TITANSTAR PROPERTIES INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months period ended June 30, 2016

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 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 June 30, 2016 and December 31, 2015, and the results of its operations and its cash flows for three and six months ended June 30, 2016 and October 31, 2015.

TITANSTAR PROPERTIES INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(expressed in Canadian Dollars)

	June 30, 2016	December 31, 2015
ASSETS		
Current		
Cash	$ 108,365	$ 241,804
Short-term investments	-	86,633
Amounts receivable	25,346	5,208
Prepaid expenses and deposits	370,625	568,953
	504,336	902,598
Investment properties (note 4)	11,977,115	-
Mortgage reserve fund	47,787	-
Interests in joint ventures and associates (note 5)	17,258,635	19,334,118
	$ 29,787,873	$ 20,236,716
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 1,121,545	$ 522,815
Promissory note payable (note 6)	400,000	400,000
Embedded derivative liability (note 7)	171,161	13,849
	1,692,706	936,664
Long-term debt		
Due to related parties (note 7)	6,886,817	2,759,864
Mortgage payable	7,909,472	-
Convertible debentures (note 8)	4,289,813	4,177,584
	20,778,808	7,874,112
Shareholders' equity		
Share capital (note 9)	13,935,140	14,181,376
Convertible debentures	238,284	238,284
Contributed surplus	1,238,799	1,227,963
Accumulated other comprehensive income	4,192,146	5,370,811
Deficit	(10,595,304)	(8,655,830)
	9,009,065	12,362,604
	$ 29,787,873	$ 20,236,716

Approved by the Board:

"T. Richard Turner"
Board Chair

"D. Neil McDonnell"
Chair, Audit Committee

The accompanying notes are an integral part of these financial statements.

TITANSTAR PROPERTIES INC.

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

	For three months ended, June 30, 2016	For three months ended, October 31, 2015	For six months ended, June 30, 2016	For six months ended, October 31, 2015
REVENUE				
Rental income and recoveries (note 4)	$ 308,542	$ -	$ 315,216	$ -
PROPERTY OPERATING EXPENSES				
Operating and leasing expenses	(81,173)	-	(81,173)	-
EARNINGS (LOSS) FROM PROPERTY OPERATIONS	227,369	-	234,043	-
EXPENSES				
General and administrative (note 12)	(291,533)	(81,474)	(448,194)	(216,439)
Finance costs (note 13)	(356,798)	(239,425)	(743,956)	(465,949)
Depreciation	(100,869)	-	(102,969)	-
Share-based compensation	(5,418)	(6,844)	(10,836)	(9,196)
OPERATING LOSS	(527,249)	(327,743)	(1,071,912)	(691,584)
OTHER ITEMS				
Share of income of joint ventures and associates (note 5)	(285,397)	(361,750)	(743,378)	(782,597)
Interest income	-	11	11	22
Change in fair value of embedded derivative liability	(111,027)	-	(97,945)	-
Other income	-	(22,187)	-	67,654
Foreign exchange gain (loss)	32,733	143,722	(26,249)	58,491
	(363,691)	(240,204)	(867,561)	(656,430)
NET INCOME (LOSS)	$ (890,940)	$ (567,947)	$ (1,939,473)	$ (1,348,014)
Basic and diluted income (loss) per common share (note 14)	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.02)
NET INCOME (LOSS)	$ (890,940)	$ (567,947)	$ (1,939,473)	$ (1,348,014)
OTHER COMPREHENSIVE INCOME				
Currency translation adjustment of joint ventures and associates	43,863	(40,634)	(1,178,665)	1,251,335
COMPREHENSIVE INCOME (LOSS)	$ (847,077)	$ (608,581)	$ (3,118,138)	$ (96,679)

The accompanying notes are an integral part of these financial statements.

