ROUTE1 INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2021

As at August 25, 2021

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, 2020. 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 25, 2021 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

See https://www.route1.com/terms-of-use/ for notice of Route1's intellectual property

OVERVIEW

Route1 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, Scottsdale, 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 March 29, 2021, the Company announced that it had acquired DataSource Mobility, LLC and its wholly owned subsidiary, VetSource Mobility, LLC (collectively "DSM").

- Founded in 2007, DSM is primarily a reseller of ruggedized tablets and laptops along with associated accessories.
- DSM is located in Clarksville, Tennessee and serves markets in the Southeastern United States including Alabama, Missouri, Tennessee and Texas.

On April 29, 2021, the Company announced its financial results for the fourth quarter and the year ended December 31, 2020.

- The Company announced the completion of a $3,000,000 private placement of units consisting of one common share and one warrant with an exercise price of $1.00 expiring June 16, 2022.

- The Company settled its litigation with VMWare and paid US$1,400,000 in full and final release from any further litigation.

On May 20, 2021, the Company announced its financial results for the quarter ended March 31, 2021.
- The Company announced the acquisition of DataSource Mobility, LLC.
- The Company announced that its wholly-owned subsidiary, Portable Computer Systems, Inc, was named "AutoVu™ Premier Partner of the Year – USA" by Genetec Inc.

On May 26, 2021, the Company announced that the University of Arizona would use automated license plate recognition to improve efficiency in vaccine delivery.

On June 1, 2021, the Company announced that it had received US$438,642 from its insurers, in full settlement for the cost of goods fraudulently taken from Route1 in the third quarter of 2020 and disclosed in a news release Route1 issued on November 25, 2020.

On June 28, 2021, the Company announced that it had received an order for 197 state-of-the-art Automatic License Plate Recognition ("ALPR") systems that will be deployed in patrol vehicles. The revenue to be generated by Route1 from the 199 ALPR systems purchase order is approximately US $1.3 million and will be recognized as the ALPR systems are delivered to the client which is expected to start in the third quarter of 2021.

BASIS OF PREPARATION

Route1 acquired DataSource Mobility, LLC. and its wholly owned subsidiary, VetSource Mobility, LLC (collectively "DSM") on March 29, 2021. No operational activity occurred between the acquisition date and March 31, 2021. Financial results of DSM have been included in all subsequent periods.

The interim condensed consolidated financial statements of Route1 include its wholly-owned subsidiaries, Route 1 Security Corporation, Group Mobile Int'l, LLC ("GMI"), Portable Computer Systems, Inc. ("PCS") and DSM. Route1 acquired GMI on March 22, 2018 and PCS on June 28, 2019.

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 2021**	Mar 31 2021	Dec 31 2020	Sep 30 2020	Jun 30 2020
Adjusted EBITDA	**$760**	$764	$768	$778	$556
Depreciation and amortization	**(316)**	(342)	(325)	(327)	(346)
Stock-based compensation	**(173)**	(201)	(171)	(76)	(141)
Operating profit (loss) before other income (expense)	**$271**	$221	$272	$375	$69

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, 2021 and 2020.

(in thousands of Canadian dollars, except per share amounts)	**For the Three Months Ended**		**For the Six Months Ended**	
	Jun-30 2021	Jun-30 2020	**Jun-30 2021**	Jun-30 2020
STATEMENT OF OPERATIONS				
Revenue				
Subscription revenue and services	**$2,671**	$2,489	**$5,428**	$4,447
Devices and appliances	**3,663**	4,477	**7,450**	8,878
Other	**4**	3	**71**	7
Total revenue	**6,338**	6,969	**12,949**	13,332
Cost of revenue	**3,443**	4,188	**7,090**	8,185
Gross profit	**2,895**	2,781	**5,859**	5,147
Operating expenses				
General administration	**1,453**	1,481	**2,924**	2,840
Research and development	**201**	204	**405**	375
Selling and marketing	**797**	885	**1,664**	1,689
Total operating expenses before stock-based compensation	**2,451**	2,570	**4,993**	4,904
Stock-based compensation	**173**	141	**374**	250
Total operating expenses	**2,624**	2,711	**5,367**	5,154
Operating profit (loss) before other income (expense)	**271**	(141)	**493**	(7)
Other income (expense)				
Patent litigation	**-**	(67)	**-**	(171)
Acquisition expenses	**(1)**	(16)	**(39)**	(16)
Interest expense	**(45)**	(35)	**(91)**	(81)
Foreign exchange gain (loss)	**(11)**	(32)	**(13)**	11
Other income	**244**	-	**244**	-
Loss on asset disposal	**-**	-	**(3)**	-
Total other income (expense)	**187**	150	**98**	(257)
Income (loss) for the period before income tax	**458**	(81)	**591**	(264)
Income tax recovery	**3**	21	**8**	21
Net income (loss) for the period	**461**	(60)	**599**	(243)
Other comprehensive income (loss)				
Foreign currency translation	**(55)**	(58)	**40**	30
Comprehensive income (loss)	**$406**	($118)	**$639**	($213)

