
ROUTE1 INC.**MANAGEMENT'S DISCUSSION AND ANALYSIS****FOR THE THREE MONTH AND YEAR ENDED DECEMBER 31, 2015****As at April 5, 2016**

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 audited consolidated financial statements and related notes as at and for the year ended December 31, 2015. The Company’s 2015 audited consolidated financial statements and the accompanying notes form part of the annual audited consolidated financial statements to be prepared in accordance with the International Financial Reporting Standards (“**IFRS**”).

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 5, 2016, unless otherwise noted.

FORWARD-LOOKING STATEMENTS

The following discussion may contain forward-looking statements about matters that involve risk 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 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 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

© Route1 Inc., 2016. All rights reserved. Route1, Route 1, the Route1 and shield design Logo, MobiDESK, Mobi, Route1 MobiVDI, Route1 MobiDESK, Route1 MobiBOOK, Route1 MobiKEY, Route1 MobiNET, IBAD, MobiVDI, MobiNET, DEFIMNET, Powered by MobiNET, Route1 Mobi, Route1 MobiLINK, TruOFFICE, MobiLINK, EnterpriseLIVE, PurLINK, TruCOMMAND, MobiMICRO and MobiKEY are either registered trademarks or trademarks of Route1 Inc. in the United States and/or Canada. All other trademarks and trade names are the property of their respective owners.

The DEFIMNET and MobiNET platforms, the MobiKEY, MobiKEY Classic, MobiKEY Classic 2, MobiKEY Classic 3, MobiKEY Fusion, MobiKEY Fusion2, and MobiKEY Fusion3 devices, and MobiLINK are protected by U.S. Patents 7,814,216, 7,739,726, 9,059,962 and 9,059,997, Canadian Patent 2,578,053, and other patents pending. The MobiKEY Classic 2 and MobiKEY Classic 3 devices are also protected by U.S. Patents 6,748,541 and 6,763,399, and European Patent 1001329 of Aladdin Knowledge Systems Ltd. and used under license. Other patents are registered or pending in various countries around the world.

OVERVIEW

Route1 delivers industry-leading security and identity management solutions to corporations and government agencies that need universal, secure access to all digital resources and sensitive data. These customers depend on The Power of MobiNET - Route1's communications and service delivery platform. MobiNET provides identity assurance and individualized access to networks and data. Route1's patented solutions simplify the process of meeting increasingly stringent regulatory requirements for privacy and security.

HIGHLIGHTS

- On February 2, 2015, the Company provided an update on certain business development initiatives:
 - U.S. Department of the Interior (DOI) - Working with a lead component of the DOI, Route1 has agreed to build and provide for use by DOI a DEFIMNET platform. Route1 is in the process of building the DEFIMNET and expects it to be installed and accredited for use in the second quarter of 2015.
 - U.S. Department of Homeland Security (DHS) - Over the past few months Route1 has been working with a component of DHS to deliver secure remote scanning capabilities as a feature addition to Route1's flagship technology, MobiKEY.
 - McMaster University - As part of a growing collaboration between Route1 and McMaster University, Route1's technology will be the basis of mini-hubs in the PEDAL (Public Economics Data Analysis Laboratory) facility. The university is a leader in applying big data to address local and global socio-economic challenges. Their vision is to provide local and visiting researchers and members of academia a place to securely access, analyze and interpret data.
 - U.S. Department of Defense (DOD) - As previously announced in the Company's third quarter 2014 financial results report, Route1 has continued to leverage U.S. government reciprocity rules and the installed accredited infrastructure to grow the number of proof of concepts and pilots within the DOD. During the third quarter of 2014, Route1 received and fulfilled device orders from a

component of the DOD for approximately 720 MobiKEY Fusion devices.

- On April 7, 2015, the Company announced that a total of 15,750,000 stock options at an exercise price of \$0.055 per share were granted to certain members of the Company's executive team and board of directors. The options will expire on April 6, 2020 and will vest thirty percent on the first anniversary, thirty percent on the second anniversary and the remainder on the third anniversary.
- On May 5, 2015, the Company announced its first quarter financial results for the three month period ended March 31, 2015. Along with the first quarter financial results the company provided an update on the Normal Course Issuer Bid ("NCIB") and business development update. The NCIB announced on September 5, 2014 has had a total of 9,976,000 common shares repurchased for cancellation as of March 31, 2015. The business development update included the announcement that the Company's two largest accounts (both with annual spring renewal dates) had now been renewed, and that Route1 has built, tested and shipped a DEFIMNET platform to the U.S. Fish and Wildlife Service (FWS).
- On July 13, 2015, the Company provided an operations update, the operations update included:
 - Paid active subscribers - As of June 30, 2015, Route1 had 15,410 paying, active subscribers. An increase of 398 subscribers from the quarter ended March 31, 2015 and an increase of 618 users from December 31, 2014.
 - Business development update – The Next Generation Enterprise Network (NGEN) contracting issue that delayed the purchase of the software component of Route1's MobiKEY technology by certain prospective users within the U.S. Department of the Navy was fully addressed in late June 2015 and Route1 now expects to see additional user-growth from this account. Further, FWS has installed a DEFIMNET platform at U.S. Department of Interior and expects that the platform will be accredited for use by FWS and the broader DOI during the second half of 2015.
 - Patent update - The Company announced the United States Patent and Trademark Office (USPTO) recently issued Route1 two additional patents. The first a Secure Access to Application Behind a Firewall (U.S. Patent 9,059,962 B2) and the second, Distribution of Secure or Cryptographic Material (U.S. Patent 9,059,997 B2).
 - Share repurchase program - The NCIB announced on September 5, 2014 has had a total of 15,644,500 common shares purchased for cancellation, as of June 30, 2015
 - Stock option grant - The Company also announced 3,000,000 stock options at an exercise price of \$0.05 per share were granted to a member of the Company's executive team.
- On August 5, 2015, the Company announced the immediate availability of the MobiKEY technology for Android. Subscribers will now be able to use MobiKEY on a Samsung Galaxy S4, Samsung Galaxy Note 3, Samsung Galaxy Note Pro 12.2 and Samsung Galaxy Note 10.1.
- On August 18, 2015, the Company announced its second quarter financial results for the three and six months ended June 30, 2015. Along with the second quarter financial results the Company provided an update on the NCIB. The NCIB announced on September 5, 2014 has had a total of 15,644,500 common shares repurchased for cancellation as of June 30, 2015.
- On September 14, 2015, the Company announced its intention to make another NCIB. Along with the NCIB the Company also announced that it will hold its Annual General and Special Meeting of its shareholders on November 25, 2015. The meeting will be held at 9am eastern at The Omni King Edward Hotel, 37 King Street East, Toronto, Ontario.

