

ROUTE1 INC.

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE SECOND QUARTER ENDED JUNE 30, 2008

The following discussion and analysis of the interim financial condition and results of operations (“**MD&A**”) of Route1 Inc. (also referred to as “**we**”, “**us**”, “**our**”, “**Route1**”, or the “**Company**”), prepared as of August 22, 2008, 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 and six months ended June 30, 2008, the Company’s audited annual consolidated financial statements and related notes as at and for the years ended December 31, 2007 and 2006, which have been prepared in accordance with Canadian Generally Accepted Accounting Principles (“**GAAP**”), and the Company’s annual management discussion and analysis dated April 28, 2008.

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 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, participated at the Federal Office Systems Exposition 2008 ("FOSE") in Washington DC. FOSE is one of the world's premier emerging technology shows that focus on "Technology Solutions for the Business of Government".
- 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, participated for the second consecutive year at the Coalition Warrior Interoperability Demonstration ("CWID"). CWID is a United States Joint Chiefs of Staff-directed annual event that engages cutting-edge information technology focused on criteria defined by combatant commanders. Technologies are approved for participation because they address a new information sharing capability or might improve an existing capability in support of articulated demonstration objectives released as a Federal Business Opportunity (FBO) (www.fedbizopps.gov). The demonstration evaluates technologies and capabilities for exchanging information among coalition partners, military services, government agencies, first responders and U.S. combatant commanders. Information sharing technologies leverage decision-making and operational flexibility on the battlefield and during crisis response on the home front.
- In June 2008, Route1 announced a partnership with Qwest Government Services (a subsidiary of Qwest Communications Inc. NYSE: Q) 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 July 2008, presented at the Qwest High Performance Networking Summit in Littleton, Colorado.
- In August 2008, participated with Qwest at the FAS/ITS 2008 Network Services Conference in Dallas, Texas. The Network Services Conference showcases the FAS/ITS portfolio of network services products, services and solutions. Federal, state and local IT professionals will become intimately familiar with the latest network technologies and services that are enabling a global, fully interoperable, secure, and seamless government network services infrastructure.

SELECTED FINANCIAL INFORMATION

The following table sets out selected unaudited interim financial information of the Company on a consolidated basis for the three and six (6) months ended June 30, 2008 and 2007.

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

	As at and for the three months ended				As at and for the six months ended			
	June 30, 2008	June 30, 2007	Change		June 30, 2008	June 30, 2007	Change	
			\$	%			\$	%
STATEMENT OF OPERATIONS								
Devices	\$ 55	\$ 250	\$ (195)	(78)	\$ 132	\$ 544	\$ (412)	(76)
Services	130	71	59	83	247	185	63	34
Total revenues	185	321	(136)	(42)	379	729	(349)	(48)
Cost of revenues	183	415	232	56	359	782	423	54
Gross margin	2	(94)	96	102	20	(53)	73	138
OPERATING EXPENSES								
General and administrative	714	635	79	12	1,431	1,110	321	29
Research and development	543	679	(136)	(20)	1,125	1,158	(32)	(3)
Selling and marketing	386	640	(254)	(40)	713	1,384	(671)	(48)
Amortization	62	74	(12)	(16)	128	136	(8)	(6)
Loss before undernoted	(1,703)	(2,122)	(419)	(20)	(3,377)	(3,841)	(463)	(12)
Interest income	23	25	2	12	64	34	(31)	(91)
Net loss for the period	\$ (1,680)	\$ (2,097)	\$ (417)	(20)	\$ (3,313)	\$ (3,807)	\$ (494)	(13)
Loss per share	\$ (0.00)	\$ (0.01)	\$ 0.01	100	\$ (0.01)	\$ (0.01)	\$ 0.00	-
CASH FLOW INFORMATION								
Operating activities	\$ (1,784)	\$ (2,040)	\$ 256	13	\$ (3,310)	\$ (3,608)	\$ 298	8
Investing activities	(47)	(75)	28	37	(93)	(261)	168	68
Financing activities	(30)	700	(730)	(104)	(84)	4,802	(4,886)	(102)
Net cash inflow (outflow)	(1,861)	(1,415)	(446)	(32)	(3,487)	933	(4,420)	(474)
Cash, beginning of period	4,677	3,835	842	22	6,303	1,487	4,816	324
Cash, end of period	\$ 2,816	\$ 2,420	\$ 396	16	\$ 2,816	\$ 2,420	\$ 396	16
BALANCE SHEET INFORMATION AS AT JUNE 30								
Working capital	\$ 3,262	\$ 2,227	\$ 1,035	46	\$ 3,262	\$ 2,227	\$ 1,035	46
Total assets	\$ 5,028	\$ 4,847	\$ 181	4	\$ 5,028	\$ 4,847	\$ 181	4
Obligation under capital lease	\$ 9	\$ 720	\$ (711)	(99)	\$ 9	\$ 720	\$ (711)	(99)
Shareholders' equity	\$ 3,552	\$ 2,992	\$ 560	19	\$ 3,552	\$ 2,992	\$ 560	19

