ROUTE1 INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2021

As of April 27, 2022

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, 2021. 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 April 27, 2022 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.

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 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 197 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.

On March 10, 2022, the Company provided a business update. Its growth focus will now be tied to its core services and engineering competencies.

- Will emphasize its turn-key engineering services for clients using video and sensor capture technology to deliver real-time, secure actionable intelligence.
- Amplify our customers return on investment by driving outcomes through the application of advanced technological solutions and by leveraging our expertise in video intelligence data.
- Our continued investment in data security and user authentication technologies including our flagship software application MobiKEY and service delivery platform DEFIMNET, separate us from our turn-key engineering services competitors as we bring a unique skill set as a service to our clients.

BASIS OF PRESENTATION

Route1 acquired DataSource Mobility, LLC. ("DSM") on March 29, 2021 and Spyrus Solutions Inc. ("Spyrus") on September 15, 2021. The operations of DSM and Spyrus have been included for all periods subsequent to acquisition.

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	**Dec 31 2021**	Sep 30 2021	Jun 30 2021	Mar 31 2021	Dec 31 2020
Adjusted EBITDA	**$341**	$465	$760	$764	$768
Depreciation and amortization	**(348)**	(310)	(316)	(342)	(325)
Stock-based compensation	**(89)**	(105)	(173)	(201)	(171)
Operating profit before other income (expense)	**($96)**	$50	$271	$221	$272

SELECTED FINANCIAL INFORMATION

The following table outlines selected financial information of the Company on a consolidated basis for the three months and year ended December 31, 2021 and 2020.

(in thousands of Canadian dollars, except per share amounts)	**For the Three Months Ended**		**For the Year Ended**	
	Dec 31, 2021	Dec 31, 2020	Dec 31, 2021	Dec 31, 2020
STATEMENT OF OPERATIONS				
Revenue				
Subscription revenue and services	**$1,977**	$2,528	**$9,702**	$9,575
Devices and appliances	**5,022**	4,637	**17,432**	20,038
Other	**36**	62	**137**	94
Total revenue	**7,035**	7,227	**27,271**	29,707
Cost of revenue	**4,660**	4,315	**16,446**	18,635
Gross profit	**2,375**	2,912	**10,825**	11,072
Operating expenses				
General administration	1,492	1,389	**5,934**	5,686
Research and development	253	200	**906**	763
Selling and marketing	637	880	**2,972**	3,486
Total operating expenses	**2,382**	2,469	**9,812**	9,935
Operating profit (loss) before stock-based compensation and patent litigation	**(7)**	443	**1,013**	1,137
Patent litigation	**-**	(1,058)	**-**	(1,610)
Stock-based compensation	**(89)**	(171)	**(568)**	(497)
Operating (loss) profit after stock-based compensation and patent litigation	**(96)**	(786)	**445**	(970)
Acquisition expenses	**-**	-	**(79)**	(14)
Interest expense	**(55)**	(52)	**(277)**	(163)
(Loss) gain on litigation settlement	**-**	(56)	**(11)**	163
Other income (expense)	**(96)**	(36)	**148**	(656)
Foreign exchange (loss) gain	**(83)**	(37)	**(31)**	(71)
Asset disposal gain	**18**	-	**15**	-
Total loss for the period before income tax	**(312)**	(967)	**210**	(1,711)
Income tax recovery (expense)	**(3)**	31	**12**	4
Total income (loss) for the period	**(315)**	(936)	**222**	(1,707)
Other comprehensive income (loss)				
Foreign currency translation	**(29)**	(70)	**1**	(80)
Comprehensive income (loss)	**($344)**	($1,006)	**$223**	($1,787)
Basic and diluted income (loss) per share	**($0.01)**	($0.03)	**$0.01**	($0.05)

(in thousands of Canadian dollars, except per share amounts)	**For the Three Months Ended**		**For the Year Ended**	
	Dec 31, 2021	Dec 31, 2020	Dec 31, 2021	Dec 31, 2020
CASH FLOW INFORMATION				
Operating activities	**($530)**	($3,515)	**$1,047**	$256
Investing activities	**(83)**	906	**(2,202)**	(458)
Financing activities	**(92)**	1,601	**6**	1,315
Net cash inflow (outflow)	**(705)**	(1,008)	**(1,149)**	1,113
Consolidation currency adjustment	**41**	(81)	**75**	(102)
Cash, beginning of period	**727**	2,226	**1,137**	126
Cash, end of period	**$63**	$1,137	**$63**	$1,137
Working capital	**($4,837)**	($3,371)	**($4,837)**	($3,371)
Total assets	**$15,097**	$14,176	**$15,097**	$14,176
Shareholders' equity	**$2,728**	$2,141	**$2,728**	$2,141

COMPARISON FOR THE THREE MONTHS ENDED DECEMBER 31, 2021 AND 2020

Revenue

Revenue for the three months ended December 31, 2021 was $7,034,575, representing a decrease of $192,600 from $7,227,175 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 December 31, 2021, revenue from the subscription revenue and services segment was $1,976,997, representing a decrease of $551,123 from $2,528,120, for the same period in 2020. The decrease is primarily as a result of decreased MobiKEY revenues that had increased rapidly in 2020 as a result of the COVID-19 pandemic and more people working remotely.

