ROUTE1 INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS AND YEAR ENDED December 31, 2018

As at April 25, 2019

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 year ended December 31, 2018. These unaudited interim condensed consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standards ("IAS") 34 'Interim Financial Reporting' ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

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, 2019, unless otherwise noted.

FORWARD-LOOKING STATEMENTS

The following discussion may contain forward-looking statements about matters that involve risks 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 integration of acquired businesses; 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, successfully integrating acquired businesses 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, 9,319,385, 10,135,807 and 10,148,641, 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.

OVERVIEW

Route1 Inc. is a leading technology solutions innovator dedicated to enabling mobility for government and focused enterprise vertical markets by delivering secure data protection technologies and mobility solutions.

Route1's suite of patented enterprise security solutions, which includes MobiKEY, ActionPLAN, *Powered by MobiNET*, MobiENCRYPT and DerivID, delivers best-in-class authentication, data security, data analytics and secure remote access, running on a proven, trusted infrastructure, which meets or exceeds the highest security standards for government and industry. Route1 has earned a Full Authority to Operate from the U.S. Department of Defense, the U.S. Department of the Navy, the U.S. Department of the Interior, and other government agencies. We are proud to be a trusted solutions partner in the banking, healthcare, legal, education, public services, manufacturing, logistics, field service and warehousing sectors.

Through our wholly owned subsidiary, Group Mobile Int'l, LLC, we are a trendsetter in the enterprise technology space by providing expertise in building mobility solutions and deploying complete offerings into vertical markets through specialized hardware, software and our expanding services capabilities.

We are pioneers in IIoT (Industrial Internet of Things) through the delivery of our ActionPLAN, *Powered by MobiNET* technology, which not only captures data from electrical inputs including sensor data but takes it to the next level by interpreting, analyzing and transforming the data to deliver strategic business intelligence.

The diverse but complimentary technologies we provide, along with the level of experience and expertise of our team, uniquely positions us as the pre-emptive leader in secure and complete mobile technology solutions. We remain focused and dedicated to serving the needs of our business partners; to positively influence their profitability, contribute to their longevity and share in their success.

With offices and staff in Washington, D.C., Boca Raton, FL, Phoenix AZ, Chattanooga TN and Toronto, Canada, Route1 provides leading-edge solutions to 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 March 20, 2018, the Company announced that the Patent and Trial Appeal Board ("PTAB") of the US Patent and Trademark Office denied the institution of the inter partes review ("IPR") sought by AirWatch LLC ("AirWatch"). Route1 filed a complaint against AirWatch in federal court in Delaware on March 27, 2017, alleging that AirWatch is infringing Route1's U.S. Patent No 7,814,216 (the "'216 Patent"). The civil action number is 1:17-cv-00331-RGA and was assigned to the Honorable Richard G. Andrews. On September 22, 2017, AirWatch filed an IPR petition with the PTAB seeking a determination that the claims of the '216 Patent are invalid. Route1 filed its preliminary response to the IPR petition on December 22, 2017. The PTAB issued its decision determining that AirWatch had not demonstrated a reasonable likelihood that it would prevail in establishing that any claims of the '216 patent are invalid and, accordingly, denied the IPR petition.

On March 22, 2018, the Company announced that it acquired Group Mobile Int'l, LLC ("Group Mobile"):

- Group Mobile supplies rugged mobile technology solutions to leading automotive manufacturing companies and suppliers, other leading manufacturing and distribution companies, as well as local and state governments in the southeastern and southwestern United States.
- Route1 acquired Group Mobile to expand the use of Route1's core technologies into the enterprise sector, diversify the Route1 client base, and leverage Group Mobile's current and future placement of rugged mobile devices to sell Route1's core technologies.
- The acquisition will also provide Route1 with additional sales resources for existing technologies and these new human resources will provide sales bench strength, training and mentoring to the existing Route1 sales team.
- The acquisition would provide additional sales resources and strengthen the Route1 sales team.
- At closing, Route1 issued 25 million common shares and 30 million three-year share purchase warrants with an exercise price of $0.05 per share to the vendor, XpresSpa Group, Inc.
- Post-closing, XpresSpa Group owns approximately 6.7% of Route1's undiluted common shares. The Route1 common shares issued to XpresSpa Group will not be tradable until a date no earlier than 12 months after the closing date; 50% or 12.5 million common shares tradeable after 12 months plus an additional 2,083,333 common shares tradeable each month until 18 months after the date of closing, subject to a change of control.
- There may also be one or more payments made to XpresSpa Group based on the actual 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 US $3,750,000 per 12-month period, then XpresSpa Group will receive 27.5% of the actual gross profit amount greater than US $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. In addition, there is 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 US $11,250,000 less any annual earn-out amounts previously made. Payments pursuant to the annual or cumulative earn-out will be made in cash, 90 days after the respective period end.

- Additional transaction terms include:
  - No assumption of indebtedness (other than trade payables or accruals incurred in the ordinary course of business).
  - A minimum working capital balance.
  - An XpresSpa Group non-compete and non-solicitation for a period equivalent to the proposed earn out term.
  - A voting agreement whereby, if XpresSpa Group owns in excess of 3% of the outstanding shares of Route1, all common shares issued as part of the acquisition are subject to a voting agreement with Route1 for the term of the earn-out.

