
ROUTE1 INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

As at November 22, 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 November 22, 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.

On September 15, 2021, the Company announced that it had acquired Spyrus Solutions Inc. (“Spyrus”). Founded in 2018, and located in San Jose, California, Spyrus delivers encryption, authentication, and digital content security products to U.S. defense and civilian agencies, international government, financial, and healthcare enterprises. It develops and manufactures cryptographic products, including the SPYCOS smart card operating system, enabling strong protection for data-in-motion, data-at-rest and data-in-process.

On September 24, 2021, the Company announced that it provided the TSX Venture Exchange (the “Exchange”) its Notice of Intention to move forward with a further normal course issuer bid (“NCIB”), subject to approval by the Exchange.

- Route1 may, during the 12-month period commencing September 28, 2021 and ending September 27, 2022, purchase on the Exchange up to 1,985,473 common shares in total, being approximately 5% of the outstanding common shares.
- The price which Route1 will pay for any such shares will be the market price at the time of acquisitions, provided, however, that Route1 will not pay more than \$0.75 per common share.

On October 7, 2021, the Company announced a stock option grant.

- It granted an employee 250,000 stock options each with an exercise price of \$0.50.
- The stock options will expire on October 7, 2026 and will vest thirty percent on the first anniversary, thirty percent on the second anniversary and the remainder on the third anniversary.
- Under the Company's stock option plan, 10% of the issued capital is reserved for issuance for a total of 3,813,996 options. Including the above grant, a total of 3,025,000 options are currently outstanding under the Company's stock option plan.

On November 1, 2021, the Company announced that Alex Shpurov has been hired as Senior Vice President and Chief Technology Officer (“CTO”) and will start on November 8, 2021.

- Mr. Shpurov brings more than 25 years of experience in delivering enterprise solutions in multiple domains including blockchain, information security and artificial intelligence with a strong focus on the finance, banking and capital markets verticals.
- Yamian Quintero, Route1's current CTO, will leave the Company on November 19, 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.

On September 15, 2021, the Company completed the acquisition of 100% of the outstanding shares of Spyru Solutions, Inc. (“Spyrus”). Spyrus has been included in the Company’s consolidated financial statements from the date of acquisition to September 30, 2021.

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”), DSM and Spyrus. Route1 acquired GMI on March 22, 2018 and PCS on September 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.

<i>In thousands of Canadian dollars</i>	For the Quarters Ended				
	Sep 30 2021	Jun 30 2021	Mar 31 2021	Dec 31 2020	Sep 30 2020
Adjusted EBITDA	\$465	\$760	\$764	\$768	\$778
Depreciation and amortization	(310)	(316)	(342)	(325)	(327)
Stock-based compensation	(105)	(173)	(201)	(171)	(76)
Operating profit (loss) before other income (expense)	\$50	\$271	\$221	\$272	\$375

SELECTED FINANCIAL INFORMATION

The following table outlines selected unaudited financial information of the Company on a consolidated basis for the three and nine months ended September 30, 2021 and 2020.

