

Consolidated Financial Statements
(In Canadian dollars)

01 COMMUNIQUE LABORATORY INC.

Years ended October 31, 2016 and 2015

INDEPENDENT AUDITORS' REPORT

To: The Shareholders of
01 Communique Laboratory Inc.

We have audited the accompanying consolidated financial statements of 01 Communique Laboratory Inc. and its subsidiary, which comprise the consolidated statements of financial position as at October 31, 2016 and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the year ended October 31, 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT, continued*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of 01 Communique Laboratory Inc. and its subsidiary as at October 31, 2016 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 1(b) to the consolidated financial statements which indicates that 01 Communique Laboratory Inc. has sustained a substantial loss in the year ended October 31, 2016 and in recent years and 01 Communique Laboratory Inc.'s ability to generate future profitable operations is uncertain. These conditions, along with other matters as set forth in note 1(b) to the consolidated financial statements, indicate the existence of a material uncertainty that may cause significant doubt about 01 Communique Laboratory Inc.'s ability to continue as a going concern.

Other Matter

The consolidated financial statements and related notes of 01 Communique Laboratory Inc. for the year ended October 31, 2015 were audited by another firm of independent auditors who expressed an unmodified opinion on those consolidated statements in their report dated December 14, 2015.

**Shimmerman Penn LLP**

Chartered Accountants

Licensed Public Accountants

Toronto, Canada

February 2, 2017

01 COMMUNIQUE LABORATORY INC.

Consolidated Statements of Financial Position
(In Canadian dollars)

As at October 31, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 173,424	\$ 551,205
Accounts receivable (note 2)	27,696	112,034
Prepaid expenses and other assets	6,975	21,618
Total current assets	208,095	684,857
Property and equipment (note 4)	3,965	8,596
Total assets	\$ 212,060	\$ 693,453
Liabilities and Shareholders' Equity/(Deficit)		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 522,119	\$ 549,499
Deferred revenue	12,075	15,081
Total current liabilities	534,194	564,580
Liability component of debenture (note 5)	374,476	359,714
Total liabilities	908,670	924,294
Shareholders' equity/(deficit):		
Share capital (note 6)	40,832,777	40,628,777
Contributed surplus	5,311,155	5,036,997
Equity component of debenture (note 5)	47,111	47,111
Deficit	(46,887,653)	(45,943,726)
Total shareholders' equity/(deficit)	(696,610)	(230,841)
Going concern (note 1(b))		
Lease commitments (note 10)		
Contingencies (note 13)		
Total liabilities and shareholders' equity	\$ 212,060	\$ 693,453

See accompanying notes to consolidated financial statements.

On behalf of the Board:

William Train Director

Gary Kissack Director

01 COMMUNIQUE LABORATORY INC.

Consolidated Statements of Operations and Comprehensive Loss
(In Canadian dollars)

Years ended October 31, 2016 and 2015

	2016	2015
Revenue	\$ 65,361	\$ 86,985
Expenses (income) (note 14):		
Selling, general and administrative	646,498	834,524
Patent litigation and re-examination	-	15,254
Research and development	310,163	784,319
Interest	(2,135)	(2,863)
	954,526	1,631,234
Loss before interest and accretion on liability component of debenture	(889,165)	(1,544,249)
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)
Loss per common share (note 7):		
Basic	\$ (0.01)	\$ (0.02)
Diluted	(0.01)	(0.02)
Weighted average number of common shares outstanding (note 7):		
Basic	66,493,670	65,882,163
Diluted	66,493,670	65,882,163

See accompanying notes to consolidated financial statements.