RESULTS OF OPERATIONS – Comparison for the three months ended June 30, 2008 to June 30, 2007

Revenue

Revenues for the three months ended June 30, 2008 were \$184,936, a decrease of \$135,933 or 42%, from \$320,869 for the three months ended June 30, 2007.

Revenues from our device segment for three months ended June 30, 2008 were \$55,190, a decrease of \$194,840 or 78%, from \$250,030 for the three months ended June 30, 2007. In the prior year, large quantities of devices were sold to one customer totaling approximately \$167,000 which did not recur in the current period.

Revenues from our services segment for the three months ended June 30, 2008 were \$129,746, an increase of \$58,907 or 83%, from \$70,839 for the three months ended June 30, 2007. The services revenue represents a combination of the new subscribers in the current quarter for MobiNET subscription-based services and renewed services from prior year, reflecting the Company's increase in MobiNET subscribers since the second quarter of 2007.

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 decreased by \$231,876 or 56% to \$182,544 for the three months ended June 30, 2008 as compared to \$414,420 for the three months ended June 30, 2007. The decrease can be mostly attributable to the large number of devices that were sold in the second quarter of 2007 as compared to 2008, plus a decrease in operating salaries and benefits as a result of a reduction in head count, and a reduction in the declining balance amortization expense as related to the computer hardware associated with operating the MobiNET.

Gross margin for the three months ended June 30, 2008 was \$2,392, representing an improvement of \$95,943, from a loss of \$93,551 for the three months ended June 30, 2007. As discussed above, the improvement is directly related to the decrease in device revenue net of the cost of these revenues.

Operating Expenses

Operating expenses consist of general administration, research and development, selling and marketing, and amortization. Operating expenses for the three months ended June 30, 2008 were \$1,704,982, a decrease of \$323,745 or 16%, from \$2,028,727 for the three months ended June 30, 2007; the decrease is discussed in detail below.

General administration

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

General administration expenses for the three months ended June 30, 2008 were \$714,034, an increase of \$78,569, or 12%, from \$635,465 for the three months ended June 30, 2007 and can be summarized as follows:

- Legal and accounting fees increased by approximately \$115,000 due to various regulatory and legal matters;
- Other professional fees such as recruiting costs decreased by approximately \$45,000; and
- Several of other general and administration expenses increased by \$9,000 such as salaries and telephone related charges.

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 June 30, 2008 were \$543,426, a decrease of \$135,403 or 20%, from \$678,829 for the three months ended June 30, 2007 and can be summarized as follows:

- Salaries and benefits decreased by approximately \$162,000 or 24% for the three months ended June 30, 2008 from the same period the preceding year, this is attributed to a net decrease in head count in this department and the salaries and benefits associated with such.
- Other professional fees increased approximately \$27,000 for the three months ended June 30, 2008 from the same period the preceding year, as an offset to assist in the development work that would have normally been carried out by employees.