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	Deficit	Total
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
Share issue – property acquisition	50,552,705	3,033,162	-	-	-	-	3,033,162
Share issue – 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	116,777,277	$ 14,220,283	$ 236,686	$ 1,214,740	$ 4,290,859	$ (7,791,318)	$12,171,250
Balance, December 31, 2015	118,623,430	$ 14,181,376	$ 238,284	$ 1,227,963	$ 5,370,811	$ (8,655,831)	$12,362,603
Share issue – management fees	555,434	33,326					33,326
Share issue costs	-	(279,562)	-	-	-	-	(279,562)
Share-based compensation	-	-	-	10,836	-	-	10,836
Net loss for the period	-	-	-	-	-	(1,939,473)	(1,939,473)
Other comprehensive income	-	-	-	-	(1,178,665)	-	(1,178,665)
Balance, June 30, 2016	119,178,864	$ 13,935,140	$ 238,284	$ 1,238,799	$ 4,192,146	$(10,595,304)	$ 9,009,065

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

	Six months ended June 30, 2016	Six months ended October 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (1,939,474)	$ (1,348,015)
Adjustments to reconcile net loss to net cash provided by operating activities		
Share-based compensation	10,836	9,196
Amortization of transaction costs	83,904	78,220
Accretion of convertible debenture	28,325	55,294
Accretion of convertible unsecured subordinated debentures	45,278	-
Asset management fees	120,427	-
Share of income (loss) of joint ventures and associates	428,161	782,597
Bonus shares included on financing fees	150,000	-
Foreign exchange (gain) loss	26,249	(58,490)
Change in fair value of embedded derivative liability	97,945	(89,899)
Depreciation	102,969	-
Changes in operating assets and liabilities (note 15)	776,920	590,177
	(68,460)	19,080
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments in and contributions to joint ventures and associates	(11,977,115)	(3,146,173)
Advances to joint ventures and associates	-	-
Distributions from joint ventures and associates	200,811	105,287
	(11,776,304)	(3,040,886)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from related parties	4,050,000	(73,514)
Proceeds from issuance of shares	33,326	3,128,651
Mortgage payable	7,909,472	-
Redemption of convertible debentures	-	(32,455)
Share issue costs	(279,562)	-
	11,713,236	3,022,682
Effect of exchange rate changes on cash	(1,911)	8,477
Change in cash for the period	(133,439)	9,353
Cash, beginning of period	241,804	224,440
Cash, end of period	$ 108,365	$ 233,793
Interest paid – operating activities	$ 318,900	$ 322,166
Income taxes paid – operating activities	$ -	$ -

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 June 30, 2016, the Company had a comprehensive loss of $3,118,138 (October 31, 2015 – $96,679) and has a deficit of $10,595,303 (October 31, 2015 - $7,791,318). As at June 30, 2016, the Company had working capital deficiency of $1,188,370 (October 31, 2015 – $400,101). 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 August 25, 2016.

2. Basis of presentation

These condensed consolidated interim financial statements are prepared in accordance with International Accounting Standards ("IAS") 34 Interim Financial Reporting using the same presentation and accounting policies in the December 31, 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 December 31, 2015.

The condensed consolidated interim financial statements are prepared on a going concern basis and have been presented in Canadian dollars. The condensed consolidated interim financial statements have been prepared on a historical 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 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 December 31, 2015.

4. Investment properties

On March 30, 2016, the Company announced it had completed purchase of a 100% interest in Metro Gateway Shopping Center (TSP Metro Gateway, LLC) at the contracted price of $9,100,000 USD. The acquisition was financed with a $6,080,000 USD mortgage with the remainder financed with part of the proceeds from the CAD $4,500,000 issuance of convertible unsecured subordinated debentures. The seller was at arm's length to the Company.

The Company's interest is held through the Company's wholly owned subsidiary, TitanStar US Inc.

(expressed in Canadian dollars)

Summarized financial information of the Company's investment properties as at June 30, 2016:

Balance Sheet

		Metro Gateway
Current assets		
Cash	$	93,505
Receivables		2,794
Mortgage reserve fund		47,787
Prepaids and deposits		27,723
		171,809
Income properties		11,977,115
	$	12,148,924
Current liabilities		
Accounts payable and accrued liabilities	$	152,618
Long-term liabilities		
Long-term debt		7,909,472
		8,062,090
Shareholder's equity		
Capital contributions		4,068,310
Retained earnings		18,524
		4,086,870
	$	12,148,924

Income Statement for the six months ended June 30, 2016:

