

Consolidated Financial Statements of

**TITANSTAR PROPERTIES INC.**

Year ended December 31, 2016



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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of TitanStar Properties Inc.

We have audited the accompanying consolidated financial statements of TitanStar Properties Inc., which comprise the consolidated statement of financial position as at December 31, 2016, the consolidated statements of loss and comprehensive income (loss), changes in shareholders' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of TitanStar Properties Inc. as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended accordance with International Financial Reporting Standards.

*Comparative information*

The consolidated financial statements of TitanStar Properties Inc. as at December 31, 2015 and April 30, 2015 and for the eight months ended December 31, 2015 and year ended April 30, 2015, were audited by another auditor who expressed an unmodified opinion on those financial statements on April 28, 2016.

*Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that TitanStar Properties Inc.'s loss for the year is \$3,490,261 and its deficit is \$12,146,091. These conditions, along with other matters as set forth in Note 2 to the consolidated financial statements indicate the existence of a material uncertainty that may cast significant doubt about TitanStar Properties Inc.'s ability to continue as a going concern.

*KPMG LLP*

Chartered Professional Accountants

April 28, 2017

Vancouver, Canada

# TITANSTAR PROPERTIES INC.

Consolidated Statements of Financial Position  
(Expressed in Canadian dollars)

	December 31, 2016	December 31, 2015	April 30, 2015
<b>Assets</b>			
Current assets:			
Cash	\$ 829,321	\$ 241,804	\$ 224,440
Short-term investments	-	86,633	75,489
Amounts receivable	56,311	5,208	-
Taxes recoverable	-	-	523,286
Prepaid expenses and deposits	43,387	568,953	51,248
	929,019	902,598	874,463
Investment properties (note 5)	25,237,874	-	-
Mortgage reserve fund	340,820	-	-
Interests in joint ventures and associates (note 6)	13,679,922	19,334,118	15,474,492
	\$ 40,187,635	\$ 20,236,716	\$ 16,348,955
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 1,099,415	\$ 522,815	\$ 300,138
Notes payable (note 7)	2,040,593	400,000	400,000
Current portion of mortgages payable (note 8)	150,612	-	-
Due to related parties (note 10)	64,066	58,712	-
Embedded derivative liability	192,623	13,849	89,899
Convertible debentures – non-related parties (note 9a)	-	4,177,584	-
	3,547,309	5,172,960	790,037
Convertible debentures - related parties (note 9b)	6,534,446	2,701,152	2,244,564
Tenants' security deposits	112,885	-	-
Mortgages payable (note 8)	17,229,505	-	-
Convertible debentures – non-related parties (note 9a)	4,262,451	-	4,174,590
	31,686,596	7,874,112	7,209,191
Shareholders' equity:			
Share capital (note 11)	14,283,090	14,181,376	11,091,632
Equity component of convertible debentures	230,397	238,284	246,368
Contributed surplus	1,244,323	1,227,963	1,205,544
Accumulated other comprehensive income	4,889,320	5,370,811	3,039,524
Deficit	(12,146,091)	(8,655,830)	(6,443,304)
	8,501,039	12,362,604	9,139,764
	\$ 40,187,635	\$ 20,236,716	\$ 16,348,955

Commitments (note 20)  
Subsequent events (note 21)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"T. Richard Turner"  
Board Chair

"Greg Yuel"  
Chair, Audit Committee

# TITANSTAR PROPERTIES INC.

Consolidated Statements of Loss and Comprehensive Income (Loss)  
(Expressed in Canadian dollars)

	Year ended December 31, 2016	Eight months ended December 31, 2015	Year ended April 30, 2015
Revenue:			
Rental income and recoveries	\$ 1,473,538	\$ -	\$ -
Property operating expenses:			
Operating and leasing expenses	(390,523)	-	-
Earnings from property operations	1,083,015	-	-
Other revenues (expenses):			
General and administrative (note 14)	(830,990)	(335,582)	(645,316)
Depreciation	(498,689)	-	-
Share of loss of joint ventures and associates (note 6)	(1,669,216)	(1,405,038)	468,263
Gain on sale of interest in joint ventures (note 6)	290,860	-	-
Net finance costs (note 15)	(1,980,385)	(618,691)	(1,315,009)
Share-based compensation (note 12)	(16,360)	(22,419)	(13,420)
Interest income	-	30	34
Change in fair value of embedded derivative liability	(119,406)	106,506	191,090
Loss on redemption of convertible debentures	(11,118)	(22,102)	(23,084)
Gain on settlement of financial liabilities (note 11)	257,030	-	-
Foreign exchange gain	4,998	83,275	24,915
	(4,573,276)	(2,214,021)	(1,312,527)
Loss for the period	(3,490,261)	(2,214,021)	(1,312,527)
Other comprehensive income (loss):			
Foreign currency translation on US operations	(501,930)	2,331,287	1,523,979
Comprehensive income (loss)	\$ (3,992,191)	\$ 117,266	\$ 211,452
Weighted average number of units	120,400,936	87,001,497	60,707,728
Basic and diluted loss per common share (note 16)	\$ (0.03)	\$ (0.03)	\$ (0.00)

See accompanying notes to financial statements.

