



01 Communique Laboratory Inc.

Interim Consolidated Financial Statements

for the period ended July 31, 2022

(Unaudited)

TSX-V : ONE; OTCQB: OONEF

Dated: September 14, 2022

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

	31-July-22	31-Oct-21
Assets		
Current assets		
Cash	\$ 858,550	\$ 994,924
Accounts receivable (note 2(a))	128,459	205,527
Prepaid expenses and other assets	31,136	31,743
	<u>1,018,145</u>	<u>1,232,174</u>
Plant and equipment (note 13)	103,395	125,584
Investment in Talent Summit (note 14)	31,500	-
	<u>\$ 1,153,040</u>	<u>\$ 1,357,758</u>
Liabilities and Shareholders' Deficit		
Current liabilities		
Accounts payable and accrued liabilities	\$ 247,588	\$ 182,354
Deferred revenue	6,715	6,502
Lease liability (note 10)	46,489	42,532
	<u>300,792</u>	<u>231,388</u>
Non-current liabilities		
Lease liability	31,098	66,915
CEBA loan payable (note 4)	40,000	40,000
Total liabilities	<u>371,890</u>	<u>338,303</u>
Shareholders' deficit		
Share capital (note 5(a))	44,167,715	43,963,582
Contributed surplus	5,996,154	5,890,297
Warrants (note 5(c))	26,000	93,533
Deficit	(49,408,719)	(48,927,957)
	<u>781,150</u>	<u>1,019,455</u>
Contingencies (note 9)		
	<u>\$ 1,153,040</u>	<u>\$ 1,357,758</u>
Total liabilities and shareholders' deficit	<u>\$ 1,153,040</u>	<u>\$ 1,357,758</u>

See accompanying notes to unaudited interim consolidated financial statements

01 Communique Laboratory Inc.
Interim Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)
For the 3 and 9 month periods ended July 31, 2022 and 2021

	<i>three months ended</i>		<i>nine months ended</i>	
	<u>31-Jul-22</u>	<u>31-Jul-21</u>	<u>31-Jul-22</u>	<u>31-Jul-21</u>
Revenue	\$ 236,002	\$ 211,831	\$ 782,627	\$ 722,324
Expenses:				
Selling, general and administrative	221,772	207,909	650,056	570,400
Research and development	194,132	209,766	559,893	485,871
Withholding taxes	10,400	20,660	51,523	70,651
	<u>426,304</u>	<u>438,334</u>	<u>1,261,472</u>	<u>1,126,922</u>
Loss before other income and expense	(190,302)	(226,503)	(478,845)	(404,598)
Interest income	1,125	180	1,770	751
Interest expense	1,065	1,595	3,687	2,431
Loss for the period and comprehensive loss	<u>\$ (190,242)</u>	<u>\$ (228,762)</u>	<u>\$ (480,762)</u>	<u>\$ (406,278)</u>
Loss per common share				
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	94,916,728	93,278,000	94,607,495	92,246,000
Diluted	94,916,728	93,278,000	94,607,495	92,246,000

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, 2022 and 2021

July 31, 2022	Number of shares	Share Capital	Contributed Surplus	Warrants	Deficit	Total Shareholders' deficit
Balance October 31, 2021	94,451,221	\$ 43,963,582	\$ 5,890,297	\$ 93,533	\$(48,927,957)	\$ 1,019,455
Comprehensive loss for the period	-	-	-	-	(480,762)	(480,762)
Stock based compensation expense (note 5 (b))	-	-	141,607	-	-	141,607
Exercise of stock options (note 5 b)	200,000	27,000	(13,000)	-	-	14,000
Expiration of stock options (note 5 b)	-	22,750	(22,750)	-	-	-
Exercise of warrants (note 5 c)	588,333	138,116	-	(51,266)	-	86,850
Expiration of warrants (note 5 c)	-	16,267	-	(16,267)	-	-
Balance, July 31, 2022	<u>95,239,554</u>	<u>\$ 44,167,715</u>	<u>\$ 5,996,154</u>	<u>\$ 26,000</u>	<u>\$(49,408,719)</u>	<u>\$ 781,150</u>

