ROUTE1 INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020

As at August 26, 2020

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 consolidated financial statements and related notes as at and for the year ended December 31, 2019. These consolidated financial statements, including comparatives, have been prepared in accordance 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 August 26, 2020 and all amounts are in Canadian dollars, 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

OVERVIEW

Route1, also operating under the tradenames GroupMobile and PCS Mobile, is an advanced North American technology company that empowers their clients with data-centric solutions necessary to drive greater profitability, improve operational efficiency and gain sustainable competitive advantages, while always emphasizing a strong cybersecurity and information assurance posture. Route1 delivers exceptional client outcomes through real-time secure delivery of actionable intelligence to decision makers, whether it be in a manufacturing plant, in-theater or in a university parking lot.

With offices and staff in Boca Raton, FL, Chandler, AZ, Chattanooga, TN, Cincinnati, OH, Denver, CO, Glen Allen, VA, and Toronto, Canada, Route1 provides leading-edge solutions to public and private sector clients around the world. Route1 is listed in Canada on the TSX Venture Exchange under the symbol ROI and on the OTCQB in the United States under the symbol ROIUF.

HIGHLIGHTS

On January 31, 2020, the Company announced that at Genetec's Connect 20 event held the previous night in San Diego, California, Route1's wholly owned subsidiary PCS Mobile was named the "Genetec AutoVu Premier Partner of the Year – North America".

- The Genetec AutoVu™ automatic license plate recognition or ALPR system automates license plate reading and identification, making it easier for law enforcement and for municipal and commercial organizations to locate vehicles of interest and enforce parking restrictions.

- PCS Mobile has been successful as a premier partner for Genetec AutoVu for more than five years in the states of Arizona, California, Colorado, Nevada, New Mexico, Oregon and Washington.

On February 3, 2020, the Company announced that Dr. Barry C. West has stepped down as a member of Route1's Board of Directors and accepted an invitation from the Company to Chair its U.S. Government Advisory board.

On March 16, 2020, the Company provided an update on the use of its MobiKEY technology during the COVID-19 outbreak.

- Over the last five business days previous to this date, there has been a significant spike in the demand for MobiKEY enabling devices, particularly Fusion3 devices, and MobiKEY software subscription sales and quote activity for both Department of Defense ("DoD") and certain civilian agencies of the U.S. government as well as financial services companies and banks across North America.
- Route1 added 209 paying MobiKEY subscribers and sold 174 MobiKEY Fusion3 devices. Based on purchase orders in hand and funds obligated to purchase, Route1 expects to add more than 500 additional paying MobiKEY subscribers and sell 3,000 additional MobiKEY Fusion3 devices over the next five to seven business days.
- Route1 expects to make a further order for 5,000 MobiKEY Fusion3 devices early next week, however this number could grow based on quick responses from clients. Subsequent to the issuance of this press release an order for 6,000 devices was placed.

On March 19, 2020, the Company announced today an update on its business operations.

- The Company announced Q4 2019 gross profit of $2,750 (in 000s of Canadian dollars) compared to $1,858 (in 000s of Canadian dollars) for Q4 2018

Corporate Development

- In order to expand our enterprise and public safety client base, and grow profitability through the leveraging of our human and technology capital, on April 3, 2020 Route1 will acquire the assets of Mobile-Tek Consulting, LLC, a reseller of rugged mobile device hardware. Route1 will pay cash of US $50,000 in two instalments for the assets of the company and also assume US $25,000 in net working capital.
- Based in Cincinnati, Ohio, Mobile-Tek sells rugged devices and applications including but not limited to Panasonic Toughbook mobile computers, Fujitsu and Getac rugged and semi-rugged tablets, Zebra handheld devices, and accessories from Gamber-Johnson and Havis to public safety and enterprise clients principally in the states of Ohio, West Virginia, Michigan, Indiana and Kentucky. The company also refurbishes off warranty rugged devices and resells them.

Airwatch Litigation

- On October 7, 2019, Route1 appealed to the United States Court of Appeals for the Federal Circuit from the district court's August 7, 2019 decision finding that AirWatch has not infringed Route1's U.S. Patent No 7,814,216. Briefings will be complete on March 20, 2020, and Route1 expects that a decision is likely in the fourth quarter of 2020 or first quarter of 2021.

VMWare Canadian Lawsuit

- In December 2018, Route1 Inc. commenced a patent infringement lawsuit in Canada against VMware, Inc., asserting that at least five claims of Route1's patent were infringed.
- The case has since proceeded and Route1 Inc. has received further disclosure from VMware, Inc. As a result, on March 11, 2020 Route1 Inc. filed an amended Statement of Claim increasing the number of infringed claims from Route1's patent from five to thirty-four.

- The Canadian lawsuit continues to proceed, with inventor and corporate examinations having been conducted in Toronto, Ontario and Chandler, Arizona in Q1 2020.

On March 23, 2020, the Company provided an update to its March 16, 2020 news release in regards to the use of its MobiKEY technology during the COVID-19 outbreak.

- Sale and quote activity for both Department of Defense ("DoD") and certain civilian agencies of the U.S. government as well as Corporate America and Canada has dramatically increased as the working implications of COVID-19, particularly the requirement to work from home, have been mandated by most levels of government and business.
- Last week Route1 added 654 paying MobiKEY subscribers and sold 3,157 MobiKEY Fusion3 and MobiKEY Classic 3 devices.
- Last week Route1 placed an order for 6,000 MobiKEY Fusion3 devices. The Company currently has a purchase order backlog in excess of 4,000 MobiKEY Fusion3 devices, with the majority of the backlog for clients with an enterprise license agreement – thus there is not a 1:1 relationship between device sales and new subscriptions.

On April 23, 2020, the Company announced Q4 and full year 2019 financial results and provided an update on use of the MobiKEY technology during the COVID-19 outbreak.

- Demand for the Company's MobiKEY technology has increased significantly.
- Over the previous 7 weeks the company added net 2,675 MobiKEY subscribers and sold 4,975 devices.
- The Company granted independent board directors, officers and employees stock options in the aggregate amount of 1,325,000 with an exercise price equal to the closing share price that day, or $0.68 per share.