		Metro Gateway
Revenue, including operating recoveries	$	315,216
Operating and leasing expenses		(81,173)
Depreciation		(102,969)
Interest expense		(112,544)
Net income	$	18,524

(expressed in Canadian dollars)

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 June 30, 2016	Year ended Dec. 31, 2015
Interests in joint ventures and associates, beginning of period	$ 19,334,118	$ 15,474,492
Contributions and investments	-	3,146,172
Distributions	(200,810)	(212,795)
Share of net income (loss)	(743,378)	(1,405,038)
Currency translation adjustments	(1,131,295)	2,331,287
Interests in joint ventures and associates, end of period	$ 17,258,635	$ 19,334,118

At June 30, 2016, 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

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.).

5. Interests in joint ventures and associates (continued)

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.).

On March 9, 2016, pursuant to the partnership agreement with Romspen Corporation, a 50% partner in the Swanway Plaza and San Tan Plaza properties, received a buy/sell notice to acquire TitanStar's interest in the properties. Romspen Corporation offered $1,608,774 USD for Swanway Plaza and $973,481 USD for San Tan Plaza. The Company has accepted the offer and anticipates that the sale will close on or about August 29, 2016.

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.

During the period ended December 31, 2015, the Company recorded an impairment loss of $394,764 (April 30, 2015 - $nil) with respect to Swanway Plaza. The circumstances leading to the impairment loss being recorded for this cash-generating unit were a decline in rental rates and increased vacancies. The impairment loss decreases income properties included in the interests in joint ventures and associates on the statement of financial position by $394,764 and decreases the share of income (loss) of joint ventures and associates line item in the statement of net loss and comprehensive income by $394,764.

(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 June 30, 2016:

	DSC	SWP	STP	ADL	MDTC	TOTAL
Current assets						
Cash	$ (121,458)	$ 205,616	$ 77,611	$ 709,331	$ 162,249	$ 1,033,349
Amounts receivable	21	54,355	75,044	564,091	103,789	797,300
Prepaids and deposits	26,723	513,466	172,804	1,691,844	449,600	2,854,437
	(94,714)	773,437	325,459	2,965,266	715,638	4,685,086
Income properties	14,755,643	11,762,912	4,471,864	69,722,494	15,655,911	116,368,824
Current liabilities						
Accounts payable and accrued liabilities	(159,996)	(202,606)	(74,153)	(6,630,239)	(133,072)	(7,200,066)
Current portion of long-term debt	-	(152,793)	(53,771)	-	(129,570)	(336,134)
	(159,996)	(355,399)	(127,924)	(8,055,658)	(262,642)	(7,536,200)
Long-term liabilities						
Long-term debt	-	(7,991,475)	(2,870,241)	(55,498,214)	(8,689,418)	(75,049,348)
Deferred income taxes	-	-	-	-	(1,380,551)	(1,380,551)
	-	(7,991,475)	(2,870,241)	(55,498,214)	(10,069,969)	(76,429,899)
Net assets at 100%	$14,500,933	$ 4,189,476	$ 1,799,158	$10,559,307	$ 6,038,937	$ 37,087,811
Company share	$ 7,250,466	$ 2,094,738	$ 899,579	$ 4,054,773	$ 2,959,079	$ 17,258,635

(expressed in Canadian dollars)

5. Interests in joint ventures and associates (continued)

As at December 31, 2015:

	DSC	SWP	STP	ADL	MDTC	TOTAL
Current assets						
Cash	$ 163,578	$ 83,640	$ 19,007	$ 811,334	$ 279,503	$ 1,357,062
Amounts receivable	-	35,138	45,253	753,677	29,892	863,960
Prepaids and deposits	19,984	416,760	128,817	618,133	391,008	1,574,702
	183,562	535,538	193,077	2,183,144	700,403	3,795,724
Income properties	15,353,242	12,725,123	4,858,219	78,953,399	16,823,976	128,713,959
Current liabilities						
Accounts payable and accrued liabilities	(41,662)	(120,107)	(39,855)	(8,445,536)	(141,071)	(8,788,231)
Current portion of long-term debt	-	(142,336)	(50,167)	-	(50,931)	(243,434)
	(41,662)	(262,443)	(90,022)	(8,445,536)	(192,002)	(9,031,665)
Long-term liabilities						
Long-term debt	-	(8,589,004)	(3,088,038)	(59,043,376)	(9,282,141)	(80,002,559)
Deferred income taxes	-	-	-	-	(1,510,168)	(1,510,168)
	-	(8,589,004)	(3,088,038)	(59,043,376)	(10,792,309)	(81,512,727)
Net assets at 100%	$15,495,142	$ 4,409,214	$ 1,873,236	$13,647,631	$ 6,540,068	$ 41,965,291
Company share	$ 7,747,571	$ 2,204,607	$ 936,618	$ 5,240,689	$ 3,204,633	$ 19,334,118

