

INNOVATIVE PROPERTIES INC.
Consolidated Financial Statements
Three Month Period Ended January 31, 2011
(Unaudited)

INNOVATIVE PROPERTIES INC.
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Three Month Period Ended January 31, 2011
(Unaudited)

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INNOVATIVE PROPERTIES INC.
Consolidated Income Statements
Three Month Period Ended January 31, 2011
(Unaudited)

	<i>January</i> 2011	<i>January</i> 2010
EXPENSES		
Professional fees	\$ 43,838	\$ 30,243
Interest and bank charges including debenture interest	22,958	19,727
Consulting fees	14,681	36,778
Insurance	3,876	1,427
Exchange listing expenses	1,881	2,846
Rent and occupancy	1,307	(922)
Telephone	1,090	1,142
Interest on long term debt	613	-
Office	550	305
Salaries and wages	405	-
Advertising and promotion	90	-
Meals and entertainment	88	367
Travel	27	-
Business taxes, licenses and memberships	20	259
Delivery, freight and express	12	-
Donations	-	1,000
Vehicle	-	1,703
Directors fees (prior year reversed)	(54,000)	13,500
	37,436	108,375
EARNINGS FROM OPERATIONS	(37,436)	(108,375)
OTHER INCOME (EXPENSES)		
Gain on disposal of subsidiaries <i>(Note 4)</i>	1,094,875	-
Writedown of receivable from former subsidiary	(283,843)	-
Loss from discontinued operations <i>(Note 4)</i>	-	(88,037)
	811,032	(88,037)
NET EARNINGS AND COMPREHENSIVE EARNINGS	\$ 773,596	\$ (196,412)
LOSS AND COMPREHENSIVE LOSS PER SHARE-BASIC AND DILUTED <i>(Note 11)</i>	\$ 0.0329	\$ (0.0083)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	23,537,825	23,537,825

See notes to consolidated financial statements

INNOVATIVE PROPERTIES INC.
Consolidated Statements of Deficit
Three Month Period Ended January 31, 2011
(Unaudited)

	2011	2010
DEFICIT - BEGINNING OF PERIOD	\$ (2,394,241)	\$ (1,644,894)
NET EARNINGS FOR THE THREE MONTH PERIOD	773,596	(196,412)
DEFICIT - END OF PERIOD	\$ (1,620,645)	\$ (1,841,805)

See notes to consolidated financial statements

INNOVATIVE PROPERTIES INC.

Consolidated Balance Sheets

As at January 31, 2011

(Unaudited)

	<i>January</i> 2011	<i>October</i> 2010
ASSETS		
CURRENT		
Cash	\$ 100	\$ -
Accounts receivable	-	23,771
Inventory	-	3,119
Goods and services tax recoverable	10,303	750
Prepaid expenses	6,456	10,332
	16,859	37,972
EQUIPMENT <i>(Net of accumulated amortization)</i>	-	21,644
INVESTMENT IN INR CAPITAL INCORPORATED	-	1
CUSTOMER RELATIONSHIPS	-	34,760
INTELLECTUAL PROPERTY	-	186,229
	\$ 16,859	\$ 280,606
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Bank indebtedness	\$ -	\$ 54,459
Accounts payable and accrued liabilities	124,888	147,015
Deferred revenue	-	9,300
Current portion of long term debt <i>(Note 7)</i>	-	17,933
Convertible debentures <i>(Note 5)</i>	-	600,000
Due to shareholders and related parties <i>(Note 6)</i>	112,638	277,225
	237,526	1,105,932
LONG TERM DEBT <i>(Note 7)</i>	-	168,939
	237,526	1,274,871
SHAREHOLDERS' EQUITY		
Share capital <i>(Note 8)</i>	908,082	908,082
Warrants <i>(Note 9)</i>	299,256	265,908
Contributed surplus <i>(Note 10)</i>	69,136	102,484
Equity portion of convertible debentures <i>(Note 5)</i>	123,504	123,504
Deficit	(1,620,645)	(2,394,243)
	(220,667)	(994,265)
	\$ 16,859	\$ 280,606

