ROUTE1 INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2022

As at April 27, 2023

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, 2023 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 Inc. is an advanced North American engineering and professional services company using data capture technologies. The Company brings security and operations together with real-time actionable intelligence to enhance safety and security, drive greater profitability and improve operational efficiencies. With a deep-rooted background in software development, network operations, and cybersecurity, Route1 has ushered in a unique and valuable approach to the turn-key engineering and professional services arena. Route1's services follow a complete life-cycle model, ensuring the evolution of your technology to meet the client's desired outcomes.

With offices and staff in Scottsdale, AZ, Chattanooga, TN, Denver, CO 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 10, 2022, Route1 provided a business update.

- The Company's sales growth is now tied to its core services and engineering competencies with the goal of reducing our dependency on original equipment manufacturers ("OEM") and the cyclicality of supply chain and manufacturing disruptions, and addressing the strong enterprise and government trend to move desktop computing to applications accessed in the cloud.
- Route1 will emphasize its turn-key engineering services for clients using video and sensor capture technology to deliver real-time, secure actionable intelligence. The Company amplifies its customers' return on investment by driving outcomes through the application of advanced technological solutions and by leveraging our expertise in video intelligence data.
- Route1 currently is or intends to be active with its turn-key engineering and professional services to support clients investing in video and sensor capture technologies including ALPR, surveillance video, body worn cameras and drones. Further, the Company intends to expand on its capability to support clients adopting access control technology. Genetec will continue to be an important technology partner for Route1.
- The Company will also continue to invest in data security and user authentication technologies including its flagship software application MobiKEY and service delivery platform DEFIMNET, which separates us from our turn-key engineering services competitors as we bring a unique data security skill set as a service to our clients.

On April 27, 2022, Route1 announced Q4 and Full Year 2022 Financial Results

On May 25, 2022, Route1 announced Q1 2022 Financial Results.

On June 8, 2022, Route1 provided an update on its market making agreement.

- On February 1, 2020, Route1 entered into a market making services agreement with Independent Trading group, Inc. ("ITG") located in Toronto, Ontario.
- The term of the agreement was initially a minimum of three months and has since been renewed on a monthly basis according to the terms of the agreement.
- The agreement may be terminated on 30 days' written notice prior to the end of the month.

On June 15, 2022, Route1 announced Elton Crawford as Vice President of Operations.

- Mr. Crawford has most recently been the Assistant Director, Operations, Parking and Transportation Services with the University of Arizona. Prior, Crawford was a Commanding Officer and Deputy Chief Operating Officer and Administrator for the 1st Battlefield Coordination Detachment, U.S. Army South and 12th Air Force, Davis-Monthan AFB.
- Mr. Crawford brings significant campus parking and public safety experience and knowledge with him to his role as Route1's Vice President of Operations. In his capacity at the University of Arizona, Crawford has been an end user of the Genetec AutoVu™ automated license plate recognition ("ALPR") technology for several years, which includes having worked with parking technology integrators such as T2 Systems and Passport as well as leading the University's deployment of AutoVu at the University of Arizona's state run COVID-19 Vaccination Point of Distribution site.

On August 24, 2022, Route1 announced Q2 and Year-to-Date 2022 Financial Results.

On September 19, 2022, Route1 announced an agreement for the issuance of shares for compensation to Tony Busseri, President and Chief Executive Officer and Independent Directors.

- Route1 agreed to issue common shares to Mr. Busseri, the Company's President and CEO, and the Company's five independent directors in lieu of cash compensation.
- The compensation to Mr. Busseri is per his employment agreement, specifically for his salary for the period August 1, 2022 to September 15, 2022 and to the five independent directors it is for their services for the period January 1, 2022 to June 30, 2022. In aggregate, the Company agreed to issue 2,164,322 common shares at a deemed price of CAD $0.115 (the "Shares") in lieu of paying US $31,592 in cash compensation to Tony Busseri and US $156,000 to the five independent directors.
- The exchange rate at market close on September 15, 2022 was 1.3268.
- The issuance of the Shares is subject to the receipt of all required approvals, including the approval of the TSX Venture Exchange. The issuance of the Shares is subject to the receipt of all required approvals, including the approval of the TSX Venture Exchange. All securities issued pursuant to the issuance of the Shares are subject to a statutory four month hold period.