Subscription revenue and services, as a percentage of total revenue, represented 28.1% for the current period compared to 35.0% for the prior year period.

Subscription revenue and services by quarter *(in thousands of Canadian dollars)*	**Dec 31 2021**	Sept 30 2021	June 30 2021	Mar 31 2021	Dec 31 2020
Application software	**1,504**	1,628	1,724	1,977	2,015
Technology as a service (TaaS)	**50**	150	435	293	204
Other services	**423**	519	512	488	309
Total	**1,977**	2,297	2,671	2,758	2,528

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), Group Mobile ruggedized computing devices and accessories, PCS ruggedized computing devices, license plate recognition equipment and accessories and Spyrus encrypted drives for the three months ended December 31, 2021 was $5,022,257, representing an increase of $385,526 from $4,636,731 for the same period in 2020. The increase is reflective of the variability in device revenue which can result in large fluctuations depending on the timing of device sales, as well as the inclusion of Spyrus revenues for the quarter.

Devices and appliances revenue as a percentage of total revenue represents 71.4% of total revenue for the current period compared to 64.2% for the prior year period. The increase is as a result of increased devices and appliances revenue and decreased services revenue.

Other revenue

Other revenue for the three months ended December 31, 2021 was $35,322 compared to $62,324 for the same period in 2020.

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 December 31, 2021 was $4,659,895, representing an increase of $344,791 from $4,315,105 for the same period in 2020. The increase in cost of revenue is a result of increased device and appliance revenue, which is transactional in nature.

Gross profit for the three months ended December 31, 2021 was $2,374,680 or 33.8% of gross revenue, representing a decrease of $537,391 from a gross profit of $2,912,071 or 40.3% of gross revenue for the same period in 2020. Gross profit as a percentage of revenue decreased due to changes in the revenue mix, including a decreased amount of MobiKEY application software revenue which has higher gross margins.

Expenses

Operating expenses consist of general administration, research and development, and selling and marketing. Operating expenses for the three months ended December 31, 2021 were $2,382,674, representing a decrease of $86,838 from $2,469,512, 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 December 31, 2021 were $1,492,244, representing an increase of $103,355 from $1,388,889 for the same period in 2020. The majority of the change can be summarized as follows:

- The amortization of intangible assets acquired in the purchases of DSM and Spyrus offset by the decrease in amortization of TaaS assets, resulted in increased amortization of approximately $23,000.

- Decreased rent expense of $6,000 due to the end of a lease in Route1.
- Increased director fees of approximately $11,000 as a result of shifting compensation to USD, offset by a decrease in the rate paid to directors.
- Decreased salary expenses of approximately $67,000 resulting from headcount changes.
- Increased bonus expenses of approximately $8,000 in 2021 due to payment of staff bonuses in 2021 that did not occur in 2020.
- Increased professional fees expense of approximately $67,000 due to increased capital markets advisory and market making services and contractor fees.
- Increased legal expenses of approximately $14,000 as a result of fees paid for employee immigration costs.
- Increase in other costs of approximately $63,000 as a result of increased recruiting, telecommunications and computer costs.
- Increased insurance expenses of approximately $5,000 due to an overall increase in insurance rates.

Research and development

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

Research and development expenses for the three months ended December 31, 2021 were $253,244, representing an increase of $53,099 from $200,145 for the same period in 2020. The majority of the change can be summarized as follows:

- Training costs decreased by approximately $16,000 due to a reduction in LPR training that was done in the prior period in 2020.
- Salaries and benefits increased by approximately $56,000. The increase is primarily due to the integration of staff added during the acquisition of Spyrus.
- The accrual for expected SR&ED recoveries decreased by approximately $13,000, as a result of continued evaluation of the estimated amount of eligible expenditures.

Selling and marketing

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

Selling and marketing expenses for the three months ended December 31, 2021 were $637,186, representing a decrease of $243,292 from $880,478 for the same period in 2020. The majority of the change can be summarized as follows:

- Decreased salary expenses of approximately $167,000 as a result of headcount changes.
- Decreased commissions costs of approximately $59,000 primarily as a result of a change in the commission plan for MobiKEY sales.
- Decreased travel and tradeshow expenses of approximately $6,000 as a result of reduced travel during the COVID-19 pandemic and cancelled trade shows.
- Decreased brand building and other expenses of approximately $11,000 due to decreased internet marketing.