<i>(in thousands of Canadian dollars, except per share amounts)</i>	For the Three Months Ended		For the Nine Months Ended	
	Sep-30	Sep-30	Sep-30	Sep-30
	2021	2020	2021	2020
STATEMENT OF OPERATIONS				
Revenue				
Subscription revenue and services	\$2,297	\$2,599	\$7,725	\$7,046
Devices and appliances	4,960	6,523	12,410	15,401
Other	31	25	102	32
Total revenue	7,288	9,147	20,237	22,479
Cost of revenue	4,696	6,134	11,787	14,319
Gross profit	2,592	3,013	8,450	8,160
Operating expenses				
General administration	1,518	1,456	4,442	4,297
Research and development	248	189	653	563
Selling and marketing	671	917	2,335	2,606
Total operating expenses before stock-based compensation	2,437	2,562	7,430	7,466
Stock-based compensation	105	76	478	326
Total operating expenses	2,542	2,638	7,908	7,792
Operating profit (loss) before other income (expense)	50	375	542	368
Other income (expense)				
Patent litigation	-	(381)	-	(552)
Acquisition expenses	(39)	2	(79)	(14)
Interest expense	(131)	(30)	(222)	(110)
Foreign exchange gain (loss)	64	(44)	52	(33)
Gain on litigation settlement	-	218	-	218
Other income (expense)	(11)	(620)	233	(620)
Loss on asset disposal	-	-	(3)	-
Total other income (expense)	(117)	(235)	(19)	(490)
Income (loss) for the period before income tax	(67)	(479)	523	(743)
Income tax recovery (expense)	6	(49)	14	(28)
Net income (loss) for the period	(61)	(528)	537	(771)
Other comprehensive income (loss)				
Foreign currency translation	118	(40)	30	(11)
Comprehensive income (loss)	(\$57)	(\$568)	\$567	(\$782)
Income (loss) per share	(\$0.00)	(\$0.01)	\$0.01	(\$0.02)
Diluted income (loss) per share	N/A	N/A	\$0.01	N/A

<i>(thousands of Canadian dollars, except per share amounts)</i>	For the Three Months Ended		For the Nine Months Ended	
	Sep-30	Sep-30	Sep-30	Sep-30
	2021	2020	2021	2020
CASH FLOW INFORMATION				
Operating activities	\$435	\$1,523	\$1,576	\$3,769
Investing activities	(308)	(489)	(2,118)	(1,362)
Financing activities	451	1,092	98	(286)
Net cash inflow (outflow)	578	2,126	(444)	2,120
Consolidation currency adjustment	(17)	(7)	34	(20)
Cash, beginning of period	166	107	1,137	126
Cash, end of period	\$727	\$2,226	\$727	\$2,226
Working capital	(\$3,999)	(\$4,549)	(\$3,999)	(\$4,549)
Total assets	\$16,833	\$15,749	\$16,833	\$15,749
Shareholders' equity	\$2,982	\$37	\$2,982	\$37

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

Revenue

Revenue for the three months ended September 30, 2021 was \$7,287,633, representing a decrease of \$1,859,858 from \$9,147,491, 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 September 30, 2021, revenue from the subscription revenue and services segment was \$2,296,633, representing a decrease of \$302,792, from \$2,599,425, 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 31.5% for the current period compared to 28.4% for the prior year period.

Subscription revenue and services by quarter <i>(in thousands of Canadian dollars)</i>	Sept 30 2021	Jun 30 2021	Mar 31 2021	Dec 31 2020	Sep 30 2020
Application software	1,628	1,724	1,977	2,015	1,923
Technology as a service (TaaS)	150	435	293	204	241
Other services	519	512	488	309	435
Total	2,297	2,671	2,758	2,528	2,599

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 September 30, 2021 was \$4,960,413, representing a decrease of \$1,562,916 from \$6,523,329 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 68.1% of total revenue for the current period compared to 71.3% for the prior year period.

Other revenue

Other revenue for the three months ended September 30, 2021 was \$30,587, representing an increase of \$5,850 compared to \$24,737 for the same period in 2020. The increase is attributable to recognition of customer deposits in accordance with our revenue recognition policies.

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 September 30, 2021 was \$4,696,188, representing a decrease of \$1,437,864 from \$6,134,052 for the same period in 2020. The decrease in cost of revenue is a result of a decrease in corresponding devices and appliances sales.

Gross profit for the three months ended September 30, 2021 was \$2,591,444 or 35.6% of gross revenue, representing a decrease of \$421,995 from a gross profit of \$3,013,439 or 32.9% 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 September 30, 2021 were \$2,450,646, representing a decrease of \$119,836 from \$2,562,196, 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 September 30, 2021 were \$1,517,909 representing an increase of \$61,434 from \$1,456,475 for the same period in 2020. The majority of the change can be summarized as follows:

- Salaries expense increased by approximately \$8,000, reflecting changes in headcount mix
- Director fees increased by approximately \$33,000 due to increased compensation rates paid to directors

