



**01 Communique Laboratory Inc.**

**Management's Discussion and Analysis**

**For the period ended July 31, 2017**

**ONE : TSX-V**

**Dated: September 12, 2017**

## **Management's Discussion and Analysis**

### **(1) Introduction.**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (the "MD&A") has been prepared by management and is a review of the consolidated operating results and financial position of 01 Communique Laboratory Inc. ("01 Communique" or the "Company"), based upon International Financial Reporting Standards ("IFRS"). This MD&A should be read in conjunction with the Company's audited consolidated financial statements and notes to the audited consolidated financial statements as at and for the year ended October 31, 2016 and the unaudited interim consolidated financial statements and notes to the unaudited interim consolidated financial statements as at and for the three and nine months ended July 31, 2017.

The Company maintains appropriate systems of internal control, policies, and procedures that provide management reasonable assurance that assets are safeguarded and that its financial information is reliable.

This document and the related unaudited consolidated financial statements were authorized for issue by the board of directors on September 12, 2017.

All amounts are expressed in Canadian dollars unless otherwise stated. This MD&A is effective as of September 12, 2017.

Additional information on the Company, including its audited consolidated financial statements is filed on SEDAR.

### **(2) Forward-looking statements.**

This MD&A contains certain statements that may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such statements use such words as "may", "will", "expect", "believe", "plan", "intend", "are confident" and other similar terminology. These statements reflect current expectations regarding future events and operating performance and speak only as of the date of this MD&A. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved.

A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to, risk factors discussed in this MD&A. Although the forward-looking statements contained in this MD&A are based upon what management of the Company believes are reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward looking statements. These forward-looking statements are made as of the date of this MD&A, and the Company assumes no obligation to update or revise them to reflect new events or circumstances.

### **(3) Corporate Overview.**

The Company operates in the remote access market, developing and marketing a suite of products to meet the needs of mobile users who have a requirement for remote access, remote support and/or online meetings. The Company's products are marketed under its I'm InTouch, I'm OnCall or I'm InTouch Meeting product lines. The Company has a number of patents and patent applications. The Company's intellectual property is incorporated in its product and service offerings and is protected, in part, by its patents, as follows:

- United States patent number 6,928,479 (the “ ‘479 Patent”) entitled "System, computer product and method for providing a private communication portal";
- United States patent number 6,938,076 entitled "System, computer product and method for interfacing with a private communication portal from a wireless device";
- United States patent number 8,234,701 entitled "System, method and computer program for remotely sending a digital signal(s) to a computer";
- Canadian patent number 2,524,039 entitled "System, method and computer program for remotely sending a digital signal(s) to a computer";
- Canadian patent number 2,309,398, entitled "A system, computer product and method for remotely accessing and controlling a networked computer";
- Japanese patent number 4,875,094 entitled (as translated) "Method of accessing and/or controlling target computer, involves directing proxy server to send digital signal to target computer, so that remote computer is permitted to access/control target computer on receipt of digital signal";
- Japanese patent number 5,832,027 entitled (as translated) "Private communication portal provision system for two-way pager network, has location facility computer for facilitating communication between two other computers"; and
- United States patent application No. 14/486492 entitled "System, computer product and method for implementing a cloud service with private storage"

#### **(4) Risks and Uncertainties**

The Company’s consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities in the normal course of business. As at July 31, 2017 the Company reported a working capital deficiency of \$626,803 (October 31, 2016 – \$326,099). In addition, the Company has sustained substantial losses and negative cash flows from operations in recent years and its ability to continue as a going concern is dependent on the Company's ability to generate future profitable operations and cash flows and/or obtain additional financing.

Management's plan to reduce the operating loss and ultimately become profitable and produce positive cash flows from operations is heavily dependent on: (i) increasing product and service revenue from its I'm InTouch, I'm OnCall and I'm InTouch Meeting product lines through downloads from the Company’s web site; (ii) its patent lawsuit against Citrix Systems Inc. (“Citrix”); and (iii) its relationship with a key customer Hitachi Solutions Create Ltd. (“Hitachi Solutions Create”). However, there can be no assurances the Company will be successful on any of these three initiatives. Should the Company not be able to generate sufficient cash flows from any combination of these three initiatives to become profitable in the future and generate sufficient working capital to fund operations as well as discharge its current working capital deficiency, then it will become necessary to secure additional sources of financing; however, there can be no assurances that any such financing will be available to the Company or that such funds will be available on acceptable terms and within an acceptable period of time.

The outcome of these matters, which cannot be predicted at this time, represents a material uncertainty which may cast significant doubt with regard to the Company's ability to continue as a going concern. The consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these consolidated financial statements.

In addition to moving forward with the appeal process in its patent lawsuit against Citrix the Company plans to continue and work with Hitachi Solutions Create to maximize potential revenue from the Japanese market. The Company reduced operating expenses significantly in fiscal 2016 while still maintaining sufficient resources to meet these objectives.