01 COMMUNIQUE LABORATORY INC.

Consolidated Statements of Changes in Shareholders' Equity
(In Canadian dollars)

Years ended October 31, 2016 and 2015

2016	Number of shares	Share capital	Contributed surplus	Equity component of debenture	Deficit	Total shareholders' equity/(deficit)
Balance, October 31, 2015	66,243,807	\$ 40,628,777	\$ 5,036,997	\$ 47,111	\$ (45,943,726)	\$ (230,841)
Comprehensive loss	—	—	—	—	(943,927)	(943,927)
Stock-based compensation expense (note 6(b))	—	—	355,158	—	—	355,158
Exercise of stock options (note 6(a))	300,000	204,000	(81,000)	—	—	123,000
Balance, October 31, 2016	66,543,807	\$ 40,832,777	\$ 5,311,155	\$ 47,111	\$ (46,887,663)	\$ (696,610)

2015	Number of shares	Share capital	Contributed surplus	Equity component of debenture	Deficit	Total shareholders' equity/(deficit)
Balance, October 31, 2014	65,743,807	\$ 40,288,777	\$ 4,878,587	\$ —	\$ (44,372,002)	\$ 795,362
Comprehensive loss	—	—	—	—	(1,571,724)	(1,571,724)
Stock-based compensation expense (note 6(b))	—	—	293,410	—	—	293,410
Exercise of stock options (note 6(a))	500,000	340,000	(135,000)	—	—	205,000
Issuance of a debenture (note 5)	—	—	—	47,111	—	47,111
Balance, October 31, 2015	66,243,807	\$ 40,628,777	\$ 5,036,997	\$ 47,111	\$ (45,943,726)	\$ (230,841)

See accompanying notes to consolidated financial statements.

01 COMMUNIQUE LABORATORY INC.

Consolidated Statements of Cash Flows
(In Canadian dollars)

Years ended October 31, 2016 and 2015

	2016	2015
Cash provided by (used in):		
Operating activities:		
Comprehensive loss for the year	\$ (943,927)	\$ (1,571,724)
Adjustments to reconcile loss for the year to net cash flows from operating activities:		
Depreciation of property and equipment	5,287	6,112
Stock-based compensation expense	355,158	293,410
Accretion on liability portion of debenture	14,762	6,825
Interest income	(2,135)	(2,863)
Change in non-cash operating working capital (note 8)	68,595	(157,073)
	(502,260)	(1,425,313)
Interest income received	2,135	2,863
	(500,125)	(1,422,450)
Financing activities:		
Proceeds from the exercise of stock options and agent options	123,000	205,000
Proceeds from issuance of a debenture (note 5)	-	400,000
	123,000	605,000
Investing activities:		
Purchase of property and equipment	(656)	(2,158)
Decrease in cash and cash equivalents	(377,781)	(819,608)
Cash and cash equivalents, beginning of year	551,205	1,370,813
Cash and cash equivalents, end of year	\$ 173,424	\$ 551,205
Cash and cash equivalents comprise:		
Cash	\$ 140,704	\$ 109,705
Demand deposits	32,720	441,500
	\$ 173,424	\$ 551,205

See accompanying notes to consolidated financial statements.

01 COMMUNIQUE LABORATORY INC.

Notes to Consolidated Financial Statements
(In Canadian dollars)

Years ended October 31, 2016 and 2015

01 Communique Laboratory Inc. (the "Company") was incorporated on October 7, 1992 under the laws of Ontario. The Company develops and markets remote access 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. These 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'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:

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, unless otherwise indicated:

(a) Statement of compliance:

These consolidated financial statements, including comparatives, have been prepared in accordance with IFRS.

These consolidated financial statements were authorized for issue by the Board of Directors on February 1, 2017.

(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 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.

01 COMMUNIQUE LABORATORY INC.

Notes to Consolidated Financial Statements (continued)
(In Canadian dollars)

Years ended October 31, 2016 and 2015

1. Significant accounting policies (continued):

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.

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.

(c) Basis of presentation:

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

The 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.

The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

01 COMMUNIQUE LABORATORY INC.

Notes to Consolidated Financial Statements (continued)
(In Canadian dollars)

Years ended October 31, 2016 and 2015

1. Significant accounting policies (continued):

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

(d) Revenue recognition:

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered in accordance with the terms of the arrangement, fees are fixed and determinable, and collection is reasonably assured.