GOING CONCERN *(Note 1)*

INDEMNITY *(Note 15)*

SUBSEQUENT EVENT

ON BEHALF OF THE BOARD

"Original Signed" Stewart McInnes Director

"Original Signed" Robert Bell Director

See notes to consolidated financial statements

INNOVATIVE PROPERTIES INC.
Consolidated Statements of Cash Flow
Three Month Period Ended January 31, 2011
(Unaudited)

	2011	2010
OPERATING ACTIVITIES		
Net loss and comprehensive loss	\$ 773,596	\$ (196,412)
Items not affecting cash:		
Amortization of equipment and intangible assets	-	33,667
Gain on disposal of subsidiaries	(1,094,875)	-
Accretion of discount on issue of convertible debentures	-	44,792
Directors fees reversed	(54,000)	-
	(375,279)	(117,953)
Changes in non-cash working capital:		
Accounts receivable	-	(41,333)
Inventory	-	(15,000)
Accounts payable and accrued liabilities	65,365	(28,175)
Prepaid expenses	3,876	15,901
GST payable (receivable)	(9,553)	(5,777)
Deferred revenue	-	12,465
Disposition of working capital deficiency of subsidiaries	357,325	-
	417,013	(61,919)
Cash flow from (used by) operating activities	41,734	(179,872)
INVESTING ACTIVITY		
Disposition of bank indebtedness of subsidiaries'	53,565	-
Cash flow from investing activity	53,565	-
FINANCING ACTIVITIES		
Proceeds from convertible debentures (Net of issue costs)	-	585,329
Advances to shareholders and related parties	(19,551)	(316,306)
Proceeds from long term financing	-	3,763
Repayment of long term debt	(21,189)	(53,428)
Cash flow from (used by) financing activities	(40,740)	219,358
INCREASE IN CASH FLOW	54,559	39,486
Cash (deficiency) - beginning of year	(54,459)	(44,771)
DEFICIENCY - END OF YEAR	\$ 100	\$ (5,285)

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INNOVATIVE PROPERTIES INC.
Consolidated Statements of Cash Flow *(continued)*
Three Month Period Ended January 31, 2011
(Unaudited)

	2011	2010
CASH FLOW SUPPLEMENTARY INFORMATION		
Interest paid	\$ 23,571	\$ 19,727
Income taxes paid	\$ -	\$ -
CASH CONSISTS OF:		
Cash	\$ 100	\$ -
Bank indebtedness	-	(5,285)
	\$ 100	\$ (5,285)

INNOVATIVE PROPERTIES INC.

Notes to Consolidated Financial Statements

Three month period ended January 31, 2011 and year ended October 31, 2010

(Unaudited)

1. DESCRIPTION OF BUSINESS AND GOING CONCERN

The Corporation is a corporation amalgamated under the Canada Business Corporation's Act. Its principal business is providing property management products and services to residential and commercial property owners.

These financial statements have been prepared on a going-concern basis that contemplates the realization of assets and the payment of liabilities in the ordinary course of business.

As at January 31, 2011, the Corporation had a significant shareholders' deficiency and working capital deficit and it incurred significant losses in the current and prior fiscal years. A majority of debenture holders had signed agreements to accept shares of the Corporation's subsidiary companies in satisfaction of the liability and accrued interest due to the debenture holders in accordance with the terms of the original debenture agreements. All of the agreements were completed and formally approved by the Board of Directors in February.

The Corporation's ability to continue as a going concern is dependent upon its ability to secure equity and/or debt financing sufficient to meet current and future obligations and commence or acquire a new business.

The statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Corporation be unable to continue in existence.

Corporation management is actively pursuing investment capital to finance operations until a new business opportunity can be undertaken.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of presentation

These consolidated financial statements have been prepared under Canadian Generally Accepted Accounting Principles ("Canadian GAAP").

Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. The results of operations of the subsidiaries are included in the consolidated financial statements from the respective dates of acquisition. In November, 2011, the Corporation defaulted on debenture interest payments and management concluded that based on the rights of the debenture holders, it had lost the ability to obtain future economic benefits from resources of the enterprises or remain exposed to the related risks of two companies previously accounted for as subsidiaries. Accordingly, the Corporation ceased accounting for the two companies as subsidiaries effective November 1, 2011.

