

TITANSTAR PROPERTIES INC.

UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months period ended October 31, 2015

Responsibility for Financial Statements

The accompanying condensed consolidated interim financial statements for TitanStar Properties Inc. (the “Company”) have been prepared by management in accordance with International Accounting Standard 34 – Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

These unaudited condensed consolidated interim financial statements, which are the responsibility of management, have not been reviewed by the Company’s auditors.

Management believes these unaudited condensed consolidated interim financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2015 and April 30, 2015, and the results of its operations and its cash flows for three and six months ended October 31, 2015 and October 31, 2014.

TITANSTAR PROPERTIES INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**

(expressed in Canadian Dollars)

	October 31, 2015	April 30, 2015
ASSETS		
Current		
Cash	\$ 233,793	\$ 224,440
Short-term investments (note 4)	81,887	75,489
Taxes recoverable	-	523,286
Amounts receivable	437	-
Prepaid expenses and deposits	<u>23,659</u>	<u>51,248</u>
	339,776	874,463
Interests in joint ventures and associates (note 5)	<u>18,984,116</u>	<u>15,474,492</u>
	<u>\$ 19,323,892</u>	<u>\$ 16,348,955</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 339,877	\$ 300,138
Promissory note payable (note 7)	400,000	400,000
Embedded derivative liability (note 6)	<u>-</u>	<u>89,899</u>
	739,877	790,037
Long-term debt		
Due to related parties (note 6)	2,260,949	2,244,564
Convertible debentures (note 8)	<u>4,151,816</u>	<u>4,174,590</u>
	<u>7,152,642</u>	<u>7,209,191</u>
Shareholders' equity		
Share capital (note 9)	14,220,283	11,091,632
Convertible debentures	236,686	246,368
Contributed surplus	1,214,740	1,205,544
Accumulated other comprehensive income	4,290,859	3,039,524
Deficit	<u>(7,791,318)</u>	<u>(6,443,304)</u>
	<u>12,171,250</u>	<u>9,139,764</u>
	<u>\$ 19,323,892</u>	<u>\$ 16,348,955</u>

Approved by the Board:

"T. Richard Turner"

Board Chair

"D. Neil McDonnell"

Chair, Audit Committee

TITANSTAR PROPERTIES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS
OF NET LOSS AND COMPREHENSIVE INCOME (LOSS)
(expressed in Canadian Dollars)

	Three months ended October 31,		Six months ended October 31,	
	2015	2014	2015	2014
EXPENSES				
General and administrative (note 13)	\$ 81,474	\$ 228,384	\$ 216,439	\$ 268,757
Finance costs (note 14)	239,425	426,476	465,949	837,828
Share-based compensation	6,844	3,475	9,196	8,460
OPERATING LOSS	(327,743)	(658,335)	(691,584)	(1,115,045)
OTHER ITEMS				
Share of income of joint ventures and associates (note 5)	(361,750)	1,137,925	(782,597)	1,105,767
Interest income	11	8	22	18
Other income	(22,187)	63,005	67,654	63,005
Foreign exchange gain (loss)	143,722	79,175	58,491	77,584
	(240,204)	1,280,113	(656,430)	1,246,374
NET INCOME (LOSS)	(\$ 567,947)	\$ 621,778	(\$ 1,348,014)	\$ 131,329
Basic and diluted income (loss) per common share (note 15)	(\$ 0.01)	\$ 0.01	(\$ 0.02)	\$ 0.00
NET INCOME (LOSS)	(\$ 567,947)	\$ 621,778	(\$ 1,348,014)	\$ 131,329
OTHER COMPREHENSIVE INCOME				
Currency translation adjustment of joint ventures and associates	(40,634)	585,033	1,251,335	644,590
COMPREHENSIVE INCOME (LOSS)	(\$ 608,581)	\$ 1,206,811	(\$ 96,679)	\$ 775,919

TITANSTAR PROPERTIES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS
OF CHANGES IN SHAREHOLDERS' EQUITY
(expressed in Canadian Dollars)

	Number of Shares	Share Capital	Convertible Debentures	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total
Balance, April 30, 2014	36,847,470	\$ 8,984,954	\$ 257,096	\$ 1,192,124	\$ 1,515,545	\$ (5,130,730)	\$ 6,818,989
Conversion of debentures	713,845	58,000	(9,231)	-	-	-	48,769
Issuance of shares – private placement	17,230,772	1,400,000	-	-	-	-	1,400,000
Issuance of shares to related parties	9,846,148	800,000	-	-	-	-	800,000
Share issue costs	-	(143,448)	-	-	-	-	(143,448)
Share-based compensation	-	-	-	8,460	-	-	8,460
Net loss for the period	-	-	-	-	-	131,329	131,329
Other comprehensive income	-	-	-	-	644,590	-	644,590
Balance, October 31, 2014	<u>64,638,235</u>	<u>\$ 11,099,506</u>	<u>\$ 247,865</u>	<u>\$ 1,200,584</u>	<u>\$ 2,160,135</u>	<u>\$ (4,999,401)</u>	<u>\$ 9,708,689</u>
Balance, April 30, 2015	64,650,538	\$ 11,091,632	\$ 246,368	\$ 1,205,544	\$ 3,039,524	\$ (6,443,304)	\$ 9,139,764
Conversion of debentures	49,230	4,000	(162)	-	-	-	3,838
Issuance of shares – property acquisition	50,552,705	3,033,162	-	-	-	-	3,033,162
Issuance of shares – private placement	1,524,804	91,489	-	-	-	-	91,489
Redemption of debentures	-	-	(9,520)	-	-	-	(9,520)
Share-based compensation	-	-	-	9,196	-	-	9,196
Net loss for the period	-	-	-	-	-	(1,348,014)	(1,348,014)
Other comprehensive income	-	-	-	-	1,251,335	-	1,251,335
Balance, October 31, 2015	<u>116,777,277</u>	<u>\$ 14,220,283</u>	<u>\$ 236,686</u>	<u>\$ 1,214,740</u>	<u>\$ 4,290,859</u>	<u>\$ (7,791,318)</u>	<u>\$ 12,171,250</u>