The Company has multiple sources of revenue, and in general, the Company recognizes revenue in accordance with the above policy. The following are the revenue sources and the specific revenue recognition criteria for these sources:

- (i) Revenue from software sales is recognized upon shipment or delivery of the product, net of returns and allowances, discounts and provisions for marketing programs, and customer price protection programs.
- (ii) Revenue from license fee agreements is recognized at the later of delivery of the software master copy and fulfillment of all other significant obligations under the terms of the license agreement, if necessary.
- (iii) Revenue from providing remote access services is recognized as earned. Revenue from service contracts is recognized as the services are provided.

01 COMMUNIQUE LABORATORY INC.

Notes to Consolidated Financial Statements (continued)
(In Canadian dollars)

Years ended October 31, 2016 and 2015

1. Significant accounting policies (continued):

(e) Cash and cash equivalents:

Cash and cash equivalents include cash on account and short-term, highly liquid investments with original maturities of three months or less.

(f) Property and equipment:

Property and equipment are stated at cost less accumulated depreciation and impairment losses.

The cost of an item of property and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the profit or loss in the years in which they are incurred.

Any gain and loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized within selling, general and administrative expenses in the consolidated statements of operations and comprehensive loss.

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its estimated residual value.

01 COMMUNIQUE LABORATORY INC.

Notes to Consolidated Financial Statements (continued)
(In Canadian dollars)

Years ended October 31, 2016 and 2015

1. Significant accounting policies (continued):

Depreciation is provided on a straight-line basis over the estimated useful lives of the property and equipment at the following annual rates:

Computer systems	30%
Communications equipment	10% - 20%
Furniture and fixtures	20%
Leasehold improvements	Shorter of estimated useful life and term of lease

(g) Research and development and investment tax credits:

All research costs are expensed as incurred. Software development costs are expensed as incurred unless they satisfy the criteria for deferral and subsequent amortization. The Company has not deferred any such development costs to date. Related refundable investment tax credits are recorded as a reduction of the related research and development expense or as a reduction of the related property and equipment when the Company has reasonable assurance that the credit will be realized.

(h) Foreign exchange translation:

The Company's functional and reporting currency is the Canadian dollar. Monetary assets and liabilities that are denominated in foreign currencies are translated into Canadian dollars at the year-end exchange rates. Non-monetary assets and liabilities denominated in foreign currencies are translated at their historical exchange rates. Revenue and expenses are translated at average rates of exchange for the years. All of the exchange gains or losses resulting from these transactions are recognized in the consolidated statements of operations and comprehensive loss.

(i) Stock-based compensation:

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.

01 COMMUNIQUE LABORATORY INC.

Notes to Consolidated Financial Statements (continued)
(In Canadian dollars)

Years ended October 31, 2016 and 2015

1. Significant accounting policies (continued):

Stock-based compensation expense is recognized so that each tranche in a stock option award with graded vesting is considered a separate grant with a different vesting date and fair value. No compensation expense is recognized for stock options that employees forfeit if they fail to satisfy the service requirement for vesting. The amount recognized is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that vest.

(j) Loss per share:

Basic loss per share is computed using the weighted average number of common shares outstanding during the years. Diluted loss per share is computed using the weighted average number of common and potential common shares outstanding during the years, if dilutive. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options and warrants using the treasury stock method.

(k) Income taxes:

Income tax expense comprises current tax and deferred tax. Current tax and deferred tax are recognized in the consolidated statements of operations and comprehensive loss, except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive loss.

Current tax is the expected tax payable or receivable based on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous years.

Deferred tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the consolidated financial statements' carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized.

01 COMMUNIQUE LABORATORY INC.

Notes to Consolidated Financial Statements (continued)
(In Canadian dollars)

Years ended October 31, 2016 and 2015

1. Significant accounting policies (continued):

(l) Measurement uncertainty:

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 dates of the consolidated financial statements and the reported amounts of revenue and expenses during the years. 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 years in which the estimates are revised and in any future years affected.

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

(m) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Examples could include:

Legal claims:

In the normal course of operations, the Company may be subject to litigation claims from customers, suppliers, patent holders, former employees and others. A provision is recognized when the Company determines the probability that the event will occur is greater than the probability that it will not. The Company regularly reviews any outstanding claims it may have to see if they meet the criteria. A provision is calculated based on management's best estimate of a probable outflow of economic resources.

