



**01 Communique Laboratory Inc.**

**Management's Discussion and Analysis**

**For the year ended October 31, 2022**

**ONE : TSX-V**

**Dated: January 18, 2023**

# 01 COMMUNIQUE LABORATORY INC.

Management Discussion and Analysis  
(In Canadian dollars)

Years ended October 31, 2022 and 2021

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## 1. Introduction:

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (the "MD&A") has been prepared by management and is a review of the consolidated operating results and financial position of 01 Communique Laboratory Inc. ("01 Communique" or the "Company"), based upon International Financial Reporting Standards ("IFRS"). This MD&A should be read in conjunction with the Company's audited consolidated financial statements and notes to the audited consolidated financial statements as at and for the year ended October 31, 2022.

The Company maintains appropriate systems of internal control, policies, and procedures that provide management reasonable assurance that assets are safeguarded and that its financial information is reliable.

This document and the related audited consolidated financial statements were authorized for issue by the board of directors on January 18, 2023.

All amounts are expressed in Canadian dollars unless otherwise stated. This MD&A is effective as of January 18, 2023.

Additional information on the Company, including its audited consolidated financial statements, is filed on SEDAR.

## 2. Forward-looking Statements:

This MD&A contains certain statements that may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such statements use such words as "may", "will", "expect", "believe", "plan", "intend", "are confident" and other similar terminology. These statements reflect current expectations regarding future events and operating performance and speak only as of the date of this MD&A. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved.

A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to, risk factors discussed in this MD&A. Although the forward-looking statements contained in this MD&A are based upon what management of the Company believes are reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward looking statements. These

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forward-looking statements are made as of the date of this MD&A, and the Company assumes no obligation to update or revise them to reflect new events or circumstances.

### 3. Corporate Overview:

The Company has two business units. Its primary focus is on its cyber security business unit focusing on post-quantum cybersecurity with the development and commercialization of its IronCAP™ technology. IronCAP™'s patent protected cryptographic system is an advanced Goppa code-based post-quantum cryptographic technology that can be implemented on classical computer systems as we know them today while at the same time can also safeguard against attacks in the future post-quantum world of computing. The Company's other business unit consists of its remote access business which provides its customers with a suite of secure remote access services and products under its I'm InTouch and I'm OnCall product offerings.

#### (i) Cyber Security.

There is a new breed of computer in development today called Quantum Computers. A Quantum Computer can process information exponentially faster than "classical computers" which could render existing public key encryption unsecure. Public key encryption is a cornerstone of cyber security today and Quantum Computers may have the ability to hack applications that are based on and using public key encryption. As a result, the Company has devoted a significant amount of time researching this new disruptive cyber security technology and based on this research has proceeded with the development and commercialization of products incorporating our IronCAP™ technology that the Company believes will be secure against Quantum Computer attacks.

The Company believes its IronCAP™ technology has wide ranging applications and is applicable for a number of vertical markets, including but not limited to Virtual Private Networks (VPNs), financial transactions, block-chain networks, cloud storage, development of web sites, password protection and email security. Essentially, whenever data is required to be kept safe from malicious attacks from hackers the Company's IronCAP™ technology is applicable.

The Company has developed and plans to continue to develop new products based on its IronCAP™ technology. The IronCAP™ Toolkits and IronCAP X™ are the first of these products to be released.

- (1) IronCAP™ Toolkits are available to vendors and can be used by vendors, for example, to build highly secure "post-quantum" systems for blockchain, 5G/IoT, data storage, remote access/VPN, encryption, digital signing etc. and comply with the PKCS#11, OpenSSL and OpenPGP standards.

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- (2) IronCAP X, a new cybersecurity product for email/file encryption. This digital signature system is built by implementing the patented technology to provide end-to-end encrypted messages. IronCAP X™ has two major differentiations from what is in the market today. Firstly, offerings in today's market store users secured emails on email-servers for recipients to read, making email-servers a central target of cyber-attack. IronCAP X™, on the other hand, delivers each encrypted message end-to-end to the recipients such that only the intended recipients can decrypt and read the message. Consumer's individual messages are protected, eliminating the hackers' incentive to attack email servers of email providers. Secondly, powered by our patent protected technology, we believe IronCAP X™ is the world's first quantum-safe, digital signature email system; secured against cyberattacks from today's systems and from quantum computers in the future. Consumers and businesses using our new cybersecurity product will have tomorrow's cybersecurity today.

The Company is marketing the IronCAP™ Toolkits and IronCAP X™ through a combination of forging partnerships along the lines of the one for its remote access services and products with Hitachi Business Solution Create Ltd. ("Hitachi Business Solution Create") to create awareness and grow revenue as well as marketing IronCAP X™ through its web site making the personal use version available free of charge.

There can be no guarantee that either the development of or commercialization of the Company's IronCAP™ technology will be successful or lead to significant revenues for the Company.

(ii) Remote Access Services and Products.

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

The Company has expended considerable resources in developing and marketing these products. To date these initiatives have not generated sufficient revenue for the Company to become profitable. As the Company moves forward, it plans to maintain its products and make them available from the Company's web site. There can be no assurance that these initiatives will lead to significant revenues for the Company.

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

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

## 4. Intellectual Property:

The Company has been granted a patent in the U.S. and has three U.S., two International PCT and one Japanese patent applications in process for its IronCAP™ technology:

- United States patent number 11,271,715 for a Cryptographic System and Method. Our invention relates to cryptographic systems and methods. More particularly, our invention relates to public key cryptographic systems and methods that can be used, for example, to build highly secure systems for data storage, access, encryption, decryption, digital signing, and digital signing verification. Our cryptographic system is expected to protect our customers against the ever-evolving illegitimate and malicious means of gaining access to their data.
- United States patent application No.16/893,709 for a Cryptographic System and Method that facilitates sending encrypted emails to a recipient. Our invention, as described in the patent application, relates generally to cryptographic systems and methods. In a traditional end-to-end email encryption system, the recipient must first be a user of the system before the sender can send encrypted messages to the recipient. The new method facilitates sending encrypted emails to a recipient without having to first require the recipient to be an existing registered user of IronCAP X. This invention enables a seamless plug-and-play mechanism to automatically invite new IronCAP X users fueling a viral growth pattern.
- Japanese patent application No. 2020-534078 entitled “A Cryptographic System and Method”.
- United States patent application No. 17/708,426 and International PCT No. IB-2022053537 for quantum-safe steganography technology which allows covert hiding of sensitive data in any ordinary digital media such as photos and audio/video clips. The ancient application of steganography technology is to “watermark”. 01 has revolutionized this technology for the post-quantum era by utilizing the Company’s patent-protected IronCAP™ cryptographic technology. This revolutionary technology can be applied to a broad range of applications including NFTs, digital wallets, digital proof of ownership, etc. An example of practical application is to hide the private key of a digital wallet as a “quantum-safe backup” instead of the current method of generating 24 random words on paper.
- United States patent application No. 17/972,815 and International PCT No. US22-78536 for blockchain endpoint protection. Quantum security may be enhanced through the use of quantum-safe validators for transactions whereby the quantum-safe validators process quantum-safe addresses and signatures of parties to the transactions. Quantum safety may be added to conventional blockchain transactions, for example, via smart contracts which are executed using cryptographic interlocks to between conventional smart contract execution