TITANSTAR PROPERTIES INC.
CONDENSED CONSOLIDATED INTERIM
STATEMENTS OF CASH FLOWS
(expressed in Canadian Dollars)

	Six months ended October 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (1,348,015)	\$ (131,330)
Adjustments to reconcile net loss to net cash provided by operating activities		
Share-based compensation	9,196	8,460
Amortization of transaction costs	78,220	96,822
Accretion of convertible debenture	55,294	26,590
Write-off of potential projects	-	346,004
Share of income of joint ventures and associates	782,597	(1,105,767)
Foreign exchange (gain) loss	(58,490)	(77,584)
Change in fair value of embedded derivative liability	(89,899)	-
Changes in operating assets and liabilities (note 16)	<u>590,177</u>	<u>(1,428,209)</u>
	<u>19,080</u>	<u>(2,002,354)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments in and contributions to joint ventures and associates	(3,146,173)	(180,239)
Distributions from joint ventures and associates	105,287	1,839,801
Advances to joint ventures and associates	-	3,026,127
Purchase of short-term investments	<u>-</u>	<u>(1,983)</u>
	<u>(3,040,886)</u>	<u>4,683,706</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from related parties	(73,514)	1,703,553
Proceeds from issuance of shares	3,128,651	2,114,552
Proceeds from issuance of convertible debentures	-	(195,763)
Proceeds from redemption of convertible debentures	(32,455)	-
Change in long-term debt	<u>-</u>	<u>(6,760,971)</u>
	<u>3,022,682</u>	<u>(2,716,531)</u>
Effect of exchange rate changes on cash	<u>8,477</u>	<u>11,707</u>
Change in cash for the period	9,353	(23,471)
Cash, beginning of period	<u>224,440</u>	<u>545,020</u>
Cash, end of period	<u>\$ 233,793</u>	<u>\$ 521,549</u>
Interest paid	<u>\$ 322,166</u>	<u>\$ 480,246</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>

TITANSTAR PROPERTIES INC.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(expressed in Canadian dollars)

1. Organization

TitanStar Properties Inc. (the “Company”) was incorporated under the *Canada Business Corporations Act* on June 3, 2008 and is a real estate holding company trading on the TSX Venture Exchange (common shares “TSXV: TSP”, convertible debentures “TSXV: TSP.DB”). The Company issued share capital and commenced operations on June 30, 2008. The registered office of the Company is 1745 - 1050 West Pender Street, Vancouver, BC, V6E 3S7.

The sole business of the Company is the ownership of real property interests, consistent with a well-established investment policy. The Company seeks to create a portfolio of stabilized income producing real estate assets primarily in the United States southwest area with value to be maximized through the acquisition of well-positioned, quality assets where management believes there will be lease rate increases in the future and decreasing capitalization rates that will each contribute to value creation. The initial focus is on necessity-based, nationally-anchored retail/commercial properties, community centers and industrial properties.

For the six months period ended October 31, 2015, the Company had comprehensive loss of \$96,679 (October 31, 2014 – income of \$775,919) and has a deficit of \$7,791,318 (October 31, 2014 – deficit of \$4,999,401). As at October 31, 2015, the Company had working capital deficiency of \$400,101 (October 31, 2014 – working capital of \$324,690). In addition to ongoing working capital requirements, the Company may be required to secure sufficient funding for acquisitions, general and administration costs and interest charges. Although management may have been successful in the past in undertaking financings, there can be no assurance that management will be able to do so in the future on terms acceptable to the Company. These condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of operations for the foreseeable future. These condensed consolidated interim financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses, and consolidated statement of financial position classifications that may be necessary were the going concern assumption inappropriate. These adjustments could be material.

These condensed consolidated interim financial statements have been approved for issue by the Board of Directors on December 15, 2015.

TITANSTAR PROPERTIES INC.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(expressed in Canadian dollars)

2. Basis of presentation

These interim financial statements are prepared in accordance with *IAS34 Interim Financial Reporting* using the same presentation and accounting policies under International Reporting Standards as disclosed in the April 30, 2015 audited financial statements. They do not include all the information and disclosures normally provided in annual financial statements and should be read in conjunction with the audited annual consolidated financial statements and the notes thereto for the year ended April 30, 2015.

The condensed consolidated interim financial statements are prepared on a going concern basis and have been prepared on a historical cost basis.

3. Critical accounting judgments, estimates and assumptions

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that effect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected. Management bases its judgments, estimates, and assumptions on factors it believes to be reasonable in the circumstances, but which may be inherently uncertain and unpredictable. In the process of applying the Company's accounting policies, management has applied the same methodologies in making significant accounting judgments, estimates and assumptions as disclosed in the Company's consolidated statements for the year ended April 30, 2015.

4. Short-term investments

Short-term investments consist of term deposits held with a chartered bank bearing interest at 0.05% interest per annum (October 31, 2014 – 0.05% interest per annum) and are due November 2015 (2014 – November 2014).