01 COMMUNIQUE LABORATORY INC.

Notes to Consolidated Financial Statements (continued)
(In Canadian dollars)

Years ended October 31, 2016 and 2015

1. Significant accounting policies (continued):

(n) Financial instruments:

Financial instruments are classified into one of the following five categories: fair value through profit or loss, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities.

(i) Financial assets at fair value through profit or loss:

A financial asset is classified at fair value through profit or loss if it is classified as held-for-trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Attributable transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Financial assets at fair value through profit or loss comprise cash and cash equivalents.

(ii) Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise accounts receivable. Accounts receivable are amounts due from customers from the rendering of services or sale of goods in the ordinary course of business. Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost, less impairment.

01 COMMUNIQUE LABORATORY INC.

Notes to Consolidated Financial Statements (continued)
(In Canadian dollars)

Years ended October 31, 2016 and 2015

1. Significant accounting policies (continued):

(iii) Other financial liabilities:

Other financial liabilities are initially recognized at fair value less transaction costs. Subsequent to initial measurement, these other liabilities are measured at amortized cost. The difference between the initial carrying amount of these other liabilities and their redemption value is recognized in profit or loss over the contractual terms using the effective interest method. They are classified as current liabilities when they are payable within 12 months of the reporting date, otherwise they are classified as non-current.

A financial liability is derecognized when its contractual obligations are discharged, cancelled or expired.

The Company has the following other financial liabilities: accounts payable and accrued liabilities, and a debenture which has been segregated between its liability and equity components.

The Company had neither available-for-sale nor held-to-maturity instruments during the years ended October 31, 2016 and 2015.

(iv) Impairment of financial assets:

Financial assets measured at amortized cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in current year earnings. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance accounts, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in current year earnings.

(o) New and future accounting pronouncements:

During the year ended October 31, 2016, the Company did not adopt or amend any of its accounting policies as the result of new or revised accounting standards which became effective for the annual reporting period commencing November 1, 2015.

01 COMMUNIQUE LABORATORY INC.

Notes to Consolidated Financial Statements (continued)
(In Canadian dollars)

Years ended October 31, 2016 and 2015

1. Significant accounting policies (continued):

(i) Annual improvements to IFRS:

Annual Improvements to IFRSs 2012-2014 Cycle was approved by IASB in September 2014. These improvements included amendments to a number of IFRSs as a result of the annual improvements project. The revised rules are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The Company expects there to be no impact or adjustments necessary as a result of applying the revised rules.

(ii) Recent accounting pronouncements:

The IASB has issued new standards and amendments to existing standards. These changes in accounting are not yet effective at October 31, 2016 and could have an impact on future years.

- IFRS 9, Financial Instruments ("IFRS 9"):

The IASB issued IFRS 9, which replaces IAS 39, Financial Instruments - Recognition and Measurement, and which establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. It does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduces more judgment to assess the effectiveness of a hedging relationship. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with certain exemptions. The Company does not expect this to have a significant impact on its consolidated financial statements.

01 COMMUNIQUE LABORATORY INC.

Notes to Consolidated Financial Statements (continued)
(In Canadian dollars)

Years ended October 31, 2016 and 2015

1. Significant accounting policies (continued):

- IFRS 15, Revenue from Contracts with Customers ("IFRS 15"):

The IASB issued IFRS 15, which is effective for annual periods beginning on or after January 1, 2018. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time and over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Company is in the process of assessing the impact of this standard on its consolidated financial statements.

- IFRS 16 - Leases

IFRS 16 was issued in January 2016 and will supersede current lease accounting guidance in IAS 17, Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 is effective for year ends beginning on or after January 1, 2019. Earlier adoption is permitted if IFRS 15 - Revenue from Contracts with Customers has also been applied. The company is currently reviewing the standard to determine the effect on the financial statements.