On October 17, 2022, Route1 announced an agreement for the issuance of shares for compensation to executive management team members

- Route1 agreed to issue common shares to Peter Chodos, Executive Vice President and CFO, Jerry Iwanski, Executive Vice President and COO, and Alex Shpurov, Senior Vice President and CTO (the "Team") in lieu of cash compensation.
- The compensation to the Team is per their respective employment agreement, or consulting agreement, for the period August 1, 2022 to October 15, 2022. In aggregate, the Company agreed to issue 623,368 common shares at a deemed price of CAD $0.085 (the "Shares") in lieu of paying CAD $36,454 and US $12,041 in cash compensation to the Team.
- The USD to CAD exchange rate at market close on October 17, 2022 was 1.3730.

- The issuance of the Shares is subject to the receipt of all required approvals, including the approval of the TSXV. All securities issued pursuant to the issuance of the Shares are subject to a statutory four month hold period.

On November 1, 2022, Route1 announced Tony Busseri as Interim Chief Financial Officer

- Route1 announced that Peter Chodos, the Company's Executive Vice President and Chief Financial Officer has entered into a new role with the Company and effective November 1, 2022 became Executive Vice President, Corporate Development.
- The agreement between Mr. Chodos and the Company will be for a period of one year and is extendable by mutual agreement.
- Mr. Chodos will continue with Route1 in leading its acquisition growth and other strategic initiatives, assisting in the execution of important operational tasks and managing capital market relationships including debt funders.
- Mr. Chodos will also continue as a director with Route1.

On November 18, 2022, Route1 announced Q3 and Year-to-Date 2022 Financial Results.

On November 30, 2022, Route1 announced that it received approval for four of five proposals submitted to shareholders at the Company's annual general and special meeting of shareholders, which was held on November 30, 2022 in Toronto, Canada.

- The matters voted on and approved were as follows: (1) Tony P. Busseri, Peter F. Chodos, Michael F. Doolan, Michael D. Harris and John Marino were re-elected as the Company's Directors. Following the Meeting, the Board of Directors met and selected Mr. Harris to continue to serve as Chairman of the Board of Route1, (2) RSM Canada LLP were appointed as the Company's auditors in respect of the year ending December 31, 2022, (3) Route1's long-term incentive plan, and (4) settlement of debt owed to Tony P. Busseri, Michael F. Doolan, David A. Fraser, Michael D. Harris, John Marino, Edward M. Reeder, Jerry Iwanski, Peter F. Chodos, and Alex Shpurov through the issuance of up to 2,787,693 common shares of the Company.
- The matters voted on and not approved was the grant of certain incentive awards granted to certain employees, directors, officers and consultants of the Company and its affiliates.

On December 16, 2022, Route1 announced that, pursuant to its September 19, 2022 and October 17, 2022 news releases, it had completed the issuance of common shares of the Company to directors and executive management team members in lieu of cash compensation of approximately $301,883.48 by issuing 2,787,693 common shares at a deemed price of $0.085 and $0.115 per share. The securities issued wee subject to a four-month and one day hold period, that has since expired on April 15, 2023.

On December 22, 2022, Route1 announced that on December 19, 2022 the Company's auditors RSM Canada LLP ("RSM") informed the Company that it had identified certain non-audit services related to RSM's recruiting of a prospective candidate for a management position at the Company were inconsistent with the Canadian Independence Rule 204.4(32) and accordingly, RSM concluded that it was no longer independent. Accordingly, in accordance with its rules of professional conduct, RSM was required to resign as the Company's auditor for the year ended December 31, 2022 due to its lack of independence. RSM agreed to accommodate a smooth transition to a successor auditor.

On February 3, 2023, Route1 announced that the Board of Directors of the Company had appointed MNP LLP as independent auditors of the Company for the year ended December 31, 2022.

On February 23, 2023, Route1 provided a business update.

- The Company reinforced its core sales growth elements, technology focus and the Route1 difference as it delivers its offering to the marketplace.
- Route1 spoke to how it is defining success in the short term and scalability for the business model direction change. Specifically, the Company is looking for (1) gross profit generated from non MobiKEY activities on a quarterly basis to grow to in excess of US $1.15 million and (2) recurring support contracts on an annualized basis to be greater than US $1.0 million. Further, Route1 indicated that these two immediate term metrics will evolve through calendar year 2023.
- Route1 provided an update on its operational execution including management of working capital, debt repayment and facilities, sales pipeline and its secure remote access technology roadmap. Route1 also defined its bigger goal is to pursue acquisition growth in the second half of 2023.

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 Spyrus Solutions, Inc. ("Spyrus"). Spyrus has been included in the Company's consolidated financial statements from the date of acquisition to December 31, 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.

