



01 Communique Laboratory Inc.

Management's Discussion and Analysis

For the year ended October 31, 2016

ONE : TSX-V

Dated: February 2, 2017

01 COMMUNIQUE LABORATORY INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations
(In Canadian dollars)

Years ended October 31, 2016 and 2015

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.

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 audited consolidated financial statements were authorized for issue by the board of directors on February 1, 2017.

All amounts are expressed in Canadian dollars unless otherwise stated. This MD&A is effective as of February 1, 2017.

Additional information on the Company, including its audited consolidated financial statements and Annual Information Form, 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.

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2. Forward-looking statements (continued):

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, the factors discussed under "Risk Factors" in the Company's Annual Information Form filed on SEDAR as well as additional 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";

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3. Corporate overview (continued):

- 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. 14/486,492 entitled "System, computer product and method for implementing a cloud service with private storage"

The Company's strategy is to market its products that are built on its patented intellectual property. The Company also plans to approach companies with a goal to enter into licensing agreements along the line of its agreement with Hitachi Solutions Business Ltd. ("Hitachi"). The Company believes this strategy of direct marketing combined with product and IP licensing provides the best opportunity for the Company to participate in the remote access and online meeting/communications market.

4. 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 October 31, 2016 the Company reported a working capital deficiency of \$326,099 (2015 – surplus of \$120,277). 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 Business Solutions Ltd. ("Hitachi"). 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.

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4. Going concern (continued):

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.

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 OnCall and I'm InTouch Meeting. 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) 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;

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4. Going concern (continued):

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. Citrix's opposition brief to these motions was filed and the Company's reply brief was filed on April 28, 2016. Now that all briefs are filed the Company is waiting for a decision by the District Court on this matter and then an appeal to the United States Court of Appeals for the Federal Circuit can be taken, if needed.

The Company plans to continue operations as well as pursue the matters with Citrix until its conclusion. While the Company's plan is to appeal this 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.

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4. Going concern (continued):

(iii) Build licensing revenue from the Hitachi relationship.

The Company has formed a relationship with Hitachi whereby the companies have co-developed products for the Japanese market based on the Company's intellectual property portfolio. Hitachi 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's sales activities.

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5. Overview of results of operations:

The information in the financial table below presents selected financial information for the three years ended October 31, 2016, 2015 and 2014. Information has been prepared in accordance with IFRS. The amounts are in Canadian Dollars.

<u>Selected Financial Information</u>	<i>Fiscal 2016</i>	<i>Fiscal 2015</i>	<i>Fiscal 2014</i>
Revenue	\$ 65,361	\$ 86,985	\$ 266,691
Expenses (income):			
Selling, general and administration	646,498	834,524	1,327,639
Patent litigation and re-examination	---	15,254	267,968
Research and development	310,163	784,319	763,738
Interest	(2,135)	(2,863)	(19,322)
	954,526	1,631,234	2,340,023
Loss before interest and accretion on liability component of debenture	(889,165)	(1,544,249)	(2,073,332)
Interest on debenture	40,000	20,650	--
Accretion on liability component of debenture	14,762	6,825	--
Loss for the year and comprehensive loss	\$ (943,927)	\$ (1,571,724)	\$ (2,073,332)
Loss per common share			
Basic	\$ (0.01)	\$ (0.02)	\$ (0.03)
Diluted	\$ (0.01)	\$ (0.02)	\$ (0.03)
Total assets, end of year	\$ 212,060	\$ 693,453	\$ 1,524,851
Cash and cash equivalents, end of year	\$ 173,424	\$ 551,205	\$ 1,370,813

The loss and comprehensive loss for fiscal 2016 was \$943,927 a reduction of \$627,797 from the loss of \$1,571,724 in 2015 and a reduction of \$1,129,405 from the loss of \$2,073,332 in 2014. The major reasons for the variance in the loss for fiscal years 2014 through 2016 are as follows:

- (a) The reduction in revenue over the three year period is due for the most part to a reduction in contract engineering fees in Japan during 2015 and 2016.

