

INNOVATIVE PROPERTIES INC.
CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTH PERIOD ENDED JULY 31, 2016
(UNAUDITED-EXPRESSED IN CANADIAN DOLLARS)

NOTICE TO THE 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 accomplished by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements of the Company have been prepared by the Company's management, and has not been reviewed by the Company's independent auditor.

Innovative Properties Inc.
Condensed interim statements of financial position
(Unaudited & Expressed in Canadian dollars)

| | Note | July 31, 2016 | October 31, 2015 |
|---|------|------------------|---------------------|
| | | \$ | \$ |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 4 | 455,902 | 305,606 |
| Marketable securities | 5 | 1,112,824 | 927,015 |
| Prepaid expenses | | 1,239 | 1,050 |
| Loan receivable from related parties | 7 | 28,651 | 31,900 |
| Other receivables | | 8,182 | 1,530 |
| Trade receivables due from related parties | 7 | 481,783 | 349,333 |
| | | 2,088,581 | 1,616,434 |
| Non-current assets | | | |
| Deferred tax asset | 13 | 160,145 | 160,145 |
| Equipment | 8 | 919 | 530 |
| TOTAL ASSETS | | 2,249,645 | 1,777,109 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade payables and accrued liabilities | 9 | 13,525 | 43,460 |
| Deferred revenue | 10 | - | 45,000 |
| TOTAL LIABILITIES | | 13,525 | 88,460 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 11 | 2,008,082 | 1,758,082 |
| Reserves | 12 | 541,896 | 541,896 |
| Retained Earnings | | (313,858) | (611,329) |
| TOTAL EQUITY | | 2,236,120 | 1,688,649 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 2,249,645 | 1,777,109 |

Nature of operations and going concern (Note 1)

Approved for issuance by the Board of Directors on September 27, 2016:

"Gurpeet Gill"
Director

"Parmjeet Johal"
Director

The accompanying notes are an integral part of the financial statements

Innovative Properties Inc.
Condensed interim statements of comprehensive loss
(Unaudited & Expressed in Canadian dollars)

| | Note | For the Three Months Ending | | For the Nine Months Ending | |
|--|------|-----------------------------|------------------|----------------------------|------------------|
| | | July 31, 2016 | July 31, 2015 | July 31, 2016 | July 31, 2015 |
| | | | | | \$ |
| Revenue | 7 | 177,000 | 328,956 | 642,700 | 978,841 |
| Expenses | | | | | |
| Amortization | 8 | 111 | 211 | 287 | 631 |
| Bank charges & Interest expense | | 168 | 88 | 586 | 571 |
| Filing / transfer fees | | 3,826 | 4,118 | 11,676 | 70,431 |
| Management/Consulting | 7 | - | 10,000 | 53,800 | 64,875 |
| Office / Misc. | | 1,382 | 2,793 | 5,489 | 18,217 |
| Professional fees | 7 | 5,200 | 5,300 | 11,060 | 9,031 |
| Rent | 7 | - | 82,500 | 165,000 | 247,500 |
| Salaries | | 26,760 | 57,735 | 150,597 | 161,083 |
| Vehicle | | - | - | - | 6,009 |
| | | 37,447 | 162,745 | 398,495 | 578,348 |
| Other items | | | | | |
| G/L on marketable securities | 5 | (5,499) | 453,474 | 52,113 | 4,485,917 |
| G/L on foreign exchange | | - | 6,096 | - | 7,936 |
| Other income | | 13 | - | 1,146 | 779 |
| | | (5,486) | 459,570 | 53,259 | 4,494,634 |
| Net Income (Loss) | | 134,067 | 625,781 | 297,464 | 4,895,127 |
| Deferred tax recovery | | | - | | - |
| Comprehensive income(loss) | | 134,067 | 625,781 | 297,464 | 4,895,127 |
| Income (loss) per share | | | | | |
| - Basic and Diluted | | 0.01 | 0.07 | 0.02 | 0.55 |
| Weighted average number of shares outstanding | | 11,928,105 | 8,907,430 | 11,928,105 | 8,907,430 |

