# INNOVATIVE PROPERTIES INC.

## FINANCIAL STATEMENTS

## FOR THE YEAR ENDED OCTOBER 31, 2014

## (EXPRESSED IN CANADIAN DOLLARS)

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS & BUSINESS ADVISORS

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# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Innovative Properties Inc.

We have audited the accompanying financial statements of Innovative Properties Inc., which comprise the statements of financial position as at October 31, 2014 and 2013, and the statements of comprehensive income loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence that we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Innovative Properties Inc. as at October 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

DMCL

DALE MATHESON CARR-HILTON LLP
CHARTERED ACCOUNTANTS

Vancouver, Canada
February 27, 2015

Innovative Properties Inc.
Statements of financial position
(Expressed in Canadian dollars)

| | Note | October 31, 2014 | October 31, 2013 |
|---|---|---|---|
| **ASSETS** | | $ | $ |
| **Current assets** | | | |
| Cash and cash equivalents | 4 | 454,132 | 268,926 |
| Trade receivables | 8 | 405,985 | 53,000 |
| Marketable securities | 5 | 18,562 | - |
| Due from related party | 8 | 2,819 | - |
| | | 881,498 | 321,926 |
| **Non-current assets** | | | |
| Deferred tax asset | 10 | 283,918 | - |
| Equipment | 6 | 1,373 | 17,264 |
| **TOTAL ASSETS** | | **1,166,789** | **339,190** |
| | | | |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade payables and accrued liabilities | 7 | 70,265 | 39,676 |
| Due to related party | 8 | 3,000 | 2,200 |
| Deferred revenue | | 93,150 | - |
| **TOTAL LIABILIITES** | | 166,415 | 41,876 |
| | | | |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 9 | 1,508,082 | 1,508,082 |
| Reserves | 9 | 541,896 | 541,896 |
| Deficit | | (1,049,604) | (1,752,664) |
| **TOTAL EQUITY** | | 1,000,374 | 297,314 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **1,166,789** | **339,190** |

Nature and continuance of operations (Note 1)
Subsequent event (Note 12)

Approved for issuance by the Board of Directors on February 27, 2015:

*"Eugene Beukman"*
Director

*"Gurdeep Johal"*
Director

*The accompanying notes are an integral part of the financial statements*

Innovative Properties Inc.
Statements of comprehensive loss
(Expressed in Canadian dollars)

| | Note | October 31, 2014 | October 31, 2013 |
|---|---|---|---|
| | | $ | $ |
| **Revenue** | 8 | 983,750 | 309,676 |
| **Expenses** | | | |
| Advertising | | 1,045 | 2,941 |
| Amortization | 6 | 17,488 | 17,027 |
| Bad debt expense (Recovery) | | (10,150) | 10,150 |
| Bank charges | | 611 | 327 |
| Filing and transfer fees | | 32,559 | 17,724 |
| Insurance | | 2,788 | - |
| Management fees | 8 | 27,000 | 18,000 |
| Maintenance | | 3,695 | 30,350 |
| Office expense | | 61,641 | 21,844 |
| Professional fees | 8 | 40,890 | 25,090 |
| Rent | 8 | 180,000 | 30,000 |
| Salaries | | 177,965 | 144,601 |
| Vehicle | | 19,664 | - |
| | | (555,196) | (318,054) |
| **Other items** | | | |
| Gain on settlement of accounts receivable | 5 | 8,083 | |
| Loss on marketable securities | 5 | (17,495) | - |
| | | (9,412) | - |
| **Net income (loss)** | | 419,142 | (8,378) |
| Deferred tax recovery | 10 | 283,918 | - |
| **Comprehensive income (loss)** | | 703,060 | (8,378) |
| **Earnings (Loss) per share - Basic and Diluted** | | 0.11 | (0.00) |
| **Weighted average number of shares outstanding** | | 6,414,964 | 3,483,459 |