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5. Overview of results of operations (continued):

- (b) In January 2016 the Company reduced operating expenses significantly as it prepared to work through the appeal process in its patent lawsuit against Citrix. Total operating expenses, a combination of selling, general and administration ("SG&A"), research and development and patent litigation and re-examination expenses, for fiscal 2016 were \$956,661 (2015 - \$1,634,097 and 2014 - \$2,359,345), which is a reduction of \$677,436 from 2015 and a reduction of \$1,402,684 from 2014. In addition to moving forward with the appeal process the Company plans to continue and work with Hitachi as well as approach other companies with a goal for them to license the Company's products and patented 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 and as well the Company's executive management and board of directors agreed not to draw a salary. Total salaries, contractors, commissions and benefits for fiscal 2016 was \$282,334 (2015 - \$939,877 and 2014 - \$1,100,946) a reduction of \$657,543 from 2015 and \$818,612 from 2014. The Company's executive management and board of directors continue to receive stock options under the Company's employee stock option plan. Stock based compensation expense for fiscal 2016 was \$355,158 (2015 - \$293,410 and 2014 - \$514,663) an increase of \$61,748 from 2015 and a decrease of \$159,505 from 2014.
- (c) Patent enforcement and re-examination expenses fluctuate with the level of activity in respect of the Company's patent litigation and the re-examination requested by Citrix. The re-examination was brought to a conclusion with the USPTO issuing the inter partes re-examination certificate affirming the validity of the '479 Patent in fiscal 2015. 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.
- (d) Cash and cash equivalents as at October 31, 2016 were \$173,424 (2015 - \$551,205 and 2014 - \$1,370,813) a reduction of \$377,781 during 2016 and \$819,608 during 2015. Cash and cash equivalents were used to fund the Company's adjusted loss for the period of \$583,482 (2015 - \$1,272,202). Cash was provided by the issuance of a debenture in 2015 of \$400,000 and issuance of common shares on the exercise of stock options in 2016 of \$123,000 (2015 - \$205,000).

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6. Use of non-IFRS terms:

(a) 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 fiscal year ended</i>		
	<u>31-Oct-16</u>	<u>31-Oct-15</u>	<u>Increase (decrease)</u>
Total operating expenses	\$ 956,661	\$ 1,634,097	\$ (677,436)
Less - Stock based compensation	355,158	293,410	61,748
Depreciation and amortization	<u>5,287</u>	<u>6,112</u>	<u>(825)</u>
Cash operating expenses	<u>596,216</u>	<u>1,334,575</u>	<u>(738,359)</u>
Less - Patent litigation and re-examination	<u>-</u>	<u>15,254</u>	<u>15,254</u>
Cash operating expenses, excluding patent litigation and re-examination expenses	<u>\$ 596,216</u>	<u>\$ 1,319,321</u>	<u>\$ (723,105)</u>

Cash operating expenses excluding patent litigation and re-examination expenses for 2016 were \$596,216 (2015 - \$1,319,321) a \$723,105 reduction. There was a significant decrease of \$657,543 in expenses for salaries, contractors, commissions and benefits which contributed substantially to this reduction.

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6. Use of non-IFRS terms (continued):

(b) In the Company's financial reporting, reference is made to adjusted loss, 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 loss is the loss for the period and comprehensive loss excluding non-cash operating expenses and is indicative of the 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 loss.

	<i>For the fiscal year ended</i>		
	<i>31-Oct-16</i>	<i>31-Oct-15</i>	<i>Increase (decrease)</i>
Loss for the period and comprehensive loss	\$ (943,927)	\$ (1,571,724)	\$ (627,797)
Less: non cash operating expenses	(360,445)	(299,522)	(60,923)
Adjusted loss for the period	\$ (583,482)	\$ (1,272,202)	\$ (688,720)

The loss and comprehensive loss for 2016 of \$943,927 (2015 - \$1,571,724) includes a deduction for non-cash expenses of \$360,445 (2015 - \$299,522). Excluding these non-cash operating expenses, which are included in operating expenses, the adjusted loss for 2016 becomes \$583,482 (2015 - \$1,272,202).

7. Results of operations:

Revenue

	<i>For the fiscal year ended</i>		
	<i>31-Oct-16</i>	<i>31-Oct-15</i>	<i>Increase (decrease)</i>
United States	\$ 24,597	\$ 23,782	\$ 815
Canada	13,164	18,853	(5,689)
Japan	27,600	44,350	(16,750)
	\$ 65,361	\$ 86,985	\$ (21,624)

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7. Results of operations (continued):

There was a decrease in revenue of \$21,624 the majority of which is due to a reduction in contract engineering fees from Japan.

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 2016 and 2015 were 100%.

Selling, general and administration ("SG&A")

	<i>For the fiscal year ended</i>		
	<u>31-Oct-16</u>	<u>31-Oct-15</u>	<u>Increase (decrease)</u>
Selling, general and administration	\$ 646,498	\$ 834,524	\$ (188,026)
less: stock-based compensation	<u>(355,158)</u>	<u>(293,410)</u>	<u>(61,748)</u>
	<u>\$ 291,340</u>	<u>\$ 541,114</u>	<u>\$ (249,774)</u>

SG&A expenses, net of stock based compensation for 2016 was \$291,340 (2015 – \$541,114) a reduction of \$249,774. There was a reduction in salaries, contractors, commissions and benefits of \$193,840 primarily a result of a reduction in head count and in January 2016 the Company's directors and executive management agreed not to draw a salary. The Company also reduced other administrative expenses required to operate the business by \$55,934.