- On September 22, 2015, the Company announced that the TSX Venture Exchange (the Exchange) has accepted a notice filed by Route1 of its intention to make a Normal Course Issuer Bid (the Bid). The notice provides that Route1 may, during the 12 month period commencing September 27, 2015 and ending September 26, 2016, purchase on the Exchange up to 18,262,570 common shares in total, being approximately 5% of the public float.
- On October 15, 2015, the Company provided an operations update, the operations update included:
 - Paid active subscribers - As of September 30, 2015, Route1 had 15,989 paying, active subscribers. An increase of 579 subscribers from the quarter ended June 30, 2015 and an increase of 1,197 users from December 31, 2014.
 - Business development update – Route1 has continued to see strong interest in its MobiKEY technology from civilian, intelligence and defense components within the U.S. government. The reported June 2015 data breaches at the Office of Personnel Management has had a renewed interest in the MobiKEY technology from certain components of the U.S. government including the Office of the CIO with the Department of Commerce and a number of components with the Department of Agriculture. Route1 has appointed Michael Seiler as Program Manager, Department of the Navy and the Marine Corps, effective October 19, 2015. Previously Michael was the Solution Development Leader, Navy Marine Corp Intranet (NMCI) for HP. Lastly, the previously reported accreditation process for the U.S. Fish and Wildlife Service (FWS) DEFIMNET platform that was installed at a Department of Interior (DOI) secure hosting facility earlier this calendar year is now expected to be concluded during the fourth quarter of 2015 or the first quarter of 2016. Once accredited, Route1 expects that the MobiKEY technology will be made available for use by FWS and the broader DOI.
 - An announcement of certain product development updates including the release of MobiKEY 5.0 before October 31, 2015.
 - Share repurchase program – The newly announced NCIB on September 22, 2015 has had a total of 169,000 common shares purchased for cancellation, as of September 30, 2015
 - Investor relations - The Company also announced it has engaged Proconsul Capital Inc to provide investor relations services. The consulting contract renews automatically on a month to month basis and may be terminated by either party at any point upon thirty days written notice.
- On November 12, 2015, the Company raised the industry standard with the announcement of the commercial release of MobiKEY 5.0, the latest version of its flagship technology. MobiKEY 5.0 delivers significant new functionality; policy options include Bootable MobiKEY and Secure Storage, features include Linux support, Mac OSX 10.11 El Capitan support, Windows 10 support, remote audio support and Internet Protocol version 6 (IPv6) support.
- On November 19, 2015, the Company provided comments: Continued Data Breaches Demonstrate Need to Dispel Dangerous Myths. “The problem of data breaches, especially through mobile devices, is pervasive and challenging but it can be significantly reduced by eliminating some myths that have been used as excuses for inaction,” Mr. Busseri said. “These myths are the most dangerous and most strongly entrenched in the boardroom, among C-Suite managers, and at the top of government departments and agencies. Few senior executives have IT network security backgrounds but they must recognize their ultimate responsibility to protect one of the most valuable assets of an organization – data.” The Company laid out 5 myths and dispelled them.
- On November 25, 2015, the Company announced its third quarter financial results for the three and nine month ended September 30, 2015, Route1 reported its sixth consecutive quarter of subscriber growth. Along with the third quarter financial results the Company announced the release of MobiKEY 5.0, the

latest version of its mobile access solution.

- On November 25, 2015, the Company announced that it received approval for all proposals submitted to shareholders at the Company's annual and special meeting of shareholders, which was held on November 25, 2015 in Toronto, Ontario. The matters voted on and approved include: the election of Directors Mark S. Boensel, Peter F. Chodos, Tony P. Busseri, Louis De Jong, Michael F. Doolan, David Fraser and Michael D. Harris; Collins Barrow LLP, Chartered Accountants were appointed as the Company's auditors in respect of the year ending December 31, 2015; the Company's stock option plan was voted on and reapproved and the resolution authorizing the consolidation of common shares in the capital of Route1 Inc., on the basis of up to 20 pre-consolidation common shares for every 1 post-consolidation common share, at the discretion of the Board of Directors of Route1 Inc. was also approved.
- On January 14, 2016, the Company announced that the U.S. Department of the Interior (DOI), after completing its accreditation process, issued an authority to operate (ATO) for the MobiKEY technology and the DEFIMNET platform that the U.S. Fish and Wildlife Service (FWS) installed at a secure DOI hosting facility in March 2015.
- On January 28, 2016, the Company provided an operations update, the operations update included:
 - Paid active subscribers - As of December 31, 2015, Route1 had 16,286 paying, active subscribers. An increase of 297 subscribers from the quarter ended September 30, 2015 and an increase of 1,494 users from December 31, 2014.
 - Business development update – Route1 has continued to see strong interest in its MobiKEY technology from civilian, intelligence and defense components within the U.S. government. As announced on January 14, 2016 the U.S. Department of the Interior, after completing its accreditation process, issued an authority to operate for the MobiKEY technology and the DEFIMNET platform. The Company has been working with the U.S. Fish and Wildlife Service (FWS) to harden and deploy updates to the DEFIMNET infrastructure to bring it fully online, and is in the process of swapping out MobiKEY Fusion devices for the latest generation MobiKEY Fusion3 devices. The reported June 2015 data breaches at the Office of Personnel Management has had a renewed interest in the MobiKEY technology from certain components of the U.S. government including the Office of the CIO with the Department of Commerce; a number of components with the Department of Agriculture (USDA) have engaged Route1 in the potential use and procurement of MobiKEY; and, most recently, Route1 advanced an active pilot with the Transportation Security Administration (TSA), a component of the U.S. Department of Homeland Security. Route1 continues to benefit from growing awareness of MobiKEY within the U.S. Department of Defense (DOD). During the 2015 calendar year, Route1 worked with a number of groups within the U.S. Air Force, the U.S. Marine Corps, and a component of the U. S. Army that is leading a Certificate of Networkiness accreditation process to use the MobiKEY technology on the U.S. Army network.
 - An announcement of upcoming business development events including GSA, FAA, HUD, Department of Energy Technology and Vendor Expo, Marine West 2016 and AFCEA West 2016.
 - An announcement of certain product development updates including releases during the fourth quarter of 2015 and planned technology releases during the first quarter of 2016.
 - Share repurchase program – The newly announced NCIB on September 22, 2015 has had a total of 2,592,000 common shares purchased for cancellation, as of December 31, 2015

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, 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 stock-based compensation for the quarters presented.