The accompanying notes are an integral part of the financial statements

Innovative Properties Inc.
Condensed interim statement of changes in equity
(Unaudited & Expressed in Canadian dollars)

| Note | Share capital | | Reserves | | | Deficit | Total |
|----------------------------------|-------------------|------------------|-----------------|-----------------|----------------|--------------------|------------------|
| | Number of Shares | Share Capital | Options reserve | Warrant reserve | Loan reserve | | |
| | | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance, October 31, 2014 | 6,414,966 | 1,508,082 | 102,484 | 315,908 | 123,504 | (1,049,604) | 1,000,374 |
| Comprehensive income | - | - | - | - | - | 4,895,127 | 4,895,127 |
| Shares issued for cash | 5,000,000 | 250,000 | - | - | - | - | 250,000 |
| Balance, July 31, 2015 | 11,414,966 | 1,758,082 | 102,484 | 315,908 | 123,504 | 3,845,523 | 6,145,501 |
| Comprehensive income | - | - | - | - | - | (4,456,845) | (4,456,845) |
| Balance, October 31, 2015 | 11,414,966 | 1,758,082 | 102,484 | 315,908 | 123,504 | (611,322) | 1,688,656 |
| Comprehensive income | - | - | - | - | - | 297,464 | 297,464 |
| Shares issued for cash | 5,000,000 | 250,000 | - | - | - | - | 250,000 |
| Balance, July 31, 2016 | 16,414,966 | 2,008,082 | 102,484 | 315,908 | 123,504 | (313,858) | 2,236,120 |

October 07, 2014 share consolidation 1 for 3 – adjustments retroactive.

The accompanying notes are an integral part of the financial statements

Innovative Properties Inc.
Condensed interim statements of cash flows
(Unaudited & Expressed in Canadian dollars)

| | For the Nine Months Ending | |
|--|-----------------------------------|------------------|
| | July 31, | July 31, |
| Note | 2016 | 2015 |
| Operating activities | | |
| Net income (loss) | \$ 297,464 | 4,895,150 |
| Adjustments for non-cash items: | | |
| Amortization | 287 | 632 |
| (Gain) Loss on marketable securities | 47,947 | (4,485,917) |
| Accrued interest income | (13) | - |
| Changes in non-cash working capital items: | | |
| Other receivable | (6,651) | (15,649) |
| Trade receivables due from related parties | (132,450) | (105,962) |
| Prepaid expenses | (189) | - |
| Trade payables and accrued liabilities | (33,940) | (28,969) |
| GST recoverable (payable) | 4,005 | (16,174) |
| Deferred revenue | (45,000) | - |
| Net cash provided by (used in) operating activities | 131,460 | 243,111 |
| Investing activities | | |
| Acquisition of equipment | (676) | - |
| Purchase of marketable securities | (233,736) | (541,785) |
| Net cash flows used in investing activities | (234,412) | (541,785) |
| Financing activities | | |
| Issuance of shares for cash | 250,000 | 250,000 |
| Increase of loan receivable | 3,248 | (78,480) |
| Net cash flows from financing activities | 253,248 | 171,520 |
| Increase (Decrease) in cash and cash equivalents | 150,296 | (127,154) |
| Cash and cash equivalents, beginning | 305,606 | 454,132 |
| Cash and cash equivalents, ending | 455,902 | 326,978 |
| Cash and equivalents | | |
| Cash | 445,827 | 316,978 |
| Term deposit | 10,075 | 10,000 |

The accompanying notes are an integral part of the financial statements

Innovative Properties Inc.
Notes to the Financial Statements
For the three and nine months ended July 31, 2016 and 2015
(Unaudited & Expressed in Canadian dollars)

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. As of September 02, 2014 its shares began trading on the Canadian Securities Exchange (“CSE”) under the symbol “INR”. As of September 5, 2014 the Company voluntarily delisted on the TSX Venture Exchange.

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 July 31, 2016, the Company is just able to finance its day to day activities with income generated from its commercial property management contracts. The Company’s continuation as a going concern is dependent upon its ability to attain profitable operations and generate funds there from to meet current and future obligations.

| | July 31, 2016 | October 31, 2015 |
|-----------------|----------------------|-------------------------|
| | \$ | \$ |
| Working capital | 2,075,056 | 846,983 |

Management intends to finance operations over the next twelve months with revenue generated from its commercial property management agreements and/or 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

These condensed interim financial statements have been prepared using the same accounting policies and methods of computation as were applied in our most recent audited annual financial statements for the year ended October 31, 2015.