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INNOVATIVE PROPERTIES INC.

Notes to Consolidated Financial Statements

Three month period ended January 31, 2011 and year ended October 31, 2010

(Unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments – recognition and measurement

Section 3855 of the CICA Handbook provides guidance for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

The Corporation has classified its cash and cash equivalents as held-for-trading for accounting purposes, which are measured on the balance sheet at fair value. Accounts receivable are classified as loans and receivables and are recorded at amortized cost. Accounts payable and accrued liabilities, security deposits and long-term debt are classified as other financial liabilities and are measured at amortized cost. Notes payable, convertible debentures payable, and bank indebtedness are classified as other financial liabilities and recorded at amortized cost using the effective interest rate method.

Transaction costs for financial assets and liabilities classified as available for sale and as loans and receivables will be recognized immediately in net income.

Accounting estimates

Accounting estimates are included in financial statements to approximate the effect of past business transactions or events, or to approximate the present status of an asset or liability. Examples include the allowance for doubtful accounts, loss provisions and the estimated useful life of an asset. It is possible that changes in future conditions could require changes in the recognized amounts for accounting estimates. Should an adjustment become necessary, it would be reported in earnings in the period in which it became known.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment annually or whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable.

If it is determined that the net recoverable value of a long-lived asset is less than its carrying value, the long-lived asset is written down to its fair value. Net recoverable amount represents the undiscounted estimated future cash flow expected to be received from the long-lived asset. Assets reviewed under this policy include equipment, customer relations and intellectual property.

Convertible debt instruments

The Corporation's convertible debt instruments are segregated into their debt and equity elements at the date of issue, based on the relative fair market values of these elements in accordance with the substance of the contractual agreements. The fair market value of option provisions is determined using the Black Scholes Model. The debt element of the instruments is classified as a liability, and recorded as the present value of the Corporation's obligation to make future interest payments in cash, and settle the redemption value of the instrument in cash or in shares. The carrying value of the debt element is accreted to the original face value of the instruments, over their deemed life, using the effective interest method.

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INNOVATIVE PROPERTIES INC.

Notes to Consolidated Financial Statements

Three month period ended January 31, 2011 and year ended October 31, 2010

(Unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income taxes and Future income taxes

The liability method of tax allocation is used in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Tax loss carry-forwards are recognized as a future income tax asset to the extent that it is more likely than not that they will be realized. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

Revenue recognition

- a) Revenue from sales of products is recognized when title passes to the customer, which generally coincides with the delivery and acceptance of goods.
- b) Revenue derived from the sale of services contracts is recognized as revenue on a straight-line basis over the term of the contract.
- c) Consulting and management fee revenue is recorded at the time the service is rendered in the normal course of business.

Stock Based Compensation

The Corporation grants stock options to employees, officers, and directors as determined by the Corporation's Board of Directors. Stock options granted to the directors of the Corporation are granted subject to approval of the Corporation's shareholders. The Corporation does not repurchase stock options from optionees.

Compensation costs attributable to all stock options granted are measured at fair value at the grant date, using the Black-Scholes Model, and are expensed over the vesting period with a corresponding increase to contributed surplus. The Black-Scholes Model requires the input of highly subjective assumptions including expected stock price volatility. Differences in input assumptions can materially affect the fair value estimate and therefore the existing models do not necessarily provide a reliable single measure of the fair value of any stock options granted.

Upon the exercise of the option, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

Income (loss) per share

Basic income (loss) per share is calculated using the weighted average number of shares outstanding during the period. Diluted income (loss) per share is calculated using the treasury stock method. In order to determine diluted income (loss) per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted income (loss) per share calculation. The diluted income (loss) per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share. All dilutive instruments result in a reduction in loss per share and therefore the diluted loss per share is not disclosed.

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INNOVATIVE PROPERTIES INC.

Notes to Consolidated Financial Statements

Three month period ended January 31, 2011 and year ended October 31, 2010

(Unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Future changes in significant accounting policies

The following accounting standards have been issued by the CICA but are not yet effective:

International Financial Reporting Standards

In January 2006, the Canadian Accounting Standards Board announced its decision requiring all publicly accountable entities to report under International Financial Reporting Standards. This decision establishes standards for financial reporting with increased clarity and consistency in the global marketplace. These standards are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 and are applicable for the Corporation's first quarter of fiscal 2012 with retroactive adoption effective with the prior fiscal year.

