ROUTE1 INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2017

As at April 17, 2018

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 audited consolidated financial statements and related notes as at and for the year ended December 31, 2017. These audited condensed consolidated financial statements, including comparatives, have been prepared in accordance with the 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 April 25, 2018, 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 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.

OVERVIEW

Route1 Inc. is a world-leader in secure data protection technologies and user authentication for government and enterprise. Route1 solutions enable the workforce to be more productive and more flexible without compromising system access, data-at-rest, or data-in-use. The Company's suite of patented enterprise security solutions combines best-in-class authentication, data security and secure communications with streamlined administration tools, running on a proven, trusted infrastructure. From mobile access to business continuity to best-in-class full system encryption, Route1 offers the most effective, affordable methods to secure the digital fortress, while meeting or exceeding the highest standards for government and industry. Route1 has Full Authority to Operate from the U.S. Department of Defense, the U.S. Department of the Navy, the U.S. Fish & Wildlife Service and other government agencies. The Company is also trusted by enterprise security teams in the banking, healthcare, legal and education sectors, among others. With offices in Washington, D.C., Boca Raton, FL and Toronto, Canada, Route1 serves public and private sector clients around the world. Route1 is listed on the OTCQB in the United States under the symbol ROIUF and in Canada on the TSX Venture Exchange under the symbol ROI. For more information, visit www.route1.com.

HIGHLIGHTS

- On February 9, 2017, the Company provided an operations update as follows:
  - As of December 31, 2016, Route1 had 17,883 paying, active subscribers. This represents an increase of 539 subscribers from the quarter ended September 30, 2016 and increase of 1,597 users from December 31, 2015.
  - Route1 appointed John Marino as a board director to assist the Company in working with the Trump administration, and the leadership of agencies in which Route1 has a strong interest in that agency's continued use and/or expansion of MobiKEY technology and the adoption of DerivID.

- A total of 1,000,000 stock options at an exercise price of $0.05 per share were granted to John Marino. The stock options expire on February 8, 2022 and will vest thirty percent on the first anniversary, thirty percent on the second anniversary and the remainder on the third anniversary.
- As of February 7, 2017, the Company purchased 2,884,000 common shares pursuant to the NCIB announced on September 27, 2016.

- On February 28, 2017, the Company announced its first MobiKEY order from the U.S. Marine Corps (USMC) for 50 MobiKEY application software licenses and 50 MobiKEY Fusion3 devices. The MobiKEY technology is now available on an enterprise-wide contract vehicle that allows all components of the USMC to procure MobiKEY.

- On March 27, 2017, the Company filed a complaint against AirWatch LLC (AirWatch) in the U.S. District Court for the District of Delaware for infringement of U.S. Patent No. 7,814,216, seeking damages and an injunction. The damages the Company will be seeking are material when compared to Route1's market capitalization. Route1 contends that AirWatch infringes on U.S. Patent No. 7,814,216 in violation of 35 U.S.C. § 271 through at least the operation of a cloud-based controller of what AirWatch refers to as "The AirWatch Enterprise Mobility Management System" (AirWatch EMM System) in order to facilitate secure communications between remote computing devices such as cell phones and tablets and resources residing on corporate networks, such as email and corporate intranets, and application programs such as spreadsheets and word processors.

- On March 28, 2017, the Company announced that the Company expects to renew all of its material contracts with its U.S. government clients with the exception of U.S. Customs and Border Protection (CBP). As a result of recent leadership changes in the office of the CIO at CBP, and a move by current technology leadership at CBP to closely align CBP's mobility plan with that set out by the recently resigned CIO at the Department of Homeland Security, CBP will not be renewing its license for 7,000 MobiKEY subscribers after its current subscription term ends on April 30, 2017. Despite the loss of CBP, Route1 believes that it will continue to generate positive EBITDA in calendar year 2017. The Company's plan for growth consists of organic growth from MobiKEY and DerivID sales, surfacing the value embedded in its intellectual property through litigation, licensing and other arrangements, and the release of new technologies, as well as through acquisitions, which collectively will serve as the roadmap to accelerated revenue and cash flow growth in calendar 2017.

- On April 27, 2017, the Company confirmed that it is not aware of any undisclosed material information related to the Company that would account for the recent decrease in the Company's share price and the increased level of trading activity in the shares of the Company.

- On June 13, 2017, the Company and HTM Sensors Inc. announced that they are partnering to deliver Spotlight, *Powered by MobiNE*T, a secure technology that delivers real-time industrial data analytics on data collected from Programmable Logic Controllers (PLCs) and other automation devices (including IIoT), providing quantitative-based actionable information to drive industrial process efficiency and maximizing productivity while minimizing unplanned downtime and cost. Spotlight, *Powered by MobiNET* has been architected to ensure security, ease of deployment and scalability.

- On July 27, 2017, the Company and HTM Sensors Inc. announced that they have entered into a trial for Spotlight, Powered by MobiNET with a tier 1 automotive parts manufacturer which has one of its plants located in North York, Ontario, Canada. Spotlight, Powered by MobiNET is a secure technology that delivers real-time industrial data analytics on data collected from Programmable Logic Controllers (PLCs) and other automation devices (including IIoT). The technology provides quantitatively-based actionable information to drive industrial process efficiency and maximize productivity while minimizing unplanned downtime and cost, and has been architected to ensure security, ease of deployment and scalability.

- On August 1, 2017, the Company announced that its wholly-owned subsidiary Route1 Security Corporation is working with the National Cybersecurity Center of Excellence (NCCoE) in the National Cybersecurity Center of Excellence Derived Personal Identity Verification Credentials Building Block to develop practical, interoperable cybersecurity approaches that address the real-world needs of complex Information Technology (IT) systems. By accelerating dissemination and use of these integrated tools and technologies for protecting IT assets, the NCCoE will: enhance trust in U.S. IT communications, data and storage systems; reduce risk for companies and individuals using IT systems; and encourage development of innovative, job-creating cybersecurity products and services.

