

Consolidated Financial Statements
(In Canadian dollars)

01 COMMUNIQUE LABORATORY INC.

Years ended October 31, 2020 and 2019

Audit, Tax, Advisory.

Independent Auditor's Report

To the Shareholders of 01 Communique Laboratory Inc.

Opinion

We have audited the consolidated financial statements of 01 Communique Laboratory Inc. and its subsidiary (the "Company"), which comprise the consolidated statement of financial position as at October 31, 2020, and the consolidated statement of operations and comprehensive loss, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at October 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The consolidated financial statements of the Company for the year ended October 31, 2019, were audited by another auditor who expressed an unmodified opinion on those statements on February 4, 2020.

Other information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner of the audit resulting in this independent auditor's report is Jessica Glendinning.

McGovern Hurley LLP



**Chartered Professional Accountants
Licensed Public Accountants**

Toronto, Ontario
January 12, 2021

01 COMMUNIQUE LABORATORY INC.

Consolidated Statements of Financial Position
(In Canadian dollars)

As at October 31, 2020 and 2019

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 962,337	\$ 283,712
Guaranteed investment certificate (note 4)	60,000	300,000
Accounts receivable (note 2(a))	202,974	96,055
Prepaid expenses and other assets	25,343	11,124
Total current assets	1,250,654	690,891
Property and equipment (notes (1(o), 5)	35,253	16,335
Total assets	\$ 1,285,907	\$ 707,226

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities (note 14)	\$ 151,111	\$ 140,962
Deferred revenue	7,679	8,907
Lease liability	18,704	-
Liability component of debenture (note 6)	-	390,703
Total current liabilities	177,494	540,572
Shareholders' equity:		
Share capital (note 7(a))	43,395,752	41,414,233
Contributed surplus	5,717,636	5,668,916
Warrants (note 7(c))	266,135	598,247
Compensation options (note 7(d))	-	99,200
Equity	(48,271,110)	(47,613,942)
Total shareholders' equity	1,108,413	166,654
Total liabilities and shareholders' equity	\$ 1,285,907	\$ 707,226

Contingencies (note 15)
Subsequent events (note 18)

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, 2020 and 2019

	2020	2019
Revenue (note 8)	\$ 521,791	\$ 283,107
Expenses (note 16):		
Selling, general and administrative	586,101	562,200
Research and development	455,177	384,007
Withholding tax	50,805	24,635
	<u>1,092,083</u>	<u>970,842</u>
Loss before accretion on liability component of debenture, interest, other income and expense	(570,292)	(687,735)
Interest on debenture	57,718	60,000
Accretion on liability component of debenture (note 6)	30,997	17,731
	<u>(659,007)</u>	<u>(765,466)</u>
Interest income	3,030	9,900
Interest expense	(1,191)	-
Reversal of accrued liability (note 14)	-	441,809
	<u>(657,168)</u>	<u>(313,757)</u>
Loss for the year and comprehensive loss		
Loss per common share (note 9):		
Basic	\$ (0.01)	\$ (0.00)
Diluted	\$ (0.01)	\$ (0.00)
Weighted average number of common shares outstanding (note 9):		
Basic	81,720,040	77,488,373
Diluted	81,720,040	77,488,373

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, 2020 and 2019

2020	Number of Shares	Share Capital	Contributed Surplus	Warrants	Compensation Options	Deficit	Total shareholders' Equity
Balance, October 31, 2019	80,235,472	\$41,414,233	\$5,668,916	\$598,247	\$ 99,200	\$(47,613,942)	\$ 166,654
Comprehensive loss	-	-	-	-	-	(657,168)	(657,168)
Equity financing (note 7(a)(iii))	1,683,334	120,029	-	71,533	-	-	191,562
Exercise of warrants (note 7(a)(iv))	5,258,500	1,211,540	-	(422,765)	-	-	788,775
Exercise of compensation options (note 7(a)(v))	1,200,000	239,200	-	-	(99,200)	-	140,000
Cancellation of debentures (note 6)	-	-	17,730	(17,730)	-	-	-
Equity portion of new debenture (note 6)	-	-	-	21,700	-	-	21,700
Exercise of debenture warrants (note 7(a)(vi))	400,000	62,850	-	(10,850)	-	-	52,000
Debenture redemption (note 7(a)(vii))	766,667	174,000	-	26,000	-	-	200,000
Exercise of options (note 7(a)(viii))	1,850,000	173,900	(81,400)	-	-	-	92,500
Stock-based compensation expense (note 7(b))	-	-	112,390	-	-	-	112,390
	91,393,973	\$43,395,752	\$5,717,636	\$266,135	-	\$(48,271,110)	\$ 1,108,413
2019	Number of Shares	Share Capital	Contributed Surplus	Warrants	Compensation 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	-	-	-	-	-	(313,757)	(313,757)
Cancellation of warrants (note 6)	-	-	17,700	(17,700)	-	-	-
Equity component of new debenture (note 6)	-	-	-	17,730	-	-	17,730
Equity financing (note 7(a)(i))	3,641,665	225,204	-	180,517	-	-	405,721
Exercise of options (note 7(a)(ii))	50,000	2,500	-	-	-	-	2,500
Stock-based compensation expense (note 7(b))	-	-	139,384	-	-	-	139,384
	80,235,472	\$41,414,233	\$5,668,916	\$598,247	\$ 99,200	\$(47,613,942)	\$ 166,654

See accompanying notes to consolidated financial statements.

