

01 COMMUNIQUE LABORATORY INC.

***Annual Information Form
For the Fiscal Year Ended October 31, 2001***

**ANNUAL INFORMATION FORM FOR THE
FISCAL YEAR ENDED OCTOBER 31, 2001**

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Information in this Annual Information Form is given as of October 31, 2001, unless otherwise indicated.

This Annual Information Form contains product names, trade names, trade marks and service marks of 01 Communique Laboratory Inc. (the "Company ") and of other organizations, all of which are the properties of their respective owners.

INFORMATION INCORPORATED BY REFERENCE

The information that appears in the Annual Report (the "2001 Annual Report ") of the Company for the fiscal year ended October 31, 2001, under the heading "Management's Discussion and Analysis of Financial Position and Results of Operations" on pages 8 to 10, inclusive, of such report is hereby incorporated by reference in, and forms part of, this Annual Information Form.

Those portions of the 2001 Annual Report not so incorporated herein by express reference do not form part of this Annual Information Form.

GLOSSARY OF TECHNICAL TERMS

assembler language - a type of computer programming language that is used mostly by hardware designers or system software designers that creates an interface with a computer hardware device.

bandwidth - the capacity for data transfer of an electronic communications system, or the amount of data that can be transmitted in a fixed amount of time. For digital devices, the bandwidth is usually expressed in bits per second (bps) or bytes per second. For analog devices, the bandwidth is expressed in cycles per second, or Hertz (Hz).

browser - in the context of the Internet, a browser is software that allows users to search for information and to use features available on the Internet.

C++ language - a type of computer programming language most widely used in the world of commercial software. C++ combines all the benefits inherited from its predecessor, the C language, with the ability to do object oriented programming.

copy protect - to render software unable to be duplicated under normal circumstances. This is the most commonly used practice for software publishers to protect against illegal software piracy.

fulfilment house - in the software publishing industry, a company sub-contracted to provide disk duplication, manual duplication, packaging, shrink wrap and shipping services.

Intranet - a network based on Internet protocols belonging to an organization, usually a corporation, accessible only by the organization's members, employees or others with authorization.

ISP - the acronym for Internet service provider.

LAN - the acronym for Local Area Network. A data communications network designed to interconnect personal computers, workstations, minicomputers, file servers and other communications and computing devices within a localized environment.

"lite" software/product - a version of software/product with fewer features than the standard full- featured version of such software/product.

OEM - the acronym for Original Equipment Manufacturer. In the context of the computer industry, OEMs typically purchase computer hardware in bulk, customize them for a particular application (often incorporating third party software into their product) and selling the customized product under their own name.

PC - the acronym for personal computer, which is a computer designed for an individual user.

PCS - the acronym for personal communications services, a new generation of digital, wireless communications services.

PDA – the acronym for personal digital assistant.

POTS - the acronym for plain old telephone service, which refers to the standard telephone service that most homes use, in contrast to telephone services based on high speed, digital communications lines.

SME - the acronym for small to medium sized enterprises, a target market or classification of potential customers.

SOHO - in the context of the computer industry, SOHO is an acronym for Small-Office-Home-Office, a target market or classification of computer users.

WAP - the acronym for Wireless Application Protocol, WAP, is a protocol or standardized way that a mobile phone talks to a server installed in the mobile phone network.

01 COMMUNIQUE LABORATORY INC.

THE COMPANY

Name and Incorporation

The Company was incorporated under the *Business Corporations Act* (Ontario) by Articles of Incorporation effective October 7, 1992. By Articles of Amendment dated July 27, 1995, the Common Shares of the Company were subdivided by changing each Common Share into 8.18 Common Shares. By Articles of Amendment dated September 22, 1995, the private company restrictions were deleted from the Articles of the Company.

The principal office of the Company is located at 1450 Meyerside Drive, Mississauga, Ontario L5T 2N5, approximately ten kilometres from the Toronto Pearson International Airport in leased premises of approximately 4,000 square feet.

General Development of the Business

History

Since 1992, 01 Communique has been developing, and marketing PC-based messaging and communications software. The company's software, marketed under the COMMUNICATE! brand, are a family of products that integrate a full range of capabilities including PC faxing, voice messaging, Internet-based email and video that can be retrieved from a single point of access. The Company's new I'm InTouch service extends the company's technology beyond the desktop, enabling PC users to remotely access their information and manage their communications from any wired or wireless device.

The Company was originally wholly-owned and funded solely by Mr. S.C. Cheung and Mr. Andrew Cheung, the Company's current President and Chief Executive Officer. From its inception through to the middle of 1995, the Company's business operations consisted primarily of product development. Throughout the remainder of 1995 and into 1996, the Company focused on the objective of securing channel partners to establish distribution of its products in order to be in a position to expand its market share. The Company's strategy has been to target both the conventional retail software channel and to "bundle" its products with modem manufacturers ("OEM licensing"). Throughout 1997 and 1998, the Company marketed its communication software products to establish a retail presence and create brand name awareness in the market for its *COMMUNICATE!* product line. Leveraging this brand name awareness, the Company was able to secure a number of OEM licensing arrangements in North America and Asia. In the spring of 1999, the Company's retail presence was expanded to Europe with the signing of a distribution agreement with a United Kingdom-based distributor.

With the introduction to the market of the I'm InTouch service in fiscal 2001, the Company is targeting the SME customer as well as the SOHO customer. The focus of the Company as it moves forward throughout fiscal 2002 will be to market its I'm InTouch service, and to continue to market its COMMUNICATE! line of products in areas where management feels it can produce profitable results.

Trends

Many people in the business world today are mobile and the Company believes that the business world is becoming increasingly more mobile. The I'm InTouch service, provides business people with remote access to their e-mail messages and attachments that come with the message, their contact list and calendar, and the ability to remotely compose e-mails with an attachment from their desktop PC or network. In addition, it allows remote management of the desktop PC and the ability to view, download and upload files from or to a desktop PC or network.

The Company believes the demand for software that is capable of allowing messaging and communications seamlessly over the various types of media is being influenced by the convergence of a number of trends, including the following:

The growth of wide bandwidth Internet service. This includes cable modem, xDSL and satellite. According to Nielson/NetRatings, the total number of broadband users in the U.S. alone grew by 90% to 21.3 million users from November 2000 to November 2001. One out of every five U.S. surfers accesses the Internet today using a high-speed connection.

The growth of the wireless market and connectivity to the Internet. According to the Strategis Group, a market research firm in the U.S., there are currently 90 million wireless subscribers in the U.S. which number is expected to increase to 139 million by 2003. By 2004, 95% of these subscribers are expected to have access to wireless data and Internet services.

The increase in the number of mobile and remote workers. According to IDC, a U.S. based market research firm, the U.S. mobile and remote worker population is expected to grow at a 9% compound annual growth rate, from 39.2 million today to 55.4 million in 2004.

The increasing popularity and rate of adoption of wireless e-mail by small to medium-sized business. According to IDC, the most popular application envisioned for use within a wireless solution is e-mail and 47% of small to medium sized companies are planning to implement a wireless application.

DESCRIPTION OF THE BUSINESS

General

The 01 Communicue Solution

The technology behind I'm InTouch is HTML-based enabling a user's data to be delivered to any browser, including wireless devices. I'm InTouch thus benefits from the pervasive growth of the wireless market, providing a value added service to popular devices such as the Research in Motion (RIM) Blackberry, wireless Palm and Handspring PDAs, hand-held computers running the PocketPC operating system from Microsoft such as Compaq iPAQ and HP Jordana, as well as the new lines of Internet-enabled cell phones.

The Company believes it has differentiated itself from others in the market by pursuing a PC-based decentralized approach commonly known as peer-to-peer. What this means is that rather than storing, accessing, and managing communications on or through a central server, 01 Communicue has developed a patent-pending technology that redirects storage, access, and message management using the inherent processing power of desktop PCs. When accessed remotely a direct connection is made from one PC to the other PC rather than the traditional approach, which injects a host server, and the associated cost, between two PCs.

