 Options issued on July 12, 2007 at $0.205/share expiring July 16, 2012
  - 1,125,000 Options issued on February 21, 2008 at $0.08/share expiring February 21, 2013
  - 1,285,716 Options issued on May 19, 2009 at $0.07/share expiring May 19, 2014

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. expected to be delivered staring in July 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 March 31, 2009 of $608,820, 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.

Additional Information

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