



*Management Discussion and Analysis of
Interim Financial Condition and Results of Operations*

Route1 Inc.

June 30, 2007

(Revised)

**MANAGEMENT DISCUSSION AND ANALYSIS OF
INTERIM FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR
THE THREE AND SIX MONTHS ENDED JUNE 30, 2007 COMPARED TO
THE THREE AND SIX MONTHS ENDED JUNE 30, 2006
(Revised version filed on April 29, 2008 - originally filed on August 15, 2007)**

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 15, 2007 and revised on April 28, 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 restated unaudited interim consolidated financial statements and the notes thereto as at and for the three and six months ended June 30, 2007 and 2006, and the Company’s audited annual consolidated financial statements and notes thereto as at and for the years ended December 31, 2006 and 2005, which have been prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”). The Company cautions that the MD&A has not been updated to reflect any events that have taken place since the time of the original filing of the MD&A on August 15, 2007. Please see note 2 to the restated unaudited interim consolidated financial statements for the impact of the restatement.

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.

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):

OVERVIEW

Route1 is the trusted provider of security and identity management network solutions that are redefining today’s workplace. At the heart of Route1’s solutions is MobiNET, a communications and service delivery platform focused on identity management and entitlement-based access to resources. Leveraging the power of MobiNET is the award-winning MobiKEY, an ultra-portable computing device that securely connects users to the myriad of MobiNET services from any Internet-enabled Windows-based PC. This patent-pending computing solution is embedded on a smart-card enabled, cryptographic USB device, making it one of the most powerful and easy-to-use secure computing solutions available today. Combined with TruOFFICE, Route1’s secure, remote access service, MobiKEY enables users to connect to their desktop data, applications and network resources. Route1’s patent-pending solutions, based on FIPS-140-2 cryptographic modules, meet the stringent security needs and high standards mandated by all levels of government. They have been evaluated by ICSA Labs and certified by the CSE. As a Company with high regard for intellectual property, Route1 continues to encourage and nurture innovation across its talented team. Headquartered in Toronto, Route1 has offices and agents in New York, Florida, Germany, and Latin America.

- Since the beginning of 2007 through to August 15, 2007, the Company has raised additional capital of \$4,915,262 through the exercise of 40,784,832 warrants by the unit holders.

- Route1 participated this June 2007 in CWID (Coalition Warrior Interoperability Demonstration), the United States Joint Chief of Staff annual event that enables various departments within the US and International armed forces to investigate new and emerging technologies that can be moved into operational use within 6 to 12 months following this evaluation period. Route1 was only one of 47 companies worldwide who were invited to participate in this year's event, and our sponsors include the US Navy, the US Army, the US Air Force, the US Marines, the US Northern Command, the Canadian Department of National Defense and the New Zealand Defense Force.
- MobiKEY was featured in the May issue of SC Magazine's "First Look" category. The analyst found it to be "effective, secure and it could not be easier to implement...(they) are likely to find it more satisfactory than synchronizing computers before traveling or attempting to use the corporate VPN (virtual private network) from a flaky hotel room connection."
- Route1 also now lists Interwork Technologies Inc., one of North America's leading distributors of security products, as one of our value added distributors. Interwork's goal is to introduce our services to its extensive network of over 7000 VARS.
- On July 24, 2007, the Company announced the appointment of a new Senior Vice President of Sales responsible for accelerating the Company's penetration of its targeted market segments.

With offices located in Canada, the United States, and Germany, the Company's employees are able to service customers located anywhere in North America and EMEA (Europe, Middle East, Africa). At June 30, 2007, the Company had 43 employees.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Changes in Accounting Policies including Initial Adoption

On January 1, 2007, the Company adopted the following standards: CICA Sections 3855 "Financial Instruments – Recognition and Measurement", and 1530 "Comprehensive Income". These sections require certain financial instruments to be recorded at their fair value. They also introduce the concept of comprehensive income and accumulated other comprehensive income.

CICA Section 3855 "Financial Instruments – Recognition and Measurement" establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial instruments must be classified into defined categories. This classification determines how each instrument is measured and how gains and losses are recognized. In addition, the recommendations define derivatives and embedded derivatives which meet certain criteria.

