



**01 Communique Laboratory Inc.**

**Management's Discussion and Analysis**

**For the three and nine months ended July 31, 2018**

**ONE : TSX-V**

**Dated: September 24, 2018**

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

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (the "MD&A") has been prepared by management and is a review of the consolidated operating results and financial position of 01 Communique Laboratory Inc. ("01 Communique" or the "Company"), based upon International Financial Reporting Standards ("IFRS"). This MD&A should be read in conjunction with the Company's audited consolidated financial statements and notes to the audited consolidated financial statements as at and for the year ended October 31, 2017 and the unaudited interim consolidated financial statements and notes to the unaudited interim consolidated financial statements as at and for the three and nine months ended July 31, 2018.

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 September 20, 2018.

All amounts are expressed in Canadian dollars unless otherwise stated. This MD&A is effective as of September 24, 2018.

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.

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

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

As announced on June 21, 2018 the Company is transitioning its business and focusing on the development and commercialization of Post-Quantum Blockchain (“PQBC”) and Post-Quantum Cryptography (“PQ-Crypto”) technologies. In summary our vision in this respect is to commercialize our PQBC and PQ-Crypto technologies, which can be implemented on classical computer systems as we know them today while at the same time be secure enough to safeguard against potential Quantum Computer attacks.

The Company’s legacy business 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 legacy 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 these product and service offerings and is protected, in part, by its patents, as follows:

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

#### **(4) Conclusion of Patent Lawsuit.**

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

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

We appealed this Judgment and on April 26, 2018 a decision was rendered by the United States Court of Appeals for the Federal Circuit (“Federal Circuit”) in respect of our appeal affirming the district court’s finding that Citrix does not infringe our patent (Patent Nos. 6,928,479) After careful consideration, we have concluded that it is not in our favor to proceed any further on this matter. This brings this lawsuit to a conclusion.

#### **(5) Risks and Uncertainties**

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities in the normal course of business. As at July 31, 2018 the Company reported a working capital deficiency of \$747,892 (October 31, 2017 – \$627,840). 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) a successful outcome from its strategic initiatives to realize monetary value from future product development; (ii) increasing product and service revenue from its I'm InTouch product offering through downloads from the Company’s web site; and (iii) its relationship with a key customer Hitachi Solutions Create Ltd (“Hitachi Solutions Create”). However, there can be no assurances the

Company will be successful on any of these three initiatives. Should the Company not be able to generate sufficient cash flows from any combination of these three initiatives to become profitable in the future and generate sufficient working capital to fund operations as well as discharge its current working capital deficiency, then it will become necessary to secure additional sources of financing; however, there can be no assurances that any such financing will be available to the Company or that such funds will be available on acceptable terms and within an acceptable period of time.

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

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

(i) ***Successful outcome from its strategic initiatives to realize monetary value from future product development.***

We are implementing a plan to transition our focus and strategy to the development of Post-Quantum Blockchain (“PQBC”) and Post-Quantum Cryptography (“PQ-Crypto”) technologies.

Blockchain is a decentralized, digitized, public ledger of all transactions, using what is known as Distributed Ledger Technology. In recent years Blockchain technology has garnered significant attention because it has successfully raised the bar for cyber security. This is due to the fact that corrupting or altering any piece of information on the Blockchain is generally considered to be a remote possibility as it would require vast amounts of computing power. The reason for this is that data blocks in a Blockchain are digitally signed with private keys and the signatures can only be validated using their corresponding public keys. Using the existing classical computer systems of today it is unlikely they would be able to get a private key from its corresponding public key.

However, there is a new breed of computer in development called Quantum Computers which may threaten the security of current Blockchain technology. A Quantum Computer can process information exponentially faster than “classical computers” which could render existing public key encryption unsecure. Since public key encryption is a cornerstone of cyber security today, Quantum Computers may have the ability to break Blockchains based on public key encryption. As a result, over the last year the Company has devoted a significant amount of time researching this new disruptive cyber security technology and based on this research we are proceeding with the development of a Post-Quantum Blockchain that we believe may be secure against Quantum Computer attacks.