The three initiatives identified above and associated risks are explained below.

*(i) Building direct sales subscriptions from on-line initiatives.*

The Company has developed and markets through its web site a suite of products designed to meet the needs of mobile users who have a requirement for remote access, remote support and/or online meetings. These products are marketed under the Company's I'm InTouch, I'm OnCall or I'm InTouch Meeting product lines and are available by a simple download from the Company's web site.

The Company has expended considerable resources in developing these products and building a direct sales channel to market I'm InTouch, I'm InTouch Meeting and I'm OnCall. To date these initiatives have not generated sufficient revenue for the Company to become profitable. As the Company moves forward, it plans to maintain its products and make them available from the Company's web site. There can be no assurance that sufficient revenue will be generated from this on-line initiative in the future to allow the Company to become profitable and produce positive cash flow from operations.

*(ii) Build licensing revenue from the Hitachi Solutions Create relationship.*

The Company has formed a relationship with Hitachi Solutions Create whereby the companies have co-developed products for the Japanese market based on the Company's intellectual property portfolio. Hitachi Solutions Create retains exclusivity for marketing these products in Japan and the Company retains its marketing rights for the rest of the world.

There can be no guarantee that this relationship will lead to significant revenues for the Company, or that the relationship will lead to other business opportunities which the Company is trying to secure.

The Company is providing support as requested and now awaits the results from Hitachi Solutions Create's sales activities.

*(iii) Successful appeal of the jury finding on non-infringement in its patent lawsuit against Citrix.*

In February 2006, the Company commenced a lawsuit in the United States District Court, Northern District of Ohio, Eastern Division, against Citrix alleging infringement by their GoToMyPC product line of the '479 Patent. On January 11, 2016 a jury trial commenced in the lawsuit with the jury reaching and returning a unanimous verdict on January 19, 2016. The Court entered Judgment as follows:

1. Defendants Citrix have not infringed claims 24 or 45 of 01 Communique's patent (United States Patent No. 6,928,479);
2. Claims 24 and 45 of United States Patent No. 6,928,479 are not invalid;
3. Plaintiff 01 Communique takes no damages from Citrix;
4. Except as set forth above or adjudicated through Summary Judgment, all other claims and counterclaims in this matter are dismissed;
5. Each party retains its right to, and does not waive its right to, file timely motions for renewed judgment as a matter of law, for new trial, for the award of attorneys' fees, for the award of costs, and to prosecute an appeal from any aspect of the case to the extent allowed by statute, the Federal Rules of Civil Procedure, and/or this Court.

On March 7, 2016 the Company filed post-trial motions with the District Court that presided over the trial. These included motions for renewed judgment as a matter of law and for a new trial. On March 21, 2017 the District Court issued its order denying the Company's motions for judgment as a matter of law and for a new trial.

On March 30, 2017 the Company filed a Notice to Appeal the District Court's Order with the United States Court of Appeals for the Federal Circuit. The Company plans to continue operations as well as pursue the matters with Citrix until the conclusion of its appeal. While the Company's plan is to continue with the appeal of the District Court's verdict there can be no assurance that the Company will be successful in its appeal.

The Company is making use of a contingency fee arrangement with its lawyers, Baker & Hostetler LLP ("Baker & Hostetler") a U.S. based law firm, in respect of this litigation. A summary of the Company's contingency fee arrangements follows.

Under the terms of its engagement with Baker & Hostetler, the Company is responsible for certain out of pocket expenses associated with the litigation. A cap has been reached on these expenses and Baker & Hostetler is now responsible for such expenses for which they are to be reimbursed out of proceeds of settlement or an award of damages, if any). The Company will pay Baker & Hostetler a contingency fee on the conclusion of the litigation if there is either a settlement or an award of damages. The contingency fee will be a percentage of any such settlement or award (which may include any ongoing royalty or other payments received by the Company) with such percentage being within the range which management believes is customary for contingency fee arrangements for litigation of this nature. If, as opposed to a settlement or award of damages, there is a business resolution resulting in the sale of the Company or all or substantially all of the assets of the Company or a transfer of the patents owned by the Company then Baker & Hostetler will be entitled to receive a portion of any payments received by the Company in connection with the business resolution if such resolution results in a termination of the litigation or materially changes the nature of any such lawsuit. Management believes that the contingency fee is within the range of percentages customary for agreements of this nature.

**(5) Overview of Results of Operations.**

The information in the financial table below presents selected financial information for the three and nine months ended July 31, 2017 and 2016. Information has been prepared in accordance with IFRS. The amounts are in Canadian Dollars.

