



**01 Communique Laboratory Inc.**  
**Interim Consolidated Financial Statements**  
**for the period ended July 31, 2019**  
**(Unaudited)**  
**TSX-V : ONE**

Dated: September 30, 2019

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

See accompanying notes to unaudited interim consolidated financial statements

	31-July-19	31-Oct-18
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 498,038	\$ 113,760
Guaranteed investment certificate (note 2 (b) (vi))	200,000	700,000
Accounts receivable (note 2 (a))	88,707	62,696
Prepaid expenses and other assets	16,480	6,275
	<u>803,225</u>	<u>882,731</u>
 Plant and equipment (note 12)	 17,393	 16,085
	<u>\$ 820,618</u>	<u>\$ 898,816</u>
 <b>Liabilities &amp; Shareholders' Deficit</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 523,117	\$ 584,552
Deferred revenue	10,334	8,455
Liability component of debenture (note 4)	388,031	390,733
	<u>921,482</u>	<u>983,740</u>
 <b>Shareholders' equity</b>		
Share capital (note 5)	41,403,310	41,186,529
Contributed surplus	5,642,523	5,511,832
Share purchase warrants (note 5 (a))	581,575	417,700
Agent compensation options (note 5 (b))	124,164	99,200
Deficit	(47,852,436)	(47,300,185)
	<u>(100,864)</u>	<u>(84,924)</u>
Going concern (note 1 (b))		
Related party transaction (note 7)		
Contractual obligations and contingencies (note 9)		
 Total liabilities and shareholders' deficit	 <u>\$ 820,618</u>	 <u>\$ 898,816</u>

**01 Communique Laboratory Inc.**  
**Interim Consolidated Statements of Operations and Comprehensive Loss**  
**(Unaudited)**  
**For the 3 and 9 month periods ended July 31, 2019 and 2018**

	<i>for the 3 months ending</i>		<i>for the 9 months ending</i>	
	<u>31-Jul-19</u>	<u>31-Jul-18</u>	<u>31-Jul-19</u>	<u>31-Jul-18</u>
Revenue	\$ 77,555	\$ 45,439	\$ 202,275	\$ 154,092
Expenses (income):				
Selling, general and administrative	122,520	77,893	403,669	167,935
Research and development	99,862	23,580	279,040	82,522
Interest	<u>(2,184)</u>	<u>(23)</u>	<u>(4,894)</u>	<u>(41)</u>
	<u>220,197</u>	<u>101,450</u>	<u>677,814</u>	<u>250,415</u>
Loss before interest and accretion on liability component of debenture and taxes	\$ (142,642)	\$ (56,011)	\$ (475,539)	\$ (96,323)
Interest on debenture	15,000	15,000	45,000	35,295
Accretion on liability portion of debenture	<u>4,114</u>	<u>4,114</u>	<u>13,411</u>	<u>12,534</u>
(Loss) before taxes	<u>\$ (161,756)</u>	<u>\$ (75,125)</u>	<u>\$ (533,950)</u>	<u>\$ (144,152)</u>
Withholding taxes	<u>7,143</u>	<u>3,823</u>	<u>18,301</u>	<u>14,377</u>
(Loss) for the period and comprehensive loss	<u>\$ (168,899)</u>	<u>\$ (78,948)</u>	<u>\$ (552,251)</u>	<u>\$ (158,529)</u>
Basic	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.00)
Diluted	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.00)
Weighted average number of common shares				
Basic	76,624,733	66,543,807	76,563,386	66,543,807
Diluted	76,624,733	66,543,807	76,563,386	66,543,807

See accompanying notes to unaudited interim consolidated financial statements

**01 Communique Laboratory Inc.**  
**Interim Consolidated Statements of Changes in Shareholders' Equity**  
**(Unaudited)**  
**For the 9 month periods ended July 31, 2019 and 2018**

Nine month period ended July 31, 2019	Number of shares	Share Capital	Contributed Surplus	Share Purchase Warrants	Agent Options	Deficit	Total Shareholders' Equity
Balance October 31, 2018	76,543,807	\$41,186,529	\$5,511,832	\$417,700	\$99,200	\$(47,300,185)	\$ (84,924)
Comprehensive loss for the period	-	-	-	-	-	(552,251)	(552,251)
Equity financing	3,641,665	216,781	-	163,875	24,964	-	405,620
Stock based compensation expense	-	-	114,578	-	-	-	114,578
Equity portion of debenture amendment	-	-	16,113	-	-	-	16,113
Balance July 31, 2019	<u>80,185,472</u>	<u>\$41,403,310</u>	<u>\$5,642,523</u>	<u>\$581,575</u>	<u>\$124,164</u>	<u>\$(47,852,436)</u>	<u>\$ (100,864)</u>