5. Interests in joint ventures and associates

The following summarizes financial information about the Company's interests in joint ventures and associates:

	Six months ended October 31, 2015	Year ended April 30, 2015
Interests in joint ventures and associates, beginning of period	\$15,474,492	\$16,168,074
Contributions and investments	3,146,173	-
Distributions	(105,287)	(2,704,150)
Share of net income (loss)	(782,597)	468,263
Currency translation adjustments	1,251,335	1,542,305
Interests in joint ventures and associates, end of period	<u>\$18,984,116</u>	<u>\$15,474,492</u>

TITANSTAR PROPERTIES INC.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(expressed in Canadian dollars)

5. Interests in joint ventures and associates (continued)

At October 31, 2015, the Company held the following joint venture interests and associates accounted for on the equity basis:

Property Name	Investment	%	City	State	Date Acquired
Deer Springs Crossing ("DSC")	Joint Venture	50%	Las Vegas	NV	04/16/10
Swanway Plaza ("SWP")	Joint Venture	50%	Tucson	AZ	12/31/12
San Tan Plaza ("STP")	Joint Venture	50%	Chandler	AZ	01/25/13
Adam's Dairy Landing ("ADL")	Associate	38.4%	Blue Springs	MO	09/27/13
Martin Downs Town Center ("MDTC")	Associate	49%	Palm City	FL	09/18/15

Deer Springs Crossing represents a 50% interest in Deer Springs Crossing LP through the Company's 100% wholly owned subsidiary, TitanStar DSC Holdings Inc., and a 50% interest in LVLH GP Inc. (49.5% limited partnership interest in LV Loan Holdings LP and 0.5% interest in LV Loan Holdings LP through a 50% interest in the general partner of LVLH GP Inc.).

Swanway Plaza represents a 50% interest in TSP LP I, L.P., a joint venture in which the Company and Romspen Investment Corporation ("Romspen") each have a 50% indirect interest. The Company's interest is through two wholly-owned subsidiaries, TSP LP Holdings Inc. (49.75% limited partnership interest in TSP LP I, L.P.) and TSP GP Holdings Inc. (0.25% general partnership interest in TSP LP I, L.P. through a 50% interest in the general partner of TSP LP I, L.P., TSP GPCo. I, Inc.).

San Tan Plaza represents a 50% interest in TSP LP II, L.P., a joint venture in which the Company and Romspen each have a 50% indirect interest. The Company's interest is through two wholly-owned subsidiaries, TSP LP Holdings Inc. (49.75% limited partnership interest in TSP LP II, L.P.) and TSP GP Holdings Inc. (0.25% general partnership interest in TSP LP II, L.P. through a 50% interest in the general partner of TSP LP II, L.P., TSP GPCo. II, Inc.).

Adam's Dairy Landing represents a 38.4% interest in a retail shopping center, in Blue Springs, Missouri, Blue Springs Partners, LP. The Company's interest is held through its wholly owned subsidiary, TitanStar US Inc. (37.5% limited partnership interest in Blue Springs Partners, LP) and Adams Dairy Landing GP, Inc. (0.9% general partnership interest in Blue Springs Partners, LP).

Martin Downs Town Center represents a 49% interest in a retail shopping center in Palm City, Florida, Martin Downs NSC LLC. The Company's interest is held through its wholly owned subsidiary, TitanStar US, Inc.

TITANSTAR PROPERTIES INC.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(expressed in Canadian dollars)

5. Interests in joint ventures and associates (continued)

Summarized financial information of the Company's share of its interest in joint ventures and associates is as follows:

As at October 31, 2015:

	<u>DSC</u>	<u>SC</u>	<u>SWP</u>	<u>STP</u>	<u>ADL</u>	<u>MDTC</u>	<u>TOTAL</u>
Current assets							
Cash	\$ 191,538	-	\$ 109,159	\$ 35,362	\$ 295,396	\$ 225,562	\$ 857,017
Amounts receivable	-	-	41,090	43,913	840,355	274,207	1,199,565
Prepays and deposits	33,186	-	327,417	143,799	2,030,348	507,300	3,042,050
	<u>224,724</u>	<u>-</u>	<u>477,666</u>	<u>223,074</u>	<u>3,166,099</u>	<u>1,007,069</u>	<u>5,098,632</u>
Income properties	14,467,601	-	12,715,892	4,624,217	75,256,089	14,376,292	121,440,091
Current liabilities							
Accounts payable and accrued liabilities	(23,725)	-	(56,420)	(73,025)	(9,281,187)	(123,198)	(9,557,555)
Current portion of long-term debt	-	-	(134,551)	(47,423)	-	(48,145)	(230,119)
	<u>(23,725)</u>	<u>-</u>	<u>(190,971)</u>	<u>(120,448)</u>	<u>(9,281,187)</u>	<u>(171,343)</u>	<u>(9,787,674)</u>
Long-term debt	-	-	(8,139,931)	(2,927,643)	(55,512,675)	(8,914,852)	(75,495,101)
Net assets at 100%	<u>\$14,668,600</u>	<u>-</u>	<u>\$ 4,862,656</u>	<u>\$1,799,200</u>	<u>\$13,628,326</u>	<u>\$ 6,297,166</u>	<u>\$41,255,948</u>
Company share	<u>\$ 7,334,300</u>	<u>-</u>	<u>\$ 2,431,328</u>	<u>\$ 899,600</u>	<u>\$ 5,233,277</u>	<u>\$ 3,085,611</u>	<u>\$18,984,116</u>

TITANSTAR PROPERTIES INC.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(expressed in Canadian dollars)

5. Interests in joint ventures and associates (continued)

As at April 30, 2015:

	<u>DSC</u>	<u>SC</u>	<u>SWP</u>	<u>STP</u>	<u>ADL</u>	<u>TOTAL</u>
Current assets						
Cash	\$ 303,994	\$ 3,370	\$ 133,217	\$ 27,207	\$ 227,575	\$ 695,363
Amounts receivable	5,914	5,069	10,382	36,118	586,050	643,533
Prepays and deposits	21,524	-	272,624	109,130	1,212,760	1,616,038
	<u>331,432</u>	<u>8,439</u>	<u>416,223</u>	<u>172,455</u>	<u>2,026,385</u>	<u>2,954,934</u>
Income properties	13,291,467	-	11,916,637	4,351,828	71,171,083	100,731,015
Current liabilities						
Accounts payable and accrued liabilities	(25,335)	(3,219)	(86,327)	(71,052)	(7,556,208)	(7,742,141)
Current portion of long-term debt	-	-	(124,071)	(43,730)	-	(167,801)
	<u>(25,335)</u>	<u>(3,219)</u>	<u>(210,398)</u>	<u>(114,782)</u>	<u>(7,556,208)</u>	<u>(7,909,942)</u>
Long-term debt	-	-	(7,562,350)	(2,722,795)	(51,188,940)	(61,474,085)
Net assets at 100%	<u>\$13,597,564</u>	<u>\$ 5,220</u>	<u>\$ 4,560,112</u>	<u>\$1,686,706</u>	<u>\$14,452,320</u>	<u>\$34,301,922</u>
Company share	<u>\$ 6,798,782</u>	<u>\$ 2,610</u>	<u>\$ 2,280,056</u>	<u>\$ 843,353</u>	<u>\$ 5,549,691</u>	<u>\$15,474,492</u>

TITANSTAR PROPERTIES INC.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(expressed in Canadian dollars)

5. Interests in joint ventures and associates (continued)

For the six months ended October 31, 2015:

	<u>DSC</u>	<u>SC</u>	<u>SWP</u>	<u>STP</u>	<u>ADL</u>	<u>MDTC</u>	<u>TOTAL</u>
Revenue, including operating recoveries	\$ 6,705	\$ (340)	\$ 625,225	\$ 301,739	\$3,313,644	\$ 351,076	\$ 4,598,049
Operating and leasing expenses	(82,661)	(5,183)	(194,236)	(145,188)	(1,363,759)	(46,329)	(1,837,356)
Depreciation	-	-	(203,137)	(93,279)	(2,485,535)	(240,051)	(3,022,002)
Interest expense	-	-	(170,673)	(60,580)	(1,461,987)	(74,311)	(1,767,550)
Net income at 100%	(75,956)	(5,523)	57,180	2,692	(1,997,637)	(9,615)	(2,028,859)
Company share	(37,978)	(2,762)	28,590	1,346	(767,092)	(4,711)	(782,597)
Other comprehensive income	585,805	143	191,020	70,316	450,678	(46,627)	1,251,335
Total comprehensive income	\$ 547,827	\$ (2,619)	\$ 219,610	\$ 71,662	\$(316,414)	\$ (51,338)	\$ 468,738

For the six months ended October 31, 2014:

	<u>DSC</u>	<u>SC</u>	<u>SWP</u>	<u>STP</u>	<u>ADL</u>	<u>TOTAL</u>
Revenue, including operating recoveries	\$ 12,369	\$3,304,059	\$ 669,474	\$ 260,707	\$3,266,698	\$ 7,513,307
Operating and leasing expenses	(111,320)	(70,895)	(195,067)	(116,193)	(1,173,370)	(1,666,845)
Depreciation	-	(419,601)	(173,267)	(79,647)	(1,969,602)	(2,642,117)
Interest expense	-	(33,623)	(148,828)	(52,455)	(949,480)	(1,184,386)
Net income at 100%	(98,951)	2,779,940	152,312	12,412	(825,754)	2,019,959
Company share	(49,476)	1,389,970	76,156	6,206	(317,090)	1,105,767
Other comprehensive income	177,826	41,981	62,769	24,189	166,090	472,855
Total comprehensive income	\$ 128,350	\$1,431,951	\$ 138,925	\$ 30,395	\$(151,000)	\$ 1,578,621

TITANSTAR PROPERTIES INC.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(expressed in Canadian dollars)

6. Related party transactions

The Company has entered into an asset management agreement with TitanStar Capital Corp. (the "Asset Manager"), pursuant to which the Asset Manager will provide asset management, administrative and other services to the Company and its subsidiaries. TitanStar Capital Corp. is a corporation owned by TitanStar Investment Group Inc., which is owned by T. Richard Turner, Chief Executive Officer of the Company. The Company has the right to terminate the asset management agreement at any time upon 60 days notice. The Asset Manager is entitled to a monthly advisory fee. On the date on which the Company attains an asset base with a gross book value of \$200 million the Asset Manager is entitled to an annual advisory fee of 0.3% of the gross book value of the assets.

For the six months period ended October 31, 2015, the Company paid \$6,000 plus GST (2014 - \$6,000 plus GST) to the Asset Manager for management fees pursuant to the asset management agreement.

On May 28, 2014, the Company entered into debt settlement agreements, pursuant to which it would issue an aggregate total of 9,846,152 common shares in lieu of cash for the repayment of a total of \$800,000 amounts due to related parties. The debt settlements were subject to the Company receiving all necessary prior approvals from TSXV. On June 5, 2014, with TSXV approval, the Company issued 9,846,152 common shares for the debt settlement agreements mentioned above, at a price of \$0.08125 per share. The common shares issued were subject to a four month hold resale restriction.