July 31, 2021	Number of shares	Share Capital	Contributed Surplus	Warrants	Deficit	Total Shareholders' Equity
Balance October 31, 2020	91,393,973	\$ 43,395,752	\$ 5,717,636	\$ 266,135	\$(48,271,110)	\$ 1,108,413
Comprehensive loss for the period	-	-	-	-	(406,278)	(406,278)
Stock based compensation expense	-	-	136,614	-	-	136,614
Exercise of stock options	860,000	73,640	(30,140)	-	-	43,500
Exercise of warrants	2,197,248	494,189	-	(172,603)	-	321,586
Balance, July 31, 2021	<u>94,451,221</u>	<u>\$ 43,963,581</u>	<u>\$ 5,824,110</u>	<u>\$ 93,532</u>	<u>\$(48,677,388)</u>	<u>\$ 1,203,835</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, 2022 and 2021

	<i>three months ended</i>		<i>nine months ended</i>	
	<u>31-Jul-22</u>	<u>31-Jul-21</u>	<u>31-Jul-22</u>	<u>31-Jul-21</u>
Cash provided by (used in):				
Operating activities:				
Comprehensive loss for the period	\$ (190,242)	\$ (228,762)	\$ (480,762)	\$ (406,278)
Adjustments to reconcile loss for the period to net cash flows from operating activities:				
Depreciation of property and equipment	1,086	1,777	5,111	5,431
Amortization of right-of-use asset	11,398	11,219	33,836	34,298
Stock-based compensation expense	53,782	70,850	141,607	136,614
Change in non-cash working capital	43,660	96,870	143,102	(13,327)
	<u>(80,316)</u>	<u>(48,046)</u>	<u>(157,106)</u>	<u>(243,262)</u>
Financing activities:				
Exercise of stock options	14,000	41,750	14,000	43,500
Exercise of warrants	86,850	-	86,850	-
Exercise of debenture warrants	-	269,587	-	321,587
Proceeds from loan	-	-	-	60,000
Lease payments made	(11,279)	(11,338)	(32,866)	(33,451)
	<u>89,571</u>	<u>299,999</u>	<u>67,984</u>	<u>391,636</u>
Investing activities:				
Proceeds from guaranteed investment certificate	-	-	-	60,000
Investment in Talent Summit	-	-	(31,500)	-
Purchase of property and equipment	(80)	(4,225)	(15,752)	(8,926)
	<u>(80)</u>	<u>(4,225)</u>	<u>(47,252)</u>	<u>51,074</u>
Increase (decrease) in cash	9,175	247,728	(136,374)	199,448
Cash, beginning of period	<u>849,375</u>	<u>914,057</u>	<u>994,924</u>	<u>962,337</u>
Cash, end of period	<u>\$ 858,550</u>	<u>\$ 1,161,785</u>	<u>\$ 858,550</u>	<u>\$ 1,161,785</u>

See accompanying notes to unaudited interim consolidated financial statements

01 Communique Laboratory Inc.
Notes to Interim Consolidated Financial Statements
(Unaudited)
For the 3 and 9 month periods ended July 31, 2022 and 2021

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, 2022 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, 2022 and 2021, 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, McGovern Hurley 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.

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. These consolidated financial statements are prepared under International Financial Reporting Standards ("IFRS") and reflect management's best estimates and judgment based on information currently available.

The Company's head office is located at 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 and quoted on the OTCQB Market in the United States under the symbol OONEF.

(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, 2021. 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 14, 2022.

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

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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.

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.

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(2) Financial instruments and financial risk management:

(a) Financial instruments:

The Company has classified its financial instruments as follows:

	31-July-22	31-Oct-21
Financial assets:		
Held-for-trading, measured at fair value:		
Cash	\$ 858,550	\$ 994,924
Loans and receivables, recorded at cost:		
Accounts receivable	128,459	205,507
Financial liabilities, recorded at amortized cost:		
Accounts payable and accrued liabilities	247,588	182,354
Loan payable	40,000	40,000

Accounts receivable are comprised of the following:

	31-July-22	31-Oct-21
Trade receivables	\$ 104,120	\$ 158,073
Investment tax credits receivable	-	25,000
Other	24,339	22,434
	<u>\$ 128,459</u>	<u>\$ 205,507</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, 2022 and October 31, 2021, 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

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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 were two companies that comprised 98% (2021 – 98%) and 98% (2021- 98%) of the Company's total revenue for the three and nine months ended April 30, 2022 respectively. No other customers exceeded 10% of revenue during the current or prior periods. The customers comprising 98% (2021 – 98%) of revenue represents 100% (2021 – 100%) of accounts receivable as at July 31, 2022.

(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, 2022, the Company had financial assets consisting of cash and accounts receivable of \$987,009 (October 31, 2021 - \$1,200,431) and financial liabilities of \$287,588 (October 31, 2021 - \$222,354), consisting of accounts payable and accrued liabilities and the Canadian emergency business account loan payable.