On May 4, 2020, the Company announced an amendment to the Normal Course Issuer Bid (NCIB), increasing the maximum purchase price per common share purchased under the NCIB to $0.75 from $0.60.

On May 26, 2020, The Company reported its financial results for Q1 2020.

- The Company announced Q1 2020 revenue of $6,363 and gross profit of $2,366 (in 000s of Canadian dollars) compared to revenue of $3,462 and profit $1,762 (in 000s of Canadian dollars) for Q1 2019.

On June 1, 2020, the Company announced that PCS was awarded a three-year contract with seven, one-year renewal option years by the State of California to provide officers with an Automatic License Plate Recognition (ALPR) system. Agencies throughout the State of California can take advantage of the partnership agreement to purchase ALPR systems for their agencies.

On August 25, 2020, the Company announced that it had been awarded a purchase order to provide a one-year license with three one-year renewal options to an agency of the U.S. Department of Defense for 4,000 MobiKEY subscriptions. The new client for Route1 has the ability to increase their user base in increments of 1,000 subscriptions. The annual software license for the 4,000 users is valued at approximately US $1.5 million.

BASIS OF PRESENTATION

The interim condensed consolidated financial statements of Route1 include its wholly-owned subsidiaries, Route 1 Security Corporation, Group Mobile Int'l, LLC ("GMI") and Portable Computer Systems, Inc. ("PCS"). Route1 acquired GMI on March 22, 2018. Route1 acquired PCS on June 28, 2019. No operational activity occurred between the acquisition date and June 30, 2019. The operations of PCS have been included for all subsequent periods.

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 other income (expense) for the quarters presented.

	For the Quarters Ended				
In thousands of Canadian dollars	**Jun 30 2020**	Mar 31 2020	Dec 31 2019	Sep 30 2019	Jun 30 2019
Adjusted EBITDA	**$556**	$358	$676	$743	$200
Depreciation and amortization	**(346)**	(326)	(286)	(318)	(266)
Stock-based compensation	**(141)**	(109)	(98)	(106)	(82)
Operating (loss) profit before other income (expense)	**$69**	($77)	$292	$319	($148)

SELECTED FINANCIAL INFORMATION

The following table outlines selected unaudited financial information of the Company on a consolidated basis for the three and six months ended June 30, 2020 and 2019.

(in thousands of Canadian dollars, except per share amounts)	**For the Three Months Ended**		**For the Six Months Ended**	
	Jun-30 2020	Jun-30 2019	Jun-30 2020	Jun-30 2019
STATEMENT OF OPERATIONS				
Revenue				
Subscription revenue and services	**$2,489**	$1,610	$4,447	$3,185
Devices and appliances	**4,477**	1,819	8,878	3,702
Other	**3**	1	7	4
Total revenue	**6,969**	3,430	13,332	6,892
Cost of revenue	**4,188**	1,672	8,185	3,372
Gross profit	**2,781**	1,758	5,147	3,520
Operating expenses				
General administration	**1,481**	1,015	2,840	2,012
Research and development	**204**	147	375	232
Selling and marketing	**885**	662	1,689	1,273
Total operating expenses	**2,570**	1,824	4,904	3,517
Operating profit (loss) before stock-based compensation and patent litigation	**211**	(66)	243	3
Patent litigation	**(67)**	(289)	(171)	(816)
Stock-based compensation	**(141)**	(82)	(250)	(118)
Operating profit (loss) after stock-based compensation and patent litigation	**3**	(437)	(178)	(931)
Acquisition expenses	**(16)**	(74)	(16)	(74)
Interest expense	**(35)**	(11)	(81)	(23)
Foreign exchange gain (loss)	**(32)**	9	11	18
Asset disposal loss	**-**	-	-	(16)
Total loss for the period before income tax	**(81)**	(513)	(264)	(1,026)
Income tax recovery (expense)	**21**	(40)	21	(40)
Total loss for the period after income tax	**(60)**	(553)	(243)	(1,066)
Other comprehensive income				
Foreign currency translation	**(58)**	3	30	14
Comprehensive loss	**($118)**	($550)	($213)	($1,052)
Loss per share	**($0.00)**	($0.02)	($0.01)	($0.03)

(in thousands of Canadian dollars, except per share amounts)	**For the Three Months Ended**		**For the Six Months Ended**	
	Jun-30 2020	Jun-30 2019	**Jun-30 2020**	Jun-30 2019
CASH FLOW INFORMATION				
Operating activities	**$1,773**	$965	**$2,246**	$245
Investing activities	**(240)**	(1,303)	**(873)**	(1,467)
Financing activities	**(1,543)**	696	**(1,379)**	898
Net cash inflow (outflow)	**(10)**	358	**(6)**	(324)
Consolidation currency adjustment	**1**	(23)	**(13)**	(47)
Cash, beginning of period	**116**	367	**126**	1,073
Cash, end of period	**$107**	$702	**$107**	$702
Working capital	**($3,454)**	($2,406)	**($3,454)**	($2,406)
Total assets	**$12,283**	$12,268	**$12,283**	$12,268
Shareholders' equity	**$778**	$854	**$778**	$854

COMPARISON FOR THE THREE MONTHS ENDED JUNE 30, 2020 AND 2019

Revenue

Revenue for the three months ended June 30, 2020 was $6,968,661, representing an increase of $3,538,426 from $3,430,235 for the same period in 2019. The comparison 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 June 30, 2020, revenue from the subscription revenue and services segment was $2,489,049, representing an increase of $879,256 from $1,609,793, for the same period in 2019. The increase was the result of the inclusion of PCS service revenues for the quarter and growth in MobiKEY services.

Subscription revenue and services, as a percentage of total revenue, represented 35.7% for the current period as compared to 46.9% for the prior year period.