I'm InTouch's HTML based peer-to-peer approach has specific and unique advantages.

- (i) It does not require any software downloads to the remote device.
- (ii) It does not require the user to upload data to a host system, compromising sensitive and private data.
- (iii) It does not require a costly set up, such as a RAS (Remote Access Server) or VPN (Virtual Private Network).
- (iv) A user's email is processed directly at the desktop from their Outlook or Outlook Express software, eliminating the need for and problems associated with "synchronizing".
- (v) The Company's unique patent-pending technology provides the ability to track the user's PC Internet address, eliminating the necessity of maintaining a static IP.

In today's business environment security over both a company's computer network as well as the data being transmitted is an extremely important issue. To protect the validity of the data I'm InTouch uses a unique and secure approach by transferring the data over a direct peer-to-peer 128-bit SSL (Secure Socket Layer) connection and thereby eliminating the requirement of a third-party host. It also includes a three-part pass code adding an extra degree of security and works behind a company's firewall thus ensuring integrity of a company's computer network.

Integrating seamlessly with Microsoft's Outlook or Outlook Express allows the user the ability to maintain their existing application and at the same time enjoy the benefit of remote access from anywhere in the world using any wired or wireless device.

BUSINESS OF THE COMPANY

Product Overview

The first products developed by the Company were essentially PC fax software that enabled users to send and receive faxes directly from their workstations under a stand-alone or a network environment. These initial products were targeted towards the commercial and home user facsimile markets. Commercial shipments of these PC fax products commenced in 1995.

Emphasis was then placed on the Company's unified messaging/communication software products. The Company has two unified messaging product lines, *COMMUNICATE!* and I'm InTouch. Commercial shipments of the Company's first unified messaging product, *COMMUNICATE! v8.0*, began in August 1996. The second product release, *COMMUNICATE! PRO*, was first shipped in April 1998 and the third release, *COMMUNICATE! i2000*, commenced shipping in January 2000. Each of these products incorporates the functionality of the previous product, while offering additional functionality and demonstrating an evolution towards full unified messaging capability.

I'm InTouch, the Company's newest product offering, was launched in September 2000 and started to ship in March 2001.

The Company will focus its sales and marketing efforts on building partnerships and subscribers for its I'm InTouch service and in addition will continue to market its *COMMUNICATE!* line of products in areas where management believes it can grow revenue on a profitable basis.

The Company's Products

The Company's products enable communication, by visual and verbal means, through a PC equipped with a modem. The Company offers a full range of unified messaging and communications software products for the SOHO, SME and consumer markets. The software incorporated in the Company's products is object oriented and developed in C++ and assembler languages.

COMMUNICATE!

The first commercial shipments of *COMMUNICATE!* began in August 1996 and it is still actively marketed by the Company today. The product was first shipped as a 16 bit version and was later enhanced to a 32 bit version. The product supports Microsoft Windows 95 and 98, Windows NT and NT 4.0 platforms and was designed to resemble a telephone answering machine on screen, making it intuitive and easy to use. Voice, fax, data transfer, Internet e-mail and contact management applications are all combined under one common user interface, making it easier to use than integrating and learning a variety of different applications. *COMMUNICATE!* features include:

- sending and receiving faxes;
- voice mail and telephony;
- ability to record, save and forward voice telephone conversations;
- fax back, fax broadcast, and fax viewer;
- colour graphics editor;
- remote management capabilities;
- e-mail;
- data communications;
- log book and an integrated contact manager; and
- compatibility with Microsoft *Outlook* and Symantec *ACT*.

Today, *COMMUNICATE!* is the Company's "entry level" product for users.

COMMUNICATE! PRO

The first commercial shipments of *COMMUNICATE! PRO* began in April 1998. The product has all the functionality of *COMMUNICATE!* plus the following additional features:

- Internet phone;
- pager message dispatching;
- ability to launch a browser;
- contact history;
- data synchronization;
- multi-level voice-mail boxes and automatic selection of a voice menu greeting based on time and holiday;
- ability to activate different voice menus based on caller ID and distinctive ring received;
- more Internet-related fields in the contact manager; and
- multi-language capability.

COMMUNICATE! PRO supports eleven different languages, which are United Kingdom and American English, German, Dutch, French, Spanish, Italian, Portugese, Japanese and both traditional and simplified Chinese. This multi-language capability is a major selling feature used by the Company to attract OEMs in Asia and Europe.

COMMUNICATE! i2000

The first commercial shipments of *COMMUNICATE! i2000* commenced in January 2000. With an easy to understand new user interface, this product has all the functionality of *COMMUNICATE! PRO* and numerous enhancements, including the following:

- additional remote management functionality including the ability to allow the user to listen remotely to e-mail messages (text-to-speech) and then instantly reply to the message attaching a voice response as an audio file;
- access the contact manager remotely to look up contact information such as phone numbers and be instantly connected (personal 411 service);
- Internet video monitoring, which allows the user to monitor their home or office with the built in motion detection software;
- video phone conferencing and video mail; and
- Internet fax.

I'm InTouch

I'm InTouch was made commercially available in March 2001. I'm InTouch uses the Company's patent-pending authentication technology which allows users the ability to access their PC over the Internet using any device that has web-browsing capabilities. Further, by having this wireless Internet access to their PC, users have the following additional functionality:

- send e-mails remotely using the user's existing e-mail address on their PC. In this way, a user can compose an e-mail on a remote wireless device and have it sent from their PC. The recipient receiving the e-mail would see the sender's PC e-mail address, even though the e-mail was actually composed on a remote device;
- access and upload/download their data files, whether they are located on a Company network or the local PC hard drive.
- search and update their contact management information on their PC; and
- using the live video-streaming feature, users can monitor their home/office when they are not there.

The basis for the Company's patent-pending technology involves a patent application relating to a system, computer product and method, for remotely managing different types of messages and accessing data at a private server using a remote wired or wireless web-browser such as a web-enabled cellular phone, wireless hand-held computing device or two-way pager.

The Company believes that the addition of I'm InTouch as a service to its product offerings puts it in a position to expand its markets, and increase its revenue stream by including a service provider model which provides for a recurring stream of subscription revenue, in addition to its current bundling and distribution channels.

Integrated with Microsoft Outlook and Outlook Express, the I'm InTouch service allows users to continue to use their existing mail client while at their desk. When installed on the user's PC, I'm InTouch allows the user to access and manage their Microsoft Outlook and Outlook Express e-mail and contact management information, as well as their calendar, desktop and network data files.

Products Under Development

The Company's goal is to continue to develop unified remote access and messaging products for the SOHO and consumer marketplace, or desktop PC, and for the SME market. With the introduction of I'm InTouch, the Company now has a product offering that is also targeted to the SME market. No assurance can be given that any of the products described below will ultimately be developed by the Company.

Short-Term Product Development

Additional Functionality for I'm InTouch

During the fiscal year ending October 31, 2002, the Company intends to continue to develop additional functionality for its I'm InTouch product offering, such as:

- Localization of the service for the Japanese market. This involves integrating the I'm InTouch technology with the Japanese wireless technology and in addition allowing a user in Japan the ability to access I'm InTouch using the Japanese language.
- Broaden the breadth of wireless devices and browsers that the I'm InTouch service can support.

Long-Term Product Development

After development of the additional functionality for the products described above, the Company plans to continue development of an integrated remote messaging and file management solution for the corporate market which would be server-based and would support Microsoft's Windows 2000, NT and Linux platforms.

The Company's Target Market Segments

The remote access and file management end-user software market comprises the following three groups of users:

- i) consumer or SOHO users utilizing their PCs for personal and business communication, including telephone, fax, email, voice-mail, fax-on-demand, data communication, paging, telephone notification and Internet applications;
- ii) small/medium workgroup users (an office environment of 25 to 30 or fewer users sharing software) and SMEs; and
- iii) the centralized communication server market for enterprise-wide networks used by large corporations.