- Professional fees increased by approximately \$78,000 due to the use of external consultants and increased recruiting costs
- Rent expenses decreased by approximately \$9,000 due to a decrease in lease-related costs
- Accounting expenses decreased by approximately \$31,000 due to the timing of accruals for accounting costs in the prior year
- Legal costs increased by approximately \$4,000 related to normal course business activities
- Insurance costs increased by approximately \$8,000 related to the timing of accrual adjustments in the prior period
- Other expenses decreased by approximately \$12,000, primarily due to a one-time moving allowance in 2020 and increased costs in 2020 for setting up the new Scottsdale office
- Amortization decreased by approximately \$17,000 due the completion of amortization on most TaaS assets, offset by increases in amortization on right of use assets and computer equipment

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 September 30, 2021 were \$247,811, representing an increase of \$59,057 from \$188,751 for the same period in 2020. The majority of the change can be summarized as follows:

- Salary costs increased by approximately \$42,000, primarily due to increased head count in R&D as a result of the acquisition of Spyros
- The expected SR&ED recoveries decreased by approximately \$17,000, 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 September 30, 2021 were \$671,361, representing a decrease of \$245,609 from \$916,970 for the same period in 2020. The majority of the change can be summarized as follows:

- Decreased salary expenses of approximately \$62,000 as a result of a decreased head count
- Decreased commissions costs of approximately \$158,000 as a result of changed commission plans, primarily on MobiKEY-related revenues, and adjustments to commission accruals to reflect commissions no longer owed to former employees
- Decreased travel and tradeshow expenses of approximately \$4,000 due to the continued Covid-related cancellation of trade shows
- Increased brand building costs of approximately \$14,000 due to increased marketing efforts
- Increased printing costs of approximately \$1,000, preparing collateral for the launch of a new product
- Decreased other expenses of approximately \$37,000, primarily as a result of increased accruals for marketing development funds earned

Other Items

Stock-based compensation

Stock-based compensation was \$104,610 for the three months ended September 30, 2021, an increase of \$28,484 from \$76,126 for the same period in 2020. The contributing factor to the increased expense was the departure of certain employees in Q3 2020, which caused a reversal of stock-based compensation expense previously charged in fiscal 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 September 30, 2021 was \$nil, a decrease of \$381,162 from \$381,162 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 gain attributable to foreign exchange translation on balance sheet items such as Accounts Receivable, Accounts Payable and bank accounts denominated in foreign currencies was \$64,013 for the three months ended September 30, 2021, an increase of \$107,746 from a loss of \$43,733 for the same period in 2020. There was moderate volatility of the Canadian dollar against the U.S. dollar during the third quarter of 2021, from a high of \$1.2353 to a low of \$1.2856, whereas there was higher volatility during the third quarter of 2020, with a high of \$1.2970 to a low of \$1.3682.

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 September 30, 2021.

Comprehensive Income (Loss) After Taxes

Comprehensive income for the three months ended September 30, 2021 was \$57,303, representing an increase of \$626,057 from a comprehensive loss of \$568,754 for the same period in 2020.

COMPARISON FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

Revenue

Revenue for the nine months ended September 30, 2021 was \$20,236,684, representing a decrease of \$2,242,791 from \$22,479,475, 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 nine months ended September 30, 2021, revenue from the subscription revenue and services segment was \$7,724,873, representing an increase of \$678,676 from \$7,046,197 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 38.2% for the current period as compared to 31.3% 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), ruggedized computing devices and accessories and license plate recognition equipment and accessories for the nine months ended September 30, 2021 was \$12,409,886, representing a decrease of \$2,991,639 from \$15,401,525 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 61.3% of total revenue for the current period compared to 68.5% for the prior year period.

Other revenue

Other revenue for the nine months ended September 30, 2021 was \$101,925 compared to \$31,753 for the same period in 2020. The increase is attributable to recognition of customer deposits in accordance with our revenue recognition policies.