Other Items

Stock-based compensation

Stock-based compensation was $89,300 for the three months ended December 31, 2021, a decrease of $81,238 from $170,538 for the same period in 2020. The contributing factor to the decreased expense was the smaller number of options granted in 2021 compared to 2020, at a lower average stock price, resulting in fewer options vesting at a lower value during the three months ended December 31, 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 December 31, 2021 was $nil, a decrease of $1,058,033 from $1,058,033 for the same period in 2020. The decrease is a result of the settlement of the AirWatch litigation net of the recovery of the litigation funding liability in 2020, and no further costs occurring in 2021.

For additional information see **"PATENT LITIGATION"** in 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 $83,110 for the three months ended December 31, 2021, an increase of $45,488 from $37,623 for the same period in 2020. There was moderate volatility of the Canadian dollar against the U.S. dollar during the fourth quarter of 2021, from a high of $1.2329 to a low of $1.2942, with similar volatility during the fourth quarter of 2020, with a high of $1.2718 to a low of $1.3349.

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 December 31, 2021.

Net (Loss) Income

Net loss for the three months ended December 31, 2021 was $315,188, representing a decrease of $620,800 from a net loss of $935,988 for the same period in 2020.

COMPARISON FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

Revenue

Revenue for the year ended December 31, 2021 was $27,271,260, representing a decrease of $2,435,392 from $29,706,652 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 year ended December 31, 2021, revenue from the subscription revenue and services segment was $9,701,870, representing an increase of $127,553 from $9,574,317, for the same period in 2020. This increase was the result of increased revenues related to License Plate Recognition system installation and support.

Subscription revenue and services, as a percentage of total revenue, represented 35.6% for the current year as compared to 32.2% for the prior year period. The increase is as a result of increased service revenues and decreased devices and appliances revenues.

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), Group Mobile ruggedized computing devices and accessories, PCS ruggedized computing devices, license plate recognition equipment and accessories and Spyrus encrypted drives for the year ended December 31, 2021 was $17,432,143, representing a decrease of $2,606,114 from $20,038,257 for the same period in 2020. The decrease is reflective of the variability in device revenue which can result in large fluctuations depending on the timing of device sales.

Devices and appliances revenue as a percentage of total revenue represents 63.9% of total revenue for the current period compared to 67.5% for the prior year period. The decrease is as a result of decreased devices and appliances revenues and increased service revenues.

Other revenue

Other revenue for the year ended December 31, 2021 was $137,247 compared to $94,078 for the same period in 2020.

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 year ended December 31, 2021 was $16,446,404, representing a decrease of $2,188,213 from $18,634,617 for the same period in 2020. The decrease in cost of revenue for the year is reflective of the decrease in device sales during the year.

Gross profit for the year ended December 31, 2021 was $10,824,856 or 39.7% of gross revenue, representing a decrease of $247,179 from a gross profit of $11,072,035 or 37.3% of gross revenue for the same period in 2020. The increase is as a result of increased services revenues, which have higher gross margins, as a percentage of the revenue mix.

Expenses

Operating expenses consist of general administration, research and development, and selling and marketing. Operating expenses for the year ended December 31, 2021 were $9,812,142, representing a decrease of $123,661 from $9,935,803, 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 year ended December 31, 2021 were $5,933,755, representing an increase of $247,386 from $5,686,369 for the same period in 2020. The majority of the change can be summarized as follows:

- Increased director fees of approximately $76,000.
- Decreased amortization expense of approximately $7,000, with increased amortization of intangible assets and right of use assets offset by decreased TaaS asset amortization.
- Decreased salary expenses of approximately $37,000 as a result of headcount changes.
- Increased bonus expenses of approximately $11,000.
- Decreased accounting expense of approximately $55,000, primarily reflecting the timing of the payment of tax preparation costs.
- Increased insurance costs of approximately $9,000 as the result an increase in insurance rates.
- Increased professional fees of approximately $204,000, primarily due to increased use of contractors.
- Increased legal fees of approximately $52,000, primarily due to the payment of a settlement to a former employee.
- Decreased rent of approximately $92,000 due to the end of a lease in Tennessee where property taxes were paid in 2020 as well as the end of a short-term lease in PCS in 2020.
- Increased other general administration expenses of approximately $87,000, primarily as a result of increased outside labour costs, telecommunications costs and bad debts expense.

Research and development

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

Research and development expenses for the year ended December 31, 2021 were $905,867, representing an increase of $142,556 from $763,311 for the same period in 2020. The majority of the change can be summarized as follows:

- Salaries and benefits increased by approximately $101,000 due to increased salaries and headcount increases, primarily as a result of the acquisition of Spyrus.

- Training costs decreased by approximately $4,000 as a result of reduced cross-training required for employees on LPR.
- The accrual for expected SR&ED recoveries decreased by approximately $46,000, 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 year ended December 31, 2021 were $2,972,520, representing a decrease of $513,603 from $3,486,123, for the same period in 2020. The majority of the change can be summarized as follows:

- Decreased salary expenses of approximately $234,000 due to decreased headcount.
- Decreased commissions costs of approximately $216,000 primarily due to decreased revenues and changes to the Company's commission plans.
- Decreased travel and tradeshow expenses of approximately $79,000 as a result of the COVID-19 pandemic.
- Decreased brand building and printing costs of approximately $33,000 due to the termination of a marketing services agreement with a former director.
- Increased other expenses of approximately $49,000 due to a decrease in marketing development funds generated by PCS.