In the past, the Company targeted the SOHO and home-user, or consumer, market. The small/medium workgroup and SME market and the enterprise-wide market have not formed part of the Company's target markets given that the Company's *COMMUNICATE!* product line is not suited for the environment. Rather, the Company's *COMMUNICATE!* product offering operates in a single PC and requires a dedicated modem. With the introduction of I'm InTouch, the Company is now targeting the SMEs in addition to the SOHO and consumer market.

Business and Marketing Strategy

The Company's business and marketing strategy is to become an industry recognized global provider of communications and messaging solutions for targeted wired and wireless markets. The critical components of the Company's business and marketing strategy are set out below:

Product Marketing

With the introduction of I'm InTouch, the Company has a broader product offering that covers a broader market segment. Each product and market segment has its own unique requirements and expectations. The Company develops a specialized marketing strategy for each product launch, positioning each product released based on an analysis of market conditions. In general, however, each marketing campaign typically includes a combination of the tactics outlined below in respect of advertising and promotion in order to promote brand-name awareness and market acceptance of its products:

- joint channel promotions with the Company's channel partners;
- product reviews by major publications within the computer and communications industry;
- participation in trade shows;
- advertising in industry publications;
- creative packaging; and
- on-line information to promote the Company and its products.

Retail Presence

The Company takes a two-tier approach to retail distribution, using large distributors for their networking and logistical capabilities and retail chains for access to the end-user, or consumer, market. The retail chains purchase the Company's products from the Company's distributor. The Company has a distribution agreement with Ingram Micro Inc., a large distributor based in the United States. The Company believes that the distribution agreement it has entered into with its distributor contain terms substantially similar to those generally accepted in the industry. The agreement is for a term of one year, is automatically renewable for a subsequent one-year term, and provides for a short notice period of cancellation, being 30 days written notice by either party. In addition, the distribution agreement provides for the return of product for full credit.

The Company plans to focus on sales and marketing efforts to increase its North American retail presence in areas where management feels it can do so profitably. To do so will require the implementation of innovative marketing programs and additional retail chains being added to the Company's distribution channel.

OEM Channel with Modem and PC Manufacturers

The Company sells both full-featured and "lite" versions of its *COMMUNICATE!* products, under licensing agreements, through its direct sales force to modem and PC manufacturers. The OEM licensing agreements generally provide for payment to the Company of a specified amount per copy of the Company's software, with copies made by the OEM customer from master copies supplied by the Company. The agreements are generally for a term of one year and are renewable on the anniversary date of such agreements with the consent of the parties.

The Company's strategy has been to develop a strong retail presence, then leverage this presence to attract large OEM partners. OEMs distribute the Company's products by bundling scaled-down versions of such products or, in some cases, customized full-featured versions, with their products and then distributing the bundled products through their sales channels. This method of distribution contributes to the creation of a substantial user base. The Company anticipates that sales to OEMs will lead to follow-up sales as those users with scaled-down versions of the Company's products upgrade to full-featured retail versions.

As part of its OEM strategy, the Company intends to continue to develop and sell to OEMs software products that are targeted to users who require more functionality and may wish to upgrade to either a full-featured product or a new enhanced product.

Expand OEM Partnerships to Include a Variety of Different Segments in the Telecommunications Market

Recent studies suggest that the number of business people working outside of the office, either on the road or at home, is increasing. According to IDC, in 1998 approximately 27% of all households in the United States reported conducting some degree of work from home. In addition, IDC forecasts that the number of home offices in the United States with PCs and Internet capability will increase to over 30 million by 2002 from approximately 17 million in 1998, concluding that "there is potential business opportunities for communications service providers that offer services to the work-at-home and on-line consumer segments". The Company believes this trend of increased mobility by the workforce will create an increase in demand for unified messaging/communications capabilities that will deliver time sensitive messages and enhance communications.

The Company believes that its I'm InTouch product fits well into this market segment both in terms of functionality and price points. The Company intends to continue in its efforts to develop relationships and form strategic partnerships in order to take advantage of this business opportunity.

The Company has identified a number of different types of businesses in various markets that the Company believes will find its I'm InTouch service attractive. These include Internet service providers, cable companies, hand-held wireless device manufacturers, two-way pager companies, Internet access device manufacturers, as well as traditional cellular and telephone companies. The Company will continue to pursue partnerships with companies in these market segments as well as endeavor to build subscribers from partnerships already in place, such as those with the following companies:

Research In Motion Limited (RIM), a designer, manufacturer and marketer of innovative wireless solutions including the popular Blackberry wireless email solution.

Microcell Solutions Inc., a national provider of Personal Communications Services under the FIDO brand name.

Hitachi Business Solution Co. Ltd., a subsidiary company of Hitachi Software Engineering Co. Ltd., which is a group company of Hitachi Ltd. of Japan.

Apache-Micro Peripherals Inc., a United States based manufacturer of communications and multimedia products.

Parachute Technologies, LLC, a United States based consumer electronics designer, manufacturer and marketer of adaptors for PDAs.

E-commerce

According to IDC, the number of worldwide Internet users was approximately 140 million in 1998, which users conducted almost \$100 billion in commerce. This is forecast to grow to 500 million users conducting close to \$1.3 trillion in commerce by 2003.

As it has with most segments of the retail market, the Internet is playing an increasingly important role in software distribution. The Company intends to implement additional programs that capitalize on e-commerce and distribution of software over the Internet. These programs will be designed to complement the Company's retail and OEM strategy.

Competition

The computer software market is intensely competitive and is subject to rapid changes in technology. It is influenced by the strategic direction of major computer hardware manufacturers and operating system providers. The Company's competitiveness depends, among other things, on its ability to enhance existing products and to offer successful new products on a timely basis. The Company has limited resources and must ensure product development efforts are narrowly focused.

Competition with the COMMUNICATE! Line of Products in the Retail Sector

Although there are many competitors with products that have some of the same features as the Company's products, the Company believes that none of its competitors offers a PC communication software product with all the integrated communications features of the *COMMUNICATE!* family of products. The Company's all-in-one software simplifies PC communications by eliminating the need for users to purchase, install, learn and manage multiple applications. Other products such as *HotFax MessageCenter* by Smith Micro Inc. and *WinFax Pro* by Symantec Corporation have many but not all of the same features as the Company's *COMMUNICATE!* line of products. For example, *HotFax MessageCenter* provides certain voice functions, but does not presently have Internet functionality such as e-mail, Internet phone, Internet fax or Internet video. *WinFax Pro* is a fax only product and as such lacks much of the expanded capabilities of the *COMMUNICATE!* products, such as the e-mail and voice capabilities. In addition, the *COMMUNICATE!* product line has its own built-in contact manager, a feature which is currently lacking in the competition's products. As well as the ability to use its own contact manager, the *COMMUNICATE!* products are also compatible with some of the other leading contact managers on the market today, such as Microsoft *Outlook* and Symantec *Act*.

Competition with I'm InTouch in the SOHO, Small/Medium Workgroup and SME Markets

Although there are companies offering remote access solutions to these market segments, the Company is not aware of any of these competitors who provide as much functionality as the I'm InTouch service.

Key competitive advantages that management of the Company believes the I'm InTouch service has is its depth of functionality and the target market of the service which is the SME and SOHO market. The majority of companies providing remote access have targeted large enterprises as their potential customers and as a result at the present time there are relatively fewer companies targeting the SME and SOHO market.

As the remote access market grows and evolves, management of the Company expects to experience increased competition in this segment of the market. Many of the Company's competitors have much greater brand name recognition, a larger customer base and greater financial and other resources as compared to the Company. There can be no assurance that the Company will be able to compete effectively with such companies. See "Risk Factors - Competition".