Nine month period ended July 31, 2018	Number of shares	Share Capital	Contributed Surplus	Share Purchase Warrants	Agent Options	Deficit	Total Shareholders' Equity
Balance October 31, 2017	66,543,807	\$40,832,777	\$5,407,310	\$ -	\$ -	\$(46,912,561)	\$ (625,363)
Comprehensive loss for the period	-	-	-	-	-	(158,529)	(158,529)
Warrant cancellation	-	-	47,111	(47,111)	-	-	-
Equity portion of debenture amendment	-	-	-	17,700	-	-	17,700
Stock based compensation expense	-	-	22,799	-	-	-	22,799
Balance July 31, 2018	<u>66,543,807</u>	<u>\$40,832,777</u>	<u>\$5,477,220</u>	<u>\$17,700</u>	<u>\$ -</u>	<u>\$(47,071,090)</u>	<u>\$ (743,393)</u>

See accompanying notes to unaudited interim consolidated financial statements

**01 Communique Laboratory Inc.**  
**Interim Consolidated Statements of Cash Flows**  
**(Unaudited)**  
**For the 3 and 9 month periods ended July 31, 2019 and 2018**

	<i>three months ending</i>		<i>nine months ending</i>	
	<u>31-Jul-19</u>	<u>31-Jul-18</u>	<u>31-Jul-19</u>	<u>31-Jul-18</u>
Cash provided by (used in):				
Operating activities:				
Income (Loss) for the period	\$ (168,899)	\$ (78,948)	\$ (552,251)	\$ (158,529)
Adjustments to reconcile the loss for the period to net cash flows from operating activities				
Depreciation	1,241	282	3,937	1,065
Stock-based compensation	31,082	11,884	114,578	22,799
Accretion on liability portion of debenture	4,114	4,114	13,411	12,534
Interest income	(2,184)	(23)	(4,894)	(41)
Change in non-cash working capital (note 8)	(37,146)	(4,847)	(95,772)	(39,366)
	<u>(171,792)</u>	<u>(67,538)</u>	<u>(520,991)</u>	<u>(161,538)</u>
Interest income received	2,184	23	4,894	41
	<u>(169,608)</u>	<u>(67,515)</u>	<u>(516,097)</u>	<u>(161,497)</u>
Financing activities:				
Proceeds from guaranteed investment certificate	150,000		500,000	
Private placement	405,620		405,620	-
Investing activities:				
Purchase of capital assets	-	(692)	(5,245)	(3,087)
Increase (decrease) in cash	<u>386,012</u>	<u>(68,207)</u>	<u>384,278</u>	<u>(164,584)</u>
Cash and cash equivalents, beginning of period	<u>112,026</u>	<u>142,199</u>	<u>113,760</u>	<u>238,576</u>
Cash and cash equivalents, end of period	<u>\$ 498,038</u>	<u>\$ 73,992</u>	<u>\$ 498,038</u>	<u>\$ 73,992</u>
Cash and cash equivalents comprise:				
Demand deposits	\$ 200,000	\$ -		
Cash	<u>298,038</u>	<u>73,992</u>		
	<u>\$ 498,038</u>	<u>\$ 73,992</u>		

See accompanying notes to unaudited interim consolidated financial statements

**01 Communique Laboratory Inc.**  
**Notes to the consolidated financial statements**  
**(Unaudited)**  
**Three and nine month periods ended July 31, 2019 and 2018**

**Notice to reader of the interim consolidated financial statements**

These unaudited interim condensed consolidated financial statements (“interim consolidated financial statements”) of 01 Communique Laboratory Inc. (the “Company”), which include the accompanying interim consolidated statement of financial position as at July 31, 2019 and the interim consolidated statements of operations and comprehensive income (loss), changes in shareholders’ equity and cash flows for the three and nine month periods ended July 31, 2019 and 2018, are the responsibility of the Company’s management. These interim consolidated financial statements have not been audited or reviewed on behalf of the shareholders by the independent external auditors of the Company, Shimmerman Penn LLP. The unaudited interim consolidated financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with accounting principles generally accepted in Canada. These unaudited interim consolidated financial statements are prepared under International Financial Reporting Standards (“IFRS”) and reflect management’s best estimates and judgment based on information currently available.