Income (loss) per share	**$0.01**	($0.00)	**$0.02**	($0.01)
Diluted income (loss) per share	**$0.01**	($0.00)	**$0.01**	($0.00)

(in thousands of Canadian dollars, except per share amounts)	**For the Three Months Ended**		**For the Six Months Ended**	
	Jun-30 2021	Jun-30 2020	**Jun-30 2021**	Jun-30 2020
CASH FLOW INFORMATION				
Operating activities	**($125)**	$1,773	**$1,141**	$2,246
Investing activities	**(110)**	(240)	**(1,810)**	(873)
Financing activities	**(142)**	(1,543)	**(353)**	(1,379)
Net cash inflow (outflow)	**(377)**	(10)	**(1,022)**	(6)
Consolidation currency adjustment	**30**	1	**51**	(13)
Cash, beginning of period	**513**	116	**1,137**	126
Cash, end of period	**$166**	$107	**$166**	$107
Working capital	**($4,087)**	($3,454)	**($4,087)**	($3,454)
Total assets	**$13,739**	$12,283	**$13,739**	$12,283
Shareholders' equity	**$2,906**	$778	**$2,906**	$778

COMPARISON FOR THE THREE MONTHS ENDED JUNE 30, 2021 AND 2020

Revenue

Revenue for the three months ended June 30, 2021 was $6,337,780, representing a decrease of $630,881 from $6,968,661, for the same period in 2020. 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 June 30, 2021, revenue from the subscription revenue and services segment was $2,670,702, representing an increase of $172,653, from $2,498,049, for the same period in 2020. The increase was the result of a shift in focus and demand for our subscription and services.

Subscription revenue and services, as a percentage of total revenue, represented 42.1% for the current period compared to 35.7% for the prior year period.

Subscription revenue and services by quarter *(in thousands of Canadian dollars)*	**June 30 2021**	Mar 31 2021	Dec 31 2020	Sept 30 2020	June 30 2020
Application software	**1,724**	1,977	2,015	1,923	1,665
Technology as a service (TaaS)	**435**	293	204	241	315
Other services	**512**	488	309	435	509
Total	**2,671**	2,758	2,528	2,599	2,489

Devices and Appliances

Revenue from MobiKEY devices (the MC3 device, the MobiKEY Fusion device and the MobiKEY Fusion3 device) and appliances (the DEFIMNET platform and the MobiNET Aggregation Gateway), ruggedized computing devices and accessories, license plate recognition equipment and accessories for the three months ended June 30, 2021 was $3,663,081, representing a decrease of $813,753 from $4,476,834 for the same period in 2020. The decrease is reflective of the variability and the transactional nature of device revenue.

Devices and appliance revenue as a percentage of total revenue represents 57.8% of total revenue for the current period compared to 64.2% for the prior year period.

Other revenue

Other revenue for the three months ended June 30, 2021 was $3,997, representing an increase of $1,218 compared to $2,779 for the same period in 2020. The increase is attributable to recognition of customer deposits in accordance with our revenue recognition polices.

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, 2021 was $3,442,874, representing a decrease of $744,833 from $4,187,707 for the same period in 2020. The decrease in cost of revenue is a result of a change in our sales mix due to a shift in focus to higher margin services.

Gross profit for the three months ended June 30, 2021 was $2,894,906 or 45.7% of gross revenue, representing an increase of $113,952 from a gross profit of $2,780,954 or 39.9% of gross revenue for the same period in 2020.

Expenses

Operating expenses consist of general administration, research and development, and selling and marketing. Operating expenses for the three months ended June 30, 2021 were $2,450,646, representing a decrease of $119,836 from $2,570,482, for the same period in 2020.