01 COMMUNIQUE LABORATORY INC.

Consolidated Statements of Cash Flows
(In Canadian dollars)

Years ended October 31, 2020 and 2019

	2020	2019
Cash provided by (used in):		
Operating activities:		
Comprehensive loss for the year	\$ (657,168)	\$ (313,757)
Adjustments to reconcile loss for the year to net cash flows from operating activities:		
Depreciation of property and equipment	5,840	5,376
Amortization of right-of-use asset (note 1(o))	44,244	-
Stock-based compensation expense	112,390	139,384
Accretion on liability portion of debenture	30,997	17,731
Change in non-cash operating working capital (note 10)	(112,217)	(481,346)
Total cash used in operating activities	(575,914)	(632,612)
Financing activities:		
Exercise of stock options (note 7(a)(viii))	92,500	2,500
Exercise of warrants (note 7(c))	788,775	-
Exercise of compensation options (note 7(d))	140,000	-
Exercise of debenture warrants (note 7(c))	52,000	-
Redemption of debenture (note 6)	(200,000)	-
Proceeds from private placement (note 7(a)(iii))	202,000	437,000
Cash share issuance costs (note 7(a)(iii))	(10,438)	(31,279)
Lease payments made	(44,879)	-
Total cash provided by financing activities	1,019,958	408,221
Investing activities:		
Proceeds from guaranteed investment certificate	360,000	700,000
Purchase of guaranteed investment certificate	(120,000)	(300,000)
Purchase of property and equipment	(5,419)	(5,657)
Total cash used in investing activities	234,581	394,343
Increase in cash and cash equivalents	678,625	169,952
Cash and cash equivalents, beginning of year	283,712	113,760
Cash and cash equivalents, end of year	\$ 962,337	\$ 283,712
Cash and cash equivalents comprise:		
Cash	\$ 962,337	\$ 283,712
	\$ 962,337	\$ 283,712
Supplemental information:		
Issuance of compensation warrants	\$ 4,200	\$ 16,642
Issuance of shares and warrants in settlement of debenture	\$ 200,000	\$ -

See accompanying notes to consolidated financial statements.

01 COMMUNIQUE LABORATORY INC.

Notes to Consolidated Financial Statements
(In Canadian dollars)

Years ended October 31, 2020 and 2019

01 Communique Laboratory Inc. (the "Company") was incorporated on October 7, 1992 under the laws of Ontario. The Company's cybersecurity business unit focuses on its IronCAP™ patent-pending cryptographic system. The Company's remote access business unit focuses on its I'm InTouch suite of secure remote access services and products.

The Company's head office is located at 789 Don Mills Road, Suite 700, Toronto, Ontario M3C 1T5 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, are prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") effective for the Company's reporting for the year ended October 31, 2020. These consolidated financial statements reflect management's best estimates and judgment based on information currently available.

These consolidated financial statements were authorized for issue by the Board of Directors on January 12, 2021.

(b) Basis of presentation:

These 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.

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Generally, the Company has a shareholding of more than one half of the voting rights in its subsidiaries. The effects of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are deconsolidated from the date control ceases. The financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiary after eliminating inter-entity balances and transactions.

The consolidated financial statements have been prepared on the historical cost basis, except for certain items which may be accounted for at fair value as further discussed in subsequent notes, using the Significant accounting policies and measurement bases summarized below.

01 COMMUNIQUE LABORATORY INC.

Notes to Consolidated Financial Statements
(In Canadian dollars)

Years ended October 31, 2020 and 2019

1. Significant accounting policies (continued):

The consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

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

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.

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. 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.

Should the Company not be able to generate sufficient cash flows to become profitable in the future and generate sufficient working capital to fund operations, 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 on acceptable terms or at all. These 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) 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. Revenue is measured based on the consideration specified in the contract.

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 development is determined based on completion of specific performance obligations as agreed to under the terms of the agreement, provided these amounts can be measured reliably and collection is reasonably assured.

01 COMMUNIQUE LABORATORY INC.

Notes to Consolidated Financial Statements
(In Canadian dollars)

Years ended October 31, 2020 and 2019

1. Significant accounting policies (continued):

(ii) Revenue from royalty fee agreements is recognized at the later of delivery of the software by the licensee and fulfillment of all other significant performance obligations under the terms of the underlying license agreement.

(iii) Revenue from subscriptions and maintenance are recognized as the services are provided over the life of the contract on a straight-line basis.

To the extent payments are received before completion of specific performance obligations, the payments are reflected as deferred revenue.

(d) 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.

(e) 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.

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
(In Canadian dollars)

Years ended October 31, 2020 and 2019

1. Significant accounting policies (continued):

Depreciation is provided on a declining balance 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%
Right-of-use assets	Shorter of estimated useful life and term of lease
Leasehold improvements	Shorter of estimated useful life and term of lease

(f) Research and development:

All research costs are expensed as incurred. Software development costs are expensed as incurred unless they satisfy the criteria for capitalization and subsequent amortization. The Company has not capitalized any such development costs to date. Expenditures on internally developed software programs are capitalized if it can be demonstrated that:

- It is technically feasible to develop the product for it to be sold;
- Adequate resources are available to complete the development;
- There is an intention to complete and sell the product;
- There is the ability to use or sell the product;
- Sale of the product will generate future economic benefits; and
- Expenditure on the project can be measured reliably.

Development expenses are charged to operations as incurred unless such costs meet the criteria for capitalization and amortization.

(g) Foreign exchange translation:

The Company's functional and presentation currency is the Canadian dollar. The functional currency of the Company's subsidiary 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 month of the transaction. All of the exchange gains or losses resulting from these transactions are recognized in operations.

01 COMMUNIQUE LABORATORY INC.

Notes to Consolidated Financial Statements
(In Canadian dollars)

Years ended October 31, 2020 and 2019

1. Significant accounting policies (continued):

(h) Stock-based compensation:

The fair value of each stock option granted to employees and others providing similar services is estimated on the date of the grant using the Black-Scholes option-pricing model and expensed over the vesting period.