The Company was incorporated on October 7, 1992 under the laws of Ontario. The Company focuses on cybersecurity with its IronCAP patent-pending cryptographic system designed to protect users and enterprises against illegitimate and malicious means of gaining access to their data. Operating on conventional computer systems IronCAP protects users today and at the same time is secure enough to safeguard against future attacks with the introduction of quantum computers. As well, the Company’s legacy business provides customers with secure remote access marketed under its I’m InTouch suite of services and products.

The Company’s head office is located at 789 Don Mills Road, Suite 700, Toronto ON M3C 1T5 and its common shares are traded on the TSX Venture Exchange (“TSX-V”) under the symbol ONE.

**(1) Significant accounting policies:**

**(a) Statement of compliance and basis of presentation:**

These interim consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”) and on a basis consistent with the accounting policies disclosed in the Company’s annual audited consolidated financial statements for the year ended October 31, 2018. The accounting standards applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of the date the Board of Directors authorized the financial statements for issue.

The interim consolidated financial statements were authorized for issue by the Board of Directors on September 30, 2019.

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

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

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

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

**(b) Going Concern:**

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities in the normal course of business. As at July 31, 2019 the Company reported a working capital deficiency of \$118,257 (October 31, 2018 – \$101,009). In addition to the working capital deficiency, 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. However, there can be no assurances the Company will be successful on any of these three initiatives. Should the Company not be able to generate sufficient cash flows from any combination of these three initiatives to become profitable in the future and generate sufficient working capital to fund operations as well as discharge its current working capital deficiency, then it will become necessary to secure additional sources of financing; however, there can be no assurances that any such financing will be available to the Company or that such funds will be available on acceptable terms and within an acceptable period of time.

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

its liabilities in other than the normal course of business and at amounts different from those reflected in these consolidated financial statements.

**(2) Financial instruments and financial risk management:**

**(a) Financial instruments:**

The Company has classified its financial instruments as follows:

	<u>31-Jul-19</u>	<u>31-Oct-18</u>
Financial assets:		
Held-for-trading, measured at fair value:		
Cash and cash equivalents	\$ 498,038	\$ 113,760
Guaranteed investment certificate	200,000	700,000
Loans and receivables, recorded at cost:		
Accounts receivable	88,707	62,696
Financial liabilities, recorded at amortized cost:		
Accounts payable and accrued liabilities	523,117	584,552
Liability component of debenture	388,031	390,733

Accounts receivable are comprised of the following:

	<u>31-Jul-19</u>	<u>31-Oct-18</u>
Trade receivables	\$ 71,471	\$ 40,486
Investment tax credits receivable	6,000	6,000
Other	11,236	16,210
	<u>\$ 88,707</u>	<u>\$ 62,696</u>

**(b) Financial risk management:**

**(i) Overview:**

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

**(ii) Credit risk:**

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

The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Company generally does not require collateral for sales on credit. The Company closely monitors extensions of credit and has not experienced significant credit losses in the past. At July 31, 2019 and October 31, 2018, the Company had a nil balance in the allowance for doubtful accounts and had no material past due trade receivables.

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

**(iii) Concentrations of credit risk:**

There was one company that comprised 92% (2018 – 84%) and 90% (2018 - 86%) of the Company's total of revenue for the three and nine months ended July 31, 2019 respectively. No other customers exceeded 10% of revenue during the current or prior periods. The customer comprising 92% (2018 – 84%) of revenue represents 81% (2018 – 83%) of accounts receivable as at July 31, 2019.

**(iv) Liquidity risk:**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet its liabilities when due. To the extent that the Company does not believe it has sufficient liquidity to meet these obligations, management will consider securing additional funds through equity or debt transactions.

However, the Company has sustained substantial losses in recent years and its ability to continue as a going concern is dependent on the Company's ability to generate future profitable operations and cash flows and/or obtain additional financing, which would be contingent upon market and other conditions in the future, which are beyond the Company's control.