There can be no guarantee that either the development of or commercialization of the Company’s PQBC and PQ-Crypto technologies will be successful or lead to significant revenues for the Company.

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

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

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

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

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

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

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

(6) **Completion of Private Placement Subsequent to July 31, 2018.**

On September 18, 2018 the Company closed its previously disclosed private placement of units raising gross proceeds of \$1,000,000.

Pursuant to the offering the Company issued 10,000,000 units ("Units") at a per Unit price of \$0.10, with each Unit consisting of one common share in the capital of the Company and one-half of one common share purchase warrant, with each whole warrant exercisable for the purchase of one common share of the Company at a per share price of \$0.15 for a period of 24 months from the date of closing of the private placement.

In June 2018 the Company has announced its focus on Post-Quantum Blockchain ("PQBC") and Post-Quantum Cryptography ("PQ-Crypto") technologies. The proceeds raised from the private placement will be used by the Company for completing commercial development of PQBC and PQ-Crypto technologies, to develop strategic partnerships, and for general working capital purposes. All securities issued under the private placement are subject to a hold period of four months and one day from the date

of closing in accordance with applicable securities legislation and the policies of the TSX Venture Exchange.

Richardson GMP Limited (“RGMP”), with offices in Vancouver, British Columbia, acted as exclusive agent to sell the Units on a commercially reasonable basis. In consideration for the services of RGMP, RGMP received: (i) a cash commission equal to 8% of the gross proceeds raised; (ii) compensation options to acquire that number of Units as is equal to 8% of the total number of Units sold under the offering, exercisable at a per Unit price of \$0.10 for a period of 24 months from the date of closing of the offering; (iii) a corporate finance fee of \$20,000; and (iv) reimbursement of its expenses.

Further, for a period of one year from the date of closing of the offering, the Company has granted RGMP the exclusive right and opportunity to lead any offering of securities by the Company to be issued and sold to the public in Canada by private placement or public offering or to provide professional, sponsorship or advisory services performed (or normally performed) by a broker or investment dealer.

## (7) Overview of Results of Operations.

The information in the financial table below presents selected financial information for the three and nine months ended July 31, 2018 and 2017. Information has been prepared in accordance with IFRS. The amounts are in Canadian Dollars.

	<i>For the three months ended</i>		<i>For the nine months ended</i>	
	<i>31-Jul-18</i>	<i>31-Jul-17</i>	<i>31-Jul-18</i>	<i>31-Jul-17</i>
Revenue	\$ 45,439	\$ 247,269	\$ 154,092	\$ 384,362
Selling, general and administrative	77,893	47,097	167,935	197,602
Research and development	23,580	93,487	82,522	119,998
Interest	(23)	(7)	(41)	(34)
	<u>101,450</u>	<u>140,577</u>	<u>250,415</u>	<u>317,566</u>
Profit (Loss) before interest, accretion on liability component of debenture and taxes	(56,011)	106,692	(96,323)	66,796
Interest on debenture	15,000	10,000	35,295	30,000
Accretion on liability portion of debenture	4,114	4,352	12,534	12,589
	<u>\$ (75,125)</u>	<u>\$ 92,340</u>	<u>\$ (144,152)</u>	<u>\$ 24,207</u>
Withholding taxes	3,823	23,957	14,377	35,979
Profit (loss) for the period	<u>\$ (78,948)</u>	<u>\$ 68,383</u>	<u>\$ (158,529)</u>	<u>\$ (11,772)</u>

The loss for the three months ended July 31, 2018 was \$78,948 (2017 – profit of \$68,383) an increase in the loss of \$147,331.

Revenue for the third quarter 2018 was \$45,439 (2017 - \$247,269) a decrease of \$201,830. In 2017 there was a one-time payment received for past royalties received from third parties for the sale of DoMobile in Japan by Hitachi Solutions Create and contract engineering fees received for enhancements made to DoMobile for Japan. Ongoing royalties for the fourth quarter 2018 are expected to be approximately the same as the third quarter 2018 level.

