INNOVATIVE PROPERTIES INC

CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTH PERIODS ENDED

July 31, 2012

(UNAUDITED)

(Expressed in Canadian dollars)

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements have been prepared by and are the responsibility of the management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Innovative Properties Inc.
Condensed statements of financial position
(Expressed in Canadian dollars – unaudited)

	Notes		July 31, 2012		October 31, 2011
ASSETS					
Current assets					
Cash	4	$	159,187	$	3,073
Accounts receivable			9,107		-
HST receivable			5,647		4,004
		$	173,940	$	7,077
Non-current assets			1,419		-
TOTAL ASSETS		**$**	**175,359**	**$**	**7,077**
LIABILITIES					
Current liabilities					
Payables and accrued liabilities	7		4,514		84,596
Due to related party	10	$	-	$	223,612
			4,514		308,208
Non-current liabilities			-		-
TOTAL LIABILIITES			4,514		308,208
SHAREHOLDERS' EQUITY					
Share capital	8		1,249,258		908,082
Reserves	9		650,720		491,896
Deficit			(1,729,133)		(1,701,109)
TOTAL EQUITY			170,845		(301,131)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$**	**175,359**	**$**	**7,077**

APPROVED BY THE DIRECTORS:

"Eugene Beukman"
Eugene Beukman - Director

"Sonny Janda"
Sonny Janda - Director

– See Accompanying Notes to the Interim Financial Statements –

Innovative Properties Inc.
Condensed statements of comprehensive loss
For the three and six month periods ended July 13, 2012 and 2011
(Expressed in Canadian dollars – unaudited)

		Three Months Ending		Nine Months Ending	
		July 31, 2012	**July 31, 2011**	**July 31, 2012**	**July 31, 2011**
Revenue					
Property management fees	$	-	-	-	-
Expenses					
Advertising and promotion	$	2,500	138	3,070	318
Bank charges & interest		15	1,317	241	25,935
Consulting		-	-	-	32,181
Filing Fees		5,627	3,955	11,666	15,759
Insurance		-	2,580	1,120	10,332
Interest on debt		-	-	551	613
Management fees		3,000	-	3,000	-
Office and miscellaneous		494	8	1,160	2,269
Professional fees		2,607	11,986	3,672	83,654
Rent		7,500	-	15,000	1,307
Salaries		-	-	-	405
Transfer agent		2,107	-	9,211	-
Reversals prior year expenses		-	-	-	(54,000)
		23,850	19,984	48,691	118,773
Other items					
Write off subsidiary receivable		-	-	-	(281,706)
Gain on disposal of subsidiary		-	-	-	1,094,875
Gain on liability adjustment		20,667	-	20,667	-
		20,667	-	20,667	813,169
Total comprehensive income (loss) for the period	**$**	(3,183)	(19,984)	(28,024)	694,396
Gain (Loss) per share - Basic & Diluted	$	(.001)	(.006)	(.005)	.21
Weighted average number of shares outstanding (2011 restated)		5,321,369	3,362,546	5,321,369	3,362,546

– See Accompanying Notes to the Interim Financial Statements –

Innovative Properties Inc.
Condensed statements of changes in equity
For the nine month period ended July 31, 2012 and 2011
(Expressed in Canadian dollars – unaudited)

	Notes	Number of shares	Amount	Stock option reserve	Warrant reserve	Subscriptions receivable	Deficit	Total
			$	$	$	$	$	$
Restated balance at Nov 01, 2011	*	**3,362,546**	**908,082**	**491,896**	**-**	**-**	**(1,701,109)**	**(301,131)**
Comprehensive income:								
Loss for the period		-	-	-	-	-	(28,024)	(28,024)
Other comprehensive income (loss)		-	-	-	-	-	-	-
Total comprehensive loss for period		-	-	-	-	-	(28,024)	(28,024)
Private placement issued for cash		5,882,353	500,000	-	-	-	-	500,000
Warrants issued with PP		-	(158,824)	-	158,824	-	-	-
Shares issued – option exercise		-	-	-	-	-	-	-
Shares issued – warrant exercise		-	-	-	-	-	-	-
Warrants expired		-	-	-	-	-	-	-
Restated balance at July 31, 2012		**9,244,899**	**1,249,258**	**491,896**	**158,824**	**-**	**(1,729,133)**	**170,845**

- On February 3, 2011, the Corporation completed a 7:1 share consolidation. The share balances have been restated retroactively.