# TITANSTAR PROPERTIES INC.

Consolidated 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, 2014	36,847,470	\$ 8,984,954	\$ 257,096	\$ 1,192,124	\$ 1,515,545	\$ (5,130,730)	\$ 6,818,989
Conversion of debentures	726,148	50,126	(2,890)	-	-	-	47,236
Redemption of debentures	-	-	(7,838)	-	-	(47)	(7,885)
Share issue – property acquisition	9,846,152	800,000	-	-	-	-	800,000
Share issue – private placement	17,230,768	1,400,000	-	-	-	-	1,400,000
Share issue – bonus shares	-	(143,448)	-	-	-	-	(143,448)
Share issue costs	-	-	-	-	-	-	-
Share-based compensation	-	-	-	13,420	-	-	13,420
Loss for the period	-	-	-	-	-	(1,312,527)	(1,312,527)
Other comprehensive income	-	-	-	-	1,523,979	-	1,523,979
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	3,527	(197)	-	-	-	3,330
Redemption of debentures	-	-	(7,887)	-	-	1,495	(6,392)
Share issue – property acquisition	50,552,705	3,033,162	-	-	-	-	3,033,162
Share issue – private placement	1,524,804	91,489	-	-	-	-	91,489
Share issue – bonus shares	1,846,153	150,000	-	-	-	-	150,000
Share issue costs	-	(188,434)	-	-	-	-	(188,434)
Share-based compensation	-	-	-	22,419	-	-	22,419
Loss for the period	-	-	-	-	-	(2,214,021)	(2,214,021)
Other comprehensive income	-	-	-	-	2,331,287	-	2,331,287
Balance, December 31, 2015	118,623,430	14,181,376	238,284	1,227,963	5,370,811	(8,655,830)	12,362,604
Redemption of debentures	-	-	(7,887)	-	-	-	(7,887)
Share issue – debt settlement	4,807,982	101,714	-	-	-	-	101,714
Share-based compensation	-	-	-	16,360	-	-	16,360
Loss for the period	-	-	-	-	-	(3,490,261)	(3,490,261)
Reclassification of OCI	-	-	-	-	20,439	-	20,439
Other comprehensive income loss	-	-	-	-	(501,930)	-	(501,930)
Balance, December 31, 2016	123,431,412	\$ 14,283,090	\$ 230,397	\$ 1,244,323	\$ 4,889,320	\$ (12,146,091)	\$ 8,501,039

See accompanying notes to financial statements.

# TITANSTAR PROPERTIES INC.

Consolidated Statements of Cash Flows  
(Expressed in Canadian dollars)

	Year ended December 31, 2016	Eight months ended December 31, 2015	Year ended April 30, 2015
Cash provided by (used in):			
Cash flows from operating activities:			
Loss for the period	\$ (3,490,261)	\$ (2,214,021)	\$ (1,312,527)
Adjustment to reconcile loss for the period to net cash provided by operating activities:			
Share-based compensation	16,360	22,419	13,420
Depreciation expense	498,689	-	-
Amortization of transaction costs	223,544	106,453	348,974
Accretion of convertible debentures	57,111	36,377	51,691
Accretion of convertible unsecured subordinated debentures	79,946	37,044	25,553
Gain on sale of interest in joint ventures	(290,860)	-	-
Gain on settlement of financial liabilities	(257,030)	-	-
Share of loss of joint ventures and associates	1,669,216	1,405,038	(468,263)
Foreign exchange gain	(4,998)	(83,275)	(24,915)
Change in fair value of embedded derivative liability	119,406	(106,506)	(191,090)
Loss on redemption of convertible debt	11,118	22,102	23,084
Financing fees	150,000	-	-
Interest expense	1,451,104	427,893	851,682
Changes in operating assets and liabilities	719,139	152,820	(1,353,192)
	952,484	(193,656)	(2,035,583)
Cash flows from investing activities:			
Acquisition of investment properties	(25,012,142)	-	-
Investments in and contributions to joint ventures and associates	-	(21,521)	3,007,623
Distributions from joint ventures and associates	337,348	212,795	2,704,150
Proceeds from sale of interests in joint ventures	3,301,358	-	-
Proceeds from short-term investments	86,633	(30)	(34)
	(21,286,803)	191,244	5,711,739
Cash flows from financing activities:			
Repayment of debt	(400,000)	-	(6,760,972)
Advances from related parties	6,063,390	508,712	2,500,000
Proceeds from mortgages	17,041,342	-	-
Mortgage transaction costs	(138,455)	-	-
Proceeds from issuance of shares	-	-	1,400,000
Share issue costs	-	-	(143,448)
Contributions to mortgage reserve fund	(340,820)	-	-
Redemption of convertible debentures	(161,000)	(165,000)	(160,000)
Interest paid	(1,008,699)	(396,097)	(850,479)
	21,055,758	(52,385)	(4,014,899)
Effect of exchange rate changes on cash	(133,922)	72,161	18,163
Change in cash and cash equivalents	587,517	17,364	(320,580)
Cash, beginning of period	241,804	224,440	545,020
Cash, end of period	\$ 829,321	\$ 241,804	\$ 224,440

See accompanying notes to financial statements.

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

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## 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. The initial focus is on necessity-based, nationally-anchored retail/ commercial properties, community centers and industrial properties.

These consolidated financial statements have been approved for issue by the Board of Directors on April 28, 2017.

## 2. Basis of presentation and statement of compliance:

### (a) Statement of compliance:

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

### (b) Basis of presentation:

- (i) The consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. However for the year ended December 31, 2016, the Company incurred a loss of \$3,490,261 and as at December 31, 2016, the Company has a deficit of \$12,146,091 and a working capital deficiency of \$2,618,290. The Company's liabilities include convertible debentures of \$6,534,446 due to entities owned by shareholders of the Company and notes payable of \$2,040,593 due to private entities owned by directors of the Company.

The ability of the Company to continue as a going concern, and realize its assets and discharge its liabilities in the normal course of business is dependant on the continued support from related parties and on its ability to achieve profitable operations in the future.



# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

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## 2. Basis of presentation and statement of compliance (continued):

### (b) Basis of presentation (continued):

#### (i) (continued):

Management is of the opinion that sufficient working capital will be obtained from the cash flows from its investment properties and its investments in associates, and from proceeds received from the sale of certain property held by its joint venture, to meet the Company's liabilities and commitments as they become due and that the Company's current credit facilities are sufficient to support future operations. 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 application of the going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There is, primarily as a result of the conditions described above, significant doubt as to the appropriateness of the use of the going concern assumption. These consolidated financial statements have been prepared on a going concern basis notwithstanding these conditions. If the going concern basis was not appropriate for these consolidated financial statements then adjustments would be necessary to the carrying values of assets and liabilities, the reported revenues and expenses, and consolidated statement of financial position classifications used. These adjustments could be material.

(ii) The consolidated financial statements have been prepared on a historical basis, with the exception of the embedded derivative liability, which is measured at fair value.

(iii) The preparation of these consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

### (c) Functional and presentation currencies:

These consolidated financial statements are presented in Canadian dollars. The Company owns subsidiaries and investment properties in the United States and the Company's functional currency is determined to be US dollars.

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

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## 2. Basis of presentation and statement of compliance (continued):

### (d) Presentation of financial statements:

The Company uses a classified statement of financial position. The consolidated statement of financial position distinguishes between current and non-current assets and liabilities. Current assets and liabilities are those expected to be recovered or settled within twelve months from the reporting date and non-current assets and liabilities are those where the recovery or settlement is expected to occur more than twelve months from the reporting date. The Company classifies the statements of income and comprehensive income using the function of expense method, which classifies expenses according to their functions, such as costs of operations or administrative activities.