Equity-settled share-based compensation transactions with parties other than employees are measured at the fair value of the goods or services received, except where fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the services.

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 are forfeited if the grantee fails 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.

(i) 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. The diluted loss per share calculation assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation.

(j) Income taxes:

Income tax expense comprises current and deferred tax. Current and deferred tax are recognized in the consolidated statements of operations, 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.

01 COMMUNIQUE LABORATORY INC.

Notes to Consolidated Financial Statements
(In Canadian dollars)

Years ended October 31, 2020 and 2019

1. Significant accounting policies (continued):

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.

(k) 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.

(l) Financial instruments:

The Company recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the company commits to purchase or sell the asset. The Company classifies its financial assets and financial liabilities at initial recognition into the following categories, in accordance IFRS 9.

(i) Financial Assets and Liabilities at Fair Value through Profit or Loss ("FVTPL")

These financial assets are designated upon initial recognition on the basis that they are evaluated on a fair value basis in accordance with risk management and investment

01 COMMUNIQUE LABORATORY INC.

Notes to Consolidated Financial Statements
(In Canadian dollars)

Years ended October 31, 2020 and 2019

1. Significant accounting policies (continued):

strategies of the Company. The Company does not currently classify any financial assets or liabilities as FVTPL.

Subsequent to initial recognition, financial assets and financial liabilities at FVTPL are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at FVTPL' category are presented in the consolidated statement of operation within 'changes in unrealized appreciation (depreciation)' in the period in which they arise. Interest and dividends earned or paid on these instruments are recorded separately in interest revenue or expense and dividend revenue or expense.

(ii) Financial assets at Fair Value Through Other Comprehensive Income ("FVOCI")

Financial assets measured at FVOCI are non-derivative financial assets that are not held for trading and the Company has made an irrevocable election at the time of initial recognition to measure the assets at FVOCI. The Company currently does not measure any financial assets at FVOCI.

After initial measurement, investments measured at FVOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss in the consolidated statements of comprehensive income (loss). When the investment is sold, the cumulative gain or loss remains in accumulated other comprehensive income or loss and is not reclassified to profit or loss. Dividends from such investments are recognized in other income in the consolidated statements of operations when the right to receive payments is established.

(iii) Financial Assets at Amortized Cost

This category is comprised of non-derivative financial assets with fixed or determinable payments, including loans and receivables that are not quoted in an active market and cash and cash-equivalents. These financial assets are initially measured at fair value and subsequently measured at amortized cost. Transaction costs are included in the initial carrying amount of the asset. The Company includes its cash and cash equivalents, guaranteed investment certificate and accounts receivable in this category.

(iv) Financial Liabilities at Amortized Cost

This category includes all financial liabilities, other than those classified at FVTPL. Financial liabilities classified as other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Transaction costs are included in the initial carrying amount of the liability. The Company includes accounts payable and accrued liabilities and the liability component of its debenture in this category.

01 COMMUNIQUE LABORATORY INC.

Notes to Consolidated Financial Statements
(In Canadian dollars)

Years ended October 31, 2020 and 2019

1. Significant accounting policies (continued):

Impairment of Financial Assets

The Company's only financial assets subject to impairment are other accounts receivable, which are measured at amortized cost. The Company has elected to apply the simplified approach to impairment as permitted by IFRS 9, which requires the expected lifetime loss to be recognized at the time of initial recognition of the receivable. To measure estimated credit losses, accounts receivable have been grouped based on shared credit risk characteristics, including the number of days past due. An impairment loss is reversed in subsequent periods if the amount of the expected loss decreases and the decrease can be objectively related to an event occurring after the initial impairment was recognized.

Compound Financial Instruments

The components of compound financial instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. The liability component of a compound financial instrument is recognized initially at the estimated fair value of a similar liability that does not have an equity component. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

(m) Government assistance

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received. The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognized as a reduction of the non-current assets in the consolidated statement of financial position, and transferred to the consolidated statement of operations on a systematic and rational basis over the useful lives of the related assets. Other government grants are recognized as a reduction of the related expenses over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial

01 COMMUNIQUE LABORATORY INC.

Notes to Consolidated Financial Statements
(In Canadian dollars)

Years ended October 31, 2020 and 2019

1. Significant accounting policies (continued):

support to the Company with no future related costs are recognized in the consolidated statement of operations in the period in which they become receivable.

(n) Measurement uncertainty:

The preparation of consolidated financial statements prepared in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclose contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the years. Actual results could differ from those estimates. Management must also make estimates and judgements about future results of operations in assessing recoverability of assets and the value of liabilities. These judgements, 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.

Critical judgements and estimates used in the preparation of the consolidated financial statements include the following:

Going concern

The Company's ability to continue its ongoing and planned software development activities and to continue operations as a going concern is dependent on the Company achieving profitable operations and/or the ability to obtain external financing from time to time.

Income, value added, withholding and other taxes

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

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1. Significant accounting policies (continued):

Share-based payments and warrants

Management estimates the values for share-based payments and warrants using market-based valuation techniques. The fair value of the market-based share awards is determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

Development costs qualifying for capitalization

In assessing whether development costs qualify for capitalization, management makes judgments and estimates related to expectations of technical feasibility in completing the project, the probability of future economic benefits, the availability of adequate technical and financial resources to complete the development, the ability to reliably measure the costs, and whether the Company intends to complete development, and to use or sell the assets.

In making these judgments and estimates, management has assessed various sources of information, including but not limited to, criteria for the capitalization of development costs, forecasted cash flows associated with the developments and with operations, in general, which are used to support whether or not the Company will have sufficient resources to complete the development of the assets. Changes in management's judgments, estimates and assumptions, could have a material effect in the future on the Company's financial position and results of operations.