- On August 23, 2017, the Company announced its second quarter financial results for the three and six months ended June 30, 2017. Along with the second quarter financial results, the Company provided the following operations update:
  - On August 10, 2017, the MobiKEY technology was approved by the USMC Change Control Board and is now a fully approved technology listed in the USMC DADMS database of approved software. USMC Commands that are interested in the MobiKEY technology can now proceed with procurement without requiring additional technology approvals to deploy the technology.
  - On August 2, 2017, Route1 received the signed Authority to Connect (ATC) document, leveraging the JSP RMF Authority to Operate to accelerate the issuance of the ATC. The issuance of the ATC is a significant milestone for Route1 and enables us to work directly with Army Commands interested in the MobiKEY technology.

- On September 15, 2017, the Company announced that it has provided the TSX Venture Exchange (the "Exchange") its Notice of Intention to move forward with a further normal course issuer bid ("NCIB"), subject to approval by the Exchange. The notice provides that Route1 may, during the 12-month period commencing September 27, 2017 and ending September 26, 2018, purchase on the Exchange up to 17,359,671 common shares in total, being approximately 5% of the outstanding common shares. The price which Route1 will pay for any such shares will be the market price at the time of acquisitions, provided, however, that Route1 will not pay more than $0.05 per common share.

- On October 23, 2017, the Company provided an operations update as follows:
  - As of September 30, 2017, Route1 had 12,261 paying, active subscribers. This represents an increase of 612 subscribers from the quarter ended June 30, 2017.
  - On July 27, 2017 Route1, and its partner HTM Sensors, announced that they had entered into a trial for Spotlight with a Tier 1 automotive parts manufacturer which has one of its plants located in North York, Ontario, Canada. The Spotlight technology has been operating on one production line at this plant since that date and, recently the manufacturer approved the installation of Spotlight on a second production line in the same plant.
  - In September 2017, HTM Sensors and Route1 installed Spotlight on a pilot basis at another Tier 1 manufacturer. This pilot has been successful and HTM Sensors is in discussions with the party to convert the pilot into a contract for the paid use of Spotlight. Four additional automotive parts manufacturers are also in various stages of provisioning for pilot or piloting Spotlight.
  - The litigation of the Company's patent infringement claim against AirWatch LLC is proceeding. The trial is scheduled for September 5 to 9, 2019. However, AirWatch has filed a petition with the

U.S. Patent Office to institute an Inter Partes review in which the Route1 patent claims are re-examined with AirWatch claiming that the subject patent is invalid. The U.S. Patent Office has until April 6, 2018 to render a decision on whether or not to institute a review. Should this review be granted, it is likely that the trial date will be delayed between one and one and a half years.

- On November 23, 2017, the Company announced that it has changed the name of its industrial data analytics offering to ActionPLAN, *Powered by MobiNET.* The Company also announced that a pilot with a global enterprise supplying engineered components, systems and services to the automotive industry at their Richmond Hill, Ontario plant was successful and has led to this client becoming a paying client as of November 1, 2017, utilizing ActionPLAN on one production line. This client's Richmond Hill plant has additional cells and lines that are prospective additional installations for ActionPLAN, *Powered by MobiNET*, in addition to two related plants in which HTM expects to start trials shortly. In aggregate this client operates a total of eight structure and suspension plants.

- On November 27, 2017, the Company announced that it received approval for all proposals submitted to shareholders at the Company's annual and special meeting of shareholders, which was held in Toronto, Ontario. The matters voted on and approved are as follows:
  - Mark S. Boensel, Peter F. Chodos, Tony P. Busseri, Louis De Jong, Michael F. Doolan, David Fraser, Michael D. Harris and John Marino were elected as the Company's Directors. Following the Meeting, the Board of Directors met and selected Mr. Harris to continue to serve as Chairman of the Board of Route1;
  - Collins Barrow LLP (now RSM Canada LLP), Chartered Accountants were appointed as the Company's auditors in respect of the year ending December 31, 2017;
  - Route1's stock option plan was re-approved;
  - The resolution authorizing the consolidation of the common shares of Route1 Inc. on the basis of up to 20 pre-consolidation common shares for every 1 post-consolidation common share, at the discretion of the Board of Directors of the Company, was approved; and
  - The adoption of an advance notice by-law was approved.

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, patent litigation, 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.

	For the Quarters Ended				
In thousands of Canadian dollars	**Dec 31 2017**	Sept 30 2017	June 30 2017	Mar 31 2017	Dec 31 2016
Adjusted EBITDA	**$24**	$(46)	$16	$406	$307
Depreciation and amortization	**99**	109	94	89	115
Operating (loss) profit before stock-based compensation and patent litigation expense	**$(75)**	$(155)	$(78)	$317	$192

SELECTED FINANCIAL INFORMATION

The following table outlines selected audited financial information of the Company on a consolidated basis for the three months and years ended December 31, 2017 and 2016.