In thousands of Canadian dollars	**Dec 31 2022**	Sep 30 2022	Jun 30 2022	Mar 31 2022	Dec 31 2021
Adjusted EBITDA	**$(142)**	$543	$459	$446	$341
Depreciation and amortization	**(361)**	(340)	(332)	(335)	(348)
Stock-based compensation	**(29)**	(53)	(65)	(92)	(89)
Operating profit (loss) before other income (expense)	**$(532)**	$150	$62	$19	($96)

SELECTED FINANCIAL INFORMATION

The following table outlines selected unaudited financial information of the Company on a consolidated basis for the three months and year ended December 31, 2022 and 2021.

(in thousands of Canadian dollars, except per share amounts)	For the Three Months Ended		For the Year Ended	
	Dec 31, 2022	Dec 31, 2021	**Dec 31, 2022**	Dec 31, 2021
STATEMENT OF OPERATIONS				
Revenue				
Subscription revenue and services	**$1,103**	$1,977	**$6,194**	$9,702
Devices and appliances	**2,279**	5,022	**15,830**	17,432
Other	**6**	35	**21**	137
Total revenue	**3,388**	7,035	**22,045**	27,271
Cost of revenue	**2,032**	4,660	**14,462**	16,446
Gross profit	**1,356**	2,375	**7,583**	10,825
Operating expenses				
General administration	**1,319**	1,492	**5,209**	5,934
Research and development	**92**	253	**693**	906
Selling and marketing	**448**	637	**1,743**	2,973
Total operating expenses before stock-based compensation	**1,859**	2,383	**7,645**	9,812
Stock-based compensation	**29**	89	**240**	568
Total operating expenses	**1,888**	2,472	**7,884**	10,380
Operating profit (loss) before other income (expense)	**(532)**	(97)	**(302)**	445
Other income (expense)				
(Loss) gain on litigation settlement	**-**	(11)	**-**	(11)
Interest expense	**(84)**	(55)	**(275)**	(277)
Foreign exchange loss (gain)	**30**	(83)	**11**	(31)
Gain on asset disposal	**(3)**	18	**22**	15
Acquisition expense	**-**	-	**-**	(79)
Other income (expense)	**3**	(84)	**(75)**	148
Total other income (expense)	**(54)**	(216)	**(317)**	(235)
Income (loss) for the period before income tax	**(586)**	(313)	**(619)**	210
Income tax recovery (expense)	**(1,140)**	2	**(1,099)**	(12)
Net income (loss) for the period	**(1,726)**	(315)	**(1,718)**	222
Other comprehensive income (loss)				
Foreign currency translation	**(41)**	(29)	**223**	1
Comprehensive income (loss)	**($1,767)**	$(344)	**($1,495)**	$223
Basic and diluted income (loss) per share	**($0.04)**	**($0.00)**	**($0.04)**	$0.01

(in thousands of Canadian dollars, except per share amounts)	**For the Three Months Ended**		**For the Year Ended**	
	Dec 31, 2022	Dec 31, 2021	**Dec 31, 2022**	Dec 31, 2021
CASH FLOW INFORMATION				
Operating activities	**$233**	($530)	**$602**	$1,047
Investing activities	**-**	(83)	**1**	(2,202)
Financing activities	**(118)**	(92)	**(458)**	6
Net cash inflow (outflow)	**115**	(705)	**145**	(1,149)
Consolidation currency adjustment	**($139)**	41	**(129)**	75
Cash, beginning of period	**103**	727	**63**	1,137
Cash, end of period	**$79**	$63	**$79**	$63
Working capital	**($3,924)**	($4,837)	**($3,924)**	($4,837)
Total assets	**$12,355**	$15,097	**$12,355**	$15,097
Shareholders' equity	**$1,765**	$2,728	**$1,765**	$2,728

COMPARISON FOR THE THREE MONTHS ENDED DECEMBER 31, 2022 AND 2021

Revenue

Revenue for the three months ended December 31, 2022 was $3,388,040, representing a decrease of $3,646,533 from $7,034,573, for the same period in 2021. 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; (b) appliance licensing (c) yearly support or maintenance; (d) technology as a service ("TaaS") under term contracts; and (e) turn-key engineering services.

For the three months ended December 31, 2022, revenue from the subscription revenue and services segment was $1,103,030, representing a decrease of $873,965, from $1,976,995, for the same period in 2021. The decrease was the result of decreased MobiKEY revenues and the end of all TaaS contracts.

Subscription revenue and services, as a percentage of total revenue, represented 33% for the current period compared to 28% for the prior year period.