On September 30, 2014, the Company closed a private placement of an aggregate principal amount of \$2.5 million convertible unsecured subordinated debentures. The debentures are held by a private company of which the President and CEO of the Company is a principal, and by a private company of which a director of the Company is a director. The Debentures bear interest at 7.5% per annum and mature on September 30, 2019. The Company may repay all or a portion of the indebtedness owing under the Debentures at any time without penalty.

Each Debenture is convertible into units with each comprised of one common share and one share purchase warrant at a conversion price of \$0.09 in the first year, and for each year thereafter at a conversion price equal to the greater of the closing sales price (or the closing bid, if no sales were reported on the date of determination) of the common shares on the TSX Venture Exchange or \$0.10. Each warrant will entitle the holder to acquire an additional share at an exercise price equal to the conversion price of the Debentures in effect at the time such warrants are issued, and will expire on September 30, 2019.

The calculated present value of \$2,219,011 was calculated using a discount rate of 10%, and the residual amount of \$280,989 was allocated to the conversion feature.

TITANSTAR PROPERTIES INC.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(expressed in Canadian dollars)

6. Related party transactions (continued)

The conversion feature is considered an embedded derivative liability as the conversion price varies based on the conversion date and closing sales price of the Company's common shares. The embedded derivative liability is classified as a current liability on the consolidated statement of financial position and is carried at fair value as determined by the Black-Scholes option pricing model, with changes in fair value recorded as gains and losses in the net loss. The assumptions in valuing the embedded derivative liability as at October 31, 2014 include an expected volatility of 44.6%, a risk free rate interest rate of 0.68% and an expiry of September 30, 2015 (level 2).

Due to related parties include the following:

	October 31, 2015	April 30, 2015
Balance, beginning of year	\$ 2,244,564	\$ 800,000
Settlement of debts with issue of common shares	-	(800,000)
Due from related parties re issuance of shares	(6,828)	-
Long-term debt component of convertible debt	-	2,219,011
Accretion	23,213	25,553
Balance, end of year	\$ 2,260,949	\$ 2,244,564

For the six months period ended October 31, 2015, the Company incurred \$97,719 (2014 - \$20,408) of interest on amounts due to related parties.

For the six months period ended October 31, 2015, the Company paid \$42,000 (2014 - \$42,000) of service fees to the CFO.

For the six months period ended October 31, 2015, the Company incurred operating expenses of \$28,428 (2014 - \$nil), included in general and administrative expenses, that were charged by the Asset Manager.

Included in accounts payable and accrued liabilities are amounts owing to the Asset Manager of \$883 (2014 - \$nil) and \$106,232 of accrued interest (2014 - \$nil) owing to a private company of which a director of the Company is a director.

Martin Downs Town Center

Pursuant to the terms of the acquisition, the vendors received a total of US \$2.269 million. Prior to the acquisition the center was owned 90% by a jointly owned affiliate of Inovalis SA and Hoche Partners International, Inovalis City Center Retail Fund Inc., and 10% owned by Martin Downs GP LC. The company acquired its interest from Inovalis City Center Retail Fund Inc. Each of Inovalis and Hoche are non-arm's length parties to TitanStar by virtue of holding more than 10% of TitanStar's issued and outstanding common shares.

Eric Fazilleau, CEO of TitanStar Properties Inc. and an officer of Inovalis, is a one third owner of Martin Downs GP LC.

TITANSTAR PROPERTIES INC.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(expressed in Canadian dollars)

6. Related party transactions (continued)

Consideration and closing costs for the acquisition were paid by TitanStar issuing 52,077,509 common shares.

The property was independently appraised at US \$12,500,000 and the transaction was concluded based on a property value of \$11,500,000. The acquisition was approved by shareholders.

7. Promissory note payable

On December 16, 2013, the Company received promissory note payable proceeds of \$400,000. The promissory note payable is unsecured, accrues interest at a rate of 6% per annum, and is due on demand. In connection with the promissory note payable, the Company issued 984,615 bonus common shares at \$0.08125 per share. The fair value of the bonus common shares was expensed in the year ended April 30, 2014 as financing fees in finance costs.

8. Convertible debentures

During the year ended April 30, 2014, the Company issued convertible debentures in the amount of \$5,360,000. The agents received 6% cash compensation and compensation options (note 11).

The convertible debentures are unsecured, subordinate to senior indebtedness and mature September 30, 2018. Interest at the rate of 8.5% per annum is payable quarterly in arrears commencing September 30, 2013. The convertible debentures are convertible into common shares of the Company at \$0.08125 per share at any time prior to the close of business on the earlier of: (i) the date that is five days immediately preceding the maturity date, and (ii) if called for redemption, on the business day immediately preceding the date specified by the Company for the redemption of the convertible debentures.

The calculated present value of \$5,036,618 was allocated to debt using a discount rate of 10%, and the residual amount of \$323,382, net of transaction costs of \$60,779 was allocated to equity.