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 nine months ended September 30, 2021 was \$11,786,508, representing a decrease of \$2,533,004 from \$14,319,512, for the same period in 2020. The decrease in cost of revenue is a result of a decrease in corresponding devices and appliances sales.

Gross profit for the nine months ended September 30, 2021 was \$8,450,176 or 41.8% of gross revenue, representing an increase of \$290,213 from a gross profit of \$8,159,963 or 36.3% 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 nine months ended September 30, 2021 were \$7,429,468, representing a decrease of \$36,823 from \$7,466,291 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 nine months ended September 30, 2021 were \$4,441,510, representing an increase of \$144,030 from \$4,297,480, for the same period in 2020. The majority of the change can be summarized as follows:

- Increased salaries expense of approximately \$30,000 due to annual salary increases and changes in head count mix
- Increased annual bonus expenses of approximately \$3,000
- Increased director fees of approximately \$65,000 due to increased compensation rates paid to directors
- Increased professional fees of approximately \$137,000 as a result of increased use of external consultants and increased recruitment costs
- Decreased rent expense of approximately \$86,000 as a result of the termination of a short-term lease in PCS and a terminated lease in GMI
- Decreased accounting expenses of approximately \$41,000 due to the timing of accruals for accounting costs in the prior year
- Increased legal expenses of approximately \$37,000 primarily due to the payment of a settlement with a former employee
- Increased insurance costs of approximately \$4,000 related to the timing of accrual adjustments in the prior period offset by a decrease due to a change in providers
- Increased other expenses of approximately \$24,000 primarily due to the reversal of certain accruals in the prior period offset by decreased software licensing costs
- Decreased amortization costs of approximately \$30,000 due the completion of amortization on most TaaS assets, offset by increases in amortization on right of use assets, intangible assets and computer hardware

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 nine months ended September 30, 2021 were \$652,623, representing an increase of \$89,457 from \$563,166, for the same period in 2020. The majority of the change can be summarized as follows:

- Salaries expense increased by approximately \$45,000 as a result of annual increases and the acquisition of SpyruS

- Training expenses increased by approximately \$12,000 due to expanded training for employees
- The accrual for expected SR&ED recoveries decreased by approximately \$32,000, 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 nine months ended September 30, 2021 were \$2,335,335 representing a decrease of \$270,310 from \$2,605,645 for the same period in 2020. The majority of the change can be summarized as follows:

- Decreased salary expenses of approximately \$67,000 as a result of a decrease in head count offset by annual salary increases
- Decreased commissions of approximately \$156,000 as a result of changed commission plans, primarily on MobiKEY-related revenues, and adjustments to commission accruals to reflect commissions no longer owed to former employees
- Decreased travel costs of approximately \$73,000 primarily 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 \$35,000 due to increased Internet marketing efforts
- Increased other expenses of approximately \$61,000 due to decreased MDF funds received

Other Items

Stock-based compensation

Stock-based compensation was \$478,217 for the nine months ended September 30, 2021, an increase of \$151,883 from \$326,334 for the same period in 2020. The contributing factor to the increased expense was the higher number of options vesting during the nine months ended September 30, 2021 as compared to the same period in 2020 as well as the departure of certain employees in Q3 2020, which caused a reversal of stock-based compensation expense previously charged in fiscal 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 nine months ended September 30, 2021 was \$nil, a decrease of \$551,774 from \$551,774 for the same period in 2020.

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

Acquisition Expenses

Acquisition expenses for the nine months ended September 30, 2021 were \$78,617, an increase of \$64,732 compared to \$13,885 for the same period in 2020. The acquisition expenses were incurred for the acquisition of DSM on March 29, 2021, and other corporate development activities. In the comparable period, acquisition expenses were incurred on the assumption of the operations 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 \$51,668 for the nine months ended September 30, 2021, an increase of \$84,618 from a loss of \$32,950 for the same period in 2020. There was moderate volatility of the Canadian dollar against the U.S. dollar during the nine months ended September 2021, from a high of \$1.2040 to a low of \$1.2856, whereas there was higher volatility during the comparable period in 2020, with a high of \$1.2970 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 nine months ended September 30, 2021 was \$566,852 representing an increase of \$1,348,727 from a comprehensive loss of \$781,875 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)