Subscription revenue and services by quarter *(in thousands of Canadian dollars)*	**June 30 2020**	Mar 31 2020	Dec 31 2019	Sept 30 2019	June 30 2019
Application software	1,665	1,217	1,202	1,182	1,196
Technology as a service (TaaS)	315	321	353	322	311
Other services	509	420	956	632	103
Total	**2,489**	**1,958**	**2,511**	**2,136**	**1,610**

Devices and Appliances

Revenue from MobiKEY devices (MC3 device, the MobiKEY Fusion 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 June 30, 2020 was $4,476,833, representing an increase of $2,657,771 from $1,819,062, for the same period in 2019. The increase is reflective of the variability in device revenue as well as the inclusion of PCS device revenues for the current quarter.

Devices and appliances revenue as a percentage of total revenue represents 64.2% of total revenue for the current period compared to 53.0% for the prior year period.

Other revenue

Other revenue for the three months ended June 30, 2020 was $2,779 compared to $1,380 for the same period in 2019. The increase is attributable to more customers paying by credit card, resulting in more credit card fees charged.

Gross Profit

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

The cost of revenue for the three months ended June 30, 2020 was $4,187,707, representing an increase of $2,515,596 from $1,672,111 for the same period in 2019. The increase in cost of revenue for the three months ended June 30, 2020 is the result of the inclusion of PCS operations for the current quarter.

Gross profit for the three months ended June 30, 2020 was $2,780,954 or 39.9% of gross revenue, representing an increase of $1,022,830 from a gross profit of $1,758,124 or 51.3% of gross revenue for the same period in 2019. The decrease in the gross profit percentage was driven by a higher mix of PCS Mobile sales.

Expenses

Operating expenses consist of general administration, research and development, and selling and marketing. Operating expenses for the three months ended June 30, 2020 were $2,570,482, representing an increase of $746,340 from $1,824,142, for the same period in 2019.

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 June 30, 2020 were $1,481,786, representing a increase of $466,336 from $1,015,450, for the same period in 2019. The majority of the increase can be summarized as follows:

- Increased rent expense of $18,000, $7,000 of which is due to the acquisition of PCS and $11,000 the result of property taxes paid and annual rent increases.
- Increased director fees of $5,000.
- Increased amortization expense of approximately $79,000, primarily the result of the acquisition of PCS and the addition of technology as a service (TaaS) assets and computer equipment.
- Increased salary expenses of approximately $220,000, with $35,000 resulting from the acquisition of PCS and $185,000 resulting from increased salaries and headcount changes.
- Increased bonus expenses of approximately $122,000.
- Decreased professional fees expense of approximately $6,000 due to decreased use of communications consultants.
- Increased accounting expense of approximately $16,000 to reflect increased costs as a result of the acquisition of PCS.
- Increased insurance costs of approximately $9,000 as the result of the acquisition of PCS.

Research and development

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

Research and development expenses for the three months ended June 30, 2020 were $203,854, representing an increase of $56,707 from $147,147, for the same period in 2019. The majority of the change can be summarized as follows:

- Salary costs increased by approximately $51,000 due to increased salaries and headcount changes as well as the capitalization of salaries related to the development of ScreenSTOP and CipherSPOT in 2019.
- The accrual for expected SR&ED recoveries decreased by approximately $6,000, as a result of continued evaluation of the estimated amount of eligible expenditures.

Selling and marketing

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

Selling and marketing expenses for the three months ended June 30, 2020 were $884,842, representing an increase of $223,297 from $661,545, for the same period in 2019. The majority of the change can be summarized as follows:

- Increased salary expenses of approximately $193,000 resulting primarily from the acquisition of PCS.
- Increased commissions costs of approximately $87,000.
- Decreased travel expenses of approximately $26,000 as a result of cancelled or delayed travel as a result of the COVID-19 pandemic.
- Increased brand building costs of approximately $20,000 due to increased internet marketing efforts.
- Decreased other expenses of approximately $48,000, primarily as a result of marketing development funds generated and cancellation or delay of certain tradeshows.

Other Items

Stock-based compensation

Stock-based compensation was $141,170 for the three months ended June 30, 2020, an increase of $58,731 from $82,439, for the same period in 2019. The contributing factor to the increased expense was the higher number of options vesting during the three months ended June 30, 2020 as compared to the same period in 2019.

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 June 30, 2020 was $66,511, a decrease of $222,395 from $288,906 for the same period in 2019.

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

Acquisition Expenses

Acquisition expenses for the three months ended June 30, 2020 were $16,145 related to expenses incurred for due diligence, a decrease of $57,635 compared to $73,780 for the same period in 2019.

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 $32,097 for the three months ended June 30, 2020, a decrease of $40,866 from a gain of $8,769 for the same period in 2019. There was significant volatility of the Canadian dollar against the U.S. dollar during the second quarter of 2020, from a high of 1.3383 to a low of 1.4217, as well as significant volatility during the second quarter of 2019, with a high of 1.3087 to a low of 1.3527.

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) Profit After Taxes

Comprehensive loss for the three months ended June 30, 2020 was $118,302 or ($0.00) per share, representing a decrease of $431,852 from a comprehensive loss of $550,154 or ($0.02) per share for the same period in 2019.

COMPARISON FOR THE SIX MONTHS ENDED JUNE 30, 2020 AND 2019

Revenue

Revenue for the six months ended June 30, 2020 was $13,331,983, representing an increase of $6,439,629 from $6,892,354, for the same period in 2019. 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 six months ended June 30, 2020, revenue from the subscription revenue and services segment was $4,446,771, representing an increase of $1,260,865 from $3,185,906, for the same period in 2019. The increase was the result of the inclusion of PCS service revenues for the period and growth in MobiKEY subscriptions.

Subscription revenue and services, as a percentage of total revenue, represented 33.5% for the current period as compared to 46.2% for the prior year period.

Devices and Appliances

Revenue from MobiKEY devices (MC3 device, the MobiKEY Fusion 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 six months ended June 30, 2020 was $8,878,196, representing an increase of $5,175,798 from $3,702,398, for the same period in 2019. The increase is reflective of the variability in device revenue as well as the inclusion of PCS device revenues for the current period.

Devices and appliances revenue as a percentage of total revenue represents 66.6% of total revenue for the current period compared to 53.7% for the prior year period.

Other revenue

Other revenue for the six months ended June 30, 2020 was $7,016 compared to $4,050 for the same period in 2019. The increase is attributable to increased charges to customers for payment by credit card and for shipping.