Other Items

Stock-based compensation

Stock-based compensation was $567,517 for the year ended December 31, 2021, an increase of $70,645 from $496,872 for the same period in 2020. The contributing factor to the increased expense was the higher number of options vesting at a higher valuation during the year as compared to 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 year ended December 31, 2021was $nil, a decrease of $1,609,807 from $1,609,807 for the same period in 2020. For additional information see **"PATENT LITIGATION"** of this MD&A.

Acquisition Expenses

Acquisition expenses for the year ended December 31, 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 acquisitions of DataSource Mobility LLC on March 29, 2021 and Spyrus Solutions Inc. on September 15, 2021.

For additional information, see **"BUSINESS COMBINATION"** of this MD&A.

Foreign exchange (loss) gain

Foreign exchange gains or losses are primarily attributable to fluctuations in the Canadian/U.S. dollar exchange rates. The loss attributable to foreign exchange translation on balance sheet items such as accounts receivable, accounts payable and bank accounts denominated in foreign currencies was $31,442 for the year ended December 31, 2021, a decrease of $39,130 from a loss of $70,572 for the same period in 2020. There was moderate volatility of the Canadian dollar against the U.S. dollar during 2021, from a high of $1.2040 to a low of $1.2942, whereas there was high volatility during 2020, with a high of $1.2718 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.

Net Income (Loss)

Net income for the year ended December 31, 2021 was $222,207, representing an increase of $1,929,449 from a net loss of $1,707,242 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 condensed interim consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the consolidated annual financial statements and are reviewed and approved by the Company's Board of Directors. The Company's quarterly operating results have varied substantially in the past and may vary substantially in the future. Accordingly, the information below is not necessarily indicative of results for any future quarter.

As at and for the three month period ended (in thousands of Canadian dollars, except per share data)

	Dec-31 2021	**Sep-30 2021**	Jun-30 2021	Mar-31 2021	Dec-31 2020	Sep-30 2020	Jun-30 2020	Mar-31 2020
STATEMENT OF OPERATIONS								
Revenue								
Subscription revenue and services	**$1,977**	$2,297	$2,671	$2,758	$2,528	$2,599	$2,489	$1,958
Devices and appliances	**5,022**	4,960	3,663	3,786	4,637	6,523	4,477	4,401
Other	**36**	31	4	67	62	25	3	4
Total revenue	**7,035**	7,288	6,338	6,611	7,227	9,147	6,969	$6,363
Cost of revenue	**4,660**	4,696	3,443	3,647	4,315	6,134	4,188	3,997
Gross margin	**2,375**	2,592	2,895	2,964	2,912	3,013	2,781	2,366
Operating expenses								
General administration	**1,492**	1,518	1,453	1,471	1,389	1,456	1,481	1,359
Research and development	**253**	248	201	204	200	189	204	171
Selling and marketing	**637**	671	797	867	880	917	885	804
Total operating expenses	**2,382**	2,437	2,451	2,542	2,469	2,562	2,570	2,334
Operating profit (loss) before stock-based compensation and patent litigation	**(7)**	155	444	422	443	451	211	32
Patent litigation	**-**	-	-	-	(1,058)	(381)	(67)	(104)
Stock-based compensation	**(89)**	(105)	(173)	(201)	(171)	(76)	(141)	(109)
Operating profit (loss) after stock-based compensation and patent litigation	**(96)**	50	271	221	(786)	(6)	3	(181)
Acquisition expenses	**-**	(39)	(1)	(38)	-	2	(16)	-
Foreign exchange translation	**(83)**	64	(11)	(1)	(37)	(43)	(33)	43
Interest expense	**(55)**	(131)	(45)	(46)	(52)	(30)	(35)	(45)
Gain on litigation settlement	**-**	(11)	-	-	-	218	-	-
Asset disposal gain (loss)	**18**	-	-	(3)	-	-	-	-
Other income (expenses)	**(96)**	-	244	-	(36)	(620)	-	-
Total income (loss) for the period before income tax expense	**(312)**	(67)	458	133	(967)	(479)	(81)	(183)
Income tax (expense) recovery	**(3)**	6	3	5	31	(49)	21	-
Total income (loss) for the period	**(315)**	(61)	461	138	(936)	(528)	(60)	(183)
Other comprehensive income								
Foreign currency translation	**(29)**	118	(55)	(34)	(70)	(41)	(58)	88
Comprehensive income (loss)	**($344)**	$57	$406	$104	($1,006)	($569)	($118)	($95)
Basic and diluted earnings (loss) per share	**($0.01)**	$0.00	$0.01	$0.00	($0.03)	($0.01)	($0.00)	($0.01)
Adjusted EBITDA (see page 4)	**$341**	$465	$760	$764	$768	$778	$556	$358