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 June 30, 2008 were \$385,663, a decrease of \$254,447 or 40%, from \$640,110 for the three months ended June 30, 2007 and can be summarized as follows:

- Salaries and benefits decreased by approximately \$194,000 for the three months ended June 30, 2008 from the same period in the previous year, this is attributed to a decrease in head count in this department and the salaries and benefits associated with such;
- No agent fees were paid during for the three months ended June 30, 2008 resulting in a decrease of approximately \$47,000 from the same period in the previous year, this is attributed to the termination of these relationships during the latter part of 2007;
- Marketing and tradeshow costs increased by approximately \$50,000 for the three months ended June 30, 2008, from the same period in the previous year, this is attributed to the timing of a tradeshow attended for the three months ended June 30, 2008 from the same period in the previous year, specifically the RSA Show which occurred in the first quarter of 2007 as compared to the second quarter of 2008;
- Travel and entertainment decreased by approximately \$45,000 for the three months ended June 30, 2008 from the same period in the previous year, 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 \$13,000 from the same period in the previous year; and
- Sales commissions' expense decreased by approximately \$11,000 for the three months ended June 30, 2008 from the same period in the previous year, due to lower revenues in the current quarter as compared to the same period in the prior year.

Amortization

Amortization expense for the three months ended June 30, 2008 was \$61,859, a decrease of \$12,464, from \$74,323 for the three months ended June 30, 2007 due to a reduction in the calculation of amortization expense using the declining-balance method.

Interest income

Interest income for the three months ended June 30, 2008 was \$22,446, a nominal decrease of \$2,242, from \$24,688 for the three months ended June 30, 2007. This decrease was primarily due to a slightly lower average cash balance in the three months ended June 30, 2008 compared to the same period in the previous year, resulting in a decrease of \$5,046 offset by the interest recorded on the notes receivable of \$2,805 for the three months ended June 30, 2008.

Net loss

Net loss from for the three months ended June 30, 2008 was \$1,680,144 or \$nil per share, an improvement of \$417,446, or 20%, from a net loss of \$2,097,590 or \$0.01 per share for the three months ended June 30, 2007.

RESULTS OF OPERATIONS - Comparison for the six months ended June 30, 2008 to June 30, 2007

Revenue

Revenues for the six months ended June 30, 2008 were \$379,233, a decrease of \$349,421 or 48%, from \$728,654 for the six months ended June 30, 2007.

Revenues from our device segment for six months ended June 30, 2008 were \$131,814, a decrease of \$412,106 or 76%, from \$543,920 for the six months ended June 30, 2007. In the prior year, large quantities of devices were sold to two customers totaling approximately \$337,000 which did not recur in the current periods.

Revenues from our services segment for the six months ended June 30, 2008 were \$247,419, an increase of \$62,685 or 34%, from \$184,734 for the six months ended June 30, 2007. The services revenue represents a combination of the new subscribers for the six months ended June 30, 2008 for MobiNET subscription-based services and renewed services from prior year, reflecting the Company's increase in MobiNET subscribers since 2007.

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 services based subscriptions services).

The cost of revenues decreased by \$422,490 or 54% to \$359,140 for the six months ended June 30, 2008 as compared to \$781,630 for the six months ended June 30, 2007 and can be mostly attributable to the large number of devices that were sold in the first six months of 2007 as compared to the same period in 2008, plus 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 six months ended June 30, 2008 was \$20,093, an improvement of \$73,069, from a loss of \$52,976 for the six months ended June 30, 2007. As discussed above the improvement is related to the decrease in device revenue net of the cost of these revenues.