	Notes	Number of shares	Amount	Stock option reserve	Warrant reserve	Equity Portion Convertible Bonds	Deficit	Total
			$	$	$	$	$	$
Balance at Nov 01, 2010		**3,362,546**	**908,082**	**102,484**	**265,908**	**123,504**	**(2,394,243)**	**(994,265)**
Comprehensive income:								
Gain/Loss for the period		-	-	-	-	-	694,396	694,396
Other comprehensive income (loss)		-	-	-	-	-	-	-
Total comprehensive loss for period		-	-	-	-	-	694,396	694,396
Private placement – issued for cash		-	-	-	-	-	-	-
Shares issued – option exercise		-	-	-	-	-	-	-
Shares issued – warrant exercise		-	-	-	-	-	-	-
Warrants expired		-	-	-	-	-	-	-
Balance at July 31, 2011		**3,362,546**	**908,082**	**102,484**	**265,908**	**123,504**	**(1,699,847)**	**(299,869)**

– See Accompanying Notes to the Interim Financial Statements –

Innovative Properties Inc.
Condensed statements of cash flow
For the three and nine month periods ending July 31, 2012 and 2011.
(Expressed in Canadian dollars - unaudited)

		Three Months Ending		Nine Months Ending	
		July 31, 2012	**July 31, 2011**	**July 31, 2012**	**July 31, 2011**
Operating activities					
Gain (Loss) before income taxes	$	(3,183)	(19,984)	(28,024)	694,396
Adjustments for non-cash items:					
Gain on disposal of subsidiaries		-	-	-	(1,094,875)
Reversal prior year expenses		-	-	-	(54,000)
Changes in non-cash working capital items:					
Accounts receivable		-	-	(9,107)	-
Prepaid expenses		-	(4,181)	-	3,571
HST recoverable		(1,145)	12,326	(1,643)	(1,327)
Disposition working capital deficiencies of subs		-	-	-	352,574
Trade payables and accrued liabilities		(30,032)	6,977	(80,082)	22,966
Net cash provided by operating activities		(34,360)	(4,862)	(118,856)	(76,695)
Investing activities					
Equipment		(1,418)	-	(1,418)	-
Disposition of bank indebtedness of subs		-	-	-	53,565
Net cash flows from (used in) investing activities		(1,418)	-	-	53,565
Financing activities					
Net sale of shares for cash		-	-	500,000	-
Subscriptions receivable		111,111	-	-	-
Repayment of debt		-	-	-	(21,189)
Payments to related parties		-	(650)	(223,612)	106,084
Net cash flows from (used in) financing activities		111,111	(650)	276,388	84,895
Increase (decrease) in cash and cash equivalents		75,333	(5,512)	156,114	61,765
Cash and cash equivalents, beginning		83,854	12,818	3,073	(54,459)
Cash and cash equivalents, ending	**$**	159,187	7,306	159,187	7,306

– See Accompanying Notes to the Interim Financial Statements –

1. Nature and continuance of operations

Innovative Properties Inc. (the "Corporation") was incorporated under the Canada Business Corporations Act and was in the business of providing property management products and services to property owners through its subsidiary, Dime Inc. ("Dime") and Dime's wholly owned subsidiary Line 4 Inc. ("Line 4"). On November 10, 2010, the Corporation defaulted on interest payments on its secured convertible debentures (the "Debentures"). The Debentures were secured by 100% of the outstanding shares of Dime. As a result of defaulting on the Debentures, the Corporation effectively transferred control of Dime to the holders of the Debentures. In December 2010, the Corporation reached a formal agreement with the holders of the Debentures to transfer all the outstanding shares of Dime in satisfaction of full settlement of amounts owing with respect to the Debentures.

The Corporation`s shares trade on the TSX Venture Exchange under the symbol ("INR"). The Company is currently seeking new business opportunities.

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

These condensed interim financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future.

2. Basis of preparation and adoption of International Financial Reporting Standards

Statement of compliance and conversion to International Financial Reporting Standards

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 paragraph 19 and IFRS 1. Subject to certain transition elections disclosed in Note 13, the Company has consistently applied the same accounting policies in its opening IFRS balance sheet at November 01, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 13 discloses the impact of the transition to IFRS on the Company's reported balance sheet, statements of income (loss) and comprehensive income (loss) and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's financial statements for the year ended October 31, 2011.