	Sep-30	Jun-30	Mar-31	Dec-31	Sep-30	Jun-30	Mar-31	Dec-31
	2021	2021	2021	2020	2020	2020	2020	2019
STATEMENT OF OPERATIONS								
Revenue								
Subscription revenue and services	\$2,297	\$2,671	\$2,758	\$2,528	\$2,599	\$2,489	\$1,958	\$2,511
Devices and appliances	4,960	3,663	3,786	4,637	6,523	4,477	4,401	5,891
Other	31	4	67	62	25	3	4	1
Total revenue	7,288	6,338	6,611	7,227	9,147	6,969	\$6,363	8,403
Cost of revenue	4,696	3,443	3,647	4,315	6,134	4,188	3,997	5,653
Gross margin	2,592	2,895	2,964	2,912	3,013	2,781	2,366	2,750
Operating expenses								
General administration	1,518	1,453	1,471	1,389	1,456	1,481	1,359	1,133
Research and development	428	201	204	200	189	204	171	192
Selling and marketing	671	797	867	880	917	885	804	1,035
Total operating expenses	2,437	2,451	2,542	2,469	2,562	2,570	2,334	2,360
Operating profit (loss) before stock-based compensation and patent litigation	155	444	422	443	451	211	32	390
Patent litigation	-	-	-	(1,058)	(381)	(67)	(104)	(195)
Stock-based compensation	105	(173)	(201)	(171)	(76)	(141)	(109)	(98)
Operating profit (loss) after stock-based compensation and patent litigation	50	271	221	(786)	(6)	3	(181)	97
Acquisition expenses	(39)	(1)	(38)	-	2	(16)	-	-
Foreign exchange translation	64	(11)	(1)	(37)	(43)	(33)	43	(4)
Interest expense	(131)	(45)	(46)	(52)	(30)	(35)	(45)	(34)
Gain on litigation settlement	-	-	-	-	218	-	-	-
Asset disposal gain (loss)	-	-	(3)	-	-	-	-	-
Other income (expenses)	(11)	244	-	(36)	(620)	-	-	(262)
Total income (loss) for the period before income tax expense	(67)	458	133	(967)	(479)	(81)	(183)	(203)
Income tax (expense) recovery	6	3	5	31	(49)	21	-	713
Total income (loss) for the period after income tax expense	(61)	461	138	(936)	(528)	(60)	(183)	510
Other comprehensive income								
Foreign currency translation	118	(55)	(34)	(70)	(41)	(58)	88	29
Comprehensive income (loss)	(\$57)	\$406	\$104	(\$1,006)	(\$569)	(\$118)	(\$95)	\$539
Basic and diluted earnings (loss) per share	(\$0.00)	\$0.01	\$0.00	(\$0.03)	(\$0.01)	(\$0.00)	(\$0.01)	\$0.01
Adjusted EBITDA	\$465	\$760	\$764	\$768	\$778	\$556	\$358	\$676

	Sep-30	Jun-30	Mar-31	Dec-31	Sep-30	Jun-30	Mar-31	Dec-31
CASH FLOW INFORMATION	2021	2021	2021	2020	2020	2020	2020	2019
Operating activities	\$435	(\$125)	\$1,266	(\$3,515)	\$1,523	\$1,773	\$472	\$64
Investing activities	(308)	(110)	(1,699)	906	(489)	(240)	(633)	(174)
Financing activities	451	(142)	(211)	1,601	1,092	(1,543)	165	(28)
Net cash inflow (outflow)	578	(377)	(644)	(1,008)	2,126	(10)	4	(138)
Consolidation currency adjustment	(17)	30	20	(81)	(7)	1	(14)	(56)
Cash, beginning of period	\$166	\$513	\$1,137	2,226	107	116	126	320
Cash, end of period	\$727	\$166	\$513	\$1,137	\$2,226	\$107	\$116	\$126
BALANCE SHEET INFORMATION								
Working capital	(\$3,999)	(\$4,086)	(\$4,530)	(\$3,371)	(\$4,549)	(\$3,454)	(\$3,141)	(\$2,829)
Total assets	\$16,833	\$13,739	\$14,386	\$14,176	\$15,749	\$12,283	\$11,501	\$12,630
Shareholders' equity	\$2,982	\$2,906	\$2,442	\$2,141	\$37	\$778	\$950	\$980

