ROUTE1 INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016

As at August 10, 2016

The following discussion and analysis of the financial condition and results of operations (this "**MD&A**") of Route1 Inc. (also referred to as "**we**", "**us**", "**our**", "**Route1**", or the "**Company**"), should be read in conjunction with the Company's interim condensed consolidated financial statements and related notes as at and for the quarter ended June 30, 2016. The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB") and accounting policies the Company adopted in accordance with International Financial Reporting Standards ("IFRS").

This Management Discussion & Analysis ("MD&A") has been reviewed and approved by the Company's Board of Directors prior to filing.

The information in this MD&A is current to August 10, 2016, unless otherwise noted.

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 unexpected 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 quarterly 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 obligations, 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, and that has not been otherwise disclosed in other filings, is material in nature.

INTELLECTUAL PROPERTY NOTICES

The DEFIMNET and MobiNET platforms, the MobiKEY, MobiKEY Classic, MobiKEY Classic 2, MobiKEY Classic 3, MobiKEY Fusion, MobiKEY Fusion2, and MobiKEY Fusion3 devices, and MobiLINK are protected by U.S. Patents 7,814,216, 7,739,726, 9,059,962, 9,059,997 and 9,319,385, Canadian Patent 2,578,053, and other patents pending. The MobiKEY Classic 2 and MobiKEY Classic 3 devices are also protected by U.S. Patents 6,748,541 and 6,763,399, and European Patent 1001329 of Aladdin Knowledge Systems Ltd. and used under license. Other patents are registered or pending in various countries around the world. Route1 Inc. is the owner of, or licensed user of, all copyright in this document, including all photographs, product descriptions, designs and images. No part of this document may be reproduced, transmitted or otherwise used in whole or in part or by any means without prior written consent of Route1 Inc.

OVERVIEW

Route1 delivers industry-leading security and identity management solutions to corporations and government agencies that need universal, secure access to all digital resources and sensitive data. These customers depend on The Power of MobiNET - Route1's communications and service delivery platform. MobiNET provides identity assurance and individualized access to networks and data. Route1's patented solutions simplify the process of meeting increasingly stringent regulatory requirements for privacy and security.

HIGHLIGHTS

- On January 14, 2016, the Company announced that the U.S. Department of the Interior (DOI), after completing its accreditation process, issued an authority to operate (ATO) for the MobiKEY technology and the DEFIMNET platform that the U.S. Fish and Wildlife Service (FWS) installed at a secure DOI hosting facility in March 2015.

- On January 28, 2016, the Company provided an operations update, the operations update included:
  - As of December 31, 2015, Route1 had 16,286 paying, active subscribers. An increase of 297 subscribers from the quarter ended September 30, 2015 and an increase of 1,494 users from December 31, 2014.
  - Route1 continued to see strong interest in its MobiKEY technology from civilian, intelligence and defense components within the U.S. government. As announced on January 14, 2016 the U.S. Department of the Interior, after completing its accreditation process, issued an authority to operate for the MobiKEY technology and the DEFIMNET platform. The Company has been working with

the U.S. Fish and Wildlife Service (FWS) to harden and deploy updates to the DEFIMNET infrastructure to bring it fully online, and is in the process of swapping out MobiKEY Fusion devices for the latest generation MobiKEY Fusion3 devices. The reported June 2015 data breaches at the Office of Personnel Management has had a renewed interest in the MobiKEY technology from certain components of the U.S. government including the Office of the CIO with the Department of Commerce; a number of components with the Department of Agriculture (USDA) have engaged Route1 in the potential use and procurement of MobiKEY; and, most recently, Route1 advanced an active pilot with the Transportation Security Administration (TSA), a component of the U.S. Department of Homeland Security. Route1 continues to benefit from growing awareness of MobiKEY within the U.S. Department of Defense (DOD). During the 2015 calendar year, Route1 worked with a number of groups within the U.S. Air Force, the U.S. Marine Corps, and a component of the U. S. Army that is leading a Certificate of Networthiness accreditation process to use the MobiKEY technology on the U.S. Army network.

  - An announcement of certain product development updates including releases during the fourth quarter of 2015 and planned technology releases during the first quarter of 2016.
  - The newly announced NCIB on September 22, 2015 has had a total of 2,592,000 common shares purchased for cancellation, as of December 31, 2015

- On March 16, 2016, the Company announced that the MobiKEY technology is now available on GSA IT Schedule 70 through Patriot Technologies, Inc. Purchases of the MobiKEY solution and related products can now be made using GSA Schedule Number GS-35F-4363D on GSA Advantag!® website. At the same time, the Company also announced the release of its latest version of MobiKEY for iOS – version 5.0. As found in the Apple App Store, there are three MobiKEY apps – Route1 MobiKEY, MobiKEY A2T and MobiKEY TAC.

- On April 5, 2016, the Company announced its fourth quarter and full year financial results. Along with the fourth quarter and full year financial results the company provided an update on the Normal Course Issuer Bid ("NCIB"). The NCIB announced on September 22, 2015 has had a total of 4,357,000 common shares repurchased for cancellation as of March 31, 2016.

- On April 19, 2016, the Company provided an operations update, the operations update included:
  - As of March 31, 2016, Route1 had 16,490 paying, active subscribers. An increase of 204 subscribers from the quarter ended December 31, 2015 and an increase of 1,478 users from March 31, 2015.
  - The Company announced a number of vendor days, conferences, webinars and tradeshows it will be attending over the next 90 days.
  - The NCIB announced on September 22, 2015 has had a total of 4,495,000 common shares purchased for cancellation, as of April 15, 2016.

- On May 12, 2016, the Company announced its first quarter financial results. Along with the first quarter financial results the company provided an update on the Normal Course Issuer Bid ("NCIB"). The NCIB announced on September 22, 2015 has had a total of 7,746,000 common shares repurchased for cancellation as of May 4, 2016.

- On May 17, 2016, the Company announced a total of 2,350,000 stock options at an exercise price of $0.05 per share were recently granted to Yamian Quintero, the Company's Chief Technology Officer. The stock options will expire on May 13, 2021 and will vest thirty percent on the first anniversary, thirty percent on the second anniversary and the remainder on the third anniversary.