Previously, the Company prepared its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The policies applied in these interim financial statements are based on IFRS issued and outstanding as of September 21, 2012, the date the Board of Directors approved the Financial Statements

These financial statements should be read in conjunction with the Company's Canadian GAAP audited financial statements for the years ended October 31, 2011 and 2010.

Basis of preparation

The financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The financial statements are presented in Canadian dollars unless otherwise noted.

3. Significant accounting policies

Consolidation

When appropriate, the consolidated financial statements will include the accounts of the Company and its controlled entities. Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, will be eliminated on consolidation.

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Areas requiring a significant degree of estimation and judgment relate to the determination of the useful lives of property, plant and equipment, the recoverability of the carrying value of exploration and evaluation assets, fair value measurements for financial instruments and stock-based compensation and other equity-based payments, the recognition and valuation of provisions for restoration and environmental liabilities, and the recoverability and measurement of deferred tax assets and liabilities. Actual results may differ from those estimates and judgments.

Foreign currency translation

When appropriate, the condensed financial statements will be presented in Canadian dollars which is the parent company's functional and presentation currency.

Transactions and balances:

Foreign currency transactions will be translated into the 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 profit or loss in the statement of comprehensive income in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

3. Significant accounting policies (cont'd)

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in the statement of comprehensive income 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.

Company companies:

The financial results and position of foreign operations whose functional currency is different from the Company's presentation currency will be translated as follows:

- assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and

- income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of foreign operations are transferred directly to the Company's foreign currency translation reserve in the statement of comprehensive income. These differences are recognized in the profit or loss in the period in which the operation is disposed.

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 a Black–Scholes pricing model which incorporates all market vesting conditions. 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.

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.

3. Significant accounting policies (cont'd)

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.

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 income and comprehensive income.

3. Significant accounting policies (cont'd)

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.

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, however, not 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.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Income taxes

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 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.

3. Significant accounting policies (cont'd)

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.

Restoration and environmental obligations

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to exploration and evaluation assets along with a corresponding increase in the restoration provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The restoration asset will be depreciated on the same basis as other mining assets.

The Company's estimates of restoration costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the restoration provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit and loss for the period.

The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred.

The costs of restoration projects that were included in the provision are recorded against the provision as incurred. The costs to prevent and control environmental impacts at specific properties are capitalized in accordance with the Company's accounting policy for exploration and evaluation assets.

Leases

There are currently no leases, but should they be entered into, leases of property, plant and equipment where substantially all the risks and benefits incidental to the ownership of the asset are transferred to entities in the Company are classified as finance leases.

Finance leases are capitalized by recording an asset and a liability at the lower of the fair value of the leased property, plant and equipment or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

3. Significant accounting policies (cont'd)

Lease incentives under operating leases are recognized as a liability and amortized on a straight-line basis over the life of the lease term.

Property and equipment

There is currently no property and equipment; however, when acquired they will be stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs will be 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. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of income and comprehensive income during the financial period in which they are incurred.

Gains and losses on disposals will be determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

Depreciation and amortization are calculated on a straight-line method to write off the cost of the assets to their residual values over their estimated useful lives.

New accounting standards

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company: IFRS 9, Financial Instruments (IFRS 9), IFRS 10, Consolidated Financial Statements (IFRS 10), IFRS 11, Joint Arrangements (IFRS 11), IFRS 12, Disclosure of Interests in Other Entities (IFRS 12), IAS 27, Separate Financial Statements (IAS 27), IFRS 13, Fair Value Measurement (IFRS 13) and amended IAS 28, Investments in Associates and Joint Ventures (IAS 28). Each of the new standards is effective for annual periods beginning on or after January 1, 2011 with early adoption permitted.

The following is a brief summary of the new standards:

IFRS 9 – Financial Instruments

IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit and loss or at fair value through other comprehensive income.

IFRS 10 – Consolidation

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

(Expressed in Canadian dollars - unaudited)

IFRS 11 - Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles, and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 - Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

4. Cash and cash equivalents

The components of cash and cash equivalents are as follows:

	July 31, 2012	October 31, 2011
Canadian cash in bank	159,187	3,073
	$ 159,187	$ 3,073

5. Accounts receivable

	July 31, 2012	October 31, 2011
Accounts receivable	9,107	-
Value-added tax receivables (HST)	5,647	4,004
	$ 14,754	$ 4,004

(Expressed in Canadian dollars - unaudited)

6. Property and equipment

During the quarter ended July 31, 2012 the Company purchased two portable computers having a total value of $1,419.These will be amortized for the first time at year end.