CASH FLOW INFORMATION								
Operating activities	**($530)**	$435	($125)	$1,266	($3,515)	$1,523	$1,773	$472
Investing activities	**(83)**	(308)	(110)	(1,699)	906	(489)	(240)	(633)
Financing activities	**(92)**	451	(142)	(211)	1,601	1,092	(1,543)	165
Net cash inflow (outflow)	**(705)**	578	(377)	(644)	(1,008)	2,126	(10)	4
Consolidation currency adjustment	**41**	(17)	30	20	(81)	(7)	1	(14)
Cash, beginning of period	**727**	$166	$513	$1,137	2,226	107	116	126
Cash, end of period	**$63**	$727	$166	$513	$1,137	$2,226	$107	$116
BALANCE SHEET INFORMATION								
Working capital	**($4,837)**	($3,999)	($4,086)	($4,530)	($3,371)	($4,549)	($3,454)	($3,141)
Total assets	**$15,097**	$16,833	$13,739	$14,386	$14,176	$15,749	$12,283	$11,501
Shareholders' equity	**$2,728**	$2,982	$2,906	$2,442	$2,141	$37	$778	$950

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, and 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

For the purposes of this MD&A, the Company defines non-cash working capital generated as the net changes in working capital balances, and defines net cash used by the day-to-day operations as the net loss and items not affecting cash and cash equivalents, as both are included in net cash generated from operating activities in the financial statements.

The net cash flow generated from operating activities for the year ended December 31, 2021 was $1,046,700, compared to $256,275 in the same period in 2020, representing an increase of $790,425. Non-cash working capital used was $1,123,916 for the year ended December 31, 2021 compared to $1,278,927 generated a year earlier, representing an increase in cash used of $2,402,843. Net cash generated by the day–to-day operations for the year ended December 31, 2021 was $2,170,616 compared to $1,022,652 used in 2020, representing an increase in cash generated of $3,193,268. The increase in net cash generated by operating activities for the year ended December 31, 2021, compared to the prior year is due to an increase in net income, decreases in other receivables and inventory, an increase in accounts payable, offset by an increase in accounts receivable and a decrease in contract liability.

Cash used in investing activities

Cash used in investing activities for the year ended December 31, 2021 was $2,201,851 compared to cash used of $458,055 in the same period in 2020, representing an increase of $1,743,796. The increase in cash used is primarily driven by the acquisition of DSM in 2021.

Cash generated by financing activities

Cash generated by financing activities was $5,505 for the year ended December 31, 2021 compared to cash generated of $1,315,366 for the same period in 2020, a decrease of $1,309,861. The decrease was primarily as a result of the private placement in 2020 offset by increased bank indebtedness.

The Company's current business plan projects further revenue growth in 2022 and beyond. The Company believes that its current success in securing sales to the U.S. government through various resellers will lead to growth within the U.S. government and future opportunities with other governments including state and local agencies. The Company believes that sales from software applications will continue in 2022 and beyond as a result of an increase in teleworking and the continued need for highly secure remote access. The Company expects to increase revenue in the license plate recognition aspect of its business including the resale of hardware and software as well as the installation and support of installed systems. The Company continues to be an active value added reseller of ruggedized computing equipment and accessories.

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 in Canada consists of a revolving demand facility of $1,025,000 and a $150,000 credit card facility. The operating facility carries an interest rate equal to the lender's prime rate of interest plus 1.5%. The credit facility is secured by the assets of Route1 and guaranteed by a subsidiary of the Company.

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. 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.

On September 16, 2020, Route1 entered into a promissory note agreement with a private lender in the amount of $650,000. The note bears interest at 10% per annum and any amounts drawn must remain outstanding for a minimum of six months from the date of the agreement and thereafter may be repaid without premium, penalty or bonus. The original note maturity of September 30, 2021 was extended to October 31, 2022 and can be further extended by mutual agreement. The promissory note is secured by a pledge of the shares of the Company's wholly owned subsidiary, Route 1 Security Corporation, and a general security agreement over all current and hereafter acquired personal property of the Company. The promissory note is subordinated to the Company's existing bank credit facilities in both Canada and the United States. At December 31, 2021, the balance drawn on the promissory note was $632,372 (December 31, 2020 - $357,372). The note was entered into in order to provide part of the collateral for the bond posted in connection with the Company's litigation in the United States and for working capital purposes.

In the normal course of business operations of GMI and PCS, the Company may be required to guarantee certain trade payables to the value-added distributors from which GMI and PCS purchase product to sell to their customers. Such guarantees would be enforced only if GMI or PCS could not pay the distributor for goods acquired from such distributor and the amounts under such guarantees would vary from time to time based on the volume of purchases from the particular distributor. The Company has entered into these continuing, unconditional guarantees with several of the larger vendors/suppliers to GMI and PCS.