On April 26, 2018, the Company provided an operations update as follows:
- As at December 31, 2018, Route1 had 12,421 paying, active subscribers
- The Company closed on the acquisition of Group Mobile
- Operating income for the year was $9,000 and Adjusted EBITDA was $400,000

On May 29, 2018, the Company provided an operations update as follows:
- Revenue for the quarter ended March 31, 2018 was $1,684,000 including nine days of operations from the Company's recent acquisition of Group Mobile
- Application software revenue was $1,260,000 for the quarter
- Operating loss for the quarter was $36,000 and Adjusted EBITDA was $46,000
- The Company reported a preliminary estimated net purchase gain on the acquisition of Group Mobile of $107,000

On June 18, 2018, the Company announced a non-recourse investment of up to US$1,000,000 by an affiliate of Bench Walk Advisors LLC in the Company's patent infringement lawsuit against AirWatch LLC. Key terms are:
- US $152,510 to be paid within 10 days from signing representing 40% of the patent litigation expenses incurred to date
- 40% of each subsequent invoice paid by the Company in connection with legal costs incurred for the lawsuit
- Bench Walk is entitled to the sum of all its invested capital plus the greater of US$2 million (US$3 million if the lawsuit goes to trial) and 10% of the award from the lawsuit
- Investment is non-recourse provided the Company is not in breach of the agreement
- Certain rights to follow-on claims against other parties

On July 5, 2018, the Company announced that the MobiKEY technology works with Samsung DeX which transforms mobile productivity so users can connect their latest Samsung Galaxy smartphone to a monitor, keyboard and mouse for a convenient PC-like experience. Military personnel can gain secure access to DoD networks through a CAC-authenticated session.

On July 12, 2018, the Company provided an operations update as follows:

- Group Mobile received a purchase order valued at approximately US$5.9 million from a large integrated energy company in the southern United States for ruggedized devices. Delivery is expected to occur in the third quarter of 2018.
- Thursby Software Systems, Inc. and the Company announced the partnership of Thursby's PKard Reader with the Company's MobiKEY software application. Current Thursby DoD and government customers can now add MobiKEY and utilize their PKard Reader to authenticate themselves and remotely access their local desktop from any mobile device with the highest levels of security and encryption.
- The claim construction hearing for the Company's patent infringement lawsuit against AirWatch was held on July 2, 2018. The Company expects a decision to be issued no later than August 31, 2018
- Robert (Bob) Hooper will be joining the Company as Chief Marketing and Sales Officer on a part time basis. He is currently President of HTM Sensors.
- Brian Brunetti, the Company's President, will be leaving on July 27, 2018 to pursue a new career opportunity.
- The Company expects to hire a VP of Engineering to improve management depth.

On July 26, 2018, the Company announced that, on July 25, 2018, the court issued a Memorandum Opinion in respect of the claim construction hearing held on July 2, 2018. The decision may be accessed at http://www.ded.uscourts.gov/judges-info/opinions

On July 31, 2018, the Company announced that:

- It had adopted a new trade name and tag line-GroupMobile, *It's all about the data*
- The new group empowers organizations to make intelligent use of devices and data for business improvements while maintaining military-grade data security
- The Company's value proposition delivers process optimization, operational efficiency, mission accomplishment and regulatory compliance for government, military and private enterprise customers
- GroupMobile received a sales order from a local partner valued at approximately US$1.9 million for ruggedized devices. Hardware delivery is expected in the third quarter of 2018.

On August 6, 2018, the Company announced that, on August 3, 2018, the Patent and Trial Appeal Board ("PTAB") of the US Patent and Trademark Office formally denied a request from AirWatch LLC ("AirWatch") for a rehearing of PTAB's decision not to institute an Inter Partes Review.

On September 4, 2018, the Company announced that Rear Admiral (USN, Retired) Mark S. Boensel has resigned from the Company's board of directors in order to accept a position with the U.S. Navy as its Executive Director, Navy Region Southeast based in Jacksonville, Florida.

On September 17, 2018, 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, 2018 and ending September 26, 2019, purchase on the Exchange up to 18,405,350 common shares in total, being approximately 5% of the outstanding common shares. The price that Route1 will pay for any such shares will be the market price at the time of purchase, provided, however, that Route1 will not pay more than $0.06 per common share. The actual number of common shares that may be purchased pursuant to the NCIB and the timing of any purchases will be determined by management of Route1. All common shares purchased pursuant to the NCIB will be purchased for cancellation, and all such purchases will be made on the open market through the facilities of the Exchange.

On October 2, 2018, the Company announced the appointment of Major General (US Army Ret.) Edward M. Reeder Jr. to its board of directors.

On December 19, 2018, the Company announced that the Company filed a complaint, Court File No. T-2149-18, against VMWare, Inc., AirWatch LLC and VMWare Canada Inc. in the Federal Court of Canada for infringement of Route1's Canadian Patent No. 2,578,053, seeking financial compensation for infringement, legal fees, and an injunction. The compensation the Company will be seeking are material when compared to Route1's market capitalization.

BASIS OF PRESENTATION - GROUP MOBILE

Route1 acquired Group Mobile on March 22, 2018. The operations of Group Mobile for the nine remaining days in March 2018 have been included in the interim unaudited condensed consolidated financial statements for the three months ended March 31, 2018. The operations of Group Mobile have been included for the quarters ended June 30, 2018, September 30, 2018 and December 31, 2018.

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 and patent litigation expense for the quarters presented.

	For the Quarters Ended				
In thousands of Canadian dollars	**Dec 31 2018**	Sep 30 2018	Jun 30 2018	Mar 31 2018	Dec 31 2017
Adjusted EBITDA	**$330**	$627	$272	$46	$24
Depreciation and amortization	**187**	193	207	82	99
Operating (loss) profit before stock-based compensation and patent litigation expense	**$144**	$434	$65	$(36)	$(75)

SELECTED FINANCIAL INFORMATION

The following table outlines selected unaudited financial information of the Company on a consolidated basis for the three months and years ended December 31, 2018 and 2017.