## 3. Significant accounting policies:

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. The accounting policies have been applied consistently by group entities unless otherwise stated.

### (a) Basis of consolidation:

The consolidated financial statements include the assets and liabilities and results of operations of the Company and its subsidiaries. The assets and liabilities and results of operations include the consolidation of its wholly owned subsidiaries TitanStar DSC Holdings, Inc., TSP GP Holdings, Inc., TSP LP Holdings, Inc., TitanStar US, Inc., TSP Metro Gateway, LLC, and TSP 116th Street, LLC.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continues to be consolidated until the date that such control ceases. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are prepared for the same reporting period as the Company using consistent accounting policies.

All material intercompany balances and transactions are eliminated upon consolidation.

### (b) Joint arrangement and associates:

The Company classifies its interest in joint arrangements as either joint operations or joint ventures depending on the Company's rights to assets and obligations for the liabilities of the arrangements. When making this assessment, management considers the structure of the arrangement, the legal form of any separate entities, the contractual terms of the arrangement and other facts and circumstances. The Company has determined that its joint arrangements are joint ventures since the Company has rights to and is liable for the net assets of the arrangements. The Company classifies entities it has significant influence over as associates.

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

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### 3. Significant accounting policies (continued):

#### (b) Joint arrangement and associates (continued):

The Company reports its interest in joint ventures and associates using the equity method. Under the equity method, interests in joint ventures and associates are recorded at initial cost plus the Company's share of post-acquisition income or loss, plus contributions less distributions received. Subsequent to the acquisition date, the Company's share of net income is reported in income of joint ventures and associates in the consolidated statements of net loss and comprehensive income.

The accounting policies of the joint arrangements and associates are consistent with the accounting policies of the Company. Where the Company transacts with its joint ventures and associates, unrealized profits and losses are eliminated to the extent of the Company's interest in the investment. Balances outstanding between the Company and its joint ventures and associates in which it has an interest are not eliminated in the consolidated statements of financial position.

At each reporting period, the Company evaluates whether there is objective evidence that its interest in each joint venture investment is impaired. The entire carrying amount of the interest in joint venture investment is compared to the recoverable amount, which is the higher of value in use, or fair value less costs to sell. The recoverable amount of each investment is considered separately.

#### (c) Property acquisitions and business combinations:

When property is acquired, management considers the substance of the agreement in determining whether the acquisition represents the acquisition of a property or a business combination. The Company accounts for an acquisition as a business combination if the acquired property meets the definition of a business, being an integrated set of activities and assets that are capable of being managed for the purpose of providing a return to the shareholders.

Where such acquisitions are not judged to be a business combination, they are treated as asset acquisitions. The cost to acquire the property, including transaction costs, is allocated between the identifiable assets acquired and liabilities assumed based on their relative fair values at the acquisition date. The assets acquired and liabilities assumed include land, building and intangible assets such as above- and below-market leases and in-place operating leases. The Company expenses transaction costs on business combinations.

#### (d) Investment properties:

Investment properties are comprised of properties held to earn rental revenue or for capital appreciation or both. Investment properties are measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating.

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

### 3. Significant accounting policies (continued):

#### (d) Investment properties (continued):

Investment properties include land and buildings and lease related intangible assets which include below and above market rents, value of in-place leases and prepaid lease origination costs. Investment properties are measured at cost less accumulated depreciation and accumulated impairment losses.

Depreciation of buildings is calculated using the straight-line method with reference to each property's cost, estimated useful life of the building, components, and residual value.

The basis of depreciation and estimated useful lives of buildings, major components and lease related intangibles are as follows:

Asset	Basis	Rate
Buildings	Straight-line	35 - 45 years
Major components	Straight-line	8 - 10 years
Lease related intangibles	Straight-line	Weighted average term of the lease

Depreciation methods, useful lives and residual values are reviewed annually and adjusted as required.

Note 5 discloses the fair value of the investment properties. The following approaches either individually or in combination, are used by management, in their determination of the fair value of investment properties:

- The Income Approach derives market value by estimating the future cash flows that will be generated by the property and then applying an appropriate capitalization rate or discount rate to those cash flows. This approach can utilize the direct capitalization method and/or the discounted cash flow analysis.
- The Direct Comparison Approach involves comparing or contrasting the recent sale, listing or optioned prices of properties comparable to the subject and adjusting for any significant differences between them.

Management reviews independent appraisals obtained for properties to ensure the assumptions used by the appraisers are reasonable. The fair value amount determined by management and disclosed in note 5 reflects those assumptions used in the approaches above.

An investment property is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income and comprehensive income in the period of retirement or disposal.

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

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### 3. Significant accounting policies (continued):

(e) Cash and equivalents:

Cash and equivalents consist of cash on hand and in the bank and highly-liquid investments having terms of three months or less from the date of acquisition and that are readily convertible to known amounts of cash. Cash and equivalents exclude cash subject to restrictions.

(f) Revenue recognition:

Rental revenue is recognized on a straight line basis over the term of the lease subject to ultimate collection being reasonably assured.

Revenue includes recoveries of specified operating expenses, in accordance with the terms of the lease agreements. Recoveries are recognized in the period in which the related operating expense was incurred and collectability is reasonably assured.

(g) Leases:

Leases are classified according to the substance of the transaction. Leases that transfer substantially all the risks and benefits of ownership from the Company to the lessees are accounted for as finance leases. All current leases of the Company are operating leases.

(h) Finance income (expenses):

Finance income consists of interest income. Finance expense includes interest on long-term debt, financing fees, amortization of deferred financing costs and accretion of convertible debentures.

Finance income is recognized in the period in which it is earned, while finance expenses are recognized in the period in which they are incurred.

(i) Provisions:

Provisions are recognized in other liabilities when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material, such as closure costs.

(j) Convertible debentures:

Convertible debentures are separated into debt and equity components based on the respective fair values at the date of issue. The value of the debt component is calculated at the estimated fair value of the future interest and principal payments due under the terms of the convertible debentures, with the residual value assigned to the equity component.

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

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### 3. Significant accounting policies (continued):

#### (j) Convertible debentures (continued):

Transaction costs directly related to the debt component reduce the carrying value of the convertible debentures. Transaction costs related to the equity component of convertible debentures are recognized in the value of the equity component, net of deferred income tax.