Cash operating expenses, which exclude stock based compensation and depreciation, for the third quarter 2018 were \$89,284 (2017 - \$129,699) a decrease of \$40,415 primarily a result of contractor fees paid for product development in 2017 related to enhancement of DoMobile.

With the patent lawsuit behind us, we are implementing a plan to transition our focus and strategy to the development of a Post-Quantum Blockchain. In summary, our vision in this respect is to develop a Post-Quantum Blockchain, which can be implemented on classical computer systems as we know them today while at the same time be secure enough to safeguard against potential Quantum Computer attacks.

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

1. 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. 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 on a cash basis. Stock based compensation is a non cash expense and is largely dependent on the accounting assumptions and methods used for the calculation. The table below summarizes cash operating expenses.

	<i>For the three months ended</i>		<i>For the nine months ended</i>	
	<u>31-Jul-18</u>	<u>31-Jul-17</u>	<u>31-Jul-18</u>	<u>31-Jul-17</u>
Total operating expenses	\$ 101,450	\$ 140,577	\$ 250,415	\$ 317,566
Less - Stock based compensation	(11,884)	(10,500)	(22,799)	(83,500)
Depreciation and amortization	(282)	(378)	(1,065)	(2,043)
Cash operating expenses	<u>\$ 89,284</u>	<u>\$ 129,699</u>	<u>\$ 226,551</u>	<u>\$ 232,023</u>

Cash operating expenses for the third quarter 2018 were \$89,284 (2017 - \$129,699) a \$40,415 decrease primarily a result of contractor fees paid for product development in 2017 related to enhancement of DoMobile.

2. 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, 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 three months ended</i>		<i>For the nine months ended</i>	
	<u>31-Jul-18</u>	<u>31-Jul-17</u>	<u>31-Jul-18</u>	<u>31-Jul-17</u>
Profit (Loss) for the period and comprehensive profit (loss)	\$ (78,948)	\$ 68,383	\$ (158,529)	\$ (11,772)
Less: non cash operating expenses	(12,166)	(10,878)	(23,864)	(85,543)
Adjusted Profit (Loss) for the period	<u>\$ (66,782)</u>	<u>\$ 79,261</u>	<u>\$ (134,665)</u>	<u>\$ 73,771</u>

The loss and comprehensive loss for the three months ended July 31, 2018 of \$78,948 (2017 – profit of \$68,383) includes a deduction for non-cash expenses of \$12,166 (2017 - \$10,878). Excluding these non-cash operating expenses, which are included in operating expenses, the adjusted loss for the three months ended July 31, 2018 becomes \$66,782 (2017 – profit of \$79,261).

## **(9) Results of Operations.**

### **Revenue**

	<i>For the three months ended</i>		<i>For the nine months ended</i>	
	<u>31-Jul-18</u>	<u>31-Jul-17</u>	<u>31-Jul-18</u>	<u>31-Jul-17</u>
United States	\$ 3,945	\$ 5,107	\$ 13,333	\$ 14,456
Canada	3,265	2,589	8,979	10,133
Japan	<u>38,229</u>	<u>239,573</u>	<u>131,780</u>	<u>359,773</u>
	<u>\$ 45,439</u>	<u>\$ 247,269</u>	<u>\$ 154,092</u>	<u>\$ 384,362</u>

Revenue for the third quarter 2018 was \$45,439 (2017 - \$247,269) a decrease of \$201,830. In 2017 there was a one-time payment received for past royalties received from third parties for the sale of DoMobile in Japan by Hitachi Solutions Create and contract engineering fees received for enhancements made to DoMobile for Japan. Ongoing royalties for the fourth quarter 2018 are expected to be approximately the same as the third quarter 2018 level.

### Gross profit

The vast majority of the Company's products sold are software based, which typically have a high gross margin. The gross margin for the three months ended July 31, 2018 and 2017 were 100%.