(in thousands of Canadian dollars, except per share amounts)	**For the Three Months Ended**		**For the Year Ended**	
	Dec 31 2018	Dec 31 2017	**Dec 31 2018**	Dec 31 2017
STATEMENT OF OPERATIONS				
Revenue				
Recurring revenue and services	**$1,628**	$1,263	**$6,209**	$7,080
Devices and appliances	**2,440**	109	**19,972**	321
Other	**6**	48	**49**	51
Total revenue	**4,074**	1,420	**26,231**	6,070
Cost of revenue	**2,216**	331	**18,732**	1,325
Gross profit	**1,858**	1,089	**7,499**	4,745
Operating expenses				
General administration	**942**	696	**4,076**	2,902
Research and development	**164**	233	**731**	970
Selling and marketing	**608**	235	**2,085**	864
Total operating expenses	**1,715**	1,164	**6,892**	4,736
Operating profit (loss) before stock-based compensation and patent litigation	**144**	(75)	**607**	9
Patent litigation	**(479)**	(145)	**(841)**	(270)
Stock-based compensation	**(32)**	(48)	**(144)**	(265)
Operating profit (loss) after stock-based compensation and patent litigation	**(368)**	(268)	**(378)**	(526)
Acquisition expenses	**(17)**	-	**(143)**	-
Foreign exchange translation and interest income	**29**	23	**88**	(84)
Total income (loss) for the period before income tax	**$(355)**	$(245)	**$(434)**	$(610)
Income taxes	**-**	-	**-**	-
Total income (loss) for the period after income tax	**$(355)**	$(245)	**$(434)**	$(610)
Other comprehensive income Foreign currency translation	**(5)**	-	**(7)**	-
Comprehensive income (loss)	**$(359)**	$(245)	**$(441)**	$(610)
Earnings (Loss) per share	**$(0.00)**	$(0.00)	**$(0.00)**	$(0.00)
CASH FLOW INFORMATION				
Operating activities	**$(928)**	$(361)	**$419**	$(641)
Investing activities	**(343)**	(10)	**(408)**	(248)
Financing activities	**8**	-	**(23)**	(19)
Net cash inflow	**(1,264)**	(371)	**(12)**	(908)
Consolidation currency adjustment	**48**	-	**48**	-
Cash, beginning of period	**2,289**	1,408	**1,037**	1,945
Cash, end of period	**$1,073**	$1,037	**$1,073**	$1,037
Working capital	**$(370)**	$206	**$(370)**	$206
Total assets	**$6,673**	$3,171	**$6,673**	$3,171
Shareholders' equity	**$1,465**	$1,236	**$1,465**	$1,236

COMPARISON FOR THE THREE MONTHS ENDED DECEMBER 31, 2018 AND 2017

Revenue

Revenue for the three months ended December 31, 2018 was $4,074,342, representing an increase of $2,654,100 from $1,420,242, for the same period in 2017. The comparison, discussed by segment, is as follows:

Subscription Revenue and Services

Revenue from the subscription revenue and services segment includes: (a) application software subscription based revenue (MobiKEY, ActionPLAN, *Powered by MobiNET,* DerivID and MobiENCRYPT); (b) DEFIMNET platform and other appliance licensing or yearly maintenance; (c) technology as a service ("TaaS") under term contracts; and (d) other services.

For the three months ended December 31, 2018, revenue from the subscription revenue and services segment was $1,627,576, representing an increase of $364,459 from $1,263,117, for the same period in 2017. This increase was the result of increased service revenues from Group Mobile TaaS and maintenance agreements.

Subscription revenue and services, as a percentage of total revenue, represented 39.9% for the current period as compared to 88.9% for the prior year period.

Subscription revenue and services by quarter *(in thousands of Canadian dollars)*	**Dec 31 2018**	Sep 30 2018	Jun 30 2018	Mar 31 2018	Dec 31 2017
Application software	1,168	1,193	1,181	1,260	1,262
Technology as a service (TaaS)	329	289	266	-	-
Other services	130	203	186	4	1
Total	**1,628**	**1,684**	**1,633**	**1,264**	**1,263**

Devices and Appliances

Revenue from MobiKEY devices (MC3 device, the MobiKEY Fusion device, the MobiKEY Fusion2 device and the MobiKEY Fusion3 device) and appliances (the DEFIMNET platform and the MobiNET Aggregation Gateway) and Group Mobile ruggedized computing devices and accessories for the three months ended December 31, 2018 was $2,440,478, representing an increase of $2,331,755 from $108,723 for the same period in 2017. The increase was the result of the acquisition of Group Mobile on March 22, 2018.

Devices and appliances revenue as a percentage of total revenue represents 59.9% of total revenue for the current period compared to 7.6% for the prior year period.

Other revenue

Other revenue for the three months ended December 31, 2018 was $6,288. Other revenue was $48,402 for the same period in 2017. The reduction is attributable to decreased grant proceeds in the quarter ended December 31, 2018.

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, 2018 was $2,216,030, representing an increase of $1,885,386 from $330,644 for the same period in 2017. The increase in cost of revenue for the three months ended December 31, 2018 is the result of increased device and appliance revenue primarily generated by Group Mobile.

Gross profit for the three months ended December 31, 2018 was $1,858,312 or 45.6% of gross revenue, representing an increase of $768,714 from a gross profit of $1,089,598 or 76.7% of gross revenue for the same period in 2017.

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. For the quarter ended December 31, 2018, the Company incurred a devices and appliances write-down of $8,670 (December 31, 2017 - $10,313) which was included in the cost of revenue.

Expenses

Operating expenses consist of general administration, research and development, and selling and marketing. Operating expenses for the three months ended December 31, 2018 were $1,714,553, representing an increase of $549,790, from $1,164,763, for the same period in 2017.

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, 2018 were $941,827 representing an increase of $245,346 from $696,481 for the same period in 2017. The majority of the change can be summarized as follows:

- Increased salary expenses of approximately $135,000 due to organizational growth through the acquisition of Group Mobile.
- Decreased management bonus expenses of approximately $70,000 relating to the reduction of accruals for expected bonuses payable pursuant to a Group Mobile employment agreement as well as bonuses accrued for Company management.
- Increased rent expenses of approximately $29,000 for office locations acquired through the Group Mobile acquisition.
- Increased administrative, telecom and service fee expenses of approximately $64,000 related to the acquisition of Group Mobile.
- Increased accounting and insurance expenses of approximately $14,000 related to the acquisition of Group Mobile.
- Increased amortization expense of approximately $88,000 primarily related to TaaS assets acquired through the acquisition of Group Mobile.