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, 2021 were $1,452,614 representing a decrease of $29,172 from $1,481,786 for the same period in 2020. The majority of the change can be summarized as follows:

- Salaries expense increased by approximately $16,000, reflecting changes in headcount mix
- Bonuses expense decreased by approximately $73,000 as a result of a change in timing of bonus payouts
- Director fees increased by approximately $35,000 due to increased compensation rates paid to directors
- Professional fees increased by approximately $17,000 due to the use of external consultants and increased recruiting costs
- Rent expenses decreased by approximately $19,000 due to a decrease in lease-related costs such as property taxes on terminated leases
- Accounting expenses decreased by approximately $8,000 due to the timing of accruals for tax-related consulting
- Legal costs increased by approximately $12,000 related to normal course business activities
- Insurance costs decreased by approximately $2,000 due to a move to different providers
- Other expenses increased by approximately $22,000, primarily due to the reversal in 2020 of certain accruals
- Amortization decreased by approximately $28,000 due the completion of amortization on most TaaS assets, offset by increases in amortization on right of use assets and intangible 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 three months ended June 30, 2021 were $200,908, representing a decrease of $2,946 from $203,854 for the same period in 2020. The majority of the change can be summarized as follows:

- Salary costs decreased by approximately $14,000 due to decreased head count in R&D
- Training costs increased by approximately $2,000 due to expanded training for employees
- The expected SR&ED recoveries decreased by approximately $10,000, compared to the expected recovery in the same period in 2020 as a result of a reduction in eligible expenditures under the program

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, 2021 were $797,124, representing a decrease of $87,718 from $884,842 for the same period in 2020. The majority of the change can be summarized as follows:

- Decreased salary expenses of approximately $79,000 as a result of a decreased head count
- Decreased commissions costs of approximately $73,000 as a result of changed commission plans, primarily on MobiKEY-related revenues
- Increased travel and tradeshow expenses of approximately $17,000 due to increased travel as the effects of Covid 19 recede
- Decreased brand building costs of approximately $25,000 due to increased Internet marketing efforts.
- Increased other expenses of approximately $73,000, primarily as a result of a decrease of $10,000 in marketing development funds received

Other Items

Stock-based compensation

Stock-based compensation was $172,823 for the three months ended June 30, 2021, an increase of $31,653 from $141,170 for the same period in 2020. The contributing factor to the increased expense was the higher number of options granted in 2021 compared to 2020, resulting in a higher number of options vesting during the three months ended June 30, 2021 as compared to the same period in 2020.

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, 2021 was $nil, a decrease of $66,511 from $66,511 for the same period in 2020 as a result of the settlement of the litigation on December 29, 2020.

For additional information see **"PATENT LITIGATION"** 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 loss attributable to foreign exchange translation on balance sheet items such as Accounts Receivable, Accounts Payable and bank accounts denominated in foreign currencies was $11,320 for the three months ended June 30, 2021, a decrease of $20,777 from a loss of $32,097 for the same period in 2020.

There was volatility of the Canadian dollar against the U.S. dollar during the first quarter of 2021, from a high of $1.2040 to a low of $1.2759, whereas there was higher volatility during the first quarter of 2020, with a high of $1.3383 to a low of $1.4217.

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. There were no such forward contracts outstanding as of June 30, 2021.

Comprehensive Income (Loss) After Taxes

Comprehensive income for the three months ended June 30, 2021 was $405,723, representing an increase of $524,025 from a comprehensive loss of $118,302 for the same period in 2020.

COMPARISON FOR THE SIX MONTHS ENDED JUNE 30, 2021 AND 2020

Revenue

Revenue for the six months ended June 30, 2021 was $12,949,054, representing a decrease of $382,929 from $13,331,983, for the same period in 2020. 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, 2021, revenue from the subscription revenue and services segment was $5,428,242, representing an increase of $981,471 from $4,446,771 for the same period in 2020. The increase was the result of PCS service revenues for the period and growth in MobiKEY subscriptions.

Subscription revenue and services, as a percentage of total revenue, represented 41.9% for the current period as compared to 33.5% 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, 2021 was

$7,449,473, representing a decrease of $1,429,723 from $8,878,196 for the same period in 2020. The decrease is reflective of the variability in device revenue.

Devices and appliances revenue as a percentage of total revenue represents 57.5% of total revenue for the current period compared to 66.6% for the prior year period.

Other revenue

Other revenue for the six months ended June 30, 2021 was $71,339 compared to $7,016 for the same period in 2019. The increase is attributable to recognition of customer deposits in accordance with our revenue recognition polices.

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, 2021 was $7,090,319, representing a decrease of $1,095,141 from $8,185,460, for the same period in 2020. The decrease in cost of revenue is a result of a change in our sales mix due to a shift in focus to higher margin services.