	<i>for the 3 months ending</i>		<i>for the 9 months ending</i>	
	<u>31-Jul-17</u>	<u>31-Jul-16</u>	<u>31-Jul-17</u>	<u>31-Jul-16</u>
Revenue	\$ 247,269	\$ 9,453	\$ 384,362	\$ 56,456
Expenses (Income) :				
Selling, general and administrative	71,054	130,594	233,581	583,682
Patent litigation & re-examination expenses	-	-	-	-
Research and development	93,487	27,844	119,998	266,923
Interest	(7)	(81)	(34)	(844)
	<u>164,534</u>	<u>158,357</u>	<u>353,545</u>	<u>849,761</u>
Profit (Loss) before interest and accretion on liability component of debenture	\$ 82,735	\$ (148,904)	\$ 30,817	\$ (793,305)
Interest on debenture	10,000	10,000	30,000	30,000
Accretion on liability portion of debenture	4,352	3,756	12,589	10,866
Profit (Loss) for the period and comprehensive profit (loss)	<u>\$ 68,383</u>	<u>\$ (162,660)</u>	<u>\$ (11,772)</u>	<u>\$ (834,171)</u>

For the three months ended July 31, 2017 there was a profit of \$68,383 compared to a loss of \$162,660 in 2016.

Revenue for the third quarter 2017 was \$247,269 (2016 - \$9,453) an increase of \$237,816. Earlier in fiscal 2017 a co-development agreement had been signed with Hitachi Solutions Create to enhance DoMobile which is a remote access offering built on the Company's I'm InTouch platform and marketed exclusively in Japan by Hitachi Solutions Create under agreement with the Company. The Company completed development and recognized revenue in the third quarter 2017 resulting from these development efforts. In addition to the revenue from this co-development agreement the Company also received royalties for the Company's share of revenue received from third parties for the sale of DoMobile in Japan by Hitachi Solutions Create.

Cash operating expenses (refer to Section (6) 1 – Use of non-IFRS terms) for the third quarter 2017 were \$153,663 (2016 - \$65,984) an increase of \$87,679. The majority of this increase is due to an increase in amounts paid to third party development contractors that were required to complete the development efforts as part of the co-development agreement with Hitachi Solutions Create and an increase in withholding taxes paid on revenue from Japan.

The Company reduced its operating expenses significantly in January 2016 as it prepared to work through the appeal process in its patent litigation against Citrix. In addition to moving forward with the appeal process the

Company plans to continue and work with Hitachi Solutions Create as well as make its products available from its web site.

Substantially all development work has been completed on the products that the Company is looking to license and with respect to the appeal process the Company relies on its lawyers and hence minimal internal resources are expected. Accordingly the Company was able to significantly reduce its expenses. The Company makes use of third party contractors for the development and support of its products as required.

There were no patent enforcement and re-examination expenses for the three and nine month periods ended July 31, 2017 and 2016. Patent enforcement and re-examination expenses have fluctuated in the past with the level of activity in respect of the Company's patent litigation and the re-examination requested by Citrix. With respect to the Citrix litigation, expenses have reached a cap and the Company's lawyers are now responsible for such expenses for which they are to be reimbursed out of proceeds of settlement or an award of damages, if any.

**(6) Use of non-IFRS terms.**

- In the Company's financial reporting, reference is made to cash operating expenses, which is a non-IFRS term. This term does not have a standardized meaning under IFRS and therefore it is unlikely it will be comparable to similar measures by other companies. Cash operating expenses are operating expenses excluding the non-cash operating expenses of stock based compensation, depreciation and amortization. Cash operating expenses excluding patent litigation and re-examination costs are referenced to indicate the operating expenses net of these amounts for comparative purposes. This measure is used to assist in monitoring cash expenses of the Company as it is an indication of the amount of expenses required to fund the Company's operations, excluding costs associated with patent litigation and re-examination, on a cash basis. Stock based compensation is a non cash expense and is largely dependent on the accounting assumptions and methods used for the calculation. The table below summarizes cash operating expenses.

	<i>For the three months ended</i>		<i>For the nine months ended</i>	
	<u>31-Jul-17</u>	<u>31-Jul-16</u>	<u>31-Jul-17</u>	<u>31-Jul-16</u>
Total operating expenses	\$ 164,541	\$ 158,438	\$ 353,579	\$ 850,605
Less - Stock based compensation	(10,500)	(91,250)	(83,500)	(368,940)
Depreciation and amortization	(378)	(1,204)	(2,043)	(4,080)
Cash operating expenses	<u>\$ 153,663</u>	<u>\$ 65,984</u>	<u>\$ 268,036</u>	<u>\$ 477,585</u>
Less - Patent litigation and re-examination	-	-	-	-
Cash operating expenses, excluding litigation and re-examination expenses	<u>\$ 153,663</u>	<u>\$ 65,984</u>	<u>\$ 268,036</u>	<u>\$ 477,585</u>

Cash operating expenses excluding patent litigation and re-examination expenses for the third quarter 2017 were \$153,663 (2016 - \$65,984) an \$87,679 increase.