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, 2018 were $164,341, representing a decrease of $68,622 from $232,963, for the same period in 2017. The majority of the change can be summarized as follows:

- Salaries and benefits decreased by approximately $69,000 for the three months ended December 31, 2018 as compared to the same period in 2017. 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, 2018 were $608,385, representing an increase of $373,066 from $235,319, for the same period in 2017. The majority of the change can be summarized as follows:

- Increased salary expenses of approximately $288,000 due to increased sales and marketing expenses from the acquisition of Group Mobile.
- Increased commissions costs of approximately $88,000 primarily due to the acquisition of Group Mobile.

Other Items

Stock-based compensation

Stock-based compensation was $31,823 for the three months ended December 31, 2018, a decrease of $16,570 from $48,393 for the same period in 2017. The contributing factor to the lower expense was the reduction of options vesting during the three months ended December 31, 2018 as compared to the same period in 2017.

Patent litigation expenses

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. The expense incurred for the three months ended December 31, 2018 was $479,282, an increase of $334,635 for the same period in 2017.

On June 18, 2018, the Company entered into a litigation financing agreement pursuant to which it would be reimbursed 40% for all expenses incurred for the patent litigation described herein. For further information, see Note 9 to the Financial Statements. In the fourth quarter ended December 31, 2018, the Company received US$38,702 as a reimbursement of expenses incurred from the June 1, 2018 to August 31, 2018. At December 31, 2018, US$110,788 was included in accounts receivable in respect of reimbursable litigation expenses.

For additional information see **"PATENT LITIGATION"** of this MD&A.

Acquisition Expenses

Acquisition expenses for the three months ended December 31, 2018 were $16,640 compared to $nil for the same period in 2017. For additional information, see **"BUSINESS COMBINATION"** of this MD&A.

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 $29,081 for the three months ended December 31, 2018, an increase of $5,600 from a gain of $23,481 for the same period in 2017. There was significant volatility of the Canadian dollar against the U.S. dollar during the fourth quarter of 2018, from a high of 1.2803 to a low of 1.3642, and similarly there was significant volatility during the fourth quarter of 2017, with 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, 2018, the Company had non-Canadian dollar net monetary assets of approximately US$2,753,055 (December 31, 2017 - approximately US$961,824). An increase or decrease in the U.S. to Canadian dollar exchange rate by 5% as at December 31, 2018 would have resulted in a gain or loss in the amount of $137,650 (December 31, 2017 – gain or loss of $60,330). 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.

Comprehensive (Loss) Gain After Taxes

Comprehensive loss for the three months ended December 31, 2018 was $359,451 or $(0.00) per share, representing an increase of $114,727 from a comprehensive loss of $244,724 or $(0.00) per share for the same period in 2017.

COMPARISON FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Revenue

Revenue for the year ended December 31, 2018 was $26,230,746, representing an increase of $20,160,420 from $6,070,326, for the same period in 2017. The comparison, discussed by segment, is as follows:

Subscription Revenue and Services

Revenue from the subscription revenue and services segment includes: (a) application software subscription based revenue (MobiKEY, ActionPLAN, *Powered by MobiNET*, DerivID and MobiENCRYPT); (b) DEFIMNET platform and other appliance licensing or yearly maintenance; (c) technology as a service ("TaaS") under term contracts; and (d) other services.

For the year ended December 31, 2018, revenue from the subscription revenue and services segment was $6,209,378, representing an increase of $510,929 from $5,698,449, for the same period in 2017. This increase was the result of increased service revenues from Group Mobile TaaS and maintenance agreements, which was primarily offset by a decrease in the number of paid, active MobiKEY application software users in the second quarter of 2017 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 23.7% for the current period as compared to 93.9% for the prior year period.

Contract liability as at December 31, 2018 increased by $161,254 to $1,687,389 from $1,526,135 as at December 31, 2017. The increase in the carrying amount of contract liability is primarily driven by the acquisition of Group Mobile extended warranty and maintenance agreements.

Devices and Appliances

Revenue from MobiKEY devices (MC3 device, the MobiKEY Fusion device, the MobiKEY Fusion2 device and the MobiKEY Fusion3 device) and appliances (the DEFIMNET platform and the MobiNET Aggregation Gateway), and Group Mobile ruggedized computing devices and accessories for the year ended December 31, 2018 was $19,972,143, representing an increase of $19,651,069 from $321,074 for the same period in 2017. This increase is the result of sales of ruggedized computing devices and accessories.

Devices and appliances revenue as a percentage of total revenue represented 76.1% of total revenue for the current period compared to 5.3% for the prior year period.

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, 2018 was $18,731,871, representing an increase of $17,406,833 from $1,325,038 for the same period in 2017. The increase in cost of revenue for the year ended December 31, 2018 is the result of increased device and appliance revenue primarily generated by Group Mobile.

Gross profit for the year ended December 31, 2018 was $7,498,875 or 28.6% of gross revenue, representing an increase of $2,753,587 from a gross profit of $4,745,288 or 78.2% of gross revenue for the same period in 2017.

Expenses

Operating expenses consist of general administration, research and development, and selling and marketing. Operating expenses for the year ended December 31, 2018 were $6,892,055, representing an increase of $2,155,962, from $4,736,093, for the same period in 2017.

