INNOVATIVE PROPERTIES INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED OCTOBER 31, 2016 AND 2015

(EXPRESSED IN CANADIAN DOLLARS)

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

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, 2016 and 2015, and the statements of comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence 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, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

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DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada
February 28, 2017

Innovative Properties Inc.
Statements of Financial Position
(Expressed in Canadian dollars)
As at

	Note	October 31, 2016	October 31, 2015
ASSETS		$	$
Current assets			
Cash and cash equivalents	4	453,463	305,606
Marketable securities	5	857,048	927,015
Other receivable		8,849	1,530
Prepaid expenses		-	1,050
Loan receivable	6	50,000	-
Trade receivables from related parties	7	132,449	349,333
Due from related parties	7	4,478	31,900
		1,506,287	1,616,434
Non-current assets			
Deferred tax asset	12	-	160,145
Equipment		807	530
TOTAL ASSETS		**1,507,094**	**1,777,109**
LIABILITIES			
Current liabilities			
Trade payables and accrued liabilities	8	172,627	43,460
Deferred revenue	9	-	45,000
TOTAL LIABILITIES		172,627	88,460
SHAREHOLDERS' EQUITY			
Share capital	10	2,008,082	1,758,082
Reserves	11	541,896	541,896
Deficit		(1,215,511)	(611,329)
TOTAL EQUITY		1,334,467	1,688,649
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,507,094**	**1,777,109**

Subsequent events (Note 15)

Approved for issuance by the Board of Directors on February 28, 2017:

"Jared Scharf"
Director

"Parmjeet Johal"
Director

The accompanying notes are an integral part of the financial statements

Innovative Properties Inc.
Statements of Comprehensive Income (Loss)
(Expressed in Canadian dollars)
For the years ended

	Note	October 31, 2016	October 31, 2015
		$	$
Revenue	7	642,700	1,169,204
Expenses			
Amortization		399	843
Bad debt expense	7	104,747	48,455
Bank charges and interest expense		830	630
Filing and transfer fees		18,280	73,064
Management and consulting fees	7	110,800	65,375
Office and miscellaneous		2,634	25,115
Professional fees	7	30,060	28,231
Rent	7	264,000	330,000
Rent site improvement		109,281	-
Salaries		151,436	245,394
Vehicle		-	6,009
		(792,467)	(823,116)
Other items			
Change in fair value of marketable securities	5	(213,116)	366,668
Gain on sale of marketable securities	5	18,803	-
Foreign exchange gain		-	8,538
Recovery of loan receivable	6	94,472	-
Write-off of loans receivable	6,7	(208,837)	(162,082)
Interest income	7	13,567	2,836
		(295,111)	215,960
Net income (loss) before tax		(444,878)	562,048
Deferred tax expense	12	(160,145)	(123,773)
Income tax recovery		841	
Net and comprehensive income (loss)		(604,182)	438,275
Income (loss) per share - basic and diluted		(0.05)	0.04
Weighted average number of shares outstanding		13,048,957	11,141,011

The accompanying notes are an integral part of the financial statements

Innovative Properties Inc.
Statement of Changes in Shareholders' Equity
(Expressed in Canadian dollars)

		Share capital		Reserves				
	Note	Number of Shares	Share Capital	Options reserve	Warrant reserve	Loan reserve	Deficit	Total
			$	$	$	$	$	$
Balance, October 31, 2014		**6,414,966**	**1,508,082**	**102,484**	**315,908**	**123,504**	**(1,049,604)**	**1,000,374**
Shares issued for cash	10	5,000,000	250,000	-	-	-	-	250,000
Net and comprehensive income		-	-	-	-	-	438,275	438,275
Balance, October 31, 2015		**11,414,966**	**1,758,082**	**102,484**	**315,908**	**123,504**	**(611,329)**	**1,688,649**
Exercise of warrants	10	5,000,000	250,000	-	-	-	-	250,000
Net and comprehensive loss		-	-	-	-	-	(604,182)	(604,182)
Balance, October 31, 2016		**16,414,966**	**2,008,082**	**102,484**	**315,908**	**123,504**	**(1,215,511)**	**1,334,467**