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engines and quantum-safe validators to ensure both quantum-safe processing of addresses and signatures and legitimacy of quantum-safe validators in presenting transactions for incorporation on the chain.

The Company has a number of patents and patent applications which are incorporated in its I'm InTouch and I'm OnCall product and service offerings, as follows:

- United States patent number 6,928,479 (the "479 Patent") entitled "System, computer product and method for providing a private communication portal";
- United States patent number 6,938,076 entitled "System, computer product and method for interfacing with a private communication portal from a wireless device";
- United States patent number 8,234,701 entitled "System, method and computer program for remotely sending a digital signal(s) to a computer";
- Canadian patent number 2,524,039 entitled "System, method and computer program for remotely sending a digital signal(s) to a computer";
- Canadian patent number 2,309,398, entitled "A system, computer product and method for remotely accessing and controlling a networked computer";
- Japanese patent number 4,875,094 entitled (as translated) "Method of accessing and/or controlling target computer, involves directing proxy server to send digital signal to target computer, so that remote computer is permitted to access/control target computer on receipt of digital signal";
- Japanese patent number 5,832,027 entitled (as translated) "Private communication portal provision system for two-way pager network, has location facility computer for facilitating communication between two other computers"

## 5. Fiscal 2022 Highlights:

The Company continued with work to help ensure the successful commercialization of its IronCAP™ technology as well as building revenue from its remote access service business. Going forward the Company plans to continue with its business development efforts forming new partnerships and building on existing partnerships. Operational highlights for 2022 year to date are as follows:

1. In April 2022 the Company entered into an agreement with a consortium of cryptography experts that selected the Company as their technology partner and Post-Quantum Cryptography (PQC) provider. The consortium (Talent Summit) is pursuing a new blockchain and commissioned the Company to develop the World's First Quantum-Safe Blockchain designed for Tokens, NFTs, Smart Contracts for the Metaverse, De-centralized Finance (DeFi). The result was the completion of the first quantum-safe crypto wallet encrypted by a post-quantum cryptography (PQC) algorithm approved by the National Institute of Standards and Technology ("NIST"). This technology is independent of the type of blockchain in use and

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can be easily adapted to other public blockchains such as Bitcoin, Ethereum, as well as private business blockchains. The Company was compensated for the development project by way of a payment of \$250,000 cash plus a 10% royalty is to be received for the ongoing share of the “Tokens” per transaction. A demonstration of the wallet is available on the Company’s web site.

2. The Company has also taken a minority position in Talent Summit.
3. The Company continued with development work on a business edition of IronCAP X™, which is expected to be the world’s first commercial-ready quantum-safe email security product. It is anticipated that it will be ready for commercial use in fiscal 2023.
4. In February 2022, the Company commenced and has now completed the integration of IronCAP™ into one of the Company’s partners’ military-grade Hardware Security Modules (“HSM”) providing military grade protection for users’ data and critical applications. This partnership was designed to develop and joint-market quantum-safe cybersecurity solutions for global businesses, organizations and governments to ensure cyber resilience in the post quantum environment. Now the Company’s partner can add IronCAP™ FM (“Functional Module”) making PQC functionality seamless while conforming to the latest standards set by NIST. The parties are now commencing joint-marketing activities.
5. Strengthened the board of directors with the addition of Mr. Tyson Macaulay, CISA, LEL CIE, who brings with him over twenty-five years of engineering and management experience in network, cloud and IoT security solutions.
6. Filed an international patent application for quantum-safe steganography technology which allows covert hiding of sensitive data in any ordinary digital media. This revolutionary technology can be applied to a broad range of applications including NFTs, digital wallets, digital proof of ownership, etc. The ancient application of steganography technology is to “watermark”. Other applications include subliminal messages in media such as audio and video clips. What the Company has created is a quantum-safe steganography method to hide large amount of digital data in pictures, audio, or video clips utilizing the Company’s patent-protected IronCAP™ cryptographic technology.

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## 6. Overview of Results of Operations:

The information in the financial table below present selected financial information for the three years ended October 31, 2022, 2021 and 2020. Information has been prepared in accordance with IFRS. The amounts are in Canadian Dollars.

	<i>for the years ended</i>		
	<i>31-Oct-22</i>	<i>31-Oct-21</i>	<i>31-Oct-20</i>
Revenue	\$ 1,026,810	\$ 885,345	\$ 521,791
Expenses:			
Selling, general and administrative	857,814	841,028	586,776
Research and development	815,836	614,219	455,177
Withholding taxes	75,508	86,458	50,805
	1,749,158	1,541,705	1,092,758
Loss before accretion on liability component of debenture, interest, and other income	(722,348)	(656,360)	(570,967)
Interest on debenture	-	-	57,718
Accretion on liability portion of debenture	-	-	30,997
Loss before other income and expense	(722,348)	(656,360)	(659,682)
Foreign exchange gain (loss)	61,177	(17,554)	675
Interest income	4,482	966	3,030
Interest expense	(5,315)	(3,899)	(1,191)
Government assistance	-	20,000	-
Net loss for the year and comprehensive loss	\$ (662,004)	\$ (656,847)	\$ (657,168)

Revenue and expenses have both increased during the three year periods, however the loss has been consistent. The loss and comprehensive loss for fiscal 2022 was \$662,004 which is consistent with the loss of \$656,847 in fiscal 2021 and \$657,168 in fiscal 2020. The major reasons for the variances in revenue and expenses for fiscal years 2020 through 2022 are as follows:

- Revenue has steadily increased from 2020 through 2022. The Company believes much of this increase is a result of a response to the coronavirus pandemic whereby many companies have moved towards remote work, which contributed to an increase in revenue from the Company's remote access service. In addition, during 2022 the Company received development fees to

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develop a Proof-of-Concept of the first quantum-safe crypto wallet incorporating NIST approved PQC algorithms.

