ROUTE1 INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED MARCH 31, 2024

As at May 15, 2024

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, 2023. 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 May 15, 2024 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 April 24, 2024, Route1 announced its three months and full year 2024 financial results.

BASIS OF PREPARATION

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

Route1 acquired DataSource Mobility, LLC. and its wholly owned subsidiary, VetSource Mobility, LLC (collectively "DSM") on March 29, 2021. Financial results of DSM are included in PCS.

Route1 acquired Spyrus Solutions, Inc. ("Spyrus") on September 15, 2021. Financial results of Spyrus are included in PCS.

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	**Mar 31 2024**	Dec 31 2023	Sep 30 2023	Jun 30 2023	Mar 31 2023
Adjusted EBITDA	**$134**	$226	$297	($27)	$219
Depreciation and amortization	**248**	286	314	332	346
Stock-based compensation	**4**	5	12	20	37
Operating profit (loss) before other income (expense)	**($118)**	($65)	($30)	($379)	($164)

SELECTED FINANCIAL INFORMATION

The following table outlines selected unaudited financial information of the Company on a consolidated basis for the three months March 31, 2024 and 2023.

(in thousands of Canadian dollars, except per share amounts)	For the Three Months Ended Mar 31, 2024	Mar 31, 2023
STATEMENT OF OPERATIONS		
Revenue		
Subscription revenue and services	**$906**	$1,086
Devices and appliances	**3,123**	3,486
Other	**3**	3
Total revenue	**4,032**	4,575
Cost of revenue	**2,716**	2,897
Gross profit	**1,317**	1,678
Operating expenses		
General administration	**1,084**	1,332
Research and development	**44**	93
Selling and marketing	**303**	380
Total operating expenses before stock-based compensation	**1,431**	1,805
Stock-based compensation	**4**	37
Total operating expenses	**1,436**	1,842
Operating profit (loss) before other income (expense)	**(119)**	(164)
Other income (expense)		
Interest expense	**(114)**	(115)
Foreign exchange loss (gain)	**94**	(19)
Gain on asset disposal	**-**	-
Other income (expense)	**-**	(6)
Total other income (expense)	**(20)**	(139)
Income (loss) for the period before income tax	**(139)**	(303)
Income tax expense (recovery)	**10**	2
Net income (loss) for the period	**(149)**	(305)
Other comprehensive income (loss)		
Foreign currency translation	**(33)**	2
Comprehensive income (loss)	**(182)**	(303)
Basic and diluted income (loss) per share	**$0.00**	-$0.01
CASH FLOW INFORMATION		
Operating activities	**$738**	$42
Investing activities	**(15)**	(215)
Financing activities	**(642)**	175
Net cash inflow (outflow)	**81**	2
Consolidation currency adjustment	**(92)**	0
Cash, beginning of period	**38**	79
Cash, end of period	**$27**	$81
BALANCE SHEET INFORMATION		
Working capital	**($5,206)**	($4,309)
Total assets	**$9,017**	$11,016
Shareholders' equity	**$407**	$1,499

COMPARISON FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND 2023

Revenue

Revenue for the three months ended March 31, 2024 was $4,032,331, representing a decrease of $542,186 from $4,574,517, for the same period in 2023. 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) yearly support or maintenance; and (c) turn-key engineering services.

For the three months ended March 31, 2024, revenue from the subscription revenue and services segment was $906,459, representing a decrease of $179,244, from $1,085,703, for the same period in 2023. The decrease was the result of decreased MobiKEY revenues.

Subscription revenue and services, as a percentage of total revenue, represented 23% for the current period compared to 24% for the prior year period.

Subscription revenue and services by quarter *(in thousands of Canadian dollars)*	**Mar 31 2024**	Dec 31 2023	Sept 30 2023	Jun 30 2023	Mar 31 2023
Application software	**129**	139	280	343	456
Other services	**777**	925	867	816	630
Total	**906**	1,064	1,147	1,159	1,086

Other services revenue by quarter *(in thousands of Canadian dollars)*	**Mar 31 2024**	Dec 31 2023	Sept 30 2023	Jun 30 2023	Mar 31 2023
Technology life-cycle maintenance and support	**347**	323	314	310	285
Professional services	**430**	602	553	506	345
Total	**777**	925	867	816	630

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 March 31, 2024 was $3,123,329, representing a decrease of $362,618 from $3,485,947 for the same period in 2023. The decrease is reflective of the variability and the transactional nature of device revenue and increased PocketVault P-3X sales.

Devices and appliance revenue as a percentage of total revenue represents 77% of total revenue for the current period compared to 76% for the prior year period.

