



01 Communique Laboratory Inc.
Interim Consolidated Financial Statements
for the period ended July 31, 2017
(Unaudited)
TSX-V : ONE

Dated: September 12, 2017

01 Communique Laboratory Inc.
Interim Consolidated Statements of Financial Position
(Unaudited)

See accompanying notes to unaudited interim consolidated financial statements

	31-July-17	31-Oct-16
Assets		
Current assets		
Cash and cash equivalents	\$ 243,638	\$ 173,424
Accounts receivable (note 2)	33,883	27,696
Prepaid expenses and other assets	12,803	6,975
	<u>290,324</u>	<u>208,095</u>
Plant and equipment (note 12)	1,921	3,965
	<u>\$ 292,245</u>	<u>\$ 212,060</u>
Liabilities & Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 518,372	\$ 522,119
Deferred revenue	11,690	12,075
Current liability portion of Debenture (note 4)	387,065	---
	<u>917,127</u>	<u>534,194</u>
Liability portion of Debenture (note 4)	---	374,476
Shareholders' equity		
Share capital (note 5)	40,832,777	40,832,777
Contributed surplus	5,394,655	5,311,155
Equity portion of Debenture (note 4)	47,111	47,111
Deficit	(46,899,425)	(46,887,653)
	<u>(624,882)</u>	<u>(696,610)</u>
Going concern (note 1 (b))		
Related party transaction (note 7)		
Contractual obligations and contingencies (note 9)		
	<u>\$ 292,245</u>	<u>\$ 212,060</u>

See accompanying notes to unaudited interim consolidated financial statements

01 Communique Laboratory Inc.
Interim Consolidated Statements of Operations and Comprehensive Profit (Loss)
(Unaudited)
For the 9 month periods ended July 31, 2017 and 2016

	<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
Cost of revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	247,269	9,453	384,362	56,456
Expenses (income) (note 11):				
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	<u>(7)</u>	<u>(81)</u>	<u>(34)</u>	<u>(844)</u>
	<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>
Profit (loss) per common share (note 6)				
Basic	\$ 0.001	\$ (0.002)	\$ (0.000)	\$ (0.013)
Diluted	\$ 0.001	\$ (0.002)	\$ (0.000)	\$ (0.013)
Weighted average number of common shares (note 6)				
Basic	66,543,807	66,543,807	66,543,807	66,468,807
Diluted	66,543,807	66,543,807	66,543,807	66,468,807

01 Communique Laboratory Inc.
Interim Consolidated Statements of Changes in Shareholders' Equity
(Unaudited)
For the 9 month periods ended July 31, 2017 and 2016

Nine month period ended July 31, 2017	Number of shares	Share Capital	Contributed Surplus	Equity portion of debenture	Deficit	Total shareholders' equity
Balance October 31, 2016	66,543,807	\$ 40,832,777	\$ 5,311,155	\$ 47,111	\$(46,887,653)	\$ (696,610)
Comprehensive loss for the period					(11,772)	(11,772)
Stock based compensation expense			83,500			83,500
Balance July 31, 2017	<u>66,543,807</u>	<u>\$ 40,832,777</u>	<u>\$ 5,394,655</u>	<u>\$ 47,111</u>	<u>\$(46,899,425)</u>	<u>\$ (624,882)</u>

Nine month period ended July 31, 2016	Number of shares	Share Capital	Contributed Surplus	Equity portion of debenture	Deficit	Total shareholders' equity
Balance October 31, 2015	66,243,807	\$ 40,628,777	\$ 5,036,997	\$ 47,111	\$(45,943,726)	\$ (230,841)
Comprehensive loss for the period					(834,171)	(834,171)
Stock based compensation expense			368,940			368,940
Exercise of stock options	300,000	204,000	(81,000)			123,000
Balance July 31, 2016	<u>66,543,807</u>	<u>\$ 40,832,777</u>	<u>\$ 5,324,937</u>	<u>\$ 47,111</u>	<u>\$(46,777,897)</u>	<u>\$ (573,072)</u>