- (b) Expenses have increased from 2020 through 2022, a result of the investment the Company has made over the past three years as we developed and prepared for commercialization of our IronCAP™ technology. Withholding tax represent taxes withheld on payments received from foreign customers. The increase in withholding tax from 2020 through 2022 is a result of the increase in revenue from Japan.
- (c) There was a foreign exchange gain in fiscal 2022. Substantially all of the Company's revenue is in U.S. dollars or the Japanese Yen. As a result, the Company is subject to currency risk from sales made and expenses incurred in U.S. dollars and the Japanese Yen. During fiscal 2022 there was a decrease in the exchange rate between the Canadian dollar and the U.S. dollar and Japanese Yen resulting in a foreign exchange gain.

## 7. Use of Non-IFRS Terms:

- 1. In the Company's financial reporting, reference is made to cash operating expenses, which is a non-IFRS term. This term does not have a standardized meaning under IFRS and therefore it is unlikely it will be comparable to similar measures by other companies. Cash operating expenses are operating expenses (selling, general and administrative expenses plus research and development expenses) excluding the non-cash operating expenses of stock-based compensation, depreciation and amortization. This measure is used to assist in monitoring cash expenses of the Company as it is an indication of the amount of expenses required to fund the Company's operations on a cash basis. Stock-based compensation is a non-cash expense and is largely dependent on the accounting assumptions and methods used for the calculation. The table below summarizes cash operating expenses.

	<i>For the years ended</i>	
	<u>31-Oct-22</u>	<u>31-Oct-21</u>
Total operating expenses	\$ 1,673,650	\$ 1,455,247
Less – Stock-based compensation	160,053	202,801
Depreciation of property and equipment	6,556	7,214
Cash operating expenses	<u>\$ 1,507,041</u>	<u>\$ 1,245,232</u>

Cash operating expenses for fiscal 2022 were \$1,507,041 (2021 - \$1,245,232) an increase of \$261,809 a result of our investment in the development of and commercialization of our IronCAP™ technology.

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2. In the Company's financial reporting, reference is made to adjusted loss, which is a non-IFRS term. This term does not have a standardized meaning under IFRS and therefore it is unlikely it will be comparable to similar measures by other companies. The adjusted loss is the loss for the period and comprehensive loss excluding non-cash operating expenses, unusual items and is indicative of the loss for the period excluding non-cash operating expenses which are stock-based compensation, and depreciation and amortization. This measure is used to assist in monitoring cash requirements of the Company as it is an indication of the amount of cash required to fund the Company's operations, on a cash basis. Stock-based compensation is a non-cash expense and is largely dependent on the accounting assumptions and methods used for the calculation. The table below summarizes the adjusted loss.

	<i>For the years ended</i>	
	<u>31-Oct-22</u>	<u>31-Oct-21</u>
Net loss for the year and comprehensive loss	\$ (662,004)	\$ (656,847)
Less: non cash operating expenses	<u>166,609</u>	<u>210,015</u>
Adjusted Loss for the year	<u>\$ (495,395)</u>	<u>\$ (446,832)</u>

The net loss and comprehensive loss for fiscal 2022 of \$662,004 (2021 – \$656,847) includes as part of operating expenses non-cash expenses of \$166,609 (2021 - \$210,015). Excluding these non-cash operating expenses, which are included in operating expenses, the adjusted loss for 2022 becomes \$495,395 (2021 – \$446,832) an increase of \$48,563. While there was an increase in revenue, the Company made a larger net investment in the development and commercialization of its IronCAP™ technology resulting in an increase in operating expenses.

## 8. Results of Operations:

### Revenue

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

	<i>For the years ended</i>	
	<u>31-Oct-22</u>	<u>31-Oct-21</u>
United States	\$ 9,907	\$ 11,185
Canada	7,820	9,577
Asia/Pacific	<u>1,009,083</u>	<u>864,583</u>
	<u>\$ 1,026,810</u>	<u>\$ 885,345</u>

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

	<i>For the years ended</i>	
	<u>31-Oct-22</u>	<u>31-Oct-21</u>
Royalty, development fees, engineering and maintenance	\$ 1,009,083	\$ 864,583
Subscription fees	17,727	20,762
	<u>\$ 1,026,810</u>	<u>\$ 885,345</u>

Revenue for fiscal 2022 was \$1,026,810 (2021 - \$885,345) an increase of \$141,465. The trend of working from home continues to be popular in Asia-Pacific which is contributing to the acceptance of the Company's remote access business in that market. The Company receives recurring royalties from its remote access business. Revenue was also recognized throughout 2022 for development work completed pertaining to the Quantum-Safe Blockchain project with Talent Summit. Revenue from Canada and the United States includes subscription fees received from our I'm InTouch service.

## **Gross profit**

The vast majority of the Company's products sold are software based, which typically have a high gross margin. The gross margin for fiscal 2022 and 2021 was 100%.

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

	<i>For the years ended</i>	
	<u>31-Oct-22</u>	<u>31-Oct-21</u>
Selling, general and administration	\$ 857,814	\$ 841,028
Less: stock-based compensation	160,053	202,801
	<u>\$ 697,761</u>	<u>\$ 638,227</u>

SG&A expenses, net of stock-based compensation for fiscal 2022 were \$697,761 (2021 - \$638,227) an increase of \$59,534 primarily a result of an increase in sales and marketing expenses as well as general administrative expenses required to be spent as we continue to invest in commercialization of our IronCAP™ technology. In addition, there was an increase in investor relations as Hybrid Financial Ltd. was engaged to provide investor relations services to the Company.

Stock option expense for the year ended October 31, 2022 was \$160,053 (2021 - \$202,801). The average grant date fair value of options granted during 2022 ranged from \$0.11 to \$0.19 (2021 - \$0.36). 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

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year ended October 31, 2022: expected dividend yield of nil (2021 - nil), expected volatility of between 110% and 130% (2021 – between 160% and 165%), weighted average risk-free interest rate of between 2% and 3% (2021 – 1.5%) and expected lives of four years (2021 – four years).

