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Authentication & Identity Management | Data Security & Secure Communications

Q2 2017 Corporate Update

August 23, 2017

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Operating Performance

In 000s of CAD Dollars	**Q2 2017 A**	Q2 2016 A	**YTD (6 Mo) 2017 A**	YTD (6Mo) 2016 A
Revenue	**1,371**	1,812	**3,312**	3,530
Recurring Revenue and Services	**1,347**	1,760	**3,258**	3,407
Year Over Year Recurring Revenue and Services Growth	***(23.5)%***	*12.2%*	***(4.4)%***	*12.4%*
Gross Margin	**1,073**	1,471	**2,679**	2,841
Operating (Loss) Income	**(78)**	172	**240**	210
EBITDA	**16**	278	**422**	450
Net (Loss) Income	**(235)**	199	**(27)**	(67)

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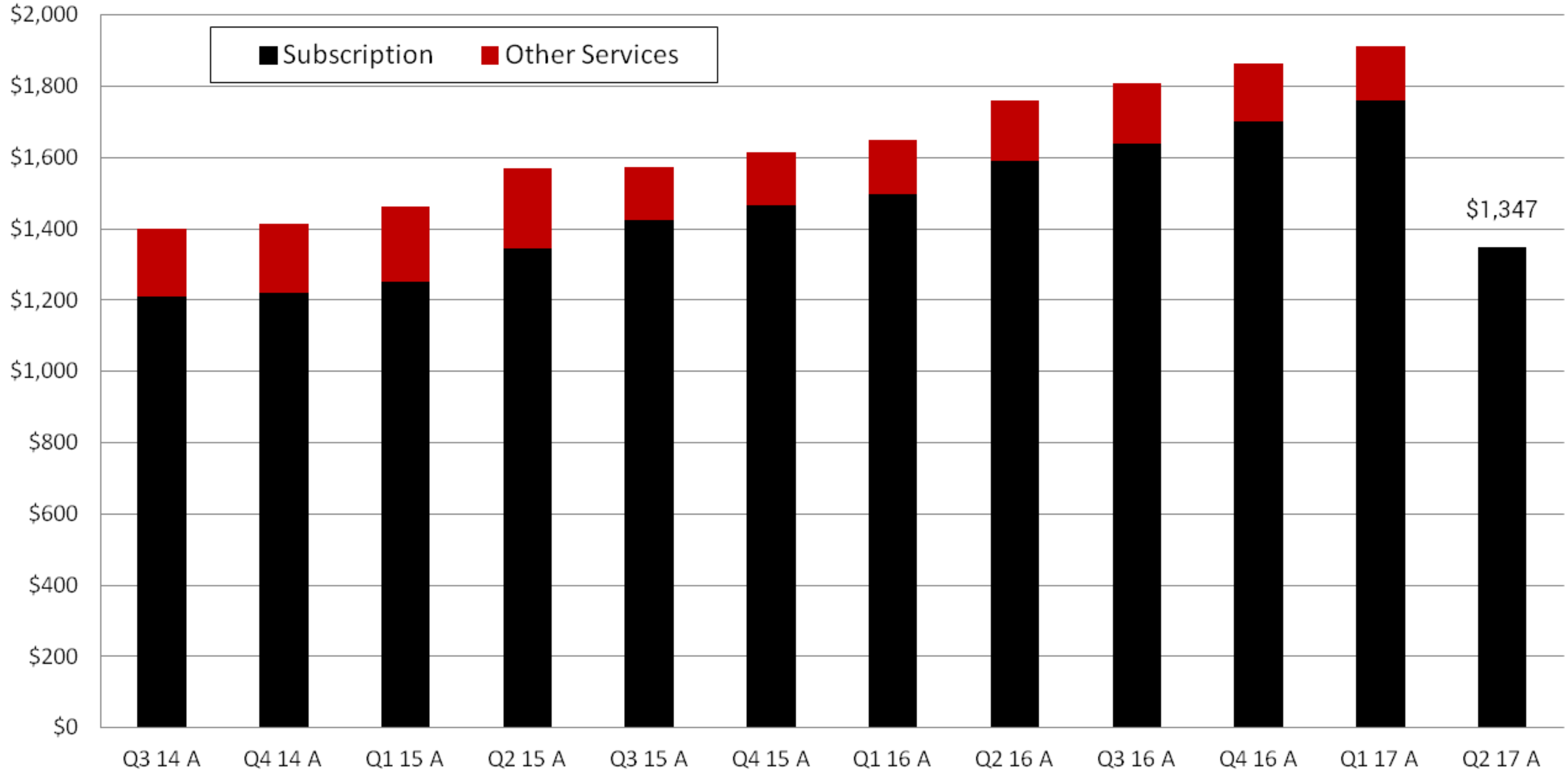
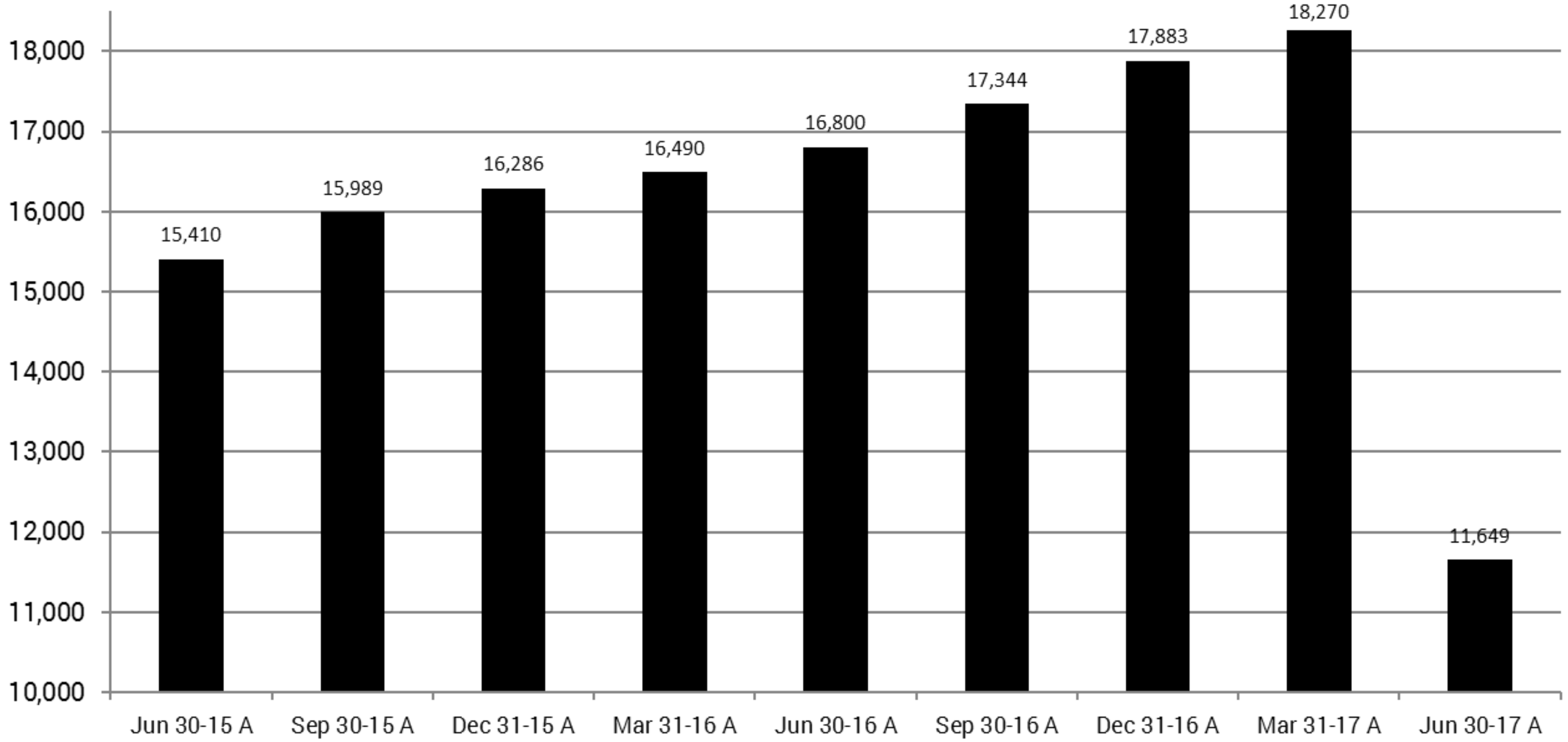
Recurring Revenue and Services in CAD 000s



MobiKEY Paid, Active Users - No.



