INNOVATIVE PROPERTIES INC.

FINANCIAL STATEMENTS

OCTOBER 31, 2012

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, 2012, October 31, 2011 and November 1, 2010 and the statements of comprehensive loss, changes in equity and cash flows for the years ended October 31, 2012 and 2011, 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, 2012, October 30, 2011 and November 1, 2010 and its financial performance and its cash flows for the years ended October 31, 2012 and 2011, in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 to the financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Innovative Properties Inc.'s ability to continue as a going concern.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

Vancouver, Canada
February 25, 2013

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

	Notes	October 31, 2012	October 31, 2011 (Note 12)	November 1, 2010 (Note 12)
ASSETS		$	$	$
Current assets				
Cash		134,702	3,073	-
Trade receivables	7,9	32,252	-	23,771
Inventory	9	-	-	3,119
HST receivable		5,355	4,004	750
Prepaid expense	9	-	-	10,332
		172,309	7,077	37,972
Non-current assets				
Equipment	9	590	-	21,645
Customer Relationships	9	-	-	34,760
Intellectual Property	9	-	-	186,229
TOTAL ASSETS		**172,899**	**7,077**	**280,606**
LIABILITIES				
Current liabilities				
Bank indebtedness	9	-	-	54,459
Trade payables and accrued liabilities	4	8,960	70,196	147,015
Deferred revenue	9	-	-	9,300
Current portion of long term debt	9	-	-	17,933
Convertible debentures	9	-	-	600,000
Due to related parties	7	2,800	238,012	277,225
Loans payable	8	5,447	-	-
		17,207	308,208	1,105,932
Non-current liabilities				
Long Term Debt	9,10	-	-	168,939
TOTAL LIABILIITES		17,207	308,208	1,274,871
SHAREHOLDERS' EQUITY				
Share capital	5	1,408,082	908,082	908,082
Share-based payment reserve	6	491,896	491,896	491,906
Deficit		(1,744,286)	(1,701,109)	(2,394,253)
TOTAL EQUITY		155,692	(301,131)	(994,265)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**172,899**	**7,077**	**280,606**

Nature of operations and going concern (Note 1)

The accompanying notes are an integral part of the financial statements

Approved for issuance by the Board of Directors on February 25, 2013:

"Eugene Beukman"
Director

"Sonny Janda"
Director

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

	Note	Year Ended October 31, 2012	Year Ended October 31, 2011 (Note 12)
		$	$
Revenue			
Sales and service revenue	7	28,170	-
Expenses			
Advertising and promotion		3,070	-
Amortization		40	-
Bank charges & interest		484	25,306
Consulting	7	-	32,181
Fees and Licenses		352	-
Filing Fees		27,775	17,260
Insurance		4,468	12,622
Interest on debt		1,011	-
Management fees	7	9,000	-
Office and miscellaneous		2,844	2,714
Professional fees	7	12,692	76,445
Rent	7	24,300	1,307
Salaries		-	405
		86,036	168,240
Loss before other items		(57,866)	(168,240)
Other items			
Gain on transfer of Dime	9	-	861,374
Other income		1,585	-
Gain on debt settlement	8	13,104	-
		14,689	861,374
Comprehensive income (loss)		(43,177)	693,134
Earnings (Loss) per share - Basic and Diluted		(0.01)	0.21
Weighted average number of shares outstanding		7,117,583	3,362,546

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, November 1, 2010	12	**3,362,546**	**908,082**	**102,484**	**265,908**	**123,504**	**(2,394,265)**	**(994,265)**
Comprehensive loss		-	-	-	-	-	693,134	693,134
Balance, October 31, 2011	12	**3,362,546**	**908,082**	**102,484**	**265,908**	**123,504**	**(1,701,109)**	**(301,131)**
Comprehensive loss		-	-	-	-	-	(43,177)	(43,177)
Private placement issued for cash	5	5,882,353	500,000	-	-	-	-	500,000
Balance, October 31, 2012		**9,244,899**	**1,408,082**	**102,484**	**265,908**	**123,504**	**(1,744,286)**	**155,692**