Gross profit for the six months ended June 30, 2021 was $5,858,735 or 45.2% of gross revenue, representing an increase of $712,209 from a gross profit of $5,146,523 or 38.6% of gross revenue for the same period in 2020.

Expenses

Operating expenses consist of general administration, research and development, and selling and marketing. Operating expenses for the six months ended June 30, 2021 were $4,992,389, representing an increase of $88,293 from $4,904,096 for the same period in 2020.

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, 2021 were $2,923,601, representing an increase of $82,595 from $2,841,006, for the same period in 2020. The majority of the change can be summarized as follows:

- Increased salaries expense of approximately $22,000 due to annual increases and changes in head count mix

- Increased annual bonus expenses of approximately $3,000
- Increased director fees of approximately $32,000 due to increased compensation rates paid to directors
- Increased professional fees of approximately $59,000 as a result of increased use of external consultants and increased recruitment costs
- Decreased rent expense of approximately $77,000 as a result of the termination of a short-term lease in PCS and a terminated lease in GMI
- Decreased accounting expenses of approximately $10,000
- Increased legal expenses of approximately $33,000 primarily due to the payment of a settlement with a former employee
- Decreased insurance costs of approximately $3,000 due to a change in providers
- Increased other expenses of approximately $36,000 primarily due to the reversal of certain accruals in the prior period
- Decreased amortization costs of approximately $13,000 due the completion of amortization on most TaaS assets, offset by increases in amortization on right of use assets and intangible 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 six months ended June 30, 2021 were $404,814, representing an increase of $30,398 from $374,416, for the same period in 2020. The majority of the change can be summarized as follows:

- Salaries expense increased by approximately $3,000 as a result of annual increases and change in head count mix
- Training expenses increased by approximately $12,000 due to expanded training for employees
- The accrual for expected SR&ED recoveries decreased by approximately $16,000, 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, 2021 were $1,663,974 representing a decrease of $24,700 from $1,688,674 for the same period in 2020. The majority of the change can be summarized as follows:

- Decreased salary expenses of approximately $5,000 as a result of a decrease in head count offset by annual salary increases
- Increased commissions of approximately $2,000
- Decreased travel costs of approximately $69,000 as a result of cancelled or delayed travel due to Covid 19

- Decreased wire services costs of approximately $1,000 due to a switch to a lower cost provider
- Decreased brand building costs of $48,000 due to increased Internet marketing efforts
- Increased other expenses of approximately $98,000 due to decreased MDF funds received

Other Items

Stock-based compensation

Stock-based compensation was $373,607 for the six months ended June 30, 2021, an increase of $131,650 from $250,208 for the same period in 2020. The contributing factor to the increased expense was the higher number of options vesting during the six months ended June 30, 2021 as compared to the same period in 2020.

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, 2021 was $nil, a decrease of $170,612 from $170,612 for the same period in 2020.

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

Acquisition Expenses

Acquisition expenses for the six months ended June 30, 2021 were $38,961, an increase of $22,816 compared to $16,145 for the same period in 2020. The acquisition expenses were incurred for the acquisition of DSM on March 29, 2021 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 loss attributable to foreign exchange translation on balance sheet items such as Accounts Receivable, Accounts Payable and bank accounts denominated in foreign currencies was $12,345 for the six months ended June 30, 2021, an increase of $23,129 from a gain of $10,784 for the same period in 2020. There was volatility of the Canadian dollar against the U.S. dollar during the first six months of 2021, from a high of $1.2040 to a low of $1.2828, whereas there was higher volatility during the first six of 2020, with a high of $1.2992 to a low of $1.4496.

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 Income After Taxes

Comprehensive income for the six months ended June 30, 2021 was $638,867, representing an increase of $851,990 from a comprehensive loss of $213,123 for the same period in 2020.

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 interim condensed consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the consolidated annual financial statements and are reviewed and approved by the Company's Board of Directors. The Company's quarterly operating results have varied substantially in the past and may vary substantially in the future. Accordingly, the information below is not necessarily indicative of results for any future quarter.