2. In the Company's financial reporting, reference is made to adjusted loss or adjusted profit, which is a non-IFRS term. This term does not have a standardized meaning under IFRS and therefore it is unlikely it will be comparable to similar measures by other companies. The adjusted profit (loss) is the profit (loss) for the period and comprehensive profit (loss) excluding non-cash operating expenses and is indicative of the profit (loss) for the period excluding non cash operating expenses which are stock based compensation, and depreciation and amortization. This measure is used to assist in monitoring cash requirements of the Company as it is an indication of the amount of cash required to fund the Company's operations, including costs associated with patent enforcement and re-examination, on a cash basis. Stock based compensation is a non cash expense and is largely dependent on the accounting assumptions and methods used for the calculation. The table below summarizes the adjusted profit or loss.

	<i>For the three months ended</i>		<i>For the nine months ended</i>	
	<u>31-Jul-17</u>	<u>31-Jul-16</u>	<u>31-Jul-17</u>	<u>31-Jul-16</u>
Profit (Loss) for the period and comprehensive profit (loss)	\$ 68,383	\$ (216,005)	\$ (80,155)	\$(834,171)
Less: non cash operating expenses	(10,878)	(136,122)	(74,665)	(373,020)
Adjusted Profit (Loss) for the period	<u>\$ 79,261</u>	<u>\$ (79,883)</u>	<u>\$ (5,490)</u>	<u>\$(461,151)</u>

The profit for the third quarter 2017 was \$68,383 (2016 – a loss of \$216,005) which includes a deduction for non-cash expenses of \$10,878 (2016 - \$136,122). Excluding these non-cash operating expenses, which are included in operating expenses, the adjusted profit for the three months ended July 31, 2017 becomes \$79,261 (2016 – a loss of \$79,883) a decrease of \$159,144.

## (7) Results of Operations.

### Revenue

	<i>For the three months ended</i>		<i>For the nine months ended</i>	
	<u>31-Jul-17</u>	<u>31-Jul-16</u>	<u>31-Jul-17</u>	<u>31-Jul-16</u>
United States	\$ 5,107	\$ 6,144	\$ 14,456	\$ 18,478
Canada	2,589	3,309	10,133	10,378
Japan	239,573	-	359,773	27,600
	<u>\$ 247,269</u>	<u>\$ 9,453</u>	<u>\$ 384,362</u>	<u>\$ 56,456</u>

Revenue for the third quarter 2017 was \$247,269 (2016 - \$9,453) an increase of \$237,816 generated from the Japanese market. Earlier in fiscal 2017 a co-development agreement had been signed with Hitachi Solutions Create to enhance DoMobile which is a remote access offering built on the Company's I'm InTouch platform and marketed exclusively in Japan by Hitachi Solutions Create under agreement with the Company. The Company completed development and recognized revenue in the third quarter 2017 resulting from these development efforts. In addition to the revenue from this co-development agreement the Company also received

royalties for the Company's share of revenue received from third parties for the sale of DoMobile in Japan by Hitachi Solutions Create.

### Gross profit

The vast majority of the Company's products sold are software based, which typically have a high gross margin. The gross margin for the three months ended July 31, 2017 and 2016 were 100%.

### SG&A

	<i>For the three months ended</i>		<i>For the nine months ended</i>	
	<i>31-Jul-17</i>	<i>31-Jul-16</i>	<i>31-Jul-17</i>	<i>31-Jul-16</i>
Selling, general and administration	\$ 71,054	\$ 130,594	\$ 233,581	\$ 583,682
less: stock-based compensation	(10,500)	(91,250)	(83,500)	(368,940)
	<u>\$ 60,554</u>	<u>\$ 39,344</u>	<u>\$ 150,081</u>	<u>\$ 214,742</u>

Selling, general and administration ("SG&A") expenses, net of stock based compensation for the three months ending July 31, 2017 were \$60,554 (2016 - \$39,344) an increase of \$21,210. The majority of this increase is a result of withholding taxes paid on amounts received from Hitachi Solutions Create in Japan.

During the three and nine month period ended July 31, 2017, the Company recorded compensation expense related to stock options of \$10,500 (2016 - \$91,250) and \$83,500 (2016 - \$368,940) respectively. There were 835,000 (2016 - 290,000) stock options granted during the nine months ending July 31, 2017.

The average grant date fair value of options granted during the nine months ended July 31, 2017 was \$0.034 (2016 - \$0.34). The fair value of each option granted has been estimated on the date of grant using the Black-Scholes fair value option pricing model with the following weighted average assumptions used for grants for the nine months ended July 31, 2017: dividend yield of nil (2016 - nil), expected volatility of 147% (2016 - 114%), weighted average risk-free interest rate of 1.5% (2016 - 1.5%) and expected lives of four years (2016 - three years).