(expressed in Canadian dollars)

5. Interests in joint ventures and associates (continued)

For the six months ended June 30, 2016:

	DSC	SC	SWP	STP	ADL	MDTC	TOTAL
Revenue, including operating recoveries	$ 21,597	$ -	$ 613,352	$ 322,571	$ 3,552,737	$ 881,870	$ 5,392,127
Operating and leasing expenses	(85,590)	-	(181,139)	(123,620)	(1,372,635)	(138,413)	(1,901,397)
Depreciation	-	-	(210,877)	(96,834)	(2,692,870)	(441,368)	(3,441,949)
Impairment	-	-	-	-	-	-	-
Interest expense	-	-	(175,289)	(61,813)	(1,554,853)	(221,659)	(2,013,614)
Deferred income taxes	-	-	-	-	-	-	-
Net income (loss) at 100%	(63,993)	-	46,047	40,304	(2,067,621)	80,430	(1,964,833)
Company share	(31,997)	-	23,024	20,152	(793,966)	39,411	(743,378)
Other comprehensive income (loss)	(465,108)	-	(132,893)	(5,558)	(286,490)	(189,615)	(1,131,295)
Total comprehensive income (loss)	$ (497,105)	$ -	$ (109,869)	$ 14,594	$ (1,081,456)	$ (150,204)	$(1,874,673)

For the six months ended October 31, 2015:

	DSC	SC	SWP	STP	ADL	MDTC	TOTAL
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 (loss) 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)	(728,597)
Other comprehensive income (loss)	585,805	143	191,020	70,316	450,678	(46,627)	1,251,335
Total comprehensive income (loss)	$ 547,827	$ (2,619)	$ 219,610	$ 71,662	$ (316,414)	$ (51,338)	$ 468,738

6. 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.

7. Related party transactions

<u>Asset management agreement</u>

On April 16, 2010, the Company has entered into an asset management agreement with TitanStar Capital Corp. (“Titanstar Capital”) (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 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.

For the six months period ended June 30, 2016, the Company paid $4,000 plus GST (October 31, 2015 - $6,000 plus GST) to the Asset Manager for management fees pursuant to the asset management agreement. On May 2015, this agreement was terminated and replaced with the non-binding term sheet as outlined below.

<u>Debt settlement agreement</u>

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.

<u>Convertible unsecured subordinate debentures</u>

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.

7. Related party transactions (continued)

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.

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 of $nil (April 30, 2015 - $89,899) 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 March 31, 2016 include an expected volatility of nil (December 31, 2015 – nil), a risk free rate interest rate of nil (December 31, 2015 - nil) and an expiry of September 30, 2015 (level 2).

On October 30, 2015, the Company closed a non-brokered private placement of an aggregate principal amount of $450,000 convertible unsecured subordinated debentures. The debentures are held by a private company of which a director of the Company is the Chairman and CEO. The Debentures bear interest at 8% per annum, commencing in August 2016, and mature on October 30, 2020. 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 common shares at a conversion price of $0.06825 per share in the first year, and for each year thereafter at a conversion price equal to the greater of the market price of the Company's common shares at the time of conversion or $0.10.

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 of $767 (December 31, 2015 - $13,849) 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 March 31, 2016 include an expected volatility of 70% (December 31, 2015 – 91%), a risk free interest rate of 0.66% (December 31, 2015 – 0.48%) and an expiry of October 30, 2016 (level 2).