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 assets and liabilities due in U.S. dollars include accounts payable of \$11,216 (October 31, 2021 – \$23,030), cash of \$389,200 (October 31, 2021 - \$568,902) and accounts receivable of \$80,600 (October 31, 2021 - \$127,478).

The Company reports its results in Canadian dollars. The Company markets its products in Canada, the United States ("U.S.") and Asia/Pacific. Sales to Asian/Pacific 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

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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, 2022, the Company had net monetary assets in U.S. dollars of \$458,584 (October 31, 2021 - \$673,351). An increase or decrease in the U.S. to Canadian dollar exchange rate by 10% as at July 31, 2022 would have resulted in a gain in the amount of \$45,858 (October 31, 2021 - \$83,500) or a loss of \$45,858 (October 31, 2021 - \$83,500), respectively.

The Company has performed a sensitivity analysis for foreign exchange exposure over the nine month period ended July 31, 2022. 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, 2022. 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 decrease to the net loss for the nine month period ended July 31, 2022. A decrease or increase in the U.S. to Canadian dollar exchange rate by 10% during the nine month period ended July 31, 2022 would have resulted in a reduction of the net loss of \$49,000 (2021 – \$60,000) or an increase in the net loss of \$49,000 (2021 – \$60,000) 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.

(vi) 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 of 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.

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(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 changes in the Company's approach to capital management during the nine month period ended July 31, 2022.

The Company and its subsidiaries 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 July 31, 2022, the Company believes it is compliant with the policies of the TSXV.

(4) Government assistance:

The Canada Emergency Business Account ("CEBA") provides interest-free bank loans, guaranteed by the government of Canada, of up to \$60,000 to small businesses that qualify. The Company's loan payable consists of a \$60,000 CEBA loan that is interest free and repayable by December 31, 2022 with up to \$20,000 of the loan being forgiven conditional upon the Company repaying the full amount due of \$60,000 by maturity which is December 31, 2022. Management has assessed that it is likely the Company would be able to repay the balance of the loans by December 31, 2022 and accordingly, the total forgivable amount of \$20,000 was recorded as government assistance income in fiscal 2021.

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 nine month period ended July 31, 2021, the Company has received approximately \$13,000 as a wage subsidy under this program (2022 – Nil). This has been recognized in the consolidated statements of operations as a reduction to the related expenses.

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(5) Share capital:

(a) Share capital authorized, issued and outstanding:

Authorized:

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

Issued: 95,239,554 common shares

The change in issued and outstanding common shares for the nine month period ended July 31, 2022 are as follows:

	Number	Amount
Balance, October 31, 2021	94,451,221	\$ 43,963,582
Exercise of warrants	588,333	138,116
Exercise of stock options	200,000	27,000
Warrants expired	-	16,267
Stock options expired	-	22,750
Balance, July 31, 2022	95,239,554	\$ 44,167,715

(b) Employee stock 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.

The following summarizes changes in outstanding options for the nine month period ended July 31, 2022.

	Number	Weighted average exercise price
Options Outstanding, October 31, 2021	4,915,000	\$ 0.14
Granted	1,150,000	\$ 0.16
Exercised	(200,000)	\$ 0.07
Expired	(350,000)	\$ 0.07
Balance, July 31, 2022	5,515,000	\$ 0.15

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The following summarizes information with respect to the Company's stock option plan as at July 31, 2022:

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	1,785,000	0.4	\$ 0.06	1,785,000	\$ 0.06
\$0.10 to \$0.14	2,440,000	2.2	\$ 0.11	1,540,000	\$ 0.10
\$0.14 to \$0.42	1,290,000	2.8	\$ 0.34	620,000	\$ 0.37
	5,515,000	1.6	\$ 0.15	3,945,000	\$ 0.13

The average grant date fair value of options granted during 2022 was \$0.25 (2021 - \$0.34). 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 nine month period ended July 31, 2022: expected dividend yield of nil (2021 – nil), expected volatility of 165% (2021 – 166%), weighted average risk-free interest rate of 2.0% (2021 – 1.5%) and expected lives of four years (2021 – four years). During the nine month period ended July 31, 2022, the Company recorded stock option expense for stock options granted in the current and previous periods of \$141,607 (2021 - \$136,614).