The accompanying notes are an integral part of the financial statements

Innovative Properties Inc.
Statements of cash flow
(Expressed in Canadian dollars)

	Year Ended October 31, 2012	**Year Ended October 31, 2011**
	$	$
Operating activities		
Gain (Loss) before income taxes	(43,177)	693,134
Adjustments for non-cash items:		
Amortization	40	-
Gain on disposal of DIME	-	(861,374)
Gain on settlement of debt	(13,104)	-
Interest	192	23,546
Changes in non-cash working capital items:		
Accounts receivable	(32,252)	-
Trade payables and accrued liabilities	(62,277)	61,946
Prepaid expenses	-	10,332
Payments to related parties	(220,812)	77,700
HST recoverable	(1,351)	(2,211)
Net cash provided by (used in) operating activities	(372,741)	4,073
Investing activities		
Equipment purchases	(630)	-
Net cash flows used in investing activities	(630)	-
Financing activities		
Proceeds received from loans issued	5,000	
Common shares for cash	500,000	-
Net cash flows from financing activities	505,000	-
Increase in cash	131,629	3,073
Cash, beginning	3,073	-
Cash, ending	134,702	3,073

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. Its shares are traded on the TSX Venture Exchange (the "Exchange") 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.

These 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. As at October 31, 2012, the Company is not able to finance day to day activities through revenue generated from its commercial property management contracts. The Company's continuation as a going concern is dependent upon the ability to enter into additional property management contracts and its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Management intends to finance operations over the next twelve months with revenue obtained from its commercial property management agreements, loans from directors and companies controlled by directors and private placement of common shares. Should the Company be unable to continue as a going concern, the net realizable value of its assets may be materially less than the amounts on its statement of financial position.

2. Statement of compliance and conversion to International Financial Reporting Standards ("IFRS")

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), including IFRS 1, First-time Adoption of IFRS. The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. Note 12 discloses the impact of the transition to IFRS on the Company's reported financial position as at November 1, 2010 and October 31, 2011 and comprehensive loss for the year ended October 31, 2011 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. This is the first time that the Company has prepared its financial statements in accordance with IFRS. Previously, the Company prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("CGAAP").

These financial statements were approved and authorized by the Board of Directors on February 25, 2013.

3. Significant accounting policies

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.

3. Significant accounting policies (continued)

Significant estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, judgments 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 fair value measurements for financial instruments and 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; and
- the classification of financial instruments.

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. 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.

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 by 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.

Revenue recognition

Revenue is recognized when persuasive evidence of an arrangement exists, the amount is fixed or determinable and collection is reasonably assured.

3. Significant accounting policies (continued)

Impairment of assets

The carrying amount of the Company's assets (which includes equipment) 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 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.

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.

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. The carrying amount of the replaced part is derecognized. All other 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. As at October 31, 2012, the Company's equipment consisted solely of computer equipment. The amortization rate applicable to the equipment is 30%.

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, a nil carrying amount is assigned to the warrants.

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.

3. Significant accounting policies (continued)

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.

Accounting standards issued but not yet effective

New standard IFRS 9 “Financial Instruments”

This new standard is a partial replacement of International Accounting Standard (“IAS”) 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets.

The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

New standard IFRS 10 “Consolidated Financial Statements”

This new standard will replace IAS 27 “Consolidated and Separate Financial Statements”, and SIC-12 “Consolidation – Special Purpose Entities”. Concurrent with IFRS 10, the IASB issued IFRS 11 “Joint Ventures”; IFRS 12 “Disclosures of Involvement with Other Entities”; IAS 27 “Separate Financial Statements”, which has been amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements; and IAS 28 “Investments in Associates and Joint Ventures”, which has been amended for conforming changes based on the issuance of IFRS 10 and IFRS 11.

IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee, eliminating the risks and rewards approach included in SIC-12, and requires continuous assessment of control over an investee. The above consolidation standards are effective for annual periods beginning on or after January 1, 2013.