The calculated present value of $419,544 was calculated using a discount rate of 8.3%, and the residual amount of $30,456 was allocated to the conversion feature.

7. Related party transactions (continued)

On March 30, 2016, the Company closed an aggregate principal amount of $4,500,000 of 8.0% convertible unsecured subordinated debentures. The debentures are held by a private company of which a director of the Company is the Chairman and CEO. The Debentures bear interest at 8% per annum and mature on March 30, 2021. 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 common shares at a conversion price of $0.05381 per share in the first year, and for each year thereafter at a conversion price equal to the greater of the market price of the Company's common shares at the time of conversion or $0.10.

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 of $59,367 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 March 31, 2016 include an expected volatility of 70%, a risk free interest rate of 0.66% and an expiry of March 30, 2017 (level 2).

The calculated present value of $3,990,632 was calculated using a discount rate of 8.3%, and the residual amount of $59,368 was allocated to the conversion feature.

<u>Non-binding term sheet</u>

On May 2015, the Company entered into a non-binding term sheet with Titanstar Capital, Inovalis S.A ("Inovalis") and Hoche Partners International ("Hoche"). Inovalis and Hoche exert significant influence over the Company. Under the agreement, Titanstar Capital and Inovalis will each receive various fees in the form of shares of the Company. The dollar amount of fees by Titanstar Capital and Inovalis are calculated as follows:

a) 0.75% to Titanstar Capital of the net asset value of the Company calculated quarterly in arrears
b) 0.75% to Inovalis of the equity raised or arranged by Inovalis
c) 0.375% to Inovalis and 0.375% to Titanstar Capital on the equity raised on the Canadian capital market

The number of shares to be issued in exchange for the dollar amount of fees of the Company will be calculated using the one week average share price prior to payment of the asset management fees, with a minimum price of $0.06 per share.

(expressed in Canadian dollars)

7. Related party transactions (continued)

Martin Downs Town Center

On September 18, 2015, the Company acquired a 49% interest in Martin Downs Town Center for total consideration, including closing costs, of $3,146,172 ($2,369,075 USD). Consideration and closing costs for the acquisition were paid by the issuance of common shares and cash. The Company acquired its interest from a company jointly owned and controlled by Inovalis and Hoche.

Loan facility

On December 15, 2015, the Company announced that it has obtained a loan facility for up to $750,000. Under the terms of the loan facility, the Company may draw advances in any amount from time to time from January 1, 2016 to December 31, 2016. Interest on any outstanding drawdowns will accrue at a fixed rate of 8% per annum, and is payable monthly. Outstanding indebtedness is payable on demand. The loan facility is provided by a private company of which the President, CEO and director of the Company is a principal.

Metro Gateway Shopping Center

On March 30, 2016 the Company completed the purchase of Metro Gateway with proceeds of the previously described $4,500,000 debenture offering issued March 30, 2016 and issued to a private company of which a director of the Company is Chairman and CEO.

A small portion of the debenture offering was allocated to working capital.

Related party liabilities and transactions

Due to related parties include the following:

	June 30, 2016	December 31, 2015
Balance, beginning of year	$ 2,759,864	$ 2,244,564
Advances from Inovalis	21,523	3,326
Advances from Titanstar Capital	69,520	55,386
Long-term debt component of convertible unsecured subordinate debentures	3,990,632	419,544
Accretion convertible unsecured subordinate debentures	45,278	37,044
Balance, end of year	$ 6,886,817	$ 2,759,864

Included in accounts payable and accrued liabilities are $159,255 of accrued interest (December 31, 2015 - $123,336) owing to a private company of which a director of the Company is a director.

(expressed in Canadian dollars)

7. Related party transactions (continued)

For the six months period ended June 30, 2016, the Company incurred $100,180 (October 31, 2015- $97,719) of interest on amounts due to related parties.

For the six months period ended June 30, 2016, the Company paid $42,000 (October 31, 2015- $42,000) of service fees to the CFO.

For the six months period ended June 30, 2016, the Company incurred operating expenses of $28,322 (October 31, 2015 - $28,428), included in general and administrative expenses, that were charged by the Asset Manager.