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

	<i>For the three months ended</i>		<i>For the nine months ended</i>	
	<u>31-Jul-18</u>	<u>31-Jul-17</u>	<u>31-Jul-18</u>	<u>31-Jul-17</u>
Selling, general and administration	\$ 77,893	\$ 47,097	\$ 167,935	\$ 197,602
less: stock-based compensation	<u>(11,884)</u>	<u>(10,500)</u>	<u>(22,799)</u>	<u>(83,500)</u>
	<u>\$ 66,009</u>	<u>\$ 36,597</u>	<u>\$ 145,136</u>	<u>\$ 114,102</u>

SG&A expenses, net of stock based compensation for the three months ended July 31, 2018 were \$66,009 (2017 - \$36,597) an increase of \$31,034 primarily a result of an increase in expenses pertaining to general corporate and administrative expenses.

### Research and development

	<i>For the three months ended</i>		<i>For the nine months ended</i>	
	<u>31-Jul-18</u>	<u>31-Jul-17</u>	<u>31-Jul-18</u>	<u>31-Jul-17</u>
Research and development	\$ 23,580	\$ 93,487	\$ 82,522	\$ 119,998

Research and development expenses for the three months ended July 31, 2018 were \$23,580 (2017 - \$93,487) a decrease of \$69,907. The decrease in research and development expenses relates to the Company's product development efforts with Hitachi Solutions Create whereby in 2017 the Company incurred development expenses for product development related to enhancement of DoMobile and these expenses were not incurred in 2018.

### (10) 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; and research and development expenses. The following tables present the expenses based on their nature:

<b>three months ended 31-Jul-18</b>	Selling, general and administration	Research and development	Total
Salaries, contractors, commissions and benefits	\$ 14,577	\$ 17,005	\$ 31,582
Stock-based compensation	11,884	-	11,884
Other operating expenses	51,432	6,575	58,007
	<u>\$ 77,893</u>	<u>\$ 23,580</u>	<u>\$ 101,473</u>

<b>three months ended 31-Jul-17</b>	Selling, general and administration	Research and development	Total
Salaries, contractors, commissions and benefits	\$ 4,588	\$ 84,761	\$ 89,349
Stock-based compensation	10,500	-	10,500
Other operating expenses	32,009	8,726	40,735
	<u>\$ 47,097</u>	<u>\$ 93,487</u>	<u>\$ 140,584</u>

<b>nine months ended 31-Jul-18</b>	Selling, general and administration	Research and development	Total
Salaries, contractors, commissions and benefits	\$ 38,828	\$ 52,961	\$ 91,789
Stock-based compensation	22,799	-	22,799
Other operating expenses	106,308	29,561	135,868
	<u>\$ 167,935</u>	<u>\$ 82,522</u>	<u>\$ 250,456</u>

<b>nine months ended 31-Jul-17</b>	Selling, general and administration	Research and development	Total
Salaries, contractors, commissions and benefits	\$ 13,824	\$ 102,865	\$ 116,689
Stock-based compensation	83,500	-	83,500
Other operating expenses	100,278	17,133	117,411
	<u>\$ 197,602</u>	<u>\$ 119,998</u>	<u>\$ 317,600</u>

Operating expenses for the three months ended July 31, 2018 were \$101,473 (2017 - \$140,584) a decrease of \$39,111. Salaries, contractors, commissions and benefits were \$31,582 (2017 - \$89,349) a decrease of \$57,767.

The majority of this decrease is a result of the decrease in product development relating to the Company's product development efforts with Hitachi Solutions Create whereby in 2017 the Company incurred development expenses for product development related to enhancement of DoMobile and these expenses were not incurred in 2018.

Other operating expenses required to run the business were \$58,007 (2017 - \$40,735) an increase of \$17,272 primarily a result of an increase in expenses pertaining to general corporate and administrative expenses.