During 2016, the Company's directors and executive management continued to receive stock options as part of the Company's employee stock option plan. The Company recorded total compensation expense related to stock options of \$355,158 (2015 - \$293,410) an increase of \$61,748. The increase is primarily due to the stock-based compensation expense related to stock options granted in 2016. The average grant date fair value of options granted during the year was \$0.08 (2015 - \$0.21). 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 year ended October 31, 2016: dividend yield of nil (2015 - nil), expected volatility of between 114% and 160% (2015 - 106% and 130%), weighted average risk-free interest rate of 1.5% (2015 - 1.5%) and expected lives of between three and four years (2015 - three and four years).

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7. Results of operations (continued):

Research and development

	<i>For the fiscal year ended</i>		
	<u>31-Oct-16</u>	<u>31-Oct-15</u>	<u>Increase (decrease)</u>
Research and development	\$ 310,163	\$ 784,319	\$ (474,156)

Research and development expenses for 2016 were \$310,163 (2015 - \$784,319) a decrease of \$474,156. Substantially all development work has been completed on the products that the Company is looking to license and make available on its web site. Accordingly, the Company reduced research and development expenses significantly.

Patent litigation and re-examination expenses

	<i>For the fiscal year ended</i>		
	<u>31-Oct-16</u>	<u>31-Oct-15</u>	<u>Increase (decrease)</u>
Patent litigation and re-examination	\$ -	\$ 15,254	\$ (15,254)

Patent enforcement and re-examination expenses have fluctuated in the past with the level of activity in respect of the Company's patent litigation with 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.

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 litigation and re-examination expenses. The following tables present the expenses based on their nature:

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8. Operating expenses (continued):

year ended 31-Oct-16	Selling, general and administrative	Research and development	Patent related	Total
Salaries, contractors, commissions and benefits	\$ 77,509	\$ 204,825	\$ -	\$ 282,334
Stock-based compensation	355,158	-	-	355,158
Patent litigation related expenses	-	-	-	-
Other operating expenses	213,831	105,338	-	319,169
	<u>\$ 646,498</u>	<u>\$ 310,163</u>	<u>\$ -</u>	<u>\$ 956,661</u>

year ended 31-Oct-15	Selling, general and administrative	Research and development	Patent related	Total
Salaries, contractors, commissions and benefits	\$ 271,349	\$ 668,528	\$ -	\$ 939,877
Stock-based compensation	293,410	-	-	293,410
Patent litigation related expenses	-	-	15,254	15,254
Other operating expenses	269,765	115,791	-	385,556
	<u>\$ 834,524</u>	<u>\$ 784,319</u>	<u>\$ 15,254</u>	<u>\$ 1,634,097</u>

Operating expenses for 2016 were \$956,661 (2015 - \$1,634,097) a decrease of \$677,436. In January 2016, the Company reduced operating expenses significantly as it prepared to work through the appeal process in its patent lawsuit against Citrix. In addition to moving forward with the appeal process the Company plans to continue and work with Hitachi 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.

Salaries, contractors, commissions and benefits were \$282,334 (2015 - \$939,877) a reduction of \$657,543 a result of a reduction in head count and in January 2016 the Company's directors and executive management agreed not to draw a salary.

Other operating expenses required to run the business were \$319,169 (2015 - \$385,556) a reduction of \$66,387.

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8. Operating expenses (continued):

During 2016 the Company's directors and executive management continued to receive stock options under the Company's employee stock option plan. The Company recorded total compensation expense related to stock options of \$355,158 (2015 - \$293,410) an increase of \$61,748. The increase is primarily due to the stock-based compensation expense related to stock options granted in 2016. The average grant date fair value of options granted during the year was \$0.08 (2015 - \$0.21). 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 year ended October 31, 2016: dividend yield of nil (2015 - nil), expected volatility of between 114% and 160% (2015 - 106% and 130%), weighted average risk-free interest rate of 1.5% (2015 - 1.5%) and expected lives of between three and four years (2015 - three and four years).

Patent enforcement and re-examination expenses fluctuated with the level of activity in respect of the Company's patent litigation with Citrix. These 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.