In addition to existing companies and existing products already available in the market, it is possible that new competitors or alliances among competitors and vendors may emerge and rapidly acquire market share.

Intellectual Property

The Company regards its software as proprietary and attempts to protect it through a combination of copyrights, trade secret laws, contractual restrictions on disclosure and transferring title and other methods, as well as seeking patent protection. Despite these precautions, it may be possible for unauthorized third parties to copy certain portions of the Company's products and obtain and use information the Company regards as proprietary. While the Company's competitive position may be affected by its ability to protect its proprietary information, the Company believes that copyright protections are less significant to the Company's success than other factors, such as trade secret protection, the knowledge, ability and experience of the Company's personnel, name recognition and ongoing product development and support.

The Company licenses its products primarily under licences included as part of the product packaging. These licences are not negotiated with or signed by individual licencees and purport to take effect upon the opening of the product package. Certain provisions of such licences, including provisions protecting against unauthorized use, copying, transfer and disclosure of the licensed program, may be unenforceable under the laws of certain jurisdictions. In addition, the laws of some foreign countries do not protect the Company's proprietary rights to the same extent as do the laws of Canada and the United States. The Company does not copy protect its software. Accordingly, it may be possible for unauthorized parties to copy or reverse engineer the Company's products or otherwise obtain and use information that the Company regards as proprietary. Further, there can be no assurance that the Company's competitors will not independently develop technologies that are substantially equivalent or superior to the Company's products, that the steps taken by the Company to protect its proprietary rights will be adequate or that third parties will not infringe or misappropriate the Company's copyrights, trade marks, trade secrets or similar proprietary rights. In addition there can be no assurance that other parties will not assert infringement claims against the Company. Policing unauthorized use of the Company's products is difficult and, while the Company is unable to determine the extent of software piracy of its products, software piracy can be expected to be a persistent problem. See "Risk Factors - Proprietary Technology".

The Company has applied for trademark registration in Canada and the United States for the *COMMUNICATE!* and *I'm InTouch* product names.

The Company has applied for a patent, and has received patent-pending status, for its authentication software.

Production

The Company's products are shipped in both diskette and CD-ROM form. The Company produces its own master copy and ships to a "fulfillment house" to do the duplication and packaging. To date, the Company has not experienced any material difficulties or delays in the manufacture or assembly of its products or any material number of returns due to product defects.

Employees

As at the date hereof, the Company has 40 full-time employees (consisting of 24 product support and development staff and 16 sales, marketing and administrative staff) and, in addition, makes use of contract software developers when required. The Company believes its success will depend, to a great extent, on its ability to retain highly qualified personnel and to attract new personnel where required. The Company is highly dependent on two principal members of its management team, Mr. Andrew Cheung, President and Chief Executive Officer, the loss of whose services might impede the achievement of development objectives, and Mr. Brian McElwain, Executive Vice President, the loss of whose services might impede the achievement of the Company's sales initiatives. The Company considers its relations with its employees to be good.

Competition in recruiting personnel in the software industry is intense. The Company believes that it must provide personnel with a competitive compensation package, which, among other things, necessitates the continued availability of stock options and shares to be issued under its employee stock option plan. See "Risk Factors - Dependence on Key Personnel".

Facilities

The Company leases its head office, which houses its principal administrative, marketing and technical facilities. The head office is located at 1450 Meyerside Drive, Mississauga, and totals approximately 4,000 square feet.

The lease expires on September 30, 2005, and contains no renewal option. Approximately 5,000 square feet of additional space is available in the building. The additional space is sufficient to meet the Company's requirements for the foreseeable future.

Other Information

Private Placement of Special Warrants

On September 25, 2000, the Company issued 1,916,666 special warrants ("Special Warrants") of the Company at a price of \$6.00 per Special Warrant for aggregate gross proceeds of \$11,500,000. The Special Warrants were sold by the Company to investors on a private placement basis pursuant to an agency agreement (the "Agency Agreement") dated as of September 15, 2000, made between the Company and Taurus Capital Markets Ltd. (the "Agent"). An aggregate fee of \$747,500 was paid to the Agent in connection with the offering of Special Warrants. In addition to such fee, the Company issued to the Agent non-assignable compensation warrants ("Compensation Warrants") of the Company entitling it to acquire, upon exercise thereof and without payment of any additional consideration, 163,353 compensation options ("Compensation Options") of the Company. Each Compensation Option will entitle the Agent to purchase a unit (a "Compensation Unit") at a price of \$6.45 per unit at any time prior to September 25, 2001. Each Compensation Unit will consist of one Common Share of the Company. The Special Warrants were issued pursuant to the terms of a special warrant indenture dated as of

September 25, 2001, between the Company and Equity Transfer Services Inc. (the "Warrant Agent"), as special warrant agent. Each Special Warrant entitled the holder thereof to receive, upon exercise or deemed exercise thereof and at no additional cost, one Common Share of the Company. A (final) prospectus qualifying the distribution of the Common Shares was filed with, and a receipt obtained from, the Ontario Securities Commission on October 18, 2000. Accordingly, any Special Warrants which were not exercised prior to October 25, 2000, were deemed to be exercised immediately prior to such time. An aggregate of 1,917,035 Common Shares were issued pursuant to the exercise or deemed exercise of the Special Warrants. The estimated net proceeds realized by the Company through the sale of the Special Warrants was \$10,549,193, after deducting the Agent's fee of \$747,500 and other offering expenses estimated at \$203,307. It is anticipated that the net proceeds will be used for general corporate purposes, including the marketing efforts to launch the Company's new *I'm InTouch* service offering and further product development.

RISK FACTORS

An investment in common shares of the Company 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 Annual Information Form with their professional advisors.

No Assurance of Future Success or Profitability

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. There can be no assurance that the Company will be able to be profitable in the future.

The Company has committed, and for the foreseeable future will continue to commit, significant financial resources to product development and research and in addition, sales and marketing activities. There can be no assurance that the research and development conducted by the Company will result in commercially viable products or that the Company will be able to continue to develop or improve its products to keep up with technological developments in the Company's product markets. To achieve profitable operations the Company, alone or with others, must, among other things, successfully sustain development, introduction and marketing of competitive products. In addition, there can be no assurance that the Company has or will make adequate allowances, or will accurately assess, the costs and risks associated with the development, introduction or marketing of such products.

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.

Market Acceptance of Products

The Company designs and develops products for the communications software industry. As with any new 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.

Competition

Competition in the communications software industry 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 favourable terms than the Corporation, 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 can not assure that competitive pressures will not materially and adversely affect its business, operating results or financial condition.

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. Inadequate marketing support could result in a high level of product returns by overstocked distributors with a corresponding detrimental impact on revenues and profits.

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 products. The Company may be required to obtain licences for proprietary rights of third parties. No assurance can be given that

any licences required will be available on terms acceptable to the Company. If the Company does not obtain such licences, 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 licences 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.

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.

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 that it does. The 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. Similarly, the loss of Mr. Brian McElwain's services as Executive Vice President, could have the effect of materially diminishing the Company's sales initiatives.

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. The Company currently has "key man" insurance in place in respect of Mr. Andrew Cheung in the amount of \$4 million.

Volatility of Share Price

The Common Shares currently trade on The Toronto Stock Exchange. 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.

Distribution Agreements and Principal Distributor

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. Many of the distribution and licensing agreements allow distributors to unilaterally return goods for full credit if the distributor deems it is overstocked.

Although the Company distributes products through a number of distributors, it has been, and may continue to be, dependent on a small number of customers with respect to sales of the majority of its products, both in terms of number of units sold and the aggregate dollar values of its sales. One of the Company's distributors accounted for approximately 70% of the dollar value of sales of the Company for the fiscal year ended October 31, 2001. The Company's exposure to credit risk associated with the non-performance of this distributor in fulfilling its contractual obligations could be directly impacted by, among other things, a decline in economic conditions which could impair its ability to satisfy its obligations to the Company. The distribution agreement with this distributor allows it to return the Company's products at any time for full refund and includes a provision permitting either party to terminate the agreement for any reason upon 30 days' prior written notice.