(c) Warrants:

The change in share purchase warrants for the nine months ended July 31, 2022 are as follows:

	Number	Amount	Weighted average exercise price
Balance, October 31, 2021	938,334	\$ 93,533	\$ 0.15
Exercise of warrants	(588,333)	(51,266)	\$ 0.15
Warrants expired	(250,001)	(16,267)	\$ 0.15
Balance, July 31, 2022	100,000	\$ 26,000	\$ 0.35

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The following table summarizes information about warrants outstanding at July 31, 2022:

	Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price
Warrants issued on settlement of debenture (note 6(c)(i))	0.35	100,000	0.50	0.35

- (i) Each warrant entitles the holder to acquire one common share for \$0.35 at any time prior to October 14, 2022.

(6) Loss per share:

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

	<i>three months ended</i>		<i>nine months ended</i>	
	<u>31-Jul-22</u>	<u>31-Jul-21</u>	<u>31-Jul-22</u>	<u>31-Jul-21</u>
Loss for the period and comprehensive loss	\$ (190,242)	\$ (228,762)	\$ (480,762)	\$ (406,278)
Loss per common share				
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	94,916,728	93,278,000	94,607,495	92,246,000
Diluted	94,916,728	93,278,000	94,607,495	92,246,000

As the Company is in a loss position for the three and nine months ended July 31, 2022 and 2021, 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.

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(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, 2022 and 2021 were as follows:

	<i>For the 3 months ending</i>		<i>For the 9 months ending</i>	
	<u>31-July-22</u>	<u>30-July-21</u>	<u>31-July-22</u>	<u>31-July-21</u>
Salaries and contractor fees	\$ 73,000	\$ 55,000	\$ 199,000	\$ 165,000
Stock based compensation	51,813	37,037	138,654	47,239
	<u>\$ 124,813</u>	<u>\$ 92,037</u>	<u>\$ 337,654</u>	<u>\$ 212,239</u>

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, 2022 were \$28,500 (2021 - \$16,500) and \$65,500 (2021 - \$49,500) 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, 2022 was \$21,000 (2021 - 21,000) and \$63,000 (2021 - \$42,000) respectively.

Salary and contractor fees included in the above table owing to directors and other key management personnel and so included in accounts payable and accrued liabilities at July 31, 2022 is \$11,800 (2021 - \$7,300). They are unsecured, non-interest bearing with no fixed terms of payment and were paid subsequent to the end of the periods.

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

	<i>three months ended</i>		<i>nine months ended</i>	
	<u>31-Jul-22</u>	<u>31-Jul-21</u>	<u>31-Jul-22</u>	<u>31-Jul-21</u>
Change in non-cash working capital				
Accounts receivable	\$ 18,093	\$ 72,311	\$ 77,048	\$ (28,495)
Prepaid expenses and other assets	19,953	14,261	\$ 607	(2,891)
Accounts payable & accruals	5,477	10,701	65,234	17,073
Deferred revenue	137	(403)	213	986
	<u>\$ 43,660</u>	<u>\$ 96,870</u>	<u>\$ 143,102</u>	<u>\$ (13,327)</u>

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(9) Contractual obligations and 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 7, 2020 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 July 31, 2022, 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. To date the Company has been able to adapt its operations thereby minimizing the impact from the pandemic.

(10) Lease commitment:

The Company's head office, located at 789 Don Mills Road, Suite 700, Toronto, Ontario M3C 1T5, is leased and considered to be a right-of-use asset. On March 1, 2021 the lease was amended with the expiry date extended to March 31, 2024 with no renewal term. Lease payments (including the Company's share of property taxes, operating costs, utilities and extra services) during the three and nine month periods ended July 31, 2022 were \$11,279 (2021- \$11,338) and \$32,866 (2021 - \$33,451) respectively.

The lease liability has been measured by discounting future lease payments at the incremental borrowing rate at March 1, 2021. 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. As a result, the Company recorded an increase in capital assets, right of use asset, of \$134,634 and an increase in lease liability of \$134,634. The carrying value included as part of property and equipment as at July 31, 2022 is \$74,620. The lease liability has been broken down between current and non-current amounts. The current lease liability as at July 31, 2022 is \$46,489 and the non-current lease liability is \$31,098.

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(11) 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-22</u>	<u>31-Jul-21</u>	<u>31-Jul-22</u>	<u>31-Jul-21</u>
United States	\$ 2,277	\$ 3,814	\$ 7,488	\$ 8,826
Canada	1,725	1,415	9,488	6,989
Asia/Pacific	232,000	206,602	765,651	706,509
	<u>\$ 236,002</u>	<u>\$ 211,831</u>	<u>\$ 782,627</u>	<u>\$ 722,324</u>

Substantially all of the Company's identifiable assets as at July 31, 2022 and October 31, 2021 are located in Canada.