<i>In thousands of Canadian dollars</i>	Dec 31 2015	Sept 30 2015	June 30 2015	Mar 31 2015	Dec 31 2014
Adjusted EBITDA	\$279	\$242	\$227	\$404	\$107
Depreciation and amortization	127	118	99	90	87
Operating profit before stock-based compensation	\$152	\$124	\$128	\$314	\$20

SELECTED FINANCIAL INFORMATION

The following table outlines selected unaudited financial information of the Company on a consolidated basis for the three months and years ended December 31, 2015 and 2014.

<i>(in thousands of Canadian dollars, except per share amounts)</i>	For the Three Months Ended		For The Year Ended	
	Dec 31 2015	Dec 31 2014	Dec 31 2015	Dec 31 2014
STATEMENT OF OPERATIONS				
Revenue				
Devices and appliances	\$9	\$12	\$156	\$536
Services	1,616	1,415	6,218	5,470
Other	-	58	23	71
Total revenue	1,625	1,485	6,397	6,077
Cost of revenue	284	242	1,164	1,145
Gross profit	1,341	1,243	5,233	4,932
Operating expenses				
General administration	792	776	2,868	2,756
Research and development	176	285	976	914
Selling and marketing	221	162	671	727
Total operating expenses	1,189	1,223	4,515	4,397
Operating profit before stock-based compensation	152	20	718	535
Stock-based compensation	(128)	(32)	(410)	(125)
Operating profit (loss) after stock-based compensation	24	(12)	308	410
Foreign exchange gain (loss)	39	33	(155)	60
Total comprehensive gain for the period before income tax	\$63	\$21	153	\$470
Income tax recovery	314	-	575	167
Total comprehensive gain for the period after income tax	\$377	\$21	\$728	637
Earnings per share	\$0.00	\$0.00	\$0.00	\$0.00
CASH FLOW INFORMATION				
Operating activities	\$(1,011)	\$(734)	\$876	\$1,313
Investing activities	(52)	(71)	(672)	(131)
Financing activities	(119)	(263)	(486)	(349)
Net cash (outflow) inflow	(1,182)	(1,068)	(282)	833
Cash, beginning of period	2,433	2,601	1,533	700
Cash, end of period	\$1,251	\$1,533	\$1,251	\$1,533
Working capital	\$164	\$319	\$164	\$319
Total assets	\$3,656	\$2,976	\$3,656	\$2,976
Shareholders' equity	\$1,597	\$945	\$1,597	\$945

COMPARISON FOR THE THREE MONTHS ENDED DECEMBER 31, 2015 AND 2014

Revenue

Revenue for the three months ended December 31, 2015 was \$1,625,288, representing an increase of \$139,852, from \$1,485,436, for the same period in 2014. The comparison, discussed by segment, is as follows:

Devices and Appliances

Revenue from our MobiKEY devices (MobiKEY Classic device, MobiKEY Classic 2 device, MobiKEY Classic 3 device, the MobiKEY Fusion device, the MobiKEY Fusion2 device and the MobiKEY Fusion3 device) and appliances (the DEFIMNET platform and the MobiNET Aggregation Gateway) for the three months ended December 31, 2015 was \$8,767, representing a decrease of \$3,476, from \$12,243 for the same period in 2014.

Devices and appliances revenue as a percentage of total revenue represents 1% of total revenue for the current period as compared to 1% for the prior year period.

Services

Revenue from our services segment (MobiKEY application software, the DEFIMNET platform and other appliance licensing or yearly maintenance) for the three months ended December 31, 2015, was \$1,616,444, representing an increase of \$200,931 from \$1,415,513, for the same period in 2014. The increase is largely a result of an increase in the number of paid, active MobiKEY application software users with the U.S. government and improved exchange rates.

Services revenue, as a percentage of total revenue, represented 99% for the current period as compared to 95% for the prior year period.

Services revenue by quarters <i>(in thousands of Canadian dollars)</i>	Dec 31 2015	Sept 30 2015	June 30 2015	Mar 31 2015	Dec 31 2014
MobiKEY application software revenue	\$1,467	\$1,424	\$1,346	\$1,252	\$1,221
Other services revenue	149	148	223	209	194
Total	\$1,616	\$1,572	\$1,569	\$1,461	\$1,415

The table below provides information on the number of and revenue amount for the MobiKEY application software subscribers during each of the last five quarters.

MobiKEY Subscribers <i>(in thousands of Canadian dollars for Revenue)</i>	Dec 31 2015	Sept 30 2015	June 30 2015	Mar 31 2015	Dec 31 2014
Closing Number	16,286	15,989	15,410	15,012	14,792
Average Number ⁽¹⁾	16,246	15,725	15,278	14,983	14,631
Revenue per Subscriber ⁽²⁾	\$361	\$362	\$353	\$334	\$334
Revenue	\$1,467	\$1,424	\$1,346	\$1,252	\$1,221

(1) Calculated by taking the average of the closing MobiKEY subscriber number at the end of the month for each of the three months during the quarter.

(2) Calculated by dividing the MobiKEY revenue during the quarter by the average number of users and multiplying by four.

Gross Profit

Gross profit is equivalent to revenue minus the cost of revenue. The cost of revenue primarily includes the cost of our devices and appliances sold to clients, as well as the cost of shipping and packaging, plus the cost to operate and maintain the Route1 MobiNET platform.

The cost of revenue for the three months ended December 31, 2015 was \$284,180, representing an increase of \$41,863 from \$242,317 for the same period in 2014. A portion of the increase in cost of revenue for the three months ended December 31, 2015 is the increase in cost to operate and maintain the Route1 MobiNET platform.

Gross profit for the three months ended December 31, 2015 was \$1,341,108 or 83% of gross revenue, representing an increase of \$97,989 from a gross profit of \$1,243,119 or 84% of gross revenue for the same period in 2014.