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, 2018 were $4,076,258 representing an increase of $1,174,513, from $2,901,745 for the same period in 2017. The majority of the change is summarized as follows:

- Increased salary expenses of approximately $433,000 primarily due to organizational growth through the acquisition of Group Mobile.
- Increased rent expenses of approximately $175,000 for office locations acquired through the Group Mobile acquisition.
- Increased management bonus expenses of approximately $137,000 relating to accruals for expected bonuses payable pursuant to a Group Mobile employment agreement as well as bonuses accrued for Company management.
- Increased administrative, telecom and service fee expenses of approximately $120,000 related to the acquisition of Group Mobile.
- Increased accounting and insurance expenses of approximately $54,000 related to the acquisition of Group Mobile.
- No accrual in the current period for an employee termination payment which, in the prior year was $40,000.
- Increased amortization expense of approximately $277,000 primarily related to TaaS assets.

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, 2018 were $730,568, representing a decrease of $239,476, from $970,044 for the same period in 2017. The majority of the change is summarized as follows:

- Salaries and benefits decreased by approximately $242,000 for the year ended December 31, 2018 as compared to the same period in 2017. The decrease is the result of a reduction in head count.
- The Scientific Research and Experimental Development credit increased by approximately $3,000 for the year ended December 31, 2018.

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, 2018 were $2,085,229, representing an increase of $1,220,925 from $864,304, for the same period in 2017. The majority of the change can be summarized as follows:

- Increased salary expenses of approximately $969,000 due to increased sales and marketing activity from the acquisition of Group Mobile.
- Increased commissions costs of approximately $281,000 primarily due to the acquisition of Group Mobile.
- Reduced marketing expenses of approximately $54,000 due to reduced trade show activity.

Other Items

Patent litigation expenses

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. The expense incurred for the year ended December 31, 2018 was $851,308, an increase of $570,934 for the same period in 2017.

On June 18, 2018, the Company entered into a litigation financing agreement pursuant to which it would be reimbursed 40% for all expenses incurred for the patent litigation described herein. The maximum amount for such reimbursement is US$1,000,000. For further information, see Note 9 to the Financial Statements. During the year ended December 31, 2018, the Company received US$191,212 as a reimbursement of expenses incurred from second quarter of 2016 to August 31, 2018. At December 31, 2018, US$110,788 was included in accounts receivable in respect of reimbursable litigation expenses.

For additional information see **"PATENT LITIGATION"** of this MD&A.

Stock-based compensation

Stock-based compensation was $144,440 for the year ended December 31, 2018, a decrease of $120,448 from $264,888 for the same period in 2017. The contributing factor to the lower expense was the reduction of options vesting during the year ended December 31, 2018 as compared to the same period in 2017.

Foreign exchange gain (loss)

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 $87,976 for the year ended December 31, 2018, an increase of $171,906 from a loss of $83,930 for the same period in 2017. There was significant volatility of the Canadian dollar against the U.S. dollar during the year ended December 31, 2018, from a high of 1.2288 to a low of 1.3642.

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.

Comprehensive Loss After Taxes

Comprehensive loss for the year ended December 31, 2018 was $441,038 or $0.00 per share, representing an income increase of $168,959 from a comprehensive loss of $609,997 or $(0.00) per share for the same period in 2017.

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 months period ended
(in thousands of Canadian dollars, except per share data)

	Dec 31 2018	Sep 30 2018	Jun 30 2018	Mar 31 2018	Dec 31 2017	Sep 30 2017	Jun 30 2017	Mar 31 2017
STATEMENT OF OPERATIONS								
Revenue								
Subscription revenue and services	**$1,628**	$1,684	$1,633	$1,264	$1,263	$1,177	$1,347	$1,911
Devices and appliances	**2,440**	13,207	3,936	388	109	159	24	30
Other	**6**	4	7	32	48	2	-	-
Total revenue	**4,074**	14,895	5,577	1,684	1,420	1,338	1,371	1,941
Cost of revenue	**2,216**	12,311	3,620	585	331	362	298	335
Gross margin	**1,858**	2,584	1,957	1,099	1,089	976	1,073	1,606
Operating expenses								
General administration	**942**	1,349	1,090	695	696	724	713	769
Research and development	**164**	166	193	206	233	230	225	281
Selling and marketing	**608**	634	607	235	235	117	213	239
Total operating expenses	**1,714**	2,150	1,891	1,135	1,164	1,131	1,151	1,289
Operating profit (loss) before stock-based compensation and patent litigation	**144**	434	65	(36)	(75)	(155)	(78)	317
Patent litigation	**(479)**	(181)	(70)	(111)	(145)	(46)	(80)	-
Stock-based compensation	**(32)**	(44)	(23)	(46)	(48)	(54)	(66)	(96)
Operating profit (loss) after stock-based compensation and patent litigation	**(367)**	209	(27)	(193)	(268)	(255)	(224)	221
Acquisition expenses	**(17)**	-	-	(127)				
Foreign exchange translation and interest income	**29**	(21)	40	40	(23)	(83)	(11)	(13)
Total income (loss) for the period before income tax expense	**(355)**	188	13	(280)	(245)	(338)	(235)	208
Income tax expense	**-**	-	-	-	-	-	-	-
Total income (loss) for the period after income tax expense	**$(355)**	$188	$13	$(280)	$(245)	$(338)	$(235)	$208
Other comprehensive income Foreign currency translation	**(4)**	20	(10)	(12)	-	-	-	-
Comprehensive income (loss)	**(359)**	$208	$3	$(292)	$(245)	$(338)	$(235)	$208
Earnings (loss) per share	**$(0.00)**	$0.00	$0.00	$(0.00)	$(0.00)	$(0.00)	$0.00	$0.00
Adjusted EBITDA	**330**	627	272	46	24	46	16	406