As at and for the three-month periods ended

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

	Jun-30 2021	Mar-31 2021	Dec-31 2020	Sep-30 2020	Jun-30 2020	Mar-31 2020	Dec-31 2019	Sep-30 2019
STATEMENT OF OPERATIONS								
Revenue								
Subscription revenue and services	**$2,671**	$2,758	$2,528	$2,599	$2,489	$1,958	$2,511	$2,136
Devices and appliances	**3,663**	3,786	4,637	6,523	4,477	4,401	5,891	6,576
Other	**4**	67	62	25	3	4	1	2
Total revenue	**6,338**	6,611	7,227	9,147	6,969	$6,363	8,403	8,714
Cost of revenue	**3,443**	3,647	4,315	6,134	4,188	3,997	5,653	5,953
Gross margin	**2,895**	2,964	2,912	3,013	2,781	2,366	2,750	2,761
Operating expenses								
General administration	**1,453**	1,471	1,389	1,456	1,481	1,359	1,133	1,157
Research and development	**201**	204	200	189	204	171	192	186
Selling and marketing	**797**	867	880	917	885	804	1,035	993
Total operating expenses	**2,451**	2,542	2,469	2,562	2,570	2,334	2,360	2,336
Operating profit (loss) before stock-based compensation and patent litigation	**444**	422	443	451	211	32	390	425
Patent litigation	**-**	-	(1,058)	(381)	(67)	(104)	(195)	(279)
Stock-based compensation	**(173)**	(201)	(171)	(76)	(141)	(109)	(98)	(106)
Operating profit (loss) after stock-based compensation and patent litigation	**271**	221	(786)	(6)	3	(181)	97	40
Acquisition expenses	**(1)**	(38)	-	2	(16)	-	-	-
Foreign exchange translation	**(11)**	(1)	(37)	(43)	(33)	43	(4)	(6)
Interest expense	**(45)**	(46)	(52)	(30)	(35)	(45)	(34)	(33)
Asset disposal gain (loss)	**-**	(3)	-	-	-	-	-	-
Other income (expenses)	**244**	-	(36)	(620)	-	-	(262)	-
Total income (loss) for the period before income tax expense	**458**	133	(967)	(479)	(81)	(183)	(203)	1
Income tax (expense) recovery	**3**	5	31	(49)	21	-	713	-
Total income (loss) for the period after income tax expense	**461**	138	(936)	(528)	(60)	(183)	510	1
Other comprehensive income								
Foreign currency translation	**(55)**	(34)	(70)	(41)	(58)	88	29	(22)
Comprehensive income (loss)	**$406**	$104	($1,006)	($569)	($118)	($95)	$539	($21)
Basic and diluted earnings (loss) per share	**$0.01**	$0.00	($0.03)	($0.01)	($0.00)	($0.01)	$0.01	($0.00)

Adjusted EBITDA	**$760**	$764	$768	$778	$556	$358	$676	$743
CASH FLOW INFORMATION								
Operating activities	**($125)**	$1,266	($3,515)	$1,523	$1,773	$472	$64	$20
Investing activities	**(110)**	(1,699)	906	(489)	(240)	(633)	(174)	(154)
Financing activities	**(142)**	(211)	1,601	1,092	(1,543)	165	(28)	(247)
Net cash inflow (outflow)	**(377)**	(644)	(1,008)	2,126	(10)	4	(138)	(381)
Consolidation currency adjustment	**30**	20	(81)	(7)	1	(14)	(56)	(1)
Cash, beginning of period	**$513**	$1,137	2,226	107	116	126	320	702
Cash, end of period	**$166**	$513	$1,137	$2,226	$107	$116	$126	$320
BALANCE SHEET INFORMATION								
Working capital	**($4,087)**	($4,530)	($3,371)	($4,549)	($3,454)	($3,141)	($2,829)	($2,643)
Total assets	**$13,739**	$14,386	$14,176	$15,749	$12,283	$11,501	$12,630	$11,780
Shareholders' equity	**$2,906**	$2,442	$2,141	$37	$778	$950	$980	$473

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

The net cash used by operating activities for the three months ended June 30, 2021 was $124,788, compared to cash generated of $1,773,642 in the same period in 2020 representing an increase in cash used of $1,898,430. Non-cash working capital used was $1,092,272 for the three months ended June 30, 2021 compared to cash generated of $1,348,418 a year earlier, representing an increase in cash used of $2,440,690. Net cash generated by the day–to-day operations for the three months ended June 30, 2021 was $967,484 compared to $425,224 in 2020, representing an increase of $542,260. The increase in net cash used by operating activities for the three months ended June 30, 2021, is due to a decrease in contract liability, offset by increased net income, decreased accounts receivable and decreased inventory.