9. Liquidity and capital resources:

	As at:		
	<u>31-October-16</u>	<u>31-October-15</u>	<u>(Decrease)</u>
Cash and cash equivalents	\$ 173,424	\$ 551,205	\$ (377,781)

Cash and cash equivalents were \$173,424 as at October 31, 2016 compared to \$551,205 as at October 31, 2015 a decrease of \$377,781, primarily a result of:

1. The Company funding its adjusted loss for 2016 of \$583,482.
2. A source of funds was provided by a change in non-cash working capital of \$68,595 the majority a result of a decrease in accounts receivable of \$84,338 offset by a decrease in accounts payable and accrued liabilities of \$27,380.
3. A source of funds was also provided by the exercise of stock options in December 2015 providing a source of funds of \$123,000.

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.

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9. Liquidity and capital resources (continued):

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 October 31, 2016, the Company had financial assets held for trading of \$173,424 (2015 - \$551,205), loans and receivables of \$27,696 (2015 - \$112,034), financial liabilities of \$896,595 (2015 - \$909,213), consisting of accounts payables and accrued liabilities and debentures. All of the Company's financial liabilities, with the exception of a 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 October 31, 2016 is \$374,476 (2015 - \$359,714).

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

10. Fourth quarter 2016 results:

Summary of results:

	<i>for the 3 months ending</i>	
	<u>31-Oct-16</u>	<u>31-Oct-15</u>
Revenue	\$ 8,905	\$ 10,674
Cost of revenue	-	-
	<u>8,905</u>	<u>10,674</u>
Expenses (income):		
Selling, general and administrative	62,816	258,795
Patent litigation and re-examination expenses	-	8,596
Research and development	43,240	193,968
Interest	(1,291)	(952)
	<u>104,765</u>	<u>460,407</u>

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10. Fourth quarter 2016 results (continued):

Loss before interest and accretion on liability component of debenture	\$	(95,860)	\$	(449,733)
Interest on debenture		10,000		10,000
Accretion on liability portion of debenture		3,896		3,363
Loss for the period and comprehensive loss	\$	(109,756)	\$	(463,096)
Loss per common share				
Basic	\$	(0.002)	\$	(0.007)
Diluted	\$	(0.002)	\$	(0.007)
Weighted average number of common shares				
Basic		66,543,807		66,243,807
Diluted		66,543,807		66,243,807

The loss for the three months ended October 2016 was \$109,756 (2015 - \$463,096) a reduction of \$353,340. The main reasons for the decrease are as follows:

- (a) Revenue of \$8,905 remained fairly consistent compared to \$10,674 in 2015 and was a result of marketing of the Company's products on its web site.
- (b) SG&A expenses were \$62,816 (2015 - \$258,795) a reduction of \$195,979 primarily due to a \$141,774 reduction in stock based compensation and a \$67,489 reduction in salaries, contractors, commissions and benefits.
- (c) Research and development expenses were \$43,240 (2015 - \$193,968) a decrease of \$150,728 primarily a result of a decrease in costs related to salaries, contractors and benefits resulting from the Company's reduction in head count.

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10. Fourth quarter 2016 results (continued):

The cash operating expenses for the quarter are shown in the following table:

	<i>For the three months ended</i>		
	<i>31-Oct-16</i>	<i>31-Oct-15</i>	<i>Increase (decrease)</i>
Total operating expenses	\$ 106,056	\$ 461,359	\$ (355,303)
Less - Stock based compensation	(13,782)	127,992	(141,774)
Depreciation and amortization	1,205	1,393	(188)
Cash operating expenses	118,633	331,974	(213,341)
Less - Patent litigation and re-examination	-	8,596	(8,596)
Cash operating expenses, excluding patent litigation and re-examination expenses	\$ 118,633	\$ 323,378	\$ (204,745)

The cash operating expenses excluding patent litigation and re-examination expenses for the fourth quarter 2016 were \$118,633 (2015 - \$323,378) a reduction of \$204,745 primarily a result of a reduction in salaries, contractors, commissions and benefits of \$223,456 which was offset by an increase in other administrative operating expenses, which includes costs of running the business, of \$18,523 from \$92,502 in 2015 to \$111,025 in 2016.

The adjusted loss for the quarter is shown in the following table:

	<i>For the three months ended</i>		
	<i>31-Oct-16</i>	<i>31-Oct-15</i>	<i>Increase (decrease)</i>
Loss for the period and comprehensive loss	\$ (109,756)	\$ (463,096)	\$ (353,340)
Less: non cash operating expenses	12,577	(129,385)	(141,962)
Adjusted loss for the period	\$ (122,333)	\$ (333,711)	\$ (211,378)

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10. Fourth quarter 2016 results (continued):

The adjusted loss for the fourth quarter 2016, which excludes the effect of non cash operating expenses, was \$122,333 (2015 - \$333,711) a reduction of \$211,378 primarily a result in the reduction in cash operating expenses of \$213,341.