At July 31, 2019, the Company had financial assets held-for-trading of \$698,038 (October 31, 2018 - \$813,760), loans and receivables of \$88,707 (October 31, 2018 - \$62,696) and financial liabilities of \$911,148 (October 31, 2018 - \$975,285), consisting of accounts payable and accrued liabilities and debentures. The Company has a \$400,000 Debenture which is due April 24, 2020. 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, 2019 is \$388,031 (October 31, 2018 - \$390,733) (note 4).

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

**(v) Market risk:**

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

Currency risk:

Net monetary liabilities due in U.S. dollars include accounts payable of \$353,312 (October 31, 2018 – \$346,841), cash of \$73,558 (October 31, 2018 - \$13,557) and accounts receivable of \$54,522 (October 31, 2018 - \$31,143).

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, 2019, the Company had net monetary liabilities due in U.S. dollars of \$225,232 (October 31, 2018 - \$302,000). An increase or decrease in the U.S. to Canadian dollar exchange rate by 10% as at July 31, 2019 would have resulted in a gain in the amount of \$22,523 (October 31, 2018 - \$30,200) or a loss of \$22,523 (October 31, 2018 - \$30,200), respectively.

The Company has performed a sensitivity analysis for foreign exchange exposure over the nine month period ended July 31, 2019. 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, 2019. 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, 2019 of \$13,000 (2018 – \$7,300). There can be no assurances that the above projected exchange rate change will materialize. Interest rate risk: The Company is exposed to interest rate risk on its fixed rate financial instruments. Fixed rate instruments subject the Company to fair value interest rate risk, as the fair value of the financial instrument fluctuates due to changes in market interest rates. Financial instruments subject to interest rate risk include demand deposits and the liability component of the debenture.

(vi) **Fair values of financial instruments:**

The carrying values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity and terms of these financial instruments. The Debenture has a maturity date of April 24, 2020, and in determining the fair value of the liability and the equity components, the Company calculated the value of the liability component first, using a discount rate appropriate for what a similar debt instrument, absent any warrants, would have commanded at that time.

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

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

	Level 1	Level 2	Level 3
		Valuation technique	Valuation technique
	Quoted market price	using observable market inputs	using non-observable market inputs
Financial assets:			
Cash and cash equivalents:			
July 31, 2019	\$ 498,038	\$ –	\$ –
October 31, 2018	113,760	–	–
Guaranteed investment certificate			
July 31, 2019	\$ 200,000	\$ –	\$ –
October 31, 2018	700,000	–	–

There were no financial instruments categorized in Level 2 or Level 3 as at July 31, 2019 and October 31, 2018.

There were no transfers of assets between levels during the nine month period ended July 31, 2019 and the year ended October 31, 2018.

The guaranteed investment certificate is a one year cashable guaranteed investment certificate bearing interest at 2% per annum and maturing September 26, 2019.

### **(3) Capital risk management:**

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

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

The Company is not subject to externally imposed capital requirements.

### **(4) Debenture:**

The Company completed a financing which closed on April 24, 2015 and raised \$400,000, which comprises four (4) debenture units ("Debenture Units") which remain outstanding as amended, as at July 31, 2019. Each Debenture Unit consists of one secured debenture ("Debenture"), with a principal amount of \$100,000, and 200,000 common share purchase warrants ("Warrants"). The Debentures are secured by a general security agreement. On March 27, 2019 the Company entered into an agreement to amend the terms of the Debenture Units and the Warrants. As at July 31, 2019, the Company was in compliance with all covenants of the Debenture Units as amended.

The amendment was treated as a cancellation of the previous Debenture and Warrants and an issuance of a new Debenture and Warrants under the new terms. Prior to March 27, 2019, the date of amendment, each Debenture bore interest at a rate of 15% per annum, calculated and payable quarterly. The Debentures had a term of 36 months expiring on April 24, 2019 and were redeemable at any time prior to maturity at the discretion of 01 Communique with payment of an additional three months interest. Each Warrant was exercisable into one common share in the capital of 01 Communique at any time until April 24, 2019 at an exercise price of \$0.10 per Common Share. Under the terms of the March 27, 2019 amendment the rate of interest on the Debentures remained at 15% per annum with the maturity date extended to April 24, 2020 and the Warrant expiry date was extended to April 24, 2020 from April 24, 2019.

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 and the amended 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 \$13,411 (2018 – \$12,534) are calculated using the discount rate of 20% for the Debenture and have been recorded in the statements of operations and comprehensive loss.