(in thousands of Canadian dollars, except per share amounts)	**For the Three Months Ended**		**For The Year Ended**	
	Dec 31 2017	Dec 31 2016	**Dec 31 2017**	Dec 31 2016
STATEMENT OF OPERATIONS				
Revenue				
Subscription revenue and services	**$1,263**	$1,865	**$5,698**	$7,080
Devices and appliances	**109**	21	**321**	$363
Other	**48**	-	**51**	4
Total revenue	**1,420**	1,886	**6,070**	7,447
Cost of revenue	**331**	338	**1,325**	1,475
Gross profit	**1,089**	1,548	**4,745**	5,972
Operating expenses				
General administration	**696**	774	**2,902**	3,106
Research and development	**233**	268	**970**	1,185
Selling and marketing	**235**	314	**864**	939
Total operating expenses	**1,164**	1,356	**4,736**	5,230
Operating (loss) profit before stock-based compensation and patent litigation	**(75)**	192	**9**	742
Patent litigation	**(145)**	(56)	**(270)**	(56)
Stock-based compensation	**(48)**	(81)	**(265)**	(368)
Operating (loss) profit after stock-based compensation and patent litigation	**(268)**	55	**(526)**	318
Foreign exchange translation and interest income	**23**	36	**(84)**	12
Total comprehensive (loss) gain for the period before income tax	**$(245)**	$91	**$(610)**	$330
Income tax recovery	**-**	-	**-**	-
Total comprehensive (loss) gain for the period after income tax	**$(245)**	$91	**$(610)**	$330
(Loss) earnings per share	**$(0.00)**	$0.00	**$(0.00)**	$0.00
CASH FLOW INFORMATION				
Operating activities	**$(361)**	$(704)	**$(641)**	$1,587
Investing activities	**(10)**	(102)	**(248)**	(198)
Financing activities	**-**	(147)	**(19)**	(695)
Net cash inflow/(outflow)	**(371)**	(953)	**(908)**	694
Cash, beginning of period	**1,408**	2,898	**1,945**	1,251
Cash, end of period	**$1,037**	$1,945	**$1,037**	$1,945
Working capital	**$206**	$411	**$206**	$411
Total assets	**$3,171**	$4,190	**$3,171**	$4,190
Shareholders' equity	**$1,236**	$1,600	**$1,236**	$1,600

COMPARISON FOR THE THREE MONTHS ENDED DECEMBER 31, 2017 AND 2016

Revenue

Revenue for the three months ended December 31, 2017 was $1,420,242, representing a decrease of $466,162 from $1,886,404, for the same period in 2016. The comparison, discussed by segment, is as follows:

Subscription Revenue and Services

Revenue from the subscription revenue and services segment (MobiKEY application software, the DEFIMNET platform and other appliance licensing or yearly maintenance) for the three months ended December 31, 2017, was $1,263,117, representing a decrease of $601,542 from $1,864,659, for the same period in 2016. The decrease is a result of a reduction in the number of paid, active MobiKEY application software users with U.S. Customs and Border Protection, an agency of the U.S. Department of Homeland Security.

Subscription revenue and services, as a percentage of total revenue, represented 88.9% for the current period as compared to 98.8% for the prior year period.

Subscription revenue and services by quarter *(in thousands of Canadian dollars)*	**Dec 31 2017**	Sept 30 2017	June 30 2017	Mar 31 2017	Dec 31 2016
MobiKEY application software revenue	**$1,262**	$1,176	$1,347	$1,759	$1,702
Other services revenue	**1**	1	-	152	163
Total	**$1,263**	$1,177	$1,347	$1,911	$1,865

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)*	**Dec 31 2017**	Sept 30 2017	June 30 2017	Mar 31 2017	Dec 31 2016
Closing Number	**12,421**	12,261	11,649	18,270	17,883
Average Number(1)	**12,362**	11,979	13,791	18,098	17,534
Revenue per Subscriber(2)	**$408**	$393	$391	$389	$388
Revenue	**$1,262**	$1,176	$1,347	$1,759	$1,702

(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.

Devices and Appliances

Revenue from MobiKEY devices (MobiKEY Classic 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 December 31, 2017 was $108,723, representing an increase of $87,154 from $21,569 for the same period in 2016.

On a quarterly basis or when necessary, management reviews the carrying value of inventory. Inventory is valued 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. Devices and appliances revenue as a percentage of total revenue represented 7.6% of total revenue for the current period compared to 1.1% for the prior year period.

Other revenue

Other revenue for the three months ended December 31, 2017 was $48,402, representing an increase of $48,226 from $176 for the same period in 2016. Other revenue for the three months ended December 31, 2017 included proceeds of grant from the Ontario Chamber of Commerce and Ontario Centres of Excellence.

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 shipping and packaging, plus the cost to operate and maintain the Route1 MobiNET platform.

The cost of revenue for the three months ended December 31, 2017 was $330,644, representing a decrease of $7,091 from $337,735 for the same period in 2016.

Gross profit for the three months ended December 31, 2017 was $1,089,598 or 76.7% of gross revenue, representing a decrease of $459,071 from a gross profit of $1,548,669 or 82.1% of gross revenue for the same period in 2016.

Expenses

Operating expenses consist of general administration, research and development, and selling and marketing. Operating expenses for the three months ended December 31, 2017 were $1,164,763, representing a decrease of $191,726, from $1,356,489, for the same period in 2016.

General administration

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

General administration expenses for the three months ended December 31, 2017 were $696,481 representing a decrease of $78,197 from $774,678 for the same period in 2016. The majority of the change can be summarized as follows:

- Professional fees decreased by approximately $32,000 for the three months ended December 31, 2017 as compared to the same period in 2016 as a result of the Company reducing third party costs for communications and investor relations.
- Other indirect costs, such as service charges and bank fees, decreased by approximately $23,000 for the three months ended December 31, 2017 as compared to the same period in 2016.
- Amortization expense decreased by approximately $16,000 for the three months ended December 31, 2017 as compared to the same period in 2016 as a result of fewer assets being amortized.

Research and development

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

Research and development expenses for the three months ended December 31, 2017 were $232,963, representing a decrease of $34,841, from $267,804, for the same period in 2016. The majority of the change can be summarized as follows:

- Salaries and benefits decreased by approximately $35,000 for the three months ended December 31, 2017 as compared to the same period in 2016. The decrease is the result of a reduction in head count.

Selling and marketing

Selling and marketing expenses consist primarily of salaries and commissions, agent fees, marketing and trade shows, and travel and entertainment.