- On August 3, 2016, the Company provided an operations update, the operations update included:
  - As of June 30, 2016, Route1 had 16,800 paying, active subscribers. An increase of 310 subscribers from the quarter ended March 31, 2016 and an increase of 1,390 users from June 30, 2015.
  - Cybersecurity initiatives within the U.S. government continue to create substantial deployment opportunities for Route1's suite of patented technology solutions. After the close of Q2 2016 Route1 received purchase orders from (i) a component of the DOD for 2,000 MobiKEY Fusion3 devices; the devices will replace certain of the client's MobiKEY Fusion and MobiKEY Fusion2 devices, and (ii) the Navy Bureau of Medicine and Surgery (BUMED) for 100 MobiKEY Fusion3 devices and 100 MobiKEY application software subscribers with contractual options to expand the BUMED user base to 300 subscribers. Further, Route1 has been working with a new branch of the U.S. Armed Forces to set up the MobiKEY technology on an enterprise-wide contract vehicle. Route1 anticipates the contracting process to be complete by no later than early Q4 2016. Upon MobiKEY being available for procurement, Route1 expects sales in the first 90 days of 100-250 users and additional further growth on a monthly basis similar to our experience with the U.S. Department of the Navy.
  - On August 9, 2016, Route1 will release MobiENCRYPT, a new Route1 technology offering that enables a secure mobile workforce by leveraging identity card-based credentials to protect government organizations from data-at-rest loss and security breaches.
  - In September 2016 Route1 will release its first standalone user authentication offering. The offering will enhance authentication via mobile devices with the levels of security necessary for U.S. government. Route1's release of this offering is in response to a user shift towards greater mobility and BYOD, and the fact that physical smart cards are an inconvenience for the user when using a mobile device.
  - On July 8, 2016, Route1 released MobiKEY for Android 5.0 and MobiKEY A2T for Android 5.0. MobiKEY A2T for Android 5.0. Planned MobiKEY application software releases for during the remainder of the 2016 year are (i) MobiKEY for Android 5.1 and MobiKEY A2T for Android 5.1: Support for Android 5.x and 6.x, and support for Android 4.4 and 5.x with Knox 2.x respectively, and (ii) MobiKEY 5.2: New desktop management protocol, support of audio in both directions
  - The NCIB announced on September 22, 2015 has had a total of 12,144,000 common shares purchased for cancellation, as of August 1, 2016.

NON-IFRS FINANCIAL MEASURE: Adjusted EBITDA

Within this MD&A we use the term Adjusted EBITDA (earnings before interest, income taxes, depreciation and amortization, stock-based compensation, restructuring and other costs). Adjusted EBITDA does not have any standardized meaning prescribed under IFRS and is therefore unlikely to be comparable to similar measures presented by other companies.

Adjusted EBITDA allows us to compare our operating performance over time on a consistent basis. We believe that certain investors and analysts use Adjusted EBITDA to measure a company's ability to service debt and to meet other payment obligations, or as a common valuation measurement in the technology industry.

The table below reconciles Adjusted EBITDA to Operating profit before stock-based compensation for the quarters presented.

In thousands of Canadian dollars	**June 30 2016**	Mar 31 2016	Dec 31 2015	Sept 30 2015	June 30 2015

Adjusted EBITDA	**$278**	$172	$279	$242	$227
Depreciation and amortization	**106**	134	127	118	99
Operating profit before stock-based compensation	**$172**	$38	$152	$124	$128

SELECTED FINANCIAL INFORMATION

The following table outlines selected unaudited financial information of the Company on a consolidated basis for the three and six months ended June 30, 2016 and 2015.

(in thousands of Canadian dollars, except per share amounts)	**For the Three Months Ended**		**For The Six Months Ended**	
	June 30 2016	June 30 2015	**June 30 2016**	June 30 2015
STATEMENT OF OPERATIONS				
Revenue				
Devices and appliances	**$51**	$50	**$121**	$105
Services	**1,760**	1,569	**3,407**	3,030
Other	**1**	1	**2**	23
Total revenue	**1,812**	1,620	**3,530**	3,158
Cost of revenue	**341**	294	**689**	560
Gross profit	**1,471**	1,326	**2,841**	2,598
Operating expenses				
General administration	**785**	705	**1,568**	1,382
Research and development	**299**	340	**631**	466
Selling and marketing	**215**	153	**432**	308
Total operating expenses	**1,299**	1,198	**2,631**	2,156
Operating profit before stock-based compensation	**172**	128	**210**	442
Stock-based compensation	**(80)**	(118)	**(207)**	(148)
Operating profit after stock-based compensation	**92**	10	**3**	294
Interest income	**-**	-	**-**	-
Foreign exchange translation	**107**	(354)	**(70)**	(306)
Total comprehensive gain (loss) for the period before income tax	**$199**	$(344)	**$(67)**	$(12)
Income tax recovery	**-**	-	**-**	(262)
Total comprehensive gain (loss) for the period after income tax	**$199**	$(344)	**$(67)**	$250
Earnings (loss) per share	**$0.00**	$(0.00)	**$(0.00)**	$0.00
CASH FLOW INFORMATION				
Operating activities	**$3,730**	$2,621	**$2,972**	$2,762
Investing activities	**(41)**	(158)	**(48)**	(525)
Financing activities	**(361)**	(272)	**(440)**	(301)
Net cash inflow	**3,328**	2,191	**2,484**	1,936
Cash, beginning of period	**407**	1,277	**1,251**	1,532
Cash, end of period	**$3,735**	$3,468	**$3,735**	$3,468
Working capital	**$45**	$(185)	**$45**	$(185)
Total assets	**$6,116**	$5,494	**$6,116**	$5,494
Shareholders' equity	**$1,296**	$1,041	**$1,296**	$1,041

COMPARISON FOR THE THREE MONTHS ENDED JUNE 30, 2016 AND 2015

Revenue

Revenue for the three months ended June 30, 2016 was $1,812,245, representing an increase of $191,891, from $1,620,354, for the same period in 2015. The comparison, discussed by segment, is as follows:

Devices and Appliances

Revenue from our MobiKEY devices (MobiKEY Classic device, MobiKEY Classic 2 device, MobiKEY Classic 3 device, the MobiKEY Fusion device, the MobiKEY Fusion2 device and the MobiKEY Fusion3 device) and appliances (the DEFIMNET platform and the MobiNET Aggregation Gateway) for the three months ended June 30, 2016 was $51,588, representing an increase of $1,442, from $50,146 for the same period in 2015.

Devices and appliances revenue as a percentage of total revenue represents 2.8% of total revenue for the current period as compared to 3.1% for the prior year period.

