01 Communique Laboratory Inc.

Interim Consolidated Financial Statements

for the period ended July 31, 2020

<u>(Unaudited)</u>

TSX-V : ONE

Dated: September 9, 2020

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

See accompanying notes to unaudited interim consolidated financial statements

		31-July-20		31-Oct-19
Assets				
Current assets				
Cash and cash equivalents	$	111,180	$	283,712
Guaranteed investment certificate (note 3(a), 4)		110,000		300,000
Accounts receivable (note 3 (a))		243,351		96,055
Prepaid expenses and other assets		16,972		11,124
		481,503		690,891
Right-of-use asset (note 2)		30,400		-
Plant and equipment (note 14)		14,411		16,335
Total assets	$	526,314	$	707,226
Liabilities and Shareholders' Deficit				
Current liabilities				
Accounts payable and accrued liabilities	$	110,131	$	140,962
Deferred revenue		9,542		8,907
Lease liability (note 2)		30,482		-
Liability component of debenture (note 6)		387,596		390,703
		537,751		540,572
Shareholders' deficit				
Share capital (note 7)		41,525,845		41,414,233
Contributed surplus		5,765,666		5,668,916
Share purchase warrants (note 7 (a) (b)(c))		695,135		598,247
Agent compensation options (note 7 (d))		99,200		99,200
Deficit		(48,097,283)		(47,613,942)
		(11,437)		166,654
Going concern (note 1 (b))				
Related party transaction (note 9)				
Contractual obligations and contingencies (note 11)				
Total liabilities and shareholders' deficit	$	526,314	$	707,226

01 Communique Laboratory Inc.
Interim Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)
For the 3 and 9 month periods ended July 31, 2020 and 2019

	for the 3 months ended		*for the 9 months ended*	
	31-Jul-20	*31-Jul-19*	*31-Jul-20*	*31-Jul-19*
Revenue	$ 235,160	$ 77,555	$ 349,827	$ 202,275
Expenses:				
Selling, general and administrative	111,153	122,520	415,724	403,669
Research and development	120,717	99,862	323,215	279,040
	231,870	222,381	738,939	682,708
Profit (loss) before accretion on liability component of debenture, interest, other income, and taxes	3,290	(144,826)	(389,112)	(480,433)
Interest on debenture	15,000	15,000	45,000	45,000
Accretion on liability portion of debenture	4,535	4,114	13,832	13,411
Loss before other income, expense and taxes	(16,245)	(163,940)	(447,944)	(538,844)
Interest income	-	2,184	875	4,894
Interest expense	671	-	2,100	-
Loss before taxes	(16,916)	(161,756)	(449,169)	(533,950)
Withholding taxes	22,900	7,143	34,172	18,301
Loss for the period and comprehensive loss	$ (39,816)	$ (168,899)	$ (483,341)	$ (552,251)
Basic	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)
Diluted	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)
Weighted average number of common shares				
Basic	80,985,653	76,624,733	80,243,450	76,624,733
Diluted	80,985,653	76,624,733	80,243,450	76,624,733

See accompanying notes to unaudited interim consolidated financial statements

01 Communique Laboratory Inc.
Interim Consolidated Statements of Changes in Shareholders' Equity
(Unaudited)
For the 3 and 9 month periods ended July 31, 2020 and 2019

Nine month period ended July 31, 2020	Number of shares	Share Capital	Contributed Surplus	Warrants	Compensation Options	Deficit	Shareholders' Equity
Balance October 31, 2019	80,235,472	$41,414,233	$5,668,916	$598,247	$ 99,200	$(47,613,942)	$ 166,654
Comprehensive loss for the period	-	-	-	-	-	(483,341)	(483,341)
Cancellation of warrants	-	-	-	(4,762)	-	-	(4,762)
Equity component of new debenture	-	-	-	21,700	-	-	21,700
Equity financing	1,683,334	111,612	-	79,950	-	-	191,562
Stock based compensation expense	-	-	96,750	-	-	-	96,750
Balance July 31, 2020	81,918,806	$41,525,845	$5,765,666	$695,135	$ 99,200	$(48,097,283)	$ (11,437)