Selling and marketing expenses for the three months ended December 31, 2017 were $235,319, representing a decrease of $78,688 from $314,007, for the same period in 2016. The majority of the change can be summarized as follows:

- Travel related costs decreased by approximately $20,000 for the three months ended December 31, 2017 as compared to the same period in 2016 due to less travel.
- Corporate advisory services decreased by approximately $19,000 for the three months ended December 31, 2017 as compared to the same period in 2016 as a result of fewer expenses related to merger and acquisition opportunities.
- Tradeshow costs decreased by approximately $16,000 for the three months ended December 31, 2017 compared to the same period in 2016 due to less tradeshows attended.
- Brand building services decreased by approximately $13,000 for the three months ended December 31, 2017 as the Company reduced third party marketing costs.

Other Items

Patent litigation

Patent litigation expenses consist of legal fees and other third party costs incurred to prosecute cases of alleged patent infringement. Legal costs to prosecute the alleged patent infringement complaint are expensed as incurred with any potential gain on settlement to be recognized on realization.

Patent litigation expenses for the three months ended December 31, 2017 were $144,647 compared to $56,292 for the three months ended December 31, 2016.

On March 27, 2017, the Company filed a complaint against AirWatch LLC (AirWatch) in the US District Court for the District of Delaware for infringement of Route1's U.S. Patent No. 7,814,216 (the "216 Patent"), seeking damages and an injunction. On June 1, 2017, the Company served AirWatch with the complaint.

Route1 alleges that AirWatch infringes on the 216 Patent through at least the operation of a cloud-based controller of what AirWatch refers to as "The AirWatch Enterprise Mobility Management System" (AirWatch EMM System) in order to facilitate secure communications between remote computing devices such as cell phones, remote computing devices and resources residing on corporate networks such as email and corporate intranets and application programs such as spreadsheets and word processors.

On July 24, 2017, AirWatch filed its answer, defenses and counterclaims to the Company's complaint. In summary, AirWatch denies that it infringes on the 216 Patent; denies that the 216 Patent is valid; and denies the Company is entitled to the relief sought. AirWatch counterclaimed against the Company seeking declaratory judgments of non-infringement and invalidity as well as costs, disbursements and reasonable legal fees incurred in connection with the complaint.

On September 22, 2017, AirWatch and VMWare, Inc. (parent company of AirWatch) filed a petition for Inter Partes Review (IPR) with the United States Patent and Trademark Office (USPTO). Route1 filed its preliminary response to the petition on December 22, 2017. On March 20, 2018, the USPTO upheld Route1's position and denied the institution of the IPR.

In the interim, the litigation continues according to the court ordered schedule. Further details can be found on: https://www.route1.com/investors/patent-litigation/.

Stock-based compensation

Stock-based compensation was $48,393 for the three months ended December 31, 2017, a decrease of $32,891 from $81,284 for the same period in 2016. The contributing factor to the lower expense was the reduction in the number of options vesting during the three months ended December 31, 2017 as compared to the same period in 2016.

Foreign exchange (loss) gain

Foreign exchange gains or losses are primarily attributable to fluctuations in the Canadian/U.S. dollar exchange rates. The gain attributable to foreign exchange translation on balance sheet items such as Accounts Receivable, Accounts Payable and bank accounts denominated in foreign currencies was $23,481 for the three months ended December 31, 2017, a decrease of $13,029 from a gain of $36,510 for the same period in 2016. There was significant volatility of the Canadian dollar against the U.S. dollar during the fourth quarter of 2017, from a high of 1.2472 to a low of 1.2893.

The functional currency of the parent company is Canadian dollars and the reporting currency is Canadian dollars. As at December 31, 2017, the Company had non-Canadian dollar net monetary assets of approximately US$961,824 (December 31, 2016 - approximately US$1,048,037). An increase or decrease in the U.S. to Canadian dollar exchange rate by 5% as at December 31, 2017 would have resulted in a gain in the amount of CAD$60,330 or a loss of CAD$60,330 (December 31, 2016 – gain or loss of CAD $70,360). Any gain or loss would have been included in the determination of net income.

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 December 31, 2017, the Company recognized an income tax expense of $183,626 and an offsetting deferred tax asset of equal value. For the same period in 2016, the Company recognized an income tax expense of $449,043 and an offsetting deferred tax asset of equal value.

The recognized deferred tax asset relates to unused tax losses that are available 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 loss for the three months ended December 31, 2017 was $244,724 or $(0.00) per share, representing a decrease of $335,838 from a comprehensive gain of $91,114 or $0.00 per share for the same period in 2016.

COMPARISON FOR THE YEAR ENDED DECEMBER 31, 2017 AND 2016

Revenue

Revenue for the year ended December 31, 2017 was $6,070,326, representing a decrease of $1,377,162 from $7,447,488, for the same period in 2016. The comparison, discussed by segment, is as follows:

Subscription Revenue and Services

Revenue from the services segment (MobiKEY application software, the DEFIMNET platform and other appliance licensing or yearly maintenance) for the year ended December 31, 2017, was $5,698,449 representing a decrease of $1,382,013 from $7,080,462, for the same period in 2016. The decrease is a result of a reduction in the number of paid, active MobiKEY application software users with U.S. Customs and Border Protection, an agency of the U.S. Department of Homeland Security.

Services revenue, as a percentage of total revenue, represented 93.9% for the current period as compared to 95.0% for the prior year period.

Deferred revenue as at December 31, 2017 decreased by $656,533 to $1,526,135 from $2,182,668 as at December 31, 2016. The decrease in the carrying amount of deferred revenue is primarily a result of a reduction in the number of paid, active MobiKEY application software users with U.S. Customs and Border Protection, an agency of the U.S. Department of Homeland Security.

Devices and Appliances

Revenue from MobiKEY devices (MobiKEY Classic 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 year ended December 31, 2017 was $321,074, representing a decrease of $41,957 from $363,031 for the same period in 2016.

Devices and appliances revenue as a percentage of total revenue represents 5.3% of total revenue for the current period compared to 4.9% for the prior year period.