7. Payables and accrued liabilities & loans

		July 31, 2012		October 31, 2011
Payables		-		84,596
Related party		-		223,612
HST Payable		170		-
Trust A/C Refund		2,930		-
Rents collected		1,414		-
	$	4,514	$	308,208

The Company authorized a third party to use best efforts to consolidate company debt on a short term basis. The third party was successful and its non-interest bearing facility was used to consolidate the related party loans in November 2011. Concurrent to this, the Company borrowed an additional $50,000 from the same creditor to pay down some of its current liabilities. This loan bore interest at a rate of 6% per annum and was evidenced by a demand promissory note. The full amount borrowed from the third party was repaid during the quarter ending April 30, 2012.

8. Share capital

Authorized share capital

Unlimited number of common shares without par value:

The Company received shareholder approval to consolidate its shares on a 7 to 1 basis. This resulted in the outstanding shares of the company being consolidated on February 03, 2011 from 23,537,825 to 3,362,546. All references to common shares, share purchase warrants, stock options, and per share amounts for all periods have been adjusted on a retrospective basis to reflect the common share consolidation

Issued share capital

At July 31, 2012 there were 9,244,899 issued and fully paid common shares (October 31, 2011 – 3,362,546).

Private placements

On January 24, 2012 the Company announced a non-brokered private placement, consisting of up to eight million three hundred and thirty three thousand three hundred and thirty four (8,333,334) units at a purchase price of six (6) cents per unit (post-consolidation) to raise gross proceeds of up to five hundred thousand ($500,000) dollars. Each unit would consist of one common share in the capital of the company and one share purchase warrant. Each warrant would entitle the holder to purchase one additional common share in the capital of the company

8. Share capital (cont'd)

for a period of two years at a purchase price of ten (10) cents per share (post-consolidation). This was subject to approval by the TSX-V.

On March 12th, 2012 the TSX-V approved the financing with the price per unit being $0.085 instead of $0.06 as announced. This meant that 5,882,353 units would be issued instead of the 8,333,334 units announced on January 24, 2012. There was a regulatory hold on the units until July 13, 2012.

Basic and diluted loss per share

The calculation of basic and diluted loss per share for the three month period ended July 31, 2012 was based on the Net loss attributable to common shareholders of $3,183 or $(0.001) per share and same period (2011- $19,984 – $(0.006)) and the weighted average number of common shares outstanding of 5,321,369 and the same period (2011 – 3,362,546).

Stock options

The Company has adopted a stock option plan whereby the Company may from time to time in accordance with the TSX Venture Exchange ("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.

In June, 2009, the Board of Directors issued 1,000,000 options to Directors and Officers with an price of $.10 with an expiry date of June, 2014. Since October 31, 2011 a total of 1,000,000 options expired having a value of $49,300 as a result of Board resignations. There were no options outstanding as at July 31, 2012.

Share Purchase Warrants

Warrants were issued in January, February and March 2009 having a life of 2 years. These warrants expired in 2011. Warrants were issued in March 2012 as part of the Company's private placement. As at July 31, 2012 there were 5,882,353 warrants outstanding which are exercisable at $0.10 per warrant, until March 12, 2014.

9. Reserves

Stock option reserve

The stock 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.

(Expressed in Canadian dollars - unaudited)

	April 30, 2012	October 31, 2011
Balance at beginning of period / year	491,896	225,988
Value of options granted	-	-
Exercise of options	-	-
Expiry of warrants	-	265,908
	491,896	491,896

Warrant reserve

The value of exercised warrants is transferred to capital. If the warrants expire unexercised, the amount recorded will be transferred to the stock option reserve.

	July 31, 2012	October 31, 2011
Balance at beginning of period / year	-	265,908
Value of warrants granted	158,824	-
Expiry of warrants	-	(265,908)
	158,824	-

The fair value of the warrants issued at March 12, 2012 was calculated using the Black-Scholes equation with the following variables and resulted in a valuation of $0.027 per warrant.

Variable	**Value**
Share price at issue	$0.125
Exercise price	$0.10
Interest rate	1.57%
Life	2 yrs.
Volatility (estimated)	31.154%

10. Related party transactions

Related party balances

The following amounts due to related parties are included in liabilities:

	July 31, 2012	October 31, 2011
Companies controlled by directors of the Company	-	223,612
	$ -	$ 223,612

In November 2011 the company consolidated its Related Party liabilities of $223,612, with a third party lender. This short term loan was repaid during the quarter ending April 30, 2012.