Compound financial instruments

The classification of the Company's debentures required management to analyze the terms and conditions of the debentures and use judgment to assess whether these debentures are liability, equity, or a combination of the two. IAS 32 provides the criteria for management to assess these complicated financial instruments to determine their appropriate classification(s). Factors considered are, but not limited to, whether the Company has a future obligation to settle the instrument in cash or exchange other assets or liabilities, the currency of settlement and if the settlement is already known to be equity, the amount will not vary based on the Company's future share price. Estimating the liability and equity components of the debentures requires determining and making assumptions about the inherent value of the liability components including the discount rate appropriate for similar debt instruments, absent any warrants.

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1. Significant accounting policies (continued):

Government assistance and investment tax credits

The Company has applied for and received funding from certain government grants and assistance programs. Remaining funding under these grant programs, if any, will be recognized when the Company qualifies and there is reasonable assurance that the grant will be received. Government assistance and investment tax credits received are subject to government audit and potential reassessment subsequent to the reporting period. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will be recognized in operations in the period in which such determination is made.

Discount rate used in adoption of IFRS 16

The determination of the Company's lease liabilities and right-of-use assets depends on certain assumptions, which include the selection of the discount rate. The discount rate is set by reference to the Company's estimated incremental borrowing rate. Significant assumptions are required to be made when determining which borrowing rates to apply in this determination. Changes in the assumptions used may have a significant effect on the Company's consolidated financial statements.

Commitments and contingencies

Refer to Notes 14 and 15.

(o) Adoption of new accounting policies:

IFRS 16, Leases ("IFRS 16"):

Effective November 1, 2019, the Company adopted IFRS 16, Leases, issued by the International Accounting Standards Board ("IASB") and IFRS Interpretations Committee. IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single accounting model, requiring the recognition of assets and liabilities for all major leases previously classified as operating leases. IFRS 16 supersedes the lease accounting guidance in IAS 17, Leases as well as some lease related interpretations.

(a) The Company's accounting policy under IFRS 16 is as follows:

(i) Definition of a lease:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company applied the definition of a lease under IFRS 16 to existing contracts as of November 1, 2019.

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1. Significant accounting policies (continued):

(ii) As a lessee:

The Company has leased premises at 789 Don Mills Road in Toronto, ON which is considered a right-of-use asset.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, based on the initial amount of the lease liability. The asset is depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term can include periods covered by an option to extend if the Company is reasonably certain to exercise that option providing the lease has such a provision. In addition, the right-of-use asset is periodically adjusted for certain remeasurements of the lease liability, if required.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for (1) short-term leases, that have a lease term of 12 months or less, as well as for (2) leases of low value assets. The lease payments associated with these leases are recognized as expenses on a straight-line basis over the lease term.

(b) Impact of transition to IFRS 16:

The Company has opted to apply the standard retrospectively without restatement of prior periods for the year ended October 31, 2020.

The Company's leased premise, considered a right-of-use asset, commenced April 1, 2019 for a period of 24 months without a renewal provision. The lease liability has been

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1. Significant accounting policies (continued):

measured by discounting future lease payments at the incremental borrowing rate at November 1, 2019. The incremental borrowing rate applied was determined to be 5.0% per annum for the lease and represents the Company's best estimate of the rate of interest that it would expect to pay to borrow, on a collateralized basis, over a similar term, an amount equal to the lease payments in the current economic environment.

The following table summarizes the impact of adopting IFRS 16 at November 1, 2019:

	Balance at October 31, 2019 (as reported)	IFRS 16 Adjustments	Balance at November 1, 2019 (post adoption)
Non-current assets			
Property and Equipment	\$ 35,253	\$ 63,583	\$ 98,836
Liabilities			
Current liabilities			
Lease liabilities	-	44,879	44,879
Non-current liabilities			
Lease liabilities	-	18,704	18,704
Accumulated deficit			

The application of IFRS 16 to leases, previously classified as operating leases resulted on the recognition of right-of-use assets of \$63,583 and finance lease liabilities of current and non-current liabilities of \$63,583. There was no impact on opening retained earnings on implementation of IFRS 16.

A reconciliation of operating lease commitments previously reported and the amount of the lease liability recognized on transition is as follows:

Operating lease obligation at October 31, 2019	\$	66,541
Effect from discounting using the incremental borrowing rate		(2,958)
Lease liabilities recognized as IFRS 16 adjustment at November 1, 2019	\$	63,583

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2. Financial instruments and financial risk management:

(a) Financial instruments:

The Company has classified its financial instruments as follows:

	2020	2019
Financial assets:		
Financial assets measured at amortized cost:		
Cash and cash equivalents	\$ 962,337	\$ 283,712
Guaranteed investment certificate	60,000	300,000
Accounts receivable	202,974	96,055
Financial liabilities:		
Financial liabilities measured at amortized cost:		
Accounts payable and accrued liabilities	151,111	140,962
Liability component of debenture	-	390,703

Accounts receivable comprise the following:

	2020	2019
Trade receivables	\$ 166,322	\$ 74,399
Investment tax credits receivable	17,500	12,000
HST receivable	19,152	9,656
	\$ 202,974	\$ 96,055

(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.

(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

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

the Company's cash and 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, 2020 and 2019, 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 2020, there was one customer that comprised 95% (2019 - 91%) of the Company's total revenue. No other customers exceeded 10% of revenue during the current or prior year. The customer comprising 95% of revenue in 2020 (2019 – 91%) comprised 100% of trade receivable as at October 31, 2020 (2019 – 100%).

(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.

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, 2020, the Company had financial assets, consisting of cash and cash equivalents, guaranteed investment certificate and accounts receivable of \$1,225,311 (2019 - \$679,767) and financial liabilities, consisting of accounts payable and accrued liabilities and liability component of debenture of \$151,111 (2019 - \$531,665).