A reconciliation of the face value of the convertible debentures is as follows:

	Convertible debentures (at face value)
Principal on issuance	\$ 5,360,000
Conversion of debentures	(171,000)
Redemption of debentures via sinking fund	(160,000)
Principal on April 30, 2015	5,029,000
Conversion of debentures	(4,000)
Redemption of debentures via sinking fund	(161,000)
Principal on October 31, 2015	\$ 4,864,000

TITANSTAR PROPERTIES INC.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(expressed in Canadian dollars)

8. Convertible debentures (continued)

The accretion of the liability component of the convertible debentures, which increases the liability component from the initial allocation on the date of issuance is included in the finance costs and is as follows:

	October 31, 2015	April 30, 2015
Liability, beginning of year	\$ 4,811,439	\$ 4,967,866
Accretion	32,081	51,691
Conversion of debentures	(3,838)	(56,004)
Redemption of debentures via sinking fund	(149,500)	(152,114)
Liability, end of year	4,690,182	4,811,439
Transaction costs, beginning of year	(636,849)	(820,005)
Conversion of debentures	-	8,768
Redemption of debentures via sinking fund	20,263	23,082
Amortization of transaction costs	78,220	151,306
Transaction costs, end of year	(538,366)	(636,849)
Convertible debentures	\$ 4,151,816	\$ 4,174,590

The Company is required to pay annually on September 30, 2014 through September 30, 2017, as a sinking fund for the redemption of the convertible debentures, an amount which is equal to 3.0% of the aggregate outstanding principal amount of all convertible debentures outstanding September 30, 2013 (\$5,255,000). The maximum aggregate amount of all sinking fund payments made by the Company shall not exceed 20.0% of the aggregate principal amount of all convertible debentures.

9. Share capital

On May 28, 2014, the Company announced that it had formed a strategic alliance with Hoche Partners International (“Hoche Partners”) and Inovalis S.A. (France) (“Inovalis S.A.”) with respect to the Company’s ongoing identification, and if considered desirable, acquisition of commercial retail properties in select markets in the United States. The parties plan to cooperate towards a common goal of acquiring institutional quality retail properties, principally leased to strong regional, national and credit tenants. Each of the Company, Hoche Partners and Inovalis S.A. are at arm’s length to each other.

On June 30 2014, with TSXV approval, each of Hoche Partners and Inovalis S.A. acquired 8,615,384 common shares (for aggregate total of 17,230,768 common shares) in a non-brokered private placement offering, at a price of \$0.08125 per share for aggregate proceeds of \$1.4 million. Desjardins Capital Markets (“Desjardins”) acted as exclusive financial advisor to the Company with respect to the non-brokered private placement. The Company paid Desjardins a fee of 6.0% in connection with the private placement.

On September 21, 2015, with TSX approval, the Company issued an aggregate total of 50,552,705 common shares to an affiliate of Inovalis and Hoche in consideration of an initial 49% membership interest in the single purpose entity that holds registered title to the Martin Downs Town Center at a price of \$0.06 per share for aggregate proceeds of \$3,033,162.

TITANSTAR PROPERTIES INC.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(expressed in Canadian dollars)

9. Share capital (continued)

The acquisition was approved by the Company's shareholders at its annual and special shareholders meeting on September 4, 2015.

On October 2, 2015, the Company announced it has closed its non-brokered private placement of 1,524,804 common shares at a price of \$0.06 per share, for gross aggregate proceeds of \$91,488.

As of October 31, 2015 the authorized share capital comprised an unlimited number of common shares and non-voting, perpetual, redeemable preferred shares. No preferred shares have been issued to date.

	<u>October 31, 2015</u>		<u>April 30, 2015</u>	
	Common Shares	Share Capital	Common Shares	Share Capital
Issued and outstanding, beginning of period	64,650,538	\$ 11,091,632	36,847,470	\$ 8,984,954
Conversion of due to related parties	-	-	9,846,152	800,000
Conversion of debentures	49,230	4,000	726,148	50,126
Common shares issued – private placement	1,524,804	91,489	17,230,768	1,400,000
Common shares issued – property acquisition	50,552,705	3,033,162	-	-
Share issue costs	-	-	-	(143,448)
<u>Issued and outstanding, end of period</u>	<u>116,777,277</u>	<u>\$ 14,220,283</u>	<u>64,650,538</u>	<u>\$ 11,091,632</u>

10. Share options

The Company's share option plan was approved by the shareholders at the annual general meeting on December 2, 2009. The share option plan provides that the aggregate number of common shares reserved for issuance under the share option plan, together with any share options outstanding, will not exceed 10% of the Company's issued and outstanding common shares at any time. The exercise price of an option will be determined by the board of directors but will, in any event, not be less than the discounted market price of the Company's common shares at the time of the grant of the option.

On September 4, 2013, the Company issued share options under its share option plan to directors, officers and a consultant to advance the interests of the Company and recognize completion of the recently completed convertible debenture offering. The total number of options granted was 630,000 (25,000 expired January 31, 2015) at an exercise price of \$0.10. The options vest 1/3rd at the end of each of the first three years and have a term of five years.

On December 14, 2013, the Company issued share options under its share option plan in respect of loans advanced by two directors. 300,000 options were granted at an exercise price of \$0.08125. The options vest 1/3rd at the end of each of the first three years and have a term of five years.

The fair value of each share option is estimated on the date of the grant using the Black-Scholes option pricing model. The following assumptions were used for options issued during the year ended April 30, 2014:

TITANSTAR PROPERTIES INC.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(expressed in Canadian dollars)

Dividend yield	0%
Risk-free interest rate	1.90%
Expected average option term	5 years
Volatility	48-79%

On July 29, 2015, the Company issued share options under its share option plan to directors, officers and employees of the Company. The total number of options granted was 1,245,000 at an exercise price of \$0.06. The options are to be vested over three years with the first vesting representing 1/3 occurring immediately and have a term of 10 years.