CICA Section 1530, "Comprehensive Income" introduces a statement of comprehensive income in the full set of interim and annual consolidated financials statements. Comprehensive income will present certain gains and losses outside net income.

The adoption of these standards was on a prospective basis with no retroactive restatement of prior periods and had no material impact on the unaudited interim consolidated financial statements. At present, the Company's financial instruments comprise of the following:

- a. Cash and cash equivalents, accounts payable and accrued liabilities, and long-term debt are classified as "Assets held for trading." They are measured at fair value and the gains or losses resulting from the revaluation at the end of each period, are recognized in net earnings (loss).
- b. Accounts receivable, other receivable, employee loans, notes receivable are classified as "Loans and receivables". They are recorded at cost, which upon their initial measurement is equal to their fair value. Subsequent measurements of accounts receivable, other receivable, employee loans, and notes receivable are recorded at amortized cost which usually corresponds to the amount initially recorded less any allowance for doubtful accounts or provisions.

There is no financial impact on these unaudited interim financial statements due to the adoption of the new accounting recommendations concerning financial instruments and other comprehensive income.

**RESULTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2007
COMPARED TO THE THREE AND SIX MONTHS ENDED JUNE 30, 2006**

The following table sets out selected unaudited interim financial information of the Company on a consolidated basis.

(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 2007⁽¹⁾	June 30 2006	June 30 2007⁽¹⁾	June 30 2006
STATEMENT OF OPERATIONS				
Revenues	321	154	729	281
Cost of revenues	415	418	782	807
Gross margin (loss)	(94)	(264)	(53)	(526)
OPERATING EXPENSES				
General and administrative	635	745	1,110	1,351
Research and development	679	675	1,158	1,205
Selling and marketing	640	660	1,384	1,088
Amortization	74	82	136	168
LOSS BEFORE UNDERNOTED	(2,122)	(2,426)	(3,841)	(4,338)
Interest income	25	16	34	26
Income (loss) from discontinued operations	-	-	-	457
Net loss for the period	(2,097)	(2,410)	(3,807)	(3,855)
Loss per share	(0.01)	(0.01)	(0.01)	(0.02)
CASH FLOW INFORMATION				
Operations (including non-cash working capital changes)	(2,040)	(2,015)	(3,068)	(3,637)
Financing	700	(53)	4,802	4,439
Investing	(75)	(138)	(260)	(120)
Cash flow	(1,415)	(2,207)	934	682
Cash and cash equivalents, beginning of period	3,835	3,727	1,486	838
Cash and cash equivalents, end of period	2,420	1,520	2,420	1,520
BALANCE SHEET INFORMATION				
Working capital	2,227	1,222	2,227	1,222
Total assets	4,847	3,201	4,847	3,201
Shareholders' equity	2,992	2,017	2,992	2,017

(1) As Restated

Restatement

The Company has amended and restated unaudited interim financial statements for the quarter ended June 30, 2007. The Company's restated revenues and net loss for Q2 are \$320,869 and \$2,097,590 respectively, as compared to the previously reported amounts of \$488,093 and \$2,012,599 respectively.

THREE MONTHS ENDED JUNE 30, 2007 VERSUS THREE MONTHS ENDED JUNE 30, 2006

Revenue

Revenue for three months ended June 30, 2007 was \$320,869, an increase of \$167,123 or 109%, from \$153,746 for the comparable period in the preceding year. The revenue number reflects the increasing sales of the MobiKEY device along with the associated subscription-based services revenue.

Gross loss

Gross loss for three months ended June 30, 2007 was \$93,551, an improvement of \$170,910, from a \$264,461 loss for the comparable period in the preceding year. The negative gross margin for the quarter is due primarily to the higher percentage of hardware revenues to subscription-based services revenues, and combined with volume discounts offered to resellers for placing stock orders in the quarter. The subscription-based service revenue associated with these hardware revenues will be recognized into revenue over the next few month when these subscriptions become activated. The cost of revenue number includes the variable/direct cost of hardware and software licenses, and also the fixed/indirect costs of providing the MobiNET subscription services which includes but is not limited to support personnel, system hardware amortization and facilities which are not directly variable and are not expected to increase significantly in the short term as the number of subscribers increases. The Company anticipates that the gross margin as a percentage of revenue will increase as the Company builds its subscriber base.