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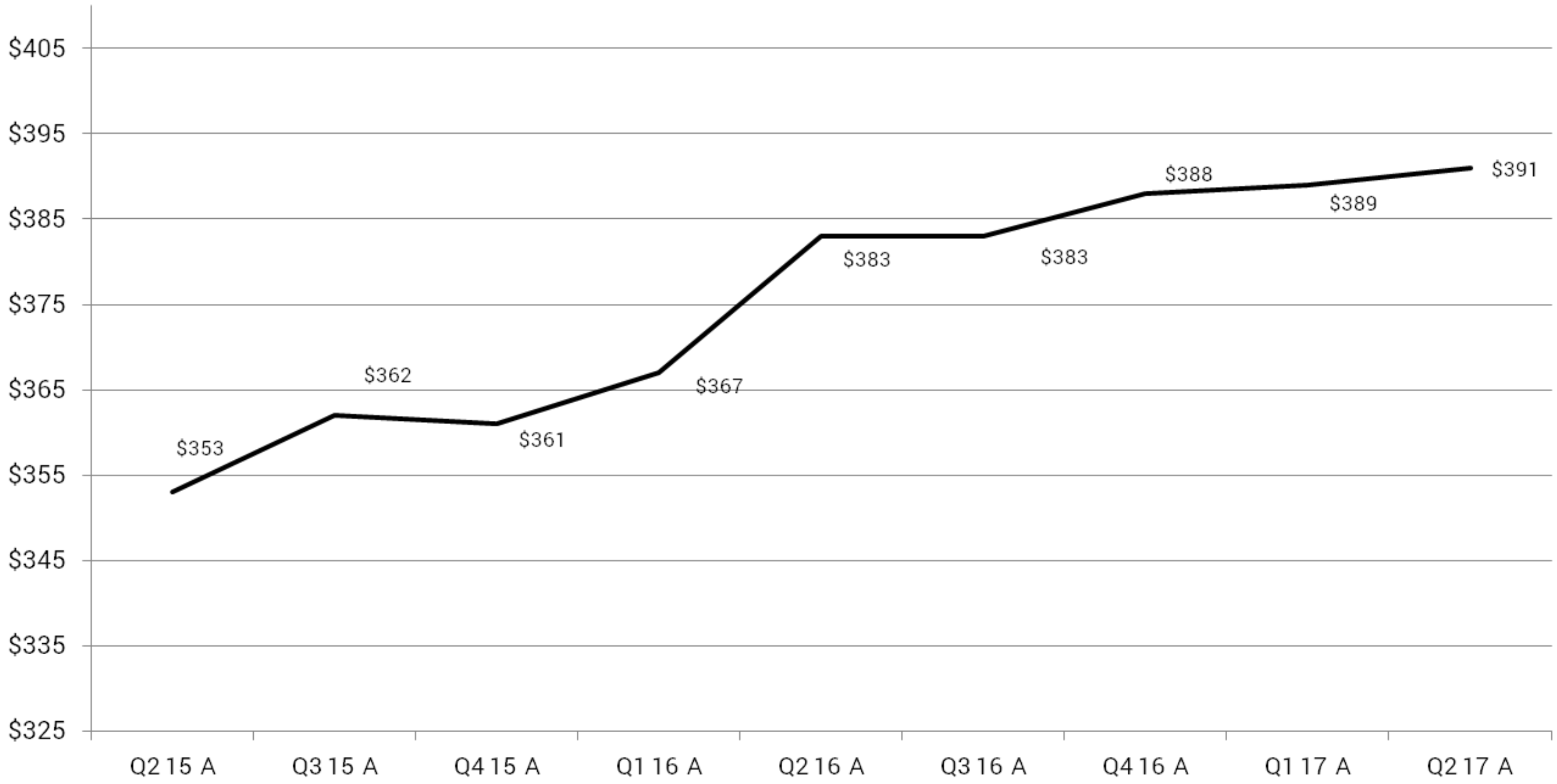
MobiKEY Paid, Active Users - ARPU



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Balance Sheet

In 000s of CAD Dollars	Jun 30 2017 A	Mar 31 2017 A	Dec 31 2016 A	Sep 30 2016 A	Jun 30 2016 A	Mar 31 2016 A	Dec 31 2015 A
Cash	**2,080**	704	1,946	2,898	3,735	407	1,251
Total current assets	**2,924**	1,890	2,910	3,938	4,765	3,880	2,112
Total current liabilities	**2,396**	1,113	2,500	3,555	4,719	3,814	1,948
Deferred revenue (incl. in current liabilities)	**2,084**	777	2,155	3,312	4,506	3,531	1,657
Net working capital	**528**	777	410	383	46	66	164
Fixed and intangible assets	**547**	481	537	550	609	674	801
Total assets	**4,213**	3,114	4,190	5,230	6,116	5,296	3,656
Bank debt	**0**	0	0	0	0	0	0
Total liabilities	**2,494**	1,210	2,590	3,656	4,820	3,919	2,059
Shareholders' Equity	**1,720**	1,904	1,600	1,574	1,296	1,377	1,597