Services

Revenue from our services segment (MobiKEY application software, the DEFIMNET platform and other appliance licensing or yearly maintenance) for the three months ended June 30, 2016, was $1,759,955, representing an increase of $190,979 from $1,568,976, for the same period in 2015. The increase is largely a result of an increase in the number of paid, active MobiKEY application software users with the U.S. government and improved exchange rates.

Services revenue, as a percentage of total revenue, represented 97.1% for the current period as compared to 96.8% for the prior year period.

Services revenue by quarters *(in thousands of Canadian dollars)*	**June 30 2016**	Mar 31 2016	Dec 31 2015	Sept 30 2015	June 30 2015
MobiKEY application software revenue	**$1,591**	$1,496	$1,467	$1,424	$1,346
Other services revenue	**169**	152	149	148	223
Total	**$1,760**	$1,648	$1,616	$1,572	$1,569

The table below provides information on the number of and revenue amount for the MobiKEY application software subscribers during each of the last five quarters.

MobiKEY Subscribers *(in thousands of Canadian dollars for Revenue)*	**June 30 2016**	Mar 31 2016	Dec 31 2015	Sept 30 2015	June 30 2015
Closing Number	**16,800**	16,490	16,286	15,989	15,410
Average Number (1)	**16,629**	16,292	16,246	15,725	15,278
Revenue per Subscriber(2)	**$383**	$367	$361	$362	$353
Revenue	**$1,591**	$1,496	$1,467	$1,424	$1,346

(1) Calculated by taking the average of the closing MobiKEY subscriber number at the end of the month for each of the three months during the quarter.
(2) Calculated by dividing the MobiKEY revenue during the quarter by the average number of users and multiplying by four.

Gross Profit

Gross profit is equivalent to revenue minus the cost of revenue. The cost of revenue primarily includes the cost of our devices and appliances sold to clients, as well as the cost of shipping and packaging, plus the cost to operate and maintain the Route1 MobiNET platform.

The cost of revenue for the three months ended June 30, 2016 was $341,257, representing an increase of $47,089 from $294,168 for the same period in 2015. The increase in the cost of revenue for the three months ended June 30, 2016 is directly related to the cost to operate and maintain Route1's MobiNET (DEFIMNET) platforms, including new hires, salary increases and the increase cost associated with our U.S. denominated salaries due to exchange rate changes. In January 2016 Route1 increased its MobiNET (DEFIMNET) platform maintenance and support requirements as a result of the U.S. Department of the Interior (DOI) completing its Assessment and Authorization process and issuing an authority to operate for the MobiKEY technology and the DEFIMNET platform that the U.S. Fish and Wildlife Service had previously installed at a secure DOI Data Center in March 2015.

Gross profit for the three months ended June 30, 2016 was $1,470,988 or 81.2% of gross revenue, representing an increase of $144,802 from a gross profit of $1,326,186 or 81.8% of gross revenue for the same period in 2015.

Expenses

Operating expenses consist of general administration, research and development, and selling and marketing. Operating expenses for the three months ended June 30, 2016 were $1,298,694, representing an increase of $100,153, from $1,198,541 for the same period in 2015.

General administration

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

General administration expenses for the three months ended June 30, 2016 were $785,531 representing an increase of $80,248, from $705,283 for the same period in 2015. The majority of the change can be summarized as follows:

- Professional fees increased by approximately $36,000 for the three months ended June 30, 2016 as compared to the same period in 2015. The increase was the result of hiring contractors to perform capital market activities including investor relations.
- One time bonuses increased by $25,000 for the three months ended June 30, 2016 as compared to the same period in 2015.
- Salaries and benefits expenses increased by approximately $14,000 for the three months ended June 30, 2016 as compared to the same period in 2015; the increase is due to additional staff being hired as well as salary increases.
- Depreciation expense increased by approximately $7,000 for the three months ended June 30, 2016 as compared to the same period in 2015. This increase was a result of computer equipment that was purchased in the prior period which was only recently put into use.

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, 2016 were $298,569, representing a decrease of $41,925 from $340,494, for the same period in 2015 and the majority of the change can be summarized as follows:

- The Scientific Research and Experimental Development credit increased by approximately $38,000 for the three months ended June 30, 2016; the increase of the credit is the result of a change to recognizing the credit as projects become eligible throughout the year.

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, 2016 were $214,594, representing an increase of $61,830 from $152,764 for the same period in 2015. The majority of the change can be summarized as follows:

- Marketing costs increased by approximately $37,000 for the three months ended June 30, 2016 as compared to the same period in 2015; the Company hired additional sales and marketing personnel.
- Corporate development costs, including travel expenses and tradeshow fees, increased by approximately $22,000 as compared to the same period in 2015 as the Company.

Other Items

Stock-based compensation

Stock-based compensation was $80,477 for the three months ended June 30, 2016, a decrease of $37,506 from $117,983 for the same period in 2015. The contributing factor to the lower expense was the reduction of options vesting during the three months ended June 30, 2016 as compared to the same period in 2015.

Foreign exchange gain (loss)

Foreign exchange gains or losses are primarily attributable to fluctuations in the Canadian/U.S. dollar exchange rates. The gain unrealized attributable to foreign exchange translation on balance sheet items such as Accounts Receivable, Accounts Payable and bank accounts denominated in foreign currencies was $107,077 for the three months ended June 30, 2016, an increase of $460,948 from a loss of $353,871 for the same period in 2015. There was volatility and fluctuation of the Canadian dollar against the U.S. dollar during the second quarter of 2016, from a low of 1.2497 to a high of 1.3219.

As required by IFRS, foreign denominated monetary balances are revalued at the foreign exchange rate at each period end, and the translation gains or losses are recorded in the current period. A significant portion of these losses are unrealized, as at June 30, 2016 and may reverse themselves in the coming quarters.

From time to time the Company may enter into U.S. dollar forward contracts to mitigate possible foreign exchange risk. The timing and amount of foreign exchange contracts are estimated based on existing or anticipated sales, current conditions in the Company’s markets, the estimated timing of payments denominated in Canadian dollars and the Company’s past experience. The Company’s policy is not to utilize financial instruments for trading or speculative purposes.

Income tax recovery - Income tax expense and deferred tax recovery

For the three months ended June 30, 2016 the Company recognized an income tax expense of $102,568, an increase of $102,568 from $nil for the same period in 2015.