Other revenue

Other revenue for the three months ended March 31, 2024 was $2,543, representing a small decrease of $324 compared to $2,867 for the same period in 2023.

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 March 31, 2024 was $2,715,594, representing a decrease of $181,054 from $2,896,648 for the same period in 2023. The decrease in cost of revenue is a result of an increase in corresponding devices and appliances sales.

Gross profit for the three months ended March 31, 2024 was $1,316,737 or 32.7% of gross revenue, representing a decrease of $361,132 from a gross profit of $1,677,869 or 36.7% of gross revenue for the same period in 2022.

Expenses

Operating expenses consist of general administration, research and development, and selling and marketing. Operating expenses for the three months ended March 31, 2024 were $1,431,399, representing a decrease of $373,665 from $1,805,064, for the same period in 2023.

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 March 31, 2024 were $1,084,137 representing a decrease of $247,828 from $1,331,965 for the same period in 2023. The majority of the change can be summarized as follows:

- Salaries, wages and consulting fees decreased by $63,000
- Amortization expense decreased by $97,000.
- Professional fees decreased by approximately $40,000 due to decreased contractor labor costs.
- Legal fees decreased by approximately $18,000.

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 three months ended March 31, 2024 were $43,820, representing a decrease of $49,299 from $93,119 for the same period in 2023. The majority of the change is related to a decrease in salary costs of approximately $54,000 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 March 31, 2024 were $303,442, representing a decrease of $76,538 from $379,980 for the same period in 2023. The majority of the change can be summarized as follows:

- Decreased salary expenses of approximately $34,000 as a result of a decreased head count.
- Decreased commissions expenses of approximately $44,000 as a result of the period's lower gross profit.

Other Items

Stock-based compensation

Stock-based compensation was $4,404 for the three months ended March 31, 2024, a decrease of $32,148 from $36,552 for the same period in 2023. The contributing factor to the decreased expense was the lower number of options vesting during the period as compared to the same period in the prior year.

Foreign exchange gain (loss)

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 first quarter of 2024, from a high of $1.3612 to a low of $1.3239, and there was moderate volatility of the Canadian dollar against the U.S. dollar during the first quarter of 2023, from a high of $1.3860 to a low of $1.3275.

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 March 31, 2024.

Comprehensive Income (Loss) After Taxes

Comprehensive loss for the three months ended March 31, 2024 was $181,767, representing a decrease of $121,539 from a comprehensive loss of $303,306 for the same period in 2023.

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)	31-Mar 2024	31-Dec 2023	30-Sep 2023	30-Jun 2023	31-Mar 2023
STATEMENT OF OPERATIONS					
Revenue					
Subscription revenue and services	**$906**	$1,065	$1,147	$1,159	$1,086
Devices and appliances	**3,123**	3,222	3,370	3,026	3,486
Other	**3**	10	5	(0)	3
Total revenue	**4,032**	4,296	4,523	4,184	4,575
Cost of revenue	**2,716**	2,798	2,998	3,011	2,897
Gross profit	**1,317**	1,499	1,525	1,174	1,678
Operating expenses					
General administration	**1,084**	1,218	1,227	1,248	1,332
Research and development	**44**	51	36	(34)	93
Selling and marketing	**303**	289	279	320	380
Total operating expenses	**1,431**	1,558	1,542	1,533	1,805
Operating profit (loss) before stock-based compensation and patent litigation	**(115)**	(59)	(18)	(360)	(127)
Stock-based compensation	**4**	5	12	20	37
Operating profit (loss) after stock-based compensation and patent litigation	**(119)**	(64)	(30)	(379)	(164)
Interest expense	**(114)**	(115)	(133)	(142)	(115)
Foreign exchange translation	**94**	(77)	87	(95)	(19)
Asset disposal gain (loss)	**-**	(10)	7	8	-
Other expenses	**-**	6	-	-	(6)
Total other expense	**(20)**	(196)	(39)	(228)	(139)
Total income (loss) for the period before income tax expense	**(139)**	(261)	(69)	(608)	(303)
Income tax (expense) recovery	**10**	22	1	18	2
Total income (loss) for the period after income tax expense	**(149)**	(282)	(70)	(625)	(305)
Other comprehensive income					
Foreign currency translation	**(33)**	25	(41)	(41)	2
Comprehensive income (loss)	**($182)**	($257)	($111)	($667)	($303)
Basic and diluted earnings (loss) per share	**($0.01)**	($0.01)	$0.00	($0.01)	($0.01)
Adjusted EBITDA	**$134**	$226	$297	($27)	$219
CASH FLOW INFORMATION					
Operating activities	**$738**	$79	$327	$240	$42
Investing activities	**(15)**	(122)	15	(146)	(215)
Financing activities	**(642)**	(32)	(344)	(147)	175
Net cash inflow (outflow)	**81**	(75)	(3)	(53)	2
Consolidation currency adjustment	**(92)**	90	(1)	(1)	0
Cash, beginning of period	**38**	23	27	81	79
Cash, end of period	**$27**	$38	$23	$27	$81
BALANCE SHEET INFORMATION					
Working capital	**($5,206)**	($5,018)	($4,851)	($4,920)	($4,309)
Total assets	**$9,017**	$9,541	$10,678	$10,571	$11,016
Shareholders’ equity	**$407**	$584	$838	$936	$1,499