Gross Profit

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

The cost of revenue for the six months ended June 30, 2020 was $8,185,460, representing an increase of $4,813,356 from $3,372,104, for the same period in 2019. The increase in cost of revenue for the six months ended June 30, 2020 is the result of the inclusion of PCS devices revenues and cost of revenues for the period.

Gross profit for the six months ended June 30, 2020 was $5,146,523 or 38.6% of gross revenue, representing an increase of $1,626,273 from a gross profit of $3,520,250 or 51.1% of gross revenue for the same period in 2019.

Expenses

Operating expenses consist of general administration, research and development, and selling and marketing. Operating expenses for the six months ended June 30, 2020 were $4,904,096, representing an increase of $1,386,647 from $3,517,449, for the same period in 2019.

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 six months ended June 30, 2020 were $2,841,006, representing an increase of $828,939 from $2,012,067, for the same period in 2019. The majority of the change can be summarized as follows:

- Increased rent expense of $87,000, $45,000 of which is due to the acquisition of PCS and $42,000 the result of property taxes paid and annualized rent increases.
- Increased director fees of $26,000.
- Increased amortization expense of approximately $152,000, primarily due to the acquisition of PCS and the addition of technology as a service (TaaS) assets and computer equipment.
- Increased salary expenses of approximately $301,000, with $82,000 resulting from the acquisition of PCS and $219,000 resulting from increased salaries and headcount changes.
- Increased bonus expenses of approximately $148,000.
- Increased accounting expense of approximately $26,000 to reflect increased costs as a result of the acquisition of PCS.
- Increased insurance costs of approximately $19,000 as the result of the acquisition of PCS.
- Increased other general administration expenses of approximately $69,000, with $34,000 as the result of the acquisition of PCS, $12,000 from credit card processing fees in Route1, $11,000 as the result of reversing certain accruals in 2019 and $12,000 related to increased telecommunications costs and charitable donations.

Research and development

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

Research and development expenses for the six months ended June 30, 2020 were $374,416, representing an increase of $142,684 from $231,732, for the same period in 2019. The majority of the change can be summarized as follows:

- Salaries and benefits increased by approximately $131,000 due to increased salaries and headcount changes as well as the capitalization of salaries related to the development of ScreenSTOP and CipherSPOT in 2019.
- The accrual for expected SR&ED recoveries decreased by approximately $12,000, as a result of continued evaluation of the estimated amount of eligible expenditures.

Selling and marketing

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

Selling and marketing expenses for the six months ended June 30, 2020 were $1,688,674, representing an increase of $415,024 from $1,273,650, for the same period in 2019. The majority of the change can be summarized as follows:

- Increased salary expenses of approximately $375,000 resulting primarily from the acquisition of PCS.
- Increased commissions costs of approximately $55,000.
- Increased travel and expenses of approximately $34,000 resulting from the acquisition of PCS, offset by cancelled or delayed travel as a result of the COVID-19 pandemic.
- Increased brand building costs of approximately $36,000 due to increased Internet marketing efforts.
- Decreased other expenses of approximately $83,000, primarily as a result of marketing development funds generated and cancelled or delayed trade shows.
- Decreased wire services expenses of approximately $3,000 due to a shift to a lower-cost provider.

Other Items

Stock-based compensation

Stock-based compensation was $250,208 for the six months ended June 30, 2020, an increase of $131,650 from $118,558 for the same period in 2019. The contributing factor to the increased expense was the higher number of options vesting during the six months ended June 30, 2020 as compared to the same period in 2018.

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 six months ended June 30, 2020 was $170,612, a decrease of $645,374 from $815,986 for the same period in 2019.

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

Acquisition Expenses

Acquisition expenses for the six months ended June 30, 2020 were $16,145, a decrease of $57,635 compared to $73,780, for the same period in 2019. The acquisition expenses were incurred for the acquisition of PCS on June 28, 2019 and hiring of personnel, as well as the assumption of certain purchase orders of MobileTek Consulting LLC on April 9, 2020.

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 $10,784 for the six months ended June 30, 2020, a decrease of $7,636 from a gain of $18,420 for the same period in 2019. There was significant volatility of the Canadian dollar against the U.S. dollar during the second quarter of 2020, from a high of 1.3383 to a low of 1.4217, and similarly there was significant volatility during the second quarter of 2019, with a high of 1.3087 to a low of 1.3527.

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 six months ended June 30, 2020 was $213,123 or ($0.01) per share, representing a decrease of $838,875 from a comprehensive loss of $1,051,998 or ($0.03) per share for the same period in 2019.

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)

	Jun-30 2020	Mar-31 2020	Dec-31 2019	Sep-30 2019	Jun-30 2019	Mar-31 2019	Dec-31 2018	Sep-30 2018
STATEMENT OF OPERATIONS								
Revenue								
Subscription revenue and services	**$2,489**	$1,958	$2,511	$2,136	$1,610	$1,576	$1,628	$1,684
Devices and appliances	**4,477**	4,401	5,891	6,576	1,819	1,883	2,440	13,207
Other	**3**	4	1	2	1	3	6	4
Total revenue	**6,969**	$6,363	8,403	8,714	3,430	3,462	4,074	14,895
Cost of revenue	**4,188**	3,997	5,653	5,953	1,672	1,700	2,216	12,311
Gross margin	**2,781**	2,366	2,750	2,761	1,758	1,762	1,858	2,584
Operating expenses								
General administration	**1,481**	1,359	1,133	1,157	1,015	997	942	1,349
Research and development	**204**	171	192	186	147	84	164	166
Selling and marketing	**885**	804	1,035	993	662	612	608	634
Total operating expenses	**2,570**	2,334	2,360	2,336	1,824	1,693	1,714	2,150
Operating profit (loss) before stock-based compensation and patent litigation	**211**	32	390	425	(66)	69	144	434
Patent litigation	**(67)**	(104)	(195)	(279)	(289)	(527)	(479)	(181)
Stock-based compensation	**(141)**	(109)	(98)	(106)	(82)	(36)	(32)	(43)
Operating profit (loss) after stock-based compensation and patent litigation	**3**	(181)	97	40	(437)	(494)	(367)	209
Acquisition expenses	**(16)**	-	-	-	(74)	-	(17)	-
Interest expense	**(35)**	(45)	(34)	(33)	(11)	(11)	-	-
Foreign exchange translation	**(33)**	43	(4)	(6)	9	9	29	(21)
Asset disposal loss	**-**	-	-	-	-	(16)	-	-
Other Expenses	**-**	-	(262)	-	-	-	-	-
Total income (loss) for the period before income tax expense	**(81)**	(183)	(203)	1	(513)	(512)	(355)	188
Income tax recovery (expense)	**21**	**-**	713	-	(40)	-	-	-
Total income (loss) for the period after income tax expense	**(60)**	(183)	510	1	(553)	(512)	(355)	188
Other comprehensive income								
Foreign currency translation	**(58)**	88	29	(22)	3	(5)	(5)	20
Comprehensive income (loss)	**($118)**	($95)	$539	($21)	($550)	($517)	($359)	$208
Earnings (loss) per share	**($0.00)**	($0.01)	$0.01	($0.00)	($0.02)	($0.01)	($0.01)	$0.01
Adjusted EBITDA	**$556**	$358	$676	$743	$200	$322	$330	$627