The Company's directors and executive management receive stock options under the Company's employee stock option plan. There were 1,570,000 stock options granted during the nine months ended July 31, 2018 (2017 – 835,000) to directors, executive management as well as consultants and contractors for the Company. The average grant date fair value of options granted during the nine months ended July 31, 2018 ranged from \$0.034 to \$0.065 (2017 - \$0.034). 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 period ended Jul 31, 2018: dividend yield of nil (2017 nil), expected volatility ranging from 169% to \$194% (2017 – 147%), weighted average risk-free interest rate of 1.5% (2017 – 1.5%) and expected lives ranging from 18 months to 5 years (2017 – 4 years). During the three and nine month periods ended July 31, 2018, the Company recorded compensation expense related to stock options of \$11,884 (2017 - \$10,500) and \$22,799 (2017 - \$83,500) respectively.

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

	As at:		As at:	
	<u>31-July-18</u>	<u>31-Oct-17</u>	<u>31-July-18</u>	<u>31-Apr-18</u>
Cash and cash equivalents	\$ 73,992	\$ 238,576	\$ 73,992	\$ 142,199

Cash and cash equivalents were \$73,992 as at July 31, 2018 compared to \$238,576 as at October 31, 2017 a decrease of \$164,584 and \$142,199 as at April 30, 2018 a decrease of \$68,207.

The decrease in cash and cash equivalents for the three months ended July 31, 2018 is primarily a result of the Company funding its adjusted loss for the three months ended July 31, 2018 of \$66,782 which includes interest paid on the debenture of \$15,000.

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.

However, the Company has sustained substantial losses in recent years and its ability to continue as a going concern is dependent on the Company's ability to generate future profitable operations and cash flows and/or

obtain additional financing, which would be contingent upon market and other conditions in the future, which are beyond the Company's control.

At July 31, 2018, the Company had financial assets held-for-trading of \$73,992 (October 31, 2017 - \$238,576), loans and receivables of \$46,225 (October 31, 2017 - \$28,077) and financial liabilities of \$499,034 (October 31, 2017 - \$498,295). All of the Company's financial liabilities have a short term to maturity. The Company has a \$400,000 Debenture which is due April 24, 2019. The Company has split the Debenture and Warrant components of the Debenture into the debt and equity components and recorded the debt component as a liability and the equity component as equity. The Debenture's amortized cost as at July 31, 2018 is \$386,414.

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

The Company's long-term viability is dependent on its ability to generate future profitable operations and cash flows and/or obtain additional financing, which would be contingent upon market and other conditions in the future, which are beyond the Company's control (*see Section 5 – Risks and Uncertainties*).

## **(12) Debenture.**

On January 31, 2018, the Company entered into an agreement to amend the terms of its \$400,000 principal amount of debentures (the "Debentures") and 800,000 common share purchase warrants (the "Warrants") that were issued on April 24, 2015.

Each Debenture bears interest at a rate of 10% per annum, calculated and payable quarterly. The Debentures had a term of 36 months expiring on April 24, 2018 and were redeemable at any time prior to maturity at the discretion of 01 Communique with payment of an additional three months interest. The Debentures are secured by a general security agreement. Each Warrant is exercisable into one common share in the capital of 01 Communique at any time until April 24, 2018 at an exercise price of \$0.21 per Common Share. Under the terms of the amendment the rate of interest on the Debentures increased to 15% effective April 25, 2018 and the maturity date is extended to April 24, 2019. Furthermore, effective January 31, 2018 the Warrant exercise price is decreased to \$0.10 and the expiry date is extended to April 24, 2019. In addition the amended Warrants provide for an expiry date acceleration clause such that the exercise period of the Warrants will be reduced to 30 days if, for any ten consecutive trading days during the unexpired term of the Warrant (the "Premium Trading Days"), the closing price of the common shares of the Company exceeds the exercise price of the Warrants by 25% or more. The reduced exercise period of 30 days will begin no more than 7 calendar days after the tenth Premium Trading Day.

In accordance with the provisions of IFRS, as they apply to the Debenture, the Company 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 calculates 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 is attributed to the equity portion of

the Debenture. The Company estimated the liability component of the amended Debenture aggregated \$382,300 using a discount rate of 20%. The equity portion of the amended Debenture is estimated as the residual \$17,700.