Operating Expenses

Operating expenses consist of general administration, research and development, selling and marketing, and amortization. Operating expenses for the six months ended June 30, 2008 were \$3,397,407, a decrease of \$390,626 or 10%, from \$3,788,033 for the six months ended June 30, 2007; the decrease is discussed in detail below.

General administration

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

General administration expenses for the six months ended June 30, 2008 were \$1,431,314, an increase of \$321,114, or 29%, from \$1,110,200 for the six months ended June 30, 2007 and can be summarized as follows:

- Salaries and benefits increased by approximately \$29,000 from the same period last year, this is attributed to cost of living adjustments made to salaries in 2008;
- Stock-based compensation increased by approximately \$66,000 from the same period last year;
- Legal and accounting fees increased by approximately \$149,000 due to various regulatory and legal matters;
- Other professional fees such as recruiting costs and public relations agency fees increased by approximately \$116,000; and
- Various other expenses such as telephone, postage & courier and computer related expenses along with exchange gains on foreign currency transactions decreased by approximately \$40,000 from the same period last year.

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 six months ended June 30, 2008 were \$1,125,441, a decrease of \$32,175 or 3%, from \$1,157,616 for the six months ended June 30, 2007 and can be summarized as follows:

- Salaries and benefits decreased by approximately \$68,000 for the six months ended June 30, 2008 from the same period the preceding year, this is attributed to a net decrease in head count in this department and the salaries and benefits associated with such.
- Other professional fees increased approximately \$36,000 for the six months ended June 30, 2008 from the same period the preceding year, as an offset to assist in the development work that would have normally been carried out by employees.

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 six months ended June 30, 2008 were \$712,947, a decrease of \$671,245 or 48%, from \$1,384,192 for the six months ended June 30, 2007 and can be summarized as follows:

- Salaries and benefits decreased by approximately \$315,000 or 44% for the six months ended June 30, 2008 from the same period in the previous year, this is attributed to a decrease in head count in this department and the salaries and benefits associated with such;

- No agent fees were paid during for the six months ended June 30, 2008 resulting in a decrease of approximately \$98,000 from the same period in the previous year, this is attributed to the termination of these relationships during the latter part of 2007;
- Marketing and tradeshow decreased by approximately \$47,000 for the six months ended June 30, 2008, from the same period in the previous year, this is attributed to two less tradeshow attended to date during 2008 compared to the same period in the previous year;
- Travel and entertainment decreased by approximately \$99,000 for the six months ended June 30 from the same period in the previous year, this is attributed to a decrease in head count of sales personnel in this department and the travel to two fewer trade-shows during this current period;
- Product giveaways expense decreased by approximately \$28,000 from the same period in the previous year; and
- Sales commissions' expense decreased by approximately \$72,000 for the six months ended June 30, 2008 from the same period in the previous year, due to lower revenues in the current period as compared to the same period in the prior year.

Amortization

Amortization expense for the six months ended June 30, 2008 was \$127,705, a nominal decrease of \$8,320, from \$136,025 for the six months ended June 30, 2007. The decrease can be attributed to some computer hardware assets becoming fully amortized since last year, and due to a reduction in the calculation of amortization expense using the declining-balance method.

Interest income

Interest income for the six months ended June 30, 2008 was \$64,620, an increase of \$30,140, from \$34,480 for the six months ended June 30, 2007, primarily due to a higher average cash balance for the six months ended June 30, 2008 as a result of a private placement completed in November 2007 as compared to a private placement completed in March 2006, and from \$5,610 of interest recorded on the notes receivable for the current period.