Other revenue

Other revenue for the year ended December 31, 2017 was $50,803, representing an increase of $46,808 from $3,995 for the same period in 2016. Other revenue for the year ended December 31, 2017 included grants from the Ontario Chamber of Commerce and Ontario Centres of Excellence.

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 shipping and packaging, plus the cost to operate and maintain the Route1 MobiNET platform.

The cost of revenue for the year ended December 31, 2017 was $1,325,038, representing a decrease of $149,913 from $1,474,951 for the same period in 2016. A large portion of the decrease in cost of revenue for the year ended December 31, 2017 is the result of decreased device and appliance sales compared to the same period in the prior year.

Gross profit for the year ended December 31, 2017 was $4,745,288 or 78.2% of gross revenue, representing a decrease of $1,227,249 from a gross profit of $5,972,537 or 80.2% of gross revenue for the same period in 2016.

Expenses

Operating expenses consist of general administration, research and development, and selling and marketing. Operating expenses for the year ended December 31, 2017 were $4,736,093, representing a decrease of $494,444, from $5,230,537, for the same period in 2016.

General administration

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

General administration expenses for the year ended December 31, 2017 were $2,901,745 representing a decrease of $204,190, from $3,105,935 for the same period in 2016. The majority of the change can be summarized as follows:

- Professional fees decreased by approximately $120,000 for the year ended December 31, 2017 as compared to the same period in 2016 as a result of the Company reducing third party costs for communications and investor relations.
- Bonuses paid to non-management personnel decreased by approximately $80,000 for the year ended December 31, 2017 as the Company paid no bonuses in the current period as compared to the same period in 2016.

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 year ended December 31, 2017 were $970,044, representing a decrease of $214,882, from $1,184,926, for the same period in 2016. The majority of the change can be summarized as follows:

- Salaries and benefits decreased by approximately $228,000 for the year ended December 31, 2017 as compared to the same period in 2016. The decrease is the result of a reduction in head count and the capitalization of salaries in relation to the development of application software for ActionPLAN, *Powered by MobiNET*.
- The Scientific Research and Experimental Development credit decreased by approximately $13,000 for the year ended December 31, 2017, resulting from management's estimate of fewer eligible hours.

Selling and marketing

Selling and marketing expenses consist primarily of salaries and commissions, agent fees, marketing and trade shows, and travel and entertainment.

Selling and marketing expenses for the year ended December 31, 2017 were $864,304, representing a decrease of $75,372 from $939,676, for the same period in 2016. The majority of the change can be summarized as follows:

- Brand building services decreased by approximately $82,000 for the year ended December 31, 2017 as the Company reduced third party marketing costs.
- Investor conference calls and webcasts costs increased by approximately $5,000 for the year ended December 31, 2017 as a result of increased investor relations.

Other Items

Patent litigation

Patent litigation expenses consist of legal fees and other third party costs incurred to prosecute cases of alleged patent infringement. Legal costs to prosecute the alleged patent infringement complaint are expensed as incurred with any potential gain on settlement to be recognized on realizations.

Patent litigation expenses for the year ended December 31, 2017 were $270,374 compared to $56,292 for the year ended December 31, 2016.

On March 27, 2017, the Company filed a complaint against AirWatch LLC (AirWatch) in the US District Court for the District of Delaware for infringement of Route1's U.S. Patent No. 7,814,216 (the "216 Patent"), seeking damages and an injunction. On June 1, 2017, the Company served AirWatch with the complaint.

Route1 alleges that AirWatch infringes on the 216 Patent through at least the operation of a cloud-based controller of what AirWatch refers to as "The AirWatch Enterprise Mobility Management System" (AirWatch EMM System) in order to facilitate secure communications between remote computing devices such as cell phones, remote computing devices and resources residing on corporate networks such as email and corporate intranets and application programs such as spreadsheets and word processors.

On July 24, 2017, AirWatch filed its answer, defenses and counterclaims to the Company's complaint. In summary, AirWatch denies that it infringes on the 216 Patent; denies that the 216 Patent is valid; and denies the Company is entitled to the relief sought. AirWatch counterclaimed against the Company seeking declaratory judgments of non-infringement and invalidity as well as costs, disbursements and reasonable legal fees incurred in connection with the complaint.

On September 22, 2017, AirWatch and VMWare, Inc. (parent company of AirWatch) filed a petition for Inter Partes Review (IPR) with the United States Patent and Trademark Office (USPTO). Route1 filed its preliminary response to the petition on December 22, 2017. On March 20, 2018, the USPTO upheld Route1's position and denied the institution of the IPR.

In the interim, the litigation continues according to the court ordered schedule. Further details can be found on: https://www.route1.com/investors/patent-litigation/.

Stock-based compensation

Stock-based compensation was $264,888 for the year ended December 31, 2017, a decrease of $103,309 from $368,197 for the same period in 2016. The contributing factor to the lower expense was the reduction of the number of options vesting during the year ended December 31, 2017 as compared to the same period in 2016.

Foreign exchange (loss) gain

Foreign exchange gains or losses are primarily attributable to fluctuations in the Canadian/U.S. dollar exchange rates. The loss attributable to foreign exchange translation on balance sheet items such as Accounts Receivable, Accounts Payable and bank accounts denominated in foreign currencies was $83,930 for the year ended December 31, 2017, a decrease of $95,910 from a gain of $11,980 for the same period in 2016. There was volatility and fluctuation of the Canadian dollar against the U.S. dollar during the same period in 2016.

The functional currency of the parent company is Canadian dollars and the reporting currency is Canadian dollars. As at December 31, 2017, the Company had non-Canadian dollar net monetary assets of approximately US$961,824 (December 31, 2016 - approximately US$1,048,037). An increase or decrease in the U.S. to Canadian dollar exchange rate by 5% as at December 31, 2017 would have resulted in a gain in the amount of CAD$60,330 or a loss of CAD$60,330 (December 31, 2016 – gain or loss of CAD $70,360). Any gain or loss would have been included in the determination of net income.