## Research and development

	<i>For the years ended</i>	
	<u>31-Oct-22</u>	<u>31-Oct-21</u>
Research and development	\$ 815,836	\$ 614,219

Research and development expenses for 2022 were \$815,836 (2021 - \$614,219) an increase of \$201,617. The increase in research and development expenses relates to the Company's product development efforts as we continued with our investment in the development of our IronCAP™ technology plus the development expenses for enhancements to DoMobile for the Japanese market and development expenses pertaining to the Quantum-Safe Blockchain project.

## 9. Operating Expenses:

The Company presents a functional consolidated statement of operations and comprehensive income in which expenses are aggregated according to the function to which they relate. The Company has identified the major functions as selling, general and administrative expenses; and research and development expenses.

The following tables present the expenses based on their nature:

2022

	Selling, general and administration	Research and development	Total
Salaries, contractors, commissions and benefits	\$ 317,445	\$ 677,267	\$ 994,712
Stock-based compensation	160,053	-	160,053
Other operating expenses	380,316	138,569	518,885
	\$ 857,814	\$ 815,836	\$ 1,673,650

2021

	Selling, general and administration	Research and development	Total
Salaries, contractors, commissions and benefits	\$ 343,009	\$ 541,046	\$ 884,055
Stock-based compensation	202,801	-	202,801
Other operating expenses	295,218	73,173	368,391
	\$ 841,028	\$ 614,219	\$ 455,247

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Operating expenses for 2022 were \$1,673,650 (2021 - \$1,455,247) an increase of \$218,403.

Salaries, contractors, commissions and benefits in 2022 were \$994,712 (2021 - \$884,055) an increase of \$110,657 which was the result of the increase in personnel related costs in SG&A and research and development as the Company continued with its investment in development and commercializing its IronCAP™ technology.

Other operating expenses required to run the business for 2022 were \$518,885 (2021 - \$368,391) which is an increase of \$150,494 primarily a result of costs associated with the Company's patent applications and the increase expense for investor relations.

Stock option expense for the year ended October 31, 2022 was \$160,053 (2021 - \$202,801). The average grant date fair value of options granted during 2022 ranged from \$0.11 to \$0.19 (2021 - \$0.36). 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, 2022: expected dividend yield of nil (2021 - nil), expected volatility of between 110% and 130% (2021 – between 160% and 165%), weighted average risk-free interest rate of between 2% and 3% (2021 – 1.5%) and expected lives of four years (2021 – four years).

## 10. Liquidity and Capital Resources:

	As at:	
	31-Oct-22	31-Oct-21
Cash	\$ 487,179	\$ 994,924
Guaranteed investment certificate	150,000	-
Combined amounts	<u>\$ 637,179</u>	<u>\$ 994,924</u>

Combined amounts were \$637,179 as at October 31, 2022 (2021 - \$994,924) a decrease of \$357,745 primarily a result of the following:

1. The Company funding its adjusted loss for 2022 of \$495,396 which is a use of funds.
2. An increase in non-cash working capital of \$53,736 a use of funds.
3. Financing activities, which included the exercise of stock options and warrants, providing \$207,350 which is a source of funds.

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.

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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, 2022, the Company had financial assets, consisting of cash, guaranteed investment certificate and accounts receivable of \$953,449 (2021 - \$1,200,431) and financial liabilities, consisting of accounts payable and accrued liabilities, deferred revenue, the Canadian emergency business account loan and the lease liability of \$385,137 (2021 - \$338,303).

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

## 11. Fourth Quarter 2022 Results:

The information in the financial table below present selected financial information for the three month periods ended October 31, 2022 and 2021. Information has been prepared in accordance with IFRS. The amounts are in Canadian Dollars.

	<i>three months ended</i>	
	<i>31-Oct-22</i>	<i>31-Oct-21</i>
Revenue	\$ 244,183	\$ 163,021
Expenses:		
Selling, general and administrative	207,758	270,628
Research and development	255,943	128,348
Withholding taxes	23,985	15,807
	<u>487,686</u>	<u>414,783</u>
Loss before other income and expense	(243,503)	(251,762)
Foreign exchange gain (loss)	61,177	(17,554)
Interest income	2,712	215
Interest expense	(1,628)	(1,468)
Government assistance	-	20,000
Loss for the period and comprehensive loss	<u>\$ (181,242)</u>	<u>\$ (250,569)</u>
Loss per common share		
Basic	\$ (0.00)	\$ (0.00)
Diluted	\$ (0.00)	\$ (0.00)
Weighted average number of common shares		
Basic	95,575,831	94,451,221
Diluted	95,575,831	94,451,221

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Revenue for the fourth quarter of 2022 was \$244,183 (2021 - \$163,021) an increase of \$81,162 primarily a result of an increase from royalty fees in Japan.

The net loss and comprehensive loss for the fourth quarter of 2022 was \$181,242 (2021 - \$250,569) a decrease of \$69,327.

Operating expenses for the fourth quarter of 2022, excluding withholding tax, were \$463,701 (2021 - \$398,976) an increase of \$64,725.

Research and development:

	<i>For the three months ended</i>	
	<u>31-Oct-22</u>	<u>31-Oct-21</u>
Research and development	\$ 255,943	\$ 128,348

Research and development expenses increased by \$127,595. Research and development expenses relates to the Company's product development efforts as the Company continues with its investment in the development of its IronCAP™ technology plus the development expenses for enhancements to DoMobile for the Japanese market and development expenses pertaining to the Quantum-Safe Blockchain project.

SG&A:

	<i>For the three months ended</i>	
	<u>31-Oct-22</u>	<u>31-Oct-21</u>
Selling, general and administration	\$ 207,758	\$ 270,628
Less: stock-based compensation	18,446	66,187
	<u>\$ 189,312</u>	<u>\$ 204,441</u>

SG&A, excluding stock-based compensation, decreased by \$15,129 primarily a result of a reduction in overhead allocated to SG&A with a corresponding increase allocated to research and development. The Company continued to invest in sales and marketing activities to commercialize IronCAP X™ as well as continuing in efforts to build partnerships with companies for the integration of the IronCAP™ Toolkits with third party applications.

Stock-based compensation for the fourth quarter 2022 was \$18,446 (2021 - \$66,187) a decrease of \$47,741. Stock-based compensation includes the expense pertaining to the vesting of stock options granted during the quarter and previous quarters as well as the reversal of the expense recorded in previous quarters for options forfeited during the period. There were 250,000 stock options granted (Nil – 2021). The average grant date fair value of the options granted was \$0.13. 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

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three months ended October 31, 2022: expected dividend yield of nil, expected volatility of 110%, weighted average risk-free interest rate of 3% and expected lives of four years.