**(5) Share Capital:**

Authorized:

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

July 29, 2019 private placement.

On July 29, 2019, the Company completed a financing issuing by way of a private placement of 3,641,665 units at a price of \$0.12 per unit for gross proceeds of \$437,000. Each unit consists of one common share and one-half share purchase warrant. Each whole warrant entitles the holder to acquire one common share for \$0.15 at any time within 24 months of closing. As part of their compensation for the financing, the agent received 184,916 compensation options which entitles the agent to purchase one unit of the Company for each one compensation option at a price of \$0.12 per unit at any time within 24 months of closing. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the agent to acquire one common share at a price of \$0.15 at any time within 24 months of closing.

Net cash proceeds received by the Company, after deducting cash expenses of \$31,380 relating to the financing, were \$405,620. In addition, non-cash costs of \$163,875 relating to the share purchase warrants and \$24,964 relating to the agent's compensation options were recorded resulting in the recording of an addition to share capital of \$216,781. The fair value of each share purchase warrant and agent's compensation option granted was estimated at the date of grant using the Black-Scholes option pricing model, using the following assumptions: risk-free interest rate of 2.25%, expected volatility of 195%, expected life of warrants and options of two years and 0% dividend yield. The fair value of the share purchase warrants and the agent's compensation options was determined to be \$0.09.

The change in issued and outstanding common shares for the nine month period ended July 31, 2019:

	Number	Amount
Shares outstanding October 31, 2018	76,543,807	\$ 41,186,529
Shares issued - July 29, 2019 private placement	3,641,665	216,781
Shares outstanding July 31, 2019	80,185,472	\$ 41,403,310

a) Warrants:

The change in issued and outstanding warrants for the nine month period ended July 31, 2019:

	Number	Value	Weighted average exercise price
Share purchase warrants outstanding October 31, 2018	5,800,000	\$ 417,700	\$ 0.14
Warrants issued - July 29, 2019 private placement	1,820,832	\$ 163,875	\$ 0.15
Warrants outstanding July 31, 2019	7,620,832	\$ 581,575	\$ 0.14

b) Agent compensation options:

The change in issued and outstanding agent compensation options for the nine month period ended July 31, 2019:

	Number	Value	Weighted average exercise price
Agent compensation options outstanding October 31, 2018	800,000	\$ 99,200	\$ 0.10
Agent compensation options issued - July 29, 2019 private placement	184,916	\$ 24,964	\$ 0.12
Agent compensation options outstanding July 31, 2019	984,916	\$ 124,164	\$ 0.10

c) The following table summarizes changes to the Company's stock option plan for the nine month period ended July 31, 2019:

	Number	Weighted average exercise price
Stock options outstanding October 31, 2018	6,260,000	\$ 0.14
Granted during the period	1,310,000	\$ 0.07
Expired during the period	(1,185,000)	\$ 0.24
Stock options outstanding July 31, 2019	6,385,000	\$ 0.10

(d) The following table summarizes information with respect to the Company's stock option plan as at July 31, 2019:

Range of exercise prices	<u>Options Outstanding</u>		<u>Options Exercisable</u>		
	Number Outstanding	Weighted Average remaining life	Weighted average exercise	Number exercisable	Weighted Average Exercise
\$0.05	3,335,000	1.8	\$0.05	3,335,000	\$0.05
\$0.07 to \$0.10	2,260,000	3.2	\$0.07	1,480,000	\$0.07
\$0.42	790,000	0.1	\$0.42	790,000	\$0.42
	6,385,000	2.1	\$0.10	5,605,000	\$0.11

There were 1,310,000 stock options granted during the nine months ended July 31, 2019 (2018 – 1,570,000). The average grant date fair value of options granted during the nine months ended July 31, 2019 was \$0.06

(2018 – ranged from \$0.03 to \$0.06). 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 July 31, 2019: dividend yield of nil (2018 nil), expected volatility of 176% (2018 – ranged from 169% to 194%), weighted average risk-free interest rate of 1.5% (2018 – 1.5%) and expected lives ranging from 2 to 5 years (2018 – ranged from 18 months to 5 years).

During the three and nine month periods ended July 31, 2019, the Company recorded compensation expense related to stock options of \$31,082 (2018 - \$11,884) and \$114,578 (2018 - \$22,799) respectively.