See accompanying notes to unaudited interim consolidated financial statements

01 Communique Laboratory Inc.
Interim Consolidated Statements of Cash Flows
(Unaudited)
For the 3 and 9 month periods ended July 31, 2017 and 2016

	three months ending		nine months ending	
	31-Jul-17	31-Jul-16	31-Jul-17	31-Jul-16
Cash provided by (used in):				
Operating activities:				
Income (Loss) for the period	\$ 68,383	\$ (162,660)	\$ (11,772)	\$ (834,171)
Adjustments to reconcile the loss for the period to net cash flows from operating activities				
Depreciation	378	1,204	2,043	4,080
Stock-based compensation	10,500	91,250	83,500	368,940
Accretion on liability portion of debenture	4,352	3,756	12,589	10,866
Interest paid on debenture	10,000	10,000	30,000	30,000
Interest income	(7)	(81)	(34)	(844)
Change in non-cash working capital (note 8)	71,474	10,619	(16,146)	(12,094)
	165,080	(45,912)	100,180	(433,223)
Interest income received	7	81	34	844
	165,087	(45,831)	100,214	(432,379)
Financing activities:				
Issue of common shares	-	-	-	123,000
Interest paid on debenture	(10,000)	(10,000)	(30,000)	(30,000)
Investing activities:				
Purchase of capital assets	-	-	-	(655)
Increase (decrease) in cash	155,087	(55,831)	70,214	(340,034)
Cash and cash equivalents, beginning of period	88,551	267,003	173,424	551,205
Cash and cash equivalents, end of period	\$ 243,638	\$ 211,172	\$ 243,638	\$ 211,171
Cash and cash equivalents comprise:				
Demand deposits	\$ -	\$ 71,500		
Cash	243,638	139,672		
	\$ 243,638	\$ 211,172		

See accompanying notes to unaudited interim consolidated financial statements

01 Communique Laboratory Inc.
Notes to the consolidated financial statements
(Unaudited)
Three and nine month periods ended July 31, 2017 and 2016

Notice to reader of the interim consolidated financial statements

These unaudited interim condensed consolidated financial statements (“interim consolidated financial statements”) of 01 Communique Laboratory Inc. (the “Company”), which include the accompanying interim consolidated statement of financial position as at July 31, 2017 and the interim consolidated statements of operations and comprehensive income (loss), changes in shareholders’ equity and cash flows for the three month and nine periods ended July 31, 2017 and 2016, are the responsibility of the Company’s management. These interim consolidated financial statements have not been audited or reviewed on behalf of the shareholders by the independent external auditors of the Company, Shimmerman Penn LLP. The unaudited interim consolidated financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with accounting principles generally accepted in Canada. These unaudited interim consolidated financial statements are prepared under International Financial Reporting Standards (“IFRS”) and reflect management’s best estimates and judgment based on information currently available.

The Company was incorporated on October 7, 1992 under the laws of Ontario. The Company develops and markets remote access and online collaboration solutions. The Company’s solutions consist of its I’m InTouch, I’m OnCall and I’m InTouch Meeting product lines, which provide users with the ability to conduct online meetings and access and/or remotely control their PC from anywhere, anytime using virtually any device connected to the Internet.

The Company’s head office is located at 1450 Meyerside Drive, Suite 500, Mississauga, Ontario, L5T 2N5 and its common shares are traded on the TSX Venture Exchange (“TSX-V”) under the symbol ONE.

(1) Significant accounting policies:

(a) Statement of compliance and basis of presentation:

These interim consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”) and on a basis consistent with the accounting policies disclosed in the Company’s annual audited consolidated financial statements for the year ended October 31, 2016. The accounting standards applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of the date the Board of Directors authorized the financial statements for issue.

The interim consolidated financial statements were authorized for issue by the Board of Directors on September 12, 2017.

The interim consolidated financial statements are prepared in Canadian dollars and include the accounts of the Company and its wholly owned subsidiary, 01 Communique (GP) Inc. Intercompany transactions and balances are eliminated on consolidation.

The interim consolidated financial statements have been prepared on the historical cost basis, except for the following items in the consolidated statements of financial position:

Financial instruments at fair value through profit and loss are measured at fair value; and
Available-for-sale financial assets are measured at fair value.

Presentation of the interim consolidated statements of financial position differentiates between current and non-current assets and liabilities. The interim consolidated statements of operations and comprehensive income are presented using the functional classification for expenses.

(b) Going Concern:

These 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.

(2) Financial instruments and financial risk management:

(a) Financial instruments:

The Company has classified its financial instruments as follows:

	31-July-17	31-Oct-16
Financial assets:		
Held-for-trading, measured at fair value:		
Cash and cash equivalents	\$ 243,638	\$ 173,424
Loans and receivables, recorded at cost:		
Accounts receivable	33,883	27,696
Financial liabilities, recorded at amortized cost:		
Accounts payable and accrued liabilities	518,372	522,119
Liability portion of Debenture due April 27,2018	387,065	374,476

Accounts receivable comprise the following:

	31-July-17	31-Oct-16
Trade receivables	\$ 23,208	\$ -
Investment tax credits receivable	-	20,652
Other	10,675	7,044
	<u>\$ 33,883</u>	<u>\$ 27,696</u>

(b) Financial risk management:

(i) Overview:

The Company has exposure to credit risk, liquidity risk and market risk. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

(ii) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable. The carrying amount of financial assets represents the maximum credit exposure.