Subscription revenue and services by quarter *(in thousands of Canadian dollars)*	**Dec 31 2022**	Sept 30 2022	Jun 30 2022	Mar 31 2022	Dec 31 2021
Application software	**475**	804	1,402	1,483	1,504
Technology as a service (TaaS)	**-**	-	-	-	50
Other services	**628**	521	452	428	423
Total	**1,103**	1,325	1,854	1,911	1,977

Other services revenue by quarter *(in thousands of Canadian dollars)*	**Dec 31 2022**	Sept 30 2022	Jun 30 2022	Mar 31 2022	Dec 31 2021
Technology life-cycle maintenance and support	**300**	275	214	209	175
Professional services	**328**	246	238	219	248
Total	**628**	521	452	428	423

Devices and Appliances

Revenue from MobiKEY devices and appliances, ruggedized computing devices and accessories, license plate recognition equipment and accessories for the three months ended December 31, 2022 was $2,279,115, representing a decrease of $2,743,142 from $5,022,257 for the same period in 2021. 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 67% of total revenue for the current period compared to 71% for the prior year period.

Other revenue

Other revenue for the three months ended December 31, 2022 was $5,895, representing a decrease of $29,426 compared to $35,321 for the same period in 2021.

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, the cost to install video capture technology at our client locations, and the cost of shipping and packaging.

The cost of revenue for the three months ended December 31, 2022 was $2,032,360, representing a decrease of $2,627,537 from $4,659,897 for the same period in 2021. 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 December 31, 2022 was $1,355,680 or 40.0% of gross revenue, representing a decrease of $1,018,996 from a gross profit of $2,374,676 or 33.8% of gross revenue for the same period in 2021.

Expenses

Operating expenses consist of general administration, research and development, and selling and marketing. Operating expenses for the three months ended December 31, 2022 were $1,859,019, representing a decrease of $523,653 from $2,382,672, for the same period in 2021.

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, 2022 were $1,318,562 representing a decrease of $173,683 from $1,492,245 for the same period in 2021. The majority of the change can be summarized as follows:

- Salaries expense increased by approximately $70,000, reflecting changes in headcount mix.
- Director fees decreased by approximately $30,000 due to decreased compensation rates paid to directors and the number of directors serving on Route1's board.
- Professional fees decreased by approximately $64,000 due to decreased contractor labor costs.
- Rent expenses decreased by approximately $22,000 due to a decrease in lease-related costs.
- Other expenses decreased by approximately $155,000 with the largest contributor to the decrease being the write off of certain accounts payable related to the Spyrus Solutions, Inc. acquisition.

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, 2022 were $92,388, representing a decrease of $160,854 from $253,242 for the same period in 2021. The majority of the change can be summarized as follows:

- Salary costs decreased by approximately $153,000 as a result of decreased head count.

Selling and marketing

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

Selling and marketing expenses for the three months ended December 31, 2022 were $448,069, representing a decrease of $189,116 from $637,185 for the same period in 2021. The majority of the change can be summarized as follows:

- Decreased salary expenses of approximately $145,000 as a result of a decreased head count.
- Decreased commissions expenses of approximately $58,000 as a result of the period's lower gross profit.

Other Items

Stock-based compensation

Stock-based compensation was $29,432 for the three months ended December 31, 2022, a decrease of $59,868 from $89,300 for the same period in 2021. The contributing factor to the decreased expense was due to no options being granted in 2022 compared to 2021, resulting in a lower number of options vesting during the three months ended December 31, 2022 as compared to the same period in 2021.

Foreign exchange (loss) gain

Foreign exchange gains or losses are primarily attributable to fluctuations in the Canadian/U.S. dollar exchange rates on balance sheet items such as Accounts Receivable, Accounts Payable and bank accounts that are denominated in foreign currencies.

There was moderate volatility of the Canadian dollar against the U.S. dollar during the fourth quarter of 2022, from a high of $1.383 to a low of $1.3266, and 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.

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, 2022.

Comprehensive Income (Loss) After Taxes

Comprehensive loss for the three months ended December 31, 2022 was $1,767,133, representing a decrease of $1,423,327 from a comprehensive loss of $343,806 for the same period in 2021. The primary change was as a result of the Company Writing off its deferred tax assets and deferred tax liabilities. For additional information see **"Note 21, INCOME AND DEFERRED TAXES"** in the Company's 2022 Audited Consolidated Financial Statements.

COMPARISON FOR THE YEAR ENDED DECEMBER 31, 2022 AND 2021

Revenue

Revenue for the year ended December 31, 2022 was $22,045,212, representing a decrease of $5,226,048 from $27,271,260, for the same period in 2021. 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; (b) appliance licensing (c) yearly support or maintenance; (d) technology as a service ("TaaS") under term contracts; and (e) turn-key engineering services.