**(6) Loss per share:**

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

**For the three months ended**

	<u>31-Jul-19</u>	<u>31-Jul-18</u>
Profit (loss) and comprehensive profit ( loss)	\$ (168,899)	\$ (78,948)
Weighted average number of common shares outstanding		
Basic	76,624,733	66,543,807
Diluted	76,624,733	66,543,807
Profit (loss) per common share		
Basic	\$ (0.00)	\$ (0.00)
Diluted	\$ (0.00)	\$ (0.00)

**For the nine months ended**

	<u>31-Jul-19</u>	<u>31-Jul-18</u>
Loss and comprehensive loss	\$ (552,251)	\$ (158,529)
Weighted average number of common shares outstanding		
Basic	76,563,386	66,543,807
Diluted	76,563,386	66,543,807
Loss per common share		
Basic	\$ (0.00)	\$ (0.00)
Diluted	\$ (0.00)	\$ (0.00)

As the Company is in a loss position for the three and nine month periods ended July 31, 2019 and 2018, 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.

**(7) Related Party Transactions:**

The remuneration of directors and other key management personnel of the Company during the three and nine month periods ended July 31, 2019 and 2018 were as follows:

	<i>for the 3 months ending</i>		<i>for the 9 months ending</i>	
	<u>31-Jul-19</u>	<u>31-Jul-18</u>	<u>31-Jul-19</u>	<u>31-Jul-18</u>
Salaries	\$ 55,000	\$ 23,500	\$ 157,500	\$ 63,000
Stock-based compensation	\$ 31,082	\$ 5,915	\$ 105,639	\$ 10,008

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, 2019 were \$16,500 (2018 - \$15,000) and \$42,000 (2018 - \$35,000) 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's salary for the three and nine months ended July 31, 2019 was \$21,000 (2018 – Nil) and \$63,000 (2018 – Nil) respectively.

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

	<i>three months ending</i>		<i>nine months ending</i>	
	<u>31-Jul-19</u>	<u>31-Jul-18</u>	<u>31-Jul-19</u>	<u>31-Jul-18</u>
Accounts receivable	\$ (32,719)	\$ 293	\$ (26,011)	\$ (18,148)
Prepaid expenses and other assets	6,350	(8,644)	(10,205)	(21,349)
Accounts payable & accruals	(11,648)	4,952	(61,435)	739
Deferred revenue	871	(1,448)	1,879	(608)
	<u>\$ (37,146)</u>	<u>\$ (4,847)</u>	<u>\$ (95,772)</u>	<u>\$ (39,366)</u>

**(9) Contractual Obligations and Contingencies:**

The contractual obligations the Company has pertains to operating lease agreements for its premises and equipment. The total contractual amount due is \$11,424 for the remainder of fiscal 2019. During the year the Company entered into a lease at a new location at a monthly rate of \$ 3,808 effective April 1, 2019, and \$3,873 effective April 1, 2020. The lease expires March 31, 2021. Rental expense under operating lease agreements for the three month and nine periods ended July 31, 2019 were \$11,665 (2018 - \$5,250) and \$24,223 (2018 - \$15,750) respectively. The Company's new location is 789 Don Mills Road, Suite 700, Toronto, ON M3C 1T5.

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

**(10) Segmented Information:**

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

	<i>For the three months ended</i>		<i>For the nine months ended</i>	
	<u>31-Jul-19</u>	<u>31-Jul-18</u>	<u>31-Jul-19</u>	<u>31-Jul-18</u>
United States	\$ 3,442	\$ 3,945	\$ 12,050	\$ 13,333
Canada	2,688	3,265	7,218	8,979
Japan	71,425	38,229	183,007	131,780
	<u>\$ 77,555</u>	<u>\$ 45,439</u>	<u>\$ 202,275</u>	<u>\$ 154,092</u>

Substantially all of the Company's identifiable assets as at July 31, 2019 and October 31, 2018 are located in Canada.