### Research and development

	<i>For the three months ended</i>		<i>For the nine months ended</i>	
	<i>31-Jul-17</i>	<i>31-Jul-16</i>	<i>31-Jul-17</i>	<i>31-Jul-16</i>
Research and development	\$ 93,487	\$ 27,844	\$ 119,998	\$ 266,923

Research and development expenses for the three months ended July 31, 2017 were \$93,487 (2016 - \$27,844) an increase of \$65,643. The majority of this increase is due to an increase in amounts paid to third party development contractors that were required to complete the development efforts as part of the co-development agreement with Hitachi Solutions Create.

## Patent enforcement and re-examination expenses

There were no patent enforcement and re-examination expenses for the three and nine month periods ended July 31, 2017 and 2016.

Patent enforcement and re-examination expenses have fluctuated with the level of activity in respect of the Company's patent litigation and the re-examination requested by Citrix. With respect to the Citrix litigation, expenses have reached a cap and the Company's lawyers are now responsible for such expenses for which they are to be reimbursed out of proceeds of settlement or an award of damages, if any (*see section 4 Risks and Uncertainties*).

### (8) Operating expenses

The Company presents a functional consolidated statement of operations and comprehensive income in which expenses are aggregated according to the function to which they relate. The Company has identified the major functions as selling, general and administrative expenses; research and development expenses; and patent enforcement and re-examination expenses. The following tables present the expenses based on their nature:

<b>Three months ending 31-Jul-17</b>	<b>Selling, general &amp; administrative</b>	<b>Research and development</b>	<b>Patent related</b>	<b>Total</b>
Salaries, contractors, commissions and benefits	\$ 4,588	\$ 84,761	\$ -	\$ 89,349
Stock-based compensation	10,500	-	-	10,500
Patent litigation related expenses	-	-	-	-
Other operating expenses	55,966	8,726	-	64,692
	<u>\$ 71,054</u>	<u>\$ 93,487</u>	<u>\$ -</u>	<u>\$ 164,541</u>

<b>Three months ending 31-Jul-16</b>	<b>Selling, general &amp; administrative</b>	<b>Research and development</b>	<b>Patent related</b>	<b>Total</b>
Salaries, contractors, commissions and benefits	\$ 4,802	\$ 5,157	\$ -	\$ 9,959
Stock-based compensation	91,250	-	-	91,250
Patent litigation related expenses	-	-	-	-
Other operating expenses	34,542	22,687	-	57,229
	<u>\$ 130,594</u>	<u>\$ 27,844</u>	<u>\$ -</u>	<u>\$ 158,438</u>

<b>Nine months ending 31-Jul-17</b>	Selling, general & administrative	Research and development	Patent related	Total
Salaries, contractors, commissions and benefits	\$ 13,824	\$ 102,865	\$ -	\$ 116,689
Stock-based compensation	83,500	-	-	83,500
Patent litigation related expenses	-	-	-	-
Other operating expenses	136,257	17,133	-	153,390
	<u>\$ 233,581</u>	<u>\$ 119,998</u>	<u>\$ -</u>	<u>\$ 353,579</u>

<b>Nine months ending 31-Jul-16</b>	Selling, general & administrative	Research and development	Patent related	Total
Salaries, contractors, commissions and benefits	\$ 87,365	\$ 186,156	\$ -	\$ 273,521
Stock-based compensation	368,940	-	-	368,940
Patent litigation related expenses	-	-	-	-
Other operating expenses	127,377	80,767	-	208,144
	<u>\$ 583,682</u>	<u>\$ 266,923</u>	<u>\$ -</u>	<u>\$ 850,605</u>

Operating expenses for the three months ended July 31, 2017 were \$164,541 (2016 - \$158,438) an increase of \$6,103. The Company reduced its operating expenses significantly in January 2016 as it prepared to work through the appeal process in its patent litigation against Citrix. In addition to moving forward with the appeal process the Company plans to continue to work with Hitachi Solutions Create as well as approach other companies with a goal for them to license the Company's products and technology as well as make its products available from its web site. Substantially all development work has been completed on the products that the Company is looking to license and with respect to the appeal process the Company relies on its lawyers and hence minimal internal resources are expected. Accordingly the Company was able to reduce its expenses substantially with the termination of staff. The Company makes use of third party contractors as required for product development.

Salaries, contractors, commissions and benefits for the three months ended July 31, 2017 were \$89,349 (2016 - \$9,959) an increase of \$79,390. The majority of this increase is due to an increase in amounts paid to third party development contractors that were required to complete the development efforts as part of the co-development agreement with Hitachi Solutions Create.

Other operating expenses for the three months ended July 31, 2017 were \$64,692 (2016 - \$57,229) an increase of \$7,463. There was a decrease in insurance costs during 2017 which was offset by an increase in withholding taxes paid as a result of amounts received for revenue generated in Japan from Hitachi Solutions Create.