The following table presents the operating expenses for the quarter according to the function to which they relate:

Three months ending 31-Oct-16	Selling, general and admin.	Research and development	Patent related	Total
Salaries, contractors, commissions and benefits	\$ 1,846	\$ 6,967	\$ -	\$ 8,813
Stock-based compensation	(13,782)	-	-	(13,782)
Patent litigation related expenses	-	-	-	-
Other operating expenses	74,752	36,273	-	111,025
	<u>\$ 62,816</u>	<u>\$ 43,240</u>	<u>\$ -</u>	<u>\$ 106,056</u>

Three months ending 31-Oct-15	Selling, general and admin.	Research and development	Patent related	Total
Salaries, contractors, commissions and benefits	\$ 69,335	\$ 162,934	\$ -	\$ 232,269
Stock-based compensation	127,992	-	-	127,992
Patent litigation related expenses	-	-	8,596	8,596
Other operating expenses	61,469	31,033	-	92,502
	<u>\$ 258,796</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 461,359</u>

Operating expenses for the fourth quarter 2016 were \$106,056 (2015 - \$461,359) a reduction of \$355,303. This is primarily due to a reduction in stock-based compensation of \$141,774 and a reduction in salaries, contractors, commissions and benefits of \$223,456.

Use of Capital Resources:

	As at:		
	31-Oct-16	31-Jul-16	Increase (decrease)
Cash and cash equivalents	\$ 173,424	\$ 211,172	\$ (37,748)

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10. Fourth quarter 2016 results (continued):

Cash and cash equivalents decreased by \$37,748 during the fourth quarter 2016. This is primarily due to the Company funding its adjusted loss for the fourth quarter 2016 of \$122,333, which was offset by an increase in non-cash working capital of \$80,689 the majority of which is a result of an increase in accounts payable and accrued liabilities of \$29,943 which will be paid in the first quarter 2017 and a decrease in prepaid expenses and other assets of \$53,324 the amounts which have already been paid.

11. 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 October 31, 2016. 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 October 31, 2016, 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 \$14,762 (2015 – 6,825) are calculated using the discount rate of 15% and have been recorded in the statements of operations and comprehensive loss.

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12. 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 (2015 – 338,041), cash of \$91,820 (2015 - \$54,041) and accounts receivable of \$nil (2015 - \$15,000).

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 October 31, 2016, the Company had net monetary liabilities due in U.S. dollars of \$255,000 (2015 - \$269,000). An increase or decrease in the U.S. to Canadian dollar exchange rate by 10% as at October 31, 2016 would have resulted in a gain in the amount of \$25,500 (2015 - \$26,900) or a loss of \$25,500 (2015 - \$26,900), respectively.

The Company has performed a sensitivity analysis for foreign exchange exposure over the year ended October 31, 2016. 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 year ended October 31, 2016. 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 year ended October 31, 2016 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.

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12. Market Risk (continued):

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.

13. Contractual obligations and contingencies:

The Company has entered into operating lease agreements for premises. The minimum annual rental payment due in 2017 for the Canadian premises is \$7,000. The premises lease expires February 28, 2017.

Rental expense under operating lease agreements for the year was \$44,237 (2015 - \$89,850).

On January 15 and 27, 2010, the Company issued a Series A Secured Debenture, comprising 12 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, is expected to have a material adverse effect on the consolidated financial position or results of operations.

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 its patent litigation with Citrix Systems Inc. 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

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13. Contractual obligations and contingencies (continued):

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.

14. Related party transactions:

The remuneration of directors and other key management personnel of the Company during the years ended October 31, 2016 and 2015 was as follows:

	2016	2015
Salaries	\$ 78,500	\$ 314,000
Stock-based compensation	330,472	216,980

The Company's President and Chief Executive Officer invoices the Company for his services that pertain to research and development pursuant to a contractor agreement. Fees paid under this agreement during 2016 were \$25,500 (2015 - \$102,000) and have been included in research and development expenses and are disclosed in the salaries amounts in the above table. In addition, the President and Chief Executive Officer received a salary for 2016 of \$9,500 (2015 - \$38,000) which has been recorded in selling, general and administrative expenses, and is disclosed in the salaries amounts in the above table.

15. Critical accounting estimates:

The 2016 annual consolidated financial statements outline the Company's significant accounting policies and estimates. See note 1 and 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.