Although management of the Company does not believe the loss of this distributor as a customer would significantly impair the Company's revenue stream, as the retail chains which re-sell the Company's products to the end-user have the ability to purchase the Company's products from another distributor, there can be no assurance that the loss of this or any other significant distributor, or the reduction or postponement of current or expected purchases of the Company's products by such distributors, would not have a material adverse effect on the Company's business, financial condition or operating results.

Management of Growth

The Company has experienced a period of significant growth which has, and may continue to, subject it to growth-related risks including capacity constraints and pressure on its internal systems and controls. The inability of the Company to deal effectively with this growth could have a material adverse impact on its business, operations and prospects. While management of the Company believes that it will have made the necessary investments in infrastructure to process anticipated volume increases over the upcoming 12 months, the Company may experience growth in the number of its employees and the scope of its operating and financial systems, resulting in increased responsibilities for the Company's existing personnel, the hiring of additional personnel and, in general, higher levels of operating expenses. In order to manage its current operations and any future growth effectively, the Company will also need to continue to implement and improve its operational, financial and management information systems and to hire, train, motivate, manage and retain its employees. There can be no assurance that the Company will be able to manage such growth effectively, that its management, personnel or systems will be adequate to support the Company's operations or that the Company will be able to achieve the increased levels of revenue commensurate with the increased levels of operating expenses associated with this growth.

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.

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. 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 and Principal Distributor", "Volatility of Share Price".

Currency Risk

A substantial portion of the Company's revenues are now, and are expected to continue to be, realized in currencies other than Canadian dollars. The Company's operating expenses are primarily paid in Canadian dollars. Fluctuations in the exchange rate between the Canadian dollar and such other currencies may have a material adverse effect on the Company's results of operations. In particular, the Company may be adversely affected by a significant strengthening of the Canadian dollar against the United States dollar. Sales in fiscal 2001 to the United States represented the vast majority of the Company's total gross revenues.

Control of Shares by Principal Shareholders

The two principal shareholders of the Company maintain effective control of the Company through their ownership of, in the aggregate, approximately 38% of the outstanding Common Shares. As a result, these shareholders, acting together, exercise significant influence over all matters requiring shareholder approval, including the ability to elect all of the 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 of directors or management.

Payment of Dividends

The Company has never paid cash dividends on its Common Shares and does not intend to pay any dividends for the foreseeable future. See "Selected Financial Information - "Dividend Policy".

SELECTED FINANCIAL INFORMATION

Selected Annual Financial Information

The following selected financial information for the fiscal years ended October 31, 2001, 2000 and 1999 has been derived from the Company's audited financial statements. The data should be read in conjunction with

the information referred to under "Management's Discussion and Analysis" and the Company's financial statements, including the notes thereto.

Statement of Operations Data

| | Year Ended October 31, | | |
|---|-------------------------------|--------------------|------------------|
| | 2001 | 2000 | 1999 |
| Revenue | \$ 4,592,550 | \$ 12,054,912 | \$ 7,031,568 |
| Cost of goods sold | 684,125 | 682,330 | 284,366 |
| | <u>3,908,425</u> | <u>11,372,582</u> | <u>6,747,202</u> |
| <i>Expenses:</i> | | | |
| Selling, general and administrative | 13,244,070 | 11,172,315 | 4,431,296 |
| Research and development (net of ITCs) | 1,830,827 | 1,560,884 | 819,331 |
| Interest, net | (518,793) | (145,209) | 41,483 |
| Amortization of debenture discount | - | - | 84,100 |
| Depreciation and amortization | 31,176 | 31,178 | 31,178 |
| Total expenses | <u>14,587,280</u> | <u>12,619,168</u> | <u>5,407,388</u> |
| Net income (loss) | <u>(10,678,855)</u> | <u>(1,246,586)</u> | <u>1,339,814</u> |
| Net Income (loss) per share - basic | \$ (0.36) | \$ (0.05) | \$ 0.07 |
| Net Income (loss) per share - fully diluted | \$ (0.36) | \$ (0.05) | \$ 0.06 |

Balance Sheet Data

| | As at October 31, | | |
|--|--------------------------|----------------------|---------------------|
| | 2001 | 2000 | 1999 |
| <i>Assets:</i> | | | |
| Total current assets | \$ 7,623,413 | \$ 20,157,119 | \$ 3,556,272 |
| Capital assets | 302,298 | 69,328 | 82,847 |
| Total assets | <u>\$ 7,925,711</u> | <u>\$ 20,226,447</u> | <u>\$ 3,639,119</u> |
| <i>Liabilities and shareholders' equity:</i> | | | |
| Total current liabilities | \$ 1,941,628 | \$ 3,617,924 | \$ 1,227,255 |
| Long-term debt | - | - | 393,800 |
| Total shareholders' equity | 5,984,083 | 16,608,523 | 2,018,064 |
| Total liabilities and shareholders' equity | <u>\$ 7,925,711</u> | <u>\$ 20,226,447</u> | <u>\$ 3,639,119</u> |

Dividend Policy

The Company has no fixed dividend policy and no dividends have been paid on any shares of the Company during its five last completed financial years. The Company intends to retain future earnings to finance the development of its business and, accordingly, does not anticipate paying dividends on its Common Shares in the foreseeable future. Any future determination to pay dividends will be at the discretion of the Company's board of directors and will depend upon the results from operations, capital requirements and such other factors as the board of directors considers relevant. There are currently no restrictions which prevent the Company from paying dividends.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The information that appears in the Company's 2001 Annual Report under the heading "Management's Discussion and Analysis of Financial Position and Results of Operations" on pages 8 to 10, inclusive, of such report is hereby incorporated by reference in, and forms part of, this Annual Information Form.

MARKET FOR SECURITIES

On March 8, 2000, the Common Shares of the Company were listed and posted for trading on The Toronto Stock Exchange under the symbol "ONE ". Prior to that time, the Common Shares of the Company traded on the Canadian Dealing Network Inc. As at March 7, 2002 the Company had 30,002,707 common shares outstanding.

DIRECTORS AND OFFICERS

The directors and officers of the Company, their municipalities of residence, positions and/or offices with the Company, principal occupations and, in the case of the directors, the year they first became directors of the Company, are as follows:

| <u>Name and Municipality of Residence</u> | <u>Position/Office</u> | <u>Principal Occupation</u> | <u>Year First Became a Director</u> |
|--|---|---|--|
| ANDREW CHEUNG Mississauga, Ontario | President, Chief Executive Officer and Director | President and Chief Executive Officer of the Company | 1992 |
| HENRY J. PANKRATZ ⁽²⁾⁽³⁾ Toronto, Ontario | Chairman of the Board of Directors | President of CanvanCore Capital, a personal investment and corporate advisory firm | 1999 |
| M. GRANT BROWN ⁽¹⁾⁽²⁾⁽³⁾ Oakville, Ontario | Director | Managing Partner and Director, Covington Capital Corporation, a Canadian venture capital firm | 2000 |
| GEORGE E. HARVEY ⁽⁴⁾ Toronto, Ontario | Director | Director of a number of private and public corporations | 2000 |
| JEFFREY F. OLIN ⁽⁴⁾ Toronto, Ontario | Director | Managing Director, HSBC Securities (Canada) Inc., an investment banking firm | 1996 |
| WILLIAM A. TRAIN ⁽²⁾ Mississauga, Ontario | Director | Director of a number of private and public corporations and private investor | 1996 |
| BRIAN MCELWAIN Toronto, Ontario | Executive Vice-President of the Company | Executive Vice-President of the Company | N/A |
| STEVEN MEYER, Ph.D. Toronto, Ontario | Chief Technology Officer | Chief Technology Officer of the Company | N/A |
| GIGI LOO Mississauga, Ontario | Corporate Secretary, Controller and Director | Controller of the Company | 1992 |
| SEAN BUDNIK Toronto, Ontario | Vice-President, Business Development | Vice-President, Business Development of the Company | N/A |
| BRIAN STRINGER Markham, Ontario | Chief Financial Officer | Chief Financial Officer of the Company | N/A |

-
- (1) Mr. Brown is a nominee of C.I. Covington Fund Inc. ("Covington"). Pursuant to an agreement dated as of December 7, 1999 among Andrew Cheung, Covington and the Company, Mr. Cheung and the Company have agreed that as long as Covington and/or any affiliate owns a specified minimum percentage of the issued and outstanding Common Shares, Covington will be entitled to include a nominee for election as a director of the Company and Mr. Cheung will vote his Common Shares in favour of such nominee.
 - (2) Member of the Audit and Risk Management Committee.
 - (3) Member of the Compensation and Human Resources Committee.
 - (4) Member of the Corporate Governance Committee.