The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Company generally does not require collateral for sales on credit. The Company closely monitors extensions of credit and has not experienced significant credit losses in the past. At July 31, 2017 and October 31, 2016, the Company had a nil balance in the allowance for doubtful accounts and had no material past due trade receivables.

The Company invests its cash with the objective of maintaining safety of principal and providing adequate liquidity to meet all current payment obligations. The Company invests its cash in cash equivalents with Canadian chartered banks that are of high credit quality. Given these high credit ratings, the Company does not expect any counterparties to these cash equivalents to fail to meet their obligations.

(iii) Concentrations of credit risk:

The company had one customer that comprised 97% (2016 - nil) of revenue during the three month period ending July 31, 2017 and 94% (2016 – 49%) of revenue during the nine month period ending July 31, 2017. There were no other customers that represented 10% or more of revenue.

(iv) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet its liabilities when 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.

However, the Company has sustained substantial losses 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, which would be contingent upon market and other conditions in the future, which are beyond the Company's control.

At July 31, 2017, the Company had financial assets held-for-trading of \$243,638 (October 31, 2016 - \$173,424), loans and receivables of \$33,883 (October 31, 2016 - \$27,696) and financial liabilities of \$905,437 (October 31, 2016 - \$896,595). All of the Company's financial liabilities, which include the \$400,000 Debenture, have short terms to maturity. The Company has a \$400,000 Debenture which is due April 27, 2018. The Company has split the Debenture and Warrant components of the Debenture into the debt and equity components and recorded the debt component as a liability and the equity component as equity. The Debenture's amortized cost as at July 31, 2017 is \$387,065 (note 4).

The Company manages its liquidity risk by continuously monitoring forecast and actual cash flows.

(v) 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.

(vi) Fair values of financial instruments:

The carrying values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity and terms of these financial instruments. The Debenture has a maturity date of April 27, 2018, and in determining the fair value 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.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The table below presents the Level in the fair value hierarchy into which the fair values of financial instruments that are carried at fair value on the consolidated statements of financial position are categorized:

	Level 1	Level 2	Level 3
	Quoted market price	Valuation technique using observable market inputs	Valuation technique using non-observable market inputs
Financial assets:			
Cash and cash equivalents:			
July 31, 2017	\$ 243,638	\$ –	\$ –
October 31, 2016	173,424	–	–

There were no financial instruments categorized in Level 2 or Level 3 as at July 31, 2017 and October 31, 2016.

There were no transfers of assets between levels during the nine month period ended July 31, 2017 and the year ended October 31, 2016.

(3) Capital risk management:

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund operations and discharge liabilities as they become due. Management performs regular reviews of its forecasted cash flow requirements to ensure cash flow needs are addressed. Refer to note 1(b) of these consolidated financial statements for the Company's plans in place in order to achieve these objectives.

The capital structure of the Company is composed of the liability component of the debenture.

The Company is not subject to externally imposed capital requirements.

(4) 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 July 31, 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.

(5) Share Capital:

Authorized:

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

Change in issued and outstanding common shares for the nine month period ended July 31, 2017:

	Number	Amount
Shares outstanding October 31, 2016 and July 31, 2017	66,543,807	\$ 40,832,777

(a) Debenture Warrants:

	Number	Weighted average exercise price
Debenture Warrants issued April 24, 2015 and outstanding July 31, 2017	800,000	\$ 0.21

(b) Changes to the Company's stock option plan for the nine month period ended July 31, 2017:

	Number	Weighted average price
Options outstanding as at October 31, 2016	5,575,000	\$ 0.21
Granted	835,000	\$ 0.05
Expired	(1,381,250)	\$ 0.24
Options outstanding as at April 30, 2017	5,028,750	\$ 0.17

A summary of the options outstanding are as follows:

Range of exercise prices	Number Outstanding	<u>Options Outstanding</u>		<u>Options Exercisable</u>	
		Weighted average remaining life	Weighted average exercise	Number exercisable	Weighted Average Exercise
\$0.05	2,735,000	3.3	\$0.05	1,850,000	\$0.05
\$0.20 to \$0.22	1,138,750	1.2	\$0.20	1,138,750	\$0.20
\$0.42 to \$0.49	1,155,000	1.9	\$0.44	1,155,000	\$0.44
	<u>5,028,750</u>	<u>2.5</u>	<u>\$0.17</u>	<u>4,143,750</u>	<u>\$0.20</u>

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).