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15. Critical accounting estimates (continued):

Areas requiring the use of estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements include:

- (i) 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. The Company accounts for its stock option plan using the fair value method. The fair value of each stock option granted is estimated on the date of the grant using the Black-Scholes option pricing model and expensed over the vesting period. No compensation expense is recognized for stock options that employees forfeit if they fail to satisfy the service requirement for vesting.

During 2016 the Company recorded total compensation expense related to stock options of \$355,158 (2015 - \$293,410) an increase of \$61,748. The increase is primarily due to the stock-based compensation expense related to stock options granted in 2016. The average grant date fair value of options granted during the year was \$0.08 (2015 - \$0.21). 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 year ended October 31, 2016: dividend yield of nil (2015 - nil), expected volatility of between 114% and 160% (2015 - 106% and 130%), weighted average risk-free interest rate of 1.5% (2015 - 1.5%) and expected lives of between three and four years (2015 - three and four years).

- (ii) The split of the Debenture and Warrant components of the Debenture into their debt and equity components and recording of 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 \$14,762 (2015: \$6,825) are calculated using the discount rate of 15% and have been recorded in the statement of operations and comprehensive loss.

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16. Risk factors:

An investment in Common Shares is speculative and involves a high degree of risk, is subject to the following specific risks, among others, and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks. Common Shares should not be purchased by persons who cannot afford the possibility of the loss of their entire investment. Prospective investors should review these risks as well as other matters disclosed elsewhere in this Annual Information Form with their professional advisors.

Prospects for companies in the computer and software industry generally may be regarded as uncertain given the inherent nature of the industry and, accordingly, investments in such companies should be regarded as speculative.

(a) Lack of Revenue and Profitability

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.

Management's plan to reduce the operating loss and ultimately become profitable 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 Hitachi Solution Business Ltd. ("Hitachi"). 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 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. *See Section 4 - Going Concern.*

(b) Patent Applications

The Company has filed United States patent application No. 14/486,492 entitled "System, computer product and method for implementing a cloud service with private storage". While the Company believes the claims of invention are patentable, there can be no assurance that the USPTO or other patent offices will issue a patent on the inventions.

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16. Risk factors (continued):

(c) Listing of the Company's Common Shares

The stock exchange on which the Company's Common Shares currently trade and upon which they may trade in the future have certain minimum listing requirements that must be met in order to be eligible to continue to trade on such exchanges. If the Company is unable to continue to satisfy these criteria it may be delisted from these exchanges and will be required to find a different exchange on which to list. A change in the exchange on which the Common Shares are listed may result in a decreased share price and/or decreased liquidity. Furthermore, if the Company is not able to find a different exchange on which to list shareholders may not be able to transfer their shares. The trading symbol for the Company is ONE and the shares trade on the TSX-V.

(d) New Products and Technological Change

The communications software industry is characterized by rapidly changing technology, evolving industry standards and frequent new product introductions, any of which could make the Company's products obsolete. There can be no assurance that the Company will be successful in enhancing existing products or introducing, manufacturing or marketing new products to meet changing end-user requirements and emerging industry standards and protocols. The Company must devote continued efforts and financial resources to develop and enhance existing products and conduct research to develop new products. The development of new, technologically advanced products is a complex and uncertain process requiring high levels of innovation, as well as the accurate anticipation of technological and market trends. The Company may not be able to identify, develop, manufacture, market or support new or enhanced products successfully or on a timely basis and may not be able to respond effectively to product announcements by competitors, technological changes or emerging industry standards which could, among other things, have a material adverse effect on the Company's business, operating results or financial condition. The Company may also announce new products or product enhancements, capabilities or technologies that have the potential to replace or shorten the life cycle of its existing product offerings and that may cause customers to defer purchasing its existing products.

(e) Market Acceptance of Products

The Company designs and develops software-based products for the remote access and support market. As with any technology, there is a substantial risk that the marketplace may not accept the Company's products. Market acceptance of the Company's products depends, in large part, upon its ability to demonstrate its products' performance and cost-effectiveness over competing products and upon the success of its sales efforts as well as those of its customers. The Company may not be able to continue to market its products successfully and no assurance can be given that any of its current or future products will be accepted in the marketplace.