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

INVENTORY

On a quarterly basis or when necessary, management reviews the carrying value of inventory. Inventory is valued at the lower of cost and net realizable value, which is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale. For the quarters ended December 31, 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 $439,770 (December 31, 2020 - $363,995). These transactions are in the normal course of operations and are paid or payable for directorship services. As at December 31, 2021, accounts payable included $109,243 owing to directors (December 31, 2020 - $100,314). The Company also incurred stock-based compensation expense related to stock options granted to directors in the amount of $145,475 (December 31, 2020 - $180,512).
- The Company made payments (including HST) to Chodos Capital Group Inc. for management services provided by Mr. Peter Chodos, a director and the CFO of the Company, in the amount of $47,333 for the period between November 1, 2021 and December 31, 2021. Prior to November 1, 2021, Mr. Chodos was employed by the Company and payments made are included as part of key management.
- The Company made payments to or incurred expenses for key management (President and Chief Executive Officer, Chief Technology Officer and the Chief Financial Officer) in the year ended December 31, 2021 as follows, with 2020 comparatives:

	December 31, 2021	December 31, 2020
Short-term employee benefit	**$1,344,976**	$1,149,564
Stock-based compensation expense	**246,412**	255,837
	$1,591,338	$1,405,401

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 year ended December 31, 2021, were $nil (December 31, 2020 - $1,609,807). In 2020, patent litigation expenses included the costs related to the settlement with AirWatch net of the recovery of the litigation financing liability. 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 paid VMWare, Inc. US $1,400,000 in the first quarter of fiscal 2021 from the proceeds of the bond. No further expenses have been incurred to date.

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 US/CAD exchange rate on March 29, 2021 was US $1 = CAD $1.2594.

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.

The goodwill recorded on the statement of financial position represents the purchase price paid in excess of the fair value of the assets. The Company expects the DSM acquisition to allow it to expand the Company's business model in Texas, through adding Texas-based customers. Further, by leveraging DSM's current and future rugged mobile device sales, it will allow the Company to expand its field service installation business as well as open additional opportunities to sell data security and analytics software applications and capabilities.

The intangible assets recorded on the balance sheet represent the fair value of the customer lists acquired.

Transaction costs of $38,961 related to the acquisition of DSM have been expensed and included in operating expenses in the consolidated statements of comprehensive income for the year ended December 31, 2021.

The operating results of DSM have been combined with PCS. Accordingly, separate disclosure of revenue and profit generated by DSM since acquisition is impracticable.

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.

	Initial Allocation		Adjustments		Final Allocation	
Assets Acquired	**US Dollars**	**Canadian Dollars**	**US Dollars**	**Canadian Dollars**	**US Dollars**	**Canadian Dollars**
Cash and cash equivalents	$20,632	$25,984	$-	$-	$20,632	$25,984
Accounts receivable	182,094	229,329	-	-	182,094	229,329
Prepaid expenses	4,750	5,982	-	-	4,750	5,982
Current assets	207,476	261,295	-	-	207,476	261,295
Furniture and equipment	1,000	1,258	-	-	1,000	1,258
Intangible assets	450,153	566,924	-	-	450,153	566,924
Goodwill	808,777	1,018,574	114,114	143,715	922,891	1,162,289
Non-current assets	1,259,930	1,586,756	114,114	143,715	1,374,044	1,730,471
Total assets	1,467,406	1,848,051	114,114	143,715	1,581,520	1,991,766
Liabilities Assumed						
Accounts payable and other liabilities	167,406	210,831	-	-	167,406	210,831
Deferred tax liability	-	-	114,114	143,715	114,114	143,715
Total liabilities	167,406	210,831	114,114	143,715	281,520	354.546
Fair value of net assets acquired	1,300,000	1,637,220	-	-	1,300,000	1,637,220
Net consideration issued	$1,300,000	$1,637,220	$-	$-	$1,300,000	$1,637,720

The adjustment made to the initial allocation is the recognition of a deferred tax liability of $143,715 related to timing differences on intangible assets.

BUSINESS COMBINATION – Spyrus Solutions, Inc.

On September 15, 2021, the Company completed the acquisition of 100% of the outstanding shares of Spyrus Solutions, Inc. 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 to be 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 Earnout has been valued at zero as the Company has assessed the likelihood of reaching the stated gross profit levels and determined that it will not reach those levels based on the current outlook for the business. The USD/CAD exchange rate on September 15, 2021 was US $1 = CAD $1.2651.

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. Spyrus delivers encryption, authentication, and digital content security products to U.S. defense and civilian agencies, international government, financial and healthcare enterprises.

The intangible assets recorded on the balance sheet represent the fair value of the customer lists acquired.

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.

Spyrus has contributed incremental revenue of $921,180 and gross profit of $683,990 for the period from acquisition through December 31, 2021. Spyrus' contribution to revenue and gross profit had the acquisition occurred as of January 1, 2021, in management's opinion, is not reliably determinable.