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 year ended December 31, 2017, the Company recognized an income tax expense of $444,626 and an offsetting deferred tax asset of equal value. For the same period in 2016, the Company recognized an income tax expense of $682,568 and an offsetting deferred tax asset of equal value.

The recognized deferred tax asset relates to unused tax losses that are available 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 loss for the year ended December 31, 2017 was $609,997 or $(0.00) per share, representing a decrease of $939,739 from a comprehensive income of $329,742 or $0.00 per share for the same period in 2016.

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)

	Dec 31 2017	Sept 30 2017	June 30 2017	Mar 31 2017	Dec 31 2016	Sept 30 2016	June 30 2016	Mar 31 2016
STATEMENT OF OPERATIONS								
Revenue								
Subscription revenue and services	**$1,263**	$1,177	$1,347	$1,911	$1,865	$1,808	$1,760	$1,648
Devices and appliances	**109**	159	24	30	21	221	51	69
Other	**48**	2	-	-	-	2	1	1
Total revenue	**1,420**	1,338	1,371	1,941	1,886	2,031	1,812	1,718
Cost of revenue	**331**	362	298	335	338	448	341	348
Gross margin	**1,089**	976	1,073	1,606	1,548	1,583	1,471	1,370
Operating expenses								
General administration	**696**	724	713	769	774	764	785	782
Research and development	**233**	230	225	281	268	285	299	333
Selling and marketing	**235**	177	213	239	314	194	215	217
Total operating expenses	**1,164**	1,131	1,151	1,289	1,356	1,243	1,299	1,332
Operating (loss) profit before stock-based compensation and patent litigation	**(75)**	(155)	(78)	317	192	340	172	38
Patent litigation	**(145)**	(46)	(80)	-	(56)	-	-	-
Stock-based compensation	**(48)**	(54)	(66)	(96)	(81)	(80)	(80)	(127)
Operating (loss) profit after stock-based compensation and patent litigation	**(268)**	(255)	(224)	221	55	260	92	(89)
Foreign exchange translation and interest income	**23**	(83)	(11)	(13)	36	46	107	(177)
Comprehensive (loss) income for the period before income tax expense	**$(245)**	$(338)	$(235)	$208	$91	$306	$199	$(266)
Income tax expense	**184**	28	54	179	449	132	103	-
Deferred tax recovery	**(184)**	(28)	(54)	(179)	(449)	(132)	(103)	-
Comprehensive (loss) income for the period after income tax expense	**$(245)**	$(338)	$(235)	$208	$91	$306	$199	$(266)
(Loss) earnings per share	**$(0.00)**	$(0.00)	$(0.00)	$0.00	$0.00	$0.00	$0.00	$(0.00)
Adjusted EBITDA	**24**	(46)	16	406	307	447	278	171
CASH FLOW INFORMATION								
Operating activities	**$(361)**	$(623)	$1,552	$(1,209)	$(704)	$(681)	$3,730	$(758)
Investing activities	**(10)**	(45)	(160)	(33)	(102)	(48)	(41)	(6)
Financing activities	**-**	(4)	(15)	-	(147)	(108)	(361)	(80)
Net cash inflow (outflow)	**(371)**	(672)	1,377	(1,242)	(953)	(837)	3,328	(844)
Cash, beginning of period	**1,408**	2,080	703	1,945	2,898	3,735	407	1,251
Cash, end of period	**$1,037**	$1,408	$2,080	$703	$1,945	$2,898	$3,735	$407
BALANCE SHEET INFORMATION								
Working capital	**$206**	$322	$527	$777	$411	$382	$45	$66
Total assets	**$3,171**	$4,081	$4,213	$3,114	$4,190	$5,230	$6,116	$5,296
Shareholders' equity	**$1,236**	$1,432	$1,720	$1,904	$1,600	$1,574	$1,296	$1,377

The Company's revenue and financial results are difficult to forecast and have historically fluctuated on a quarterly basis. 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 fluctuations in the levels 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 generated in operating activities

Cash flow used in operating activities for the year ended December 31, 2017 was $641,078, compared to cash flow generated of $1,586,741 in the same period in 2016, representing a decrease of $2,227,819. Non-cash working capital used was $698,083 for the year ended December 31, 2017 compared to $419,685 generated in the same period a year earlier. Net cash generated in the day–to-day operations for the year ended December 31, 2017 was $57,005 compared to $1,167,056 generated in the same period in 2016, representing a decrease of $1,110,051. The increase in cash used during the year ended December 31, 2017 compared to the same period in the prior year was primarily attributable to the relative decrease in deferred revenue compared to the prior period.

Cash used in investing activities

Cash used in investing activities for the year ended December 31, 2017 was $248,388 compared to cash used of $197,639 in the same period in 2016, representing an increase of $50,749. The increase in cash outflow is mainly the result of equipment purchased and the development of application software for ActionPLAN, *Powered by MobiNET*.

Cash used in financing activities

Cash used in financing activities for the year ended December 31, 2017 was $18,659 compared to cash used of $694,795 for the same period in 2016. For additional information see **"SHARE REPURCHASE PROGRAM"** of this MD&A.

The Company's current business plan projects revenue growth in 2018 and beyond. The Company believes that its success in securing sales contract vehicles with the U.S. government will lead to growth within the U.S. government and future opportunities with other governments. The Company believes that sales from ActionPLAN, *Powered by MobiNET*, will increase in 2018 and beyond.

The Company's need for capital 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 the issuance of obligations under capital leases.

On August 14, 2017, the Company's credit facility consisting of a $500,000 revolving demand operating facility and $75,000 credit card facility was renewed. The revolving demand credit facility carries an interest rate equal to the lender's prime rate of interest plus 1% and is secured by the assets of the Company. The Company had not drawn on the facility as of December 31, 2017 or December 31, 2016.