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 generated by operating activities for the three months ended September 30, 2021 was \$435,413, compared to cash generated of \$1,523,011 in the same period in 2020 representing a decrease in cash used of \$1,087,598. Non-cash working capital generated was \$65,719 for the three months ended September 30, 2021 compared to cash generated of \$1,635,184 a year earlier, representing a decrease in cash generated of \$1,569,465. Net cash generated by the day-to-day operations for the three months ended September 30, 2021 was \$369,694 compared to \$112,173 in 2020, representing an increase of \$257,521. The decrease in net cash generated by operating activities for the three months ended September 30, 2021, is due to an increase in accounts receivable and net income, offset by an increase in accounts payable and contract liability.

Cash generated by operating activities for the nine months ended September 30, 2021 was \$1,576,544, compared to cash generated of \$3,768,778 in the same period in 2020, representing a decrease of \$2,192,234. Non-cash working capital used was \$461,055 for the nine months ended September 30, 2021 compared to \$3,186,665 generated in the same period a year earlier, representing an increase in cash used of \$3,647,720. Net cash generated by the day-to-day operations for the nine months ended September 30, 2021 was \$2,037,599 compared to \$581,743 generated in the same period in 2020, representing an increase of \$1,455,856. The decrease in net cash generated by operating activities for the nine months ended September

30, 2021, compared to the same period in the prior year is due to decreased growth in contract liability and increased accounts receivable offset by increased net income and decreased other receivables.

Cash used in investing activities

Cash used in investing activities for the three months ended September 30, 2021 was \$308,377 compared to cash used of \$489,210 in the same period in 2020, representing a decrease of \$180,833. The decrease in cash used is due to decreased acquisition of right of use assets.

Cash used in investing activities for the nine months ended September 30, 2021 was \$2,118,570 compared to cash used of \$1,362,317 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 and increased acquisition of furniture and equipment, offset by decreased acquisition of right of use assets.

Cash used in financing activities

Cash generated by financing activities was \$450,853 for the three months ended September 30, 2021 compared to cash generated of \$1,092,223 for the same period in 2020, a decrease of \$641,370. The decrease is primarily as a result of increased proceeds from bank indebtedness and decreased issuance of notes payable.

Cash generated by financing activities was \$97,655 for the nine months ended September 30, 2021 compared to \$286,287 used for the same period in 2020, an increase in cash generated of \$383,942. The increase is primarily due to decreased repurchase of common shares for cancellation and increased proceeds from bank indebtedness, offset by increased 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, 2020 - \$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 September 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 September 30, 2021, the balance drawn on the revolving demand facility was \$850,000. (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 September 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 September 30, 2021, the balance drawn on the revolving demand facility was \$743,105 (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 September 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 \$123,569 for the quarter (September 30, 2020 - \$90,238) and for the nine-month period ended September 30, 2021 of \$338,808 (September 30, 2020 - \$273,757). These transactions are in the normal course of operations and are paid or payable for directorship services. As at September 30, 2021, accounts payable included \$140,259 owing to directors (September 30, 2020 - \$99,249). The Company also incurred stock-based compensation expense related to stock options granted to directors in the amount of \$29,760 and \$119,654, respectively, for the quarter and nine-month periods ended September 30, 2021 (September 30, 2020 - \$36,171 and \$126,323).