For the six months period ended June 30, 2016, the Company recorded $95,578 (October 31, 2015 - $nil) to Titanstar Capital and $24,849 to Inovalis (October 31, 2015 - $nil) for management fees pursuant to the non-binding term sheet.

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.

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

		Convertible debentures (at face value)
Principal on April 30, 2015	$	5,029,000
Conversion of debentures		(4,000)
Redemption of debentures via sinking fund		(161,000)
Principal on December 31, 2015	$	4,864,000
Conversion of debentures		-
Redemption of debentures via sinking fund		-
Principal on June 30, 2016	$	4,864,000

As a condition of the convertible debentures, the Company is required to maintain a debt service coverage ratio. As of June 30, 2016, the Company was in compliance with the covenant. As such, the convertible debentures are presented as a long term liability.

(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 in included in the finance costs and is as follows:

	June 30, 2016	December 31, 2015
Liability, beginning of period	$ 4,689,216	$ 4,811,439
Accretion	28,325	36,377
Conversion of debentures	-	(3,837)
Redemption of debentures via sinking fund	-	(154,763)
Liability, end of period	4,717,541	4,689,216
Transaction costs, beginning of period	(511,632)	(636,849)
Conversion of debentures	-	507
Redemption of debentures via sinking fund	-	18,257
Amortization of transaction costs	83,904	106,453
Transaction costs, end of period	(427,728)	(511,632)
Convertible debentures	$ 4,289,813	$ 4,177,584

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, 2015 of $5,025,000, September 30, 2014 - $5,032,000). 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 June 30 2014, with TSXV approval, each of Hoche and Inovalis 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.

During the year ended December 31, 2015, 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 Martin Downs Town Center at a price of $0.06 per share for aggregate proceeds of $3,033,162.

(expressed in Canadian dollars)

9. Share capital (continued)

During the year ended December 31, 2015, the Company announced it has closed its non-brokered private placement of 1,524,804 common shares at price of $0.06 per share, for gross aggregate proceeds of $91,489.

In consideration of the loan facility described in Note 6, the Company issued 1,846,153 common shares at a value of $0.08125 per common share and recognized financing costs of $150,000, representing the fair value of those shares as at that date. The $150,000 of financing costs is included in financing costs in the Condensed Consolidated Interim Statement of Net Loss and Comprehensive Income (Loss). All bonus shares are subject to a four month resale restriction period.

At June 30, 2016 and December 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.

	June 30, 2016		December 31, 2015	
	Common Shares	Share Capital	Common Shares	Share Capital
Issued and outstanding, beginning of period	118,623,430	$ 14,181,376	64,650,538	$ 11,091,632
Conversion of debentures	-	-	49,230	3,527
Share issue – management fees	555,434	33,326	-	-
Share issue – property acquisition	-	-	50,552,705	3,033,162
Share issue – private placement	-	-	1,524,804	91,489
Share issue – bonus shares	-	-	1,846,153	150,000
Share issue costs	-	(279,562)	-	(188,434)
Issued and outstanding, end of period	119,178,864	$ 13,935,140	118,623,430	$ 14,181,376

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 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.

(expressed in Canadian dollars)

10. Share options (continued)

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 December 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:

	Three months ended June 30, 2016		Year ended December 31, 2015	
	Number of Share Options	Weighted Average Exercise Price	Number of Share Options	Weighted Average Exercise Price
Outstanding, beginning of period	2,295,000	$0.09	1,475,000	$0.19
Share options expired	-	-	(425,000)	0.35
Share options granted	-	-	1,245,000	0.06
Outstanding, end of period	2,295,000	$0.09	2,295,000	$0.09
Share options exercisable	1,015,000		1,015,000	
Weighted average remaining life (years)	5.9		6.4	
Weighted average remaining life (years) – vested	4.95		5.45	

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	1.2
625,000	416,667	0.10	2.2
300,000	100,000	0.08125	2.45
1,245,000	415,000	0.06	9.08
2,295,000	1,015,000		

(expressed in Canadian dollars)

11. Warrants

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

	Six months ended June 30, 2016		Year ended December 31, 2015	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	-	-	4,617,844	$0.08
Warrants expired	-	-	(4,617,844)	0.08
Outstanding, end of period	-	-	-	-
Weighted average remaining life (years)	-		-	