The following table discloses future rent payments as at December 31, 2017 committed by the Company over the next five years and thereafter.

Contractual Obligations	No later than 1 year	Later than one year and not later than five years	Later than five years	Total
Operating leases	$178,919	$593,278	$ -	$772,197

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 years ended December 31, 2017 and 2016 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 $378,550 for the year ended December 31, 2017 (December 31, 2016 - $425,633). For the year ended December 31, 2017 the Company also incurred stock-based compensation expense in the amount of $51,848 (December 31, 2016 - $109,690).
- The Company incurred expenses (including CPP and EHT) payable to and on behalf of the independent members of the Board of Directors of $314,611 for the year ended December 31, 2017 (December 31, 2016 - $308,109). These transactions are in the normal course of operations and are paid or payable for directorship services. As at December 31, 2017, accounts payable included $78,799 owing to directors (December 31, 2016 - $70,049). For the year ended December 31, 2017 the Company also incurred stock based compensation expense related to stock options granted to directors in the amount of $73,250 (December 31, 2016 - $122,219).
- The Company made payments to or incurred expenses for key management (President, Chief Technology Officer and the Chief Financial Officer) in the year ended December 31, 2017 as follows, with 2016 comparatives:

	Year Ended December 31, 2017	Year Ended December 31, 2016
Short-term employee benefit	**$836,112**	$800,424
Stock-based compensation expense	**137,815**	138,331
	$973,927	$938,755

TRANSACTION SUBSEQUENT TO YEAR END

On March 7, 2018, the Company entered into an agreement to acquire Group Mobile Int'l, LLC from XpresSpa Group, Inc. Group Mobile, with offices in Chattanooga, Tennessee and Chandler, Arizona, supplies rugged mobile technology solutions to manufacturing companies and suppliers as well to state and local governments in the southeastern and southwestern United States.

The acquisition was completed on March 22, 2018 and the Company issued to XpresSpa 25 million common shares and 30 million, three year common share purchase warrants with an exercise price of CAD 5 cents per share. Post closing, XpresSpa will own approximately 6.7% (undiluted) of the Company's common shares.

There may also be one or more payments made to XpresSpa based on the gross profit of Group Mobile meeting a minimum threshold in each 12-month period during the first three years post-closing or for the three years in aggregate post-closing. Specifically, if the gross profit of Group Mobile is in excess of USD $3,750,000 per 12-month period, then XpresSpa will receive 27.5% of the actual gross profit amount greater than USD $3,750,000. If the gross profit target is missed in the first or second year, no subsequent annual earn-out payment(s) will be made. There is also a cumulative earn-out that is equal to 27.5% of the Group Mobile gross profit for the first 36 months post-closing that is in excess of $11,250,000 less any annual earn-out amounts previously made.

The Company is assessing the purchase price allocation of the net assets acquired.

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 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 measured 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. The Company is assessing 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 has completed the process of assessing the impact of this standard on its consolidated financial statements and has determined that as of January 1, 2018, device revenue and the associated cost of goods sold will be recognized rateably over the life of the nearest term subscription contract. The Company expects that the impact on its financial statements will not be material.

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 lessee accounting model, requiring lessee 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. The Company is assessing 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 December 31, 2017 and December 31, 2016:

	December 31, 2017		December 31, 2016	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
FINANCIAL ASSETS				
Cash and cash equivalents	**$1,037,424**	**$1,037,424**	$1,945,549	$1,945,549
Accounts receivable	**$333,023**	**$333,023**	$181,848	$181,848

FINANCIAL LIABILITIES				
Accounts payable and other liabilities	**$333,451**	**$333,451**	$345,048	$345,048

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 year ended December 31, 2017, the largest single customer represented approximately $2,250,576 of revenue (December 31, 2016 - $2,888,259).

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 December 31, 2017, the Company had cash consisting of deposits with Schedule 1 banks in Canada and their subsidiaries in the U.S. of $1,037,424 (December 31, 2016 - $1,945,549).

Accounts receivable

Accounts receivable consist primarily of accounts receivable from invoicing for subscriptions, 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 December 31, 2017, the largest single customer's account receivable represented $227,623 (December 31, 2016 – $106,083) of the total accounts receivable. This receivable was collected in full after the year end.

The following table outlines the details of the aging of the Company's receivables as at December 31, 2017 and December 31, 2016:

	December 31, 2017	December 31, 2016
Current	**$333,023**	$181,848
Past due		
1 – 60 days	**-**	-
Greater than 60 days	**-**	-
Less: Allowance for doubtful accounts	**-**	-
Total accounts receivable, net	**$333,023**	$181,848

For the year ended December 31, 2017 and year ended December 31, 2016, 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 December 31, 2017:

	2018	**2019**	**2020 and Beyond**	**Total**
Accounts payable and other liabilities	$333,451	$-	$-	$333,451
Operating lease commitments	178,919	181,034	412,244	772,197
	$512,370	$181,034	$412,244	$1,105,648

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the fair value of recognized assets and liabilities or future cash flows or the Company's results of operation.

Foreign exchange

The functional currency of the parent company is Canadian dollars and the reporting currency is Canadian dollars. As at December 31, 2017, the Company had non-Canadian dollar net monetary assets of approximately US$961,824 (December 31, 2016 - approximately US$1,048,037). An increase or decrease in the U.S. to Canadian dollar exchange rate by 5% as at December 31, 2017 would have resulted in a gain in the amount of CAD$60,330 or a loss of CAD$60,330 (December 31, 2016 – gain or loss of CAD$70,360). 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 December 31, 2017, cash balances were $1,037,424 (December 31, 2016 - $1,945,549) and the interest rate sensitivity was not material.

SHARE REPURCHASE PROGRAM

On September 16, 2016, 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 17,563,870. Purchases under the NCIB may occur during the 12 month period commencing September 27, 2016 and ending September 26, 2017, or the date upon which the maximum number of common shares have been purchased by the Company. Purchases for cancellation under the NCIB during the period from September 27, 2016 to September 26, 2017 were 3,884,000 common shares.