Operating Expenses

General administration

General administration for three months ended June 30, 2007 was \$635,465, a decrease of \$109,715, or 15%, from \$745,180 for the comparable period in the preceding year. General and administration expenditures consist primarily of salaries and benefits for administration staff, professional fees, insurance costs, and general office overhead including rent. This decrease is a result of a reduction in outside professional services; offset by the inclusion of approximately \$98,000 in nonrecurring general administration expenses.

Research and development

Research and development for three months ended June 30, 2007 was \$678,829, an increase of \$3,959, or 1%, from \$674,870 for the comparable period in the preceding year. Research and development expenditures consist primarily of salaries and benefits for technical staff, consulting services, software tools and related information technology infrastructure support associated with the various enhancements to the MobiNET platform and the development of new subscription-based services and associated devices that are expected to facilitate future large customer revenues. Future expenditures will involve ongoing support and enhancements of existing products, the development of customer management tools to support MAG and MAP, and the introduction of new subscription-based services based on the MobiNET platform. Included in the quarter are nonrecurring personnel expenses amounting to approximately \$200,000.

Selling and marketing

Selling and marketing for the three months ended June 30, 2007 were \$640,110, a decrease of \$19,363, or 3%, from \$659,473 for the comparable period in the preceding year. Selling and marketing expenditures consist primarily of salaries and benefits, marketing, advertising and promotion, travel and entertainment

to support the Company's continued growth and focus on sales and marketing of the Company's products and services. The Company is in a transition phase of implementing a blended sales distribution model, comprised of a mix of direct and indirect sales channels. As part of this new strategy, the Company has hired a new Senior Vice President of Sales, whose expertise in dealing with enterprise customers will accelerate the Company's penetration into its targeted market segments.

Net loss

Net loss for three months ended June 30, 2007 was \$2,097,590 or \$0.01 per share, a decrease of \$311,940, or 13%, from \$2,409,530 or \$0.01 per share for the comparable period in the preceding year.

Liquidity and Capital Resources

Cash and cash equivalents decreased by \$1,414,919 to \$2,419,686 as at June 30, 2007 from \$3,834,605 as at March 31, 2007. Management is pursuing additional funding for its ongoing activities, beyond the expectations that outstanding warrants of approximately \$9.0 million will be exercised prior to their expiry dates. Additionally, the Company has also initiated a process designed to rationalize its operations and reduce its expenses.

Cash flow used in continuing operating activities

Cash flow used by continuing operating activities was \$2,039,936 for the three months ended June 30, 2007, compared to cash flow used by continuing operating activities of \$2,015,496 for the comparable period for the preceding year, representing an increase of \$24,440. This net increase is a combination of a decrease in cash used by operations of \$389,825 to \$1,807,466 for the current period from \$2,197,291 for the comparable period, and an increase in cash used by working capital balances of \$414,265.

Cash flow provided by (used in) investing activities

Cash flow used by investment activities was \$74,513 for the three months ended June 30, 2007, compared to cash flow used by investing activities of \$138,366 for the comparable period in the preceding year, representing a decrease of \$63,853. This net decrease resulted primarily from a decrease in acquisition of capital assets of \$76,487, a decrease in employee loans of \$42,366 and an increase in notes receivable of \$55,000.

Cash flow provided by financing activities

Cash flow provided by financing activities was \$699,530 for the three months ended June 30, 2007, compared to cash flow used by financing activities of \$53,450 for the comparable period in the preceding year, representing an increase of \$752,980. This net increase resulted primarily from an increase in the issuance of share capital of \$759,432 on the early exercise of 5,748,098 outstanding warrants and an increase in the repayment of long term debt of \$6,452.

Share Capital

As at June 30, 2007, the share capital consisted of 282,492,449 common shares.

Subsequent events

On July 17, 2007, the Company issued to an employee and directors 1,790,160 options to purchase common shares of the Company with an exercise price of \$0.205 per share.

On July 24, 2007, the Company announced the appointment of a new Senior Vice President of Sales responsible for accelerating the Company's penetration of its targeted market segments.

SIX MONTHS ENDED JUNE 30, 2007 VERSUS SIX MONTHS ENDED JUNE 30, 2006

Revenue

Revenue for six months ended June 30, 2007 was \$728,654, an increase of \$447,838 or 159%, from \$280,816 for the comparable period in the preceding year. The revenue number reflects the increasing sales of the MobiKEY device along with the associated subscription-based services revenue.