During the three and nine month period ended July 31, 2017, the Company recorded compensation expense, a non-cash expense, related to stock options of \$10,500 (2016 - \$91,250) and \$83,500 (2016 - \$368,940) respectively a decrease of \$80,750 and \$285,440 respectively due to a substantial decrease in the grant date fair value of options granted.

There were 835,000 (2016 - 290,000) stock options granted during the nine months ending July 31, 2017. The average grant date fair value of options granted during the nine months ended July 31, 2017 was \$0.034 (2016 -

\$0.34) a decrease of \$0.306. The fair value of each option granted has been estimated on the date of grant using the Black-Scholes fair value option pricing model with the following weighted average assumptions used for grants for the nine months ended July 31, 2017: dividend yield of nil (2016 – nil), expected volatility of 147% (2016 – 114%), weighted average risk-free interest rate of 1.5% (2016 – 1.5%) and expected lives of four years (2016 – three years).

**(9) Liquidity and Capital Resources.**

	As at:		As at:	
	<u>31-Jul-17</u>	<u>30-Apr-17</u>	<u>31-Jul-17</u>	<u>31-Oct-16</u>
Cash and cash equivalents	\$ 243,638	\$ 88,551	\$ 243,638	\$ 173,424

Cash and cash equivalents were \$243,638 as at July 31, 2017 compared to \$88,551 as at April 30, 2017, 2017 an increase of \$155,087 and \$173,424 as at October 31, 2016 an increase of \$70,214.

The increase in cash and cash equivalents from April 30, 2017 to July 31, 2017 of \$155,087 is primarily a result of:

1. Funds were provided by the positive operating results for the three months ending July 31, 2017 of \$79,261. This includes a use of funds to pay interest on the debenture of \$10,000.
2. Funds were provided by a change in non-cash working capital of \$71,474. This is primarily a result in the collection of accounts receivable that were outstanding at April 30, 2017.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. To the extent that the Company does not believe it has sufficient liquidity to meet these obligations, management will consider securing additional funds through equity or debt transactions or explore other options that the Company can identify.

The Company’s long-term viability is dependent on its ability to generate future profitable operations and cash flows and/or obtain additional financing, which would be contingent upon market and other conditions in the future, which are beyond the Company’s control (*see Section 4 – Risks and Uncertainties*).

**(10) Debenture.**

The Company completed a financing which closed on April 24, 2015 and raised \$400,000, which comprises four (4) debenture units ("Debenture Units") which remain outstanding as at April 30, 2017. Each Debenture Unit consists of one secured debenture ("Debenture"), with a principal amount of \$100,000, and 200,000 common share purchase warrants ("Warrants"). Each Debenture bears interest at a rate of 10%, calculated and payable quarterly. The Debentures have a term of 36 months at which they are due in their entirety; however, they are redeemable at any time prior to maturity at the discretion of the Company with payment of an additional three months interest. The Debentures are secured by a general security agreement. Each Warrant will be exercisable into one common share in the capital of the Company at any time until April 27, 2018 at an exercise price of \$0.21 per common share. The proceeds from this offering will be used for working capital purposes. As at July 31, 2017, the Company was in compliance with all covenants of the Debenture Units. In accordance with the provisions of IFRS, as they apply to the Debenture, the Company has split the Debenture and Warrant components of the Debenture into their debt and equity components and recorded the debt component as a liability and the equity component as equity. In determining the valuation of the liability and the equity components, the Company calculated the value of the liability component first, using a discount rate appropriate for what a similar debt instrument, absent any warrants, would have commanded at that time. The

residual of the proceeds over the inherent value of the liability component was attributed to the equity portion of the Debenture. Accretion charges on the liability component aggregating \$12,589 (2016 – 10,866) are calculated using the discount rate of 15% and have been recorded in the statements of operations and comprehensive loss.

**(11) Market risk.**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of currency risk, interest rate risk and market price risk. The Company is exposed to currency risk and interest rate risk.

Currency risk:

Net monetary liabilities due in U.S. dollars include accounts payable of \$346,841 (October 31, 2016 – 346,841), cash of \$180,475 (October 31, 2016 - \$91,820).

The Company reports its results in Canadian dollars. The Company markets its products in Canada, the United States ("U.S.") and other jurisdictions, including Japan. Sales to Japanese customers are primarily denominated in U.S. dollars. Substantially all of the Company's sales are in U.S. dollars. In addition, the Company incurs expenses in the U.S. relating to patent litigation and re-examination expenses, which are denominated in U.S. dollars. As a result, the Company is subject to currency risk from both sales made and expenses incurred in U.S. dollars. The Company does not hedge the risk related to fluctuations in the exchange rate between the U.S. and the Canadian dollar from either the date of the sales transaction to the collection date due or from the date an expense is incurred in the U.S. to the date the payment is made. As at July 31, 2017, the Company had net monetary liabilities due in U.S. dollars of \$166,000 (October 31, 2016 - \$255,000). An increase or decrease in the U.S. to Canadian dollar exchange rate by 10% as at July 31, 2017 would have resulted in a gain in the amount of \$16,600 (October 31, 2016 - \$25,500) or a loss of \$16,600 (October 31, 2016 - \$25,500), respectively.