(Expressed in Canadian dollars - unaudited)

Related party transactions

The Company incurred the following transactions with companies that are controlled by directors or officers of the Company.

	Three month period ended	
	July 31, 2012	July 31, 2011
Management fees	3,000	-
Professional fees	1,230	-
Interest	-	1,317
	$ 4,230	$ 1,317

11. Financial risk 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 held in bank accounts. The majority of cash is deposited in bank accounts held with major banks in Canada. As most of the Company's cash 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 other receivables. This risk is minimal as receivables consist primarily of refundable government goods and services taxes and exploration credits.

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 and cash equivalents.

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.

The following is an analysis of the contractual maturities of the Company's non-derivative financial liabilities as at July 31, 2012:

(Expressed in Canadian dollars - unaudited)

Financial risk management (cont'd)

		Within one year	Between one and five years	More than five years
Rent		30,000	-	-
	$	30,000	-	-

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. A Company's subsidiary will be exposed to currency risk as it incurs expenditures that are denominated in non-Canadian dollars. The Company has no foreign subsidiaries and does not hedge its exposure to fluctuations in foreign exchange rates.

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 is exposed to interest rate risk on its cash equivalents as these instruments have original maturities of three months or less and are therefore exposed to interest rate fluctuations on renewal. A 1% change in market interest rates would have an impact on the Company's net loss of $ 1,592.

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.

Classification of financial instruments

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

		July 31, 2012		October 31, 2011
Cash and cash equivalents		159,187		3,073
Accounts receivable		9,107		-
Value added tax receivable		5,647		4,004
	$	173,940	$	7,077

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

(Expressed in Canadian dollars - unaudited)

Financial risk management (cont'd)

		July 31, 2012		October 31, 2011
Payables		-		84,596
Related party		-		223,612
HST payable		170		-
Trust a/c refund		2,930		-
Rent collected		1,414		-
	$	4,514	$	308,208

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.

The following is an analysis of the Company's financial assets measured at fair value as at July 31, 2012 and October, 31, 2011:

				As at April 30, 2012
		Level 1	Level 2	Level 3
Cash and cash equivalents		159,187	-	-
	$	159,187	-	-

				As at October 31, 2011
		Level 1	Level 2	Level 3
Cash and cash equivalents		3,073	-	-
	$	3,073	-	-

12. Contingency

The Company currently has no contingencies.

13. Transition to IFRS

As result of the Accounting Standards Board of Canada's decision to adopt IFRS for publicly accountable entities for financial reporting periods beginning on or after January 1, 2011, the Company has adopted IFRS in these financial statements, making them the first interim financial statements of the Company under IFRS. The Company previously applied the available standards under previous Canadian GAAP that were issued by the Accounting Standards Board of Canada.

As required by IFRS 1 “First-time Adoption of International Financial Reporting Standards”, November 1, 2010 has been considered to be the date of transition to IFRS by the Company. Therefore, the comparative figures that were previously reported under previous Canadian GAAP have been restated in accordance with IFRS.

Exemptions applied

The Company has applied the following optional transition exemptions to full retrospective application of IFRS:

IFRS 3 “Business Combinations” has not been applied to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before January 1, 2010.

IAS 21 “The Effects of Changes in Foreign Exchange Rates” has not been applied to cumulative translation differences that existed at the date of transition to IFRS.

IFRS 2 “Share-based Payment” has not been applied to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010, which have been accounted for in accordance with Canadian GAAP.

IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” has been applied prospectively to all provisions for restoration and environmental obligations that are within the scope of International Financial Reporting Interpretations Committee (“IFRIC”) “Changes in Existing Decommissioning, Restoration and Similar Liabilities”. The Company has:

- re-measured the liabilities as at November 01, 2010 in accordance with IAS 37;

The Company has applied the transitional provision in IFRIC 4 “Determining whether an Arrangement contains a Lease” and has assessed all arrangements as at Oct 1, 2010.

The transition to IFRS did not have an impact on the statements of financial position, income and comprehensive income and cash flows of the Company. No adjustments were required upon adoption of IFRS except cumulative surplus was restated as reserves.