Gross loss

Gross loss for six months ended June 30, 2007 was \$52,976, an improvement of \$472,652, from a \$525,628 loss for the comparable period in the preceding year. The gross margin for the six month period is lower than will be expected in future periods, primarily due to the higher percentage of hardware revenues to subscription-based services revenues, and combined with volume discounts offered to resellers for placing stock orders in the quarter. The subscription-based service revenue associated with these hardware revenues will be recognized into revenue over the next few month when these subscriptions become activated. The cost of revenue number includes the variable/direct cost of hardware and software licenses, and also the fixed/indirect costs of providing the MobiNET subscription services which includes but is not limited to support personnel, system hardware amortization and facilities which are not directly variable and are not expected to increase significantly in the short term as the number of subscribers increases. The Company anticipates that the gross margin as a percentage of revenue will increase as the Company builds its subscriber base.

Operating Expenses

General administration

General administration for six months ended June 30, 2007 was \$1,110,200, a decrease of \$240,940, or 18%, from \$1,351,140 for the comparable period in the preceding year. General and administration expenditures consist primarily of salaries and benefits for administration staff, professional fees, insurance costs, and general office overhead including rent. This decrease is a result of a reduction in outside professional services.

Research and development

Research and development for six months ended June 30, 2007 was \$1,157,616, a decrease of \$47,372, or 4%, from \$1,204,988 for the comparable period in the preceding year. Research and development expenditures consist primarily of salaries and benefits for technical staff, consulting services, software tools and related information technology infrastructure support associated with the various enhancements to the MobiNET platform and the development of new subscription-based services and associated devices that are expected to facilitate future large customer revenues. Future expenditures will involve ongoing support and enhancements of existing products, the development of customer management tools to support MAG and MAP, and the introduction of new subscription-based services based on the MobiNET platform.

Selling and marketing

Selling and marketing for the six months ended June 30, 2007 were \$1,384,192, an increase of \$296,331, or 27%, from \$1,087,861 for the comparable period in the preceding year. Selling and marketing expenditures consist primarily of salaries and benefits, marketing, advertising and promotion, travel and entertainment to support the Company's continued growth and focus on sales and marketing of the

Company's products and services. The Company is in a transition phase of implementing a blended sales distribution model, comprised of a mix of direct and indirect sales channels. As part of this new strategy, the Company has hired a new Senior Vice President of Sales, whose expertise in dealing with enterprise customers will accelerate the Company's penetration into its targeted market segments.

Net loss

Net loss from continuing operations for six months ended June 30, 2007 was \$3,806,529 or \$0.01 per share, an improvement of \$505,655, or 12%, from \$4,312,194 or \$0.03 per share for the comparable period in the preceding year. Net loss for six months ended June 30, 2006 was \$3,806,529 or \$0.01 per share, an improvement of \$48,665, from \$3,855,194 or \$0.02 per share for the comparable period in the preceding year.

Liquidity and Capital Resources

Cash and cash equivalents increased by \$933,322 to \$2,419,686 as at June 30, 2007 from \$1,486,364 as December 31, 2006. Management is pursuing additional funding for its ongoing activities, beyond the expectations that outstanding warrants of approximately \$9.0 million will be exercised prior to their expiry dates. Additionally, the Company has also initiated a process designed to rationalize its operations and reduce its expenses.

Cash flow used in continuing operating activities

Cash flow used by continuing operating activities was \$3,608,174 for the six months ended June 30, 2007, compared to cash flow used by continuing operating activities of \$3,637,315 for the comparable period for the preceding year, representing a decrease of \$29,141. This net decrease is a combination of a decrease in cash used by operations of \$567,167 to \$3,316,963 for the current period from \$3,884,130 for the comparable period, and an increase in cash used by working capital balances of \$538,026.

Cash flow provided by (used in) investing activities

Cash flow used by investment activities was \$260,536 for the six months ended June 30, 2007, compared to cash flow used by investing activities of \$119,707 for the comparable period in the preceding year, representing an increase of \$140,829. This net increase resulted primarily from an increase in acquisition of capital assets of \$96,931, a decrease in employee loans of \$29,102 and an increase in notes receivable of \$73,000.