01 COMMUNIQUE LABORATORY INC.

Notes to Consolidated Financial Statements (continued)
(In Canadian dollars)

Years ended October 31, 2016 and 2015

2. Financial instruments and financial risk management:

(a) Financial instruments:

The Company has classified its financial instruments as follows:

	2016	2015
Financial assets:		
Held-for-trading, measured at fair value:		
Cash and cash equivalents	\$ 173,424	\$ 551,205
Loans and receivables, recorded at amortized cost:		
Accounts receivable	27,696	112,034
Financial liabilities, recorded at amortized cost:		
Accounts payable and accrued liabilities	522,119	549,499
Liability component of debenture	374,476	359,714

Accounts receivable comprise the following:

	2016	2015
Trade receivables	\$ -	\$ 19,884
Investment tax credits receivable	20,652	80,855
Other	7,044	11,295
	\$ 27,696	\$ 112,034

(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.

01 COMMUNIQUE LABORATORY INC.

Notes to Consolidated Financial Statements (continued)
(In Canadian dollars)

Years ended October 31, 2016 and 2015

2. Financial instruments and financial risk management (continued):

(a) 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 October 31, 2016 and 2015, 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.

Concentrations of credit risk:

In 2016, there was one customer that comprised 42% (2015 - one customer comprising 51%) of the Company's total revenue. No other customers exceeded 10% of revenue during the current or prior year. The customer comprising 51% of revenue in 2015 comprised 15% of accounts receivable as at October 31, 2015.

(b) 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.

01 COMMUNIQUE LABORATORY INC.

Notes to Consolidated Financial Statements (continued)
(In Canadian dollars)

Years ended October 31, 2016 and 2015

2. Financial instruments and financial risk management (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 - \$370,580) (note 5).

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

(c) 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).

01 COMMUNIQUE LABORATORY INC.

Notes to Consolidated Financial Statements (continued)
(In Canadian dollars)

Years ended October 31, 2016 and 2015

2. Financial instruments and financial risk management (continued):

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.

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.

01 COMMUNIQUE LABORATORY INC.

Notes to Consolidated Financial Statements (continued)
(In Canadian dollars)

Years ended October 31, 2016 and 2015

2. Financial instruments and financial risk management (continued):

(ii) Fair values of financial instruments:

Financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The table below presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis:

	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:			
October 31, 2016	\$ 173,424	\$ –	\$ –
October 31, 2015	551,205	–	–

There were no financial instruments categorized in Level 2 or Level 3 as at October 31, 2016 and 2015.

There were no transfers of assets between levels during the years ended October 31, 2016 and 2015.

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.

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Notes to Consolidated Financial Statements (continued)
(In Canadian dollars)

Years ended October 31, 2016 and 2015

4. Property and equipment:

	Computer systems	Communications equipment	Furniture and fixtures and leasehold improvements	Total
Cost				
Balance, October 31, 2014	\$ 529,584	\$ 26,887	\$ 130,002	\$ 686,473
Additions	2,158	–	–	2,158
Balance, October 31, 2015	\$ 531,742	\$ 26,887	\$ 130,002	\$ 688,631
Balance, October 31, 2015	\$ 531,742	\$ 26,887	\$ 130,002	\$ 688,631
Additions	656	–	–	656
Balance, October 31, 2016	\$ 532,398	\$ 26,887	\$ 130,002	\$ 689,287
Depreciation				
Balance, October 31, 2014	\$ 522,104	\$ 24,542	\$ 127,378	\$ 673,924
Depreciation	2,903	1,115	2,094	6,112
Balance, October 31, 2015	\$ 525,006	\$ 25,657	\$ 129,372	\$ 680,035
Balance, October 31, 2015	\$ 525,006	\$ 25,657	\$ 129,372	\$ 680,035
Depreciation	3,540	1,117	630	5,287
Balance, October 31, 2016	\$ 528,546	\$ 26,774	\$ 130,002	\$ 685,322
Carrying amounts				
At October 31, 2015	\$ 6,736	\$ 1,230	\$ 630	\$ 8,596
At October 31, 2016	3852	113	-	3,965

01 COMMUNIQUE LABORATORY INC.

Notes to Consolidated Financial Statements (continued)
(In Canadian dollars)

Years ended October 31, 2016 and 2015

5. 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.