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

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, 2020 and 2019

	three months ending		*nine months ending*	
	31-Jul-20	*31-Jul-19*	*31-Jul-20*	*31-Jul-19*
Cash provided by (used in):				
Operating activities:				
Comprehensive loss for the period	$ (39,816)	$ (168,899)	$ (483,341)	$ (552,251)
Adjustments to reconcile loss for the period to net cash flows from operating activities:				
Depreciation of property and equipment	1,388	1,241	4,340	3,937
Amortization of right-of-use asset	11,061	-	33,183	-
Stock-based compensation expense	23,600	31,082	96,750	114,578
Accretion on liability portion of debenture	4,535	4,114	13,832	13,411
Interest income	-	(2,184)	(875)	(4,894)
Change in non-cash working capital	(188,623)	(37,146)	(152,858)	(95,772)
	(187,855)	(171,792)	(488,969)	(520,991)
Interest income received	-	2,184	875	4,894
	(187,855)	(169,608)	(488,094)	(516,097)
Financing activities:				
Increase in lease liabilities	-	-	7,715	-
Proceeds from guaranteed investment certificate	-	150,000	190,000	500,000
Proceeds from private placement	202,000	437,000	202,000	437,000
Issuance costs on private placement	(10,438)	(31,380)	(10,438)	(31,380)
Cash provided by financing activities	191,562	150,000	389,277	905,620
Investing activities:				
Decrease in lease liabilities	(7,715)	-	(7,715)	-
Right-of-use asset	-	-	(63,583)	-
Purchase of property and equipment	(266)	-	(2,417)	(5,245)
Cash used in investing activities	(7,981)	-	(73,715)	(5,245)
Increase (decrease) in cash and cash equivalents	(4,274)	386,012	(172,532)	384,278
Cash and cash equivalents, beginning of period	115,454	112,026	283,712	113,760
Cash and cash equivalents, end of period	$ 111,180	$ 498,038	$ 111,180	$ 498,038

Cash and cash equivalents comprised of:

Cash	$ 111,180	$ 498,038

See accompanying notes to unaudited interim consolidated financial statements

01 Communique Laboratory Inc.
Notes to the consolidated financial statements
(Unaudited)
Nine month periods ended July 31, 2020 and 2019

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, 2020 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, 2020 and 2019, are the responsibility of the Company’s management. These interim consolidated financial statements have not been audited or reviewed on behalf of the shareholders by the independent external auditors of the Company, Shimmerman Penn LLP. The unaudited interim consolidated financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with accounting principles generally accepted in Canada. These unaudited interim consolidated financial statements are prepared under International Financial Reporting Standards (“IFRS”) and reflect management’s best estimates and judgment based on information currently available.

01 Communique Laboratory Inc. (the "Company") was incorporated on October 7, 1992 under the laws of Ontario. The Company operates in two lines of business. IronCAP’s patent-pending cryptographic technology is in the cyber security market protecting customers against cyber-attacks and the I’m InTouch product offering which provides customers with a 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. The Company was incorporated on October 7, 1992 under the laws of Ontario.

(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, 2019. 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 9, 2020.

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

The interim consolidated financial statements have been prepared on the historical cost basis, except for certain items which may be accounted for at fair value as further discussed in subsequent notes.

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

(b) Going Concern:

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. In addition to the loss from operations and negative cash flows the Company has a working capital deficiency as at July 31, 2020 of $56,248.

Management's plan to reduce the operating loss and ultimately become profitable and produce positive cash flows from operations is heavily dependent on: (i) a successful outcome from its strategic initiatives to realize monetary value from the development and commercialization of its Post-Quantum Cryptography technology; (ii) increasing product and service revenue from its I'm InTouch product offering through downloads from the Company's web site; and (iii) its relationship with a key customer Hitachi Solutions Create, Ltd. However, there can be no assurances the Company will be successful on any of these three initiatives.