As at March 7, 2002, the directors and officers of the Company, as a group beneficially owned, directly or indirectly, or exercised control or direction over, an aggregate of 12,740,000 Common Shares of the Company.

The term of office for all directors expires at the time of the election of their successors at the next annual meeting of shareholders of the Company.

Each of the directors and officers of the Company has been engaged in his or her present occupation for the past five years except as otherwise described below:

Henry Pankratz - Mr. Pankratz recently retired from Ernst & Young in September 1999. He held various executive and senior management positions throughout his career at Ernst & Young which began in 1961 and upon retiring held the position of Deputy Chairman.

George Harvey - Mr. Harvey retired from active operations in July 2000 from AT&T Canada as President of Business Services. In March 1987 he joined Unitel Communications Inc. As President and CEO and became Chair and Vice-Chair in October 1993 holding this position until January, 1995 when he assumed the position of Presidency of Business Services with the then newly formed ATT Canada, which had acquired Unitel Communications Inc.

Jeffrey Olin - Prior to joining HSBC Securities Canada (Inc.) in August 1997, Mr. Olin was Vice-President, Corporate Finance, of Canaccord Capital Corporation from April 1996 to August 1997.

Willian Train - Mr. Train was one of the founding partners of Dynasty Components Inc. serving as a senior officer and director, from February 1991 until June 2000 when he resigned his position as a senior officer. Mr. Train maintains his position as a director of Dynasty Components Inc.

Brian McElwain - Mr. McElwain served as Vice-President, Sales of Pure Data Ltd., a manufacturer of networking and communications products, for one year prior to joining the Company in October 1995. Prior to October 1995, Mr. McElwain served as the Vice-President of Sales of ATI Technologies Inc., a manufacturer of video interface boards, and prior thereto Mr. McElwain worked for 22 years for Honeywell Bull Inc., an international technology company, in various positions, rising to the position of Vice-President of Sales.

Steven Meyer, Ph.D. - Prior to agreeing to join the Company effective February 1, 2000, Dr. Meyer served as a software contractor for Dcomit Imaging Systems Corp., a software company that provides connectivity solutions for medical imaging. From July 1992 to December 1998, Dr. Meyer held various senior product development positions with Delrina Corporation/Symantec Corporation, a company specializing in communications software products.

Brian Stringer - Mr. Stringer is a chartered accountant. Prior to June 1998, Mr. Stringer was a senior officer (including Chief Financial Officer) and, at times, a director of Pure Data Ltd., a manufacturer of networking and communications products, and its successor companies.

Sean Budnik - Prior to joining the Company effective July 6, 2001, Mr. Budnik served as President and CEO of Wright Technologies NV, an imaging software company, from June, 2000 to July, 2001. From May, 1998 to June, 2000, he served as Director of OEM Sales and Business Development of MGI Software Inc. a software company, specializing in digital photography software. Prior to this, he held the position of Director North American Sales, for Accent Software International Inc.

ADDITIONAL INFORMATION

Additional information, including director's and officer's remuneration and indebtedness, principal holders of the Company's securities, options to purchase securities and interests of insiders in material transactions, as applicable, is contained in the Management Information Circular of the Company dated March 7, 2002. Additional financial information is provided in the Company's comparative audited financial statements for the fiscal year ended October 31, 2001. A copy of such documents may be obtained upon request from the Secretary of the Company.

The Company will also provide to any person, upon request to the Secretary of the Company:

- (a) when securities of the Company are in the course of a distribution pursuant to a short form prospectus or when a preliminary short form prospectus has been filed in respect of a distribution of the Company's securities:
 - (i) one copy of the Company's most recent annual information form, together with one copy of any document, or the pertinent pages of any document, incorporated by reference therein;
 - (ii) one copy of the comparative financial statements of the Company for its most recently completed fiscal year together with the accompanying report of the auditor and one copy of any interim financial statements of the Company subsequent to the financial statements for its most recently completed fiscal year;
 - (iii) one copy of the Company's information circular in respect of its most recent annual meeting of shareholders that involved the election of directors or one copy of any annual filing prepared in lieu of that information circular, as appropriate; and
 - (iv) one copy of any other document that is incorporated by reference into the preliminary short form prospectus or the short form prospectus and is not required to be provided under (i), (ii) and (iii) above; or
- (b) at any other time, one copy of any other document referred to in (a)(i), (ii) and (iii) above, provided the Company may require the payment of a reasonable charge if the request is made by a person who is not a securityholder of the Company.

Financial Statements of

**01 COMMUNIQUE
LABORATORY INC.**

Years ended October 31, 2001 and 2000

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of 01 Communique Laboratory Inc. as at October 31, 2001 and 2000 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

The image shows the handwritten signature of KPMG LLP in black ink. The letters are bold and slanted, with a horizontal line underneath the signature.

Chartered Accountants

Toronto, Canada

December 13, 2001

01 COMMUNIQUE LABORATORY INC.

Balance Sheets

October 31, 2001 and 2000

| | 2001 | 2000 |
|-------------------------------|---------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 925,860 | \$ 2,362,661 |
| Short-term investments | 6,238,212 | 12,022,066 |
| Accounts receivable (note 2) | 384,012 | 5,529,391 |
| Inventory | 74,543 | 85,708 |
| Prepaid expenses and deposits | 786 | 157,293 |
| | <u>7,623,413</u> | <u>20,157,119</u> |
| Capital assets (note 3) | 302,298 | 69,328 |
| | <u>\$ 7,925,711</u> | <u>\$ 20,226,447</u> |

Liabilities and Shareholders' Equity

| | | |
|--|---------------------|----------------------|
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 1,941,628 | \$ 3,617,924 |
| Shareholders' equity: | | |
| Share capital (note 4) | 22,477,780 | 22,423,365 |
| Deficit | (16,493,697) | (5,814,842) |
| | <u>5,984,083</u> | <u>16,608,523</u> |
| Lease commitments (note 7) | | |
| | <u>\$ 7,925,711</u> | <u>\$ 20,226,447</u> |

See accompanying notes to financial statements.

On behalf of the Board:

“Henry J. Pankratz” _____ Director

“William A. Train” _____ Director

01 COMMUNIQUE LABORATORY INC.

Statements of Operations and Deficit

Years ended October 31, 2001 and 2000

| | 2001 | 2000 |
|--|------------------------|-----------------------|
| Revenue | \$ 4,592,550 | \$ 12,054,912 |
| Cost of revenue | 684,125 | 682,330 |
| | <u>3,908,425</u> | <u>11,372,582</u> |
| Expenses (income): | | |
| Selling, general and administrative | 13,244,070 | 11,172,315 |
| Research and development | 1,830,827 | 1,560,884 |
| Interest | (518,793) | (145,209) |
| Depreciation and amortization | 31,176 | 31,178 |
| | <u>14,587,280</u> | <u>12,619,168</u> |
| Loss for the year | (10,678,855) | (1,246,586) |
| Deficit, beginning of year | (5,814,842) | (4,568,256) |
| Deficit, end of year | <u>\$ (16,493,697)</u> | <u>\$ (5,814,842)</u> |
| Loss per common share: | | |
| Basic | \$ (0.36) | \$ (0.05) |
| Fully diluted | (0.36) | (0.05) |
| Weighted average number of shares outstanding: | | |
| Basic | 29,958,500 | 26,179,937 |
| Fully diluted | 35,597,586 | 31,606,068 |

See accompanying notes to financial statements.