These condensed interim financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34 “Interim Financial Reporting” using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These condensed interim financial statements do not include all of the information required of a full annual financial report and are intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that these condensed interim financial statements be read in conjunction with the most recent audited annual financial statements of the Company for the year ended October 31, 2015.

These financial Statements were approved and authorized by the Board of Directors on September 27, 2016.

3. Basis of preparation and significant accounting standards

Basis of preparation

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

Significant estimates and assumptions

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

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

Significant judgments

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

Revenue recognition

Revenue consists of service revenue generated from management and consulting services. Revenue is recognized when services have been delivered, the amount can be measured reliably, collection is probable and cost incurred or to incur can be measured reliably.

Loss per share

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

Share-based payments

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

Innovative Properties Inc.
Notes to the Financial Statements
For the three and nine months ended July 31, 2016 and 2015
(Unaudited & Expressed in Canadian dollars)

3. Significant accounting policies (continued)

Warrants

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

Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in the statement of comprehensive income / (loss) except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Current tax

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Amortization

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

Changes in accounting standards

"IFRS 10" - Consolidated Financial Statements, was issued in May 2011 and has superseded the consolidation requirements in "SIC-12" - Consolidation – Special Purpose Entities, and IAS 27, Consolidated and Separate Financial Statements ("IAS 27"). IFRS 10 builds on existing principles by identifying the concept of control as a determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess. The Company conducted its review of its subsidiary and non-wholly owned entities and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

"IFRS 11" - Joint Arrangements, was issued in May 2011 and has superseded "IAS 31" - Joint Ventures. IFRS 11 provides for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. The Standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method. The Company does not have any joint arrangements and therefore the adoption of IFRS 11 did not have any impact on the Company's consolidated financial statements.

"IFRS 12" - Disclosure of Interests in Other Entities, was issued in May 2011 and is a comprehensive standard on disclosure requirements for all forms of interest in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The adoption of IFRS 12 resulted in certain incremental disclosures in these consolidated financial statements.

Innovative Properties Inc.
Notes to the Financial Statements
For the three and nine months ended July 31, 2016 and 2015
(Unaudited & Expressed in Canadian dollars)

3. Significant accounting policies (continued)

"IFRS 13", Fair Value Measurements was issued in May 2011 and sets out, in a single IFRS, a framework for measuring fair value. IFRS 13 defines fair value as 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. This definition of fair value emphasizes that fair value is a market-based measurement, not an entity specific measurement. In addition, IFRS 13 also requires specific disclosures about fair value measurement. The adoption of IFRS 13 did not result in a significant impact on these consolidated financial statements.

IAS 1 Presentation of Items of Other Comprehensive Income. The amendments to IAS 1 introduce a grouping of items presented in OCI. Items that will be reclassified to profit or loss at a future point in time have to be presented separately from items that will not be reclassified. The amendments affect the presentation only and have no impact on the Company's financial position or performance

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended October 31, 2014, and have not been applied in preparing these financial statements. Those that may have a significant effect on the financial statements of the Company are as follows:

IFRS 9 – Financial Instruments (“IFRS 9”)

This new standard is a partial replacement of IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 introduces new requirements for the classification and measurement of financial assets, additional changes relating to financial liabilities, a new general hedge accounting standard which will align hedge accounting more closely with risk management. 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, 2018 with early adoption permitted.

IFRIC 21 Levies - "IFIC 21", Levies sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognized. The standard is effective for annual periods beginning on or after 1 January, 2014, with early application permitted. The Company is not currently subjected to significant levies and therefore expects that the impact from the adoption of the Interpretation will not be material.

Other

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

4. Cash and cash equivalents

| | July 31, 2016 | October 31, 2015 |
|------------------------------------|----------------------|-------------------------|
| | \$ | \$ |
| Cash at bank | 445,827 | 295,568 |
| Guaranteed investment certificates | 10,075 | 10,038 |
| | <u>455,902</u> | <u>305,606</u> |

Innovative Properties Inc.
Notes to the Financial Statements
For the three and nine months ended July 31, 2016 and 2015
(Unaudited & Expressed in Canadian dollars)

5. Marketable Securities

As at July 31, 2016 and October 31, 2015, the Company's marketable securities were comprised of investments in shares and share purchase warrants.