	Dec 31 2018	Sep 30 2018	Jun 30 2018	Mar 31 2018	Dec 31 2017	Sep 30 2017	Jun 30 2017	Mar 31 2017
CASH FLOW INFORMATION								
Operating activities	**$(928)**	$1,455	$770	$(627)	$(361)	$(623)	$1,552	$(1,209)
Investing activities	**(343)**	(24)	(221)	180	(10)	(45)	(160)	(33)
Financing activities	**8**	(159)	(128)	-	-	(4)	(15)	-
Net cash inflow (outflow)	**(1,264)**	1,218	481	(447)	(371)	(672)	1,377	(1,242)
Consolidation currency adjustment	**(48)**	13	3	(9)	-	-	-	-
Cash, beginning of period	**2,289**	1,084	600	1,037	1,408	2,080	703	1,945
Cash, end of period	**$1,073**	$2,289	$1,084	$600	$1,037	$1,408	$2,080	$703
BALANCE SHEET INFORMATI								
Working capital	**$(370)**	$(36)	$(355)	$(577)	$206	$322	$527	$777
Total assets	**$6,673**	$8,733	$7,892	$9,179	$3,171	$4,081	$4,213	$3,114
Shareholders' equity	**$1,465**	$1,928	$1,888	$1,931	$1,236	$1,432	$1,720	$1,904

During the year, the Company adjusted its accounting for the reimbursement of litigation expenses to conform to the year-end presentation. This change resulted in additional litigation expenses recorded in the quarters ended June 30, 2018 and September 30, 2018. Previously, the Company had recorded the litigation expense reimbursements from Bench Walk as a reduction in patent litigation expense.

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 become more stable than previously; however, revenues may continue to fluctuate as the Company grows its revenues and customer base. 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, the timing of staffing and infrastructure additions to support growth and future acquisitions.

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 contract liability; 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 generated from operating activities for the year ended December 31, 2018 was $419,463, compared to cash flow used of $641,078 in the same period in 2017, representing an increase of $1,060,541. Non-cash working capital generated was $32,054 for the year ended December 31, 2018 compared to $698,083 used in the same period a year earlier. Net cash generated in the day–to-day operations for the year ended December 31, 2018 was $387,411 compared to $57,005 generated in the same period in 2017, representing an increase of $330,406. The increase in net cash generated from operating activities for the year ended December 31, 2018 compared to the same period in the prior year is primarily due to an increase in profit from operations, an increase in accounts receivable, and a decrease in inventory. This amount was partially offset by a decrease in accounts payable for the year ended December 31, 2018.

Cash used in investing activities

Cash used in investing activities for the year ended December 31, 2018 was $407,995 compared to cash used of $248,388 in the same period in 2017, representing an increase of $159,607. The increase in cash used is primarily attributable to investment in capital assets, partially offset by the cash balance of Group Mobile at the acquisition date of Group Mobile on March 22, 2018.

Cash used in financing activities

Cash used in financing activities for the year ended December 31, 2018 was $23,327 compared to cash used of $18,659 in the same period in 2017, representing an increase of $4,668. Patent litigation financing generated cash of $393,022, which was offset by $416,349 used to repurchase capital stock for cancellation. For additional information see **"SHARE REPURCHASE PROGRAM"** of this MD&A.

The Company's current business plan projects further revenue growth in 2019 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 software applications including ActionPLAN, *Powered by MobiNET*, will increase in 2019 and beyond. In addition, the Company expects to increase revenue in Group Mobile and expects to leverage this recent acquisition by offering its products and services to the corporate and industrial clients of Group Mobile.

The Company's need for capital expenditures includes items such as computer hardware and software, expenditures to support sales, marketing and general administration activities and working capital. In addition, the Company will require capital to purchase equipment for its TaaS (technology as a service) business. 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 June 5, 2018, the Company's credit facility consisting of a $500,000 revolving demand operating facility and a $100,000 credit card facility was renewed. The operating facility carries an interest rate equal to the lender's prime rate of interest plus 1%. The credit facility is secured by the assets of the Company.

In the normal course of business operations of Group Mobile Int'l, LLC ("GMI"), the Company may be required to guarantee the trade payables of GMI to the value added distributors from which GMI purchases product to sell to its customers. Such guarantees would be enforced only if GMI could not pay the distributor for goods acquired from such distributor and the amounts under such guarantees would vary from time to time based on the volume of purchases from the particular distributor. The Company has entered into these continuing, unconditional guarantees with several of the larger vendors/suppliers to GMI.

In the normal course of operations, GMI may enter into continuing purchase money security interests with distributors and original equipment manufacturers. These security interests relate specifically to the products purchased from each distributor and original equipment manufacturer and the amounts secured will vary from time to time with purchases.

The following table discloses future payments as at December 31, 2018 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	No later than 1 year	Later than one year and not later than five years	Later than five years	Total
Operating leases	$469,077	$795,468	$ -	$1,264,545

INVENTORY

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. For the quarter ended December 31, 2018, the Company incurred a devices and appliances write-down of $8,670 (December 31, 2017 - $10,313) which was included in the cost of revenue.

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 months and year ended December 31, 2018 and 2017 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, 2018 (December 31, 2017 - $378,550). The Company also incurred stock based compensation expense in the amount of $9,916 for the year ended December 31, 2018 (December 31, 2017 - $51,848).
- The Company incurred expenses (including CPP and EHT) payable to and on behalf of the independent members of the Board of Directors of $234,461 for the year ended December 31, 2018 (December 31, 2017 - $236,543). These transactions are in the normal course of operations and are paid or payable for directorship services. As at December 31, 2018, accounts payable included $90,342 owing to directors (December 31, 2017 - $78,799). The Company also incurred stock based compensation expense related to stock options granted to directors in the amount of $20,976 for the year ended December 31, 2018 (December 31, 2017 - $73,250).

- 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, 2018 as follows, with 2017 comparatives.

	Year ended December 31, 2018	Year ended December 31, 2017
Short-term employee benefit	**$733,920**	$836,112
Stock option expense	**$56,863**	137,815
	$790,783	$973,927

PATENT LITIGATION

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. On August 3, 2018, the USPTO denied AirWatch's and VMWare's petition for a rehearing, formally terminating the ability of the petitioners to challenge the validity of the 216 Patent at the Patent Trial and Appeal Board.