01 COMMUNIQUE LABORATORY INC.

Statements of Cash Flows

Years ended October 31, 2001 and 2000

| | 2001 | 2000 |
|--|-----------------|----------------|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Loss for the year | \$ (10,678,855) | \$ (1,246,586) |
| Items which do not involve cash: | | |
| Depreciation and amortization | 31,176 | 31,178 |
| Foreign exchange gain | (49,873) | (50,813) |
| Change in non-cash operating working capital (note 5) | 3,636,755 | (673,863) |
| | (7,060,797) | (1,940,084) |
| Financing activities: | | |
| Issue of common shares, net of issue costs | 28,165 | 15,837,045 |
| Repayment of long-term debt | — | (500,000) |
| | 28,165 | 15,337,045 |
| Investing activities: | | |
| Purchase of capital assets | (264,146) | (17,659) |
| Sale (purchase) of short-term investments | 5,783,854 | (12,022,066) |
| | 5,519,708 | (12,039,725) |
| Foreign exchange gain on cash held in foreign currency | 76,123 | 50,813 |
| Increase (decrease) in cash and cash equivalents | (1,436,801) | 1,408,049 |
| Cash and cash equivalents, beginning of year | 2,362,661 | 954,612 |
| Cash and cash equivalents, end of year | \$ 925,860 | \$ 2,362,661 |
| Supplemental cash flow information: | | |
| Interest paid on long-term debt | \$ — | \$ 104,198 |
| Interest received | 518,793 | 249,407 |

See accompanying notes to financial statements.

01 COMMUNIQUE LABORATORY INC.

Notes to Financial Statements

Years ended October 31, 2001 and 2000

01 Communique Laboratory Inc. (the "Company") was incorporated on October 7, 1992 under the laws of Ontario. The Company's software, marketed under the COMMUNICATE! brand, is a family of products that integrate a full range of capabilities, including PC and internet-based faxing, voice messaging, e-mail, data communications and video, which can be accessed from a single point.

1. Significant accounting policies:

(a) Revenue recognition:

Revenue from software sales is recognized upon shipment of product, net of returns and allowances, discounts and provisions for marketing programs, and customer price protection programs. Revenue from license fees is recognized at the later of delivery of the software master copy or, if applicable, fulfillment of all other significant obligations under terms of license agreements.

(b) Cash and cash equivalents:

Cash and cash equivalents include cash on account and demand deposits.

(c) Inventory:

Inventory consists of software products, packaging materials and documentation and is carried at the lower of cost and net realizable value.

(d) Research and development:

All research costs are expensed as incurred. Software development costs are expensed as incurred unless they satisfy the generally accepted accounting criteria for deferral and subsequent amortization. Related refundable investment tax credits, net of valuation allowances, are recorded as a reduction of the related research and development expense or as a reduction of the related capital asset for items of a long-term nature when the Company has reasonable assurance that the credit will be realized.

(e) Short-term investments:

Short-term investments comprise marketable securities and are recorded at the lower of cost and market value.

01 COMMUNIQUE LABORATORY INC.

Notes to Financial Statements (continued)

Years ended October 31, 2001 and 2000

1. Significant accounting policies (continued):

(f) Capital assets:

Capital assets are recorded at cost. Depreciation and amortization are provided on a straight-line basis at the following annual rates:

| | |
|--------------------------|-----------|
| Computer systems | 30% |
| Communications equipment | 10% - 20% |
| Furniture and fixtures | 20% |

Leasehold improvements are amortized on a straight-line basis over the term of the lease.

(g) Foreign currency translation:

The monetary assets and liabilities of the Company which are denominated in foreign currencies are translated into Canadian dollars at the year-end exchange rates. Revenue and expenses are translated at rates of exchange prevailing on the transaction dates. All of the exchange gains or losses resulting from these transactions are included in the statements of operations and deficit.

(h) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under the asset and liability method, future income taxes are recognized for all significant temporary differences between the tax and financial treatment bases of assets and liabilities and for certain carryforward items. Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

01 COMMUNIQUE LABORATORY INC.

Notes to Financial Statements (continued)

Years ended October 31, 2001 and 2000

1. Significant accounting policies (continued):

(i) Measurement uncertainty:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

The Company operates in a highly competitive market subject to fast paced technological changes. The Company has estimated the rate of sales returns of its products based on historical patterns, communications with its distributors, industry trends and existing competitive pressures. Significant changes in technology or competitors' products could result in a material change in the rate of sales returns.

(j) Loss per share:

Loss per share has been calculated on the basis of loss for the year divided by the weighted average number of common shares outstanding during each year. Fully diluted loss per share has been calculated using the weighted average number of common shares, as the effects of exercise of any stock options would be anti-dilutive.

(k) Stock-based compensation plan:

The Company has a stock-based compensation plan. No compensation expense is recognized for this plan when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of common shares is credited to share capital.

2. Accounts receivable:

| | 2001 | 2000 |
|---|-------------------|---------------------|
| Trade receivables | \$ 173,171 | \$ 5,360,190 |
| Refundable investment tax credits and GST credits | 184,591 | 169,201 |
| Other | 26,250 | — |
| | <u>\$ 384,012</u> | <u>\$ 5,529,391</u> |

01 COMMUNIQUE LABORATORY INC.

Notes to Financial Statements (continued)

Years ended October 31, 2001 and 2000

3. Capital assets:

| 2001 | Cost | Accumulated depreciation and amortization | Net book value |
|--|------------|---|----------------|
| Computer systems | \$ 402,118 | \$ 154,784 | \$ 247,334 |
| Communications equipment | 25,054 | 8,964 | 16,090 |
| Leasehold improvements, furniture and fixtures | 113,024 | 74,150 | 38,874 |
| | \$ 540,196 | \$ 237,898 | \$ 302,298 |

| 2000 | Cost | Accumulated depreciation and amortization | Net book value |
|--|------------|---|----------------|
| Computer systems | \$ 157,968 | \$ 133,535 | \$ 24,433 |
| Communications equipment | 25,054 | 7,708 | 17,346 |
| Leasehold improvements, furniture and fixtures | 93,024 | 65,475 | 27,549 |
| | \$ 276,046 | \$ 206,718 | \$ 69,328 |

The cost and accumulated depreciation for assets under capital leases are \$111,172 (2000 - \$111,172) and \$87,149 (2000 - \$81,502), respectively. Depreciation expense for assets under capital leases amounted to \$5,647 (2000 - \$7,703).

4. Share capital:

There are an unlimited number of authorized common shares with no par value. There are also 50,000 Series A preference shares with no par value and an unlimited number of preference shares, issuable in series with no par value.