	Jun-30 2020	Mar-31 2020	Dec-31 2019	Sep-30 2019	Jun-30 2019	Mar-31 2019	Dec-31 2018	Sep-30 2018
CASH FLOW INFORMATION								
Operating activities	**$1,773**	$472	$64	$20	$965	($617)	($928)	$1,401
Investing activities	**(240)**	(633)	(174)	(154)	(1,303)	(268)	(343)	(24)
Financing activities	**(1,543)**	165	(28)	(247)	696	201	8	(159)
Net cash inflow (outflow)	**(10)**	4	(138)	(381)	358	(684)	(1,264)	1,218
Consolidation currency adjustment	**1**	(14)	(56)	(1)	(23)	(22)	48	(13)
Cash, beginning of period	**116**	126	320	702	367	1,073	2,289	1,084
Cash, end of period	**$107**	$116	$126	$320	$702	$367	$1,073	$2,289
BALANCE SHEET INFORMATION								
Working capital	**($3,454)**	($3,141)	($2,829)	($2,643)	($2,406)	($927)	($370)	($36)
Total assets	**$12,283**	$11,501	$12,630	$11,780	$12,268	$8,803	$6,673	$8,733
Shareholders' equity	**$778**	$950	$980	$473	$854	$860	$1,465	$1,928

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 generated by operating activities for the three months ended June 30, 2020 was $1,773,642, compared to cash generated of $862,412 in the same period in 2019, representing an increase of $911,230. Non-cash working capital generated was $1,348,418 for the three months ended June 30, 2020 compared to $1,068,019 generated in the same period a year earlier, representing an increase of $280,399. Net cash generated by the day–to-day operations for the three months ended June 30, 2020 was $425,224 compared to $205,607 used in the same period in 2019, representing an increase of $630,831. The increase in net cash generated by operating activities for the three months ended June 30, 2020, compared to the same period in the prior year is primarily due to a decrease in net loss, with a decrease in accounts receivable offsetting most of the increase in contract liabilities.

Cash generated by operating activities for the six months ended June 30, 2020 was $2,245,768, compared to cash generated of $245,067 in the same period in 2019, representing an increase of $2,000,701. Non-cash working capital generated was $1,551,481 for the six months ended June 30, 2020 compared to $673,592 generated in the same period a year earlier, representing an increase of $877,889. Net cash generated by the day–to-day operations for the six months ended June 30, 2020 was $694,287 compared to $428,525 used in the same period in 2019, representing an increase of $1,122,812. The increase in net cash generated by operating activities for the six months ended June 30, 2020, compared to the same period in the prior year is due to a decrease in net loss, a decrease in accounts receivable and an increase in contract liability, offset by a decrease in accounts payable.

Cash used in investing activities

Cash used in investing activities for the three months ended June 30, 2020 was $240,077 compared to cash used of $1,198,891 in the same period in 2019, representing a decrease of $958,814. The decrease in cash used is primarily driven by the acquisition of Portable Computer Systems, Inc. in the prior year on June 28, 2019.

Cash used in investing activities for the six months ended June 30, 2020 was $873,107 compared to cash used of $1,466,489 in the same period in 2019, representing a decrease of $593,382. The decrease in cash used is primarily driven by the acquisition of Portable Computer Systems, Inc. in the prior year.

Cash used in financing activities

Cash used by financing activities was $1,543,128 for the three months ended June 30, 2020 compared to cash generated of $696,605 for the same period in 2019, an increase of $2,239,733. The increase was primarily driven by the assumption of bank indebtedness as part of the acquisition of Portable Computer Systems, Inc. on June 28, 2019, partially offset by a reduction in lease liabilities.

Cash used by financing activities was $1,378,510 for the six months ended June 30, 2020 compared to cash generated of $897,664 for the same period in 2019, an increase of $2,276,174. The increase was primarily driven by the repayment of bank indebtedness, the repayment of notes payable, and repurchase of common shares for cancellation.

The Company's current business plan projects further revenue growth in 2020 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 will increase in 2020 and beyond. In addition, the Company expects to increase revenue in Group Mobile and PCS Mobile and expects to leverage these acquisitions by offering its products and services to corporate and industrial clients.

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 24, 2019, the Company increased its credit facility, consisting of a $875,000 revolving demand facility and a $100,000 credit card facility. The operating facility carries an interest rate equal to the lender's prime rate of interest plus 1.5%. The credit facility is secured by the assets of Route1 Inc. and guaranteed by a subsidiary of the Company.

On June 28, 2019, the Company's wholly owned subsidiary, Portable Computer Systems, Inc. ("PCS"), entered into an asset based revolving credit facility in the amount of US$1,500,000. The facility carries an interest rate of 50 basis points over the prime rate published daily in the Wall Street Journal. The availability under the facility is based on a percentage of the aggregate of certain accounts receivable and inventory. The facility is secured by the assets of PCS and is guaranteed by the Company and a wholly owned subsidiary of the Company.