Cash flow provided by financing activities

Cash flow provided by financing activities was \$4,802,032 for the six months ended June 30, 2007, compared to cash flow provided by financing activities of \$4,438,789 for the comparable period in the preceding year, representing an increase of \$363,243. This net increase resulted primarily from an increase in the issuance of share capital of \$376,847 and an increase in the repayment of long term debt of \$13,594.

SELECTED QUARTERLY FINANCIAL DATA

The following table sets out selected unaudited interim 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 interim consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the audited annual consolidated financial statements. The Company's quarterly operating results have varied substantially in the past and may vary substantially in the future. Accordingly, the information below is not necessarily indicative of results for any future quarter.

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

As at and for the three months ended

	Jun 30 2007 ⁽¹⁾	Mar 31 2007	Dec 31 2006	Sep 30 2006	Jun 30 2006	Mar 31 2006	Dec 31 2005	Sep 30 2005
STATEMENT OF OPERATIONS								
Revenues	321	408	83	171	154	127	19	33
Cost of revenues	415	367	228	348	418	388	545	20
Gross margin (loss)	(94)	41	(145)	(177)	(264)	(261)	(526)	12
OPERATING EXPENSES								
General and administrative	635	475	1,019	620	745	606	1,099	588
Research and development	679	479	565	484	675	530	(135)	850
Selling and marketing	640	744	1,050	879	660	428	548	161
Amortization	74	62	48	68	82	87	51	104
LOSS BEFORE UNDERNOTED	(2,122)	(1,719)	(2,827)	(2,227)	(2,426)	(1,912)	(2,089)	(1,691)
Interest income	25	10	25	10	16	10	26	5
Income (loss) from discontinued operations	-	-	-	-	-	457	(147)	-
Net loss for the period	(2,097)	(1,709)	(2,802)	(2,217)	(2,410)	(1,446)	(2,211)	(1,686)
Loss per share	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.01)
CASH FLOW INFORMATION								
Operations (including non-cash working capital changes)	(2,040)	(1,568)	(2,410)	(2,181)	(2,015)	(1,622)	(864)	(1,752)
Discontinued operations	-	-	-	-	-	-	(155)	-
Financing	700	4,103	(81)	4,687	(53)	4,492	(330)	217
Investing	(75)	(186)	43	(91)	(138)	19	(159)	(161)
Cash flow	(1,415)	2,348	(2,448)	2,415	(2,207)	2,889	(1,509)	(1,696)
Cash and cash equivalents, beginning of period	3,835	1,486	3,935	1,520	3,727	838	2,348	4,044
Cash and cash equivalents, end of period	2,420	3,835	1,486	3,935	1,520	3,727	838	2,348
BALANCE SHEET INFORMATION								
Working capital	2,227	3,465	1,047	3,786	1,222	3,622	354	2,844
Total assets	4,847	6,031	3,589	5,920	3,201	5,361	2,709	3,690
Shareholders' equity	2,992	4,277	1,768	4,539	2,017	4,381	1,253	3,525

(1) As restated

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure Control Risks

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the disclosure controls and procedures as at June 30, 2007 and, based on that evaluation, believe them to be effective given the size and nature of the Company's operations. All control systems by their nature have inherent limitations and, therefore, Route1's disclosure controls and procedures are believed to provide reasonable, but not absolute, assurance that:

- the communications by the Company with the public are timely, factual and accurate and broadly disseminated in accordance with all applicable legal and regulatory requirements;
- non-publicly disclosed information remains confidential; and
- trading of the Company's securities by directors, officers and employees remains in compliance with applicable securities laws.

Internal controls over financial reporting

The Chief Executive Officer and the Chief Financial Officer have supervised the design of internal controls over financial reporting and these controls were in place as at June 30, 2007. The Chief Executive Officer and the Chief Financial Officer believe the internal controls, including compensating controls to overcome the lack of certain segregation of duties, and reliance on specialists for complex, non-routine transactions, are designed appropriately given the nature and size of the Company's operations, and that a material deficiency in design does not exist. Because of their inherent limitations, internal controls over financial reporting may not prevent or detect misstatements, errors or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, not absolute assurance that the objectives of the control systems are met.