**(11) Revenues:**

The significant categories of revenue recognized during the periods are as follows:

	<i>For the three months ended</i>		<i>For the nine months ended</i>	
	<u>31-Jul-19</u>	<u>31-Jul-18</u>	<u>31-Jul-19</u>	<u>31-Jul-18</u>
Licensing fees	\$ 6,130	\$ 7,210	\$ 19,268	\$ 22,312
Subscription and maintenance fees	71,425	38,229	183,007	131,780
	<u>\$ 77,555</u>	<u>\$ 45,439</u>	<u>\$ 202,275</u>	<u>\$ 154,092</u>

**(12) 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 table presents the expenses based on their nature:

<b>three months ended 31-Jul-19</b>	<b>SG&amp;A</b>	<b>Research and development</b>	<b>Total</b>
Salaries, contractors, commissions and benefits	\$ 45,730	\$ 70,920	\$ 116,650
Stock-based compensation	31,082	-	31,082
Other operating expenses	45,708	28,942	74,650
	<u>\$ 122,520</u>	<u>\$ 99,862</u>	<u>\$ 222,382</u>

<b>three months ended 31-Jul-18</b>	<b>Selling, general and administration</b>	<b>Research and development</b>	<b>Total</b>
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>nine months ended 31-Jul-19</b>	<b>SG&amp;A</b>	<b>R&amp;D</b>	<b>Total</b>
Salaries, contractors, commissions and benefits	\$ 137,013	\$ 191,175	\$ 328,188
Stock-based compensation	114,578	-	114,578
Other operating expenses	152,078	87,865	239,942
	<u>\$ 403,669</u>	<u>\$ 279,040</u>	<u>\$ 682,708</u>

<b>nine months ended 31-Jul-18</b>	<b>Selling, general and administration</b>	<b>Research and development</b>	<b>Total</b>
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>

**(13) Property and Equipment:**

<b>July 31, 2019</b>	<b>Computer Systems</b>	<b>Communications Equipment</b>	<b>Furniture and fixtures and leaseholds</b>	<b>Total</b>
<b>Cost</b>				
Balance at October 31, 2018	\$ 548,284	\$ 26,887	\$ 130,002	\$ 705,173
Additions	5,245	-	-	5,245
Balance at July 31, 2019	<u>\$ 553,529</u>	<u>\$ 26,887</u>	<u>\$ 130,002</u>	<u>\$ 710,418</u>
<b>Depreciation</b>				
Balance at October 31, 2018	\$ 532,199	\$ 26,887	\$ 130,002	\$ 689,088
Additions	3,937	-	-	3,937
Balance at July 31, 2019	<u>\$ 536,136</u>	<u>\$ 26,887</u>	<u>\$ 130,002</u>	<u>\$ 693,025</u>
<b>Carry amounts</b>				
Balance at July 31, 2019	\$ 17,393	\$ -	\$ -	\$ 17,393
Balance at October 31, 2018	\$ 16,085	\$ -	\$ -	\$ 16,085

  

<b>July 31, 2018</b>	<b>Computer Systems</b>	<b>Communications Equipment</b>	<b>Furniture and fixtures and leaseholds</b>	<b>Total</b>
<b>Cost</b>				
Balance at October 31, 2017	\$ 533,329	\$ 26,887	\$ 130,002	\$ 690,218
Additions	3,088	-	-	3,088
Balance at July 31, 2018	<u>\$ 536,417</u>	<u>\$ 26,887</u>	<u>\$ 130,002</u>	<u>\$ 693,306</u>
<b>Depreciation</b>				
Balance at October 31, 2017	\$ 530,853	\$ 26,887	\$ 130,002	\$ 687,742
Additions	1,065	-	-	1,065
Balance at July 31, 2018	<u>\$ 531,918</u>	<u>\$ 26,887</u>	<u>\$ 130,002</u>	<u>\$ 688,807</u>
<b>Carry amounts</b>				
Balance at July 31, 2018	\$ 4,499	\$ -	\$ -	\$ 4,499
Balance at October 31, 2017	\$ 2,476	\$ -	\$ -	\$ 2,476

# 01 Communique Laboratory Inc.

## Corporate Information

### **DIRECTORS**

Andrew Cheung  
President & CEO

William A. Train  
Chairman  
Private investor

Joanna Ng  
AI Technologist & Startup  
Entrepreneur

Gary Kissack  
Lawyer, Fogler, Rubinoff LLP

Jane Yang  
Blockchain Consultant

### **OFFICERS**

Andrew Cheung  
President & CEO

Brian Stringer  
Chief Financial Officer

Gigi Loo  
Controller and Corporate  
Secretary

### **INVESTOR RELATIONS**

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Trading Symbol "ONE"