For the three months ended June 30, 2016, the Company also recognized a deferred tax asset of $102,568, an increase of $102,568 from $nil for the same period in 2015. The recognized deferred tax asset relates to unused tax losses that are considered to be offset against the Company's taxable profits expected to arise in future fiscal years. Management has based their recognition of the deferred tax asset on the operating budget previously approved, the Company's ability to meet this budget and its operating forecast moving forward.

Comprehensive (Loss) Gain After Taxes

Comprehensive gain for the three months ended June 30, 2016 was $199,145 or $0.00 per share, representing an increase of $543,354 from a comprehensive loss of $344,209 or $(0.00) per share for the same period in 2015.

COMPARISON FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015

Revenue

Revenue for the six months ended June 30, 2016 was $3,529,868, representing an increase of $371,897 from $3,157,971 for the same period in 2015. The comparison, discussed by segment, is as follows:

Devices and appliances

Revenue from our MobiKEY devices (MobiKEY Classic 2 device, MobiKEY Classic device and the MobiKEY Fusion device) and appliances (the DEFIMNET platform and the MobiNET Aggregation Gateway) segment for the six months ended June 30, 2016 was $120,758 representing an increase of $15,395 from $105,363 for the same period in 2015. Devices and appliances revenue as a percentage of total revenue represents 3.4% of total revenue for the current period as compared to 3.3% for the same period in the prior year. The largest contributing factor to the increase in devices and appliances revenue for the six months ended June 30, 2016, was a sale to a component of the U.S. Department of Interior during the first quarter of 2016.

Services

Revenue from our services segment (MobiKEY application software, and the DEFIMNET platform and other appliance licensing or yearly maintenance) for the six months ended June 30, 2016, was $3,407,479, representing an increase of $377,496 from $3,029,983 for the same period in 2015. Services revenue, as a percentage of total revenue, represents 96.5% for the current period as compared to 95.9% for the same period in the prior year. A portion of the increase in service revenue is the result of additional MobiKEY application software users with the U.S. Navy and improved exchange rates, from fiscal year 2015.

Deferred revenue as at June 30, 2016 increased by $2,840,932 to $4,541,352 from $1,700,420 as at December 31, 2015. The increase in the carrying amount of deferred revenue is primarily driven by MobiKEY application software renewals completed with components of the U.S. Department of Defense and U.S. Department of Homeland Security covering the service period April 1, 2016 to March 31, 2017 and May 1, 2016 to April 30, 2017 respectively.

Other revenue

Other revenue for the six months ended June 30, 2016 was $1,631, representing a decrease of $20,994 from $22,625 for the same period in 2015. Other revenue for the six months ended June 30, 2015 included working with a component of the U.S. Department of Homeland Security to deliver secure remote scanning capabilities as a feature addition to Route1's flagship technology, MobiKEY.

Gross profit

Gross profit is revenue minus the cost of revenue. The cost of revenue primarily includes the cost of our devices and appliances sold to clients, as well as the cost of their shipping and packaging, plus the cost to operate and maintain the Route1 MobiNET platform.

The cost of revenue for the six months ended June 30, 2016 was $688,936, representing an increase of $108,974 from $559,962 for the same period in 2015. The increase in the cost of revenue in 2016 is directly related to the cost to operate and maintain Route1's MobiNET (DEFIMNET) platforms, including new hires, salary increases and the increase cost associated with our U.S. denominated salaries due to exchange rate changes. In January 2016 Route1 increased its MobiNET (DEFIMNET) platform maintenance and support requirements as a result of the U.S. Department of the Interior (DOI) completing its Assessment and Authorization process and issuing an authority to operate for the MobiKEY technology and the DEFIMNET platform that the U.S. Fish and Wildlife Service had previously installed at a secure DOI Data Center in March 2015.

Gross profit for the six months ended June 30, 2016 was $2,840,932 or 80.4% of gross revenue, representing an increase of $242,923 from a gross profit of $2,598,009 or 82.3% of gross revenue for the same period in 2015.

Expenses

Operating expenses consist of general administration, research and development, and selling and marketing. Operating expenses for the six months ended June 30, 2016 were $2,630,943, representing an increase of $474,978, from $2,155,965 for the same period in 2015.

General administration

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

General administration expenses for the six months ended June 30, 2016 were $1,567,618, representing an increase of $185,385, from $1,382,233 for the same period in 2015 and the majority of the change can be summarized as follows:

- Professional fees increased by approximately $70,000 for the six months ended June 30, 2016 as compared to the same period in 2015. The increase was largely the result of hiring contractors to perform capital market activities, including investor relations.
- Depreciation expense increased by approximately $51,000 for the six months ended June 30, 2016 as

compared to the same period in 2015.
- Salaries and benefits expenses increased by approximately $29,000 for the six months ended June 30, 2016 as compared to the same period in 2015; the increase is due to increased headcount as well as salary increases.
- One time bonuses increased by approximately $32,000 for the six months ended June 30, 2016 as compared to the same period in 2015.

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 six months ended June 30, 2016 were $631,601, representing an increase of $165,331, from $466,270 for the same period in 2015 and the change can be summarized as follows:
- The Scientific Research and Experimental Development credit decreased by approximately $108,000 in 2016 as compared to 2015, the increase of the credit is the result of a change to recognizing the credit as projects become eligible throughout the year.
- Salaries and benefits expenses increased by approximately $57,000 for the six months ended June 30, 2016 as compared to the same period in 2015, as a result of increasing headcount.

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, 2016 were $431,724, representing an increase of $124,262, from $307,462 for the same period in 2015 and the majority of the change can be summarized as follows:
- Marketing costs increased by approximately $85,000 for the six months ended June 30, 2016 as compared to the same period in 2015; the Company hired an additional sales and marketing personnel.
- Corporate development costs, including travel expenses and tradeshow fees, increased by approximately $27,000 as compared to the same period in 2015.
- Sales commission expenses increased by approximately $10,000 for the six months ended June 30, 2016 compared to the same period in 2015 as a result of increased sales.

Other items

Stock-based compensation

Stock-based compensation was $206,900 for the six months ended June 30, 2016, an increase of $58,878 from $148,022 for the same period in 2015. The contributing factor to the higher expense was the increasing number of options vesting during the six months ended June 30, 2016 as compared to the same period in 2015.

Foreign exchange translation

The loss attributable to foreign exchange translation on balance sheet items such as Accounts Receivable, Accounts Payable and foreign bank accounts was $70,293 for the six months ended June 30, 2016, a decrease of $235,990 from a loss of $306,283 for the same period in 2015. There was volatility and fluctuation of the Canadian dollar against the U.S. dollar and the amount of U.S. dollars was at a seasonal high during the same period in 2015.