Subsequent to initial recognition, the liability component of convertible debentures is measured at amortized cost using the effective interest rate method and is accreted up to its face value. The equity component is not re-measured subsequent to initial recognition.

For convertible debentures in which the conversion feature is determined to be an embedded derivative liability, the embedded derivative liability is valued first, with the residual value assigned to the debt component of the instrument at inception. Transaction costs allocated to the embedded derivative component is recognized in profit or loss. The embedded derivative liability is recognized at fair value with changes in fair value recognized in profit or loss.

#### (k) Share options and warrants:

The Company has a share option plan available for officers, employees, and consultants. The fair value based method of accounting is applied to all share-based compensation. Compensation expense is recognized when share options are granted over the vesting periods. Awards of share options and warrants related to private placements or public offerings of shares are treated as share issue costs.

The fair value of share options and warrants granted are estimated on the date of grant using the Black-Scholes option pricing model and is recorded as an expense over the applicable vesting period based on the number of awards expected to vest. Each tranche of an award is considered a separate award within its own vesting period and grant date fair value. On the exercise of share options, the considerations received and the grant date fair value of the option is credited to share capital.

#### (l) Share capital:

For equity-settled share-based payment transactions, the entity shall measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

Transaction costs related to the issuance of the shares are recognized directly in shareholders' equity as a reduction of the proceeds received.

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

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### 3. Significant accounting policies (continued):

(m) Income or loss per share:

Basic income or loss per share is calculated by dividing the income or loss by the weighted average number of common shares outstanding during the period. The Company computes dilutive effects of options, warrants and similar instruments. The dilutive effect on income per share is recognized by the use of proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period.

(n) Foreign currency translation:

The functional currency of the Company's subsidiaries, interest in joint ventures and associates is the United States dollar as it is the currency of the primary economic environment in which the subsidiaries, joint ventures and associates operate. In determining the functional currency consideration is given to the denomination of major cash flows of the entity.

Assets and liabilities of the subsidiaries, joint ventures and associates are translated to Canadian dollars, the presentation currency of the Company, at the period end rate of exchange and the results of their operations translated at average rates of exchange for the period. The resulting translation adjustments are included in accumulated other comprehensive income in equity. Translation adjustments from monetary receivables and payables within the Company's subsidiaries, interest in joint ventures and associates for which settlement is neither planned nor likely to occur in the foreseeable future are included in the accumulated other comprehensive income in equity.

For assets, liabilities, revenue and expenses that do not form part of the Company's subsidiaries, interest in joint ventures and associates, any related foreign currency gains or losses are included in net loss.

(o) Income taxes:

Current income tax for each entity is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the statement of financial position date and includes adjustments to tax payable or recoverable in respect of previous periods.

Deferred income tax is recognized using the statement of financial position method in respect of all temporary differences between the tax bases of assets and liabilities, and their carrying amounts for financial reporting purposes, except as indicated below.

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

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### 3. Significant accounting policies (continued):

#### (o) Income taxes (continued):

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilized, except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in an acquisition that is not a business combination and, at the time of the acquisition, affects neither the accounting profit nor taxable profit or loss and in respect of deductible temporary differences associated with investment in subsidiaries, interests in joint ventures and associates, deferred income tax assets are recognized only to the extent that it is probable that temporary differences will reverse itself in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax liabilities are recognized for all taxable temporary differences, except where the deferred income tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in an acquisition that is not a business combination and, at the time of the acquisition, affects neither the accounting profit nor taxable profit or loss and in respect of taxable temporary differences associated with investment in subsidiaries, interest in joint ventures and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. To the extent that an asset not previously recognized fulfills the criteria for recognition, a deferred income tax asset is recorded.

Deferred income tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the asset is realized or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the statement of financial position date.

Current and deferred income taxes relating to items recognized directly in equity are recognized in equity and not in the statement of loss.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same tax authority on either the same taxable entities or in different taxable entities, and, where there is the intent to settle the balance on a net basis.



# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

### 3. Significant accounting policies (continued):

(p) Financial instruments:

Non-derivative financial assets and non-derivative financial liabilities are initially recognized at fair value, and their subsequent measurement is dependent on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments.

The following is a summary of the classification adopted by the Company for each significant category of financial instrument.

Financial instruments	Classification	Measurement
Cash and cash equivalents	Loans and receivables	Amortized cost
Short-term investments	Loans and receivables	Amortized cost
Amounts receivable	Loans and receivables	Amortized cost
Deposits	Loans and receivables	Amortized cost
Mortgage reserve fund	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Due to related parties	Other liabilities	Amortized cost
Notes payable	Other liabilities	Amortized cost
Embedded derivative liability	Other liabilities	Fair value
Convertible debentures	Other liabilities	Amortized cost
Mortgages payable	Other liabilities	Amortized cost

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. These assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are accounted for at amortized cost, using the effective interest rate method, less any impairment losses.

Non-derivative financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these other financial liabilities are accounted for at amortized cost using the effective interest rate method.

Derivative instruments are initially recorded at fair value including those derivatives that are embedded in a financial instrument or other contract but are not closely related to the host financial instrument or contract, respectively. Subsequent to initial recognition, changes in the fair values of derivative instruments are recognized in net loss, except for derivatives that are designated as cash flow hedges.

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

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### 3. Significant accounting policies (continued):

(p) Financial instruments (continued):

Transaction costs are expensed as incurred for financial instruments classified or designated at fair value through profit or loss. For other financial instruments, transaction costs are added to the related financial asset or liability on initial recognition and are measured at amortized cost using the effective interest method. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

(q) Impairment of assets:

(i) Financial assets:

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If a financial asset carried at amortized cost is impaired, the amount of the loss is measured as the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The loss is recognized in impairment expense.

(ii) Non-financial assets:

Investment properties and intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purpose of assessing impairment, assets are grouped into cash generating units ("CGU's"), defined as the lowest levels for which there are separately identifiable cash inflows. An impairment loss is recognized within impairment of assets for the amount by which the carrying amount of the individual asset or CGU exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and value-in-use. In determining fair value less costs to sell, recent market transactions are taken into account, if available. In absence of such transactions, an appropriate valuation model is used. Value-in-use is assessed using the present value of the expected future cash flows of the relevant asset or CGU.