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

The Company manages its liquidity risk by continuously monitoring forecasted 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 assets and liabilities due in U.S. dollars include accounts payable of \$15,148 (2019 – \$13,882), cash of \$179,571 (2019 - \$117,362) and accounts receivable of \$126,001 (2019 - \$64,660).

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 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, 2020, the Company had net monetary assets due in U.S. dollars of \$261,600 (2019 –\$160,000). An increase or decrease in the U.S. to Canadian dollar exchange rate by 10% as at October 31, 2020 would have resulted in a gain in the amount of \$38,300 (2019 - \$21,000) or a loss of \$38,300 (2019 - \$21,000), respectively.

The Company has performed a sensitivity analysis for foreign exchange exposure over the year ended October 31, 2020. 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, 2020. 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 year ended October 31, 2020. An increase or decrease in the U.S. to Canadian dollar exchange rate by 10% during the year ended October 31, 2020 would have resulted in a gain in the amount of \$41,600

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

(2019 - \$17,200) or a loss of \$41,600 (2019 - \$17,200), respectively. 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.

(ii) Fair values of financial instruments:

All financial instruments measured at fair value are categorized into one of three hierarchy levels, described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

Level 1 – Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 – Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3 – Values based on prices or valuations techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

There are no financial instruments that are measured at fair value on a regular basis.

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.

The Board does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company considers its capital to consist of shareholders' equity.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no significant

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3. Capital risk management (continued):

changes in the Company's approach to capital management during the years ended October 31, 2020 and 2019.

The Company and its subsidiary are not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSX Venture Exchange ("TSXV") which requires adequate working capital or financial resources of the greater of (i) \$50,000 and (ii) an amount required to maintain operations and cover general and administrative expenses for a period of 6 months. As at October 31, 2020, the Company believes it is compliant with the policies of the TSXV.

4. Guaranteed Investment Certificate:

		2020	2019
i)	One year cashable guaranteed investment certificate bearing interest at the rate of 1.4% per annum and maturing February 12, 2021.	\$ 60,000	\$ -
ii)	One year cashable guaranteed investment certificate bearing interest at the rate of 1.68% per annum and maturing August 19, 2020.	-	300,000
		\$ 60,000	\$ 300,000

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5. Property and equipment:

	Computer systems	Communications equipment	Furniture and fixtures and leasehold improvements	Right of use asset	Total
Cost					
Balance at October 31, 2018	\$ 548,284	\$ 26,887	\$ 130,002	\$ -	\$ 705,173
Additions	1,232	3,394	1,000	-	5,626
Dispositions	-	-	(36,197)	-	(36,197)
Balance at October 31, 2019	\$ 549,516	\$ 30,281	\$ 94,805	\$ -	\$ 674,602
Additions	4,925	-	494	63,583	69,002
Dispositions	-	(26,887)	-	-	(26,887)
Balance at October 31, 2020	\$ 554,441	\$ 3,394	\$ 95,299	\$ 63,583	\$ 716,717
Depreciation					
Balance at October 31, 2018	\$ 532,199	\$ 26,887	\$ 130,002	\$ -	\$ 609,088
Additions	4,979	197	200	-	5,376
Dispositions	-	-	(36,197)	-	(36,197)
Balance at October 31, 2019	\$ 537,178	\$ 27,084	\$ 94,005	\$ -	\$ 658,267
Additions	5,500	340	-	44,244	50,084
Dispositions	-	(26,887)	-	-	(26,887)
Balance at October 31, 2020	\$ 542,678	\$ 537	\$ 94,005	\$ 44,244	\$ 681,464
Carry amounts					
Balance at October 31, 2019	\$ 12,338	\$ 3,197	\$ 800	\$ -	\$ 16,335
Balance at October 31, 2020	\$ 11,763	\$ 2,857	\$ 1,294	\$ 19,339	\$ 35,253

6. Debenture:

The Company completed a financing which closed on April 24, 2015 and raised \$400,000, which comprises four (4) debenture units ("Debenture Units"). In total the four Debenture Units consisted of secured debentures with a principal amount of \$400,000, and 800,000 common share purchase warrants ("Warrants"). The Debentures were secured by a general security agreement over all present and future property of the Company. Each Warrant was exercisable into one common share in the capital of the Company at any time until expiry. On the initial close, each Debenture bore interest at a rate of 10% per annum, calculated and payable quarterly and had a term of 36 months maturing on April 24, 2018 and each Warrant was exercisable at a price of \$0.21 and had an expiry date of April 24, 2018. Each Debenture was redeemable at any time prior to maturity at the discretion the Company, with payment of an additional three months interest. On January 31,

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6. Debenture (continued):

2018 and March 27, 2019, the Company entered into agreements to amend the terms of the April 24, 2015 Debenture Units.

The March 27, 2019 amendment was treated as a cancellation of the January 31, 2018 Debenture and Warrants and an issuance of a new Debenture and Warrants under the new terms. Under the terms of the March 27, 2019 amendment, the maturity date of the Debenture and the expiry date of the Warrants was extended to April 24, 2020. The interest rate on the Debenture remained at 15% per annum, the exercise price on the Warrants remained at \$0.10 and all other terms and conditions remained consistent with the January 31, 2018 amendment. During 2019, an accelerated expiry date of the Warrants was triggered, which under the terms of the Warrant agreements would have resulted in the expiry of the Warrants unless exercised within 30 days.

On January 24, 2020, the Company agreed with the holders of such Debentures to redeem all of the Debentures outstanding without any prepayment penalty and issue new secured Debentures ("New Debentures") under the same terms and conditions of the previously amended Debentures, other than the maturity date was extended to April 24, 2021.

In connection with the issuance of the New Debentures the Company cancelled the original 800,000 common share purchase warrants issued and issued an aggregate of 800,000 new common share purchase warrants. Each such warrant is exercisable at any time prior to April 24, 2021 into one common share in the capital of the Company at an exercise price of \$0.13 per share.