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2017 Plan

Initiative	Outcome	Driver
IP Realization	• Payment/license • Sale of the IP • Strategic sales arrangement	• Infringement lawsuit against VMware/AirWatch
MobiKEY Organic Growth	• Expect material growth in MobiKEY users	• DoD accounts • New account groups
Match Expense to Revenue Profile	• Cash flow positive, and growing	• Loss of CBP MobiKEY account
Merger or Acquisition	• Deal dependent	• Technology, client vertical diversification • Critical mass
New Sales – DerivID	• Sales in 2018 and beyond	• Derived credential push by DISA and NIST
New Technology – Universal Method for Authenticating a User	• Introduction and sales in 2018	• Market assessment • Consumer, SME

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Mid Year Plan Update

Pivoting towards revenue diversification

- Securing key MobiKEY accounts
  - Renewed FWS: August 2017 – renewal for 1,000 users
  - Progress being made to entrench and grow MobiKEY @ JSP
  - Finalizing government approval for hardware refresh DON DEFIMNET
- Progress made in regards to securing requirements to bring MobiKEY to the US Army, USMC and additional US DOI bureaus
  - Never as quick as we want
- Develop new mid sized (500 to 2,000 MobiKEY users) clients: 2 DoD accounts
- In process of adding new revenue streams – diversification
  1. Spotlight, *Powered by MobiNET*
  2. DerivID
  3. Will add others

Political Climate in Washington

- Budget approved May 4, 2017, providing funding through the end of the current fiscal year (September 30, 2017)
- Cybersecurity Executive Order was issued May 11
  - We have focused our MobiKEY messaging to align with the Trump administration's messaging on cybersecurity, reduced risk and cost reduction
  - We have yet to see the Cybersecurity Executive Order drive any positive change
- Less than one third of critical political appointee positions have been filled
- There has been significant change at the CIO level across government
  - Rob Foster, DON CIO moving to Deputy CIO of National Credit Union
  - Dave DeVries stepping down as OPM CIO
  - Richard Starapoli resigned as DHS CIO earlier this month
  - White House CIO role is still vacant
- **Most CIOs are in an Acting capacity as opposed to a permanent role: DOD, Commerce, DOI, VA, EPA, DOT, Treasury and National Science Foundation.**

MobiKEY Business Development Update

- **Joint Service Provider** (Pentagon) renewed their MobiKEY enterprise subscription at the end of March 2017
  - Working with the government to provide additional services and updated technology
- Our **US Navy** focus is to deliver on a technology refresh (DEFIMNET)
  - Continuing to grow user base
  - Expect technology refresh to start in Q4 2017
- **US Navy Bureau of Medicine and Surgery** has expanded their use of the MobiKEY technology to additional geographic locations
  - Growing to 500 to 2,000 subscribers
- In August 2017 the **US Marine Corps** provided final approval (USMC Change Control Board) for MobiKEY to become a technology approved for the entire Corps
  - Working to get the message to the various commands and initiate sales
- MobiKEY received from the **US Army** its Authority to Connect in August 2017
  - Working to achieve initial order from Army DPW

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NIST Business Development Update

- On August 1, 2017, Route1 announced that Route1 had started working with the National Cybersecurity Center of Excellence (NCCoE) in the National Cybersecurity Center of Excellence Derived Personal Identity Verification Credentials Building Block to develop practical, interoperable cybersecurity approaches that address the real-world needs of complex Information Technology (IT) systems. By accelerating dissemination and use of these integrated tools and technologies for protecting IT assets, the NCCoE will:
  - enhance trust in U.S. IT communications, data and storage systems;
  - reduce risk for companies and individuals using IT systems; and
  - encourage development of innovative, job-creating cybersecurity products and services.
- NIST does not evaluate commercial products under this Consortium and does not endorse any product or service used.

Spotlight, *Powered by MobiNET*

Spotlight is a secure technology that:

- Delivers real-time industrial data analytics on data collected from Programmable Logic Controllers (PLCs) and other automation devices (including IIoT)
- Provides quantitative-based actionable information to drive industrial process efficiency and maximizing productivity while minimizing unplanned downtime and cost
- Has been architected to ensure security, ease of deployment and scalability

Identifies the priority faults (issues) that the cell/line/plant needs to address

SPOTLIGHT™
Powered by MobiNET

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Spotlight Partnership Arrangement