In the normal course of business operations of Group Mobile Int'l, LLC ("GMI") and PCS, the Company may be required to guarantee certain trade payables to the value-added distributors from which GMI and PCS purchase product to sell to their customers. Such guarantees would be enforced only if GMI or PCS 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 and PCS.

In the normal course of operations, GMI and PCS 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.

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 quarters ended June 30, 2020 and June 30, 2019, management determined no adjustment to the carrying value was required.

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. All transactions are recorded at their exchange amounts.

- The Company incurred expenses (including CPP and EHT) payable to and on behalf of the independent members of the Board of Directors of $90,238 for the quarter ended June 30, 2020 (June 30, 2019 - $91,342) and $183,520 for the six months ended June 30, 2020 (June 30, 2019 - $185,979). These transactions are in the normal course of operations and are paid or payable for directorship services. As at June 30, 2020, accounts payable included $95,159 owing to or payable on behalf of the directors (December 31, 2019 - $102,088). The Company also incurred stock-based compensation expense related to stock options granted to directors in the amount of $41,893 for the quarter ended June 30, 2020 (June 30, 2019 - $3,070) and $73,405 for the six months ended June 30, 2020 (June 30, 2019 - $3,070)
- The Company made payments to or incurred expenses for key management (Chief Executive Officer, Chief Technology Officer and the Chief Financial Officer) in the three and six months ended June 30, 2020 as follows, with 2019 comparatives.

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	**Six Months Ended June 30, 2020**	Six Months Ended June 30, 2019
Short-term employee benefit	**$399,923**	$197,990	**$648,753**	$342,516
Stock-based compensation expense	**62,953**	14,165	**81,370**	21,458
	$462,876	$212,155	**$730,123**	$363,974

BUSINESS COMBINATION – PCS

On June 28, 2019, the Company completed the acquisition of 100% of the outstanding shares of PCS. The purchase consideration consisted of (i) cash of US$1,030,000; (ii) a 3% unsecured, three year note in the amount of US $250,000 (Note A); (iii) a 2.37% unsecured note, payable monthly over 36 months in the amount of US $720,000 (Note B); and (iv) 1,120,000 common shares of Route1.

The purchase consideration has been accounted for as follows:

Cash	$1,347,961
Notes payable, discounted	1,207,962
Common shares, discounted	456,960
	$3,012,883

Based in Denver, Colorado, PCS is a computer reseller with expertise in mobile data applications, including wireless products for in-vehicle use. The company offers guidance and state-of-the-art mobile devices for a wide range of applications including utilities, telecommunications, field services, insurance, healthcare, police and public safety as well as state and local government. PCS services customers primarily located in the Southwestern and Rocky Mountain regions of the U.S. Rugged devices and applications include but are not limited to Panasonic Toughbook mobile computers, Xplore and Getac rugged tablets, Genetec license plate recognition solutions, and accessories from Gamber-Johnson and Havis.

The Company issued 1,120,000 common shares as partial consideration for the acquisition. 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 June 28, 2019 of $0.50 per share. The common shares issued are subject to an escrow whereby 100% of the common shares may not be traded until June 28, 2020 after which 50% of the shares may be traded. The balance of the shares is released from escrow pro rata over the following six months such that by December 28, 2020, 1,120,000 shares will be freely tradable. Given the restrictions on trading, the value of the shares issued as purchase consideration was discounted to $456,960. On June 28, 2019, 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 $1.3087.

The notes issued as part of the purchase consideration have been discounted to reflect a market-based rate of interest. Based on a market rate of interest of 6% per annum, the values of Notes A and B were discounted to market-based values of $309,009 and $898,953, respectively.

The acquisition of PCS was accounted for using the acquisition method of accounting in accordance with IFRS 3 with the results of operations consolidated with those of the Company effective June 28, 2019. The goodwill recorded on the balance sheet represents the purchase price paid in excess of the fair value of the assets acquired is not tax deductible. The goodwill is attributed to the workforce and profitability of PCS.

PCS has contributed incremental revenue of $7,261,226 and gross profit of $1,519.986 for the six months ended June 30, 2020.

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.

Assets Acquired	**US Dollars**	**Canadian Dollars**
Cash and cash equivalents	$199,134	$260,607
Accounts receivable	1,414,842	1,851,604
Inventory	845,564	1,106,589
Prepaid expenses	16,789	21,971
Current assets	2,476,329	3,240,771
Furniture and equipment	45,853	60,008
Intangible assets	600,000	785,221
Goodwill	1,189,839	1,557,142
Non-current assets	1,835,692	2,402,371
Total assets	4,312,021	5,643,142
Liabilities Assumed		
Accounts payable and other liabilities	1,702,148	2,227,602
Contract liability	160,077	209,493
Deferred tax liability	147,600	193,164
Total liabilities	2,009,825	2,630,259
Fair value of net assets acquired	2,302,196	3,012,883
Net consideration issued	$2,302,196	$3,012,883

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 June 30, 2020, were $66,511 (June 30, 2019 - $288,906). Patent litigation expenses for the six months ended June 30, 2020, were $170,612 (June 30, 2019 - $815,986).

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, 2018.

In December 2018, Route1 Inc. commenced a patent infringement lawsuit in Canada against VMware, Inc., asserting that at least five claims of Route1’s patent was infringed. The case has since proceeded and Route1 Inc. has received further disclosure from VMware, Inc. As a result, on March 11, 2020 Route1 Inc. filed an amended Statement of Claim increasing the number of infringed claims from Route1's patent from five to thirty-four. The Canadian lawsuit continues to proceed, with inventor and corporate examinations having been conducted in Toronto, Ontario and Chandler, Arizona. Route1 continues to work with its counsel to build its case in preparation for trial before the Federal Court of Canada.

On August 7, 2019, Route1 was provided with a court order in relation to Route1's action against AirWatch. The court granted AirWatch's motion for summary judgment for non-infringement (the "Order"). On October 7, 2019, Route1 appealed to the United States Court of Appeals for the Federal Circuit from the district court's August 7, 2019 decision. The district court's decision became appealable after the stipulated dismissal of AirWatch's counterclaim challenging the validity of the 216 Patent. Briefing on the appeal was completed during the first quarter of 2020.