The Company agreed to redeem the New Debentures with the holders of the New Debentures prior to the maturity date of April 24, 2021 redeeming \$200,000 principal amount of the New Debentures on October 5, 2020 ("Settlement 1") and the remaining \$200,000 on October 14, 2020 ("Settlement 2").

Pursuant to Settlement 1, based on the quoted market price of the shares at the time of settlement, the Company issued 416,667 common shares of the Company at a price of \$0.24 per common share for a total of \$100,000 and paid \$100,000 in cash plus accrued interest.

Pursuant to Settlement 2, based on the quoted market price of the shares at the time of settlement, the Company issued 350,000 common shares of the Company at a price of \$0.21 per common share for a total of \$74,000, 100,000 common share purchase warrants at a deemed price of \$0.26 per warrant for a total of \$26,000 with each warrant entitling the holder to acquire one common share in the capital of the Company at an exercise price of \$0.35 per share until October 14, 2022, and paid \$100,000 in cash plus accrued interest.

Accretion charges on the liability component of the debentures of the Company aggregating \$30,997 (2019 - \$17,731) were calculated using the discount rate of 20% and have been recorded in the statement of operations.

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6. Debenture (continued):

The following details the changes in debentures for the years ended October 31, 2020 and 2019:

	2020	2019
Balance, beginning of year	\$ 390,703	\$ 390,733
Accretion charges	30,997	17,731
Equity portion of new debentures	(21,700)	(17,761)
Settlement, cash paid	(200,000)	-
Settlement, common shares and warrants	(200,000)	-
Balance, end of year	\$ -	\$ 390,703

7. Shareholders' equity:

(a) Share capital authorized, issued and outstanding:

	2020	2019
Authorized:		
50,000 Series A preference shares		
Unlimited preference shares, issuable in series		
Unlimited common shares		
Issued:		
91,393,973 common shares (2019 – 80,235,472)	\$ 43,395,752	\$ 41,414,233

The following details the changes in issued and outstanding shares for the years ended October 31, 2020 and 2019.

	Common shares Number	Amount
Balance, October 31, 2018	76,543,807	41,186,529
Private placement (note 7 (a)(i))	3,641,665	225,204
Exercise of stock options (note 7 (a)(ii))	50,000	2,500
Balance, October 31, 2019	80,235,472	\$ 41,414,233
Private placement (note 7 (a)(iii))	1,683,334	120,029
Exercise of warrants (note 7 (a)(iv))	5,258,500	1,211,540
Exercise of compensation options (note 7 (a)(v))	1,200,000	239,200
Exercise of debenture warrants (note 7 (a)(vi))	400,000	62,850
Redemption of debenture (note 7 (a)(vii))	766,667	174,000
Exercise of stock options (note 7 (a)(viii))	1,850,000	173,900
Balance, October 31, 2020	91,393,973	\$ 43,395,752

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7. Shareholders' equity (continued):

(i) 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 compensation for a portion of the financing a finders' fee was paid whereby 184,916 compensation warrants were granted. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.15 at any time within 24 months of closing. The fair value of each share purchase warrant and compensation warrant was estimated at the grant date 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 the warrants of 2 years and 0% expected dividend yield. The fair value of the share purchase warrants and the compensation warrants was estimated to be \$0.09 per warrant.

(ii) Exercise of stock options:

There were 50,000 stock options exercised pursuant to the Company's employee stock option plan at an exercise price of \$0.05.

(iii) Private Placement:

On May 29, 2020, the Company completed a financing issuing by way of a private placement of 1,683,334 units at a price of \$0.12 per unit for gross proceeds of \$202,000. 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 compensation for a portion of the financing a finders' fee was paid whereby 46,667 compensation warrants were granted. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.12 at any time within 24 months of closing. The fair value of each share purchase warrant and compensation warrant was estimated at the grant date using the Black-Scholes option pricing model, using the following assumptions: risk-free interest rate of 1.5%, expected volatility of 150%, expected life of the warrants of 2 years and 0% expected dividend yield. The fair value of the share purchase warrants and the compensation warrants was estimated to be \$0.08 and \$0.09 per warrant respectively.

(iv) Exercise of warrants:

There were 5,000,000 warrants exercised that were issued as part of a private placement completed on September 19, 2018 for cash proceeds of \$750,000. In addition, the fair value of the warrants, as estimated on date of grant, was \$400,000 which has been reclassified from warrants to share capital as a result of the exercise.

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7. Shareholders' equity (continued):

There were 208,500 warrants exercised that were issued as part of the private placement completed on July 29, 2019 for cash proceeds of \$31,275. In addition, the fair value of the warrants, as estimated on date of grant, was \$18,765 which has been reclassified from warrants to share capital as a result of the exercise.

There were 50,000 warrants exercised that were issued as part of the private placement completed on May 29, 2020 for cash proceeds of \$7,500. In addition, the fair value of each warrant, as estimated on date of grant, was \$4,000 which has been reclassified from warrants to share capital as a result of the exercise.

(v) Exercise of compensation options:

There were 800,000 compensation options exercised that were issued as part of a private placement completed on September 19, 2018 resulting in the issuance of 800,000 common shares and 400,000 warrants, which were simultaneously exercised for 400,000 common shares. Cash proceeds received upon exercise were \$140,000. In addition, the fair value of the compensation options, as estimated on date of grant, was \$99,200 which has been reclassified from compensation options to share capital as a result of the exercise.

(vi) Exercise of debenture warrants:

There were 400,000 debenture warrants exercised for cash proceeds of \$52,000. In addition, the fair value of the debenture warrants, as estimated on date of grant, was \$10,850 which has been reclassified from warrants to share capital as a result of the exercise.