Expenses

Operating expenses consist of general administration, research and development, and selling and marketing. Operating expenses for the three months ended December 31, 2015 were \$1,189,160, representing a decrease of \$34,131, from \$1,223,291 for the same period in 2014.

General administration

General administration expenses consist primarily of salaries and benefits for administrative staff, professional fees, rent, telephone, computer related expenses, directors' fees, insurance, bad debts, public company regulatory costs, depreciation and amortization and other indirect costs.

General administration expenses for the three months ended December 31, 2015 were \$792,033, representing an increase of \$15,780, from \$776,253 for the same period in 2014. The majority of the change can be summarized as follows:

- Depreciation expense increased by approximately \$40,000 for the three months ended December 31, 2015 as compared to the same period in 2014. The increase was the result of computer equipment purchased in the prior period which was only put into use in 2015.
- Professional fees decreased by approximately \$63,000 for the three months ended December 31, 2015 as compared to the same period in 2014. The decrease was the result of lower legal costs.

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, 2015 were \$176,150, representing a decrease of \$108,972 from \$285,122, for the same period in 2014 and the majority of the change can be summarized as follows:

- The Scientific Research and Experimental Development credit increased by approximately \$150,000 for the three months ended December 31, 2015; the increase is the result of a change in estimate of the available credit.
- Salaries and benefits expenses increased by approximately \$41,000 for the three months ended December 31, 2015 as compared to the same period in 2014; the increase is primarily the result of select staff members being transferred from the Canadian office to the U.S. office and subsequently being paid in U.S. dollars.

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, 2015 were \$220,977, representing an increase of \$59,061 from \$161,916 for the same period in 2014. The majority of the change can be summarized as follows:

- Salaries and benefits expenses increased by approximately \$33,000 for the three months ended December 31, 2015 as compared to the same period in 2014; the Company hired an additional sales person.
- Corporate development and marketing costs, including travel expenses, brand building and tradeshow fees, increased by approximately \$34,000 as compared to the same period in 2014.

Other Items

Stock-based compensation

Stock-based compensation was \$128,414 for the three months ended December 31, 2015, an increase of \$96,515 from \$31,899 for the same period in 2014. The contributing factor to the higher expense was the number of options vesting during the three months ended December 31, 2015 as compared to the same period in 2014.

Foreign exchange gain (loss)

Foreign exchange gains or losses are primarily attributable to fluctuations in the Canadian/U.S. currency exchange rates. The gain attributable to foreign exchange translation on balance sheet items such as Accounts Receivable, Accounts Payable and bank accounts denominated in foreign currencies was \$39,468 for the three months ended December 31, 2015, an increase of \$6,042 from a gain of \$33,426 for the same period in 2014. There was volatility and fluctuation of the Canadian dollar against the U.S. dollar during the fourth quarter of 2015.

As required by IFRS, foreign denominated monetary balances are revalued at the foreign exchange rate at each period end, and the translation gains or losses are recorded in the current period. A portion of these gains/losses are unrealized, as at December 31, 2015, the Company had non-Canadian dollar net monetary assets of approximately US\$694,587. Gains or losses in the U.S. to Canadian dollar exchange rate by 5% as at December 31, 2015 would have resulted in a gain in the amount of \$48,065 or a loss of \$48,065. Any gain or loss would have been included in the foreign exchange translation.

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.

Income tax recovery - Income tax expense and deferred tax recovery

For the three months ended December 31, 2015 the Company recognized an income tax expense of \$444,592, an increase of \$413,061 from \$31,531 for the same period in 2014.

For the three months ended December 31, 2015, the Company also recognized a deferred tax asset of \$758,292 (December 31, 2014 - \$31,531). The recognized deferred tax asset relates to unused tax losses that are considered to be offset against the Company's taxable profits expected to arise in future fiscal years. Management has based their recognition of the deferred tax asset on the operating budget previously approved, the Company's ability to meet this budget and its operating forecast moving forward.

Comprehensive Gain After Taxes

Comprehensive gain for the three months ended December 31, 2015 was \$376,702 or \$0.00 per share, representing an increase of \$355,347 from a comprehensive gain of \$21,355 or \$0.00 per share for the same period in 2014.

COMPARISON FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014

Revenue

Revenue for the year ended December 31, 2015 was \$6,397,369, representing an increase of \$319,779 from \$6,077,590 for the same period in 2014. The comparison, discussed by segment, is as follows:

Devices and appliances

Revenue from our MobiKEY devices (MobiKEY Classic device, MobiKEY Classic 2 device, MobiKEY Classic 3 device, MobiKEY Fusion device, MobiKEY Fusion2 device and the MobiKEY Fusion3 device) and appliances (the DEFIMNET platform and the MobiNET Aggregation Gateway) segment for the year ended December 31, 2015 was \$156,048 representing a decrease of \$380,112 from \$536,160 for the same period in 2014. Devices and appliances revenue as a percentage of total revenue represents 2% of total revenue for the current period as compared to 9% for the same period in the prior year. The largest contributing factor to the decrease in devices and appliances revenue for the year ended December 31, 2015, was a sale to a component of the U.S. Department of Homeland Security for 4,000 MobiKEY Fusion devices during the first quarter of 2014.

Services

Revenue from our services segment (MobiKEY application software, the DEFIMNET platform and other appliance licensing or yearly maintenance) for the year ended December 31, 2015, was \$6,218,284, representing an increase of \$748,143 from \$5,470,141 for the same period in 2014. Services revenue, as a percentage of total revenue, represents 97% for the current period as compared to 90% for the same period in the prior year. A portion of the increase in service revenue is the result of additional MobiKEY application software users with the U.S. government and improved exchange rates, from fiscal year 2014, when customers were invoiced during the second quarter of 2015.

Deferred revenue as at December 31, 2015 increased by \$65,155 to \$1,700,420 from \$1,635,265 as at December 31, 2015.

Other revenue

Other revenue for the year ended December 31, 2015 was \$23,037, representing a decrease of \$48,252 from \$71,289 for the same period in 2014. Other revenue for the year ended December 31, 2015 include working with a component of the U.S. Department of Homeland Security to deliver secure remote scanning

capabilities as a policy addition to Route1's flagship technology, MobiKEY. For the year ended December 31, 2014 other revenue included a government grant received by the Company for work related to a development project. Government grants are recorded when all conditions have been met, the grant has been earned and the grant is non-refundable.