(a) Cash Operating Expenses:

The cash operating expenses for the three month periods ended October 31, 2022 and 2021 is shown in the table below:

	<i>For the three months ended</i>	
	<u>31-Oct-22</u>	<u>31-Oct-21</u>
Total operating expenses	\$ 463,701	\$ 398,976
Less – Stock-based compensation	18,446	66,187
Depreciation of property and equipment	<u>1,444</u>	<u>1,783</u>
Cash operating expenses	<u>\$ 443,811</u>	<u>\$ 331,006</u>

The cash operating expenses, which exclude stock-based compensation and depreciation and amortization which are not cash expenses, for the fourth quarter of 2022 were \$443,811 (2021 - \$331,006) an increase of \$112,805.

(b) Adjusted Loss:

The adjusted loss for the three month periods ended October 31, 2022 and 2021 is shown in the table below:

	<i>For the three months ended</i>	
	<u>31-Oct-22</u>	<u>31-Oct-21</u>
Loss for the period and comprehensive loss	\$ (181,242)	\$ (250,569)
Less: non-cash operating expenses	<u>19,890</u>	<u>67,970</u>
Adjusted Loss for the period	<u>\$ (161,352)</u>	<u>\$ (182,599)</u>

The adjusted loss for the fourth quarter of 2022 was \$161,352 (2021 - \$182,599) an increase of \$21,247.

(c) Revenue:

Revenue attributable to geographical location based on the customer for the three month periods ended October 31, 2022 and 2021 is shown in the table below:

	<i>For the three months ended</i>	
	<u>31-Oct-22</u>	<u>31-Oct-21</u>
United States	\$ 2,419	\$ 2,359
Canada	(1,668)	2,588
Asia/Pacific	<u>243,432</u>	<u>158,074</u>
	<u>\$ 244,183</u>	<u>\$ 163,021</u>

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The significant categories of revenue recognized during the three month periods ended October 31, 2022 and 2021 are as follows:

	<i>For the three months ended</i>	
	<u>31-Oct-22</u>	<u>31-Oct-21</u>
Royalty, development fees, engineering and maintenance	\$ 243,432	\$ 158,074
Subscription fees	751	4,947
	<u>\$ 244,183</u>	<u>\$ 163,021</u>

Revenue from Asia/Pacific includes the ongoing subscription and maintenance fees from Hitachi Solutions Create. Revenue from Canada and the United States includes subscription fees received from our I'm InTouch service.

(d) Operating Expenses:

The following table presents the operating expenses for the quarter according to the function to which they relate:

<b>for the three months ended</b> <b>31-Oct-22</b>	Selling, general and administration	Research and development	Total
Salaries, contractors, commissions and benefits	\$ 74,753	\$ 205,206	\$ 279,959
Stock-based compensation	18,446	-	18,446
Other operating expenses	114,559	50,736	165,295
	<u>\$ 207,758</u>	<u>\$ 255,942</u>	<u>\$ 463,700</u>

  

<b>for the three months ended</b> <b>31-Oct-21</b>	Selling, general and administration	Research and development	Total
Salaries, contractors, Commissions and benefits	\$ 103,557	\$ 136,255	\$ 239,812
Stock-based compensation	66,187	-	66,187
Other operating expenses	100,884	(7,907)	92,977
	<u>\$ 270,628</u>	<u>\$ 128,348</u>	<u>\$ 398,976</u>

Operating expenses for fourth quarter 2022 were \$463,700 (2021 - \$398,976) an increase of \$64,724.

Salaries, contractors, commissions and benefits for the fourth quarter of 2022 were \$279,959 (2021 - \$239,812) an increase of \$40,147. There was an increase in personnel related costs in research and development as the Company continued with its investment in development

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of its IronCAP™ technology and related products as well as support for its remote access products. The reduction in sales and marketing personnel related expenses was a result of a reduction in the amount spent on contractors associated with marketing. The Company continues to work with existing partners as well as explore new partnerships in efforts to commercialize IronCAP™.

Other operating expenses required to run the business for the fourth quarter of 2022 were \$165,295 (2021 - \$92,977) an increase of \$72,318 primarily a result of additional costs relating to investor relations and expenses for the prosecution of the Company's patent applications.

Stock-based compensation for the fourth quarter 2022 was \$18,446 (2021 - \$66,187) a decrease of \$47,741. Stock-based compensation includes the expense pertaining to the vesting of stock options granted during the quarter and previous quarters as well as the reversal of the expense recorded in previous quarters for options forfeited during the period. There were 250,000 stock options granted (Nil – 2021). The average grant date fair value of the options granted was \$0.13.

(e) Cash:

As at October 31, 2022 the Company had cash and a GIC of \$637,179 compared to \$994,924 as at July 31, 2022 a \$357,745 decrease, which is due primarily to:

1. The Company funding its adjusted loss for fourth quarter 2022 of \$161,352 which is a use of funds.
2. An increase in non-cash working capital of \$166,838 which is a use of funds.
3. Proceeds from a private placement of \$106,500 which is a source of funds.

## 12. Investment:

The Company made a minority investment in Talent Summit, a private company incorporated in The Bahamas. An amount of \$1,500 has been recorded as an asset at the cost paid for the investment. An additional \$30,000 is included in prepaid expenses and other assets as a deposit against a future investment in Talent Summit. Management has estimated that the fair value of the investment at October 31, 2022 is unchanged at \$1,500.

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 eco-system. The Company is a technology partner of Talent Summit and is its Post-Quantum Cryptography (PQC) provider.

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## 13. Market Risk:

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

Currency risk:

Net monetary assets and liabilities due in U.S. dollars include accounts payable of USD 21,478 (2021 – USD 23,030), cash of USD 331,564 (2021 – USD 568,902) and accounts receivable of nil (2021 – USD 127,478). Net monetary assets due in Japanese Yen include accounts payable of 2,607,152 Yen, \$23,985 CAD equivalent, (2021 – nil) and accounts receivable of 26,071,630 Yen, \$239,859 CAD equivalent, (2021 – nil).