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

	Initial Allocation		**Adjustments**		**Final Allocation**	
Assets Acquired	**US Dollars**	**Canadian Dollars**	**US Dollars**	**Canadian Dollars**	**US Dollars**	**Canadian Dollars**
Cash and cash equivalents	$12,631	$15,979	$7,436	$9,408	$20,067	$25,387
Accounts receivable	230,605	291,738	(20,037)	(25,348)	210,568	266,390
Prepaid expenses	1,391	1,760	-	-	1,391	1,760
Contract costs	49,713	62,892	-	-	49,713	62,892
Inventory	255,397	323,103	30,001	37,954	285,398	361,057
Current assets	549,737	695,472	17,400	22,014	567,137	717,486
Intangible assets	291,718	369,052	164,679	208,335	456,397	577,387
Total assets	841,455	1,064,524	182,079	230,349	1,023,534	1,294,873
Liabilities Assumed						
Accounts payable and other liabilities	451,755	571,515	89,780	113,582	541,535	685,097
Contract liability	109,700	138,781	-	-	109,700	138,781
Notes payable	280,000	354,228	-	-	280,000	354,228
Deferred tax liability	-	-	92,299	116,767	92,299	116,767
Total liabilities	841,455	1,064,524	182,079	230,349	1,023,534	1,294,873
Fair value of net assets acquired	-	-	-	-	-	-
Net consideration issued	$-	$-	$-	$-	$-	$-

Significant adjustments made to the initial allocation are as follows:

- Accounts payable and other liabilities were increased by $113,582 as a result of identifying additional accruals and unrecorded accounts payable.
- Recognition of a deferred tax liability of $116,767 related to timing differences on intangible assets.
- Intangible assets were increased by $208,335 based on revised valuation of the value of the customer lists to the Company.

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 recoverable amount of the cash generate units based on discounted future cash flow projections.
- The measurement of the income tax valuation allowance is based upon estimates of future taxable income and the expected timing of reversals of temporary differences.

NEW STANDARDS ADOPTED

At the date of the authorization of the consolidated financial statements for the year ended December 31, 2021, several new, but not yet effective Standards and amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards or amendments to existing Standards have been adopted early by the Company.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact to the Company's consolidated financial statements.

FINANCIAL INSTRUMENTS

Establishing fair value

The carrying amount of financial instruments including cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and other liabilities and notes payable 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. It is not anticipated that any payouts will be required under this provision.

The following table sets out the classification, carrying amount, and fair value of the Company's financial assets and liabilities as at December 31, 2021 and December 31, 2020:

	December 31, 2021		December 31, 2020	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
FINANCIAL ASSETS				
Cash and cash equivalents	**$62,568**	**$62,568**	$1,137,474	$1,137,474
Accounts receivable	**$4,396,886**	**$4,396,886**	$3,310,701	$3,310,701
FINANCIAL LIABILITIES				
Bank indebtedness	**$1,826,640**	**$1,826,640**	$777,299	$777,299
Accounts payable and other liabilities	**$4,564,165**	**$4,564,165**	$4,063,359	$4,063,359
Notes payable	**$1,161,851**	**$1,161,851**	$1,014,840	$1,014,840

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.

FINANCIAL INSTRUMENTS - RISK MANAGEMENT

The Company has exposure to credit risk, liquidity risk and market risk associated with its financial assets and liabilities. The Board has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Audit Committee which is responsible for monitoring the Company's compliance with risk management policies. The Audit Committee regularly reports to the Board on its activities.

The Company's risk management program seeks to minimize potential adverse effects on the Company's financial performance and ultimately shareholder value. The Company manages its risks and risk exposures through a system of internal controls and sound business practices.

The Company's financial instruments and the nature of the risks to which they may be subject are set out in the following table:

	Credit	Liquidity	Foreign Exchange	Interest Rate
Cash and cash equivalents	Yes		Yes	Yes
Accounts receivable	Yes		Yes	
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 year ended December 31, 2021, the largest single customer represented approximately $3,352,000 of revenue (December 31, 2020 - $1,560,000).

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 December 31, 2021, the Company had cash consisting of deposits with Schedule 1 banks in Canada and their subsidiaries in the U.S., a large money centre bank in the U.S. and a large regional bank in the U.S. of $62,568 (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 December 31, 2021, the largest single customer's account receivable represented $1,716,281 (December 31, 2020 – $416,631) of the total accounts receivable. This account receivable was collected in full subsequent to the year end.