01 COMMUNIQUE LABORATORY INC.

Notes to Financial Statements (continued)

Years ended October 31, 2001 and 2000

4. Share capital (continued):

The following details the changes in issued and outstanding shares for the two years ended October 31, 2001:

| | Common shares | |
|--|---------------|---------------|
| | Number | Amount |
| Balance, October 31, 1999 | 19,687,094 | \$ 6,586,320 |
| Exercise of special warrants | 6,285,714 | 3,841,839 |
| Exercise of common share purchase warrants | 357,145 | 357,145 |
| Exercise of compensation warrants | 942,856 | 754,285 |
| Exercise of special warrants | 1,917,035 | 10,549,194 |
| Exercise of options | 620,833 | 314,616 |
| Common shares issued under stock purchase plan | 3,584 | 19,966 |
| Balance, October 31, 2000 | 29,814,261 | 22,423,365 |
| Exercise of options | 181,833 | 45,155 |
| Common shares issued under stock purchase plan | 4,209 | 9,260 |
| Balance, October 31, 2001 | 30,000,303 | \$ 22,477,780 |

2001 activity:

During the year, 181,833 common shares were issued at exercise prices ranging from \$0.50 to \$0.75 per common share as a result of employee stock options being exercised. In addition, 4,209 common shares raising gross proceeds of \$9,260 were issued to employees under the terms of the Company's employee stock purchase plan.

01 COMMUNIQUE LABORATORY INC.

Notes to Financial Statements (continued)

Years ended October 31, 2001 and 2000

4. Share capital (continued):

2000 activity:

During the year ended October 31, 2000, the Company issued common shares as follows:

- (a) In December 1999, the Company sold 6,285,714 special warrants for \$0.70 per special warrant raising proceeds of \$3,841,839 net of issue costs of \$558,161. Each special warrant allowed the holder to acquire, for no additional consideration, one common share and one-half of one common share purchase warrant of the Company. The special warrants were exercised resulting in the issuance of 6,285,714 common shares of the Company. Each whole common share purchase warrant entitles the holder to purchase one common share of the Company at a price of \$1.00 per share at any time prior to February 15, 2002. During 2000, 357,145 common share purchase warrants were exercised for gross proceeds of \$357,145. As at October 31, 2001 and October 31, 2000, 2,785,712 common share purchase warrants were outstanding.

Under the terms of an agency agreement, compensation warrants were issued to an agent in connection with the financing. The agent exercised all of the compensation warrants, resulting in the issuance of 942,856 common shares of the Company for gross proceeds of \$754,285.

- (b) In September 2000, the Company sold 1,917,035 special warrants for \$6.00 per special warrant raising proceeds of \$10,549,194 net of issue costs of \$953,016. Each special warrant allowed the holder to acquire, for no additional consideration, one common share of the Company. The special warrants have been exercised, resulting in the issuance of 1,917,035 common shares of the Company. Under the terms of the agreement, 153,363 compensation warrants were issued to an agent consisting of the right to acquire one common share of the Company at a price of \$6.45 per common share, at any time prior to September 25, 2001. All of these special warrants expired unexercised.

The Company has issued options to certain directors, officers and employees of the Company, and to external brokers and lending institutions.

01 COMMUNIQUE LABORATORY INC.

Notes to Financial Statements (continued)

Years ended October 31, 2001 and 2000

4. Share capital (continued):

Changes in outstanding options were as follows:

| | |
|---------------------------------------|-----------|
| Options outstanding, October 31, 1999 | 1,964,500 |
| Exercised | (620,833) |
| Cancelled or expired | (314,667) |
| Granted | 1,458,000 |
| Options outstanding, October 31, 2000 | 2,487,000 |
| Exercised | (181,833) |
| Cancelled or expired | (596,667) |
| Granted | 1,362,000 |
| Options outstanding, October 31, 2001 | 3,070,500 |

The following table summarizes information about stock options outstanding at October 31, 2001:

| Range of exercise prices | Options outstanding | | | Options exercisable | |
|--------------------------|---------------------|---|---------------------------------|---------------------|---------------------------------|
| | Number outstanding | Weighted average remaining contractual life | Weighted average exercise price | Number exercisable | Weighted average exercise price |
| \$0.50 - \$0.95 | 1,438,500 | 4 | \$ 0.64 | 698,500 | \$ 0.58 |
| \$1.45 - \$1.75 | 255,000 | 4 | 1.67 | - | - |
| \$2.45 - \$4.45 | 877,000 | 2 | 3.13 | - | - |
| \$6.25 - \$6.80 | 500,000 | 4 | 6.80 | - | - |
| | 3,070,500 | 4 | 2.44 | 698,500 | 0.58 |

5. Change in non-cash operating working capital:

| | 2001 | 2000 |
|--|--------------|----------------|
| Accounts receivable | \$ 5,145,379 | \$ (3,083,131) |
| Inventory | 11,165 | (60,284) |
| Prepaid expenses and deposits | 156,507 | (27,317) |
| Accounts payable and accrued liabilities | (1,676,296) | 2,684,294 |
| Deferred revenue | - | (187,425) |
| | \$ 3,636,755 | \$ (673,863) |

01 COMMUNIQUE LABORATORY INC.

Notes to Financial Statements (continued)

Years ended October 31, 2001 and 2000

6. Income taxes:

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the years in which those temporary differences become deductible. Management considers projected future taxable income, uncertainties related to the industry in which the Company operates and tax planning strategies in making this assessment.

As at October 31, 2001, the Company has non-capital losses available to reduce future years' income for income tax purposes, the tax effect of which has not been recorded in the accounts. These losses expire as follows:

| | |
|------|--------------|
| 2004 | \$ 1,630,000 |
| 2005 | 1,840,000 |
| 2007 | 260,000 |
| 2008 | 8,910,000 |

In addition, the Company has an unclaimed pool of product development costs of approximately \$3,040,000 which can be carried forward indefinitely as a deduction against future taxable income and an investment tax credit of \$347,000 which can be utilized to reduce taxes payable in years up to 2010, the tax benefits of which have not been recorded.

The Company's provision for income taxes is made up as follows:

| | 2001 | 2000 |
|---|----------------|--------------|
| Income tax recovery based on statutory Canadian corporate tax rates | \$ (3,742,000) | \$ (555,977) |
| Non-recognition of current year's losses | 3,742,000 | 555,977 |
| Income tax provision | \$ — | \$ — |

01 COMMUNIQUE LABORATORY INC.

Notes to Financial Statements (continued)

Years ended October 31, 2001 and 2000

6. Income taxes (continued):

Future income taxes are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their tax bases. Future tax assets are comprised of the following as at October 31, 2001 and 2000:

| | 2001 | 2000 |
|---|--------------|--------------|
| Future tax assets: | | |
| Income tax effect of non-capital losses carried forward | \$ 5,308,000 | \$ 1,680,000 |
| Product development costs | 1,280,000 | 779,000 |
| Share issue costs | 400,000 | 520,000 |
| Capital assets | 116,000 | 134,000 |
| Total future tax assets | 7,104,000 | 3,113,000 |
| Less valuation allowance | 7,104,000 | 3,113,000 |
| | \$ - | \$ - |

7. Lease commitments:

The Company has entered into operating lease agreements for premises and equipment. The minimum annual rental payments are due as follows:

| | |
|---------------------|------------|
| 2002 | \$ 227,388 |
| 2003 | 191,905 |
| 2004 | 136,155 |
| 2005 and thereafter | 72,707 |

8. Financial instruments:

(a) Fair values:

The carrying values of cash and cash equivalents, short-term investments, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity and terms of the instruments.

01 COMMUNIQUE LABORATORY INC.

Notes to Financial Statements (continued)

Years ended October 31, 2001 and 2000

8. Financial instruments (continued):

(b) Credit and foreign currency risk:

At October 31, 2001, 77% of accounts receivable and 74% of sales are from two customers (2000 - 85% and 65%, respectively). The Company's exposure to credit risk associated with the non-performance of the customers in fulfilling their contractual obligations can be directly impacted by a decline in economic conditions. The Company has had minimal bad debt experiences in the past and monitors accounts receivable closely.

The Company operates in one business segment, the development and marketing of its communications software. Substantially all of the Company's sales are in U.S. dollars. The Company uses the revenue stream in U.S. dollars as a hedge to cover expenses denominated in U.S. dollars. The Company does not hedge the risk related to the fluctuations in the exchange rate between the U.S. and Canadian dollar from the date of the sales transaction to the collection date due to the short-term nature of this exposure.