Net loss

Net loss from for the six months ended June 30, 2008 was \$3,312,694 or \$0.01 per share, an improvement of \$493,835, or 13%, from a net loss of \$3,806,529 or \$0.01 per share for the six months ended June 30, 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 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>							
	June 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
	2008	2008	2007	2007 ⁽¹⁾	2007 ⁽¹⁾	2007	2006	2006 ⁽¹⁾
STATEMENT OF OPERATIONS								
Devices	\$55	\$78	\$46	\$43	\$251	\$294	\$4	\$131
Services	130	116	98	92	70	114	79	40
Total revenues	185	194	144	135	321	408	83	171
Cost of revenues	183	176	257	254	415	367	228	348
Gross (loss) margin	2	18	(113)	(119)	(94)	41	(145)	(177)
OPERATING EXPENSES								
General and administrative	714	717	667	557	635	475	1,019	620
Research and development	543	582	523	564	679	479	565	484
Selling and marketing	386	328	424	500	640	744	1,050	879
Amortization	62	66	72	76	74	62	48	68
Loss before under noted	(1,703)	(1,675)	(1,799)	(1,816)	(2,122)	(1,719)	(2,827)	(2,227)
Write-off of investment	-	-	(75)	-	-	-	-	-
Interest income	23	42	18	15	25	10	25	10
Net loss for the period	\$(1,680)	\$(1,633)	\$(1,856)	\$(1,801)	(2,097)	(1,709)	\$(2,802)	\$(2,217)
Loss per share	\$(0.00)	\$(0.00)	\$(0.00)	\$(0.01)	\$(0.01)	\$(0.01)	\$(0.01)	\$(0.01)
CASH FLOW INFORMATION								
Operating activities	\$(1,784)	\$(1,526)	\$(1,381)	\$(1,730)	\$(2,040)	\$(1,568)	\$(2,410)	\$(2,181)
Investing activities	(47)	(46)	(75)	-	(75)	(186)	43	(91)
Financing activities	(30)	(54)	6,984	85	700	4,103	(81)	4,687
Net cash inflow (outflow)	(1,861)	(1,626)	5,528	(1,645)	(1,415)	2,349	(2,448)	2,415
Cash, beginning of period	4,677	6,303	775	2,420	3,835	1,486	3,935	1,520
Cash, end of period	\$2,816	\$4,677	\$6,303	\$775	\$2,420	\$3,835	\$1,486	\$3,935
BALANCE SHEET INFORMATION								
Working capital	\$3,262	\$4,807	\$6,196	\$718	\$2,227	\$3,465	\$1,047	\$3,786
Total assets	\$5,028	\$6,778	\$8,325	\$3,013	\$4,847	\$6,031	\$3,589	\$5,920
Shareholders' equity	\$3,552	\$5,167	\$6,652	\$1,358	\$2,992	\$4,277	\$1,768	\$4,539

Note:

(1) Restated

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

LIQUIDITY AND CAPITAL RESOURCES

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

Cash flow used in continuing operating activities

Cash flow used by operating activities for the three months ended June 30, 2008 was \$1,784,040, compared to \$2,039,936 in the three months ended June 30, 2007, representing an improvement of \$255,896. Cash used by the underlying day to day operations for the three months ended June 30, 2008 improved by \$383,210 as compared to the same period in the prior year, which was offset by an increase in cash used in non-cash working capital activities of \$127,314, such as increase in cash provided by accounts receivable of \$516,084 and by prepaid expenses of \$65,622, offset by cash used in purchasing inventory of \$434,328, accounts payable of \$180,694, deferred revenues of \$83,035 and other receivables of \$10,963.

Cash flow used by operating activities for the six months ended June 30, 2008 was \$3,309,831, compared to \$3,608,174 in the six months ended June 30, 2007, representing an improvement of \$298,343. Cash used by the underlying day to day operations for the six months ended June 30, 2008 improved by \$526,351 as compared to the comparable period in the prior year, which was offset by an increase in cash used in non-cash working capital activities of \$228,008, such as increase in cash provided by accounts receivable of \$370,928, offset by cash used in purchasing inventory of \$280,754, accounts payable of \$177,176, deferred revenue of \$84,299, prepaid expenses of \$50,265 and other receivables of \$6,442.