The Corporation has taken a number of steps to evaluate and prepare for implementation of these new standards on the consolidated financial statements.

INNOVATIVE PROPERTIES INC.

Notes to Consolidated Financial Statements

Three month period ended January 31, 2011 and year ended October 31, 2010

(Unaudited)

3. FINANCIAL INSTRUMENTS

Credit Risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Corporation is exposed to credit risk from customers. In order to reduce its credit risk, the Corporation conducts regular reviews of its existing customers' credit performance. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information.

Fair Value

The Corporation's carrying value of cash and cash equivalents, accounts receivable, and accounts payable approximates fair value due to the immediate or short term maturity of these instruments.

The fair value of convertible debentures approximates the fair value as the interest rates are consistent with the current rates offered to the Corporation for debt with similar terms.

Included in Due to certain shareholders and related parties is \$112,638 for which the fair value is less than carrying value, as the amounts are non-interest bearing. As the amounts have no terms of repayment, the fair value cannot be calculated with any degree of certainty.

The carrying value of long term debt and interest bearing amounts due to shareholders is not materially different from fair value based on the interest rates and maturities in relation to current rates offered to the Corporation for debt with similar terms.

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Corporation manages exposure through its normal operating and financing activities. The Corporation is exposed to interest rate price risk through its fixed rate debt and interest rate cash flow risk through its floating interest rate bank indebtedness and credit facilities.

Liquidity risk

Liquidity risk is the risk that the Corporation may not have cash available to satisfy its liabilities as they come due. The Corporation actively maintains a committed credit facility to ensure that it has sufficient available funds to meet current and foreseeable future financial requirements at a reasonable cost.

Market conditions allowing, the Corporation will access debt capital markets for various long-term debt maturities and as other liabilities come due or as assessed to be appropriate in order to minimize risk.

The following table summarizes the carrying amount and the contractual maturities of both the interest and principal portion of significant financial liabilities as at January 31, 2011:

	2012	2013	2014	2015	2016	Total
Accounts payable	\$ 124,888	-	-	-	-	\$ 124,888
Payable to related parties	\$ 112,638	-	-	-	-	\$ 112,638

INNOVATIVE PROPERTIES INC.**Notes to Consolidated Financial Statements****Three month period ended January 31, 2011 and year ended October 31, 2010***(Unaudited)***4. DISPOSITION OF SUBSIDIARIES**

	2011
Proceeds on sale equal to debenture liability satisfied	\$ 600,000
Liabilities of subsidiaries	764,398
Assets of subsidiaries	(269,543)
	\$ 1,094,855

At January 31, 2011, a majority of debenture holders had signed agreements to accept shares of the Corporation's subsidiary companies to the debenture holders in satisfaction of the liability and accrued interest due to the debenture holders in accordance with the terms of the original debenture agreements. All of the agreements were completed and formally approved by the Board of Directors in February.

5. CONVERTIBLE DEBENTURES

In November and December, 2009, the Corporation closed the issue of \$600,000 in Secured Convertible Debentures ("Debentures"). The Debentures bear interest at the rate of fifteen percent (15%) per annum, with interest payable quarterly, and were scheduled to mature on June 30, 2010. Agreements were reached in June, 2010 with all debenture holders to extend the term of the convertible debenture to June 30, 2011. Debenture holders may convert the Debentures into common shares of the Corporation at a conversion rate of \$0.10 per Share at any time until the Maturity Date. The Debentures are secured by the pledge of the common shares of DIME Inc., a wholly-owned subsidiary of the Corporation.

A total of \$270,000 of the the issue was subscribed to by insiders of the Corporation, including the Chief Executive Officer, Chief Financial Officer and two of the Corporation's directors.