6. Shareholders' equity:

	2016	2015
Authorized:		
50,000 Series A preference shares		
Unlimited preference shares, issuable in series		
Unlimited common shares		
Issued:		
66,543,807 common shares (2015 - 66,243,807)	\$ 40,832,777	\$ 40,628,777

01 COMMUNIQUE LABORATORY INC.

Notes to Consolidated Financial Statements (continued)
(In Canadian dollars)

Years ended October 31, 2016 and 2015

6. Shareholders' equity (continued):

The following details the changes in issued and outstanding shares for the years ended October 31, 2016 and 2015:

	Common shares	
	Number	Amount
Balance, October 31, 2014	65,743,807	\$ 40,288,777
Exercise of options (a) (ii)	500,000	340,000
Balance, October 31, 2015	66,243,807	40,628,777
Exercise of options (a) (i)	300,000	204,000
Balance, October 31, 2016	66,543,807	\$ 40,832,777

(a) Exercise of options:

- (i) During the year ended October 31, 2016, employees, contractors and members of the Board of Directors exercised stock options which resulted in 300,000 common shares being issued for total cash proceeds of \$123,000. The estimated fair value of exercised stock options totaling \$81,000 (2015 - \$135,000) has been reclassified from contributed surplus to share capital.
- (ii) During the year ended October 31, 2015, employees, contractors and members of the Board of Directors exercised stock options which resulted in 500,000 common shares being issued for total cash proceeds of \$205,000. The estimated fair value of exercised stock options totaling \$135,000 has been reclassified from contributed surplus to share capital.

(b) Employee option plan:

The Company maintains a share option plan (the "Plan") for the benefit of management, directors, officers, contractors and employees. The Plan is a "rolling" stock option plan, pursuant to which the maximum number of common shares that may be reserved for issuance under outstanding stock options will be 10% of the Company's issued and outstanding common shares, as constituted on the date of any grant of options under the Plan.

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Notes to Consolidated Financial Statements (continued)
(In Canadian dollars)

Years ended October 31, 2016 and 2015

6. Shareholders' equity (continued):

Options are granted under the Plan at the discretion of the Board of Directors at exercise prices determined as the trading prices of the Company's common shares on the TSX-V on the day preceding the effective date of the grant. In general, options granted under the Plan vest over the period of up to a maximum of five years from the grant date and expire by no later than the fifth anniversary of the date of grant.

Changes in outstanding options were as follows:

	Number	Weighted average exercise price
Options outstanding, October 31, 2014	4,073,250	\$ 0.36
Exercised	(500,000)	0.41
Cancelled or expired	(135,000)	0.50
Granted	2,298,750	0.28
Options outstanding, October 31, 2015	5,737,000	0.32
Exercised	(300,000)	0.41
Cancelled or expired	(2,377,000)	0.35
Granted	2,515,000	0.11
Options outstanding, October 31, 2016	5,575,000	\$ 0.21

01 COMMUNIQUE LABORATORY INC.

Notes to Consolidated Financial Statements (continued)
(In Canadian dollars)

Years ended October 31, 2016 and 2015

6. Shareholders' equity (continued):

The following table summarizes information about stock options outstanding at October 31, 2016:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$0.05	2,200,000	3.9	\$ 0.05	0	\$ -
\$0.20 to \$0.26	1,850,000	1.5	0.21	1,850,000	0.21
\$0.41 to \$0.49	1,525,000	2.1	0.43	1,525,000	0.43
	5,575,000	2.6	\$ 0.21	3,375,000	\$ 0.31

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).

Stock options expense for the year ended October 31, 2016 was \$355,158 (2015 - \$293,410).

01 COMMUNIQUE LABORATORY INC.

Notes to Consolidated Financial Statements (continued)
(In Canadian dollars)

Years ended October 31, 2016 and 2015

7. Loss per common share:

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

	2016	2015
Loss for the year	\$ (943,927)	\$ (1,571,724)
Weighted average number of common shares outstanding:		
Basic	66,493,670	65,882,163
Diluted	66,493,670	65,882,163
Loss per common share:		
Basic	\$ (0.01)	\$ (0.02)
Diluted	(0.01)	(0.02)

As the Company is in a loss position for the years ended October 31, 2016 and 2015, the inclusion of options and warrants in the calculation of diluted earnings per share would be anti-dilutive, and accordingly, were excluded from the diluted loss per share calculation.