For the year ended December 31, 2022, revenue from the subscription revenue and services segment was $6,194,383, representing a decrease of $3,507,807 from $9,701,870 for the same period in 2021. The decrease was the result of decreased MobiKEY revenues and the end of all TaaS contracts.

Subscription revenue and services, as a percentage of total revenue, represented 28% for the current period as compared to 36% for the prior year period.

Devices and Appliances

Revenue from MobiKEY devices and appliances, ruggedized computing devices and accessories and license plate recognition equipment and accessories for the year ended December 31, 2022 was $15,829,913, representing a decrease of $1,602,230 from $17,432,143 for the same period in 2021. The decrease is reflective of the variability in device revenue.

Devices and appliances revenue as a percentage of total revenue represents 72% of total revenue for the current period compared to 64% for the prior year period.

Other revenue

Other revenue for the year ended December 31, 2022 was $20,916 compared to $137,247 for the same period in 2021.

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, the cost to install video capture technology at our client locations, and the cost of shipping and packaging.

The cost of revenue for the year ended December 31, 2022 was $14,462,458 representing a decrease of $1,983,946 from $16,446,404, for the same period in 2021. The decrease in cost of revenue is a result of a decrease in corresponding devices and appliances sales.

Gross profit for the year ended December 31, 2022 was $7,582,754 or 34.4% of gross revenue, representing a decrease of $3,242,102 from a gross profit of $10,824,856 or 39.7% of gross revenue for the same period in 2021.

Expenses

Operating expenses consist of general administration, research and development, and selling and marketing. Operating expenses for the year ended December 31, 2022 were $7,644,687, representing a decrease of $2,167,455 from $9,812,142 for the same period in 2021.

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, 2022 were $5,209,043, representing a decrease of $724,712 from $45,933,755 for the same period in 2021. The majority of the change can be summarized as follows:

- Decreased salaries expense of approximately $178,000 due changes in head count mix.
- Decreased bonus expenses of approximately $119,000.
- Decreased director fees of approximately $86,000 due to decreased compensation rates paid to directors.
- Decreased professional fees of approximately $111,000 decreased contractor labor costs.
- Decreased rent expense of approximately $66,000 due to a decrease in lease-related costs.
- Increased accounting fees of $72,000.
- Other expenses decreased by approximately $256,000 with the largest contributor to the decrease being the write off of certain accounts payable related to the Spyrus Solutions, Inc. acquisition.
- Increased amortization expense of $53,000

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, 2022 were $693,037, representing a decrease of $212,830 from $905,867, for the same period in 2021. The majority of the change can be summarized as follows:

- Salaries expense decreased by approximately $180,000.

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, 2022 were $1,742,607 representing a decrease of $1,229,913 from $2,972,520 for the same period in 2021. The majority of the change can be summarized as follows:

- Decreased salary expenses of approximately $864,000 as a result of a decrease in head count.
- Decreased commissions of approximately $172,000.
- Decreased travel costs of approximately $163,000.

Other Items

Stock-based compensation

Stock-based compensation was $239,616 for the year ended December 31, 2022, a decrease of $327,901 from $567,517 for the same period in 2021. The contributing factor to the decreased expense was the lower number of options vesting during the year ended December 31, 2022 as compared to the same period in 2021.

Foreign exchange (loss) gain

Foreign exchange gains or losses are primarily attributable to fluctuations in the Canadian/U.S. dollar exchange rates on balance sheet items such as Accounts Receivable, Accounts Payable and bank accounts that are denominated in foreign currencies.

There was high volatility of the Canadian dollar against the U.S. dollar during the year ended December 2022, from a high of $1.2475 to a low of $1.3883, whereas there was moderate volatility during the comparable period in 2021, with a high of $1.2040 to a low of $1.2942.

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 loss for the year ended December 31, 2022 was $1,495,270 representing a decrease of $1,718,331 from a comprehensive income of $223,061 for the same period in 2021.