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 March 31, 2024 was $737,729 compared to cash generated of $41,633 in the same period in 2023 representing an increase in cash generated of $699,495. Cash generated by non-cash working capital was $615,746 for the three months ended March 31, 2024 compared to cash used of $63,259 from a year earlier, representing an increase in cash generated by $679,005. Net cash generated by the day–to-day operations for the three months ended March 31, 2024 was $121,982 compared to cash generated of $101,493 in 2023, representing an increase of $20,489.

Cash used in investing activities

Cash used in investing activities for the three months ended March 31, 2024 was $121,679 compared to $nil in the same period in 2023, representing an increase of $121,679.

The increase in cash used is primarily driven by Company's investment in an integrated cloud business software suite, including business accounting and CRM software.

Cash generated in financing activities

Cash used by financing activities was $14,984 for the three months ended March 31, 2024 compared to $215,041 for the same period in 2023, a decrease of $200,057.

The Company's sales growth is 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, and PocketVault P-3X, 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 $1,225,000 (December 31, 2023 - $1,225,000) and a $150,000 credit card facility (December 31, 2023 - $150,000). The operating facility carries an interest rate equal to the lender's prime rate of interest plus 1.5% (December 31, 2023 – prime rate of interest plus 1.5%). As at March 31, 2024, the interest rate was 8.7% (December 31, 2023 – 8.7%). The credit facility is secured by the assets of Route1 Inc. and guaranteed by GMI. As at March 31, 2024, the balance drawn on the revolving demand facility was $1,225,000 (December 31, 2023 - $1,225,000).

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 March 31, 2024, the interest rate was 9.0% (December 31, 2023 – 9.0%). 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 March 31, 2024, the balance drawn on the revolving demand facility was US $1,272,589 (December 31, 2023 - $1,673,495). 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, 2023.

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 March 31, 2024 and 2023, 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 $52,672 in the quarter ending March 31, 2024 (2023 - $53,639). These transactions are in the normal course of operations and are paid or payable for directorship services. As at March 31, 2024, accrued liabilities included $267,026 owing to directors (2023 - $193,045). The Company also incurred stock-based compensation expense related to stock options granted to directors in the amount of $0 (2023 - $6,780).
- The Company made payments (including HST) to Chodos Capital Group Inc. for management services provided by Mr. Peter Chodos, a director and the prior CFO of the Company, in the amount of $50,850 in the quarter ended March 31, 2024 (2023 - $61,444). The Company also incurred stock-based compensation expenses related to stock options granted to Mr. Chodos in the amount of $ 3,363 (2023 -$9,588). 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 three month period ended March 31, 2024 as follows, with 2023 comparatives.

	March 31, 2024	March 31, 2023
Short-term employee benefit	**$178,950**	$197,701
Stock-based compensation expense	**3,362**	15,396
	$182,312	$213,097

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 three months ended March 31 31, 2024, 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 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 March 31, 2024 and December 31, 2023:

	March 31, 2024		December 31, 2023	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
FINANCIAL ASSETS				
Cash and cash equivalents	**$27,008**	**$27,008**	$38,348	$38,348
Accounts receivable	**$1,661,713**	**$1,661,713**	$2,066,028	$2,066,028
FINANCIAL LIABILITIES				
Bank indebtedness	**$2,497,589**	**$2,497,589**	$2,898,495	$2,898,495
Accounts payable and other liabilities	**$3,837,336**	**$3,837,336**	$3,435,025	$3,435,025
Notes payable	**$284,994**	**$284,994**	$359,994	$359,994

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 of Directors 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 of Directors 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 quarter ended March 31, 2024, the largest single customer represented approximately $844,287 of revenue or 20.1% of total revenue (2023 - $1,179,144 or 25.8% of total revenue).