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

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

(2) New Accounting Standard Adopted:

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

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

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

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

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

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

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

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

(b) Impact of transition to IFRS 16:

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

The Company's leased premise, considered a right-of-use asset, commenced April 1, 2019 for a period of 24 months without a renewal provision. The lease liability has been measured by discounting future lease payments at the incremental borrowing rate at November 1, 2019. The weighted average incremental borrowing rate applied was determined to be 5.0% per annum for the lease and represents the Company's best estimate of the rate of interest that it would expect to pay to borrow, on a collateralized basis, over a similar term, an amount equal to the lease payments in the current economic environment.

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

	1-Nov-19 prior to adoption of IFRS 16	1-Nov-19 after adoption of IFRS 16
Assets		
Non-current assets		
Right-of-use assets	-	63,583
Liabilities		
Current liabilities		
Lease liabilities	-	44,413
Non-current liabilities		
Lease liabilities	-	19,170

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

(3) Financial instruments and financial risk management:

(a) Financial instruments:

The Company has classified its financial instruments as follows:

	31-July-20	31-Oct-19
Financial assets:		
Other financial assets, measured at amortized cost:		
Cash and cash equivalents	$ 111,180	$ 283,712
Guaranteed investment certificate	110,000	300,000
Loans and receivables, recorded at cost:		
Accounts receivable	243,351	96,055
Financial liabilities, recorded at amortized cost:		
Accounts payable and accrued liabilities	110,131	140,962
Current lease liability	30,482	-
Current liability component of debenture	387,596	390,703

Accounts receivable are comprised of the following:

	31-July-20	31-Oct-19
Trade receivables	$ 229,039	$ 74,399
Investment tax credits receivable	-	12,000
Other	14,312	9,656
	$ 243,351	$ 96,055

(b) Financial risk management:

(i) Overview:

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

(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, 2020 and October 31, 2019, the Company had a nil balance in the allowance for doubtful accounts and had no material past due trade receivables.

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

(iii) Concentrations of credit risk:

There was one company that comprised 97% (2019 – 92%) and 95% (2019 - 90%) of the Company’s total revenue for the three and nine months ended July 31, 2020 respectively. No other customers exceeded 10% of revenue during the current or prior periods. The customer comprising 97% (2019 – 92%) of revenue represents 94% (2019 – 83%) of accounts receivable as at July 31, 2020.

(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, 2020, the Company had other financial assets consisting of cash and cash equivalents, guaranteed investment certificate and accounts receivable of $464,531 (October 31, 2019 - $679,767) and other financial liabilities of $528,209 (October 31, 2019 - $531,665), consisting of accounts payable and accrued liabilities, lease liabilities and debentures. The Company has a $400,000 Debenture which is due April 24, 2021. The Company has split the Debenture and Warrant components of the Debenture into the debt and equity components and recorded the debt component as a liability and the equity component as equity. The Debenture’s amortized cost as at July 31, 2020 is $387,596 (October 31, 2019 - $390,703) (note 6).

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

(v) Market risk:

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

Currency risk:

Net monetary liabilities due in U.S. dollars include accounts payable of $19,253 (October 31, 2019 – $13,882), cash of $98,500 (October 31, 2019 - $117,362) and accounts receivable of $169,600 (October 31, 2019 - $56,327).

The Company reports its results in Canadian dollars. The Company markets its products in Canada, the United States ("U.S.") and other jurisdictions, including Japan. Sales to Japanese customers are primarily denominated in U.S. dollars. Substantially all of the Company's sales are in U.S. dollars. As a result, the Company is subject to currency risk from sales made in U.S. dollars. The Company does not hedge the risk related to fluctuations in the exchange rate between the U.S. and the Canadian dollar from the date of the sales transaction to the collection date due. As at July 31, 2020, the Company had net monetary assets due in U.S. dollars of $249,000 (October 31, 2019 - $160,000). An increase or decrease in the U.S. to Canadian dollar exchange rate by 10% as at July 31, 2020 would have resulted in a gain in the amount of $33,000 (October 31, 2019 - $21,000) or a loss of $33,000 (October 31, 2019 - $21,000), respectively.