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 the Japanese Yen and sales to U.S. and other customers outside Canada in U.S. dollars. Substantially all of the Company's sales are either in U.S. dollars or the Japanese Yen. As a result, the Company is subject to currency risk from sales made and expenses incurred in U.S. dollars and the Japanese Yen. The Company does not hedge the risk related to fluctuations in the exchange rate between the U.S. dollar or the Japanese Yen 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 to the date the payment is made. As at October 31, 2022, the Company had net monetary assets in U.S. dollars of USD 310,096 (2021 – USD 673,351) and net monetary assets in the Japanese Yen of 23,464,478 (2021 – nil). An increase or decrease in the U.S. to Canadian dollar exchange rate by 10% as at October 31, 2022 would have resulted in a gain in the amount of \$43,800 (2021 - \$83,500) or a loss of \$43,800 (2021 - \$83,500), respectively. An increase or decrease in the Japanese Yen to Canadian dollar exchange rate by 10% as at October 31, 2022 would have resulted in a gain in the amount of \$21,600 (2021 - nil) or a loss of \$21,600 (2021 - nil), respectively.

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.

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## 14. Contingencies and Commitments:

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.

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.

## 15. Adoption of New Accounting Policies:

During the year ended October 31, 2022, the Company adopted a number of amendments and improvements of existing standards. These included IFRS 9 and IFRS 16. These new standards and changes did not have any material impact on the Company's consolidated financial statements.

### **Recent accounting pronouncements effective for year ends beginning on or after January 1, 2022:**

IAS 1 - In February 2021, the IASB issued 'Disclosure of Accounting Policies' with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments are effective for year ends beginning on or after January 1, 2023.

IAS 8 - In February 2021, the IASB issued 'Definition of Accounting Estimates' to help entities distinguish between accounting policies and accounting estimates. The amendments are effective for year ends beginning on or after January 1, 2023.

IAS 12 - In May 2021, the IASB issued 'Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction' that clarifies how entities account for deferred tax on transactions such as leases and decommissioning obligations. The amendments are effective for year ends beginning on or after January 1, 2023.

IFRS 10 - Consolidated Financial Statements ("IFRS 10") and IAS 28 - Investments in Associates and Joint Ventures ("IAS 28") were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on

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whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined, however early adoption is permitted.

IAS 1 - Presentation of Financial Statements ("IAS 1") was amended in January 2020 to provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments clarify that the classification of liabilities as current or noncurrent is based solely on a company's right to defer settlement at the reporting date. The right needs to be unconditional and must have substance. The amendments also clarify that the transfer of a company's own equity instruments is regarded as settlement of a liability, unless it results from the exercise of a conversion option meeting the definition of an equity instrument. The amendments are effective for annual periods beginning on January 1, 2023.

IAS 37 - Provisions, Contingent Liabilities, and Contingent Assets ("IAS 37") was amended. The amendments clarify that when assessing if a contract is onerous, the cost of fulfilling the contract includes all costs that relate directly to the contract - i.e. a full-cost approach. Such costs include both the incremental costs of the contract (i.e. costs a company would avoid if it did not have the contract) and an allocation of other direct costs incurred on activities required to fulfill the contract - e.g. contract management and supervision, or depreciation of equipment used in fulfilling the contract. The amendments are effective for annual periods beginning on January 1, 2022.

## 16. Related Party Transactions:

The remuneration of directors and other key management personnel of the Company during the years ended October 31, 2022 and 2021 was as follows:

	2022	2021
Salaries and contractor fees	\$ 277,000	\$ 235,000
Stock-based compensation	186,960	107,498
Total	\$ 463,960	\$ 342,498

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 2022 were \$94,000 (2021 - \$66,000) 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 2022 of \$84,000 (2021 - \$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.

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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 October 31, 2022 is \$15,410 (2021 - \$12,300). They are unsecured, non-interest bearing with no fixed terms of payment and were paid subsequent to the end of the year.

## 17. Critical Accounting Estimates:

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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## 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.

## 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.

## Revenue recognition

Application of the accounting principles related to the measurement and recognition of revenue requires the Company to make judgments and estimates. Revenue arrangements may be comprised of multiple performance obligations. Judgment is required in determining the performance obligations that exist in an arrangement and the nature of these deliverables.

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## Discount rate used on leases

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.

## **18. Risks and Uncertainties:**

An investment in Common Shares is speculative and involves a high degree of risk, is subject to the following specific risks, among others, and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks. Common Shares should not be purchased by persons who cannot afford the possibility of the loss of their entire investment. Prospective investors should review these risks as well as other matters disclosed elsewhere in this Management Discussion and Analysis with their professional advisors.

Prospects for companies in the computer and software industry generally may be regarded as uncertain given the inherent nature of the industry and, accordingly, investments in such companies should be regarded as speculative.

### (a) Lack of Revenue and Profitability

The Company has sustained substantial losses and negative cash flows from operations in recent years. The ability to generate future profitable operations and cash flows is dependent on the successful development of and commercialization of the Company's IronCAP™ technology and/or increased revenues from the Company's remote access products and services. There can be no guarantee that either the development of or commercialization of the Company's IronCAP™ technology will be successful or lead to significant revenues for the Company. In addition, there can be no guarantee that the Company's initiatives with its remote access products and services will lead to significant revenues for the Company.

Refer to *Section 3. Corporate Overview* for the prospects for the Company.

### (b) The Future of Quantum Computers

A Quantum Computer can process information exponentially faster than "classical computers" which could render existing public key encryption unsecure. Public key encryption is a cornerstone of cyber security today and Quantum Computers may have the ability to hack applications that are based on and using public key encryption. Quantum Computers are evolving and the timing as to when one will be available that renders public key encryption unsecure is unknown. The Company believes the introduction of such a Quantum Computer

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will be instrumental for successful commercialization of its IronCAP™ technology and until one is available successful commercialization could be delayed.

In addition, when such a Quantum Computer becomes available and while the Company believes and has designed its IronCAP™ technology to provide a safeguard against malicious attacks by such a Quantum Computer there can be no guarantee such will be the case.

(c) Listing of the Company's Common Shares

The stock exchange on which the Company's Common Shares currently trade and upon which they may trade in the future have certain minimum listing requirements that must be met in order to be eligible to continue to trade on such exchanges. If the Company is unable to continue to satisfy these criteria it may be delisted from these exchanges and will be required to find a different exchange on which to list. A change in the exchange on which the Common Shares are listed may result in a decreased share price and/or decreased liquidity. Furthermore, if the Company is not able to find a different exchange on which to list shareholders may not be able to transfer their shares. The trading symbol for the Company where the shares are traded in Canada on the TSX-V is ONE and where the shares are traded in the U.S. the symbol is OONEF and the shares are quoted on the OTCQB market.