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 March 31, 2024, the Company had cash consisting of deposits with a Schedule 1 bank in Canada, a large money center bank in the U.S. and one large regional bank in the U.S. of $27,008 (December 31, 2023 - $38,348).

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 loss. As at March 31, 2024, the largest single customer's account receivable represented $268,269 (December 31, 2023 – $250,576) of the total accounts receivable and has since been fully collected.

The following table outlines the details of the aging of the Company's receivables as at March 31, 2024 and December 31, 2023:

	31-Mar-24	31-Dec-23
Current	**$1,229,772**	$1,653,599
Past Due 1-60 days	**274,305**	268,650
Greater than 60 days	**157,635**	143,779
Total accounts receivable, net	**$1,661,713**	$2,066,028

The Company incurred bad debt charges on trade accounts receivable in the amount of $0 during the three months ended March 31, 2024 (2023 - $0).

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 March 31, 2024:

	2024	2025	2026 and Beyond	Total
Accounts payable and other liabilities	$3,837,336	$-	$-	$3,837,336
Notes payable	284,994	-	-	284,994
Leaser commitments	374,120	427,825	590,492	1,392,436
	$4,496,450	**$427,825**	**$590,492**	**$5,514,766**

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 March 31, 2024, the Company had non-Canadian dollar net monetary liabilities of approximately US $939,180 (December 31, 2023 – liabilities of approximately US $1,593,849). An increase or decrease in the U.S. to Canadian dollar exchange rate by 5% as at March 31, 2024 would have resulted in a gain or loss in the amount of $63,629 (December 31, 2023 – gain or loss of $105,401).

Interest rate

The Company has cash balances and bank indebtedness which may be exposed to interest rate fluctuations. At March 31, 2024, cash balances were $27,008 (December 31, 2023 - $38,348), bank indebtedness balances were $2,497,589 (December 31, 2023 – $2,898,495).

SHARE CAPITAL AND OPTIONS

The Company's authorized share capital consists of the following:

- Unlimited number of common shares with voting rights and no par value.
- Unlimited number of non-cumulative, non-voting first preferred shares with no fixed dividend rate, issuable in series.
- Unlimited number of non-cumulative, non-voting second preferred shares with no fixed dividend rate, issuable in series.
- Unlimited number of non-cumulative, non-voting Series A first preferred shares with no fixed dividend rate, issuable in series and convertible into common shares at the option of the holder on a one-for-one basis at any time after October 31, 2000.

	Number of Common Shares	Common Shares $
Balance, December 31, 2023	42,497,156	$23,994,270
Balance, March 31, 2024	**42,497,156**	**$23,994,270**

On December 16, 2022, the Company completed the issuance of common shares of the Company to directors and executive management team members in lieu of cash compensation by issuing 2,787,693 common shares at a deemed price of $0.085 and $0.115 per share. The securities issued were subject to a four-month and one day hold period that expired on April 15, 2023.

- There are 2,075,000 (December 31, 2023 – 2,075,000) common share purchase options (“Options”) outstanding to acquire 2,075,000 (December 31, 2023 – 2,075,000) common shares at various prices.

OFF-BALANCE SHEET ARRANGEMENTS

As of March 31, 2024, 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 $0.5 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 March 31, 2024 the Company had $732,026 (March 31, 2023 - $933,352) in contract liability.

The following table provides a presentation of the Company's revenue streams for the three months ended March 31, 2024 and 2023 :

	Three months ended March 31, 2024		Three months ended March 31,2023	
	Revenue	**% of Total**	Revenue	% of Total
Subscription revenue and Services	**$908,636**	**22.5**	$1,085,703	23.7
Devices and appliances	**3,123,329**	**77.4**	3,485,947	76.2
Other	**366**	**0.1**	2,867	0.1
	$4,032,331	**100.0**	$4,574,517	100.0

The following table provides a geographic presentation of the Company's revenue streams for the quarter ended March 31, 2024 and 2023:

	Three months ended March 31, 2024		Three months ended March 31,2023	
	Revenue	**% of Total**	Revenue	% of Total
USA	**$3,883,473**	**95.8**	$4,097,163	89.7
Canada & International	**148,858**	**4.2**	477,354	10.3
	$4,032,331	**100.0**	$4,574,517	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 quarter ended March 31, 2024 and 2023:

	Three months ended March 31, 2024		Three months ended March 31,2023	
	Assets	**% of Total**	Assets	% of Total
USA	**$2,105,725**	**69.8**	$3,593,654	90.4
Canada	**911,073**	**30.2**	376,152	9.6
	$3,016,798	**100.0**	$3,975,282	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.