Briefing on the appeal was completed in April 2020. The Federal Circuit Court of Appeal will hear the appeal on the briefing on September 3, 2020 and the Company expects that the court will enter a decision shortly thereafter.

On October 28, 2019, AirWatch filed a motion in district court to claim cost reimbursement for the litigation. On March 31, 2020, the district court entered an order granting AirWatch's request for attorneys' fees in part, and directing further submissions from the parties regarding the amount of fees to be awarded.

On August 24, 2020, the United States District Court for the District of Delaware issued an order granting AirWatch's motion for attorneys' fees in part and denying it in part, ordering a payment to AirWatch in the amount of $1,666,672.78. Route1 expects to appeal the decision to the United States Court of Appeals for the Federal Circuit. The federal rules provide an automatic stay of execution of the judgment for 30 days. Upon commencing the appeal, Route1 anticipates securing a stay of execution during the appeal by posting a bond with the court for the amount of the award.

CRITICAL ACCOUNTING ESTIMATES

The consolidated financial statements have been prepared in accordance with IFRS. 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, the valuation of assets acquired in business combinations, 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, the MobiKEY Fusion3 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, as well as license plate recognition hardware and related services. The Company recognizes revenue in accordance with IFRS 15.
- 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 Company estimates the value of the value of the assets acquired in the business combinations on the basis of fair value to the ongoing operations of the acquired business.
- 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.

FINANCIAL INSTRUMENTS

Establishing fair value

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

The following table sets out the classification, carrying amount, and fair value of the Company's financial assets and liabilities as at June 30, 2020 and December 31, 2019:

	June 30, 2020		December 31, 2019	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
FINANCIAL ASSETS				
Cash and cash equivalents	**$107,415**	**$107,415**	$125,544	$125,544
Accounts receivable	**$3,579,886**	**$3,579,886**	$4,964,615	$4,964,615
FINANCIAL LIABILITIES				
Bank indebtedness	**$337,717**	**$337,717**	$1,359,695	$1,359,695
Accounts payable and other liabilities	**$3,489,934**	**$3,489,934**	$5,147,494	$5,147,494
Notes payable	**$855,304**	**$855,304**	$1,055,670	$1,055,670

FINANCIAL INSTRUMENTS - RISK MANAGEMENT

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Inputs into the determination of the fair value require management judgment or estimation. The Company's notes payable are valued using Level 2 inputs, such as the market rate of interest for a similar security.

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	
Other receivables	Yes		Yes	
Bank indebtedness		Yes	Yes	Yes
Accounts payable and other liabilities		Yes	Yes	
Notes payable		Yes	Yes	

Credit risk

Credit risk arises from cash held with banks and credit exposure to customers, including outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value (net of allowances) of the financial assets. The objective of managing credit risk is to prevent losses on financial assets. The Company assesses the credit quality of counterparties, taking into account their financial position, past experience and other factors. During the quarter ended June 30, 2020, the largest single customer represented approximately $541,000 of revenue (June 30, 2019 - $824,000).

Cash and cash equivalents consist of bank balances. Credit risk associated with cash is minimized substantially by ensuring that these financial assets are held in highly rated financial institutions. At June 30, 2020, the Company had cash consisting of deposits with Schedule 1 banks in Canada and their subsidiaries in the U.S., a large money centre bank in the U.S. and a large regional bank in the U.S. of $107,415 (December 31, 2019 - $125,544).

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 Company measures a loss allowance based on the lifetime expected credit losses. Lifetime expected credit losses are estimated based on factors such as the Company's past experience of collecting payments, the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables, financial difficulty of the borrower, and it becoming probable that the borrower will enter bankruptcy or financial re-organization. Financial assets are written off when there is no reasonable expectation of recovery. Subsequent recoveries of amounts previously written off reduce other expenses in the statement of comprehensive income. As at June 30, 2020, the largest single customer's account receivable represented $321,743 (December 31, 2019 – $1,148,251) of the total accounts receivable. This account receivable was collected in full subsequent to the end of the period.

The following table outlines the details of the aging of the Company's receivables as at June 30, 2020 and December 31, 2019:

	June 30, 2020	December 31, 2019
Current	**$2,889,541**	$3,704,055
Past due		
1 – 60 days	**479,077**	1,066,043
Greater than 60 days	**211,268**	194,517
Less: Allowance for doubtful accounts	**-**	-
Total accounts receivable, net	**$3,579,886**	$4,964,615

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 primarily relied and expects to continue to rely primarily on collecting its accounts receivable as they come due.

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 marketplace. The following table details the Company's contractual maturities for its financial liabilities, including interest payments and operating lease commitments, as at June 30, 2020:

	2020	**2021**	**2022 and Beyond**	**Total**
Accounts payable and other liabilities	$3,489,934	$461,534	$-	$3,951,468
Notes payable	163,536	436,096	286,188	885,820
Lease commitments	339,217	546,510	382,238	1,267,965
	$3,992,687	$1,444,140	$668,426	$6,105,253

Bank indebtedness does not have a contractual maturity and as such has not been included in the above table.

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 June 30, 2020, the Company had non-Canadian dollar net monetary liabilities of approximately US $65,000 (December 31, 2019 – net monetary assets of approximately US $443,000). An increase or decrease in the U.S. to Canadian dollar exchange rate by 5% as at June 30, 2020 would have resulted in a gain or loss in the amount of $3,250 (December 31, 2019 – gain or loss of $22,150).

Interest rate

The Company has cash balances and bank indebtedness which may be exposed to interest rate fluctuations. At June 30, 2020, cash balances were $107,415 (December 31, 2019 - $125,544), bank indebtedness balances were $337,717 (December 31, 2019 – $1,359,695) and the interest rate sensitivity is not material.

SHARE REPURCHASE PROGRAM

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 1,840,535. 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 has been purchased by the Company. Purchases for cancellation under the NCIB during the period from September 27, 2018 to September 26, 2019 were 1,608,700 common shares.