(d) New Products and Technological Change

The communications software industry is characterized by rapidly changing technology, evolving industry standards and frequent new product introductions, any of which could make the Company's products obsolete. There can be no assurance that the Company will be successful in enhancing existing products or introducing, manufacturing or marketing new products to meet changing end-user requirements and emerging industry standards and protocols. The Company must devote continued efforts and financial resources to develop and enhance existing products and conduct research to develop new products. The development of new, technologically advanced products is a complex and uncertain process requiring high levels of innovation, as well as the accurate anticipation of technological and market trends. The Company may not be able to identify, develop, manufacture, market or support new or enhanced products successfully or on a timely basis and may not be able to respond effectively to product announcements by competitors, technological changes or emerging industry standards which could, among other things, have a material adverse effect on the Company's business, operating results or financial condition. The Company may also announce new products or product enhancements, capabilities or technologies that have the potential to replace or shorten the life cycle of its existing product offerings and that may cause customers to defer purchasing its existing products.

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(e) Market Acceptance of Products

The Company designs and develops software-based products for the cyber security and the remote access and support markets. As with any technology, there is a substantial risk that the marketplace may not accept the Company's products. Market acceptance of the Company's products depends, in large part, upon its ability to demonstrate its products' performance and cost-effectiveness over competing products and upon the success of its sales efforts as well as those of its customers. The Company may not be able to continue to market its products successfully and no assurance can be given that any of its current or future products will be accepted in the marketplace.

(f) Competition

Competition in the cyber security and the remote access and support markets is intense and growing rapidly. Accordingly, it is possible that new competitors or alliances among competitors and vendors may emerge and rapidly acquire market share. Many of the Company's current and potential competitors have significantly greater financial, technical, marketing, service, support and other resources than the Company, as well as longer operating histories, greater name recognition and larger customer bases. As a result, they may be able to secure resources on more favorable terms than the Company, and they may be able to respond more quickly to changes in customer preferences or to devote greater resources to the development, promotion and sale of their products than can the Company. Increased competition could result in significant price competition, reduced profit margins, fewer customer orders or loss of market share. The Company may not be able to compete successfully with existing or future competitors and cannot ensure that competitive pressures will not materially and adversely affect its business, operating results or financial condition.

(g) No Assurance of Successful Marketing

The Company does not have extensive experience in successfully marketing its products. Thus, there can be no assurance that future efforts to market its products will be successful. If the Company relies on third parties to market its products, the commercial success of such products may be outside of the Company's control.

(h) Proprietary Technology

The Company's success will depend, in part, on its ability to maintain copyright and trademark protection, trade secret protection and operate without infringing the proprietary rights of third parties. There can be no assurance that the Company's intellectual property rights, copyright and/or trademarks will not be challenged by any third parties, or that the intellectual property rights of others will not have a material adverse effect on the ability of the Company to do business. Furthermore, there can be no assurance that others will not independently develop products similar to those developed by the Company or duplicate any of the Company's

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products. The Company may be required to obtain licenses for proprietary rights of third parties. No assurance can be given that any licenses required will be available on terms acceptable to the Company. If the Company does not obtain such licenses, it could encounter delays in introducing one or more of its products to the market or could find that the development, manufacture or sale of products requiring such licenses could be precluded. In addition, the Company could incur substantial time, effort and/or costs in policing unauthorized use of its intellectual property and/or in defending itself in suits brought against it or in suits in which the Company attempts to enforce its own intellectual property rights against other parties.

(i) Currency Risk

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 the Japanese Yen and sales to U.S. and other customers outside Canada in U.S. dollars. Substantially all of the Company's sales are either in U.S. dollars or the Japanese Yen. As a result, the Company is subject to currency risk from sales made and expenses incurred in U.S. dollars and the Japanese Yen. The Company does not hedge the risk related to fluctuations in the exchange rate between the U.S. dollar or the Japanese Yen 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 to the date the payment is made.

(j) Product Liability and Insurance

The sale and use of the Company's products or its products under development may entail risk of product liability. Although the Company considers that it currently has adequate insurance coverage for any product liability claim, as the Company expands and introduces new products there can be no assurance that it will be able to obtain appropriate levels of product liability insurance prior to any use of its products. An inability to obtain insurance on commercially reasonable terms or to otherwise protect against potential product liability claims could inhibit or prevent the commercialization of products developed by the Company or expose the Company to significant product liability risks. The obligation to pay any product liability claim or a recall of a product could have a material adverse effect on the business, financial condition, operating results or prospects of the Company.

(k) Dependence on Key Personnel

The Company's ability to develop, manufacture and market its products and compete with current and future competitors depends, to a great extent, on its ability to attract and retain highly qualified personnel (and attract new personnel where required). Competition for such personnel and relationships is intense and the Company must compete in this regard with companies that have substantially greater financial and other resources than it does. The

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Company is highly dependent on the principal members of its management and research and development staff ("Key Personnel") and, in particular, Mr. Andrew Cheung, its Chief Executive Officer. The loss of Mr. Cheung's services could have the effect of materially impeding the achievement of development objectives. The persons working with the Company are affected by a number of influences outside of the control of the Company. The failure to attract and retain qualified personnel or the loss of the services of one or more Key Personnel could have a material adverse effect on the Company's business, operating results or financial condition.

(l) Public Market and Volatility of Share Price

Factors such as announcements of technological innovation or the introduction of new products by the Company or its competitors, actual or anticipated fluctuations in the Company's operating results, changes in estimates of the Company's future operating results by securities analysts or developments with respect to proprietary rights may have a significant impact on the market price of the Common Shares. In addition, the stock market has experienced volatility which has particularly affected the market prices of equity securities of many high technology companies and which often has been unrelated to the operating performance of such companies. These market fluctuations may materially adversely affect the market price of the Common Shares.

(m) Distribution Agreements

The Company's distribution and licensing agreements contain various provisions for termination and/or renewal, some of which provide for termination without cause and on short notice. Such provisions are not uncommon in the industry and the Company anticipates that it will continue to enter into such agreements. Some of the Company's distribution arrangements are also not embodied in written agreements.