The Company has performed a sensitivity analysis for foreign exchange exposure over the nine month period ended July 31, 2020. The analysis used a modeling technique that compares the U.S. dollar equivalent of all revenue and expenses incurred in U.S. dollars, at the actual exchange rate, to a hypothetical 10% movement in the foreign currency exchanges rates against the Canadian dollar, with all other variables held constant. Foreign currency exchanges rates used were based on the market rates in effect during the nine month period ended July 31, 2020. The sensitivity analysis indicated that a hypothetical 10% movement in the foreign currency exchange rate from the Canadian dollar to the U.S. dollar would result in a change to the net loss for the nine month period ended July 31, 2020 of $30,000 (2019 – $13,000). There can be no assurances that the above projected exchange rate change will materialize. Interest rate risk: The Company is exposed to interest rate risk on its fixed rate financial instruments. Fixed rate instruments subject the Company to fair value interest rate risk, as the fair value of the financial instrument fluctuates due to changes in market interest rates. Financial instruments subject to interest rate risk include demand deposits and the liability component of the debenture.

(vi) Fair values of financial instruments:

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.

(4) Guaranteed Investment Certificate:

There are two one year cashable guaranteed investment certificates (“GICs”) bearing interest at the rate of 1.68% and 1.4% per annum respectively and maturing August 19, 2020 and February 12, 2021. The amount of the GICs as at July 31, 2020 were $50,000 and $60,000 respectively (October 31, 2019 - $300,000).

(5) Capital risk management:

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

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

The Company is not subject to externally imposed capital requirements.

(6) Debenture:

On April 24, 2015 the Company issued $400,000 principal amount of secured Debentures that had an original term of 36 months. The Company previously amended such Debentures to extend their term to April 24, 2020. In connection with the issuance of such Debentures the Company also had issued a total of 800,000 common share purchase warrants each of which, after certain amendments, entitled the holder to acquire one common share at a price of $0.10 up until April 24, 2020, subject to an accelerated expiry provision which was triggered during the 2019 fiscal year.

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

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

In accordance with the provisions of IFRS, as they apply to the Debentures, the Company split the Debenture and Warrant components of the January 24, 2020 Debentures into their debt and equity components and record the debt component as a liability and the equity component as equity. In determining the valuation of the liability and the equity components, the Company calculates the value of the liability component first, using a discount rate appropriate for what a similar debt instrument, absent any warrants, would have commanded at that time. The residual of the proceeds over the inherent value of the liability component is attributed to the equity portion of the Debenture. Accretion charges on the liability component aggregating $13,832 (2019 - $13,411) are calculated using the discount rate of 20% and have been recorded in the statement of operations and comprehensive loss.

(7) Share Capital:

Authorized:

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

The changes in issued and outstanding common shares for the nine month period ended July 31, 2020 were as follows:

	Number	Amount
October 31, 2019	80,235,472	$ 41,414,233
Private placement (note 7 (a))	1,683,334	$ 111,612
Balance, July 31, 2020	81,918,806	$ 41,425,845

a) Private placement May 29, 2020:

On May 29, 2020 the Company completed a financing issuing by way of a private placement of 1,683,334 units at a price of $0.12 per unit for gross proceeds of $202,000. Each unit consists of one common share and one-half share purchase warrant. Each whole warrant entitles the holder to acquire one common share for $0.15 at any time within 24 months of closing. As compensation for a portion of the financing a finders' fee was paid whereby 46,667 compensation warrants were granted. Each compensation warrant entitles the holder to purchase one common share of the Company at a price of $0.12 at any time within 24 months of closing. The fair value of each share purchase warrant and compensation warrant was estimated at the grant date using the Black-Scholes option pricing model, using the following assumptions: risk-free interest rate of 1.5%, expected,

expected volatility of 155%, expected life of the warrants of 2 years and 0% dividend yield. The fair value of the share purchase warrants and the compensation warrant was determined to be $0.09 and $0.08 respectively.

b) Private placement July 29, 2019:

On July 29, 2019, the Company completed a financing issuing by way of a private placement of 3,641,665 units at a price of $0.12 per unit for gross proceeds of $437,000. Each unit consists of one common share and one-half share purchase warrant. Each whole warrant entitles the holder to acquire one common share for $0.15 at any time within 24 months of closing. As compensation for a portion of the financing a finders' fee was paid whereby 184,916 compensation warrants were granted. Each warrant entitles the holder to purchase one common share of the Company at a price of $0.15 at any time within 24 months of closing. The fair value of each share purchase warrant and compensation warrant was estimated at the grant date using the Black-Scholes option pricing model, using the following assumptions: risk-free interest rate of 2.25%, expected volatility of 195%, expected life of the warrants of 2 years and 0% dividend yield. The fair value of the share purchase warrants and the compensation warrants was determined to be $0.09 per warrant.

c) Private placement September 19, 2018:

On September 19, 2018, the Company completed a financing issuing by way of a private placement of 10,000,000 units at a price of $0.10 per unit for gross proceeds of $1,000,000. Each unit consists of one common share and one-half share purchase warrant. Each whole warrant entitles the holder to acquire one common share for $0.15 at any time within 24 months of closing. As part of their compensation for the financing, the agent received 800,000 compensation options which entitles the agent to purchase one unit of the Company for each one compensation option at a price of $0.10 per unit at any time within 24 months of closing. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the agent to acquire one common share at a price of $0.15 at any time within 24 months of closing.

Net cash proceeds received by the Company, after deducting cash expenses of $147,048 relating to the financing, were $852,952. In addition, non-cash costs of $400,000 relating to the share purchase warrants and $99,200 relating to the agent's compensation options were recorded resulting in the recording of an addition to share capital of $353,752. The fair value of each share purchase warrant and agent's compensation option granted was estimated at the date of grant using the Black-Scholes option pricing model, using the following assumptions: risk-free interest rate of 2.25%, expected volatility of 195%, expected life of warrants and options of two years and 0% dividend yield. The fair value of the share purchase warrants and the agent's compensation options was determined to be $0.08 and $0.084 respectively.

d) Warrants:

The changes in issued and outstanding warrants for the nine month period ended July 31, 2020 were as follows:

	Number	Value	Weighted average exercise price
Share purchase warrants outstanding as at October 31, 2019	7,805,748	$ 598,247	$ 0.14
Cancelled during the period (note 6)	(800,000)	(4,762)	0.10
Equity portion of new debenture (note 6)	800,000	21,700	0.13
Share purchase warrants issued on private placement (note 7 (a))	841,667	75,750	0.15
Compensation warrants issued on private placement (note 7 (a))	46,667	4,200	0.15
Balance, July 31, 2020	8,694,082	$ 695,135	$ 0.14

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

	Number outstanding	Exercise price	Weighted average remaining contractual life (years)	Weighted average exercise price
Warrants issued on private placement (note 7 (c))	5,000,000	$ 0.15	0.1	$ 0.15
Warrants issued on private placement (note 7 (b))	1,820,832	$ 0.15	1.0	$ 0.15
Compensation warrants issued on private placement (note 7 (b))	184,916	$ 0.15	1.0	$ 0.15
Equity portion of new debenture (note 6)	800,000	$ 0.13	0.8	$ 0.13
Warrants issued on private placement (note 7 (a))	841,667	$ 0.15	1.8	$ 0.15
Compensation warrants issued on private placement (note 7 (a))	46,667	$ 0.15	1.8	$ 0.15
	8,694,082		0.6	$ 0.15

e) Agent compensation options:

There issued and outstanding compensation options for the nine month period ended July 31, 2020 were as follows:

	Number	Value	Weighted average exercise price
Compensation options outstanding October 31, 2019 and July 31, 2020 (note 7 (c))	800,000	$ 99,200	$ 0.10

The weighted average remaining contractual life of the compensation options is .14 years.

f) There changes to the Company's stock option plan for the nine month period ended July 31, 2020 were as follows:

	Number	Weighted average exercise price
Outstanding October 31, 2019	6,235,000	$ 0.06
Granted during the period	600,000	$ 0.10
Outstanding July 31, 2020	6,835,000	$ 0.07

(d) The following table summarizes information with respect to the Company's stock option plan as at July 31, 2020:

		Options Outstanding		**Options Exercisable**	
Range of exercise prices	Number Outstanding	Weighted Average remaining life	Weighted average exercise	Number exercisable	Weighted Average Exercise
$0.05	3,185,000	0.7	$0.05	3,185,000	$0.05
$0.07	1,860,000	2.2	$0.07	1,860,000	$0.07
$0.08 to $0.10	1,790,000	3.0	$0.10	1,490,000	$0.10
	6,835,000	1.8	$0.07	6,522,500	$0.06

There were 600,000 (2019 – 1,310,000) stock options granted during the nine months ended July 31, 2020. The average grant date fair value of options granted during the period was $0.09 (2019 - $0.06). The fair value of each option granted has been estimated on the date of grant using the Black-Scholes fair value option-pricing model with the following weighted average assumptions used for grants for the nine months ended July 31, 2020: dividend yield of nil (2019 - nil), expected volatility of 164% (2019 – 176%), weighted average risk-free interest rate of 1.5% (2019 – 1.5%) and expected lives of four years (2019 – between two and five years).

During the nine month periods ended July 31, 2020, the Company recorded compensation expense related to stock options granted of $96,750 (2019 - $114,578).

(8) Loss per share:

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

	31-Jul-20	**31-Jul-19**
Loss and comprehensive loss	$ (39,816)	$ (168,899)
Weighted average number of common shares outstanding		
Basic	80,985,653	76,624,733
Diluted	80,985,653	76,624,733
Profit (loss) per common share		
Basic	$ (0.00)	$ (0.00)
Diluted	$ (0.00)	$ (0.00)

For the nine months ended

	31-Jul-20	**31-Jul-19**
Loss and comprehensive loss	$ (483,341)	$ (552,251)
Weighted average number of common shares outstanding		
Basic	80,243,450	76,563,386
Diluted	80,243,450	76,563,386
Loss per common share		
Basic	$ (0.00)	$ (0.00)
Diluted	$ (0.00)	$ (0.00)

As the Company is in a loss position for the three and nine month periods ended July 31, 2020 and 2019, the inclusion of options and warrants in the calculation of diluted earnings per share would be anti-dilutive, and accordingly, were excluded from the diluted loss per share calculation.

(9) 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, 2020 and 2019 were as follows:

	For the 3 months ending		*For the 9 months ending*	
	31-July-20	*31-July-19*	*31-July-20*	*31-July-19*
Salaries and contractor fees	$ 55,000	$ 55,000	$ 166,250	$ 157,500
Stock based compensation	23,600	31,082	96,750	105,639
	$ 78,600	$ 86,082	$ 263,000	$ 262,139

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, 2020 were $16,500 (2019 - $16,500) and $48,250 (2019 - $42,000) respectively, and have been included in research and development expenses and are disclosed in the salaries amounts in the above table. This transaction is in the normal course of operations and is measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The President and CEO's salary for the three and nine months ended July 31, 2020 was $21,000 (2019 – $21,000) and $63,000 (2019 - $63,000) respectively.

Mr. Cheung subscribed for a total of 500,000 Units as part of the private placement that closed on May 29, 2020 (note 7 (a)). Mr. Cheung is an officer and director of the Company. Mr. Cheung now beneficially owns, or exercises control or direction over, 10,289,666 Common Shares (or, approximately 12.5% of the issued and outstanding Common Shares or approximately 14.3% of the issued and outstanding Common Shares on a partially diluted basis) (including all options and warrants owned or controlled by Mr. Cheung).