Cash generated by operating activities for the six months ended June 30, 2021 was $1,141,131, compared to cash generated of $2,245,768 in the same period in 2020, representing a decrease of $1,104,637. Non-cash working capital used was $526,774 for the six months ended June 30, 2021 compared to $1,551,481 generated in the same period a year earlier, representing an increase in cash used of $2,078,255. Net cash generated by the day–to-day operations for the six months ended June 30, 2021 was $1,667,905 compared to $694,287 generated in the same period in 2020, representing an increase of $973,618. The decrease in net cash generated by operating activities for the six months ended June 30, 2021, compared to the same period in the prior year is due to a decrease in contract liability and an increase in accounts payable, offset by an increase in net income and a decrease in other receivables.

Cash used in investing activities

Cash used in investing activities for the three months ended June 30, 2021 was $110,256 compared to cash used of $240,077 in the same period in 2020, representing a decrease of $129,821. The decrease in cash used is due to decreased acquisitions of furniture and equipment and intangible assets.

Cash used in investing activities for the six months ended June 30, 2021 was $1,810,193 compared to cash used of $873,107 in the same period in 2020, representing an increase of $937,086. The increase in cash used is primarily driven by the acquisition of DataSource Mobility, LLC in March 2021.

Cash used in financing activities

Cash used by financing activities was $142,563 for the three months ended June 30, 2021 compared to $1,543,128 for the same period in 2020, a decrease of $1,400,565. The decrease is primarily as a result of increased proceeds from bank indebtedness and decreased repurchase of common shares for cancellation.

Cash used by financing activities was $353,198 for the six months ended June 30, 2021 compared to $1,378,510 for the same period in 2020, a decrease of $1,025,312. The decrease is primarily due increased proceeds from bank indebtedness and decreased repurchase of common shares, offset by increased net repayment of lease liabilities.

The Company's current business plan projects further revenue growth in 2021 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 continue to increase in 2021 and beyond as a result of an increase in teleworking and the development of new software applications. In addition, the Company expects to increase revenue in GMI, PCS and DSM and expects to leverage these acquisitions by offering its products and services to corporate and industrial clients.

The Company's need for capital includes items such as computer hardware and software, expenditures to support sales, marketing and general administration activities and working capital. The Company has financed its cash and/or capital requirements through operating cash flow, bank and other indebtedness and the issuance of equity.

The Company's credit facility consists of a revolving demand facility in the amount of $875,000 (December 31, 2021 - $875,000) and a $150,000 credit card facility (December 31, 2020 - $150,000). The operating facility carries an interest rate equal to the lender's prime rate of interest plus 1.5% (December 31, 2020 – prime rate of interest plus 1.5%). As at June 30, 2021, the interest rate was 3.95%. The credit facility is secured by the assets of Route1 Inc. and guaranteed by GMI. As at June 30, 2021, the balance drawn on the revolving demand facility was $620,000 (December 31, 2020 - $nil).

The Company's wholly owned subsidiary, PCS, has 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. As at June 30, 2021, the interest rate was 3.75%. 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. As at June 30, 2021, the balance drawn on the revolving demand facility was $460,768 (December 31, 2020 - $777,299). PCS is required to maintain a Fixed Charge Coverage Ratio equal to or greater than 1.10:1.

In the normal course of business operations of GMI, PCS and DSM, 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, PCS or DSM 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, 2021 and 2020, 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 $125,001 for the quarter (June 30, 2020 - $90,238) and for the six-month period ended June 30, 2021 $215,239 (June 30, 2020 - $183,520). These transactions are in the normal course of operations and are paid or payable for directorship services. As at June 30, 2021, accounts payable included $138,926 owing to directors (June 30, 2020 - $95,159). The Company also incurred stock-based compensation expense related to stock options granted to directors in the amount of $35,705 and $89,894 respectively for the quarter and six-month periods ended June 30, 2021 (June 30, 2020 - $41,893 and $73,405).

- The Company made payments to or incurred expenses for key management (President and Chief Executive Officer, Chief Technology Officer, Chief Digital Officer and the Chief Financial Officer) in the quarter and six-month period ended June 30, 2021 as follows, with 2020 comparatives:

	Three months ended June 30, 2021	Three months ended June 30, 2020	**Six months ended June 30, 2021**	Six months ended June 30, 2020
Short-term employee benefit	**$305,524**	$399,923	**$562,010**	$648,753
Stock-based compensation expense	**58,447**	62,953	**148,024**	81,370
	$363,971	$462,876	**$710,034**	$730,123

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 period ended June 30, 2021, were $nil (June 30, 2020 - $1170,612).