The accompanying notes are an integral part of the financial statements

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

	Note	For the Year Ending October 31, 2016	October 31, 2015
		$	$
Operating activities			
Net income (loss)		(604,182)	438,275
Adjustments for non-cash items:			
Amortization		399	843
Deferred tax expense		160,145	123,773
Change in fair value of marketable securities		213,116	(366,668)
Gain on sale of marketable securities		(18,803)	-
Accrued interest income		(13,567)	(2,836)
Write-off of loans receivable		208,837	162,082
Bad debt expense		104,747	48,455
Foreign exchange gain		(3,176)	(4,902)
Changes in non-cash working capital items:			
Other receivable		(7,319)	5,178
Trade receivables due from related parties		112,137	1,498
Prepaid expenses		1,050	(1,050)
Trade payables and accrued liabilities		129,159	(26,805)
Due to related parties		-	(3,000)
Deferred revenue		(45,000)	(48,150)
Net cash provided by operating activities		237,542	326,684
Investing activities			
Acquisition of property and equipment		(676)	-
Purchase of marketable securities		(214,432)	(541,785)
Proceeds from sale of marketable securities		90,095	-
Loans issued		(50,000)	(70,544)
Loans issued to related parties		(229,397)	(112,881)
Repayment of loans		64,725	-
Net cash flows used in investing activities		(339,685)	(725,210)
Financing activities			
Issuance of shares for cash		-	250,000
Exercise of warrants		250,000	-
Net cash flows provided by financing activities		250,000	250,000
Change in cash and cash equivalents		147,857	(148,526)
Cash and cash equivalents, beginning		305,606	454,132
Cash and cash equivalents, ending		453,463	305,606

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 Business Corporations Act of British Columbia on October 31, 2002. The Company's principal activity is providing management and consulting services. The Company's shares trade on the Canadian Securities Exchange ("CSE") under the symbol "INR".

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

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, 2016, the Company was 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 achieve profitable operations or obtain additional financing 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. There financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate.

2. Statement of compliance

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

These financial statements were approved and authorized by the Board of Directors on February 28, 2017.

3. Basis of preparation and significant accounting standards

Basis of preparation
The financial statements of the Company have been prepared on an accrual basis, except for cash flow information, and are based on historical costs, except for certain financial instruments measured at 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 that affect the reported amount of assets and liabilities, the disclosure of contingent assets and contingent liabilities at the date of the financial statements and the reported amount of revenue and expenses during the period. Actual results could differ from these estimates. 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 periods include the recoverability and measurement of deferred tax assets, the valuation of marketable securities, the recoverability of trade receivables and impairment considerations for loans receivable.

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

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 the collection of revenue is reasonably assured.

Revenue recognition

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

Income (loss) per share

Basic income (loss) per share is calculated by dividing the net loss available to common shareholders for the period by the weighted average number of common shares outstanding in the period. The Company uses the treasury stock method to calculate diluted loss per share. Diluted loss per share reflects the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. Diluted amounts are not present when the effect of the computations is anti-dilutive.

Share-based payments

The Company operates a stock option plan. Share-based payments to employees are measured at the fair value on the grant date of stock options and recognized over the vesting period. Share-based payments to non-employees are measured at fair value of goods or services received or otherwise at fair value of the share-based payments are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value is determined using the Black–Scholes option pricing model. The number of stock options expected to vest is reviewed and adjusted at the end of each reporting period.

Warrants

Proceeds from issuances by the Company of units consisting of shares and warrants are allocated based on the residual method. The fair value of the warrants is determined to be the difference between gross proceeds over the fair market value of the shares. If the proceeds from the offering are less than or equal to the fair market value of shares issued, a fair value of $Nil is assigned to the warrants.

Income taxes

<u>Current income tax:</u>

Current income tax assets and liabilities for the 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.

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

Income taxes (Continued)

Deferred tax:

Deferred tax is provided 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 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 tax asset to be utilized.

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

Foreign currency translation

The functional currency of each entity is measured using the currency of the primary economic environment in which that entity operates. The financial statements are presented in Canadian dollars which is also the Company's functional currency.

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

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

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

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 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.

Amortization is recorded using a straight-line over the estimated useful lives. The significant classes of equipment and their useful lives are as follows:

Computer equipment	3 years
Computer software	1 year

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

Impairment of assets
The Company's non-financial assets is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized to profit or loss. The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use.

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

Financial instruments
The Company classifies its financial instruments in the following categories: 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.

Fair value through profit or loss ("FVTPL") - 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 group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. They are subsequently measured at fair value with changes in fair value recognized in profit or loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They 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 - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities and that the Company intends to hold to maturity. These assets 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 – These consist of 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 to the extent they are expected to be realized within 12 months after the end of the reporting period. Unrealized gains and losses are recognized in other comprehensive income (loss), except for impairment losses and foreign exchange gains and losses on monetary financial assets.

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 group 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.

(Expressed in Canadian dollars)

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

Financial instruments (Continued)
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 an impairment has arisen.

The Company does not have any derivatives.