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 for per share data)	**Dec-31 2022**	Sep-30 2022	Jun-30 2022	Mar-31 2022	Dec-31 2021
STATEMENT OF OPERATIONS					
Revenue					
Subscription revenue and services	**$1,103**	$1,326	$1,854	$1,911	$1,977
Devices and appliances	**2,280**	5,519	5,251	2,781	5,022
Other	**5**	3	9	3	36
Total revenue	**3,388**	6,847	7,114	4,695	7,035
Cost of revenue	**2,032**	4,843	5,015	2,572	4,660
Gross margin	**1,356**	2,005	2,099	2,123	2,375
Operating expenses					
General administration	**1,319**	1,247	1,344	1,299	1,492
Research and development	**92**	121	213	266	253
Selling and marketing	**448**	434	414	447	637
Total operating expenses	**1,859**	1,802	1,972	2,012	2,383
Operating profit (loss) before stock-based compensation and patent litigation	**(503)**	203	127	111	(7)
Stock-based compensation	**(29)**	(53)	(65)	(92)	(89)
Operating profit (loss) after stock-based compensation and patent litigation	**(533)**	150	62	19	(96)
(Loss) gain on litigation settlement	**-**	-	-	-	(11)
Foreign exchange translation	**30**	(6)	-	(13)	(83)
Interest expense	**(84)**	(81)	(58)	(52)	(55)
Asset disposal gain (loss)	**(3)**	-	-	23	18
Other income (expenses)	**3**	-	(68)	(7)	(85)
Total other expense	**(54)**	(88)	(127)	(49)	(216)
Total income (loss) for the period before income tax expense	**(586)**	62	(65)	(31)	(312)
Income tax (expense) recovery	**1,140**	2	8	30	(2)
Total income (loss) for the period after income tax expense	**(1,726)**	64	(56)	1	(315)
Other comprehensive income					
Foreign currency translation	**(41)**	209	(101)	(47)	(29)
Comprehensive income (loss)	**($1,767)**	$273	$45	($46)	($344)
Basic and diluted earnings (loss) per share	**($0.04)**	$0.00	($0.00)	($0.00)	($0.01)
Adjusted EBITDA	**($142)**	$543	$459	$446	$341

As at and for the three-month periods ended (in thousands of Canadian dollars, except for per share data)	Dec-31 2022	Sep-30 2022	Jun-30 2022	Mar-31 2022	Dec-31 2021
CASH FLOW INFORMATION					
Operating activities	**$233**	($350)	($25)	$744	($530)
Investing activities	**-**	(1)	(6)	8	(83)
Financing activities	**(118)**	88	(117)	(310)	(92)
Net cash inflow (outflow)	**115**	(263)	(148)	442	(705)
Consolidation currency adjustment	**($139)**	67	(33)	(23)	84
Cash, beginning of period	**103**	$299	$481	$62	$727
Cash, end of period	**$79**	$103	$299	$481	$62
BALANCE SHEET INFORMATION					
Working capital	**($3,924)**	($4,184)	($4,419)	($4,528)	($4,837)
Total assets	**$12,355**	$14,826	$13,909	$12,574	$15,097
Shareholders' equity	**$1,765**	$3,209	$2,883	$2,774	$2,728

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 used in operating activities

The net cash generated by operating activities for the three months ended December 31, 2022 was $233,296 compared to cash used of $529,844, in the same period in 2021 representing an increase in cash generated of $763,139. Cash generated by non-cash working capital was $408,289 for the three months ended December 31, 2022 compared to cash used of $662,861 a year earlier, representing an increase of cash generated of $1,071,150. Net cash used by the day–to-day operations for the three months ended December 31, 2022 was $174,994 compared to $133,017 generated in 2021, representing a decrease of $308,011.

Cash generated by operating activities for the year ended December 31, 2022 was $602,272, compared to cash generated of $1,046,700 in the same period in 2021, representing a decrease of $444,428. Non-cash working capital used was $462,087 for the year ended December 31, 2022 compared to $1,123.916 used in the same period a year earlier, representing a decrease in cash used of $661,829. Net cash generated by the day–to-day operations for the year ended December 31, 2022 was $1,064,358 compared to $2,170,616 generated in the same period in 2021, representing a decrease of $1,106,258.

Cash used in investing activities

Cash used in investing activities for the three months ended December 31, 2022 was $nil compared to cash used of $83,281 in the same period in 2021, representing an increase of $83,281.

Cash generated in investing activities for the year ended December 31, 2022 was $530 compared to cash used of $2,201,851 in the same period in 2021, representing an increase of $2,202,381. The increase in cash generated is primarily driven by the acquisition of DataSource Mobility, LLC in March 2021 and decrease in the acquisition of furniture and equipment.

Cash generated in financing activities

Cash used by financing activities was $117,988 for the three months ended December 31, 2022 compared to $92,1503 for the same period in 2021, an increase of $25,838.

Cash used by financing activities was $457,588 for the year ended December 31, 2022 compared to $5,505 generated for the same period in 2021, an increase in cash used of $463,093. The increase in cash used is primarily due to an increase in the repayment of notes payable and a decrease in the proceeds from bank indebtedness, offset by a decrease in the repurchase of common shares for cancellation.

The Company's sales growth is now tied to its core services and engineering competencies with the goal of reducing our dependency on original equipment manufacturers ("OEM") and the cyclicality of supply chain and manufacturing disruptions, and addressing the strong enterprise and government trend to move desktop computing to applications accessed in the cloud.