In 2020, patent litigation expenses include the costs related to the settlement with AirWatch net of the recovery of the litigation financing liability. The litigation was settled on December 29, 2020 and no further expenses have been incurred after that date.

The following were the key events during the course of the 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.
- In December 2018, Route1 Inc. commenced a patent infringement lawsuit in Canada against VMware, Inc.
- 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.
- 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 court 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 US$1,666,673.
- On September 22, 2020, the Company posted a fully collateralized bond with the court in the amount of US$1,669,840 ($2,226,065) including statutory interest for one year.
- On December 29, 2020, the Company and VMWare, Inc. reached a settlement to conclude the litigation in both Canada and the United States whereby the Company would pay VMWare, Inc. US$1,400,000 by March 31, 2021 from the proceeds of the bond. The payment was made subsequent to the year end.

BUSINESS COMBINATION – DataSource Mobility, LLC

On March 29, 2021, the Company completed the acquisition of 100% of the membership interests of DataSource Mobility, LLC ("DSM). The purchase consideration was US $1,300,000 cash paid at closing (CAD $1,637,220). The USD/CAD exchange rate on March 29, 2021 was US $1 = CAD $1.2594.

Based in Clarksville, Tennessee, DSM is primarily a reseller of ruggedized tablets and laptops along with associated accessories. DSM offers guidance and state-of-the-art mobile devices for a wide range of sectors including public safety, utilities, field services, logistics and healthcare as well as state and local governments. DSM services customers primarily located in the Southeastern United States.

The acquisition of DSM 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 March 29, 2021. No Material transactions have occurred between the acquisition date and March 31, 2021. The goodwill recorded on the balance sheet represents the purchase price paid in excess of the fair value of the assets. Transaction costs of $38,097 related to the acquisition of DSM have been expensed and included in operating expenses in the consolidated statements of comprehensive income for the period ended March 31, 2021.

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	$20,632	$25,984
Accounts receivable	182,094	229,329
Prepaid expenses	4,750	5,982
Capital assets	1,000	1,258
Intangible Assets	450,153	566,924
Goodwill	808,777	1,018,574
Total assets	1,467,406	1,848,051
Liabilities Assumed		
Accounts payable and other liabilities	163,520	205,937
Accrued Liabilities	3,886	4,894
Total liabilities	167,406	210,831
Fair value of net assets acquired	1,300,000	1,637,220
Net consideration issued	$1,300,000	$1,637,220

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 - 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.

The Company had an earn-out provision from the acquisition of GMI in fiscal 2018, which required a payment to the former owners of GMI should the gross profit of GMI be in excess of certain targets. The earn-out expired in March 2021 with no amounts being payable.

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.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within a three-level hierarchy, based on observability of significant inputs, as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; or
Level 3: Unobservable inputs for the asset or liability.

Inputs into the determination of the fair value require management judgment or estimation.

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 and other receivables. 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, 2021, the largest single customer represented approximately $1,166,000 of revenue (June 30, 2020 - $541,000).

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, 2021, the Company had cash consisting of deposits with a Schedule 1 bank in Canada and a large money centre bank in the U.S. and a large regional bank in the U.S. of $165,747 (December 31, 2020 - $1,137,474).

Accounts receivable consist primarily of accounts receivable from invoicing for subscriptions, devices and services. Other receivables consist primarily of unbilled accounts receivable, marketing development funds, sales tax refunds to be received and an amount due for the refund of the excess of the posted bond over the patent litigation settlement amount. 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, 2021, the largest single customer’s account receivable represented $786,064 (December 31, 2020 - $419,631) 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, 2021 and December 31, 2020:

	June 30, 2021	December 31, 2020
Current	**$1,676,610**	$2,7304,560
Past due		
1 – 60 days	**1,011,440**	597,511
Greater than 60 days	**675,987**	408,630
Less: Allowance for doubtful accounts	**-**	-
Total accounts receivable, net	**$3,364,037**	$3,310,701

The following table outlines the details of the Company's other receivables as at June 30, 2021 and December 31, 2020:

	June 30, 2021	December 31, 2020
Other receivables	**$259,634**	$1,254,774
Less: Reserve	**-**	(597,401)
Total other receivables, net	**$259,634**	$657,373

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, 2021:

	2021	**2022**	**2023 and Beyond**	**Total**
Accounts payable and other liabilities	$3,989,814	$-	$-	$3,989,814
Notes payable	506,100	260,274	-	766,374
Lease commitments	407,191	519,706	1,735,826	2,662,723
	$4,903,105	$779,980	$1,735,826	$7,418,911

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, 2021, the Company had non-Canadian dollar net monetary liabilities of approximately US $1,212,000 (June 30, 2020 – liabilities of approximately US $65,000). An increase or decrease in the U.S. to Canadian dollar exchange rate by 5% as at June 30, 2021 would have resulted in a gain or loss in the amount of $60,600 (June 30, 2020 – gain or loss of $3,250).