Income tax expense and deferred tax recovery

For the six months ended June 30, 2016 the Company recognized an income tax expense of $102,568, a decrease of $18,004 from $120,572 for the same period in 2015.

For the six months ended June 30, 2016, the Company also recognized a deferred tax asset of $102,568 (June 30, 2015 - $382,341). The recognized deferred tax asset relates to unused tax losses that are considered to be offset against the Company's taxable profits expected to arise in the current and coming year. Management has based their assessment on the budget previously approved, the Company's ability to meet this budget and its forecast moving forward.

Comprehensive Income After Taxes

Comprehensive loss for the six months ended June 30, 2016 was $66,953 or $(0.00) per share, a decrease of $316,461 from a comprehensive income of $249,508 or $0.00 per share for the same period in 2015.

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 condensed interim consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the consolidated annual 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 month period ended
(in thousands of Canadian dollars, except per share data)

	June 30 2016	Mar 31 2016	Dec 31 2015	Sept 30 2015	June 30 2015	Mar 31 2015	Dec 31 2014	Sept 30 2014
STATEMENT OF OPERATIONS								
Revenue								
Devices and appliances	**$51**	$69	$9	$42	$50	$55	$12	$33
Services	**1,760**	1,648	1,616	1,572	1,569	1,461	1,415	1,399
Other	**1**	1	-	-	1	22	58	-
Total revenue	**1,812**	1,718	1,625	1,614	1,620	1,538	1,485	1,432
Cost of revenue	**341**	348	284	320	294	266	242	322
Gross margin	**1,471**	1,370	1,341	1,294	1,326	1,272	1,243	1,110
Operating expenses								
General administration	**785**	782	792	693	705	677	776	636
Research and development	**299**	333	176	334	340	126	285	281
Selling and marketing	**215**	217	221	143	153	155	162	172
Total operating expenses	**1,299**	1,332	1,189	1,170	1,198	958	1,223	1,089
Operating profit before stock-based compensation	**172**	38	152	124	128	314	20	21
Stock-based compensation	**(80)**	(126)	(128)	(133)	(118)	(30)	(32)	(30)
Operating profit (loss) after stock-based compensation	**92**	(89)	24	(9)	10	284	(12)	(9)
Interest income	**-**	-	-	-	-	-	-	-
Foreign exchange translation	**107**	(177)	39	111	(354)	48	33	131
Comprehensive income (loss) for the period before income tax expense	**$199**	$(266)	$63	$102	$(344)	$332	$21	$122
Income tax expense	**103**	-	444	63	-	121	32	64
Deferred tax recovery	**(103)**	-	(758)	(63)	-	(383)	(32)	(152)
Comprehensive income (loss) for the period after income tax expense	**$199**	$(266)	$377	$102	$(344)	$594	$21	$210
Earnings (loss) per share	**$0.00**	$(0.00)	$0.00	$0.00	$(0.00)	$0.00	$0.00	$0.00
Adjusted EBITDA	**278**	171	279	242	227	404	107	110
CASH FLOW INFORMATION								
Operating activities	**$3,730**	$(758)	$(1,011)	$(874)	$2,621	$140	$(734)	$(879)
Investing activities	**(41)**	(6)	(52)	(96)	(158)	(367)	(71)	(29)
Financing activities	**(361)**	(80)	(119)	(65)	(272)	(29)	(263)	(86)
Net cash inflow (outflow)	**3,328**	(844)	(1,182)	(1,035)	2,191	(256)	(1,068)	(994)
Cash, beginning of period	**407**	1,251	2,433	3,468	1,277	1,533	2,601	3,595
Cash, end of period	**$3,735**	$407	$1,251	$2,433	$3,468	$1,277	$1,533	$2,601
BALANCE SHEET INFORMATION								
Working capital (deficiency)	**45**	66	$164	$6	$(185)	$377	$319	$479
Total assets	**$6,116**	$5,296	$3,656	$4,466	$5,494	$4,631	$2,976	$4,095
Shareholders' equity	**$1,296**	$1,377	$1,597	$1,210	$1,041	$1,539	$945	$1,155

The Company's revenue and financial results are difficult to forecast and have historically fluctuated on a quarterly basis, and it is expected that quarterly revenue and financial results will continue to fluctuate in the future as the Company continues growing. Fluctuations in results are related to the growth of the Company's revenue, the timing of revenue being recognized and sales to customers, who may place large single orders in any one quarter, and 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, prepaid expenses, accounts payable and deferred revenue; ii) investing activities, including the purchase of capital assets; and iii) financing activities, including the issuance of and/or repurchase of capital stock.

Cash used in operating activities

Cash generated by operating activities for the three months ended June 30, 2016 was $385,484 compared to cash used of $127,539 in the same period in 2015, representing an increase of $513,023. Non-cash working capital activities generated $3,344,434 for the three months ended June 30, 2016 compared to $2,749,372 generated in the same period a year earlier. Therefore net cash generated in the day–to-day operations for the three months ended June 30, 2016 was $3,729,918 compared to $2,621,833 generated in the same period in 2015, representing an increase of $1,108,085. The increase in cash generated during the three months ended June 30, 2016 compared to the same period in the prior year was primarily attributable to the relative size of the reduction in accounts receivable by the end of the period.

Cash flow generated from operating activities for the six months ended June 30, 2016 was $379,413, compared to cash flow generated of $324,206 in the same period in 2015, representing an increase of $55,207. Net change in working capital activities generated $2,592,564 for the six months ended June 30, 2016 compared to $2,437,328 generated in the same period a year earlier. Therefore net cash generated in the day–to-day operations for the six months ended June 30, 2016 was $2,971,977 compared to $2,761,534 in the same period in 2015, representing an increase of $210,443. The increase in net cash generated for the six months ended June 30, 2016 compared to the same period in the prior year is mainly due to the increase in deferred revenue for the six months ended June 30, 2016, a recognition of a deferred tax asset during the same period in the prior year, and timing of accounts payable.

Cash used in investing activities

Cash used in investing activities for the three months ended June 30, 2016 was $41,178 compared to cash used of $158,307 in the same period in 2015, representing a decrease in the outflow of cash of $117,129. The decrease in cash outflow is mainly the result of the purchase of additional fixed assets and intangible assets during the period in the prior year.