Route1 will emphasize its turn-key engineering services for clients using video and sensor capture technology to deliver real-time, secure actionable intelligence. The Company amplifies its customers' return on investment by driving outcomes through the application of advanced technological solutions and by leveraging its expertise in video intelligence data.

Route1 currently is or intends to be active with its turn-key engineering and professional services to support clients investing in video and sensor capture technologies including ALPR, surveillance video, body worn cameras and drones. Further, the Company intends to expand on its capability to support clients adopting access control technology. Genetec will continue to be an important technology partner for Route1.

The Company will also continue to invest in data security and user authentication technologies including its flagship software application MobiKEY and service delivery platform DEFIMNET, which separates us from our turn-key engineering services competitors as we bring a unique data security skill set as a service to our 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 $1,025,000 (December 31, 2021 - $1,025,000) and a $150,000 credit card facility (December 31, 2021 - $150,000). The operating facility carries an interest rate equal to the lender's prime rate of interest plus 1.5% (December 31, 2021 – prime rate of interest plus 1.5%). As at December 31, 2022, the interest rate was 7.95%. The credit facility is secured by the assets of Route1 Inc. and guaranteed by GMI. As at December 31, 2022, the balance drawn on the revolving demand facility was $1,175,000 (December 31, 2021 - $875,000).

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 December 31, 2022, the interest rate was 8.00%. 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 December 31, 2022, the balance drawn on the revolving demand facility was $1,245,162 (December 31, 2021 - $951,640). PCS is required to maintain a Fixed Charge Coverage Ratio of greater or equal to 1.10:1 and this covenant was met as of December 31, 2022.

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 December 31, 2022 and 2021, 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 $354,155 (December 31, 2021 - $439,770). These transactions are in the normal course of operations and are paid or payable for directorship services. As at December 31, 2022, accounts payable included $139,507 owing to directors (December 31, 2021 - $109,243). The Company also incurred stock-based compensation expense related to stock options granted to directors in the amount of $49,176 (December 31, 2021 - $145,475).
- 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 $289,701 in the year ended December 31, 2022 (December 31, 2021 - $47,333). The Company also incurred stock-based compensation expenses related to stock options granted to Mr. Chodos in the amount of $68,531 (December 31, 2021 -$15,033). Prior to November 1, 2021, Mr. Chodos was

employed by the Company and payments made are included as part of key management. Payments made to Mr. Chodos as an independent contractor are not included as part of key management.

- The Company made payments to or incurred expenses for key management employees (President and Chief Executive Officer, Chief Operating Officer and Chief Financial Officer) in the year ended December 31, 2022 as follows, with 2021 comparatives

	December 31, 2022	December 31, 2021
Short-term employee benefit	**$757,624**	$1,344,976
Stock-based compensation expense	**87,144**	246,412
	$844,768	$1,591,388

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 consolidated statement of financial position 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.

Assets Acquired	Initial Allocation US Dollars	Initial Allocation Canadian Dollars	Adjustments US Dollars	Adjustments Canadian Dollars	Final Allocation US Dollars	Final Allocation 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) sales of its own hardware (i.e. MC3 device, the MobiKEY Fusion3 device and PocketVault P-3X device), and recurring revenue support contracts and subscription software applications (i.e. MobiKEY application software); and (ii) the resale 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, 2022, 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, 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. 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, 2022 and December 31, 2021:

	December 31, 2022		December 31, 2021	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
FINANCIAL ASSETS				
Cash and cash equivalents	**$78,505**	**$78,505**	$62,568	$62,568
Accounts receivable	**$1,861,553**	**$1,861,553**	$4,396,886	$4,396,886
FINANCIAL LIABILITIES				
Bank indebtedness	**$2,420,162**	**$2,420,162**	$1,826,640	$1,826,640
Accounts payable and other liabilities	**$4,591,024**	**$4,591,024**	$4,564,165	$4,564,165
Notes payable	**$367,776**	**$367,776**	$1,161,851	$1,161,851

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 considers 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, considering their financial position, past experience and other factors. During the year ended December 31, 2022, the largest single customer represented approximately $2,261,718 of revenue (December 31, 2021 - $3,352,000).

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, 2022, the Company had cash consisting of deposits with a Schedule 1 bank in Canada, a large money centre bank in the U.S. and two large regional banks in the U.S. of $78,505 (December 31, 2021 - $62,568).