8. Change in non-cash operating working capital:

	2016	2015
Accounts receivable	\$ 84,338	\$ (6,483)
Prepaid expenses and other assets	14,643	14,319
Accounts payable and accrued liabilities	(27,380)	(162,180)
Deferred revenue	(3,006)	(2,729)
	\$ 68,595	\$ (157,073)

01 COMMUNIQUE LABORATORY INC.

Notes to Consolidated Financial Statements (continued)
(In Canadian dollars)

Years ended October 31, 2016 and 2015

9. Income taxes:

The reconciliation of the income tax expense at the currently enacted tax rates for the years ended October 31, 2016 and 2015 is as follows:

Tax rate reconciliation:

	2016	2015
Loss for the year and comprehensive loss	\$ (943,000)	\$ (1,571,000)
Tax calculated at the 26.5% (2015 - 26.5%) enacted rate	\$ (250,000)	\$ (417,000)
Non-deductible expenses and permanent differences	95,000	81,000
Benefit of tax losses not recognized	136,000	269,000
Benefit of other temporary differences not recognized	19,000	67,000
Total income taxes recognized in net income	\$ —	\$ —

Unrecognized deferred tax assets:

The benefit related to deferred tax temporary differences have not been recognized in respect of the following items:

	2016	2015
Tax losses	\$ 12,656,000	\$ 12,141,000
Research and development deduction pool	11,304,000	11,153,000
Financing	80,000	177,000
Property and equipment	13,000	13,000

As at October 31, 2016, the Company had an unclaimed pool of scientific research and experimental development costs of approximately \$11,304,000, which can be carried forward indefinitely as a deduction against future taxable income, and investment tax credits of approximately \$3,096,000, which can be utilized to reduce taxes payable in years up to 2035, the tax benefits of which have not been recorded.

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Notes to Consolidated Financial Statements (continued)
(In Canadian dollars)

Years ended October 31, 2016 and 2015

9. Income taxes (continued):

The Company had unused tax loss carry forwards which expire as follows:

2026	\$	1,007,000
2027		1,368,000
2028		783,000
2029		553,000
2030		639,000
2031		2,201,000
2032		1,063,000
2033		2,221,000
2034		1,290,000
2035		1,016,000
2036		515,000
Total unused tax losses		\$ 12,656,000

10. Lease commitments:

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).

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Notes to Consolidated Financial Statements (continued)
(In Canadian dollars)

Years ended October 31, 2016 and 2015

11. Segmented information:

The Company operates in one business segment, which is the development and marketing of its communications software. The Company markets its products primarily in the United States and Canada.

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

	2016	2015
United States	\$ 24,597	\$ 23,782
Canada	13,164	18,853
Japan	27,600	44,350
	\$ 65,361	\$ 86,985

Substantially all of the Company's identifiable assets as at October 31, 2016 and 2015 are located in Canada.

12. 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.

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Notes to Consolidated Financial Statements (continued)
(In Canadian dollars)

Years ended October 31, 2016 and 2015

13. Contingencies:

- (i) 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.
- (ii) 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.
- (iii) 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 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.

01 COMMUNIQUE LABORATORY INC.

Notes to Consolidated Financial Statements (continued)
(In Canadian dollars)

Years ended October 31, 2016 and 2015

14. Operating expenses:

The Company presents functional consolidated statements of operations and comprehensive loss 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:

Included in selling, general and administrative expenses for 2016 is a foreign exchange loss of \$6,714 (2015 - \$52,840).

2016	Selling, general and administrative	Research and development	Patent litigation and re-examination	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
	\$ 646,498	\$ 310,163	\$ --	\$ 956,661

2015	Selling, general and administrative	Research and development	Patent litigation and re-examination	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
	\$ 834,524	\$ 784,319	\$ 15,254	\$ 1,634,097