The Company has performed a sensitivity analysis for foreign exchange exposure over the nine month period ended July 31, 2017. The analysis used a modeling technique that compares the U.S. dollar equivalent of all revenue and expenses incurred in U.S. dollars, at the actual exchange rate, to a hypothetical 10% movement in the foreign currency exchanges rates against the Canadian dollar, with all other variables held constant. Foreign currency exchanges rates used were based on the market rates in effect during the nine month period ended July 31, 2017. The sensitivity analysis indicated that a hypothetical 10% movement in the foreign currency exchange rate from the Canadian dollar to the U.S. dollar would not result in a significant change to the net loss for the nine month period ended July 31, 2017 as there was minimal revenue produced, as well as minimal expenses incurred in U.S. dollars. There can be no assurances that the above projected exchange rate change will materialize. Interest rate risk: The Company is exposed to interest rate risk on its fixed rate financial instruments. Fixed rate instruments subject the Company to fair value interest rate risk, as the fair value of the financial instrument fluctuates due to changes in market interest rates. Financial instruments subject to interest rate risk include demand deposits and the liability component of the debenture.

**(12) Contractual Obligations and Contingencies.**

The contractual obligations the Company has pertains to operating lease agreements for its premises and equipment. The total contractual amount due is \$5,250 for the remainder of fiscal 2017. The premise lease expires February 28, 2018 at a monthly rate of \$1,750. Rental expense under operating lease agreements for the nine month period ended July 31, 2017 were \$15,896 (2016 - \$38,371).

On January 15 and 27, 2010, the Company issued a Series A Secured Debenture, comprising 12 debenture units ("Debenture Units"), which were redeemed on August 25, 2010. Each Debenture Unit maintained its entitlement for the holder thereof to receive 0.4% of the cash proceeds received by the Company as a result of: (a) a final, non-appealable decision by a court of competent jurisdiction in respect of the Company's litigation with Citrix Systems Inc., or (b) a settlement in respect of such matter.

The Company is engaged in legal actions from time to time arising in the ordinary course of business. None of these actions, individually or in the aggregate, are expected to have a material adverse effect on the consolidated financial position or results of operations.

**(13) Related Party Transactions.**

The remuneration of directors and other key management personnel of the Company during the three and nine month periods ended July 31, 2017 and 2016 were as follows:

	<i>For the three months ended</i>		<i>For the nine months ended</i>	
	<u>31-July-17</u>	<u>31-July-16</u>	<u>31-July-17</u>	<u>31-July-16</u>
Salaries	\$ 33,000	\$ -	\$ 33,000	\$ 78,500
Stock-based compensation	\$ 10,500	\$ 91,250	\$ 83,500	\$ 368,940

The Company's President and CEO invoices the Company for his services that pertain to research and development pursuant to a contractor agreement. Fees paid under this agreement during the three month and nine period ended July 31, 2017 were \$33,000 (2016 – nil) and \$33,000 (2016 - \$25,500) respectively, and have been included in research and development expenses and are disclosed in the salaries amounts in the above table. This transaction is in the normal course of operations and is measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The President and CEO did not receive a salary for the three and nine months ended July 31, 2017 (2016 – nil) and nil (2016 – \$9,500) respectively, and for the amount received in 2016 it was recorded in selling, general and administrative expenses and is disclosed in the salaries amount in the above table.

**(14) Critical Accounting Estimates.**

The 2016 annual consolidated financial statements outline the Company's significant accounting policies and estimates. See note 2 of the audited consolidated financial statements for the year ended October 31, 2016 for a discussion regarding the Company's accounting policies and the application of accounting estimates and judgments.

The preparation of consolidated financial statements prepared in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. Management must also make estimates and judgments about future results of operations in assessing recoverability of assets and the value of liabilities. These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Areas requiring the use of estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements include the fair value for stock based compensation transactions where key estimates such as the rate of forfeiture of options granted, the expected life of the option, the volatility of the Company's stock price and the risk free interest rate are used.

#### **Stock based compensation**

During the three and nine month period ended July 31, 2017, the Company recorded compensation expense related to stock options of \$10,500 (2016 - \$91,250) and \$83,500 (2016 - \$368,940) respectively. There were 835,000 (2016 - 290,000) stock options granted during the nine months ending July 31, 2017.