On September 15, 2017, 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 17,359,671. Purchases under the NCIB may occur during the 12 month period commencing September 27, 2017 and ending September 26, 2018, or the date upon which the maximum number of common shares have been purchased by the Company. There have been no common shares purchased for cancellation under the NCIB during the period from September 27, 2017 to December 31, 2017.

For the year ended December 31, 2017, the Company repurchased for cancellation 1,000,000 of its common shares for consideration of $15,000, at an approximate average price of $0.015 per share under the NCIB. The Company also incurred an expense of $3,659 for regulatory cost to set up the new NCIB and to complete the share repurchases during the year. For the year ended December 31, 2016, the Company repurchased for cancellation 14,466,000 of its common shares for consideration of $688,785, at an approximate average price of $0.048 per share under the NCIB. The Company also incurred an expense of $6,010 for regulatory cost to set up the new NCIB and to complete the share repurchases during the year.

SHARE CAPITAL, OPTIONS 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 at December 31, 2017, the following was outstanding:

	Number of Common Shares	Common Shares $
Balance, January 1, 2017	348,193,414	$22,169,410
Shares issued/repurchased for cancellation	(1,000,000)	(18,659)
Balance, December 31, 2017	347,193,414	$22,150,751

- 27,689,000 common share purchase options ("Options") exercisable into 27,689,000 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 on 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$2 million in renewals from MobiKEY application software subscriptions 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.
- A significant portion of the Company's revenues are derived from the United States and in particular from U.S. governmental agencies and departments. With a change in administration, governmental agencies and departments often defer material changes in their operations and purchases of products and services until a new cabinet is appointed, the political direction is confirmed and agency leadership is appointed. This deferral and possible change in political direction following an election could have a material adverse effect on the prospects, operations and results of operations of the Company.
- The U.S. President has publicly supported certain policies, including those 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 actually be taken and/or implemented by the United States government, governmental agencies and departments in 2017 and beyond and when such measures and policies would be implemented. Certain of these measures could have a material and adverse effect on the Company.
- 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. A change in the senior officers and

decision makers in the U.S. government and its agencies could have a material adverse effect on the Company.

- In addition to the risks discussed above and as a consequence of this transition process, the confirmation of the approval and/or renewal of the Company's products and services could be delayed and/or not subject to the approval process experienced in the past and that such delay and/or change in process will make it difficult for the Company to effectively forecast revenues and to plan and budget its operations and this could have a material adverse effect on the Company.
- Funding of the United States government is a complex and contentious process and may result in temporary funding of government through continuing resolutions or government shut downs. Such circumstances may result in delays in sales and renewals of existing contracts with government agencies.
- The defendant in the Company's complaint served on June 1, 2017 in the United States District Court for the District of Delaware has counterclaimed against the Company seeking declaratory judgments of non-infringement and invalidity of the Company's U.S. Patent No. 7,814,216 (the "216 Patent"). If the 216 Patent is found to be either invalid or patent ineligible, the Company's business could be materially and adversely affected.
- 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 customers, 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 have an 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 Company's rugged mobile technology solutions business depends on a small group of large vendors from whom the Company purchases equipment to sell to end users. The Company expects that purchases will be delivered by the vendor on a timely basis. Any disruption in the supply chain could adversely affect the business.
- The Company is dependent on obtaining acceptable payment and credit terms with certain vendors. The lack of such terms could adversely affect the ability of the Company to purchase and sell product.
- The Company depends on purchasing product from its vendors at acceptable prices and being able to sell the product to end users at acceptable margins. Unfavourable variances in the prices from vendors and the prices paid by end users would have an adverse effect on the business.
- The Company resells its product to a wide variety of manufacturing companies and state and local governments. Any deterioration in the creditworthiness of the Company's customer base could have an adverse affect on the Company's ability to sustain the business without collecting the amounts due from customers.
- The products sold by the Company are subject to technological obsolescence. To the extent that the Company has non-current inventory, it could be subject to a loss on the sale of such old or obsolete inventory.
- The majority of the Company's customers purchase product on a purchase-order basis. The Company is dependent on the strength of the economy as well as that of the customer and the customer's capital spend and ability to continue purchasing product sold by the Company.
- The Company ships its product to customers through third parties and price increases and transportation disruptions could adversely affect the business.
- The rugged mobile technology solutions business is highly competitive and profit margins can be adversely affected by a host of factors including the availability of sufficient working capital to operate the business. The required working capital may not be available to the Company on acceptable terms or in the amounts required to operate the business profitably.
- 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

Revenue for the subscription revenue and services component is reported as deferred revenue on the statement of financial position and is recognized as earned revenue for the period in which the subscription and/or service is provided. For the sale of devices, revenue is recognized at the time of shipment of the device which constitutes transfer of ownership of the device. At December 31, 2017, the Company had $1,526,135 (December 31, 2016 - $2,182,668) in deferred revenue.

The following table provides a component presentation of the Company's revenue streams for year ended December 31, 2017 and 2016:

	2017		2016	
	Revenue	**% of Total**	Revenue	% of Total
Subscription revenue and services	**$5,698,449**	**93.9**	$7,080,462	95.0
Devices and appliances	**321,074**	**5.3**	363,031	4.9
Other	**50,803**	**0.8**	3,995	0.1
	$6,070,326	**100.0**	$7,447,488	100.0

The following table provides a geographical presentation of the Company's revenue streams for the year ended December 31, 2017 and 2016:

	2017		2016	
	Revenue	**% of Total**	Revenue	% of Total
USA	**$5,842,570**	**96.2**	$7,263,308	97.5
Canada	**227,756**	**3.8**	184,180	2.5
	$6,070,326	**100.0**	$7,447,488	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).