Accounting standards issued but not yet applied by the Company
At the date of the approval of the financial statements, a number of standards and interpretations were in issue but not yet effective. The Company considers that these new standards and interpretations are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

4. Cash and cash equivalents

	October 31, 2016	October 31, 2015
	$	$
Cash at bank	443,380	295,568
Guaranteed investment certificates	10,083	10,038
	453,463	305,606

5. Marketable securities

As of October 31, 2016, the Company's marketable securities are comprised of common shares and share-purchase warrants of Canadian public companies which are measured at fair value. The fair value of the shares and warrants are as follows:

	October 31, 2016	October 31, 2015
	$	$
Common Shares	635,942	517,510
Share-purchase warrants	221,106	409,505
	857,048	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, 2016	October 31, 2015
Expected life of warrants	3.31 years	4.25 years
Annualized volatility	163%	181%
Risk-free interest rate	0.59%	0.75%
Dividend rate	0%	0%

(Expressed in Canadian dollars)

5. Marketable securities (Continued)

During the year ended October 31, 2016, the Company purchased 3,516,600 (2015 – 1,000,000) common shares issued by Canadian public companies with parties having significant influence over the Company. As of October 31, 2016, the fair value of these shares was $152,390 (2015 - $19,966).

6. Loan receivable

During the year ended October 31, 2016, the Company issued a loan of $50,000 to an arm's length party. The loan is due on December 28, 2016, bearing interest at 8% per annum and was repaid in full subsequent to October 31, 2016.

On December 16, 2014, the Company had an outstanding loan receivable of USD $60,000 (CAD $79,082) 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 was in default and collectability could not be reasonably assured.

During the year ended October 31, 2015, the Company wrote off a loan receivable of $83,000 due from a Company with directors in common. During the year ended October 31, 2016, the Company collected the principal amount of $83,000 and interest of $11,472 and recorded a recovery of $94,472.

7. Related party transactions

Related party balances
The following amounts due from related parties, earned from revenues, are included in trade receivables due from related parties:

	October 31, 2016	October 31, 2015
	$	$
Companies with parties having significant influence over the Company	132,449	349,333

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

During the year ended October 31, 2016, the Company wrote off $104,747 (2015 – $48,455) of trade receivables due from related parties due to the uncertainty of collectability.

Related party transactions
The Company incurred the following transactions with companies with common key management:

	October 31, 2016	October 31, 2015
	$	$
Consulting fees	4,300	35,000
Accounting fees included in professional fees	15,500	12,500
Rent	261,000	245,000
	280,800	292,500

During the year ended October 31, 2016, the Company earned $570,700 (2015 - $978,841) in revenue through service contracts with companies with common directors and companies with significant influence over the Company.

(Expressed in Canadian dollars)

7. Related party transactions (Continued)

During the year ended October 31, 2016, the Company incurred $264,000 for rent to a company with significant influence over the Company. The Company has a balance of $94,500 due to the Company as at October 31, 2016. The lease was terminated subsequent to October 31, 2016. The Company incurred fees of $53,156 in rent site improvement costs to the company during the year.

During the year ended October 31, 2016, the Company issued the following loans to companies with common directors, common management, or companies with parties containing significant influence over the Company. These are included in loans receivable from related parties:

Amount due as at October 31, 2016	Amount written off	Balance as at October 31, 2016	Interest income	Terms and description
$			$	
22,577	22,578	-	2,203	$18,355 was loaned with interest of 12% per annum, and is due on demand.
53	-	53	53	$50,000 was loaned with interest of 3% per annum and is due on demand
186,259	186,259	-	11,311	$180,000 was loaned, non-interest bearing due on September 9, 2016. Upon default, the loan is bearing interest at 5% per annum.
3,925	-	3,925	-	Non-interest bearing, due on demand.
500	-	500	-	Non-interest bearing, due on demand.
213,315	208,837	4,478	13,567	

Amount due as at October 31, 2015	Amount written off	Balance as at October 31, 2015	Interest income	Terms and description
$	$	$	$	
83,000	83,000	-	-	$83,000 was loaned with interest of 8% due on June 30, 2015. This loan was written off during the year ended October 31, 2015 as it is in default, and collectability cannot be reasonably assured.
20,375		20,375	2,836	$18,355 was loaned with interest of 12% per annum, and is due on demand.
3,150	-	3,150	-	Non-interest bearing, due on demand.
1,050	-	1,050	-	Non-interest bearing, due on demand.
3,925	-	3,925	-	Non-interest bearing, due on demand.
2,200	-	2,200	-	Non-interest bearing, due on demand.
1,200	-	1,200	-	Non-interest bearing, due on demand.
114,900	83,000	31,900	2,836	

(Expressed in Canadian dollars)

8. Trade payables and accrued liabilities

	October 31, 2016	October 31, 2015
	$	$
Trade payables	157,627	6,168
Payroll liabilities	-	20,329
GST payable	-	1,963
Accrued liabilities	15,000	15,000
	172,627	43,460

9. Deferred revenue

As at October 31, 2015, the Company had $45,000 from deferred revenue for the consulting services performed to the parties who have significant influence over the Company. During the year ended October 31, 2016, the Company recognized the deferred revenue.