On September 24, 2019, the Company received approval from the TSX Venture Exchange 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 1,816,855. Purchases under the NCIB may occur during the 12-month period commencing September 27, 2019 and ending September 26, 2020, or the date upon which the maximum number of common shares has been purchased by the Company. Purchases for cancellation under the NCIB during the period from September 27, 2019 to June 30, 2020 were 883,991 common shares.

In May 2020, the Company announced an amendment to the Normal Course Issuer Bid (NCIB), increasing the maximum purchase price per common share purchased under the NCIB to $0.75 from $0.60.

For the three months ended June 30, 2020 the Company purchased 289,000 (June 30, 2019 – 77,200) shares for cancellation under the NCIB at an average price of approximately $0.67 per share.

For the six months ended June 30, 2020, the Company purchased 394,500 (June 30, 2019 – 77,200) shares for cancellation under the NCIB at an average price of approximately $0.60 per share.

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 June 30, 2020, the following was outstanding:

	Number of Common Shares	Common Shares $
Balance, January 1, 2020	35,905,109	$22,042,233
Shares repurchased for cancellation	(394,500)	(238,368)
Balance, June 30, 2020	35,510,609	$21,803,865

- There are 3,232,500 common share purchase options ("Options") outstanding to acquire 3,232,500 common shares at various prices.
- There are 30,000,000 common share purchase warrants outstanding with an expiry date of March 22, 2021, that enable the holder to purchase 3,000,000 common shares at an exercise price of $0.50 per share.

OFF-BALANCE SHEET ARRANGEMENTS

As of June 30, 2020, there are no off-balance sheet arrangements.

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 an economic downturn 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 operating results and financial condition.
- The Company's revenues are derived primarily from the United States and, with respect to MobiKEY application software subscriptions, from U.S. federal governmental agencies and departments as well as state and local governments and agencies. 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 current U.S. President has publicly supported certain policies, including those related to changes to international trade agreements and policies favoring U.S. persons and companies. There is continued uncertainty as to which measures and policies will be maintained by the United States government, governmental agencies and departments in 2020 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 shutdowns. 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"). The Court found for the defendant and the finding is under appeal. The defendant has filed a motion with the Court requiring the Company to pay the defendant's legal costs. If the 216 Patent is found to be either invalid or patent ineligible and/or if the Company is required to pay the defendant's legal costs, the Company's business could be materially and adversely affected.
- The Company is currently defending the validity of its 216 Patent at the United States Patent and Trademark Office. Should the Company be unsuccessful, the Company's business may be adversely affected.
- The Company's ability to collect payment on a timely basis for products and services delivered may have a material adverse impact on the Company's liquidity position.
- 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, the Company's competitive advantage in the secure remote access industry may be harmed;
- 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, such inability 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, such inability could also slow the Company's continued growth;
- Should Route1 be unable to integrate acquired businesses successfully, such inability 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 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 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 access solutions, and purchases of other services and products offered by the Company.
- 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 and license plate recognition 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 products and solutions 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 effect on the Company's ability to sustain the business without collecting the amounts due from customers.
- The Company resells its products and sells its solutions to state and local governments and law enforcement agencies. Any delay or decrease in funding of these entities would have an adverse impact on the Company's business.
- 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 or write-down 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 budget 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 primarily in the United States. The volatility of the Canadian dollar against the U.S. dollar 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.
- As a result of Covid-19, incidences of commercial fraud have increased. Should the company be subjected to external fraudulent schemes, its business may be adversely affected.
- 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.

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.

COVID-19

Since December 31, 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, including Canada, businesses are being forced to cease or limit operations for long or indefinite periods of time. Global stock markets have also experienced significant volatility. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

The COVID-19 pandemic has affected the Company's business both positively and negatively. The Company's secure remote access technology has benefited from the requirements to telework. Sales of MobiKEY© subscriptions and related enabling devices have increased and will be reflected in the financial results for the second quarter of 2020 and beyond as many of the new MobiKEY© sales occurred in the last two weeks of March 2020 and continued into the second quarter.

The impact of COVID-19 on the balance of the Company's business has been the disruption in the supply chain for ruggedized devices and accessories during the first quarter of 2020 that has mostly been corrected, client facility shutdowns and deferral of installation services for certain license plate recognition projects. As various states across the United States take steps to reopen the economy, facilities will reopen and installation activities will resume.

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 June 30, 2020, the Company had $4,397,271 (December 31, 2019 - $1,908,315) in contract liability.

The following table provides a presentation of the Company's revenue streams for the quarter ended June 30, 2020 and 2019: The following table provides a presentation of the Company's revenue streams for the quarter ended June 30, 2020 and 2019:

	2020		2019	
	Revenue	**% of Total**	Revenue	% of Total
Subscription revenue and services	**$2,489,049**	**35.7**	$1,609,793	46.9
Devices and appliances	**4,476,833**	**64.2**	1,819,062	53.0
Other	**2,779**	**0.1**	1,380	0.1
	$6,968,661	**100.0**	$3,430,235	100.0

The following table provides a presentation of the Company's revenue streams for the six months ended June 30, 2020 and 2019:

	2020		2019	
	Revenue	**% of Total**	Revenue	% of Total
Subscription revenue and services	**$4,446,771**	**33.4**	$3,185,906	46.2
Devices and appliances	**8,878,196**	**66.6**	3,702,398	53.7
Other	**7,016**	**0.0**	4,050	0.1
	$13,331,983	**100.0**	$6,892,354	100.0

The following table provides a geographic presentation of the Company's revenue streams for the quarter ended June 30, 2020 and 2019:

	2020		2019	
	Revenue	**% of Total**	Revenue	% of Total
USA	**$6,915,991**	**99.6**	$3,400,141	99.1
Canada	**52,670**	**0.8**	30,094	0.9
	$6,968,661	**100.0**	$3,430,235	100.0

The following table provides a geographic presentation of the Company’s revenue streams for the six months ended June 30, 2020 and 2019:

	2020		2019	
	Revenue	**% of Total**	Revenue	% of Total
USA	**$13,248,936**	**99.4**	$6,829,517	99.1
Canada	**83,047**	**0.6**	62,837	0.9
	$13,331,983	**100.0**	$6,892,354	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).