Gross profit

Gross profit is revenue minus the cost of revenue. The cost of revenue primarily includes the cost of devices and appliances sold to clients, as well as the cost of shipping and packaging, plus the cost to operate and maintain the Route1 MobiNET platform.

The cost of revenue for the year ended December 31, 2015 was \$1,164,522, representing an increase of \$19,409 from \$1,145,113 for the same period in 2014.

Gross profit for the year ended December 31, 2015 was \$5,232,847 or 82% of gross revenue, representing an increase of \$300,370 from a gross profit of \$4,932,477 or 81% of gross revenue for the same period in 2014.

The increase in cost of revenue and increase in gross profit for the year ended December 31, 2015 is primarily due to increasing sales, and an increase in services revenue as compared to device and appliance revenue.

For the year ended December 31, 2015, the Company incurred a devices and appliances write-down of \$22,255 which was included in the cost of revenue. For the year ended December 31, 2014, the Company incurred a devices and appliances write-down of \$56,983 which was included in the cost of revenue. Additional information regarding the write-down see, **"DEVICES AND APPLIANCES HELD FOR SALE"** of this MD&A for additional information.

Expenses

Operating expenses consist of general administration, research and development, and selling and marketing. Operating expenses for the year ended December 31, 2015 were \$4,515,121, representing an increase of \$117,519, from \$4,397,602 for the same period in 2014.

General administration

General administration expenses consist primarily of salaries and benefits for administration staff, professional fees, rent, telephone, computer related expenses, directors' fees, insurance, bad debts, public company regulatory costs, depreciation and amortization and other indirect costs.

General administration expenses for the year ended December 31, 2015 were \$2,867,716, representing an increase of \$111,774, from \$2,755,942 for the same period in 2014 and the majority of the change can be summarized as follows:

- Rent expense increased by approximately \$116,000 for the year ended December 31, 2015 as compared to the same period in 2014. In the prior year there was a one-time accounting revision to the additional rent obligation associated with the 8 King Street East office lease; reducing rent expense by approximately \$46,000 in 2014.
- Depreciation expense increased by approximately \$68,000 for the year ended December 31, 2015 as compared to the same period in 2014. The increase was the result of computer equipment being

purchased at the beginning of the year which was only recently put into use.

- Professional fees decreased by approximately \$63,000 for the three months ended December 31, 2015 as compared to the same period in 2014. The decrease was the result of lower legal costs.

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, 2015 were \$976,247, representing an increase of \$61,813, from \$914,434 for the same period in 2014 and the change can be summarized as follows:

- Salaries and benefits expenses increased by approximately \$190,000 for the year ended December 31, 2015 as compared to the same period in 2014; the increase is the result of select staff members being transferred from the Canadian office to the U.S. office and subsequently being paid in U.S. dollars. At the same time, the Company also averaged an additional developer in 2015 compared to the same period in 2014.
- The Scientific Research and Experimental Development credit increased by approximately \$131,000 in 2015 as compared to 2014, the increase is the result of a change in estimate of the available credit.

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, 2015 were \$671,158, representing a decrease of \$56,068, from \$727,226 for the same period in 2014 and the majority of the change can be summarized as follows:

- Marketing costs, including brand building and government communication fees, decreased by approximately \$85,000 as compared to the same period in 2014.
- Salaries and benefits expenses increased by approximately \$33,000 for the three months ended December 31, 2015 as compared to the same period in 2014; as the Company hired an additional sales person.

Other items

Stock-based compensation

Stock-based compensation was \$409,645 for the year ended December 31, 2015, an increase of \$285,107 from \$124,538 for the same period in 2014. The contributing factor to the higher expense was the number of options vesting during the year ended December 31, 2015 as compared to the same period in 2014.

Foreign exchange translation

Foreign exchange gains or losses are primarily attributable to fluctuations in the Canadian/U.S. currency exchange rates. The loss attributable to foreign exchange translation on balance sheet items such as Accounts Receivable, Accounts Payable and bank accounts denominated in foreign currencies was \$155,451 for the year ended December 31, 2015, a decrease of \$215,521 from a gain of \$60,070 for the same period in 2014. There was volatility and fluctuation of the Canadian dollar against the U.S. dollar

during the year ended December 31, 2015.

As required by IFRS, foreign denominated monetary balances are revalued at the foreign exchange rate at each period end, and the translation gains or losses are recorded in the current period. A portion of these gains/losses are unrealized, as at December 31, 2015, the Company had non-Canadian dollar net monetary assets of approximately US\$694,587. Gains or losses in the U.S. to Canadian dollar exchange rate by 5% as at December 31, 2015 would have resulted in a gain in the amount of \$48,065 or a loss of \$48,065. Any gain or loss would have been included in the foreign exchange translation.

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.

Income tax expense and deferred tax recovery

For the year ended December 31, 2015 the Company recognized an income tax expense of \$628,409, an increase of \$343,269 from \$285,140 for the same period in 2014.

For the year ended December 31, 2015, the Company also recognized a deferred tax asset of \$1,203,878 (December 31, 2014 - \$451,738). The recognized deferred tax asset relates to unused tax losses that are considered to be offset against the Company's taxable profits expected to arise in the current and coming year. Management has based their recognition of the deferred tax asset on the budget previously approved, the Company's ability to meet this budget and its forecast moving forward.

Comprehensive Income After Taxes

Comprehensive income for the year ended December 31, 2015 was \$728,099 or \$0.00 per share, an increase of \$91,094 from a comprehensive income of \$637,005 or \$0.00 per share for the same period in 2014.