Accretion charges on the liability component of the amended debenture aggregating \$4,114 are calculated using the discount rate of 20% and have been recorded in the statements of operations and comprehensive loss. As at July 31, 2018 the liability component of the amended Debenture was \$386,414.

### **(13) Market risk.**

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

Currency risk:

Net monetary liabilities due in U.S. dollars include accounts payable of \$346,841 (October 31, 2017 – 346,841), cash of \$52,921 (October 31, 2017 - \$185,068) and accounts receivable of \$29,195 (October 31, 2017 - \$18,732).

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. As a result, the Company is subject to currency risk from sales made 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 the date of the sales transaction to the collection date due. As at July 31, 2018, the Company had net monetary liabilities due in U.S. dollars of \$264,725 (October 31, 2017 - \$143,000). An increase or decrease in the U.S. to Canadian dollar exchange rate by 10% as at July 31, 2018 would have resulted in a gain in the amount of \$26,473 (October 31, 2017 - \$14,300) or a loss of \$24,673 (October 31, 2017 - \$14,300), respectively.

The Company has performed a sensitivity analysis for foreign exchange exposure over the nine month period ended July 31, 2018. The analysis used a modeling technique that compares the U.S. dollar equivalent of all revenue and expenses incurred in U.S. dollars, at the actual exchange rate, to a hypothetical 10% movement in the foreign currency exchanges rates against the Canadian dollar, with all other variables held constant. Foreign currency exchanges rates used were based on the market rates in effect during the nine month period ended July 31, 2018. 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 result in a change to the net loss for the nine month period ended July 31, 2018 of \$13,450 (2017 – \$33,800). 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.

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

The contractual obligations the Company has pertains to operating lease agreements for its premises and equipment. The total contractual amount due is \$5,250 for the remainder of fiscal 2018. The premise lease expires February 28, 2019 at a monthly rate of \$1,750. Rental expense under operating lease agreements for the nine month period ended July 31, 2018 were \$15,750 (2017 - \$15,750).

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

**(15) Related Party Transactions.**

The remuneration of directors and other key management personnel of the Company during the three and nine month periods ended July 31, 2018 and 2017 were as follows:

	<i>for the 3 months ending</i>		<i>for the 9 months ending</i>	
	<u>31-July-18</u>	<u>31-July-17</u>	<u>31-July-18</u>	<u>31-July-17</u>
Salaries	\$ 23,500	\$ 33,000	\$ 63,000	\$ 33,000
Stock-based compensation	\$ 5,915	\$ 10,500	\$ 10,008	\$ 83,500

The Company's President and CEO invoices the Company for his services that pertain to research and development pursuant to a contractor agreement. Fees paid under this agreement during the three and nine month periods ended July 31, 2018 were \$15,000 (2017 - \$33,000) and \$35,000 (2017 - \$33,000) respectively, and have been included in research and development expenses and are disclosed in the salaries amounts in the above table. This transaction is in the normal course of operations and is measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The President and CEO did not receive a salary for the three and nine months ended July 31, 2018 (2017 - Nil).

**(16) Critical Accounting Estimates.**

The 2017 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, 2017 for a discussion regarding the Company's accounting policies and the application of accounting estimates and judgments.

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

accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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

(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.

There were 1,570,000 stock options granted during the nine months ended July 31, 2018 (2017 – 835,000) to directors, executive management as well as consultants and contractors for the Company. The average grant date fair value of options granted during the nine months ended July 31, 2018 ranged from \$0.034 to \$0.065 (2017 - \$0.034). 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 period ended Jul 31, 2018: dividend yield of nil (2017 nil), expected volatility ranging from 169% to \$194% (2017 – 147%), weighted average risk-free interest rate of 1.5% (2017 – 1.5%) and expected lives ranging from 18 months to 5 years (2017 – 4 years). During the three and nine month periods ended July 31, 2018, the Company recorded compensation expense related to stock options of \$11,884 (2017 - \$10,500) and \$22,799 (2017 - \$83,500) respectively.