| July 31, 2016 | Cost | Accumulated fair value adjustment | Fair value |
|----------------------|-------------|--|-------------------|
| | \$ | \$ | \$ |
| Common Shares | 725,520 | (17,945) | 707,575 |
| Warrants | 8,083 | 397,166 | 405,249 |
| | 733,603 | 379,221 | 1,112,824 |

| October 31, 2015 | Cost | Accumulated fair value adjustment | Fair value |
|-------------------------|-------------|--|-------------------|
| | \$ | \$ | \$ |
| Common Shares | 569,759 | (52,249) | 517,510 |
| Warrants | 8,083 | 401,422 | 409,505 |
| | 577,842 | 349,173 | 927,015 |

The fair value of the warrants was determined using the Black-Scholes option pricing model using the following weighted average assumptions:

| | October 31, 2015 |
|---------------------------|-------------------------|
| Expected life of warrants | 4.25 years |
| Annualized volatility | 181% |
| Risk-free interest rate | 0.75% |
| Dividend rate | 0% |

The fair value of certain shares were determined using level 3 inputs, which was their cost price, since they were not considered to be trading in an active market (Note 14).

During the year ended October 31, 2015 the Company purchased 1,000,000 units issued by a Canadian public company that shares a common director at \$50,000 (Note 7). As at July 31, 2016, the fair value of this investment was \$53,849 with \$30,000 allocated to shares and \$23,849 allocated to the warrants.

6. Loan receivable

On December 16, 2014, the Company has loan USD \$60,000 to Medusa Scientific with an annual interest rate of 10%, due on June 15, 2015. This loan was written off during the year ended October 31, 2015 as it is in default and collectability cannot be reasonably assured.

Innovative Properties Inc.
Notes to the Financial Statements
For the three and nine months ended July 31, 2016 and 2015
(Unaudited & Expressed in Canadian dollars)

7. Related party transactions

Related party balances

The following amounts due from related parties, earned from revenues, are included in trade payables due from related parties:

| | July 31, 2016 | October 31, 2015 |
|--|----------------------|-------------------------|
| | \$ | \$ |
| Companies with parties having significant influence over the Company | 481,783 | 349,333 |

As at July 31, 2016, the Company had \$28,651 (July 31, 2015- \$108,781) loans receivable due from the companies with common directors, common management, or companies with parties containing significant influence over the Company.

These amounts due from related parties are unsecured, non-interest bearing and have no fixed terms of repayment.

Related party transactions

The Company incurred the following transactions with companies with common directors and companies controlled by relatives of the former CEO and the current CFO:

| | July 31, 2016 | July 31, 2015 |
|---|----------------------|----------------------|
| | \$ | \$ |
| Management and consulting fees | 3,800 | 35,000 |
| Accounting fees included in professional fees | 11,500 | 12,500 |
| Rent | 165,000 | 245,000 |
| Revenue | 597,700 | 978,841 |
| | 778,000 | 1,261,341 |

8. Equipment

| | Computer equipment | Computer software | Total |
|-------------------------|---------------------------|--------------------------|---------------|
| | \$ | \$ | \$ |
| Cost: | | | |
| At October 31, 2015 | 2,226 | 33,701 | 35,927 |
| Additions | 676 | - | 676 |
| At July 31, 2016 | 2,902 | 33,701 | 36,603 |
| Depreciation: | | | |
| At October 31, 2015 | 1,696 | 33,701 | 35,397 |
| Change for the period | 287 | - | 287 |
| At July 31, 2016 | 1,983 | 33,701 | 35,684 |
| Net book value: | | | |
| At October 31, 2015 | 530 | nil | 530 |
| At July 31, 2016 | 919 | nil | 919 |

Innovative Properties Inc.
Notes to the Financial Statements
For the three and nine months ended July 31, 2016 and 2015
(Unaudited & Expressed in Canadian dollars)

9. Trade payables and accrued liabilities

| | July 31, 2016 | October 31, 2015 |
|---------------------|---------------|------------------|
| | \$ | \$ |
| Trade payables | 4,302 | 6,168 |
| Payroll liabilities | 3,251 | 20,329 |
| GST payable | 5,972 | 1,963 |
| Accrued liabilities | - | 15,000 |
| | 13,525 | 43,460 |

10. Deferred revenue

As at July 31, 2016, the Company had recognized \$45,000 (July 31, 2015-\$45,000) from deferred revenue for the consulting services was completed to parties who have significant influence over the Company.