SUMMARY OF QUARTERLY RESULTS

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

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

	Dec 31 2015	Sept 30 2015	June 30 2015	Mar 31 2015	Dec 31 2014	Sept 30 2014	June 30 2014	Mar 31 2014
STATEMENT OF OPERATIONS								
Revenue								
Devices and appliances	\$9	\$42	\$50	\$55	\$12	\$33	\$30	\$461
Services	1,616	1,572	1,569	1,461	1,415	1,399	1,374	1,281
Other	-	-	1	22	58	-	-	14
Total revenue	1,625	1,614	1,620	1,538	1,485	1,432	1,404	1,756
Cost of revenue	284	320	294	266	242	322	230	350
Gross margin	1,341	1,294	1,326	1,272	1,243	1,110	1,174	1,406
Operating expenses								
General administration	792	693	705	677	776	636	698	646
Research and development	176	334	340	126	285	281	254	94
Selling and marketing	221	143	153	155	162	172	196	197
Total operating expenses	1,189	1,170	1,198	958	1,223	1,089	1,148	937
Operating profit (loss) before stock-based compensation	152	124	128	314	20	21	26	469
Stock-based compensation	(128)	(133)	(118)	(30)	(32)	(30)	(26)	(36)
Operating (loss) profit after stock-based compensation	24	(9)	10	284	(12)	(9)	(0)	433
Foreign exchange translation	39	111	(354)	48	33	131	(112)	6
Comprehensive income (loss) for the period before income tax expense	\$63	\$102	\$(344)	\$332	\$21	\$122	\$(112)	\$439
Income tax expense	444	63	-	121	32	64	189	-
Deferred tax recovery	(758)	(63)	-	(383)	(32)	(152)	(267)	-
Comprehensive income (loss) for the period after income tax expense	\$377	\$102	\$(344)	\$594	\$21	\$210	\$(34)	\$439
Earnings (loss) per share	\$0.00	\$0.00	\$(0.00)	\$0.00	\$0.00	\$0.00	\$(0.00)	\$0.00
Adjusted EBITDA	279	242	227	404	107	110	120	564
CASH FLOW INFORMATION								
Operating activities	\$(1,011)	\$(874)	\$2,621	\$140	\$(734)	\$(879)	\$3,277	\$(351)
Investing activities	(52)	(96)	(158)	(367)	(71)	(29)	(14)	(17)
Financing activities	(119)	(65)	(272)	(29)	(263)	(86)	-	-
Net cash (outflow) inflow	(1,182)	(1,035)	2,191	(256)	(1,068)	(994)	3,263	(368)
Cash, beginning of period	2,433	3,468	1,277	1,533	2,601	3,595	332	700
Cash, end of period	\$1,251	\$2,433	\$3,468	\$1,277	\$1,533	\$2,601	\$3,595	\$332

BALANCE SHEET INFORMATION

Working capital (deficiency)	\$164	\$6	\$(185)	\$377	\$319	\$479	\$375	\$429
Total assets	\$3,656	\$4,466	\$5,494	\$4,631	\$2,976	\$4,095	\$5,085	\$3,778
Shareholders' equity	\$1,597	\$1,210	\$1,041	\$1,539	\$945	\$1,155	\$1,000	\$1,008

The Company's revenue and financial results are difficult to forecast and have historically fluctuated on a quarterly basis, and it is expected that quarterly revenue and financial results will continue to fluctuate in the future as the Company continues growing. Fluctuations in results are related to the growth of the Company's revenue, the timing of revenue being recognized and sales to customers, who may place large single orders in any one quarter, and the timing of staffing and infrastructure additions to support growth.

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 the level of accounts receivable, inventory, prepaid expenses, accounts payable and deferred revenue; 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

Cash generated by operating activities for the year ended December 31, 2015 was \$876,165 compared to cash generated of \$1,313,313 in the same period in 2014, representing a decrease of \$437,148. Non-cash working capital activities used \$142,538 for the year ended December 31, 2015 compared to \$295,026 generated in the same period a year earlier. Therefore net cash generated in the day-to-day operations for the year ended December 31, 2015 was \$1,018,703 compared to \$1,018,287 generated in the same period in 2014, representing an increase of \$416.

The decrease in cash generated during the year ended December 31, 2015 compared to the same period in the prior year was mainly due to the recognition of a deferred tax asset, stock based compensation expense, the foreign exchange loss in the period, the prepayment of certain expenses and timing of accounts receivable and payable.

Cash used in investing activities

Cash used in investing activities for the year ended December 31, 2015 was \$672,039 compared to cash used of \$130,877 in the same period in 2014, representing an increase in the outflow of cash of \$541,162. The increased cash outflow is mainly the result of the purchase and installation of a DEFIMNET for the U.S. Department of the Interior and upgrade of internal software.

Cash used by financing activities

Cash used in financing activities for the year ended December 31, 2015 was \$485,786 compared to cash used of \$349,478 for the same period in 2014. The cash used is the result of the Company repurchasing its common shares for cancellation. For additional information see **"SHARE REPURCHASE PROGRAM"** of this MD&A.

The Company's current business plan projects revenue growth in 2016 and beyond. The Company believes

that its success in securing sales contract vehicles and/or growing sales with the U.S. government will lead to growth within the U.S. government and future opportunities abroad with other governments.

The Company's need for capital expenditures is limited to such items as computer hardware and software, expenditures to support sales, marketing and general administration activities and working capital. Since inception, the Company has financed its cash and/or capital requirements through operating cash flow, the issuance of equity from private placements, and through the issuance of obligations under capital leases.

On October 4, 2011, the Company first entered into a \$550,000 credit facility with a banking and financial services organization consisting of a \$500,000 revolving demand operating facility and a \$50,000 VISA facility. Most recently, on September 29, 2015 the credit facility was renewed. The revolving demand credit facility carries an interest rate equal to the lender's prime rate of interest plus 1.80%. The credit facility is secured by the assets of the Company. There is no minimum collateral asset value to access the first \$100,000; accessing an amount in excess of \$100,000 shall be based on the balance and term of the Company's trade accounts receivables outstanding plus the amount of SR&ED tax credits filed and refundable. The Company had not drawn on the facility as of December 31, 2015.

The following table discloses future payments as at December 31, 2015 committed by the Company over the next five (5) years and thereafter. It includes both principal and interest obligations required under capital lease agreements.

Contractual Obligations				
	Total	No later than 1 year	Later than one year and not later than five years	Later than five years
Operating leases	\$813,075	\$164,903	\$509,673	\$138,499

DEVICES AND APPLIANCES HELD FOR SALE

On a quarterly basis or when necessary management reviews the carrying value of inventory. Under IFRS, inventory must be recognized 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. As a result, for the year ended December 31, 2015, the Company incurred a write-down of MobiKEY Classic devices in the amount of \$22,255. For the year ended December 31, 2014, the Company incurred a write-down of MobiKEY Classic devices in the amount of \$56,983.