(Expressed in Canadian dollars - unaudited)

13. Transition to IFRS (cont'd)

Reconciliation of assets

		As at October 31, 2011			As at November 01, 2010		
	Notes	**Canadian GAAP**	**Effect of Transition**	**IFRS**	**Canadian GAAP**	**Effect of Transition**	**IFRS**
ASSETS							
		$	$	$	$	$	$
Current assets		7,077	-	7,077	37,972	-	37,972
Non-current assets		-	-	-	242,634	-	242,634
TOTAL ASSETS		**7,077**	**-**	**7,077**	280,606	**-**	280,606

(Expressed in Canadian dollars - unaudited)

13. Transition to IFRS (cont'd)

Reconciliation of liabilities and Equity

		As at October 31, 2011			As at November 01, 2010		
	Notes	**Canadian GAAP**	**Effect of Transition**	**IFRS**	**Canadian GAAP**	**Effect of Transition**	**IFRS**
LIABILITIES							
		$	$	$	$	$	$
Current liabilities		308,208	-	308,208	1,105,932	-	1,105,932
Non-current liabilities		-	-	-	168,939	-	168,939
TOTAL LIABILITIES		**308,208**	**-**	**308,208**	**1,274,871**	**-**	**1,274,871**
SHAREHOLDERS' EQUITY							
Share capital		908,082	-	908,082	908,082	-	908,082
Contributed surplus		491,896	(491,896)	-	491,896	(491,896)	-
Reserves		-	491,896	491,896	-	491,896	491,896
Deficit		(1,701,109)	-	(1,701,109)	(2,394,265)	-	(2,394,265)
TOTAL EQUITY		**(301.131)**	**-**	**(301,131)**	**(994,265)**	**-**	**-**
TOTAL LIABILITIES AND SHARESHOLDER'S EQUITY		**7,077**	**-**	**7,077**	**280,606**	**-**	**280,606**

(Expressed in Canadian dollars - unaudited)

2) The Canadian GAAP statement of income (loss) and comprehensive income (loss) for the nine months ended July, 2011 and year ended October 31 2010 has been reconciled to IFRS as follows:

		Nine Months Ended				Year Ended		
		July 31, 2011	Effects of IFRS	July 31, 2011		Oct 31 2010	Effects of IFRS	Oct 31 2010
		CGAAP		IFRS		CGAAP		IFRS
REVENUE	$	-	-	-	$	530,552	-	530,552
COST OF SALES	$	-	-	-	$	331,176	-	331,176
GROSS PROFIT	$	-	-	-	$	199,376	-	199,376
OPERATING EXPENSES	$	118,773	-	118,773	$	749,349	-	749,349
OTHER EXPENSES (INCOME)	$	813,169	-	813,169	$	-	-	-
NET COMPREHENSIVE GAIN (LOSS) FOR PERIOD	$	694,396	-	694,396	$	(749,349)	-	(749,349)

Reconciliation of cash flows for the nine month period ended July 31, 2011

	Canadian GAAP	Effect of Transition	IFRS
Operating activities			
Revenue before income taxes	694,396	-	694,396
Adjustments for non-cash items:	(1,148,875)	-	(1,148,875)
Changes in non-cash working capital items:	377,784	-	377,784
Net cash flows from (used in) operating activities	(76,695	-	(76,695
Investing activities			
Net cash flows from (used in) investing activities	53,565	-	53,565
Financing activities			
Net cash flows from (used in) financing activities	84,895	-	84,895
Increase (decrease) in cash and cash equivalents	61,765	-	61,765
Cash and cash equivalents, beginning	(54,459)	-	(54,459)
Cash and cash equivalents, ending	**7,306**	**-**	**7,306**

(Expressed in Canadian dollars - unaudited)

Reconciliation of share equity

	July 31, 2011	**November 01, 2010**
	$	**$**
Share equity previously reported under Canadian GAAP	**908,082**	**908,082**
Adjustments upon adoption of IFRS:	-	-
Share equity reported under IFRS	**908,082**	**908,082**

Reconciliation of comprehensive loss for the nine months ending July 31, 2011

	July 31, 2011
	$
Comprehensive gain (loss) previously reported under Canadian GAAP	694,396
Adjustments upon adoption of IFRS:	-
Comprehensive loss reported under IFRS	**694,396**

Notes to reconciliations

(a) Reserves

Under Canadian GAAP, amounts recorded in relation to the fair value of stock options granted and warrants issued were recorded to Contributed Surplus. Under IFRS, these amounts have been reclassified as reserves.