Impairments are reversed to the extent that events or circumstances give rise to changes in the estimate of recoverable amount since the period the impairment was recorded. Impairment reversals are recognized within impairment of assets.

(r) Fair values:

The fair value of a financial instrument is the amount of consideration that could be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no obligation to act. In certain circumstances, however, the initial fair value may be based on other observable current market transactions in the same instrument, without modification or on a valuation technique using market based inputs.

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

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### 3. Significant accounting policies (continued):

(r) Fair values (continued):

Fair value measurements recognized in the statement of financial position are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobserved inputs) (Level 3).

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

(s) Future changes to significant accounting policies:

The following standards will be effective for subsequent annual periods. The Company is currently evaluating the impact of these standards on its consolidated financial statements.

(i) On May 28, 2014 the IASB issued IFRS 15 - *Revenue from Contracts with Customers*. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

(ii) IFRS 9 - *Financial Instruments*, issued in July 2014 replaces IAS 39 - *Financial Instruments: Recognition and Measurement* and deals with classification and measurement of financial assets and financial liabilities. The requirements of IFRS 9 represent a significant change from the existing requirements in IAS 39. The changes will affect the classification and measurement of financial assets and financial liabilities, the rules and requirements relating to hedge accounting as well as impairment of financial assets.

The mandatory effective date of IFRS 9 is January 1, 2018 and is required to be applied retrospectively when initially applied.

(iii) IFRS 16 - *Leases* was issued in January 2016 and sets out a new model for lease accounting, replacing IAS 17 - *Leases*. Leases requires lessees to account for leases on the statement of financial position by recognizing a right of use asset and lease liability. IFRS 16 will be effective for accounting periods beginning on or after January 1, 2019.

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

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## 4. Critical accounting judgments, estimates and assumptions:

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that effect the reported amounts in the financial statements. 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. The uncertainty of these judgments, assumptions and estimates could results in actual results that differ from the estimates and outcomes that require a material adjustment to the carrying amount of assets and liabilities in the future.

### (a) Judgements:

The following are critical accounting judgments that have been made in applying the Company's accounting policies:

#### (i) Classification of joint arrangements:

The Company makes judgments as to whether the Company's investments provide it with rights to the assets and obligations for the liabilities, relating to the arrangement or the net assets of the arrangement. The Company makes judgments as to whether its joint arrangements are joint operations or joint ventures. The Company has determined that its joint arrangements are joint ventures and therefore has accounted for its investments using the equity method.

#### (ii) Investment properties:

The Company's accounting policy relating to investment properties is described in note 3(d). In applying this policy, judgment is applied to determine the significant components of each property, including the useful lives over which the componentized assets are to be amortized.

### (b) Estimates:

The significant areas of estimation include the following:

#### (i) Fair value of the investment properties:

The fair value of investment properties disclosed in note 5 is determined by management.

The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets (i.e., tenant profiles, future revenue streams and overall repair and condition of the property), discount rates applicable to those assets' cash flows and capitalization rates. These estimates are based on market conditions existing at the reporting date.

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

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## 4. Critical accounting judgments, estimates and assumptions (continued):

### (b) Estimates (continued):

#### (ii) Impairment of assets:

The Company assesses the possibility and amount of any impairment loss or write-down as it relates to amounts receivable, advances to joint ventures and investments in joint ventures and associates. Estimations include evaluating the recoverability of amounts receivable and future operations. The assessment is based upon existing conditions. To the extent estimates differ from actual results, loss for the period and comprehensive income would be affected in a subsequent period.

#### (iii) Convertible debentures:

For convertible debentures containing an equity component, the Company assesses the value of the debt component which is calculated at the estimated fair value of the future interest and principal payments due under the terms of the convertible debentures, using an estimated discount rate based on Management's estimated cost of capital.

For convertible debentures which do not contain an equity component, the Company is required to estimate the fair value of the embedded derivative liability which is calculated based on using a model which considers inputs requiring significant judgement.

## 5. Investment properties:

- (a) On March 30, 2016, the Company announced it had completed the purchase of a 100% interest in Metro Gateway Shopping Center (TSP Metro Gateway, LLC), a retail real estate property located in Phoenix, Arizona.

The acquisition cost of \$11,803,610 (US\$9,100,000) before standard closing costs and adjustments was financed with a \$7,886,368 (US\$6,080,000) mortgage with the remainder financed with part of the proceeds from a \$4,500,000 issuance of convertible unsecured subordinated debentures to a related party (note 9). The seller was at arm's length to the Company.

- (b) On August 31, 2016, the Company completed the purchase of 116th Street Centre (the "116<sup>th</sup> Street"), a retail real estate property located in Carmel, Indiana.

The acquisition cost of \$12,894,330 (US\$9,825,000) before standard closing costs and adjustments was financed in part through a first mortgage of \$9,154,974 (US\$6,975,750) with the remainder provided by \$3,301,358 (US\$2,515,512) of proceeds from the sale of the Company's interests in Swanway and San Tan joint ventures, and the bridging loans provided – 50% by Titanstar Finance Inc., a Company of which the Chairman of the Board of Directors is a principal, and 50% by a private company owned by a director of the Company. The seller was at arm's length to the Company.

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

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## 5. Investment properties (continued):

The purchase price of the investment properties was allocated to the fair value of the assets acquired as follows:

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Assets acquired:		
Land	\$	4,976,289
Building		17,414,125
Furniture and fixtures		1,266,406
Intangible assets		1,355,322
		<hr/>
	\$	25,012,142
Settled by:		
Cash paid to vendor	\$	25,012,142

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	2016	2015
Balance, beginning of year	\$ -	\$ -
Cost of acquisitions	25,012,142	-
Depreciation and amortization	(498,689)	-
Foreign currency translation	742,421	-
Balance, end of the year	\$ 25,237,874	\$ -

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The estimated fair value of the Company's investment properties at December 31, 2016 was \$25,410,598 (US\$18,925,000).