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 for the years ended December 31, 2015 and 2014 comparatives. All transactions are recorded at their exchange amounts.

- The Company made payments (including HST) to 1220764 Ontario Inc. for management services provided by Mr. Tony P. Busseri, a director and the CEO of the Company in the amount of \$406,800 for the year ended December 31, 2015 (December 31, 2014 - \$406,800). For the year ended December 31, 2015 the Company also incurred stock based compensation expense in the amount of \$136,576 (December 31, 2014 - \$3,964).
- The Company incurred expenses (including CPP) payable to and on behalf of the independent members of the Board of Directors of \$317,673 for the year ended December 31, 2015 (December 31, 2014 - \$333,849) These transactions are in the normal course of operations and are paid or payable for directorship services. As at December 31, 2015, accounts payable included \$77,500

owing to directors (December 31, 2014 - \$78,861). For the year ended December 31, 2015 the Company also incurred stock based compensation expense in the amount of \$174,686 (December 31, 2014 - \$66,426).

- The Company made payments to or incurred expenses for key management (President, Chief Technology Officer, and the Chief Financial Officer) in the year ended December 31, 2015 as follows, with 2014 comparatives.

	Year Ended December 31, 2015	Year Ended December 31, 2014
Short-term employee benefits	\$714,329	\$680,000
Stock option expense	84,460	56,004
	\$798,789	\$736,004

PROPOSED TRANSACTIONS

The Company has not entered into any asset or business acquisition or disposition transactions.

CRITICAL ACCOUNTING ESTIMATES

The consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”). 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, 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 hardware sales (i.e. MC3 device, MC2 device, the MobiKEY Classic device and the MobiKEY Fusion3 device, the MobiKEY Fusion2 device and the MobiKEY Fusion device) and subscription services (i.e. MobiKEY application software). The Company recognizes revenue in accordance with IAS 18, “Revenue”.
- 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 determination of fair value of investments (if any) is based on a discounted cash flow model.
- 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 fair value of stock options is based on certain estimates applied to the Black-Scholes option-pricing model as disclosed in the Company’s financial statements.
- The recognition of SRED tax credits and government grants (if any).
- The measurement of the income tax valuation allowance is based upon estimates of future taxable income and the expected timing of reversals of temporary differences.

FUTURE ACCOUNTING POLICY CHANGES

Financial Instruments

IFRS 9, “Financial Instruments” (IFRS 9), was issued by the IASB in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. Requirements relating to Hedge Accounting, representing a new hedge accounting model, have been added to IFRS 9 in November 2013. The new model represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements. The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Management is studying the impact of adopting IFRS 9 on the consolidated financial statements.

Revenue from Contracts with Customers

IFRS 15, “Revenue from Contracts with Customers” (IFRS 15), was issued by the IASB in May 2014 and will supersede current revenue recognition guidance, which is currently found across several standards and interpretations including IAS 11, Construction Contracts and IAS 18, Revenue. IFRS 15 provides a framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is in the process of assessing the impact of this standard on its consolidated financial statements.

Leases

IFRS 16, “Leases” (IFRS 16), is effective for years commencing on or after January 1, 2019, and replaces IAS 17, Leases. The standard provides a single lease accounting model, requiring leases to recognize assets and liabilities for almost all leases. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. Management is studying the impact of adopting IFRS 16 on the consolidated financial statements.

FINANCIAL INSTRUMENTS

Establishing fair value

The carrying amount of financial instruments including cash and cash equivalents, accounts receivable and accounts payable and other liabilities approximates fair value because of the short-term nature of these instruments.

The following table sets out the classification, carrying amount, and fair value of the Company’s financial assets and liabilities as at December 31, 2015 and December 31, 2014:

	December 31, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
FINANCIAL ASSETS				
Loans and receivables				
Cash and cash equivalents (i)	\$1,251,242	\$1,251,242	\$1,532,902	\$1,532,902
Accounts receivable (i)	\$292,521	\$292,521	\$181,183	\$181,183
FINANCIAL LIABILITIES				
Other liabilities				
Accounts payable and other liabilities (i)	\$291,242	\$291,242	\$329,017	\$329,017

(i) The fair value of these financial instruments is their carrying amount due to their short-term nature.

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	
Accounts payable and other liabilities		Yes	Yes	

Credit risk

Credit risk arises from cash held with banks and credit exposure to customers, including outstanding accounts receivable. The maximum exposure to credit risk is equal to the carrying value (net of allowances) of the financial assets. The objective of managing credit risk is to prevent losses on financial assets. The Company assesses the credit quality of counterparties, taking into account their financial position, past experience and other factors. During the year ended December 31, 2015, the largest single customer represented approximately \$2,672,082 of revenue (December 31, 2014 - \$2,873,345).

Cash and cash equivalents

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, 2015, the Company had cash consisting of cash on hand and deposits with banks of \$1,251,242 (December 31, 2014 - \$1,532,902).

Accounts receivable

Accounts receivable consist primarily of accounts receivable from invoicing of devices and services. 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 carrying amount of accounts receivable is reduced through the use of an allowance for doubtful accounts and the amount of the loss is recognized in the statement of comprehensive income. When a receivable balance is considered uncollectible, it is written off against the allowance for accounts receivable. Subsequent recoveries of amounts previously written off reduce other expenses in the statement of comprehensive income. As at December 31, 2015, the largest single customer's accounts receivable represented \$87,045 (December 31, 2014 – \$78,771) of the total accounts receivable. This receivable was subsequently collected after the year end.

The following table outlines the details of the aging of the Company's receivables as at December 31, 2015 and December 31, 2014:

	December 31, 2015	December 31, 2014
Current	\$141,790	\$181,183
Past due		
1 – 60 days	731	-
Greater than 60 days	-	-
Less: Allowance for doubtful accounts	-	-
Total accounts receivable, net	\$142,521	\$181,183

For the year ended December 31, 2015 and year ended December 31, 2014, there was a \$nil balance for the allowance for doubtful accounts.

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 relied on collecting its accounts receivable, which by nature, are due predominately from government agencies with a high level of certainty of collection.

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 market place.