(ii) In accordance with the provisions of IFRS, as they apply to the Debenture, the Company 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 calculates 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 is attributed to the equity portion of the Debenture. The Company estimated the liability component of the amended Debenture aggregated \$382,300 using a discount rate of 20%. The equity portion of the amended Debenture is estimated as the residual \$17,700. Accretion charges on the liability component of the amended debenture aggregating \$4,114 are calculated using the discount rate of 20% and have been recorded in the statements of operations and comprehensive loss. As at July 31, 2018 the liability component of the amended Debenture was \$386,414.

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

In the course of evaluating its internal controls over financial reporting as at July 31, 2018, management has identified the following material weakness:

There is limited segregation of duties which could result in a material misstatement in the Company's consolidated interim or annual financial statements. Given the Company's limited staff level, certain duties

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

As at July 31, 2018 the Company's management evaluated the effectiveness of the design and operation of its disclosure controls and procedures and internal control over financial reporting. Based on their evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures and internal control over financial reporting are ineffective as a result of the material weakness in internal control over financial reporting described above.

There have been no significant changes to the Company's internal control environment during the nine month period ended July 31, 2018 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

6,160,000 stock options outstanding convertible into common shares at exercise prices ranging from \$0.05 to \$0.49. The options expire between December 10, 2018 and June 25, 2023.

800,000 Debenture Warrants outstanding convertible into common shares at an exercise price of \$0.10. The Debenture Warrants expire on April 24, 2019.

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

The following tables sets forth certain information from the unaudited consolidated statements of operation for the eight most recent quarters of operations ended July 31, 2018 as prepared in accordance with IFRS.

<i>for the 3 months ending</i>	<i>31-July-18</i>	<i>30-Apr-18</i>	<i>31-Jan-18</i>	<i>31-Oct-17</i>
Revenue	\$ 45,439	\$ 73,809	\$ 34,844	\$ 119,625
Expenses (income):				
Selling, general and administrative	77,893	55,566	34,475	55,580
Research and development	23,580	35,168	23,774	52,718
Interest	(23)	(10)	(8)	(7)
	101,450	90,724	58,241	108,291
Profit (loss) before interest and accretion on liability component of debenture and taxes	\$ (56,011)	\$ (16,915)	\$ (23,397)	\$ 11,334
Interest on debenture	15,000	10,295	10,000	10,000
Accretion on liability portion of debenture	4,114	-	8,420	4,515
Profit (loss) before taxes	(75,125)	(27,210)	(41,817)	(3,181)
Withholding taxes	3,823	7,834	2,720	9,955
Profit (loss) for the period and comprehensive profit (loss)	\$ (78,948)	\$ (35,044)	\$ (44,537)	\$ (13,136)

<i>for the 3 months ending</i>	<i>31-Jul-17</i>	<i>30-Apr-17</i>	<i>31-Jan-17</i>	<i>31-Oct-16</i>
Revenue	\$ 247,269	\$ 129,462	\$ 7,631	\$ 8,905
Expenses (income):				
Selling, general and administrative	47,097	64,471	86,034	62,816
Research and development	93,487	21,186	5,325	43,240
Interest	(7)	(19)	(8)	(1,291)
	140,577	85,638	91,351	104,765
Profit (loss) before interest and accretion on liability component of debenture and taxes	\$ 106,692	\$ 43,824	\$ (83,720)	\$ (95,860)
Interest on debenture	10,000	10,000	10,000	10,000
Accretion on liability portion of debenture	4,352	4,194	4,043	3,896
Profit (loss) before taxes	92,340	29,630	(97,763)	(109,756)
Withholding taxes	23,957	12,022	-	-
Profit (loss) for the period and comprehensive profit (loss)	\$ 68,383	\$ 17,608	\$ (97,763)	\$ (109,756)

## 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

Jane Yang  
Blockchain Consultant

### OFFICERS

Andrew Cheung  
President & CEO

Brian Stringer  
Chief Financial Officer

Gigi Loo  
Controller

### INVESTOR RELATIONS

e-mail to:  
[investorrelations@01com.com](mailto:investorrelations@01com.com)

### CORPORATE HEADQUARTERS

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