(6) Loss per share:

The computations for basic and diluted income (loss) per share are as follows:

For the three months ended	<u>31-July-17</u>	<u>31-July-16</u>
Profit (Loss) for the period	\$ 68,383	\$ (162,660)
Weighted average number of common shares outstanding		
Basic		
Diluted	66,543,807	66,543,807
	66,543,807	66,543,807
Income (Loss) per common share		
Basic	\$ 0.001	\$ (0.002)
Diluted	\$ 0.001	\$ (0.002)
For the nine months ended	<u>31-July-17</u>	<u>31-July-16</u>
Loss for the period	\$ (11,772)	\$ (834,171)
Weighted average number of common shares outstanding		

Basic		
Diluted	66,543,807	66,468,807
	66,543,807	66,468,807
Income (Loss) per common share		
Basic		
Diluted	\$ (0.000)	\$ (0.013)
	\$ (0.01)	\$ (0.010)

As the Company is in a loss position for the nine months ended July 31, 2017 and 2016, the inclusion of options and warrants in the calculation of diluted earnings per share would be antidilutive, and accordingly, were excluded from the diluted loss per share calculation.

(7) 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.

(8) Change in non-cash operating working capital:

	<i>three months ending</i>		<i>nine months ending</i>	
	<u>31-Jul-17</u>	<u>31-Jul-16</u>	<u>31-Jul-17</u>	<u>31-Jul-16</u>
Change in non-cash working capital				
Accounts receivable	\$ 67,575	\$ 5,132	\$ (6,187)	\$ 85,286
Prepaid expenses and other assets	6,522	25,802	(5,828)	(38,680)
Accounts payable & accruals	(1,700)	(18,987)	(3,746)	(57,324)
Deferred revenue	(923)	(1,328)	(385)	(1,376)
	<u>\$ 71,474</u>	<u>\$ 10,619</u>	<u>\$ (16,146)</u>	<u>\$ (12,094)</u>

(9) 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.

(10) Segmented Information:

Revenue attributable to geographical location based on the customer is as follows:

	<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>

Substantially all of the Company's identifiable assets as at July 31, 2017 and October 31, 2016 are located in Canada.

(11) 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 table presents the expenses based on their nature:

Three months ending 31-Jul-17	Selling, general & administrative	Research and development	Patent related	Total
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>

Three months ending 31-Jul-16	Selling, general & administrative	Research and development	Patent related	Total
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>

Nine months ending 31-Jul-17	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>

Nine months ending 31-Jul-16	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>

(12) Property and Equipment:**July 31 2017**

	Computer Systems	Communications Equipment	Furniture and fixtures and leaseholds	Total
Cost				
Balance at October 31, 2016	\$ 532,397	\$ 26,887	\$ 130,002	\$ 689,286
Additions	-	-	-	-
Balance at July 31, 2017	<u>\$ 532,397</u>	<u>\$ 26,887</u>	<u>\$ 130,002</u>	<u>\$ 689,286</u>
Depreciation				
Balance at October 31, 2016	\$ 528,546	\$ 26,774	\$ 130,002	\$ 685,322
Additions	1,930	113	-	2,043
Balance at July 31, 2017	<u>\$ 530,476</u>	<u>\$ 26,887</u>	<u>\$ 130,002</u>	<u>\$ 687,365</u>
Carry amounts				
At October 31, 2016	\$ 3,852	\$ 113	\$ -	\$ 3,965
Balance at July 31, 2017	\$ 1,921	\$ -	\$ -	\$ 1,921

July 31 2016

	Computer Systems	Communications Equipment	Furniture and fixtures and leaseholds	Total
Cost				
Balance at October 31, 2015	\$ 531,742	\$ 26,887	\$ 130,002	\$ 688,631
Additions	656	-	-	656
Balance at July 31, 2016	<u>\$ 532,398</u>	<u>\$ 26,887</u>	<u>\$ 130,002</u>	<u>\$ 689,287</u>
Depreciation				
Balance at October 31, 2014	\$ 525,006	\$ 25,657	\$ 129,372	\$ 680,035
Additions	1,768	558	1,757	4,083
Balance at July 31, 2016	<u>\$ 526,774</u>	<u>\$ 26,215</u>	<u>\$ 131,129</u>	<u>\$ 684,118</u>
Carry amounts				
At October 31, 2015	\$ 6,736	\$ 1,230	\$ 630	\$ 8,596
At July 31, 2016	\$ 5,624	\$ 672	-\$ 1,127	\$ 5,169

01 Communique Laboratory Inc.

Corporate Information

DIRECTORS

Andrew Cheung
President & CEO

William A. Train
Chairman
Private investor

Gigi Loo
Controller and Corporate
Secretary

Gary Kissack
Lawyer, Fogler, Rubinoff LLP

OFFICERS

Andrew Cheung
President & CEO

Brian Stringer
Chief Financial Officer

Gigi Loo
Controller

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