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

## 6. Interests in joint ventures and associates:

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

	December 31, 2016	December 31, 2015	April 30, 2015
Interest in joint ventures and associates, beginning of period	\$ 19,334,118	\$ 15,474,492	\$ 16,168,074
Contributions and investments	-	3,146,172	-
Distributions	(337,348)	(212,795)	(2,704,150)
Disposal of interests in joint ventures	(2,972,334)	-	-
Share of loss for the period	(1,669,216)	(1,405,038)	468,263
Currency translation adjustments	(675,298)	2,331,287	1,542,305
Interest in joint ventures and associates end of period	\$ 13,679,922	\$ 19,334,118	\$ 15,474,492

At December 31, 2016, the Company held the following joint venture interests and associates accounted for on the equity basis:

Property name	Investment	%	City	State	Date acquired
(a) Deer Springs Crossing ("DSC")	Joint venture	50%	Las Vegas	NV	04/16/10
(b) Adams Dairy Landing ("ADL")	Associate	38.4%	Blue Springs	MO	09/27/13
(c) Martin Downs Town Center ("MDTC")	Associate	49%	Palm City	FL	09/18/15

At December 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
(a) Deer Springs Crossing ("DSC")	Joint venture	50%	Las Vegas	NV	04/16/10
(d) Swanway Plaza ("SWP")	Joint venture	50%	Tucson	AZ	12/31/12
(e) San Tan Plaza ("STP")	Joint venture	50%	Chandler	AZ	01/25/13
(b) Adams Dairy Landing ("ADL")	Associate	38.4%	Blue Springs	MO	09/27/13
(c) Martin Downs Town Center ("MDTC")	Associate	49%	Palm City	FL	09/18/15

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

## 6. Interests in joint ventures and associates (continued):

At April 30, 2015, the Company held the following joint venture interests and associates accounted for on the equity basis:

Property name	Investment	%	City	State	Date acquired
(a) Deer Springs Crossing ("DSC")	Joint venture	50%	Las Vegas	NV	04/16/10
(f) Sahara Crossing ("SC")	Joint venture	50%	Las Vegas	NV	10/18/10
(d) Swanway Plaza ("SWP")	Joint venture	50%	Tucson	AZ	12/31/12
(e) San Tan Plaza ("STP")	Joint venture	50%	Chandler	AZ	01/25/13
(b) Adams Dairy Landing ("ADL")	Associate	38.4%	Blue Springs	MO	09/27/13

- (a) 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.).
- (b) Adams 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).
- (c) 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.
- (d) SWP 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.).
- (e) STP 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 GP Co. II, Inc.).



# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

## 6. Interests in joint ventures and associates (continued):

(f) Sahara Crossing represents a 50% interest in Sahara Crossing LP through the Company's 100% wholly owned subsidiary, TitanStar DSC Holdings Inc. On September 5, 2014, the Sahara Crossing Property was sold. The buyer was at arm's length to the Company and Juliet Companies LLC, the other partner in Sahara Crossing LP.

On March 9, 2016, the Company received from Romspen a "buy/sell" notice with respect to its respective 50% interest in SWP and STP, at property values of \$12,905,100 (US\$9,750,000) for SWP and \$5,625,300 (US\$4,250,000) for STP for an aggregate value of \$18,530,400 (US\$14,000,000).

On August 31, 2016, the Company completed the sale of its interest in the SWP and STP properties. Pursuant to the limited partnership agreements governing the properties, the Company received proceeds from the sale equal to the net worth of each partnership, for aggregate total proceeds of \$3,301,358 (US\$2,515,512). The Company recognized an aggregate gain on sale of \$290,860 on disposition of its interest in the two properties.

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

As at December 31, 2016

	DSC	ADL	MDTC	Total
Current assets:				
Cash	\$ 100,477	\$ 390,191	\$ 282,969	\$ 773,637
Amounts receivable	-	1,205,869	62,573	1,268,442
Prepays and deposits	18,908	1,000,111	240,223	1,259,242
	119,385	2,596,171	585,765	3,301,321
Income properties	15,686,603	70,594,775	14,312,782	100,594,160
<b>Total assets</b>	<b>\$ 15,805,988</b>	<b>\$ 73,190,946</b>	<b>\$ 14,898,547</b>	<b>\$ 103,895,481</b>
Current liabilities				
Accounts payable and accrued liabilities	\$ (159,429)	\$ (6,942,484)	\$ (157,046)	\$ (7,258,959)
Current portion of long-term debt	-	-	(133,733)	(133,733)
	(159,429)	(6,624,129)	(290,779)	(7,392,692)
Long-term debt	(772,592)	(57,281,460)	(8,894,280)	(66,948,332)
<b>Total liabilities</b>	<b>\$ (932,021)</b>	<b>\$ (64,223,944)</b>	<b>\$ (9,185,059)</b>	<b>\$ (74,341,024)</b>
Net assets at 100%	\$ 14,873,967	\$ 8,967,002	\$ 5,713,488	\$ 29,554,457
<b>Company's share</b>	<b>\$ 7,436,984</b>	<b>\$ 3,443,329</b>	<b>\$ 2,799,609</b>	<b>\$ 13,679,922</b>

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

## 6. Interests in joint ventures and associates (continued):

As at December 31, 2015

	DSC	SWP	STP	ADL	MDTC	Total
<b>Current assets:</b>						
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
Prepays 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	15,313,808	127,203,791
<b>Total assets</b>	<b>\$ 15,536,804</b>	<b>\$ 13,260,661</b>	<b>\$ 5,051,296</b>	<b>\$ 81,136,543</b>	<b>\$ 16,014,211</b>	<b>\$ 130,999,515</b>
<b>Current liabilities</b>						
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 debt	-	(8,589,004)	(3,088,038)	(59,043,376)	(9,282,141)	(80,002,559)
<b>Total liabilities</b>	<b>\$ (41,662)</b>	<b>\$ (8,851,447)</b>	<b>\$ (3,178,060)</b>	<b>\$ (67,488,912)</b>	<b>\$ (9,474,143)</b>	<b>\$ (89,034,224)</b>
<b>Net assets at 100%</b>	<b>\$ 15,495,142</b>	<b>\$ 4,409,214</b>	<b>\$ 1,873,236</b>	<b>\$ 13,647,631</b>	<b>\$ 6,540,068</b>	<b>\$ 41,965,291</b>
<b>Company's share</b>	<b>\$ 7,747,571</b>	<b>\$ 2,204,607</b>	<b>\$ 936,618</b>	<b>\$ 5,240,689</b>	<b>\$ 3,204,633</b>	<b>\$ 19,334,118</b>

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

## 6. Interests in joint ventures and associates (continued):

As at April 30, 2015:

	DSC	SC	SWP	STP	ADL	Total
<b>Current assets:</b>						
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
	331,432	8,439	416,223	172,455	2,026,385	2,954,934
Income properties	13,291,467	-	11,916,637	4,351,828	71,171,083	100,731,015
<b>Total assets</b>	<b>\$13,622,899</b>	<b>\$ 8,439</b>	<b>\$ 12,332,860</b>	<b>\$ 4,524,283</b>	<b>\$ 73,197,468</b>	<b>\$103,685,949</b>
<b>Current liabilities</b>						
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)
	(25,335)	(3,219)	(210,398)	(114,782)	(7,556,208)	(7,909,942)
Long-term debt	-	-	(7,562,350)	(2,722,795)	(51,188,940)	(61,474,085)
<b>Total liabilities</b>	<b>\$ (25,335)</b>	<b>\$ (3,219)</b>	<b>\$ (7,772,748)</b>	<b>\$ (2,837,577)</b>	<b>\$ (58,745,148)</b>	<b>\$(69,384,027)</b>
<b>Net assets at 100%</b>	<b>\$13,597,564</b>	<b>\$ 5,220</b>	<b>\$ 4,560,112</b>	<b>\$ 1,686,706</b>	<b>\$ 14,452,320</b>	<b>\$ 34,301,922</b>
<b>Company's share</b>	<b>\$ 6,798,782</b>	<b>\$ 2,610</b>	<b>\$ 2,280,056</b>	<b>\$ 843,353</b>	<b>\$ 5,549,691</b>	<b>\$ 15,474,492</b>

For the year ended December 31, 2016:

	DSC	SWP	STP	ADL	MDTC	Total
Revenue, including operating recoveries	\$ 35,997	\$ 74,813	\$ 41,574	\$ 7,446,936	\$ 1,659,694	\$ 9,259,014
Operating and leasing expenses	(191,194)	(24,228)	(13,981)	(2,963,717)	(529,011)	(3,722,131)
Depreciation	-	(26,301)	(12,077)	(5,249,326)	(884,934)	(6,172,638)
Interest expense	-	(18,523)	(6,602)	(3,147,556)	(441,891)	(3,614,572)
<b>Net income (loss) at 100%</b>	<b>\$ (155,197)</b>	<b>\$ 5,761</b>	<b>\$ 8,914</b>	<b>\$ (3,913,663)</b>	<b>\$ (196,142)</b>	<b>\$ (4,250,327)</b>
<b>Company's share</b>	<b>\$ (77,598)</b>	<b>\$ 2,881</b>	<b>\$ 4,457</b>	<b>\$ (1,502,846)</b>	<b>\$ (96,110)</b>	<b>\$ (1,669,216)</b>

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

## 6. Interests in joint ventures and associates (continued):

For the eight months ended December 31, 2015:

	DSC	SC	SWP	STP	ADL	MDTC	Total
Revenue, including operating recoveries	\$ 8,730	\$ -	\$ 805,694	\$ 402,615	\$ 4,788,230	\$ 479,636	\$ 6,484,905
Operating and leasing expenses	(106,346)	(5,504)	(266,787)	(184,955)	(1,962,923)	(145,623)	(2,672,138)
Depreciation	-	-	(516,947)	(126,016)	(3,481,700)	(285,742)	(4,410,405)
Impairment	-	-	(394,764)	-	-	-	(394,764)
Interest expense	-	-	(266,352)	(94,266)	(1,929,504)	(129,101)	(2,419,223)
Net income (loss) at 100%	\$ (97,616)	\$ (5,504)	\$ (639,156)	\$ (2,622)	\$ (2,585,897)	\$ (80,830)	\$ (3,411,625)
<b>Company's share</b>	<b>\$ (48,808)</b>	<b>\$ (2,752)</b>	<b>\$ (319,578)</b>	<b>\$ (1,311)</b>	<b>\$ (992,984)</b>	<b>\$ (39,605)</b>	<b>\$ (1,405,038)</b>

For the year ended April 30, 2015:

	DSC	SC	SWP	STP	ADL	Total
Revenue, including operating recoveries	\$ 31,410	\$ 187,431	\$ 1,321,348	\$ 536,204	\$ 6,570,380	\$ 8,646,773
Gain on property sale	-	3,159,816	-	-	-	3,159,816
Operating and leasing expenses	(198,894)	(84,252)	(371,885)	(223,114)	(2,523,098)	(3,401,243)
Depreciation	-	(419,601)	(364,536)	(165,494)	(4,289,980)	(5,239,611)
Interest expense	-	(33,624)	(360,885)	(126,282)	(2,297,817)	(2,818,608)
Net income (loss) at 100%	\$ (167,484)	\$ 2,809,770	\$ 224,042	\$ 21,314	\$ (2,540,515)	\$ 347,127
<b>Company's share</b>	<b>\$ (83,742)</b>	<b>\$ 1,404,885</b>	<b>\$ 112,021</b>	<b>\$ 10,657</b>	<b>\$ (975,558)</b>	<b>\$ 468,263</b>

## 7. Notes payable:

		December 31, 2016	December 31, 2015	April 30, 2015
Debt Resolution Corp.	(a)	\$ 1,040,593	\$ -	\$ -
Titanstar Finance Inc.	(b)	1,000,000	-	-
Non-related shareholder	(c)	-	400,000	400,000
<b>Total notes payable</b>		<b>\$ 2,040,593</b>	<b>\$ 400,000</b>	<b>\$ 400,000</b>

(a) On August 30, 2016, the Company entered into an agreement with Debt Resolution Corp., a private company which is related through common directors, to borrow an aggregate amount of US\$775,000 (CAD \$1,040,593) for the purpose of funding the Company's costs in relation to the acquisition of a retail real estate asset, 116th Street Centre.

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

## 7. Notes payable (continued):

(a) (continued):

The note payable bears interest at a fixed rate of (i) 8% per annum for the first three month period commencing on the date that the lender advance any portion of the principal amount and ending on the interest adjustment date which is three months after the completion of the acquisition, and (ii) 10% per annum from and including the interest adjustment date until all indebtedness owing is repaid. The note matures August 25, 2017.

(b) On August 31, 2016, the Company entered into an agreement with Titanstar Finance Inc., a private company which is related through common directors, to borrow an aggregate amount of CAD\$1,000,000 for the purpose of funding the Company's costs in relation to the acquisition of a retail real estate asset, 116th Street Centre.