- Revenues from the Spotlight, *Powered by MobiNET* offering shared equally by Route1 and HTM Sensors
- Each of Route1 and HTM Sensors responsible for their own costs
- Route1 responsible for:
  - Hosting infrastructure and ongoing costs
  - Supplying Route1 CryptoPath technology to permit HTM Sensors to conduct data analytics on the PLC data
  - 24/7/365 help desk support for plant installations
  - Technical sales support as required
- HTM Sensors responsible for:
  - Sales and marketing activities for Spotlight utilizing own sales force and broad VAD network
  - Installation, programming and configuration at client sites
  - **Data analytics of PLC data from the plant floor**

Spotlight Revenue Model

- Pricing model consists of a fixed amount per month per line or cell plus an additional charge per month per PLC installed in the plant
  - It is expected that a standard plant will generate approximately CAD$20,000 to $30,000 per line per year, with the number of production lines per plant ranging from 2 to 10 for which Spotlight could be applicable
- Revenue sharing between partners is 50/50
- Route1 expects to generate traditional recurring revenue software margins
  - Gross margin will vary based on size of plant installation due to data storage costs variability
- Route1 expects very little G&A addition

Spotlight Market Opportunity

- HTM Sensors currently has sensor based kiosks in more than 175 plants around the world, each of which is a primary target for the Spotlight technology.
- HTM Sensors believes that they can grow Spotlight to a number of plants by the end of the current calendar year
  - First sale transpired earlier in August 2017
    - Tier 1 automotive parts supplier based in North York , Ontario
    - Account can grow to additional three lines at this plant (expected in the next 45 days) and another 27 related plants worldwide
- HTM Sensors currently has customer interest in Spotlight trials at 10 additional manufacturing facilities in and around the Greater Toronto Area.

Spotlight Market Opportunity

- We believe there is opportunity to quickly scale this and if adopted and proven out, could be 100 plants by the end of 2018, the justification will be in the value of the recommendations and proving out the cost savings
  - HTM Sensors believes so strongly in the value of this analytics, that they have said on several occasions that they see this offering as the future face of their business
  - HTM Sensors will initially focus on their three primary verticals (automotive, packaging, food), then will expand into other sectors that they have relationships in (wind farms, smart parking)
  - With success, we will collectively look to leverage other partners to open up new verticals and truly scale the opportunity

MobiNET Development - 2017

Release	Attributes	Timing
Messaging service replacement *Versions: 1.0 and 1.1*	• Budget reflects the cost savings • Impacts the Host Registry, Input and Output Engine (IOE), Controller and SFM	September 2017
Controller *Versions: 3.2 and 3.3*	• Implemented with new messaging service	September 2017
MAP *Version: 3.2*	• Policy	December 2017

Note: From early June to early August, primary focus was supporting Spotlight, *Powered by MobiNET*

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MobiKEY Roadmap - 2017

Release	Attributes	Timing
MobiKEY for Android 5.1 – Soft App and A2T	• Support for Android 5.x and 6.x • Knox support	Released - April 2017
MobiKEY 5.2	• An updated version of the remote control mechanism using a new version of our protocol (v2) is now supported • Multiple monitors on the Remote Asset are now supported; users will have the option to use additional monitors to fully utilize the Remote Assets hardware capabilities • Improved screen size and resolution negotiation between Remote and Host Assets • Remote Assets running Mac OS Sierra (version 10.12) are now supported • Bidirectional audio will be supported • Improved security for Host Assets while in a data session • Performance optimizations • Miscellaneous bug fixes	Released - July 2017
DerivID 1.1	• iOS support	Q4 2017

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Surfacing the Value Embedded in our IP

- Main thrust is AirWatch complaint as validation for the monetization value we want to achieve
- AirWatch is a wholly-owned subsidiary of VMware, Inc. (NYSE: VMW)
- Entered into hybrid fee arrangement with patent litigation counsel - Vorys, Sater , Seymour and Pease LLP
- Filed complaint against AirWatch in Delaware court March 27, 2017; complaint served on June 1, 2017
- Case schedule to be determined next week
- **While Route1 has the financial capacity to see the complaint through trial based on cash on hand and expected future cash flow generated by operations, we are investigating litigation funding options**

Growth in the Next 100 Days

Spotlight:

- Actively pursue Spotlight first revenue opportunities, while continuing to add functionality to Spotlight technology

MobiKEY:

- We expect to increase MobiKEY subscribers in Q3 2017 beyond the growth realized in the first and second quarters of the current year largely being driven by initiatives with various Department of Defense accounts and pilots that have been ongoing for the past several months.
- In Q4 2017, we expect to increase MobiKEY subscribers further by being in a position to capitalize on the above-noted USMC and US Army approvals and closing on opportunities that have been ongoing for the past several months.

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