(n) The Trend towards Industry Consolidation

Consolidation in the software industry continues to occur, with competing companies merging or acquiring other companies in order to capture market share or expand product lines. As this consolidation occurs, the nature of the market may change as a result of fewer players dominating particular markets, potentially providing customers with fewer choices. Also, some of these companies offer a broader range of products than the Company, and the Company may not be able to compete effectively against these competitors. Any of these changes may have a significant adverse effect on the future revenues and operating results of the Company.

(o) Potential Fluctuations in Quarterly Financial Results

The Company's quarterly financial results could be impacted significantly by the timing of substantial orders and shipments as well as new releases of its products and intellectual

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property agreements. The Company's operating expenses are based on anticipated revenue levels in the short term, are relatively fixed and are incurred throughout the quarter. Additionally, the Company's products may be subject to long sales cycles. As a result, if expected revenues are not realized as anticipated, the Company's quarterly financial results could be materially adversely affected. Quarterly financial results in the future may be influenced by these or other factors, including possible delays in the shipment of new products and entering into or failing to enter into or renew a material contract or order. Accordingly, there may be significant variations in the Company's quarterly financial results and such results may not meet the expectations of analysts or investors. If this occurs, the price of the Common Shares may decline. See also "Distribution Agreements", "Volatility of Share Price".

(p) Control of Shares by Principal Shareholder

Andrew Cheung, the President and Chief Executive Officer of the Company and the principal shareholder of the Company, maintains effective control of the Company through control and/or ownership of, in the aggregate, approximately 12% of the outstanding Common Shares. As a result, Mr. Cheung could exercise significant influence over all matters requiring shareholder approval, including the ability to elect directors and approve fundamental changes to the Company. Such concentration of ownership may have the effect of delaying or preventing a change in control of the Company, its Board or management.

## 19. Disclosure Controls and Internal Controls over Financial Reporting:

In the course of evaluating its internal controls over financial reporting as at October 31, 2022, management has identified the following material weakness:

There is limited segregation of duties which could result in a material misstatement in the Company's consolidated interim or annual financial statements. Given the Company's limited staff level, certain duties within the accounting and finance department cannot be properly segregated. This deficiency, which is pervasive in impact, did not result in a material misstatement to the consolidated financial statements. The Company relies on certain mitigating controls, including periodic substantive review of the consolidated financial statements by the Chief Executive Officer, Audit Committee and Board of Directors; however, these mitigating controls do not eliminate the existence of the material weakness.

As at October 31, 2022 the Company's management evaluated the effectiveness of the design and operation of its disclosure controls and procedures and internal control over financial reporting. Based on their evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures and internal control over financial reporting are ineffective as a result of the material weakness in internal control over financial reporting described above.

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There have been no significant changes to the Company's internal control environment during the year ended October 31, 2022 that would have materially affected the Company's internal controls over financial reporting.

## 20. Disclosure of Outstanding Share Data as at January 18, 2023:

The Company's share capital consists of the following:

Authorized:

50,000 Series A preference shares

Unlimited preference shares, issuable in series

Unlimited common shares

Issued:

95,802,054 common shares

As at January 18, 2023, there were 4,140,000 stock options outstanding convertible into common shares at exercise prices ranging from \$0.05 to \$0.38. The options expire between June 19, 2023 and October 21, 2026.

The following table summarizes the warrants that are outstanding as at January 18, 2023.

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	Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price
Warrants issued on private placement	\$ 0.35	281,250	1.85	\$ 0.35

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Each Warrant entitles the holder to acquire one common share of the Company at an exercise price of \$0.35 per share until September 6, 2024.

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## 21. Quarterly Results of Operations:

The following tables sets forth certain information from the unaudited consolidated statements of operation for the eight most recent quarters of operations ended October 31, 2022 as prepared in accordance with IFRS.

<i>for the 3 months ending</i>	<b>31-Oct-22</b>	<b>31-Jul-22</b>	<b>30-Apr-22</b>	<b>31-Jan-22</b>
Revenue	\$ 244,183	\$ 236,002	\$ 357,594	\$ 189,031
Expenses:				
Selling, general and administrative	207,758	221,772	226,782	201,502
Research and development	255,943	194,132	190,212	175,549
Withholding taxes	23,985	10,400	22,734	18,389
	487,686	426,304	439,728	395,440
Loss before interest, other income and expense	\$ (243,503)	\$ (190,302)	\$ (82,134)	\$ (206,409)
Foreign exchange gain (loss)	61,177	-	-	-
Interest income	2,712	1,125	459	186
Interest expense	(1,628)	(1,065)	(1,204)	(1,418)
Net loss for the period and comprehensive loss	\$ (181,242)	\$ (190,242)	\$ (82,879)	\$ (207,641)

<i>for the 3 months ending</i>	<b>31-Oct-21</b>	<b>31-Jul-21</b>	<b>30-Apr-21</b>	<b>31-Jan-21</b>
Revenue	\$ 163,021	\$ 211,831	\$ 297,231	\$ 213,262
Expenses:				
Selling, general and administrative	270,627	207,909	194,208	168,284
Research and development	128,348	209,766	138,876	137,229
Withholding taxes	15,807	20,660	29,207	20,784
	414,782	438,334	362,291	326,297
Loss before interest, other income and expense	\$ (251,761)	\$ (226,503)	\$ (65,060)	\$ (113,035)
Foreign exchange gain (loss)	(17,554)	-	-	-
Interest income	215	180	(5)	576
Interest expense	(1,468)	(1,595)	(561)	(275)
Government assistance	20,000	-	-	-
Net loss for the period and comprehensive loss	\$ (250,569)	\$ (227,918)	\$ (65,626)	\$ (112,734)

# 01 COMMUNIQUE LABORATORY INC.

## CORPORATE INFORMATION

### DIRECTORS

Andrew Cheung  
President & CEO

William A. Train  
Chairman  
Private investor

Gary Kissack  
Lawyer, Fogler, Rubinoff LLP

Tyson Macaulay  
Director

### OFFICERS

Andrew Cheung  
President & CEO

Brian Stringer  
Chief Financial Officer

Gigi Loo  
Controller & Corporate Secretary

### INVESTOR RELATIONS

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

### CORPORATE HEADQUARTERS

789 Don Mills Road  
Suite 700  
Toronto, Ontario  
M3C 1T5

Phone: (905) 795-2888  
Fax: (905) 795-0101  
[www.01com.com](http://www.01com.com)

Trading Symbols:  
In Canada TSX-V: ONE  
In U.S. OTCQB: OONEF