11. Share capital

Authorized share capital

Unlimited number of common shares without par value.

Issued share capital

On October 7, 2014 the Company received approval from the Canadian Securities Exchange (“CSE”) to consolidate its shares on the ratio of one new share for three old shares. Prior to consolidation there were 19,244,899 shares outstanding. Post consolidation there were 6,414,965 shares outstanding.

At July 31, 2016 there were 16,414,965 common shares outstanding (October 31, 2015 – 11,414,965).

Private placements

On November 20, 2014 the Company completed a non-brokered private placement at \$0.05 per unit for the issuance of 5,000,000 unit and raised a total of \$250,000.00 for working capital purposes from the sale of Units. Each unit consists of one common share in the equity of the Company and one share purchase warrant. A warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.05 per share for a period of five years. No finder's fees were paid for this financing.

Stock options

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

There were no options outstanding as at July 31, 2016 and October 31, 2015.

Innovative Properties Inc.
Notes to the Financial Statements
For the three and nine months ended July 31, 2016 and 2015
(Unaudited & Expressed in Canadian dollars)

11. Share Capital (continued)

Warrants

| | July 31, 2016 | | October 31, 2015 | |
|---------------------------------|--------------------|---------------------------------|--------------------|---------------------------------|
| | Number of warrants | Weighted average exercise price | Number of warrants | Weighted average exercise price |
| | | \$ | | \$ |
| Warrants outstanding, beginning | 5,000,000 | 0.05 | - | - |
| Warrants issued | - | - | 5,000,000 | 0.05 |
| Warrants expired (exercised) | (5,000,000) | 0.05 | - | - |
| Warrants outstanding, ending | - | 0.05 | 5,000,000 | 0.05 |

On March 14, 2016, the Company authorized and directed to issue DRS Advice for fully paid common shares in the capital of the Issuer for 800,000 Common Shares at the exercise price of \$0.05 per unit.

On July 25, 2016, the Company authorized and directed to issue DRS Advice for fully paid common shares in the capital of the Issuer for 4,200,000 Common Shares at the exercise price of \$0.05 per unit.

There's no warrant outstanding as at July 31, 2016.

12. 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.

13. Income Tax

The Company has non-capital losses of approximately \$780,000, which expire between 2026 to 2032.

14. 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:

14. Financial risk management and capital management (continued)

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 trade receivables. 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.

Liquidity risk

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

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

Foreign exchange risk

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

Interest rate risk

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

Capital management

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

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

Classification of financial instruments

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

| | July 31, 2016 | October 31, 2015 |
|--|----------------------|-------------------------|
| | \$ | \$ |
| Loans and receivables: | | |
| Cash and cash equivalents | 455,902 | 305,606 |
| Other receivables | 8,182 | 1,530 |
| Loans receivable from related parties | 28,651 | 31,900 |
| Trade receivables due from related parties | 481,783 | 349,333 |
| FVTPL: | | |
| Marketable securities | 1,112,824 | 927,015 |
| | 2,087,342 | 1,615,384 |

Innovative Properties Inc.
Notes to the Financial Statements
For the three and nine months ended July 31, 2016 and 2015
(Unaudited & Expressed in Canadian dollars)

14. Financial risk management and capital management (continued)

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

| | July 31, 2016 | October 31, 2015 |
|---------------------|---------------|------------------|
| | \$ | \$ |
| Trade payables | 4,302 | 6,168 |
| Payroll liabilities | 3,251 | 20,329 |
| | 7,553 | 29,653 |

Fair value

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

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

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

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

| | As at July 31, 2016 | | |
|---------------------------|---------------------|---------|---------|
| | Level 1 | Level 2 | Level 3 |
| | \$ | \$ | \$ |
| Cash and cash equivalents | 455,902 | - | - |
| Trade receivables | - | - | 481,783 |
| Marketable securities | 707,575 | - | 405,249 |

| | As at October 31, 2015 | | |
|---------------------------|------------------------|---------|---------|
| | Level 1 | Level 2 | Level 3 |
| | \$ | \$ | \$ |
| Cash and cash equivalents | 305,606 | - | - |
| Trade receivables | - | - | 349,333 |
| Marketable securities | 67,160 | - | 859,855 |

15. Commitments

The Company has terminated the lease rental agreement, with a company which has parties in common that have significant influence over the Company in May 2016. The Company also has started to end providing management services to existing clients.