12. General and administrative expenses

	For the three months ended June 30, 2016	For the three months ended October 31, 2015	For the six months ended June 30, 2016	For the six months ended October 31, 2015
Insurance	$ 5,938	$ 5,977	$ 11,975	$ 11,954
Bank charges	493	487	1,273	1,069
Filing fees	13,000	4,434	43,934	13,836
Office costs	22,482	11,795	35,888	23,792
Management fees	106,435	3,150	124,427	6,300
Potential project costs	-	-	3,539	-
Professional fees	116,119	38,917	183,723	128,613
Office administration	18,804	12,048	29,845	24,074
Travel	8,262	4,666	13,590	6,802
General and administrative expenses	$ 291,533	$ 81,474	$ 448,194	$ 216,440

13. Finance costs

	For the three months ended June 30, 2016	For the three months ended October 31, 2015	For the six months ended June 30, 2016	For the six months ended October 31, 2015
Interest on long-term debt	$ 270,293	$ 160,710	$ 431,449	$ 322,166
Financing fees	5,000		155,000	-
Amortization of transaction costs	43,058	38,134	83,904	78,220
Accretion of convertible debenture	38,447	30,312	73,603	55,294
Convertible debt expense	-	10,269	-	10,269
Finance costs	$ 354,698	$ 239,425	$ 743,956	$ 465,949

(expressed in Canadian dollars)

14. Loss per share

The weighted average basic and diluted common shares outstanding for the six months period ended June 30, 2016 are 119,178,864 (December 31, 2015 – 87,001,497).

The following securities were not included in the diluted net income per unit calculation for the six months period ended June 30, 2016 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
Convertible debentures	191,722,845	$0.075
Total	194,017,845	

15. Changes in operating assets and liabilities

	Six months ended June 30, 2016	Year ended December 31, 2015
Amounts receivable	$ (20,138)	$ (5,208)
Income taxes receivable	-	523,286
Prepaid expenses and deposits	198,328	(367,705)
Accounts payable and accrued liabilities	598,730	34,243
	$ 776,920	$ 184,616

16. Capital management

The Company’s objectives when managing capital of $20,756,857 (December 31, 2015 - $19,713,901), 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, embedded derivative liability 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.

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.

17. Risk management and fair values (continued)

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, due to related parties, 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 and 2020.

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 June 30, 2016, the Company would have higher (or lower) share of income of joint ventures and associates included in net loss of approximately $174,815 (December 31, 2015 - $153,400).

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.

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.

17. Risk management and fair values (continued)

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 June 30, 2016.

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

	June 30, 2016	December 31, 2015
Cash	$ 8,957	$ 133,434
Short-term investments	-	86,633
Deposits	370,625	384,802
Investment in joint ventures	17,258,635	19,334,118
Investment properties	11,977,115	-
Mortgage payable	7,909,472	-
Accounts payable’	319,953	127,498

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 June 30, 2016 of approximately $430,300 (October 31, 2015 loss of $17,519) 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 June 30, 2016 of approximately $1,460,800 (October 31, 2015 loss of $953,082). 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 June 30, 2016 of approximately $430,300 (October 31, 2015 income of $17,519) 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 June 30, 2016 of approximately $1,460,800 (October 31, 2015 income of $953,082). 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, accounts payable, promissory note payable and due to related parties 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 and related party convertible unsecured subordinated 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.

18. Subsequent events

On May 3, 2016, the Company announced that it entered into a formal purchase agreement with respect to the "116th Street Centre", a retail real estate property located in Carmel, Indiana. Pursuant to the agreement, the Company, through its wholly owned US subsidiary, will acquire a 100% interest in 116th Street Centre. The seller is at arm's length to the Company.

The acquisition cost of USD $9,825,000 will be financed in part, through a first mortgage of USD $6,975,750. The equity will be provided by approximately USD $1,688,000 of proceeds for the sale of the Company's interests in the Swanway and San Tan joint ventures. The remainder of equity will be funded by bridge loans provided 50% by TitanStar Finance Inc., a company of which the CEO of the Company is a principal, and 50% by a private company owned by a director of the Company.