The fair value of each share option is estimated on the date of the grant using the Black-Scholes option pricing model. The following assumptions were used for options issued during the period ended July 31, 2015:

Dividend yield	0%
Risk-free interest rate	1.22%
Expected average option term	10 years
Volatility	44.6%

Share option transactions and the number of share options outstanding are summarized as follows:

	Six months ended October 31, 2015		Year ended April 30, 2015	
	Number of Share Options	Weighted Average Exercise Price	Number of Share Options	Weighted Average Exercise Price
Outstanding, beginning of period	1,475,000	\$0.19	1,580,000	\$0.20
Share options expired	(425,000)	-	(105,000)	-
Share options granted	1,245,000	0.06	-	-
Outstanding, end of period	2,295,000	\$0.09	1,475,000	\$0.19
Share options exercisable	1,015,000		774,999	
Weighted average remaining life (years)	6.57		2.38	
Weighted average remaining life (years) – vested	5.61		1.54	

Share options vested and share options outstanding are summarized as follows:

Share Options Outstanding	Share Options Vested	Exercise Price	Remaining contractual life (years)
125,000	83,333	0.35	1.86
625,000	416,667	0.10	2.84
300,000	100,000	0.08	3.12
1,245,000	415,000	0.06	9.75
2,295,000	1,015,000		

TITANSTAR PROPERTIES INC.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(expressed in Canadian dollars)

11. Warrants

Warrant transactions and the number of warrants outstanding are summarized as follows:

	Six months ended October 31, 2015		Year ended April 30, 2015	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	4,617,844	\$0.08	4,617,844	\$0.08
Warrants issued	-	-	-	-
Warrants expired	(4,617,844)	-	-	-
Outstanding, end of period	-	-	4,617,844	\$0.08
Weighted average remaining life (years)	-	-	0.27	-

12. General and administrative expenses

	For the three months ended October 31,		For the six months ended October 31,	
	2015	2014	2015	2014
Insurance	\$ 5,977	\$ 4,564	\$ 11,954	\$ 10,025
Bank charges	487	607	1,069	1,334
Bad debt expense	-	219,614	-	219,614
Filing fees	4,434	8,857	13,836	25,419
Office costs	11,795	14,506	23,792	21,590
Management fees	3,150	3,150	6,300	6,300
Potential project costs	-	1,313	-	68,844
Professional fees	38,917	103,120	128,613	88,628
REIT related expenses	-	(68,777)	-	(131,063)
Subscription receipts and prospectus	-	(68,777)	-	(59,299)
Office administration	12,048	-	24,074	-
Travel	4,666	10,207	6,802	17,364
General and administrative expenses	\$ 81,474	\$ 228,384	\$ 216,440	\$ 268,756

13. Finance costs

	For the three months ended October 31,		For the six months ended October 31,	
	2015	2014	2015	2014
Interest on long-term debt	\$ 160,710	\$ 188,790	\$ 322,166	\$ 490,746
Financing fees	-	223,670	-	223,670
Amortization of transaction costs	38,134	308	78,220	96,822
Accretion of convertible debenture	30,312	13,708	55,294	26,590
Convertible debt expense	10,269	-	10,269	-
Finance costs	\$ 239,425	\$ 426,476	\$ 465,949	\$ 837,828

14. Loss per share

The weighted average basic and diluted common shares outstanding for the six months period ended October 31, 2015 are 77,029,844 (2014 – 56,460,775).

TITANSTAR PROPERTIES INC.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(expressed in Canadian dollars)

14. Loss per share (continued)

The following securities were not included in the diluted net income per unit calculation for the six months period ended October 31, 2015 as the effect would have been anti-dilutive:

	Number of Common Shares	Weighted Average Exercise Price / Conversion Price
Share options	2,295,000	\$0.09
Warrants	-	-
Convertible debentures	59,864,618	\$0.08125
Total	<u>62,159,618</u>	

15. Changes in operating assets and liabilities

	For the six months ended October 31, 2015	For the six months ended October 31, 2014
Amounts receivable	\$ (437)	\$ 358,691
Income taxes receivable	523,286	-
Prepaid expenses and deposits	27,589	(34,187)
Accounts payable and accrued liabilities	39,739	1,103,704
	<u>\$ 590,177</u>	<u>\$ 712,513</u>

16. Capital management

The Company's objectives when managing capital of \$18,984,015 (2014 - \$16,556,952), which is share capital, contributed surplus, equity component of convertible debentures, accumulated other comprehensive income, deficit, promissory note payable, due to related parties, convertible debentures and long-term debt, are to safeguard its 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 an adequate return to shareholders by pricing products and services commensurately with the level of risk.

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

The Company monitors capital from time-to-time using a variety of measures. Monitoring procedures are typically performed as a part of the overall management of the Company's operations. The Company's strategy during the period, which was unchanged from the prior period, was to maintain its ability to secure access to financing at a reasonable cost. The requirements and terms of sources of capital cannot be predicted and change in ways the Company cannot predict.

TITANSTAR PROPERTIES INC.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(expressed in Canadian dollars)

17. Risk management and fair values

The main risks that arise from the Company's financial statements are liquidity risk, interest rate risk, credit risk and foreign exchange risk. The Company's approach to managing these risks is summarized below.

Management's risk management policies are typically performed as a part of the overall management of the Company's operations. Management is aware of risks related to these objectives through direct personal involvement with employees and outside parties. In the normal course of its business, the Company is exposed to a number of risks that can affect its operating performance. Management's close involvement in operations helps identify risks and variations from expectations. The Company has not designated transactions as hedging transactions to manage risk. As a part of the overall operation of the Company, management considers the avoidance of undue concentrations of risk.