*The accompanying notes are an integral part of the financial statements*

Innovative Properties Inc.
Statement of changes in equity
(Expressed in Canadian dollars)

| | | Share capital | | Reserves | | | | |
|---|---|---|---|---|---|---|---|---|
| | Note | Number of shares | Amount | Option reserve | Warrant reserve | Loan reserve | Deficit | Total |
| | | | $ | $ | $ | $ | $ | $ |
| **Balance, October 31, 2012** | | **3,081,633** | **1,408,082** | **102,484** | **265,908** | **123,504** | **(1,744,286)** | **155,692** |
| Comprehensive income | | - | - | - | - | - | (8,378) | (8,378) |
| Shares issued for cash | | 3,333,333 | 150,000 | - | - | - | - | 150,000 |
| Fair value of warrants | | - | (50,000) | - | 50,000 | - | - | - |
| **Balance, October 31, 2013** | | **6,414,966** | **1,508,082** | **102,484** | **315,908** | **123,504** | **(1,752,664)** | **297,314** |
| Comprehensive income | | - | - | - | - | - | 703,060 | 703,060 |
| **Balance, October 31, 2014** | | **6,414,966** | **1,508,082** | **102,484** | **315,908** | **123,504** | **(1,049,604)** | **1,000,374** |

*The accompanying notes are an integral part of the financial statements*

Innovative Properties Inc.
Statements of Cash Flows
(Expressed in Canadian dollars)

| | October 31, 2014 | October 31, 2013 |
|---|---|---|
| | $ | $ |
| **Operating activities** | | |
| Net income (loss) | 703,060 | (8,378) |
| Adjustments for non-cash items: | | |
| Amortization | 17,488 | 17,027 |
| Deferred tax recovery | (283,918) | |
| Gain on settlement of accounts receivable | (8,083) | - |
| Loss on marketable securities | 17,495 | - |
| Changes in non-cash working capital items: | | |
| Trade receivables | (380,959) | (20,748) |
| Trade payables and accrued liabilities | 30,589 | 36,071 |
| Due to related parties | (2,019) | (6,047) |
| Deferred revenue | 93,150 | - |
| **Net cash provided by operating activities** | 186,803 | 17,925 |
| **Investing activities** | | |
| Acquisition of equipment | (1,597) | (33,701) |
| **Net cash flows used in investing activities** | (1,597) | (33,701) |
| **Financing activities** | | |
| Issuance of shares for cash | - | 150,000 |
| **Net cash flows provided by financing activities** | - | 150,000 |
| Increase in cash and cash equivalents | 185,206 | 134,224 |
| Cash and cash equivalents, beginning | 268,926 | 134,702 |
| **Cash and cash equivalents, ending** | 454,132 | 268,926 |

*The accompanying notes are an integral part of the financial statements*

## 1. Nature and continuance of operations

Innovative Properties Inc. (the “Company”) was incorporated under the Canada Business Corporations Act on October 31, 2002. The Company’s principal activity is the management of commercial real estate. The Company’s shares are trading on the Canadian Securities Exchange (“CSE”) under the symbol “INR”.

The head office, principal address and records office of the Company are located at 8338 – 120th Street, Surrey, British Columbia, Canada, V3W 3N4.

## 2. Statement of compliance

The financial statements of the Company comply with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

## 3. Basis of preparation and significant accounting standards

***Basis of preparation***
The financial statements of the Company have been prepared on an accrual basis and are based on historical costs, except for financial instruments measured at their fair value. The financial statements are presented in Canadian dollars unless otherwise noted.

***Significant estimates and assumptions***
The preparation of financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company’s management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the recoverability and measurement of deferred tax assets.

***Significant judgments***
The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company’s financial statements include the assessment of the Company’s ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty.

**3. Basis of preparation and significant accounting standards (Continued)**

***Earnings (Loss) per share***

Basic earnings (loss) per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the earnings (loss) attributable to common shareholders equals the reported earnings (loss) attributable to owners of the Company. Diluted earnings (loss) per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted earnings (loss) per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

***Share-based payments***

The Company operates an employee stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using the Black–Scholes Option Pricing Model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

***Revenue recognition***

Revenue consists of service revenue generated from the management of commercial properties and the provision of administration and consulting services. Revenue is recognized when persuasive evidence of an arrangement exists, the amount is fixed or determinable and collection is reasonably assured.

***Equipment***

Equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Repairs and maintenance are charged to the statement of comprehensive loss during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the statement of comprehensive loss.