(vii) Redemption of debenture:

As part of the redemption of the debenture the Company issued 766,667 common shares at an estimated fair value of \$174,000 and 100,000 common share purchase warrants ("Warrants") at an estimated fair value of \$0.26 per Warrant. Each Warrant entitles the holder to acquire one common share in the capital of the Company at an exercise price of \$0.35 per share until October 14, 2022. The fair value of the common shares was based on the quoted market price of the Company's shares on the dates of settlement. The fair value of the Warrants was estimated at the grant date using the Black-Sholes option pricing model, using the following assumptions: risk-free interest rate of 1.5%, expected volatility of 161%, expected life of the Warrants of 2 years and 0% expected dividend yield.

(viii) Exercise of stock options:

There were 1,850,000 stock options exercised pursuant to the Company's employee stock option plan at an average exercise price of \$0.05. Total cash proceeds were \$92,500. In

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7. Shareholders' equity (continued):

addition, \$81,400 of stock based compensation had been previously recorded for the exercised stock options and 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.

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, 2018	6,260,000	\$ 0.14
Forfeited, cancelled or expired	(2,075,000)	0.30
Granted	2,100,000	0.08
Exercised	(50,000)	0.05
Options outstanding, October 31, 2019	6,235,000	0.06
Granted	700,000	0.15
Exercised	(1,850,000)	0.05
Options outstanding, October 31, 2020	5,085,000	\$ 0.08

The following table summarizes information about stock options outstanding at October 31, 2020:

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 to \$0.07	3,195,000	1.7	\$ 0.06	3,195,000	\$ 0.06
\$0.08 to \$0.10	1,790,000	2.7	\$ 0.10	1,490,000	\$ 0.10
\$0.42	100,000	3.9	\$ 0.42	-	-
	5,085,000	2.1	\$ 0.08	4,685,000	\$ 0.07

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7. Shareholders' equity (continued):

The average grant date fair value of options granted during 2020 was \$0.15 (2019 - \$0.08). 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 assumptions used for grants for the year ended October 31, 2020: expected dividend yield of nil (2019 - nil), expected volatility of between 166% and 176% (2019 – between 175% and 185%), weighted average risk-free interest rate of 1.5% (2019 – 2.25%) and expected lives of four years (2019 – four years).

Stock option expense for the year ended October 31, 2020 was \$112,390 (2019 - \$139,384).

(c) Warrants:

The following details the changes in the share purchase warrants for the years ended October 31, 2020 and 2019.

	Number	Amount	Weighted average exercise price
Balance, October 31, 2018	5,800,000	\$ 417,700	\$ 0.14
Cancelled, during the year (note 6)	(800,000)	(17,700)	0.10
Equity component of new debenture (note 6)	800,000	17,730	0.10
Warrants issued on private placement (note 7(a)(i))	1,820,832	163,875	0.15
Compensation warrants issued on private placement (note 7(a)(i))	184,916	16,642	0.15
Balance, October 31, 2019	7,805,748	\$ 598,247	\$ 0.14
Warrants issued on private placement (note 7(a)(iii))	841,667	67,333	0.15
Compensation warrants issued on private placement (note 7(a)(iii))	46,667	4,200	0.12
Exercise of warrants (note 7(a) (iv))	(5,258,500)	(422,765)	0.15
Exercise of debenture warrants (note 7(a)(vi))	(400,000)	(10,850)	0.13
Warrants issued on redemption of debenture (note 7(a)(vii))	100,000	26,000	0.35
Cancelled during the year (note 6)	(800,000)	(17,730)	0.10
Equity portion of new debenture (note 6)	800,000	21,700	0.13
Balance, October 31, 2020	3,135,582	\$ 266,135	\$ 0.15

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7. Shareholders' equity (continued):

The following table summarizes information about warrants outstanding at October 31, 2020:

	Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price
Warrants issued on private placement (note 7(a)(i))	\$ 0.15	1,612,332	0.70	\$ 0.15
Compensation warrants issued on private placement (note 7(a)(i))	0.15	184,916	0.70	0.15
Equity component of new debenture (note 6)	0.13	400,000	0.50	0.13
Warrants issued on settlement of debenture	0.35	100,000	1.90	0.35
Warrants issued on private placement (note 7(a)(iii))	0.15	791,667	1.55	0.15
Compensation warrants issued on private placement (note 7(a)(iii))	0.12	46,667	1.55	0.12
		3,135,582	0.92	\$ 0.15

(d) Compensation options:

The following details the changes in compensation options for the years ended October 31, 2020 and 2019:

	Number	Amount	Weighted average exercise price
Balance, October 31, 2018 and October 31, 2019	800,000	\$ 99,200	\$ 0.10
Exercise of compensation options	(800,000)	(99,200)	0.10
Balance, October 31, 2020	-	-	-

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8. Revenues:

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

	2020	2019
Royalty fees	\$ 450,200	\$ 171,783
Development fees	20,250	59,175
Subscription and maintenance fees	51,341	52,149
	\$ 521,791	\$ 283,107

9. Loss per common share:

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

	2020	2019
Loss for the year	\$ (657,168)	\$ (313,757)
Weighted average number of common shares outstanding:		
Basic	81,720,040	77,488,373
Diluted	81,720,040	77,488,373
Loss per common share:		
Basic	\$ (0.01)	\$ (0.00)
Diluted	(0.01)	(0.00)

As the Company is in a loss position for the years ended October 31, 2020 and 2019, 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.