These risks and the actions taken to manage them include the following:

Liquidity risk:

Liquidity risk is the risk that the Company cannot meet its financial obligations associated with financial liabilities in full. The Company's source of liquidity is its equity. The risk with issuing new capital is that the capital markets may not be receptive to an equity issue with financial terms favorable to the Company. The funds are primarily used to finance working capital and are adequate to meet the Company's financial obligations associated with financial liabilities.

The Company's financial liabilities include accounts payable and promissory note payable which are all currently due. Convertible debentures at face value are due in 2018 and the related party convertible unsecured subordinated debentures are due in 2019.

Interest rate risk:

Interest rate risk is the risk that changes in market interest rates may have an effect on the cash flows associated with some financial instruments, known as interest rate cash flow risk, or on the fair value of other financial instruments, known as interest rate price risk. The Company invests in short-term investments that may be cashed prior to maturity.

There is interest rate risk associated with the loan payable in the joint ventures and associates as the interest is impacted by changes in the prime rate. If interest rates would have been 1% higher (or lower) for the six months period ended October 31, 2015, the Company would have higher (or lower) share of income of joint ventures and associates included in net loss of approximately \$143,253 (2014 - \$6,403).

The sensitivity analysis does not take into consideration that the Company's assets and liabilities are actively managed. Additionally, the financial position of the Company may vary at the time that any actual market movement occurs or be mitigated by management actions to reduce exposure to risks.

TITANSTAR PROPERTIES INC.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(expressed in Canadian dollars)

17. Risk management and fair values (continued)

Other limitations in the sensitivity analysis include the use of hypothetical market movements to demonstrate potential risk that only represent the Company's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Credit risk:

Credit risk arises from the possibility that debtors or tenants may be unable to fulfill their commitments. For a financial asset, this is typically the gross carrying amount, net of any amounts offset and any impairment losses. The Company has credit policies to address credit risk on accounts receivable (tenants), which may include the analysis of the financial position of the debtor or tenant and review of credit limits. The Company also may review credit history before establishing credit and review credit performance. In the case of a tenant, management carefully watches and monitors rent payments which are due each month. An allowance for doubtful accounts or other impairment provisions are established based upon factors surrounding credit risk, historical trends and other information.

A financial asset is past due when a debtor has failed to make a payment when contractually due. The Company has no financial assets that are past due and does not have an allowance for doubtful amounts receivable.

Foreign exchange risk:

Foreign exchange risk is the risk that changes in foreign exchange rates may have an effect on future cash flows associated with financial instruments. The Company is exposed to foreign exchange risk as its joint ventures and associates investments undertake their economic activities in U.S. currency. Changes in the applicable exchange rate may result in a decrease or increase in foreign exchange income or loss. The Company may enter into forward exchange contracts to manage part of the foreign exchange risk exposures denominated in U.S. currency, but has no forward contracts as at October 31, 2015.

The Canadian dollar equivalent of monetary assets and liabilities held by the Company that are denominated in U.S. dollars are as follows:

	October 31, 2015	April 30, 2015
Cash	\$ 223,896	\$ 218,874
Short-term investments	81,887	75,489
Amounts receivable	-	-
Taxes recoverable	-	523,286
Deposits	-	20,291
Investment in joint ventures	18,984,117	15,474,492
Advances to joint ventures	-	-
Accounts payable	126,558	52,295

TITANSTAR PROPERTIES INC.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(expressed in Canadian dollars)

17. Risk management and fair values (continued)

If the Canadian dollar had strengthened 5 percent against the U.S. dollar with all other variables held constant, the Company would have additional loss from foreign exchange included in net loss for the six months period ended October 31, 2015 of approximately \$17,519 (2014 loss of \$42,100) and additional loss from currency translation adjustments of joint ventures and associates included in other comprehensive income or loss for the six months period ended October 31, 2015 of approximately \$953,082 (2014 loss of \$781,300). If the Canadian dollar had weakened 5 percent against the U.S. dollar with all other variables held constant, the Company would have additional income from foreign exchange included in net loss for the six months period ended October 31, 2015 of approximately \$17,519 (2014 income of \$42,100) and additional income from currency translation adjustments of joint ventures and associates included in other comprehensive income or loss for the six months period ended October 31, 2015 of approximately \$953,082 (2014 income of \$781,300). The foreign currency exchange rate sensitivity in comprehensive income or loss is attributable to a change in the translation of monetary assets and liabilities, and interest in joint ventures and associates, denominated in U.S. dollars.

The sensitivity analyses do not take into consideration that the Company's assets and liabilities are actively managed. Additionally, the financial position of the Company may vary at the time that any actual market movement occurs or be mitigated by management actions to reduce exposure to risks.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Company's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Fair values:

The fair value of cash, short-term investments, amounts receivable, deposits, advances to joint ventures, accounts payable, and promissory note payable approximates their recorded value. Fair value is an estimate of the amount at which items might be exchanged in an arm's length transaction between knowledgeable willing parties who are under no compulsion to act. The carrying value of the Company's convertible debentures and related party convertible unsecured subordinated debentures approximates fair value. The fair value of the Company's convertible debentures has been estimated based on current market rates for convertible debentures with similar terms and conditions. Fair value should not be interpreted as an amount that could be realized in immediate settlement of the instruments. The estimate of fair value at year-end may not represent fair values at any other date. The determination of fair value is also affected by the use of judgment and by uncertainty.

TITANSTAR PROPERTIES INC.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(expressed in Canadian dollars)

18. Subsequent events

On November 4, 2015 the Company received a CAD \$450,000 working capital loan from Hoche Partners Private Equity Investors SARL. The loan bears interest at a rate of 8% per annum and will be settled by issuing 8% subordinated debentures, announced in the Company's October 8, 2015 press release, at a future date.