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-22</u>	<u>31-Jul-21</u>	<u>31-Jul-22</u>	<u>31-Jul-21</u>
Royalty and development fees	\$ 232,000	\$ 206,602	\$ 765,651	\$ 706,509
Subscription fees	4,002	5,229	16,976	15,815
	<u>\$ 236,002</u>	<u>\$ 211,831</u>	<u>\$ 782,627</u>	<u>\$ 722,324</u>

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(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:

for the three months ended 31-Jul-22	Selling, general and administration	Research and development	Total
Salaries, contractors, commissions and benefits	\$ 70,966	\$ 160,763	\$ 231,729
Stock-based compensation	53,782	-	53,782
Other operating expenses	97,024	33,369	130,393
	<u>\$ 221,772</u>	<u>\$ 194,132</u>	<u>\$ 415,904</u>

for the three months ended 31-Jul-21	Selling, general and administration	Research and development	Total
Salaries, contractors, commissions and benefits	\$ 89,266	\$ 178,003	\$ 267,269
Stock-based compensation	70,850	-	70,850
Other operating expenses	47,793	31,763	79,555
	<u>\$ 207,909</u>	<u>\$ 209,766</u>	<u>\$ 417,674</u>

for the nine months ended 31-Jul-22	Selling, general and administration	Research and development	Total
Salaries, contractors, commissions and benefits	\$ 242,692	\$ 472,061	\$ 714,753
Stock-based compensation	141,607	-	141,607
Other operating expenses	265,757	87,832	353,589
	<u>\$ 650,056</u>	<u>\$ 559,893</u>	<u>\$ 1,209,949</u>

for the nine months ended 31-Jul-21	Selling, general and administration	Research and development	Total
Salaries, contractors, commissions and benefits	\$ 239,452	\$ 404,791	\$ 644,243
Stock-based compensation	136,614	-	136,614
Other operating expenses	194,334	81,080	275,414
	<u>\$ 570,400</u>	<u>\$ 485,871</u>	<u>\$ 1,056,271</u>

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(13) Property and equipment:

As at July 31, 2022

	Computer systems	Communications equipment	Furniture, fixtures and leasehold improvements	Right of Use Asset	Total
Cost:					
Balance at October 31, 2021	\$ 558,655	\$ 3,394	\$ 99,513	\$ 134,634	\$ 796,196
Additions	16,758	-	-	-	16,758
Dispositions	-	-	-	-	-
Balance at July 31, 2022	\$ 575,413	\$ 3,394	\$ 99,513	\$ 134,634	\$ 812,954
Depreciation:					
Balance at October 31, 2021	\$ 544,941	\$ 877	\$ 98,616	\$ 26,178	\$ 670,612
Additions	5,111	-	-	33,836	38,947
Dispositions	-	-	-	-	-
Balance at July 31, 2022	\$ 550,052	\$ 877	\$ 98,616	\$ 60,014	\$ 709,559
Carry amounts:					
Balance at October 31, 2021	\$ 13,714	\$ 2,517	\$ 897	\$ 108,456	\$ 125,584
Balance at July 31, 2022	\$ 25,361	\$ 2,517	\$ 897	\$ 74,620	\$ 103,395

(14) Investment in Talent Summit:

The Company made a minority investment in Talent Summit, which has been recorded as an asset at the cost paid for the investment of \$31,500.

The consortium which makes up Talent Summit is pursuing a new blockchain and development of a Proof-of-Concept (PoC) is underway. The PoC of this new venture is the first step towards protecting the de-centralized ecosystem. The Company is a technology partner of Talent Summit and is its Post-Quantum Cryptography (PQC) provider.

(15) Subsequent Event:

Subsequent to the end of the quarter, on September 7, 2022, a non-brokered financing was completed comprising of 562,500 units (the "Units") at a price of \$0.20 per Unit for gross proceeds of \$112,500.

Each Unit is comprised of one common share in the capital of the Company (each, a "Share") and one-half of one Share purchase warrant (each, a "Warrant"). Each whole Warrant entitles the holder to purchase one additional Share in the capital of the Company (each, a "Warrant Share") for a period of 24 months from the closing date at an exercise price of \$0.35 per Warrant Share.

The proceeds from the issuance will be used for working capital purposes.

01 COMMUNIQUE LABORATORY INC.

CORPORATE INFORMATION

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President & CEO

William A. Train
Chairman
Private investor

Gary Kissack
Lawyer, Fogler, Rubinoff LLP

Tyson Macaulay
Director

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President & CEO

Brian Stringer
Chief Financial Officer

Gigi Loo
Controller & Corporate Secretary

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