	Liability	Equity
Total issue price	\$ 600,000	\$ -
Less issue price allocated to equity element - option provision	(126,600)	126,600
Issue costs	(11,575)	(3,096)
Amortization using the effective interest method - expensed in 2010 fiscal year	138,175	-
Repaid by transfer of shares of subsidiaries in accordance with the terms of the original debenture agreements	(600,000)	-
	\$ -	\$ 123,504

INNOVATIVE PROPERTIES INC.**Notes to Consolidated Financial Statements****Three month period ended January 31, 2011 and year ended October 31, 2010***(Unaudited)*

6. DUE TO SHAREHOLDERS AND RELATED PARTIES

	2011	2010
Loan and accrued interest from a director and shareholder. This loan is unsecured, with no set terms of repayment.	\$ 31,088	\$ 31,088
Payable to a company controlled by the Chief Executive Officer also a shareholder, unsecured, non-interest bearing with no set terms of repayment.	36,150	29,300
Payable to a company controlled by the Chief Financial Officer, also a shareholder, unsecured, non-interest bearing with no set terms of repayment.	45,400	51,785
Other amounts payable to shareholders, unsecured, non-interest bearing, with no set terms of repayment.	-	6,017
Short term loan from a shareholder/director bearing interest at 4% per annum, unsecured.	-	10,021
Accrued liabilities to directors and companies controlled by officers for services rendered, unsecured, non-interest bearing with no set terms of repayment.	-	74,014
	\$ 112,638	\$ 202,225

INNOVATIVE PROPERTIES INC.

Notes to Consolidated Financial Statements

Three month period ended January 31, 2011 and year ended October 31, 2010

(Unaudited)

7. LONG TERM DEBT

	2011	2010
Non-voting no return redeemable preferred shares of subsidiary company, DIME - Dynamic Integrated Marketing Enterprises Inc. ("DIME") amortized using an effective interest rate of 12% per annum. The shares are redeemable by the holders at a rate of 25% of the after tax net profits of DIME. The shares are unsecured.	\$ -	\$ 141,182
Private term loan bearing interest at 8% per annum, repayable in annual principal payments of \$8,333 plus interest. The loan matures on November 10, 2012 and is unsecured.	-	24,500
Related company term loans bearing interest at 12% per annum, repayable in monthly blended payments of \$969. The loans mature on August 13, 2013 and are secured by contracts for telephone services.	-	21,190
	-	186,872
Amounts payable within one year	-	(17,933)
	\$ -	\$ 168,939

8. SHARE CAPITAL

Authorized:

Unlimited Common voting shares without nominal or par value

	2011	2010
Issued: 23,537,825 Common shares	\$ 908,082	\$ 908,082

	2011		2010	
	Shares	Amount	Shares	Amount
Common shares				
Shares outstanding at the beginning of the year	23,537,825	\$ 908,082	23,537,825	\$ 908,082
Shares outstanding at end of quarter/year	23,537,825	\$ 908,082	23,537,825	\$ 908,082

INNOVATIVE PROPERTIES INC.

Notes to Consolidated Financial Statements

Three month period ended January 31, 2011 and year ended October 31, 2010

(Unaudited)

9. WARRANTS

The following is a summary of warrant transactions and warrants outstanding:

	2011	2011	2011	2010	2010	2010
	Number	Exercise Price		Number	Exercise Price	
Proceeds from issues to beginning of year	4,669,495	\$.10-.14	\$ 265,908	7,014,495	\$ 0.10	\$ 299,256
Expired in March and April, 2010	-	-	-	(2,345,000)	-	(33,348)
Balance, end of quarter/year	4,669,495	\$.10-.14	\$ 265,908	4,669,495	\$.10-.14	\$ 265,908

10. CONTRIBUTED SURPLUS AND STOCK BASED COMPENSATION PLAN

The Corporation has adopted a stock option plan for its directors, officers, consultants and key employees. Under this plan, 870,000 common shares were reserved for option with no required vesting period as approved by the Board of Directors. During the fiscal 2008 year, stock options were issued for 869,995 shares at a price of \$0.10 per share.

In May, 2009, the Shareholders adopted a new Stock Option Plan which authorized allotment of up to 20% of the issued and outstanding common shares (4,896,965 common shares) for the Plan and in June, 2009, the Board of Directors issued 1,000,000 options to Directors and Officers at a price of \$.10 with an expiry date of June, 2014. The fair value of these options at the grant date was \$.049 and \$49,300 was credited to contributed surplus in respect of stock-based compensation. The fair value of these options at the grant date was determined using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield of 0%; risk-free interest rate of .5%; expected life of five years; and expected volatility 230%.