The following table details the Company's contractual maturities for its financial liabilities, including interest payments and operating lease commitments, as at December 31, 2015:

	2016	2017	2018 and Beyond	Total
Accounts payable and other liabilities	\$291,242	\$-	\$-	\$291,242
Operating lease commitments	164,903	138,449	509,723	813,075
	\$456,145	\$138,449	\$509,723	\$1,104,317

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, 2015, the Company had non-Canadian dollar net monetary assets of approximately US\$694,587 (December 31, 2014 - approximately US\$513,749). An increase or decrease in the U.S. to Canadian dollar exchange rate by 5% as at December 31, 2015 would have resulted in a gain in the amount of \$48,065 or a loss of \$48,065 (December 31, 2014 – gain or loss of \$30,785). Any gain or loss would have been included in the determination of net income.

Interest rate

The Company has cash balances which may be exposed to interest rate fluctuations. At December 31, 2015, cash totalled \$1,251,242 (December 31, 2014 - \$1,532,902).

SHARE REPURCHASE PROGRAM

On September 5, 2014, the Company announced with approval from the TSX Venture Exchange its intention to make a Normal Course Issuer Bid ("NCIB"). The NCIB permits the Company to purchase for cancellation up to 10% of the common shares in the public float. The maximum number of shares allowed for repurchase was 38,200,991. Purchases under the NCIB took place during the 12 month period commencing September 11, 2014 and ending September 10, 2015. Through the course of this NCIB the Company purchased a total of 16,758,500 common shares for cancellation; for the period starting January 1, 2015 and ending September 10, 2015, the Company purchased 7,522,500 common shares for cancellation.

On September 22, 2015, the Company announced with approval from the TSX Venture Exchange its intention to make another updated NCIB. The NCIB permits the Company to purchase for cancellation up to 5% of the common shares in the public float. The maximum number of shares allowed for repurchase is 18,262,570. Purchases under the NCIB may occur during the 12 month period commencing September 27, 2015 and ending September 26, 2016, or the date upon which the maximum number of common shares have been purchased by the Company. Purchases under the NCIB during the period starting September 27, 2015 and ending December 31, 2015 were 2,592,000 common shares for cancellation.

For the year ended December 31, 2015, the Company in aggregate repurchased for cancellation 10,114,500 of its common shares for total consideration of \$482,199, at an approximate average price of \$0.048 per share under the NCIB. The Company also incurred costs of \$3,587 for regulator cost to setup the NCIB and to complete the share repurchases during the year. For the year ended December 31, 2014, the Company repurchased for cancellation 9,236,000 of its common shares for a total consideration of \$344,694 at an

average price of \$0.04 per share under the NCIB. The Company also incurred costs of \$4,784 to complete the repurchase during the year ended December 31, 2014.

SHARE CAPITAL, WARRANTS AND CONTRIBUTED SURPLUS

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.

As of December 31, 2015, the following was outstanding:

	Number of Common Shares	\$
Balance, January 1, 2015	372,773,914	\$23,349,991
Shares issued/repurchased for cancellation	(10,114,500)	(485,786)
Balance, December 31, 2015	362,659,414	\$22,864,205

- 33,114,000 common share purchase options ("Options") exercisable into 33,114,000 common shares.

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 at 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 a global financial crisis which would restrict credit availability worldwide and could also impact its ability to continue operations.
- The Company's projected revenue in the short-term is tied to approximately US\$4.5 million in renewals from MobiKEY application software subscriptions and a DEFIMNET platform maintenance agreement, 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 may have a material adverse impact on the Company's financial results.
- The Company's ability to collect payment on a timely basis for services delivered may have a material adverse impact on the Company's liquidity position.
- 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.
 - 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;
 - Route1's ability to successfully obtain patent or other proprietary or statutory protection for its technologies and products, may harm the Company's competitive advantage in the secure remote access industry;
 - 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;
 - The ability to run efficient and uninterrupted operation of Route1's MobiNET platform, which could impact on the credibility of the Company's product and services;
 - Route1's ability to establish new, and to build on its existing customer base, could also slow the Company's continued growth;
 - The occurrence of a breach or perception of a breach of Route1's secure product and service offering, may 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, which 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 hamper future growth;
 - Any significant economic downturn, in geographic areas where Route1 engages in business activities, that may cause those government agencies to reduce discretionary budget spending in areas such as secure identity solutions.
 - 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 records transactions in Canadian dollars and conducts business both in Canada and internationally. The volatility of the Canadian dollar against currencies such as the U.S. dollar and the Euro can impact financial results negatively should the Canadian dollar appreciate significantly.

Audit Committee

The three members of the Audit Committee are independent and all meet the qualifications of a financial expert and all are financially literate as such term is defined in National Instrument 52-110 – Audit Committees.

Legal proceedings

In the normal course of operations, the Company may be subject to litigation claims from customers, suppliers, patent holders, resellers and former employees. 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

The Company is organized and managed as a single reportable business entity with two distinct revenue streams, being devices and appliances, and services. The Company considers revenue realized or realizable and earned when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods; the Company does not retain any managerial involvement; it is probable that the economic benefits associated with the transaction will flow to the company and the amount of revenue can be measured reliably. For sale of devices, revenue is recognized at the time of shipment of the device which constitutes transfer of ownership of the device. Revenue for the services component is reported as deferred revenue on the statement of financial position and is recognized as earned revenue in the period which the service is provided. At December 31, 2015, the Company had \$1,700,420 (December 31, 2014 - \$1,635,265) in deferred revenue.

The following table provides a component presentation of the Company's revenue streams for the year ended December 31, 2015 and 2014:

	2015		2014	
	Revenue	% of Total	Revenue	% of Total
Devices and appliances	\$156,048	2.4	\$536,160	8.8
Services	6,218,284	97.2	5,470,141	90.0
Other	23,037	0.4	71,289	1.2
	\$6,397,369	100.0	\$6,077,590	100.0

The following table provides a geographical presentation of the Company's revenue streams for the year ended December 31, 2015 and 2014:

	2015		2014	
	Revenue	% of Total	Revenue	% of Total
USA	\$6,164,505	96.4	\$5,789,522	95.3
Canada	232,864	3.6	288,068	4.7
	\$6,397,369	100.0	\$6,077,590	100.0

ADDITIONAL INFORMATION

Additional information about Route1 is available from Route1's website at www.route1.com, the SEDAR website at www.sedar.com, or by request from Route1's head office at 8 King Street East, Suite 600, Toronto, Ontario, Canada M5C 1B5 (telephone 416-848-8391).