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16. Risk factors (continued):

(f) Competition

Competition in the remote access and support market place is intense and growing rapidly. Accordingly, it is possible that new competitors or alliances among competitors and vendors may emerge and rapidly acquire market share. Many of the Company's current and potential competitors have significantly greater financial, technical, marketing, service, support and other resources than the Company, as well as longer operating histories, greater name recognition and larger customer bases. As a result, they may be able to secure resources on more favourable terms than the Company, and they may be able to respond more quickly to changes in customer preferences or to devote greater resources to the development, promotion and sale of their products than can the Company. Increased competition could result in significant price competition, reduced profit margins, fewer customer orders or loss of market share. The Company may not be able to compete successfully with existing or future competitors and cannot ensure that competitive pressures will not materially and adversely affect its business, operating results or financial condition.

(g) No Assurance of Successful Marketing

The Company does not have extensive experience in successfully marketing its products. Thus, there can be no assurance that future efforts to market its products will be successful. If the Company relies on third parties to market its products, the commercial success of such products may be outside of the Company's control.

(h) Proprietary Technology

The Company's success will depend, in part, on its ability to maintain copyright and trademark protection, trade secret protection and operate without infringing the proprietary rights of third parties. There can be no assurance that the Company's intellectual property rights, copyright and/or trademarks will not be challenged by any third parties, or that the intellectual property rights of others will not have a material adverse effect on the ability of the Company to do business. Furthermore, there can be no assurance that others will not independently develop products similar to those developed by the Company or duplicate any of the Company's products. The Company may be required to obtain licenses for proprietary rights of third parties. No assurance can be given that any licenses required will be available on terms acceptable to the Company. If the Company does not obtain such licenses, it could encounter delays in introducing one or more of its products to the market or could find that the development, manufacture or sale of products requiring such licenses could be precluded. In addition, the Company could incur substantial time, effort and/or costs in policing unauthorized use of its intellectual property and/or

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16. Risk factors (continued):

in defending itself in suits brought against it or in suits in which the Company attempts to enforce its own intellectual property rights against other parties.

(i) Currency Risk

A substantial portion of the Company's revenues are now, and are expected to continue to be, realized in United States dollars. In addition, the Company's patent enforcement and re-examination expenses are now, and are expected to continue to be, primarily paid in United States dollars. Fluctuations in the exchange rate between the Canadian dollar and the United States dollar may have a material adverse effect on the Company's results of operations. In particular, the Company may be adversely affected by a strengthening of the Canadian dollar against the United States dollar if revenues in United States dollars exceed patent enforcement and re-examination expenses incurred in United States dollars. The Company may also be adversely affected by a weakening of the Canadian dollar against the United States dollar if the

Company's patent enforcement and re-examination expenses incurred in United States dollars are in excess of the Company's revenue in United States dollars.

(j) Product Liability and Insurance

The sale and use of the Company's products or its products under development may entail risk of product liability. Although the Company considers that it currently has adequate insurance coverage for any product liability claim, as the Company expands and introduces new products there can be no assurance that it will be able to obtain appropriate levels of product liability insurance prior to any use of its products. An inability to obtain insurance on commercially reasonable terms or to otherwise protect against potential product liability claims could inhibit or prevent the commercialization of products developed by the Company or expose the Company to significant product liability risks. The obligation to pay any product liability claim or a recall of a product could have a material adverse effect on the business, financial condition, operating results or prospects of the Company.

(k) Dependence on Key Personnel

The Company's ability to develop, manufacture and market its products and compete with current and future competitors depends, to a great extent, on its ability to attract and retain highly qualified personnel (and attract new personnel where required). Competition for such personnel and relationships is intense and the Company must compete in this regard with companies that have substantially greater financial and other resources than it does. The Company is highly dependent on the principal members of its management and research and development staff ("Key Personnel") and, in particular, Mr. Andrew Cheung, its Chief Executive Officer. The loss of

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16. Risk factors (continued):

Mr. Cheung's services could have the effect of materially impeding the achievement of development objectives. The persons working with the Company are affected by a number of influences outside of the control of the Company. The failure to attract and retain qualified personnel or the loss of the services of one or more Key Personnel could have a material adverse effect on the Company's business, operating results or financial condition.

(l) Public Market and Volatility of Share Price

Factors such as announcements of technological innovation or the introduction of new products by the Company or its competitors, actual or anticipated fluctuations in the Company's operating results, changes in estimates of the Company's future operating results by securities analysts or developments with respect to proprietary rights may have a significant impact on the market price of the Common Shares. In addition, the stock market has experienced volatility which has particularly affected the market prices of equity securities of many high technology companies and

which often has been unrelated to the operating performance of such companies. These market fluctuations may materially adversely affect the market price of the Common Shares.

(m) Distribution Agreements

The Company's distribution and licensing agreements contain various provisions for termination and/or renewal, some of which provide for termination without cause and on short notice. Such provisions are not uncommon in the industry and the Company anticipates that it will continue to enter into such agreements. Some of the Company's distribution arrangements are also not embodied in written agreements.