Cash flow used in investing activities for the six months ended June 30, 2016 was $47,756 compared to cash flow used of $524,887 in the same period in 2015, representing a decrease in the outflow of cash of $477,131. The decrease in cash outflow is the result of the purchase and installation of a DEFIMNET for the U.S. Department of the Interior during the prior year.

Cash used by financing activities

Cash used in financing activities for the three months ended June 30, 2016 was $360,417 compared to cash used of $272,292 for the same period in 2015. Cash used in financing activities for the six months ended June 30, 2016 was $440,120 compared to cash used of $301,243 for the same period in 2015.

The increase in cash outflow is the result of the Company repurchasing its common shares for cancellation. For additional information see **"SHARE REPURCHASE PROGRAM"** of this MD&A.

The Company's current business plan projects revenue growth in 2016 and beyond. The Company believes that its success in securing sales contract vehicles and/or growing sales with the U.S. government will lead to growth within the U.S. government and future opportunities 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 operating cash flow, the issuance of equity from private placements, and through the issuance of obligations under capital leases.

On October 4, 2011, the Company first entered into a $550,000 credit facility with a banking and financial services organization consisting of a $500,000 revolving demand operating facility and a $65,000 VISA facility. Most recently, on September 29, 2015 the credit facility was renewed. The revolving demand credit facility carries an interest rate equal to the lender's prime rate of interest plus 1.80%. The credit facility is secured by the assets of the Company. There is no minimum collateral asset value to access the first $100,000; accessing an amount in excess of $100,000 shall be based on the balance and term of the Company's trade accounts receivables outstanding plus the amount of SR&ED tax credits filed and refundable. The Company had not drawn on the facility as of June 30, 2016.

The following table discloses future payments as at June 30, 2016 committed by the Company over the next five (5) years and thereafter. It includes both principal and interest obligations required under capital lease agreements.

Contractual Obligations	Total	No later than 1 year	Later than one year and not later than five years	Later than five years
Operating leases	$759,690	$158,849	$600,841	$-

DEVICES AND APPLIANCES HELD FOR SALE

On a quarterly basis or when necessary management reviews the carrying value of inventory. Under IFRS, inventory must be recognized at the lower of cost and net realizable value, which is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale. As a result, for the quarters ended June 30, 2016 and 2015 management reviewed the sales mix of its MobiKEY Classic 3 device, MobiKEY Classic 2 device, MobiKEY Classic device, MobiKEY Fusion3 device, MobiKEY Fusion2 device and the MobiKEY Fusion device. In so doing, the Company forecast a selling price above cost for the Company's devices.

RELATED PARTY TRANSACTIONS

The Company has directors and officers who are considered related parties. The Company had the following transactions and/or outstanding amounts with related parties for the three and six months ended June 30, 2016 and 2015 comparatives. All transactions are recorded at their exchange amounts.

- The Company made payments (including HST) to 1220764 Ontario Inc. for management services provided by Mr. Tony P. Busseri, a director and the CEO of the Company in the amount of $115,825 for the three months ended June 30, 2016 (June 30, 2015 - $101,700) and $217,525 for the six months ended June 30, 2016 (June 30, 2015 - $203,400). For the three months ended June 30, 2016 the Company also incurred stock based compensation expense in the amount of $21,981 (June 30, 2015 - $45,262) and $66,391 for the six months ended June 30, 2016 (June 30, 2015 - $47,379).
- The Company incurred expenses (including CPP) payable to and on behalf of the independent members of the Board of Directors of $79,418 for the three months ended June 30, 2016 (June 30, 2015 - $79,418) and $158,836 for the six months ended June 30, 2016 (June 30, 2015 - $158,836). These transactions are in the normal course of operations and are paid or payable for directorship services. As at June 30, 2016, accounts payable included $79,418 owing to directors (June 30, 2015 - $79,418). For the three months ended June 30, 2016 the Company also incurred stock based compensation expense in the amount of $25,722 (June 30, 2015 - $54,999) and $77,451 for the six months ended June 30, 2016 (June 30, 2015 - $67,698).
- The Company made payments to or incurred expenses for key management (President, Chief Technology Officer, and the Chief Financial Officer) in the three and six months ended June 30, 2016 as follows, with 2015 comparatives.

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	**Six Months Ended June 30, 2016**	Six Months Ended June 30, 2015
Short-term employee benefits	**$209,299**	$179,184	**$401,008**	$346,580
Stock option expense	**35,002**	13,428	**63,706**	26,297
	$244,301	$192,612	**$464,714**	$372,877

PROPOSED TRANSACTIONS

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

CRITICAL ACCOUNTING ESTIMATES

The consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”). 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 audited financial statements in conformity with IFRS. 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, 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 (i.e. MC3 device, MC2 device, the MobiKEY Classic device and the MobiKEY Fusion3 device, the MobiKEY Fusion2 device and the MobiKEY Fusion device) and subscription services (i.e. MobiKEY application software). The Company recognizes revenue in accordance with IAS 18, “Revenue”.
- 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 (if any) 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 recognition of SRED tax credits and government grants (if any).
- 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.

FUTURE ACCOUNTING POLICY CHANGES

Financial Instruments

IFRS 9, "Financial Instruments" (IFRS 9), was issued by the IASB in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measure at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. Requirements relating to Hedge Accounting, representing a new hedge accounting model, have been added to IFRS 9 in November 2013. The new model represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements. The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Management is studying the impact of adopting IFRS 9 on the consolidated financial statements.

Revenue from Contracts with Customers

IFRS 15, "Revenue from Contracts with Customers" (IFRS 15), was issued by the IASB in May 2014 and will supersede current revenue recognition guidance, which is currently found across several standards and interpretations including IAS 11, Construction Contracts and IAS 18, Revenue. IFRS 15 provides a framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is in the process of assessing the impact of this standard on its consolidated financial statements.

Leases

IFRS 16, "Leases" (IFRS 16), is effective for years commencing on or after January 1, 2019, and replaces IAS 17, Leases. The standard provides a single lease accounting model, requiring leases to recognize assets and liabilities for almost all leases. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. Management is studying the impact of adopting IFRS 16 on the consolidated financial statements.