Amortization is calculated on a straight-line method to write off the cost of the assets to their residual values over their estimated useful lives. The Company's equipment consists of computer equipment and computer software. The amortization rate applicable to computer equipment and to computer software is 30% and 100%, respectively.

***Impairment of assets***

The carrying amount of the Company's assets is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive income (loss).

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

**3. Basis of preparation and significant accounting standards (continued)**

***Impairment of assets (continued)***

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount  Any reversal of impairment cannot increase the carrying value of the asset to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

***Financial instruments***

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a Company of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost.  Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value.  These are included in current assets. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. The Company does not have any derivative financial assets and liabilities.

***Warrants***

Proceeds from issuances by the Company of units consisting of shares and warrants are allocated based on the residual method, whereby the carrying amount of the warrants is determined based on any difference between gross proceeds and the estimated fair market value of the shares. If the proceeds from the offering are less than or equal to the estimated fair market value of shares issued, no value is assigned to the warrants.

**3. Basis of preparation and significant accounting standards (continued)**

***Foreign currency translation***

The functional currency of each entity is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Canadian dollars which is the parent company's functional and presentation currency. The functional currency of the subsidiary that have operations in Mexico is the United States dollar.

Transactions and balances:

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in the statement of comprehensive loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

***Income taxes***

Current income tax:

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax:

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(Expressed in Canadian dollars)

**3. Basis of preparation and significant accounting standards (continued)**

***Accounting standards issued but not yet applied***

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods beginning after November 1, 2014 or later periods.

The following new standards, amendments and interpretations that have not been early adopted in these financial statements, is not expected to have a material effect on the Company's future results and financial position: IFRS 9 Financial Instruments (new; to replace IAS 39 and IFRIC 9); and Amendments to IAS 32 Financial Instruments: Presentation.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

**4. Cash and cash equivalents**

| | **October 31, 2014** | **October 31, 2013** |
|---|---:|---:|
| | $ | $ |
| Cash at bank | 444,132 | 258,926 |
| Guaranteed investment certificates | 10,000 | 10,000 |
| | 454,132 | 268,926 |

**5. Marketable securities**

During the year ended October 31, 2014, the Company settled accounts receivable of $27,974 with a company with common directors by converting the amount into subscriptions of a private placement for 186,496 units at $0.15 per unit. Each unit consisted of on common share and one-half warrant. The fair value of the warrants at the settlement date was $8,083 and has been recognized as a gain on the settlement of the accounts receivable.

The Company has designated its marketable securities at fair value through profit and loss. The fair value of the warrants are estimated using the Black-Scholes option pricing model.

As at October 31, 2014, the fair value of the shares was $14,920 and the fair value of the warrants was $3,642.

(Expressed in Canadian dollars)

## 6. Equipment

| | Computer equipment | Computer software | Total |
|---|---|---|---|
| | $ | $ | $ |
| **Cost:** | | | |
| At October 31, 2012 | 630 | - | 630 |
| Additions | - | 33,701 | 33,701 |
| At October 31, 2013 | 630 | 33,701 | 34,331 |
| Additions | 530 | 1,067 | 1,597 |
| At October 31, 2014 | 1,160 | 34,768 | 35,928 |
| **Depreciation:** | | | |
| At October 31, 2012 | 40 | - | 40 |
| Charge for the year | 217 | 16,810 | 17,027 |
| At October 31, 2013 | 257 | 16,810 | 17,067 |
| Charge for the year | 65 | 17,423 | 17,488 |
| At October 31, 2014 | 322 | 34,233 | 34,554 |
| **Net book value:** | | | |
| At October 31, 2013 | 373 | 16,891 | 17,264 |
| At October 31, 2014 | 838 | 535 | 1,373 |

## 7. Trade payables and accrued liabilities

| | October 31, 2014 | October 31, 2013 |
|---|---|---|
| | $ | $ |
| Trade payables | 8,006 | 23,739 |
| Accrued liabilities | 15,580 | 11,340 |
| Payroll liabilities | 18,647 | 3,987 |
| GST payable | 21,332 | 610 |
| | 63,565 | 39,676 |

## 8. Related party transactions

As at October 31, 2014, the Company owed $3,000 (2013 - $2,200) to a relative of the former Chief Executive Officer ("CEO"). This amount is unsecured, non-interest bearing and has no fixed terms of repayment.