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

	three months ending				*nine months ending*			
		31-Jul-20		*31-Jul-19*		*31-Jul-20*		*31-Jul-19*
Accounts receivable	$	(167,344)	$	(32,719)	$	(147,296)	$	(26,011)
Prepaid expenses and other assets		6,544		6,350		(5,848)		(10,205)
Accounts payable and accrued liabilities		(24,100)		(11,648)		(30,831)		(61,435)
Lease liability		(3,456)		-		30,482		-
Deferred revenue		(267)		871		635		1,879
	$	(188,623)	$	(37,146)	$	(152,858)	$	(95,772)

(11) Contractual Obligations and Contingencies:

The contractual obligations the Company has pertains to lease agreements for its premises, considered a right-of-use asset (note 2). The total contractual amount due is $11,800 for the remainder of fiscal 2020.
The Company is engaged in legal actions from time to time arising in the ordinary course of business. None of these actions, individually or in the aggregate, are expected to have a material adverse effect on the consolidated financial position or results of operations.

(12) Segmented Information:

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

	For the three months ended		*For the nine months ended*	
	31-Jul-20	*31-Jul-19*	*31-Jul-20*	*31-Jul-19*
United States	$ 4,451	$ 3,442	$ 11,891	$ 12,050
Canada	1,704	2,688	7,207	7,218
Japan	229,005	71,425	330,729	183,007
	$ 235,160	$ 77,555	$ 349,827	$ 202,275

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

(13) Revenues:

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

	For the three months ended		*For the nine months ended*	
	31-Jul-20	*31-Jul-19*	*31-Jul-20*	*31-Jul-19*
Licensing fees	$ 229,005	$ 71,425	$ 330,729	$ 183,007
Subscription and maintenance fees	6,155	6,130	19,098	19,268
	$ 235,160	$ 77,555	$ 349,827	$ 202,275

(14) 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 ending 31-Jul-20	Selling, general and administration	Research and development	Total
Salaries, contractors, commissions and benefits	$ 45,131	$ 95,740	$ 140,871
Stock-based compensation	23,600	-	23,600
Other operating expenses	42,422	24,977	67,399
	$ 111,153	$ 120,717	$ 231,870

for the three months ending 31-Jul-19	Selling, general and administration	Research and development	Total
Salaries, contractors, commissions and benefits	$ 45,730	$ 70,920	$ 116,650
Stock-based compensation	31,082	-	31,082
Other operating expenses	45,708	28,942	74,649
	$ 122,520	$ 99,862	$ 222,381

for the nine months ending 31-Jul-20	Selling, general and administration	Research and development	Total
Salaries, contractors, commissions and benefits	$ 178,802	$ 264,093	$ 442,895
Stock-based compensation	96,750	-	96,750
Other operating expenses	140,172	59,122	199,294
	$ 415,724	$ 323,215	$ 738,939

for the nine months ending 31-Jul-19	Selling, general and administration	Research and development	Total
Salaries, contractors, commissions and benefits	$ 137,013	$ 191,175	$ 328,188
Stock-based compensation	114,578	-	114,578
Other operating expenses	152,078	87,865	239,942
	$ 403,669	$ 279,040	$ 682,708

(15) Property and Equipment:

July 31, 2020		Computer Systems		Communications Equipment		Furniture and fixtures and leaseholds		Total
Cost								
Balance at October 31, 2019	$	549,516	$	30,281	$	94,805	$	674,602
Additions		2,417		-		-		2,417
Balance at July 31, 2020	$	551,933	$	30,281	$	94,805	$	677,019
Depreciation								
Balance at October 31, 2019	$	537,178	$	27,084	$	94,005	$	658,267
Additions		4,240		50		50		4,340
Balance at July 31, 2020	$	541,418	$	27,134	$	94,055	$	662,607
Carry amounts								
Balance at October 31, 2019	$	12,338	$	3,197	$	800	$	16,335
Balance at July 31, 2020	$	10,515	$	3,147	$	750	$	14,412

01 Communique Laboratory Inc.
Corporate Information

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President & CEO

William A. Train
Chairman
Private investor

Jane Yang
DLT Strategy Advisor

Gary Kissack
Lawyer, Fogler, Rubinoff LLP

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Chief Financial Officer

Gigi Loo
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