FINANCIAL INSTRUMENTS

Establishing fair value

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

The following table sets out the classification, carrying amount, and fair value of the Company's financial assets and liabilities as at June 30, 2016 and December 31, 2015:

	June 30, 2006		December 31, 2005	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
FINANCIAL ASSETS				
Loans and receivables				
Cash and cash equivalents (i)	**$3,735,343**	**$3,735,343**	$1,251,242	$1,251,242
Accounts receivable (i)	**$199,450**	**$199,450**	$292,521	$292,521
FINANCIAL LIABILITIES				
Other financial liabilities				
Accounts payable and other liabilities (i)	**$213,254**	**$213,254**	$291,242	$291,242

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

FINANCIAL INSTRUMENTS - RISK MANAGEMENT

The Company has exposure to credit risk, liquidity risk and market risk associated with its financial assets and liabilities. The Board has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board 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 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 to which they may be subject are set out in the following table:

	Credit	**Liquidity**	**Foreign Exchange**	**Interest Rate**
Cash and cash equivalents	Yes		Yes	Yes
Accounts receivable	Yes		Yes	
Accounts payable and other liabilities		Yes	Yes	

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 quarter ended June 30, 2016, the largest single customer represented approximately $726,484 of revenue (June 30, 2015 - $666,817).

Cash and cash equivalents

Cash and cash equivalents consist of bank balances. Credit risk associated with cash is minimized substantially by ensuring that these financial assets are held in highly rated financial institutions. At June 30, 2016, the Company had cash consisting of cash on hand and deposits with banks of $3,735,343 (December 31, 2015 - $1,251,242).

Accounts receivable

Accounts receivable consist primarily of accounts receivable from invoicing of devices and services. The Company's credit risk arises from the possibility that a customer which owes the Company money is unable or unwilling to meet its obligations in accordance with the terms and conditions in the contracts with the Company, which would result in a financial loss for the Company. This risk is mitigated through established credit management techniques, including monitoring customer's creditworthiness, setting exposure limits and monitoring exposure against these customer credit limits.

The carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the loss is recognized in the statement of comprehensive income. 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 comprehensive income. As at June 30, 2016, the largest single customer's accounts receivable represented $177,177 (June 30, 2015 – $131,778) of the total accounts receivable. This receivable was subsequently collected after the quarter.

The following table outlines the details of the aging of the Company's receivables as at June 30, 2016 and December 31, 2015:

	June 30, 2016	December 31, 2015
Current	**$198,432**	$141,790
Past due		
1 – 60 days	**-**	731
Greater than 60 days	**1,018**	-
Less: Allowance for doubtful accounts	**-**	-
Total accounts receivable, net	**$199,450**	$142,521

For the quarter ended June 30, 2016 and year ended December 31, 2015, there was a $nil balance for the allowance for doubtful accounts.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. In order to meet its financial liabilities, the Company has relied on collecting its accounts receivable, which by nature, are due predominately from government agencies with a high level of certainty of collection.

The Company's ability to manage its liquidity risk going forward will require some or all of the following: the ability to generate positive cash flows from operations and secure capital and/or credit facilities on reasonable terms in the current market place. The following table details the Company's contractual maturities for its financial liabilities, including interest payments and operating lease commitments, as at June 30, 2016:

	2016	2017	2018 and Beyond	Total
Accounts payable and other liabilities	$213,254	$-	$-	$213,254
Operating lease commitments	82,692	138,154	538,844	759,690
	$295,946	$138,154	$538,844	$972,944

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.

The functional currency of the parent company is Canadian dollars and the reporting currency is Canadian dollars. As at June 30, 2016, the Company had non-Canadian dollar net monetary assets of approximately US$1,966,011 (December 31, 2015 - approximately US$694,587). An increase or decrease in the U.S. to Canadian dollar exchange rate by 5% as at June 30, 2016 would have resulted in a gain in the amount of $126,975 or a loss of $126,975 (December 31, 2015 – gain or loss of $128,519). Any gain or loss would have been included in the determination of net income.

Interest rate

The Company has cash balances which may be exposed to interest rate fluctuations. At June 30, 2016, cash totalled $3,735,343 (December 31, 2015 - $1,251,242).

SHARE REPURCHASE PROGRAM

On September 22, 2015, the Company announced with approval from the TSX Venture Exchange its intention to make another NCIB. The NCIB permits the Company to purchase for cancellation up to 5% of the common shares in the public float. The maximum number of shares allowed for repurchase is 18,262,570. Purchases under the NCIB may occur during the 12 month period commencing September 27, 2015 and ending September 26, 2016, or the date upon which the maximum number of common shares have been purchased by the Company. Purchases under the NCIB during the period starting September 27, 2015 and ending June 30, 2016 were 12,144,000 common shares for cancellation.

For the quarter ended June 30, 2016, the Company in aggregate repurchased for cancellation 7,787,000 of its common shares for consideration of $359,160, at an approximate average price of $0.046 per share under the NCIB. The Company also incurred costs of $1,257 to complete the share repurchases during the quarter. For the quarter ended June 30, 2015, the Company repurchased for cancellation 5,668,500 of its common shares for consideration of $271,345 at an average price of $0.048 per share under the NCIB. The Company also incurred costs of $947 to complete the repurchase during the quarter ended June 30, 2015.

For the six months ended June 30, 2016, the Company in aggregate repurchased for cancellation 9,552,000 of its common shares for a consideration of $438,585, at an approximate average price of $0.046 per share under the NCIB. The Company also incurred costs of $1,535 to complete the share repurchases during the six months ended June 30, 2016. For the six months ended June 30, 2015, the Company repurchased for cancellation 6,408,500 of its common shares for a consideration of $300,195 at an average price of $0.047 per share under the NCIB. The Company also incurred costs of $1,048 to complete the repurchase during the six months ended June 30, 2015.

SHARE CAPITAL, WARRANTS AND CONTRIBUTED SURPLUS

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

- Unlimited number of common shares with voting rights and no par value.
- Unlimited number of non-cumulative, non-voting first preferred shares with no fixed dividend rate, issuable in series.
- Unlimited number of non-cumulative, non-voting second preferred shares with no fixed dividend rate, issuable in series.
- Unlimited number of non-cumulative, non-voting Series A first preferred shares with no fixed dividend rate, issuable in series and convertible into common shares at the option of the holder on a one-for-one basis at any time after October 31, 2000.

As of June 30, 2016, the following was outstanding:

	Number of Common Shares	$
Balance, January 1, 2016	362,659,414	$22,864,205
Shares issued/repurchased for cancellation	(9,552,000)	(440,120)
Balance, June 30, 2016	353,107,414	$22,424,085

- 32,639,000 common share purchase options ("Options") exercisable into 32,639,000 common shares.