As at October 31, 2014, the Company was owed $2,819 (2013 - $Nil) from a company with common directors. The amount is unsecured, non-interest bearing and has no fixed terms of repayment.

As at October 31, 2014, $399,277 (2013 - $48,072) of trade receivables is due from companies with common directors and companies controlled by relatives of the former CEO.

(Expressed in Canadian dollars)

**8. Related party transactions (Continued)**

The Company entered into the following transactions with companies with common directors and companies controlled by relatives of the former CEO:

| | October 31, 2014 | October 31, 2013 |
|---|---|---|
| | $ | $ |
| Rent expense | 180,000 | 30,000 |
| Revenue | 864,250 | 309,676 |

***Key management personnel compensation***

| | October 31, 2014 | October 31, 2013 |
|---|---|---|
| | $ | $ |
| Professional fees to the Chief Financial Officer | 4,110 | 3,780 |
| Management fees to relatives of the former CEO | 27,000 | 18,000 |

**9. Share capital**

***Authorized share capital***

Unlimited number of common shares without par value.

***Issued share capital***

On October 7, 2014, the Company received approval from the CSE to consolidate its shares on the ratio of one new share for three old shares. All share and per share information in these financial statements have been retroactively restated to reflect the consolidation.

As at October 31, 2014 and 2013, the Company had 6,414,966 shares issued and outstanding.

***Private placements***

On September 17, 2013, the Company completed a private placement of 3,333,333 units at $0.015 per unit for gross proceeds of $150,000. Each unit consists of one common share and one common share purchase warrant exercisable at $0.05 for a period of one year from the issuance date and at $0.10 for a period of one year subsequently. The fair value of the warrants issued was $50,000.

***Basic and diluted loss per share***

Diluted earnings per share equals basic earnings per share as the Company did not have any options or warrants outstanding as at October 31, 2014.

***Stock options***

The Company has a stock option plan whereby the Company may from time to time in accordance with the Exchange requirements grant to directors, officers, employees and consultants options to purchase common shares of the Company provided that the number of options granted, including all options granted by the Company to date, does not exceed 20% of the Company’s common shares issued and outstanding at the time of granting stock options. Options may be exercised no later than 90 days following cessation of the optionee’s position with the Company or 30 days following cessation of an optionee conducting investor relations activities’ position.

There were no options outstanding as at October 31, 2014 and October 31, 2013.

(Expressed in Canadian dollars)

**9. Share capital (Continued)**

***Warrants***

| | October 31, 2014 | | October 31, 2013 | |
|---|---|---|---|---|
| | **Number of warrants** | **Weighted average exercise price** | **Number of warrants** | **Weighted average exercise price** |
| | | $ | | $ |
| Warrants outstanding, beginning | 5,294,118 | 0.27 | 1,960,784 | 0.30 |
| Warrants issued | - | - | 3,333,333 | 0.24 |
| Warrants expired | (5,294,118) | - | - | - |
| Warrants outstanding, ending | - | - | 5,294,118 | 0.27 |

**Reserves**

***Option reserve***

The option reserve records items recognized as stock-based compensation expense until such time that the stock options are exercised, at which time the corresponding amount will be transferred to share capital. If the options expire unexercised, the amount recorded will remain in the account.

***Warrant reserve***

The warrant reserve records the fair value of warrants issued until such time that the warrants are exercised, at which time the corresponding amount will be transferred to share capital. If the warrants expire unexercised, the amount recorded will remain in the account.

***Loan reserve***

Recorded in the loan reserve is the equity portion of convertible debentures issued in 2010.