10. Change in non-cash operating working capital:

	2020	2019
Accounts receivable	\$ (106,919)	\$ (33,359)
Prepaid expenses and other assets	(14,219)	(4,849)
Accounts payable and accrued liabilities (note 15)	10,149	(443,590)
Deferred revenue	(1,228)	452
	\$ (112,217)	\$ (481,346)

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11. Income taxes:

The reconciliation of the income tax expense at the currently enacted tax rates for the years ended October 31, 2020 and 2019 is as follows:

Tax rate reconciliation:

	2020	2019
Loss for the year and comprehensive loss	\$ (657,168)	\$ (313,757)
Tax calculated at the 26.5% (2019 - 26.5%) enacted rate	\$ (174,000)	\$ (84,000)
Non-deductible expenses and permanent differences	30,000	35,000
Utilization of loss carry forward at rate 26.5%	-	(12,000)
Benefit of temporary differences and tax losses not recognized	144,000	61,000
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:

	2020	2019
Non-capital loss carry-forwards	\$ 12,999,000	\$ 12,741,000
Research and development deduction pool	12,000,000	11,708,000
Financing costs	118,000	144,000
Property and equipment	5,000	7,000

As at October 31, 2020, the Company had an unclaimed pool of scientific research and experimental development costs of approximately \$12,000,000, which can be carried forward indefinitely as a deduction against future taxable income, and investment tax credits of approximately \$3,179,000, which can be utilized to reduce taxes payable in years up to 2040. The tax benefits have not been recorded in the consolidated financial statements because it is not probable that future taxable profit will be available against which the Company can use the benefits.

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11. Income taxes (continued):

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

2026	\$	872,000
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		1,012,000
2036		509,000
2038		228,000
2040		260,000
Total unused tax losses	\$	12,999,000

12. Segmented information:

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

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

	2020	2019
United States	\$ 14,960	\$ 16,939
Canada	9,881	8,810
Japan	497,050	257,358
	\$ 521,791	\$ 283,107

Substantially all of the Company's identifiable assets as at October 31, 2020 and 2019 are located in Canada.

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13. Related party transactions:

The remuneration of directors and other key management personnel of the Company during the years ended October 31, 2020 and 2019 was as follows:

	2020	2019
Salaries and contractor fees	\$ 227,500	\$ 216,250
Stock-based compensation	110,594	121,479
Total	\$ 338,094	\$ 337,729

The Company's President and Chief Executive Officer ("CEO") invoices the Company for his services that pertain to research and development pursuant to a contractor agreement. Fees paid under this agreement during 2020 were \$66,000 (2019 - \$59,750) and have been included in research and development expenses and are included in the salaries and contractor fees amounts in the above table. In addition, the CEO received a salary for 2020 of \$84,000 (2019 - \$84,000) which has been recorded in selling, general and administrative expenses, and is included in the salaries and contractor fees amounts in the above table.

The CEO participated in the private placement that closed on May 29, 2020 subscribing for a total of 500,000 units of the offering at the same price and under the terms as other participants. The total amount paid by the CEO for the units was \$60,000.

14. Reversal of accrued liability:

Up until April 2018, the Company was involved as the plaintiff in various patent litigations. Under the terms of the engagement with the lawyers acting on behalf of the Company in these matters, the Company made use of a contingency fee arrangement for the legal fees. Under this arrangement, the Company was required to pay for certain out of pocket expenses. In prior years, the Company recognized an estimated obligation for these out of pocket expenses of \$441,809. The Company was unsuccessful in the patent litigation and is no longer proceeding on these matters. As a result, the Company has amended its original estimate and determined that the accrual is no longer required. The change in estimate was reflected in the fiscal 2019 consolidated statement of operations.

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15. Contingencies:

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.

On October 7th the Company entered into a non-binding agreement for a drawdown equity facility with a private equity firm. The agreement provides for equity private placement offerings up to \$5,000,000 in units of the Company, with each unit consisting of one common share and one-half of one common share purchase warrant, to be conducted in drawdowns of up to \$250,000 per tranche over a period of 24 months with the timing of each tranche to be made by the Company at its sole discretion. The amount and terms of each tranche will be subject to the mutual agreement of the Company and the investor. As at October 31, 2020, no placements had been made.

In March 2020, the COVID-19 outbreak was declared a global pandemic by the World Health Organization. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy, capital markets and the Company's financial position cannot be reasonably estimated at this time. The Company is monitoring developments and will adapt its business plans accordingly. The actual and threatened spread of COVID-19 globally could adversely impact the Company's operations and ability to raise capital.

16. Operating expenses:

The Company presents functional consolidated statements of operations 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:

2020

	Selling, general and administration	Research and development	Total
Salaries, contractors, commissions and benefits	\$ 235,649	\$ 361,943	\$ 597,592
Stock-based compensation	112,390	-	112,390
Other operating expenses	238,062	93,234	331,296
	\$ 586,101	\$ 455,177	\$ 1,041,278

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16. Operating expenses (continued):

2019				
		Selling, general and administration	Research and development	Total
Salaries, contractors, commissions and benefits	\$	200,702	\$ 270,606	\$ 471,308
Stock-based compensation		139,384	-	139,384
Other operating expenses		222,114	113,401	335,515
	\$	562,200	\$ 384,007	\$ 946,207

17. Government assistance:

The Canada Emergency Wage Subsidy ("CEWS") government program provides a wage subsidy of 75% for qualifying businesses. The purpose of the wage subsidy is to allow employers to re-hire workers that were previously laid off, and to continue to employ those who are already on payroll.

For the year ended October 31, 2020, the Company has received approximately \$38,800 as a wage subsidy under this program. This has been recognized in the consolidated statements of operations as a reduction to the related expenses.

18. Subsequent events:

On November 4, 2020, the remaining 400,000 debenture warrants (note 7(c)) were exercised resulting in the Company issuing 400,000 common shares for cash proceeds of \$52,000.

On November 13, 2020, the Company issued 25,000 common shares pursuant to the Company's stock option plan for cash proceeds of \$1,750.