(n) The Trend towards Industry Consolidation

Consolidation in the software industry continues to occur, with competing companies merging or acquiring other companies in order to capture market share or expand product lines. As this consolidation occurs, the nature of the market may change as a result of fewer players dominating particular markets, potentially providing customers with fewer choices. Also, some of these companies offer a broader range of products than the Company, and the Company may not be able to compete effectively against these competitors. Any of these changes may have a significant adverse effect on the future revenues and operating results of the Company.

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16. Risk factors (continued):

(o) Potential Fluctuations in Quarterly Financial Results

The Company's quarterly financial results could be impacted significantly by the timing of substantial orders and shipments as well as new releases of its products and intellectual property agreements. The Company's operating expenses are based on anticipated revenue levels in the short term, are relatively fixed and are incurred throughout the quarter. Additionally, the Company's products may be subject to long sales cycles. As a result, if expected revenues are not realized as anticipated, the Company's quarterly financial results could be materially adversely affected. Quarterly financial results in the future may be influenced by these or other factors, including possible delays in the shipment of new products and entering into or failing to enter into or renew a material contract or order. Accordingly, there may be significant variations in the Company's quarterly financial results and such results may not meet the expectations of analysts or investors. If this occurs, the price of the Common Shares may decline. See also "Distribution Agreements", "Volatility of Share Price".

(p) Control of Shares by Principal Shareholder

Andrew Cheung, the President and Chief Executive Officer of the Company and the principal shareholder of the Company, maintains effective control of the Company through control and/or ownership of, in the aggregate, approximately 14% of the outstanding Common Shares. As a result, Mr. Cheung could exercise significant influence over all matters requiring shareholder approval, including the ability to elect directors and approve fundamental changes to the Company. Such concentration of ownership may have the effect of delaying or preventing a change in control of the Company, its Board or management.

17. Disclosure controls and internal controls over financial reporting:

In the course of evaluating its internal controls over financial reporting as at October 31, 2016, 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.

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17. Disclosure controls and internal controls over financial reporting (continued):

As at October 31, 2016 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 twelve month period ended October 31, 2016 that would have materially affected the Company's internal controls over financial reporting.

18. 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

5,575,000 stock options outstanding convertible into common shares at exercise prices ranging from \$0.05 to \$0.49. The options expire between April 17, 2017 and September 12, 2020.

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

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19. Quarterly results of operations:

The following tables set forth certain information from the unaudited consolidated statements of operation for the eight most recent quarters of operations ended October 31, 2016 as prepared in accordance with IFRS.

<i>for the 3 months ending</i>	31-Oct-16	31-Jul-16	30-Apr-16	31-Jan-16
Revenue	\$ 8,905	\$ 9,453	\$ 37,509	\$ 9,494
Expenses (income)				
Selling, general and administrative	62,816	130,594	189,328	263,760
Patent litigation and re-examination	-	-	-	-
Research and development	43,240	27,844	50,625	188,454
Interest	(1,291)	(81)	(59)	(704)
	104,765	158,357	239,894	451,510
Loss before interest and accretion on liability component of debenture	\$ (95,860)	\$ (148,904)	\$ (202,385)	\$ (442,016)
Interest on debenture	10,000	10,000	10,000	10,000
Accretion on liability portion of debenture	3,896	3,756	3,620	3,490
Loss for the period and comprehensive loss	\$ (109,756)	\$ (162,660)	\$ (216,005)	\$ (455,506)

<i>for the 3 months ending</i>	31-Oct-15	31-Jul-15	30-Apr-15	31-Jan-15
Revenue	\$ 10,674	\$ 23,018	\$ 42,185	\$ 11,108
Expenses (income)				
Selling, general and administrative	258,795	162,032	212,598	201,098
Patent litigation and re-examination	8,596	-	-	6,658
Research and development	193,968	194,197	200,431	195,724
Interest	(952)	(497)	(841)	(573)
	460,407	355,732	412,188	402,907
Loss before interest and accretion on liability component of debenture	\$ (449,733)	\$ (332,714)	\$ (391,799)	\$ (391,799)
Interest on debenture	10,000	10,000	650	-
Accretion on liability portion of debenture	3,363	3,242	220	-
Loss for the period and comprehensive loss	\$ (463,096)	\$ (345,956)	\$ (370,873)	\$ (391,799)

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

Kelvin Zweep
President, The Harvard Group

OFFICERS

Andrew Cheung
President & CEO

Brian Stringer
Chief Financial Officer

Gigi Loo
Controller

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Trading Symbol "ONE"