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. In management's opinion, the following risk 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, if needed, on reasonable terms. Access to such financing at acceptable commercial terms will be dependent on the timing of recognition and receipt of cash from our current receivables and contracts, on our ability to demonstrate execution of our business strategy and the general condition of the credit and/or equity markets. Such additional financing may be dilutive in nature to existing shareholders.
- The Company's access to credit or capital could be restricted based on a global financial crisis which would restrict credit availability worldwide and could also impact its ability to continue operations.
- The Company's projected revenue in the short-term is tied to approximately US$4.5 million in renewals from MobiKEY application software subscriptions and a DEFIMNET platform maintenance agreement, with one or more U.S. Government ("USG") accounts. If one or more USG accounts were to discontinue their relationship with the Company, such events may have a material adverse impact on the Company's financial results.
- The Company's ability to collect payment on a timely basis for services delivered may have a material adverse impact on the Company's liquidity position.

- There is no assurance that any forward-looking statement will materialize. 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.
- Third-party claims for infringement of intellectual property rights by Route1, and the outcome of any litigation with respect thereto, may 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, may harm the Company's competitive advantage in the secure remote access industry;
- Route1's ability to obtain rights to use certain software or components which are supplied by third parties, may not be sufficient to support future sales volumes;
- The ability to run efficient and uninterrupted operation of Route1's MobiNET platform, which could impact on the credibility of the Company's product and services;
- Route1's ability to establish new, and to build on its existing customer base, could also slow the Company's continued growth;
- The occurrence of a breach or perception of a breach of Route1's secure product and service offering, may impact on the credibility of the Company's product and services;
- The inappropriate disclosure of confidential information of the Company may have an impact on the credibility of the Company's product and services;
- Competition, both with existing providers as well as with any future providers entering the marketplace, within the secure remote access industry may hamper future sales growth;
- Route1's reliance on its suppliers and the risk that suppliers will not be able to deliver required components on a timely basis, which may slow future sales growth;
- Any future government(s) regulation of the secure remote access industry, including but not limited to restrictions on encryption of the MobiKEY device and the MobiNET platform may hamper future growth;
- Any significant economic downturn, in geographic areas where Route1 engages in business activities, that may cause those government agencies to reduce discretionary budget spending in areas such as secure identity solutions.
- Any delays in the budget approval process by the U.S. government may delay the procurement and spending in areas such as digital security solutions.
- The U.S. Presidential election and the results of the U.S. Presidential election. A significant portion of the revenues of the Company are derived from U.S. governmental agencies and departments. During elections, governmental agencies and departments may defer material changes in their operations and purchases of products and services until following the election. A deferral could have a material adverse effect on the operations and results of operations of the Company during 2016. Furthermore, in connection with the U.S. Presidential election certain candidates have proposed measures and/or policies which they may seek to implement if they were elected as President, these include measures and policies related to changes to international trade agreements and policies favouring U.S. persons and companies. There is uncertainty as to which measures and policies will be actually taken and/or implemented by the candidates if they are elected as President and when such measures and policies would be implemented. Further, certain Chief Information Officers of governmental agencies in the United States are required to resign following the election of a new President. There is no assurance that a resigning Chief Information Officer will be reappointed or that a newly appointed Chief Information Officer will be supportive (or continue to be supportive) of the Company's products and services.

- The Company records transactions in Canadian dollars and conducts business both in Canada and internationally. The volatility of the Canadian dollar against currencies such as the U.S. dollar and the Euro can impact financial results negatively should the Canadian dollar appreciate significantly.

Audit Committee

The three members of the Audit Committee are independent and all meet the qualifications of a financial expert and all are financially literate as such term is defined in National Instrument 52-110 – Audit Committees.

Legal proceedings

In the normal course of operations, the Company may be subject to litigation claims from customers, suppliers, patent holders, resellers and former employees. A provision is recognized when the probability that the event will occur is greater than the probability that it will not. The Company regularly reviews any outstanding claims to see if they meet the criteria. A provision is calculated based on management's best estimate of probable outflow of economic resources.

REVENUE INFORMATION

The Company is organized and managed as a single reportable business entity with two distinct revenue streams, being devices and appliances, and services. The Company considers revenue realized or realizable and earned when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods; the Company does not retain any managerial involvement; it is probable that the economic benefits associated with the transaction will flow to the company and the amount of revenue can be measured reliably. For sale of devices, revenue is recognized at the time of shipment of the device which constitutes transfer of ownership of the device. Revenue for the services component is reported as deferred revenue on the statement of financial position and is recognized as earned revenue in the period which the service is provided. At June 30, 2016, the Company had $4,541,352 (December 31, 2015 - $1,700,420) in deferred revenue.

The following table provides a component presentation of the Company's revenue streams for the three months ended June 30, 2016 and 2015:

	2016		2015	
	Revenue	**% of Total**	Revenue	% of Total
Devices and appliances	**$51,588**	**2.8**	$50,146	3.1
Services	**1,759,955**	**97.1**	1,568,976	96.8
Other	**702**	**0.1**	1,232	0.1
	$1,812,245	**100.0**	$1,620,354	100.0

The following table provides a component presentation of the Company's revenue streams for the six months ended June 30, 2016 and 2015:

	2016		2015	
	Revenue	**% of Total**	Revenue	% of Total
Devices and appliances	**$120,758**	**3.4**	$105,363	3.3
Services	**3,407,479**	**96.5**	3,029,983	96.0
Other	**1,631**	**0.1**	22,625	0.7
	$3,529,868	**100.0**	$3,157,971	100.0

The following table provides a geographical presentation of the Company's revenue streams for the three months ended June 30, 2016 and 2015:

	2016		2015	
	Revenue	**% of Total**	Revenue	% of Total
USA	**$1,768,021**	**97.6**	$1,560,516	96.3
Canada	**44,224**	**2.4**	59,838	3.7
	$1,812,245	**100.0**	$1,620,354	100.0

The following table provides a geographical presentation of the Company's revenue streams for the six months ended June 30, 2016 and 2015:

	2016		2015	
	Revenue	**% of Total**	Revenue	% of Total
USA	**$3,434,538**	**97.3**	$3,036,674	96.2
Canada	**95,330**	**2.7**	121,297	3.8
	$3,529,868	**100.0**	$3,157,971	100.0

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 8 King Street East, Suite 600, Toronto, Ontario, Canada M5C 1B5 (telephone 416-848-8391).