10. 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. All shares and per share amounts have been shown on a post consolidation basis.

Exercise of warrants

During the year ended October 31, 2016, the Company issued 5,000,000 common shares for gross proceeds of $250,000 pursuant to the exercise of warrants.

Private placements

On November 20, 2014, the Company completed a non-brokered private of 5,000,000 units at $0.05 per unit for gross proceeds of $250,000. Each unit consists of one common share and one share-purchase warrant. Each warrant entitles the holder to purchase one additional common share 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 October 31, 2016 and 2015.

(Expressed in Canadian dollars)

10. Share capital (Continued)

Warrants

	October 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 Exercised	(5,000,000)	0.05	-	-
Warrants Outstanding, ending	-	0.05	5,000,000	0.05

11. 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 during the year ended October 31, 2010.

12. Income Tax

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

	2016	2015
	$	$
Net income (loss) before tax	(444,878)	562,048
Statutory tax rate	26%	26%
Expected income tax expense at statutory rate	(115,668)	146,132
Non-deductible items and other permanent differences	25,795	(47,667)
Effect of prior year adjustments	(121,939)	25,308
Change in valuation allowance	51,667	-
Total income tax expense	160,145	123,773

(Expressed in Canadian dollars)

12. Income Tax (Continued)

The Company has the following deferred tax assets and liabilities:

	2016	2015
	$	$
Deferred income tax assets:		
Non-capital loss carry-forward	225,887	203,549
Marketable securities	(17,235)	(46,443)
Cumulative eligible capital	3,019	3,019
Equipment	141	20
	211,812	160,145
Unrecognized deferred tax asset	(211,812)	-
Total deferred income tax asset	-	160,145

The Company has non-capital losses of approximately $869,000, which expire between 2026 to 2036.

13. Option agreement with Chimata Gold Corp.

On August 31, 2016, the Company entered into an option agreement with Chimata Gold Corp. ("Chimata"), a related party, wherein Chimata would earn 100% interest in the Company's Maggie claims located in British Columbia, Canada. Chimata will earn its interest by:

(i) Cash payment of $5,000 upon execution of the agreement (received as a promissory note subsequent to October 31, 2016 (Note 15));

(ii) Cash payment of $50,000 on or before April 30, 2017;

(iii) Incurring work costs of $50,000 on or before the end of December 31, 2016; and

(iv) Incurring further work costs of $50,000 before April 30, 2017

As at October 31, 2016, the agreement was in good standing.

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:

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.

(Expressed in Canadian dollars)

14. Financial risk management and capital management (Continued)

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:

	October 31, 2016	**October 31, 2015**
	$	$
Loans and receivables:		
Cash and cash equivalents	453,463	305,606
Other receivables	8,849	1,530
Loan receivable	50,000	-
Loans receivable from related parties	6,678	31,900
Trade receivables due from related parties	132,449	349,333
FVTPL:		
Marketable securities	916,768	927,015
	1,568,207	1,615,384

(Expressed in Canadian dollars)

14. Financial risk management and capital management (Continued)

Classification of financial instruments (continued)

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

	October 31, 2016	October 31, 2015
	$	$
Trade payables	157,627	6,168
Payroll liabilities	-	20,329
	157,627	26,497

Fair value

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

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

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

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

	As at October 31, 2016		
	Level 1	Level 2	Level 3
	$	$	$
Cash and cash equivalents	453,463	-	-
Marketable securities	110,402	525,540	221,106

	As at October 31, 2015		
	Level 1	Level 2	Level 3
	$	$	$
Cash and cash equivalents	305,606	-	-
Marketable securities	67,160	450,350	409,505

15. Subsequent Events

On November 8, 2016, the Company entered into a promissory note agreement whereby the Company lent $50,000 to a related party of the Company. The promissory note is interest bearing at 5%, unsecured and due on February 8, 2017.

On December 1, 2016, the Company entered into a promissory note agreement whereby the Company will receive $5,000 from a related party of the Company pursuant to an option agreement (Note 13). The note is non-interest bearing, unsecured and due on demand.