**10. Income Tax**

A reconciliation of the expected income tax (recovery) expense to the actual income tax (recovery) expense is as follows:

| | 2014 | 2013 |
|---|---|---|
| | $ | $ |
| Net income (loss) | 419,142 | (8,378) |
| Statutory tax rate | 26% | 25% |
| Expected income tax recovery (expense) at statutory rate | 108,977 | (2,095) |
| Non-deductible items and other permanent differences | (2,100) | - |
| Effect of change in tax rates | (15,031) | - |
| Change in valuation allowance | (375,764) | 2,095 |
| Total income tax (recovery) expense | (283,918) | - |

(Expressed in Canadian dollars)

**10. Income Tax (Continued)**

The Company has the following deductible temporary differences:

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| Deferred income tax assets: | | |
| Non-capital loss carry-forward | 267,734 | 367,996 |
| Share issuance costs | - | 735 |
| Marketable securities | 4,549 | - |
| Cumulative eligible capital | 2,337 | 2,466 |
| Equipment | 9,298 | 4,568 |
| Total deferred income tax assets | 283,918 | 375,764 |
| Less: Valuation allowance | - | (375,764) |
| Net deferred income tax assets | 283,918 | - |

The Company has non-capital losses of approximately $1,030,000. The expiration of these losses will occur as follows:

| Year | Amount<br>$ |
|---|---|
| 2026 | 220,000 |
| 2028 | 203,000 |
| 2029 | 227,000 |
| 2030 | 306,000 |
| 2031 | 72,000 |
| 2032 | 2,000 |
| Total | 1,030,000 |

**11. Financial risk management and capital management**

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

**Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash and cash equivalents held in bank accounts. Cash and cash equivalents is deposited in bank accounts held with major banks in Canada. As most of the Company's cash and cash equivalents is held by one bank there is a concentration of credit risk. This risk is managed by using major banks that are high credit quality financial institutions as determined by rating agencies. The Company's secondary exposure to risk is on its trade receivables. This risk is minimal as receivables consist primarily of amounts due from related parties.

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

**Foreign exchange risk**

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company is not exposed to foreign exchange risk.

**Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk is minimal.

**Capital management**

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of equity, comprising share capital, net of accumulated deficit.

There were no changes in the Company's approach to capital management during the year. The Company is not subject to any externally imposed capital requirements.

(Expressed in Canadian dollars)

**11. Financial risk management and capital management (Continued)**

**Classification of financial instruments**

Financial assets included in the statement of financial position are as follows:

| | **October 31, 2014** | **October 31, 2013** |
|---|---|---|
| | $ | $ |
| Loans and receivables: | | |
| Cash and equivalents | 454,132 | 268,926 |
| Trade receivables | 405,985 | 53,000 |
| Due from related parties | 2,819 | - |
| Fair value through profit and loss: | | |
| Marketable securities | 18,562 | |
| | 881,498 | 321,926 |

Financial liabilities included in the statement of financial position are as follows:

| | **October 31, 2014** | **October 31, 2013** |
|---|---|---|
| | $ | $ |
| Trade payables | 8,006 | 23,739 |
| Due to related parties | 3,000 | 2,200 |
| Payroll liabilities | 18,647 | 3,987 |
| | 29,653 | 29,926 |

**Fair value**

The fair value of the Company's financial assets and liabilities approximates the carrying amount. Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

| | **As at October 31, 2014** | | |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| | $ | $ | $ |
| Cash and cash equivalents | 454,132 | - | - |
| Trade receivables | - | - | 265,285 |
| Marketable securities | 14,920 | - | 3,642 |

| | **As at October 30, 2013** | | |
|---|---|---|---|
| | Level 1 | Level 2 | Level 3 |
| | $ | $ | $ |
| Cash and cash equivalents | 268,926 | - | - |
| Trade receivables | - | - | 53,000 |

**12. Subsequent Event**

On November 20, 2014, the Company closed a non-brokered private placement of 5,000,000 units at $0.05 per unit and raised a total of $250,000. Each unit consists of one common share and one share purchase warrant. A warrant entitles the holder to purchase one additional common share of the Company at a $0.05 per share for a period of five years.

On November 21, 2014, the company acquired of 1,000,000 units of Bard Ventures Ltd. (“Bard”) at $0.05 per unit for a payment of $50,000. Each unit consists of one common share in the capital of Bard and one common share pursuant warrant. Each warrant will entitle the Company to purchase one warrant share for a period of 5 years at a price of $0.05 per share.

On January 1, 2015, the Company entered into a loan agreement with a company with a common director to convert $18,356 owing from the related party in accounts payable to a loan which is unsecured, is payable on demand and which accrues interest at 12% per annum.