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

	December 31, 2021	December 31, 2020
Current	**$3,452,297**	$2,304,560
Past due		
1 – 60 days	**675,991**	597,511
Greater than 60 days	**268,598**	408,630
Less: Allowance for doubtful accounts	**-**	-
Total accounts receivable, net	**$4,396,886**	$3,310,701

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

	December 31, 2021	December 31, 2020
Other receivables	**$186,573**	$1,254,974
Less: Reserve	**-**	(597,401)
Total other receivables, net	**$186,573**	$657,573

In the third quarter of 2020, the Company was the victim of a fraud in the United States perpetrated by a group posing as legitimate customers with the goal of purchasing rugged devices. The Company took a reserve as at December 31, 2020 of $597,401 (US $469,212) as it was unclear if any compensation would be obtained from its insurers. In the second quarter of 2021, insurance proceeds of $343,701 (US $275,080) net of applicable deductibles and legal fees were received from its insurers.

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 December 31, 2021:

	2022	**2023**	**2024 and Beyond**	**Total**
Accounts payable and other liabilities	$4,564,165	$-	$-	$4,564,165
Notes payable	1,161,851	-	-	1,161,851
Lease commitments	463,328	435,947	1,028,216	1,927,491
	$6,189,344	$435,947	$1,028,216	$7,653,507

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 December 31, 2021, the Company had non-Canadian dollar net monetary liabilities of approximately US $745,000 (December 31, 2020 – liabilities of approximately US $1,350,000). An increase or decrease in the U.S. to Canadian dollar exchange rate by 5% as at December 31, 2021 would have resulted in a gain or loss in the amount of $47,000 (December 31, 2020 – gain or loss of $86,000).

Interest rate

The Company has cash balances and bank indebtedness which may be exposed to interest rate fluctuations. At December 31, 2021, cash balances were $62,568 (December 31, 2020 - $1,137,474), bank indebtedness balances were $1,826,640 (December 31, 2020 – $777,299) and the interest rate sensitivity is not material.

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.

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 December 31, 2021.

For the year ended December 31, 2020, the Company purchased 800,491 shares for cancellation under the NCIBs at an average price of approximately $0.62 per share.

For the year ended December 31, 2021, the Company purchased 340,000 shares for cancellation under the NCIBs at an average price of approximately $0.58 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, January 1, 2020	35,905,100	$22,042,233
Shares issued November 4, 2020	60,000	56,196
Shares issued December 16, 2020	3,529,411	1,823,116
Shares repurchased for cancellation	(800,491)	(496,468)
Share issuance costs	-	(55,003)
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, December 31, 2021	**39,709,463**	**$23,700,961**

- There are 39,709,463 common shares outstanding as of April 27, 2022.
- There are 3,225,000 (December 31, 2020 – 3,312,500) common share purchase options ("Options") outstanding to acquire 3,225,000 (December 31, 2020 – 3,312,500) common shares at various prices.
- There are 3,574,411 common share purchase warrants outstanding as at April 27, 2022 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.

Private Equity Placement

On December 16, 2020, the Company completed a private placement of 3,529,411 units (comprised of one common share and one warrant) for gross proceeds of $3,000,000. A portion of the proceeds were allocated to warrants based on the valuation below with the residual value allocated to common shares.

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 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 2022 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 severely impacted many local economies around the globe. In many countries, including Canada and the United States, businesses were forced to cease or limit operations for long or indefinite periods of time. Governments and central banks responded with monetary and fiscal interventions to stabilize economic conditions and continued to do so. Central banks in developed countries have only recently begun to indicate that monetary policy may become more restrictive in 2022 and beyond.

The COVID-19 pandemic has affected the Company's business both positively and negatively. The Company's secure remote access technology initially benefited from the requirements to telework both in government and business. Some of these increase in MobiKEY users have not been renewed.

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 also occurred as a result of the virus. At the present time, the economy in the United States has broadly reopened and the Company's business has returned to a more normal level as facilities have reopened and installation activities are moving forward. The most significant lasting impact of the pandemic has been and continues to be the increased lead times for deliveries of products from certain manufacturers especially those whose products require components and manufacturing of products from Asia. In addition, projects that are dependent on the delivery of automotive vehicles have been delayed as delivery times and prices of those vehicles 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. The recent rise in COVID-19 cases in Asia has further exacerbated the supply chain issues.

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 December 31, 2021, the Company had $2,684,836 (December 31, 2020 - $3,727,374) in contract liability.

The following table provides a presentation of the Company's revenue streams for the year ended December 31, 2021 and 2020:

	2021		2020	
	Revenue	**% of Total**	Revenue	% of Total
Subscription revenue and services	**$9,701,870**	**35.6**	$9,574,317	32.2
Devices and appliances	**17,432,143**	**63.9**	20,038,257	67.5
Other	**137,247**	**0.5**	94,078	0.3
	$27,271,260	**100.0**	$29,706,652	100.0

The following table provides a geographic presentation of the Company's revenue streams for the year ended December 31, 2021 and 2020:

	2021		2020	
	Revenue	**% of Total**	Revenue	% of Total
USA	**$27,185,692**	**99.7**	$29,503,033	99.3
Canada	**85,568**	**0.3**	203,619	0.7
	$27,271,260	**100.0**	$29,706,652	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).

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