On July 2, 2018 a court hearing was held to define certain claim terms of the 216 Patent (the "Markman Hearing"). The court provided its Memorandum Opinion to the parties on July 25, 2017. Further information may be found at http://www.ded.uscourts.gov/judges-info/opinions.

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/.

On December 19, 2018, the Company filed a complaint against VMWare, Inc., AirWatch LLC and VMWare Canada Inc. in the Federal Court of Canada for infringement of Route1's Canadian Patent No. 2,578,053, seeking financial compensation for infringement, legal fees, and an injunction.

BUSINESS COMBINATION

On March 22, 2018, the Company completed the acquisition of 100% of the membership interest of Group Mobile Int'l, LLC ("Group Mobile") and, as consideration, Route1 issued a combination of common shares and common share purchase warrants with an aggregate value of $942,000. With offices in Chandler, Arizona and Chattanooga, Tennessee, Group Mobile supplies rugged mobile technology solutions to leading automotive manufacturing companies and suppliers, other leading manufacturing and distribution companies, as well as local and state governments in the southeastern and southwestern United States.

Route1 acquired Group Mobile to expand its service and product offerings; strengthen outside and inside sales; diversify revenue, customers, and verticals; expand the use of Route1's core technologies into the manufacturing, distribution, and local and state government sectors; and leverage Group Mobile's current and future placement of rugged mobile devices to sell Route1's core technologies as an integrated offering.

The Company issued 25,000,000 common shares and 30,000,000 three year common share purchase warrants with an exercise price of $0.05 per common share. The fair value of the common shares issued as consideration was based on the closing price of a Route1 common share on the Toronto Venture Exchange on March 22, 2018 of $0.02 per share, which has been discounted to $0.01632 per share based on the restrictions on the sale of Route1 common shares issued as consideration for the purchase of Group Mobile as outlined in the Membership Purchase Agreement. The fair value of the warrants, using the Black Scholes method, was $0.0178 per warrant. On March 22, 2018, the daily average exchange rate between the United States dollar and the Canadian dollar as reported by the Bank of Canada was US $1=CDN $1.2908.

The table below summarizes the estimated fair value of the consideration transferred and the estimated fair values of the major classes of assets acquired and liabilities assumed at the acquisition date.

As at March 22, 2018

Assets Acquired (US Dollars)	**March 22, 2018**
Cash and cash equivalents	$246,268
Trade and other receivables	1,238,839
Inventory	491,241
Prepaid expenses	3,037
Current Assets	1,979,385
Furniture and fixtures (net)	46,885
TaaS assets (net)	741,716
Intangible assets (net)	266,000
Goodwill	357,832
Non-current Assets	1,412,432
Total assets	$3,391,817
Liabilities Assumed (US Dollars)	
Trade and other payables	$2,108,564
Employee liabilities	226,117
Sales tax payable	56,117
Contract liability	271,241
Total liabilities	2,662,038
Fair value of net assets acquired	$729,780
Fair value of net assets acquired in CAD Dollars	$942,000
Net consideration issued	$942,000

For the year ended December 31, 2018, the Company incurred transaction and business integration expenses related to the Group Mobile acquisition of $143,390.

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 (i) 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 and Action Plan, *powered by MobiNET*); and (ii) sales of ruggedized computing devices and related accessories and services. 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.

NEW STANDARDS ADOPTED

Effective January 1, 2018, the Company adopted the following standards issued by the IASB.

IFRS 15, Revenue from Contracts with Customers

Effective January 1, 2018, the Company adopted IFRS 15, “Revenue from Contracts with Customers” (IFRS 15). IFRS 15 introduced a single model for recognizing revenue from contracts with customers. This standard applies to all contracts with customers, with only some exceptions, including certain contracts accounted for under other IFRSs. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services.

IFRS 15 also provides guidance relating to the treatment of contract acquisition and contract fulfillment costs. Costs related to device hardware provided as part of our services are now recognized as an asset and amortized into operating expenses over time.

The treatment of costs incurred in acquiring customer contracts is affected as IFRS 15 requires certain contract acquisition costs (such as sales commissions) to be recognized as an asset and amortized into operating expenses over time.

Under IFRS 15, device revenue and the associated cost of goods sold is recognized ratably over the life of the nearest term subscription contract. Previously, device revenue was recognized when sold and the related costs were recognized as incurred.

Extended warranties that are sold to customers as an optional service, including "Comprehensive Maintenance" contracts and warranties beyond that provided by the manufacturer, are treated as a "service-type" warranty under IFRS 15. "Service-type" warranties are treated as a separate performance obligation, and related revenue is deferred over the period for which there is a performance obligation.

The impact of adoption on the Company's financial statements is not material.

IFRS 9, Financial Instruments

Effective January 1, 2018, the Company adopted IFRS 9, "Financial Instruments" (IFRS 9). 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.

The impact of adoption on the Company's financial statements is not material.

FUTURE ACCOUNTING POLICY CHANGES

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 assets and liabilities to be recognized for almost all leases including leased premises. The Company has leased premises in Toronto, Canada, Chattanooga, Tennessee, and Chandler Arizona. The Company expects no material impact to its operations. However, there will be significant changes to the assets and liabilities recorded on the balance sheet resulting from the capitalization of the lease obligations for the premises with a corresponding assumption of notional indebtedness as if the Company had purchased the leased premises entirely with borrowed funds. Additionally, the Company expects that there will be an adjustment to retained earnings resulting from the difference between the current value of the capitalized lease obligations and the related lease liabilities. The other significant change relating to the implementation of IFRS 16 is the replacement of rent expense with depreciation and interest expenses.