The average grant date fair value of options granted during the nine months ended July 31, 2017 was \$0.034 (2016 - \$0.34). The fair value of each option granted has been estimated on the date of grant using the Black-Scholes fair value option pricing model with the following weighted average assumptions used for grants for the nine months ended July 31, 2017: dividend yield of nil (2016 - nil), expected volatility of 147% (2016 - 114%), weighted average risk-free interest rate of 1.5% (2016 - 1.5%) and expected lives of four years (2016 - three years).

#### **(14) Disclosure Controls and Internal Controls over Financial Reporting.**

In the course of evaluating its internal controls over financial reporting as at July 31, 2017, management has identified the following material weakness:

There is limited segregation of duties which could result in a material misstatement in the Company's consolidated interim or annual financial statements. Given the Company's limited staff level, certain duties within the accounting and finance department cannot be properly segregated. This deficiency, which is pervasive in impact, did not result in a material misstatement to the consolidated financial statements. The Company relies on certain mitigating controls, including periodic substantive review of the consolidated financial statements by the Chief Executive Officer, Audit Committee and Board of Directors, however, these mitigating controls do not eliminate the existence of the material weakness.

As at July 31, 2017 the Company's management evaluated the effectiveness of the design and operation of its disclosure controls and procedures and internal control over financial reporting. Based on their evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures and internal control over financial reporting are ineffective as a result of the material weakness in internal control over financial reporting described above.

There have been no significant changes to the Company's internal control environment during the nine month period ended July 31, 2017 that would have materially affected the Company's internal controls over financial reporting.

**(15) Disclosure of Outstanding Share Data.**

The Company's share capital consists of the following:

Authorized:

- 50,000 Series A preference shares
- Unlimited preference shares, issuable in series
- Unlimited common shares

Issued:

- 66,543,807 common shares

5,028,750 stock options outstanding convertible into common shares at exercise prices ranging from \$0.05 to \$0.49. The options expire between September 3, 2017 and June 7, 2021.

800,000 Debenture Warrants outstanding convertible into common shares at an exercise price of \$0.21. The Debenture Warrants expire on April 27, 2018.

**(16) Quarterly Results of Operations.**

The following tables sets forth certain information from the unaudited consolidated statements of operation for the eight most recent quarters of operations ended July 31, 2017 as prepared in accordance with IFRS.

<i>for the 3 months ending</i>	<i>31-Jul-17</i>	<i>30-Apr-17</i>	<i>31-Jan-17</i>	<i>31-Oct-16</i>
Revenue	\$ 247,269	\$ 129,462	\$ 7,631	\$ 8,905
Expenses (income)				
Selling, general and administrative	71,054	76,493	86,034	62,816
Patent litigation & re-examination expenses	-	-	-	-
Research and development	93,487	21,186	5,325	43,240
Interest	(7)	(19)	(8)	(1,291)
	164,534	97,660	91,351	104,765
Profit (loss) before interest and accretion on liability component of debenture	\$ 82,735	\$ 31,802	\$ (83,720)	\$ (95,860)
Interest on debenture	10,000	10,000	10,000	10,000
Accretion on liability portion of debenture	4,352	4,194	4,043	3,896
Profit (loss) for the period and comprehensive profit (loss)	\$ 68,383	\$ 17,608	\$ (97,763)	\$ (109,756)

<i>for the 3 months ending</i>	<i>31-Jul-16</i>	<i>30-Apr-16</i>	<i>31-Jan-16</i>	<i>31-Oct-15</i>
Revenue	\$ 9,453	\$ 37,509	\$ 9,494	\$ 10,674
Expenses (income)				
Selling, general and administrative	130,594	189,328	263,761	258,795
Patent litigation & re-examination expenses	-	-	-	8,596
Research and development	27,844	50,625	188,453	193,968
Interest	(81)	(59)	(704)	(952)
	158,357	239,894	451,510	460,407
Loss before interest and accretion on liability component of debenture	\$ (148,904)	\$ (202,385)	\$ (442,016)	\$ (449,733)
Interest on debenture	10,000	10,000	10,000	10,000
Accretion on liability portion of debenture	3,756	3,620	3,490	3,363
Loss for the period and comprehensive loss	\$ (162,660)	\$ (216,005)	\$ (455,506)	\$ (463,096)

# 01 Communique Laboratory Inc.

## Corporate Information

### DIRECTORS

Andrew Cheung  
President & CEO

William A. Train  
Chairman  
Private investor

Gigi Loo  
Controller &  
Corporate Secretary

Gary Kissack  
Lawyer, Fogler, Rubinoff LLP

### OFFICERS

Andrew Cheung  
President & CEO

Brian Stringer  
Chief Financial Officer

Gigi Loo  
Controller

### INVESTOR RELATIONS

e-mail to:  
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### CORPORATE HEADQUARTERS

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Common Shares  
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Exchange  
(TSX-V)  
Trading Symbol  
“ONE”