The following is a summary of common share purchase options outstanding and exercisable:

	Stock Options	Weighted Average Exercise Price	Contributed Surplus Balance	Stock Options	Weighted Average Exercise Price	Contributed Surplus Balance
	2011	2011	2011	2010	2010	2010
Beginning of year	1,000,000	\$ 0.10	\$ 102,484	1,869,995	\$ 0.10	\$ 69,136
Expired	-	-	-	(869,995)	-	-
Balance transferred on expiry of warrants	-	-	33,348	-	-	33,348
Outstanding at end of quarter/year	1,000,000	\$	\$ 135,832	1,000,000	\$ 0.10	\$ 102,484
Exercisable at end of quarter/year	1,000,000	\$ 0.10		1,000,000	\$ 0.10	

INNOVATIVE PROPERTIES INC.**Notes to Consolidated Financial Statements****Three month period ended January 31, 2011 and year ended October 31, 2010***(Unaudited)***11. PER SHARE AMOUNTS**

	2010	2010
Net Earnings and Comprehensive Loss	\$ 773,596	\$ (211,925)
Weighted average number of common shares outstanding	23,537,825	23,537,825
Loss per share (basic and diluted)	0.0329	(0.0083)

12. RELATED PARTY TRANSACTIONS

	1st Quarter	12 months
	2011	2010
Interest long term debt to shareholders and and interest bearing shareholder and related party loans - rates from 9%-12%	\$ -	\$ 4,465
Interest on convertible debentures paid to shareholders, officers and directors and companies controlled by them	10,125	39,390
Interest accrued on preferred shares included in long term debt to shareholders	-	15,741
Consulting fees paid to companies controlled by two shareholders and officers	14,681	162,718
Professional fees paid or accrued to companies controlled by shareholders and officers - expensed	-	2,715
Transactions with INR Capital Incorporated ("INRC"), a company in which the Corporation's subsidiary company had a 20% common shareholding: Sales of digital signage systems which are being leased by INRC to a major customer	-	251,029

Related party transactions are incurred in the normal course of operations and recorded at the exchange amount, which is the consideration established and agreed to by the parties.

13. SEGMENT DISCLOSURES

The corporation currently operates in one industry segment, property management and related services, and one geographic segment, Atlantic Canada.

INNOVATIVE PROPERTIES INC.

Notes to Consolidated Financial Statements

Three month period ended January 31, 2011 and year ended October 31, 2010

(Unaudited)

14. CAPITAL DISCLOSURES

The Corporation's capital consists of accounts payable, convertible debentures, payables to shareholders and related parties, no return redeemable preferred shares, term loans, warrants and common shares. The Corporation's objectives when managing capital are:

- to safeguard the Corporation's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide the Corporation with the ability to make future investments.

The Corporation sets the amount of capital in proportion to risk. The Corporation manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Corporation may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Corporation is currently pursuing a strategy of financing operations and acquisitions with convertible debt and equity capital. The Corporation financed its prior year working capital deficiency through the issue of convertible debt. The majority of the Corporation's debt has been settled subsequent to year end (see note 23) and the Corporation anticipates related party loans and issue of new common shares will finance repayment of the balance of its liabilities.

The Corporation does not have any externally imposed capital requirements.

The debt-to-adjusted capital ratios are as follows:

	2011	2010
Total liabilities	\$ 237,526	\$ 1,274,871
Less cash and equivalents	(100)	-
Net debt	237,426	1,274,871
Total equity (deficiency)	(220,667)	(994,265)
Debt to adjusted capital ratio	(1.08)	(1.28)

15. INDEMNITY

The Corporation has agreed to indemnify its directors and officers in accordance with the Corporation's policies. The Corporation maintains insurance policies that may provide coverage against certain claims.

16. SUBSEQUENT EVENTS

Subsequent to the end of the quarter, directors and officers advanced \$80,000 to the Corporation to finance payment of audit fees and annual meeting costs. The advances bear interest at 10% per annum and the Corporation has agreed to provide security for these advances.