3. Significant accounting policies (continued)

Accounting standards issued but not yet effective (continued)

New standard IFRS 11 “Joint Arrangements”

This new standard 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 venture 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 lAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities-Non-monetary Contributions by Venturers.

New standard IFRS 12 “Disclosure of Interests in Other Entities”

This new standard 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.

New standard IFRS 13 “Fair value measurement”

This new standard replaces the fair value measurement guidance currently included in various other IFRS standards with a single definition of fair value and extensive application guidance. IFRS 13 provides guidance on how to measure fair value and does not introduce new requirements for when fair value is required or permitted. It also establishes disclosure requirements to provide users of the financial statements with more information about fair value measurements. IFRS 13 is effect for annual periods beginning on or after January 1, 2013.

Amendments to IAS 32 “Financial Instruments: Presentation”

These amendments address inconsistencies when applying the offsetting requirements, and is effective for annual periods beginning on or after January 1, 2014.

Financial statement presentation

In June 2011, the IASB and the Financial Accounting Standards Board (“FASB”) issued amendments to standards to align the presentation requirements for other comprehensive income (“OCI”). The IASB issued amendments to IAS 1 “*Presentation of Financial Statements*” to require companies preparing financial statements under IFRS to group items within OCI that may be reclassified to the profit or loss. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. The amendments are effective for fiscal years beginning on or after July 1, 2012.

The Company has not early adopted these revised standards and is currently assessing the impact that these standards will have on its consolidated financial statements.

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.

(Expressed in Canadian dollars)

4. Trade payables and accrued liabilities

	October 31, 2012	October 31, 2011
	$	$
Trade payables	-	61,236
Accrued liabilities	8,960	8,960
	8,960	70,196

5. Share capital

Authorized share capital

Unlimited number of common shares without par value.

Issued share capital

During the year ended October 31, 2012, the Company effected a consolidation of the issued and outstanding common stock on a one-for-seven basis. Accordingly, these financial statements have been retroactively restated to reflect the share consolidation.

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

Private placements

On March 12, 2012 the Company issued 5,882,353 units at $0.085 per unit. Each unit consists of one common share and one share purchase warrant exercisable at $0.10 for a period of two years from the issuance date. The fair value of the warrants issued was $Nil based on the residual method.

Stock options

The Company has adopted 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, 2012 and 2011.

Warrants

As at October 31, 2012, the Company had 5,882,353 (2011 – Nil) warrants outstanding exercisable at $0.10 and expiring March 12, 2014.

6. 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.

(Expressed in Canadian dollars)

7. Related party transactions

As at October 31, 2012, the Company owed $2,800 (2011 - $Nil) to and had a receivable of $12,133 (2011 - $Nil) from a company controlled by a relative of the Chief Executive Officer ("CEO"), and owed $Nil to former directors and officers (2011 - $238,012).

During the year ended October 31, 2012, the Company assigned debt owing to former directors and officers of $238,012 to a third party for a note payable in the amount of $238,070 which bears no interest, is due on demand and unsecured. The note was repaid during the year.

During the year ended October 31, 2012, the Company incurred management fees of $9,000 (2011 - $Nil) to a relative of the CEO, rent expense of $22,500 (2011 - $Nil) and sales of $10,833 (2011 - $Nil) to a company controlled by a relative of the CEO, professional fees of $4,692 (2011 - $Nil) to the Chief Financial Officer and consulting fees of $Nil to companies controlled by former officers (2011 - $32,181).

8. Gain on debt settlement

During the year ended October 31, 2012, the Company entered into an agreement to assign certain accounts payable to a third party for a $45,000 note payable which bears interest at 6% per year, is due on demand and unsecured and a $5,000 note payable which bears interest at 5% per year, is due on demand and unsecured. The Company recorded a gain of $13,104 on the transaction.

The $45,000 note was repaid during the year ended October 31, 2012.