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, 2018 and December 31, 2017:

	December 31, 2018		December 31, 2017	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
FINANCIAL ASSETS				
Cash and cash equivalents	**$1,073,195**	**$1,073,195**	$1,037,424	$1,037,424
Accounts receivable	**$1,858,751**	**$1,858,751**	$333,023	$333,023
Other receivables	**$43,849**	**$43,849**	$177,180	$177,180
FINANCIAL LIABILITIES				
Accounts payable and other liabilities	**$2,493,779**	**$2,493,779**	$333,451	$333,451

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, 2018, the largest single customer represented approximately $8,392,000 of revenue (December 31, 2017 - $2,250,576).

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, 2018, the Company had cash consisting of deposits with Schedule 1 banks in Canada and their subsidiaries in the U.S. and a large money centre bank in the U.S of $1,073,195 (December 31, 2017 - $1,037,424).

Accounts receivable

Accounts receivable consist primarily of accounts receivable from invoicing for subscriptions and services and devices. 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, 2018, the largest single customer's account receivable represented $304,380 (December 31, 2017 – $227,623) 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, 2018 and December 31, 2017:

	December 31, 2018	December 31, 2017
Current	**$1,644,057**	$333,023
Past due		
1 – 60 days	**201,534**	-
Greater than 60 days	**13,160**	-
Less: Allowance for doubtful accounts	**-**	-
Total accounts receivable, net	**$1,858,751**	$333,023

For the quarter ended December 31, 2018 and the year ended December 31, 2017, 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, 2018:

	2019	2020	2021 and Beyond	Total
Accounts payable and other liabilities	$2,493,779	$570,354	$-	$3,064,133
Operating lease commitments	469,077	437,529	357,939	1,264,545
Operating lease commitments included in accrued liabilities	(61,469)	(40,980)	-	(102,449)
	$2,901,387	$966,903	$357,939	$4,226,229

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, 2018, the Company had non-Canadian dollar net monetary assets of approximately US$2,753,005 (December 31, 2017 - approximately US$961,824). An increase or decrease in the U.S. to Canadian dollar exchange rate by 5% as at December 31, 2018 would have resulted in a gain or loss in the amount of $137,650 (December 31, 2017 – gain or loss of $60,330). 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, 2018, cash balances were $1,073,195 (December 31, 2017 - $1,037,424) and the interest rate sensitivity is not material.

SHARE REPURCHASE PROGRAM

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 was 17,359,671. Purchases under the NCIB occurred during the 12 month period from September 27, 2017 and ended September 26, 2018. Purchases for cancellation under the NCIB during the period from September 27, 2017 to September 26, 2018 were 6,472,414 common shares.

On September 17, 2018, 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 18,405,350. Purchases under the NCIB may occur during the 12 month period commencing September 27, 2018 and ending September 26, 2019, 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, 2018 to December 31, 2018 were 2,666,666 common shares.

For the year ended December 31, 2018, the Company purchased 9,138,414 shares for cancellation under the NCIB at an average price of approximately $0.045 per share. The Company incurred an expense of $5,047, including regulatory costs, to complete the purchases.

SHARE CAPITAL AND OPTIONS

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 December 31, 2018, the following was outstanding:

	Number of Common Shares	Common Shares $
Balance, January 1, 2018	347,193,414	$22,150,751
Shared issued March 22, 2018	25,000,000	408,000
Shares repurchased for cancellation	(9,138,414)	(416,349)
Balance, December 31, 2018	363,055,000	$22,142,402

- There are 26,377,000 common share purchase options ("Options") outstanding to acquire 26,377,000 common shares at various prices.
- 30,000,000 common share purchase warrants are outstanding with an expiry date of March 22, 2021 and an exercise price of $0.05 per share

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 that would restrict credit availability worldwide and could also impact its ability to continue operations.
- A portion of 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 could 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 be maintained by the United States government, governmental agencies and departments in 2019 and beyond. Certain of these measures, including trade and tariff uncertainty, 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;
- Should Route1 be unable to successfully obtain patent or other proprietary or statutory protection for its technologies and products, it 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;
- Should Route1 be unable to run efficient and uninterrupted operation of its MobiNET platform, it could impact on the credibility of the Company's product and services;
- Should Route1 be unable to establish new customers, and to build on its existing customer base, it could also slow the Company's continued growth;
- Should Route1 be unable to integrate acquired businesses successfully, it could have an adverse effect on the Company;

- 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 limit 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 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 limit future growth;
- Any significant economic downturn in geographic areas where Route1 engages in business activities 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.
- Counterparties to purchase and sale agreements of businesses may be in breach of their representations and warranties or covenants to the Company requiring the Company to seek indemnification or other contractual or legal remedy.
- 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.

- The Company is a Canadian corporation. While the Company has not yet been affected by the imposition of tariffs on various goods and services, any such tariffs may have an adverse impact on the Company's ability to be price competitive in the markets in which it operates.

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 course of operations, the Company may (i) be subject to litigation claims from customers, suppliers, patent holders, resellers and former employees and (ii) seek to enforce its intellectual and other property rights and rights to indemnification. 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 recurring revenue and services segment is reported as contract liability 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 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, 2018, the Company had $1,687,389 (December 31, 2017 - $1,526,135) in contract liability. Other revenue of $49,225 included $46,957 of government grants.

The following table provides a component presentation of the Company's revenue streams for the year ended December 31, 2018 and 2017:

	2018		2017	
	Revenue	**% of Total**	Revenue	% of Total
Subscription revenue and services	**$6,209,378**	**76.1**	$5,698,449	93.9
Devices and appliances	**$19,972,143**	**23.7**	321,074	5.3
Other	**$49,225**	**0.2**	50,803	0.8
	$26,230,746	**100.0**	$6,070,326	100.0

The following table provides a geographic presentation of the Company's revenue streams for the year ended December 31, 2018 and 2017:

	2018		2017	
	Revenue	**% of Total**	Revenue	% of Total
USA	**$25,967,905**	**99.0**	$5,842,570	96.2
Canada	**262,841**	**1.0**	227,756	3.8
	$26,230,746	**100.0**	$6,070,326	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).