Interest rate

The Company has cash balances and bank indebtedness which may be exposed to interest rate fluctuations. At June 30, 2021, cash balances were $165,747 (December 31, 2020 - $1,137,474) and bank indebtedness was $1,080,768 (December 31, 2020 – $777,299).

SHARE REPURCHASE PROGRAM

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 September 26, 2020 were 1,167,500 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.

On September 28, 2020, 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 1,755,980. Purchases under the NCIB may occur during the 12-month period commencing September 27, 2020 and ending September 26, 2021, 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, 2020 to December 31, 2020 were 15,000 common shares.

For the three- and six-month periods ended June 30, 2021, the Company purchased 280,000 common shares for cancellation at an average price of $0.57 per share (June 30, 2020 – three months, 289,000 common shares at an average price of $0.67 per share; six months 394,500 common shares at an average price pf $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.

	Number of Common Shares	**Common Shares $**
Balance, December 31, 2020	38,694,020	$23,370,074
Warrants exercised	**1,355,443**	**534,000**
Repurchased for cancellation	**(280,000)**	**(115,362)**
Cancellation and issuance costs	**-**	**(2,500)**
Balance, June 30, 2021	**39,769,463**	**$23,786,212**

- There are 3,477,500 common share purchase options ("Options") outstanding to acquire 3,477,500 common shares at various prices.
- There are 3,574,411 common share purchase warrants outstanding with an expiry date of June 16, 2022, enabling the holders to purchase 3,574,411 common shares at an exercise price of $1.00 per share.

OFF-BALANCE SHEET ARRANGEMENTS

As of June 30, 2021, 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 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.
- 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.

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 and the United States, 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 continue to be reflected in the financial results for 2021 and beyond.

The impact of COVID-19 on the balance of the Company's business had initially been the disruption in the supply chain for ruggedized devices and accessories during the first quarter of 2020 and that has now improved. In addition, client facility shutdowns and deferral of installation services for certain license plate recognition projects have also occurred as a result of the virus. As various states across the United States are taking steps to reopen the economy, facilities are reopening and installation activities are moving forward. Recently, the Company has experienced increased lead times for deliveries of products and components from certain manufacturers.

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 is reported as a 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 the sale of devices, revenue or contract liability is recognized at the time transfer of ownership of the device occurs. At June 30, 2021, the Company had $2,905,527 (December 31, 2020 $3,727,374) in contract liabilities.

The following table provides a presentation of the Company's revenue streams for the quarter ended June 30, 2021 and 2020:

	2021		2020	
	Revenue	**% of Total**	Revenue	% of Total
Subscription revenue and services	**$2,670,702**	**42.1**	$2,489,049	35.7
Devices and appliances	**3,663,081**	**57.8**	4,476,833	64.2
Other	**3,997**	**0.1**	2,779	0.1
	$6,337,780	**100.0**	$6,968,661	100.0

The following table provides a presentation of the Company's revenue streams for the six-month period ended June 30, 2021 and 2020:

	2021		2020	
	Revenue	**% of Total**	Revenue	% of Total
Subscription revenue and services	**$5,428,242**	**41.9**	$4,446,771	33.4
Devices and appliances	**7,449,473**	**57.5**	8,878,196	66.6
Other	**71,339**	**0.6**	7,016	0.0
	$12,949,054	**100.0**	$13,331,983	100.0

The following table provides a geographic presentation of the Company's revenue streams for the quarter ended June 30, 2021 and 2020:

	2021	2020

	Revenue	**% of Total**	Revenue	% of Total
USA	**$6,317,660**	**99.7**	6,915,991	99.2
Canada	**20,120**	**0.3**	52,670	0.8
	$6,337,780	**100.0**	$6,968,661	100.0

The following table provides a geographic presentation of the Company's revenue streams for the six-month period ended June 30, 2021 and 2020:

	2021		2020	
	Revenue	**% of Total**	Revenue	% of Total
USA	**$12,903,657**	**99.6**	13,248,936	99.4
Canada	**45,397**	**0.4**	83,047	0.6
	$12,949,054	**100.0**	$13,331,983	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).