Cash flow used in investing activities

Cash flow used in investing activities for the three months ended June 30, 2008 was \$47,037, compared to \$74,513 in the three months ended June 30, 2007, representing a decrease of \$27,476. The majority of the decrease can be attributed to for a reduction in the acquisition of capital assets of \$25,281.

Cash flow used in investing activities for the six months ended June 30, 2008 was \$93,173, compared to \$260,536 in the six months ended June 30, 2007, representing a decrease of \$167,363. The majority of the decrease can be attributed to for a reduction in the acquisition of capital assets of \$185,140, offset by an increase for advance on notes receivable of \$17,777.

Cash flow provided by financing activities

Cash flow used by financing activities for the three months ended June 30, 2008 was \$29,500, compared to cash provided of \$699,530 for the three months ended June 30, 2007, representing a decrease in cash provided of \$729,030, due entirely to warrants that were exercised during the second quarter of 2007 for \$756,169 compared to \$nil in the three months ended June 30, 2008.

Cash flow used by financing activities for the six months ended June 30, 2008 was \$83,824, compared to cash provided of \$4,802,032 for the six months ended June 30, 2007, representing a decrease of \$4,885,856, due entirely to warrants that were exercised during the six months ended June 30, 2007 for \$4,915,263 compared to \$nil in the six months ended June 30, 2008.

The cash position of the Company at June 30, 2008 was \$2,816,523 compared to \$6,303,351 at December 31, 2007. Current assets at June 30, 2008 were \$4,715,665 compared to \$7,854,557 at December 31, 2007.

Working capital decreased by \$2,934,096 to \$3,262,181 as of June 30, 2008, from \$6,196,277 as of December 31, 2007.

The current business plan contemplates revenue growth in 2008 attributable primarily to an increase in the number of devices sold to customers combined with an increase in the services subscriber base. Management believes that existing cash resources and cash generated from its current business plan is sufficient to fund operations in the short term, however the Company has commenced rationalizing its operations and exploring other possible sources of financing.

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

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 June 30, 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	\$ 8,689	\$ 8,689	\$ -	\$ -	\$ -
Operating leases	184,000	52,000	132,000	-	-
Total contractual obligations	\$ 192,689	\$ 60,689	\$ 132,000	\$ -	\$ -

OFF-BALANCE SHEET ARRANGEMENTS

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

TRANSACTIONS WITH RELATED PARTIES

The Company had no transactions with related parties for the three months ended June 30, 2008 other than \$2,805 of accrued interest for the quarter on the notes receivable.

The Company had the following transactions and/or outstanding amounts with related parties as at or for the six months ended June 30, 2008:

- \$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 repayable no later than December 15, 2008 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 repayable no later than December 28, 2008 with interest at 6%.

PROPOSED TRANSACTIONS

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

CRITICAL ACCOUNTING ESTIMATES

The Company's consolidated financial statements for the three and six months ended June 30, 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 sales and subscription services. The Company recognizes revenue in accordance with EIC 141, "Revenue Recognition", and EIC 142, "Revenue Arrangements with Multiple Deliverables".
- In the determination of the valuation of accounts receivable, including the allowance for doubtful accounts, the Company relies on current customer information, payment history and trends as well as future business and economic conditions.
- The determination of fair value of investments is based on a discounted cash flow model.
- The estimation of useful lives of the various classes of capital assets is based upon history and experience of similar assets within each class.
- The fair value of stock options is based on certain estimates applied to the Black-Scholes option-pricing model as disclosed in the Company's financial statements.
- The measurement of the income tax valuation allowance is based upon estimates of future taxable income and the expected timing of reversals of temporary differences..

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

On January 1, 2008, the Company adopted three new accounting standards; CICA Handbook Section 1535 "Capital Disclosures", Section 3031 "Inventories", and Section 3862 "Financial Instruments - Disclosures". 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 will be applicable to financial statements relating to fiscal years beginning on or after January 1, 2008. Accordingly, the Company will adopt 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 recognizable value. This new standard does not have a material effect on the Company’s financial statements.