- 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 nine-month period ended September 30, 2021 as follows, with 2020 comparatives:

	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Short-term employee benefit	\$329,452	\$322,610	\$1,047,262	\$1,142,150
Stock-based compensation expense	52,205	89,890	219,591	183,772
	\$381,657	\$412,500	\$1,266,583	\$1,325,922

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 and nine months ended September 30, 2021, were both \$0 (September 30, 2020 - \$381,162 and \$551,774, respectively). 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

BUSINESS COMBINATION – Spyrus Solutions, Inc.

On September 15, 2021, the Company completed the acquisition of 100% of the outstanding shares of Spyrus Solutions, Inc. (“Spyrus”). The prior owners of Spyrus received no cash consideration on the date of the acquisition as the Company agreed to the assumption of certain liabilities related to unpaid employee wages and obligations of approximately US \$0.58 million with US \$0.22 million paid at closing and the balance paid out over the subsequent 12 months. Route1 has also agreed to pay the prior owners of Spyrus additional compensation based on certain gross profit metrics being met (the “Earnout”). The Earnout payment for calendar years 2021 to 2024 will work as follows: (1) From date of closing to Dec 31, 2021, the prior owners will receive 20% of Spyrus’ gross profit above US \$1 million; and (2) For each of the calendar years 2022, 2023 and 2024, the prior owners will receive 20% of Spyrus’ gross profit once a minimum gross profit threshold of US \$1.5 million is met. If the gross profit in any one year exceeds US \$2.5 million, the Earnout percentage increases from 20% to 25%. The USD/CAD exchange rate on September 15, 2021 was US \$1 = CAD \$1.2651.

Based in San Jose, California, Spyrus develops and manufactures cryptographic products, including the SPYCOS smart card operating system, enabling strong protection for data-in-motion, data-at-rest and data-in-process. For more than 20 years, Spyrus has delivered encryption, authentication, and digital content security products to U.S. defense and civilian agencies, international government, financial, and healthcare enterprises.

The acquisition of Spyrus 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 September 15, 2021.

The table below summarizes the estimated fair values of the major classes of assets acquired and liabilities assumed.

Assets Acquired	US Dollars	Canadian Dollars
Cash and cash equivalents	\$12,631	\$15,979
Accounts receivable	230,605	291,738
Prepaid expenses	1,391	1,760
Inventory	255,397	323,103
Contract costs	49,713	62,892
Intangible Assets	291,718	369,052
Total assets	841,455	1,064,524
Liabilities Assumed		
Accounts payable and other liabilities	451,755	571,515
Deferred revenue	109,700	138,781
Notes payable	280,000	354,228
Total liabilities	841,455	1,064,524
Fair value of net assets acquired	-	-
Net Consideration Issued	\$-	\$-

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 September 30, 2021 and December 31, 2020:

	September 30, 2021		December 31, 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
FINANCIAL ASSETS				
Cash and cash equivalents	\$727,446	\$727,446	\$1,137,474	\$1,137,474
Accounts receivable	5,329,702	5,329,702	3,310,701	3,310,701
FINANCIAL LIABILITIES				
Bank indebtedness	1,593,105	1,593,105	\$777,299	\$777,299
Accounts payable and other liabilities	5,065,761	5,065,761	4,063,359	4,063,359
Notes payable	1,327,891	1,327,891	1,014,840	1,014,840

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.

The Company has an earn-out provision from the acquisition of Spyrus on September 15, 2021 which could require a payment to the previous owners of Spyrus should the gross profit exceed certain targets.

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 September 30, 2021, the largest single customer represented approximately \$1,367,000 of revenue (September 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 September 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 \$727,446 (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 September 30, 2021, the largest single customer's account receivable represented \$1,148,388 (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 September 30, 2021 and December 31, 2020:

	September 30, 2021	December 31, 2020
Current	\$4,546,821	\$2,7304,560
Past due		
1 – 60 days	415,094	597,511
Greater than 60 days	367,787	408,630
Less: Allowance for doubtful accounts	-	-
Total accounts receivable, net	\$5,329,702	\$3,310,701

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

	September 30, 2021	December 31, 2020
Other receivables	\$205,811	\$1,254,774
Less: Reserve	-	(597,401)
Total other receivables, net	\$205,811	\$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 September 30, 2021:

	2021	2022	2023 and Beyond	Total
Accounts payable and other liabilities	\$4,981,520	\$84,241	\$-	\$5,065,761
Notes payable	165,633	1,167,494	-	1,333,127
Lease commitments	194,062	488,008	1,478,311	2,160,381
	<u>\$5,341,215</u>	<u>\$1,739,743</u>	<u>\$1,478,311</u>	<u>\$8,559,269</u>

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 September 30, 2021, the Company had non-Canadian dollar net monetary assets of approximately US \$92,000 (September 30, 2020 – liabilities of approximately US \$298,000). An increase or decrease in the U.S. to Canadian dollar exchange rate by 5% as at September 30, 2021 would have resulted in a gain or loss in the amount of \$5,900 (September 30, 2020 – gain or loss of \$19,850).

Interest rate

The Company has cash balances and bank indebtedness which may be exposed to interest rate fluctuations. At September 30, 2021, cash balances were \$727,446 (December 31, 2020 - \$1,137,474) and bank indebtedness was \$1,593,105 (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 months ended September 30, 2021, the Company purchased 60,000 (September 30, 2020 – 397,000) common shares for cancellation at an average price of \$0.59 (September 30, 2020 - \$0.63) per share.

For the nine months ended September 30, 2021, the Company purchased 340,000 (September 30, 2020 – 785,500) common shares for cancellation at an average price of \$0.58 (September 30, 2020 - \$0.62) per share.

On September 28, 2021, 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 1,985,473. Purchases under the NCIB may occur during the 12-month period commencing September 28, 2021 and ending September 27, 2022, or the date upon which the maximum number of common shares has been purchased by the Company. There were no purchases for cancellation under the NCIB during the period from September 28, 2021 to September 30, 2021.

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	(340,000)	(198,113)
Share repurchase costs	-	(5,000)
Balance, September 30, 2021	39,709,463	\$23,700,961

- There are 2,825,000 common share purchase options (“Options”) outstanding to acquire 2,825,000 common shares at various prices.
- There are 3,574,411 common share purchase warrants outstanding with an expiry date of September 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 September 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. While some of the increase in MobiKEY users has not been renewed, the Company believes that its sustained user base 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. 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 in most cases. Certain of the Company's customers including educational institutions continue to delay procurement as a result of not resuming pre-pandemic activity levels. Recently, the Company has experienced increased lead times for deliveries of products from certain manufacturers. In addition, projects that are dependent on the delivery of automotive vehicles have been delayed as delivery times and prices have increased. The global supply situation has been exacerbated by the reopening of developed economies and the continued limited ability of lesser developed economies to meet the increased demand.

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

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 September 30, 2021, the Company had \$3,848,562 (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 September 30, 2021 and 2020:

	2021		2020	
	Revenue	% of Total	Revenue	% of Total
Subscription revenue and services	\$2,296,633	31.5	\$2,599,425	28.4
Devices and appliances	4,960,413	68.1	6,523,329	71.3
Other	30,587	0.4	24,737	0.3
	\$7,287,633	100.0	\$6,968,661	100.0

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

	2021		2020	
	Revenue	% of Total	Revenue	% of Total
Subscription revenue and services	\$7,724,873	38.2	\$7,046,197	31.4
Devices and appliances	12,409,886	61.3	15,401,525	68.5
Other	101,925	0.5	31,753	0.1
	\$20,236,684	100.0	\$22,479,475	100.0

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

	2021		2020	
	Revenue	% of Total	Revenue	% of Total
USA	\$7,272,912	99.8	9,124,056	99.7
Canada	14,721	0.2	23,435	0.3
	\$7,287,633	100.0	\$9,147,491	100.0

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

	2021		2020	
	Revenue	% of Total	Revenue	% of Total
USA	\$20,176,566	99.7	22,369,869	99.5
Canada	60,118	0.3	109,607	0.5
	\$20,236,684	100.0	\$22,479,476	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).