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 consolidated statement of comprehensive income. As at December 31, 2022, the largest single customer's account receivable represented $304,532 (December 31, 2021 – $1,716,281) 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, 2022 and December 31, 2021:

	December 31, 2022	December 31, 2021
Current	**$1,138,949**	$3,452,297
Past due		
1 – 60 days	**433,974**	675,991
Greater than 60 days	**288,630**	268,598
Total accounts receivable, net	**$1,861,553**	$4,396,886

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, 2022:

	2023	2024	2025 and Beyond	Total
Accounts payable and other liabilities	$4,591,024	$-	$-	$4,591,024
Notes payable	367,776	329,994	-	697,770
Lease commitments	537,275	547,137	1,002,607	2,619,610
	$5,496,075	$877,131	$1,002,607	$7,908,404

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, 2022, the Company had non-Canadian dollar net monetary liabilities of approximately US $2,487,892 (December 31, 2021 – liabilities of approximately US $750,000). An increase or decrease in the U.S. to Canadian dollar exchange rate by 5% as at December 31, 2022 would have resulted in a gain or loss in the amount of $168,000 (December 31, 2020 – gain or loss of $47,000).

Interest rate

The Company has cash balances and bank indebtedness which may be exposed to interest rate fluctuations. At December 31, 2022, cash balances were $78,505 (December 31, 2021 - $62,568), bank indebtedness balances were $2,420,162 (December 31, 2021 – $1,826,640).

SHARE REPURCHASE PROGRAM

On September 28, 2020, the Company received approval from the TSX Venture Exchange to make a Normal Course Issuer Bid ("2020 NCIB"). The NCIB permitted the Company to purchase for cancellation up to 5% of the common shares in the public float. The maximum number of shares allowed for repurchase was 1,755,980. Purchases under the 2020 NCIB occurred during the 12-month period that was commenced September 27, 2020 and ended September 26, 2021.

Purchases for cancellation under this particular 2020 NCIB during the period January 1, 2021 to September 26, 2021 were 340,000 common shares at an average price of $0.58 per common share.

On September 28, 2021, the Company received approval from the TSX Venture Exchange to make another NCIB ("2021 NCIB"). The 2021 NCIB permitted the Company to purchase for cancellation up to 5% of the common shares in the public float. The maximum number of shares allowed for repurchase was 1,985,473. Purchases under the 2021 NCIB occurred during the 12-month period that was commenced September 28, 2021 and ended September 27, 2022. There were no purchases for cancellation under the 2021 NCIB during the period from September 28, 2021 to December 31, 2021.

For the period January 1, 2022 to September 27, 2022, the Company purchased no shares for cancellation under the 2021 NCIB.

For the year ended December 31, 2022, the Company purchased no shares for cancellation (December 31, 2021, the Company purchased 355,000 common shares for cancellation at an average price of $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, 2021	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
Share repurchase costs	-	(1,170)
Share issuance costs	-	(5,698)
Shares issued December 14, 2022	2,787,693	300,177
Balance, December 31, 2022	**42,497,156**	**$23,994,270**

- There are 2,925,000 (December 31, 2021 – 3,225,000) common share purchase options ("Options") outstanding to acquire 2,925,000 (December 31, 2021 – 3,225,000) common shares at various prices.

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2022, 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 $1 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. Unfavorable 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.

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 consolidated 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, 2022, the Company had $1,007,402 (December 31, 2021 - $2,684,836) in contract liability.

The following table provides a presentation of the Company's revenue streams for the years ended December 31, 2022 and 2021:

	2022		2021	
	Revenue	**% of Total**	Revenue	% of Total
Subscription revenue and services	**$6,194,381**	**28.1**	$9,701,870	35.6
Devices and appliances	**15,829,914**	**71.8**	17,432,143	63.9
Other	**20,917**	**0.1**	137,247	0.5
	$22,045,212	**100.0**	$27,271,260	100.0

The following table provides a geographic presentation of the Company's revenue streams for the years ended December 31, 2022 and 2021:

	2022		2021	
	Revenue	**% of Total**	Revenue	% of Total
USA	**$21,835,244**	**99.0**	$27,185,692	99.7
Canada	**209,968**	**1.0**	85,568	0.3
	$22,045,212	**100.0**	$27,271,260	100.0

The following table provides a geographic presentation of the Company's right-of-use assets, furniture and equipment and intangible assets for the years ended December 31, 2022 and 2021:

	2022		2021	
	Assets	**% of Total**	Assets	% of Total
USA	**$3,408,941**	**83.0**	$4,223,555	88.8
Canada	**700,244**	**17.0**	532,314	11.2
	$4,109,185	**100.0**	$4,755,869	100.0

SUBSEQUENT EVENT

Not applicable.

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 1801, Toronto, Ontario, Canada M5C 1B5 (telephone (416) 848-8391).

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