Financial Instruments

Effective January 1, 2008, the Company will be required to adopt two new standards issued by the Canadian Institute of Chartered Accountants (“CICA”), Section 3862 “Financial Instruments – Disclosure,” and Section 3863 “Financial Instruments - Presentation,” which will replace Section 3861 “Financial Instruments – Disclosures and Presentation”. This new presentation standard carry forward the former presentation requirements and increase 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. As of the date of these unaudited consolidated financial statements, the financial reporting impact of the transition to IFRS cannot be reasonably estimated.

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.

The Company is currently assessing the impact of these standards on its consolidated financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

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

Credit risk

Credit risk arises from the possibility that the Company's customers may experience financial difficulty and be unable to fulfill their financial obligations. The Company, in the normal course of business, monitors the financial condition of its customers and reviews the credit history of each new customer. The Company establishes an allowance for doubtful accounts that corresponds to specific credit risk of its customers, historical trends, and economic circumstances.

Interest rate risk

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

Foreign exchange

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

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

Fair Value

As at June 30, 2008, the carrying values of accounts receivable, other receivables, notes receivable, accounts payable and accrued liabilities approximate their fair values due to their immediate or short-terms to maturity. The carrying amount of cash and cash equivalents, classified as held-for-trading, approximates cost, due to the short term nature of these instruments. The fair value of the investments in equity instruments classified as available for sale, specifically the Company's investment in Hypernet Inc, is estimated based on discounted revenue analysis to be \$1. Due to the use of judgment and uncertainties in the determination of estimated fair values, these values should not be interpreted as being realizable in the immediate term.

OTHER MD&A REQUIREMENTS

Disclosure of Outstanding Share Data

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

- 349,388,115 common shares issued and outstanding
- 78,379,191 common share purchase warrants ("Warrants")
 - 42,135,618 Warrants at \$0.10/share expiring September 20, 2008
 - 36,243,573 Warrants at \$0.155/share expiring November 6, 2009

- 6,951,660 common share purchase options (“Options”) issued under the Company’s stock option plan
 - 941,500 Options issued on April 27, 2006 at \$0.30/share expiring April 27, 2011
 - 1,685,000 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
 - 1,410,000 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 confident outlook for the Company and continually improves and adapts the Company’s risk mitigation strategies, operating in the technology industry inherently involves a certain level of risk and uncertainty. The Company continues to expand and refine management controls, reporting systems, cost controls, and overall policies and procedures to minimize the impact of potential risks and uncertainties. In management’s opinion, the following factors, among others, should be considered when evaluating the Company’s business and its results of future operations:

- There is no assurance that any forward-looking statement will materialize.
- The results or events predicted herein may differ from the actual results or events.
- Unless otherwise indicated, forward-looking statements describe expectations as of 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 June 30, 2008 of \$3,262,181, 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.

Disclosure Controls

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

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of June 30, 2008. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures, as defined in Multilateral Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings, are effective except as below noted, to ensure that the information required to be disclosed in reports that are filed or submitted under Canadian Securities legislation are recorded, processed, summarized and reported within the time period specified in those rules.

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

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

Audit Committee

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

Legal proceedings

The Company filed Statements of Claim against certain reseller customers relating to non-payment of invoices. The reseller customers have maintained that based on non-sanctioned verbal representations made to them by certain employees of the Company who are no longer employed with the Company; they were not obligated to make payment in accordance with the terms of the written binding purchase agreements. As reflect in the Statements of Claim, the reseller customers entered into binding written agreements with Route1 to purchase MobiKEYs that were delivered in 2007 for which revenue of approximately \$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, and the Sedar website at www.sedar.com, or by request from Route1's head office at 155 University Avenue, Suite 1920, Toronto, Ontario, Canada M5H 3B7 (telephone – 416-848-8391).