9. Secured convertible debentures

During the year ended October 31, 2009, the Company issued $600,000 in debentures. The debentures bear interest at the rate of 15% per annum and were originally scheduled to mature on June 30, 2010. The debentures were convertible into common shares of the Company at $0.10 per share and were secured by the common shares of Dime Inc. ("Dime"), the Company's former wholly owned subsidiary, and Dime's wholly owned subsidiary Line 4 Inc. ("Line 4"). An agreement was reached in June, 2010 with the holders of the debentures to extend the maturity date to June 30, 2011.

On November 10, 2010, the Company defaulted on interest payments on the debentures and the debenture holders assumed control of Dime. In December 2010, the Company reached agreements with all the holders of the debentures to transfer all shares of Dime to the holders of debentures in satisfaction of the liability and accrued interest due. Upon settlement of the debentures, the Company recognized a gain of $861,374, calculated as follows:

	$
Extinguishment of debentures (including interest)	641,585
Net liabilities of Dime and Line 4	219,789
Gain on settlement of debentures	861,374

Included in the net liabilities and assets of Dime and Line 4 which were transferred to the holders of the Debentures are prepaid expenses, accounts receivable, inventory, equipment, bank indebtedness, deferred revenue, customer relationships, intellectual property and long term debt (Note 10).

10. Long term debt

	October 31, 2012 $	October 31, 2011 $	November 1, 2010 $
Preferred shares of Dime, 12% interest, unsecured	-	-	141,182
Long-term debt, 8% interest, unsecured, due November 10, 2012	-	-	24,500
Long-term debt, 12% interest, unsecured, due August 13, 2013	-	-	21,190
Total	-	-	186,872
Current portion	-	-	(17,933)
Long-term portion	-	-	168,939

(Expressed in Canadian dollars)

10. Income Tax

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

	2012 $	2011 $
Income (Loss) from operations	43,177	693,134
Statutory tax rate	31.25%	32.50%
Expected income tax recovery (expense) at statutory rate	(13,493)	225,269
Non-deductible items and other permanent differences	(4,095)	(54,493)
Effect of change in tax rates	141	(7,855)
Change in valuation allowance	17,447	(162,920
Total income tax recovery (expense)	-	-

The Company has the following deductible temporary differences for which no deferred tax asset has been recognized:

	$	$
Deferred income tax assets:		
Non-capital loss carry-forward	455,750	433,428
Share issuance costs	3,855	8,488
Cumulative eligible capital	3,328	3,599
Equipment	386	386
Total deferred income tax assets	463,349	445,902
Less: Valuation allowance	(463,349)	(445,902)
Net deferred income tax assets	-	-

The Company has non-capital losses of approximately $1,470,000. The expiration of these losses will occur as follows:

Year	Amount $
2014	213,695
2026	448,494
2028	203,357
2029	227,033
2030	305,421
2031	72,000
Total	1,470,000

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 held in bank accounts and its accounts receivable. 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. As accounts receivable consists of revenue receivable from two customers there is a concentration of credit risk.

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 is not exposed to interest rate risk.

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 (continued)

Classification of financial instruments

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

	October 31, 2012	October 31, 2011
	$	$
Cash	134,702	3,073
Loans and receivables:		
Trade receivables	32,252	-
	166,954	3,073

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

	October 31, 2012	October 31, 2011
	$	$
Trade payables	-	61,236
Due to related parties	2,800	238,012
Loans payable	5,447	-
	8,247	299,248

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.

12. Transition to IFRS

These are the Company’s first annual financial statements prepared in accordance with IFRS as issued by the IASB. The policies set out in the Significant Accounting Policies section have been applied in preparing the statements of financial position for the years ended October 31, 2011 and November 1, 2010 and the statements of comprehensive loss for the year ended October 31, 2011. The Company adopted IFRS on November 1, 2011 with a transition date of November 1, 2010.

Exemptions applied

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

In accordance with IFRS 1, an entity’s estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company’s IFRS estimates as of November 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

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 that contributed surplus was restated as reserves.

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.

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.

The loan reserve records the equity component of any compound financial instrument.