The note payable bears interest at a fixed rate of (i) 8% per annum for the first three month period commencing on the date that the lender advance any portion of the principal amount and ending on the interest adjustment date which is three months after the completion of the acquisition, and (ii) 10% per annum from and including the interest adjustment date until all indebtedness owing is repaid. The note matures August 31, 2017.

(c) On December 16, 2013, the Company received promissory note payable proceeds of \$400,000 from a shareholder. The promissory note payable was unsecured, accrued interest at a rate of 6% per annum, and was due on demand. On August 30, 2016, the promissory note was paid out including all outstanding interest payments due.

For the year ended December 31, 2016, the Company incurred \$76,786 (eight months ending December 31, 2015 - \$16,000; April 30, 2015 - \$24,000) of interest on the notes payable, which is included in finance costs (note 15).

## 8. Mortgages payable:

	2016	2015
Mortgage payable bears a fixed interest rate of 4.78% maturing September 2026. The loan is being amortized over 30 years and is payable in blended monthly payments of US\$36,515	\$ 9,366,339	\$ -
Mortgage payable bears a fixed interest rate of 5.553% maturing April 2021. The loan is being amortized over 30 years and is payable in blended monthly payments of US\$34,724	8,140,717	-
	17,507,056	-
Less: deferred financing costs (net of accumulated amortization of \$11,515 (2015 - nil))	(126,939)	-
Less: current portion	(150,612)	-
	\$ 17,229,505	\$ -

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

## 8. Mortgages payable (continued):

The mortgages payable are recorded at amortized cost and bear a weighted average effective interest rate of 5.140% as at December 31, 2016 (2015 - nil). The mortgages payable are secured by charges on the Company's investment properties.

Principal repayments, as of December 31, 2016, based on scheduled repayments to be made on the mortgages payable over the next five years and thereafter are as follows:

2017	\$ 150,613
2018	255,492
2019	268,952
2020	281,870
2021	7,859,424
Thereafter	8,690,705
	\$ 17,507,056

For the year ended December 31, 2016, the Company incurred \$495,757 (2015 - nil) of interest on the mortgages payable, which is included in finance costs (note 15).

## 9. Convertible debentures:

(a) Non-related parties:

	December 31, 2016	December 31, 2015	April 30, 2015
Liability, beginning of period	\$ 4,689,216	\$ 4,811,439	\$ 4,967,866
Accretion	57,111	36,377	51,691
Conversion of debentures	-	(3,837)	(56,004)
Redemption of debentures via sinking fund	(156,152)	(154,763)	(152,114)
Liability, end of period	4,590,175	4,689,216	4,811,439
Transaction costs, beginning of period	(511,632)	(636,849)	(820,005)
Conversion of debentures	-	507	8,768
Redemption of debentures via sinking fund	14,158	18,257	23,082
Amortization of transaction costs	169,750	106,453	151,306
Transaction costs, end of period	(327,724)	(511,632)	(636,849)
Convertible debentures	\$ 4,262,451	\$ 4,177,584	\$ 4,174,590

The Company entered into a trust indenture on July 31, 2013 with BNY Trust Company of Canada under which the Company could issue convertible debentures to a maximum principal amount of \$11,500,000.

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

## 9. Convertible debentures (continued):

### (a) Non-related parties (continued):

The convertible debentures are redeemable, unsecured, subordinated to senior indebtedness and mature on September 30, 2018. Interest at the rate of 8.5% per annum is payable quarterly in arrears. 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 Company is required to pay annually on September 30, 2014 through September 30, 2017, as a mandatory 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. The maximum aggregate amount of all mandatory sinking fund payments made by the Company shall not exceed 20.0% of the aggregate principal amount of all convertible debentures. The Company can also make optional sinking fund payments. Sinking fund payments are used to redeem debentures on September 30 of each year, commencing with September 30, 2014 and ending on September 30, 2017.

Upon a change in control, the Company is required to make a redemption offer to all debenture holders equal to the principal amount plus accrued and unpaid interest and has the option to redeem all remaining debentures if 90% or more of the aggregate principal amount outstanding have been tendered for purchase under the redemption offer.

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

	December 31, 2016	December 31, 2015	April 30, 2015
Principal, beginning of period	\$ 4,864,000	\$ 5,029,000	\$ 5,248,000
Conversion of debentures	-	(4,000)	(59,000)
Redemption of debentures via sinking fund	(161,000)	(161,000)	(160,000)
Principal, end of period	\$ 4,703,000	\$ 4,864,000	\$ 5,029,000

As a condition of the convertible debentures, the Company is required to maintain a debt service coverage ratio. As of December 31, 2016, the Company was in compliance with the covenant. As such, the convertible debentures are presented as a long term liability.

For the year ended December 31, 2016, the Company incurred \$410,019 (eight months ending December 31, 2015 - \$281,354; April 30, 2015 - \$433,761) of interest on the convertible debentures, which is included in finance costs (note 15).

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

## 9. Convertible debentures (continued):

(b) Related parties:

	December 31, 2016	December 31, 2015	April 30, 2015
Liability, beginning of period	\$ 2,701,152	\$ 2,244,564	\$ -
Issuances	3,990,631	419,544	2,219,011
Accretion	79,946	37,044	25,553
Liability, end of period	6,771,729	2,701,152	2,244,564
Transaction costs, beginning of period	(279,562)	-	-
Amortization of transaction costs	42,279	-	-
Transaction costs, end of period	(237,283)	-	-
Convertible debentures	\$ 6,534,446	\$ 2,701,152	\$ 2,224,564

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

	December 31, 2016	December 31, 2015	April 30, 2015
Principal, beginning of period	\$ 2,950,000	\$ 2,500,000	\$ -
Issuances	4,050,000	450,000	2,500,000
Principal, end of period	\$ 7,000,000	\$ 2,950,000	\$ 2,500,000

(i) On September 30, 2014, the Company closed a private placement of an aggregate principal amount of \$2.5 million convertible unsecured subordinated debentures which mature on September 30, 2019. The debentures are held by companies which are related by common directors. The interest owing on the debentures was modified from 9.0% to 7.5% per annum on October 22, 2014. The Company may repay all or a portion of the indebtedness owing under the debentures at any time without penalty.



# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

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## 9. Convertible debentures (continued):

### (b) Related parties (continued):

#### (i) (continued):

The principal portion of the debenture is convertible into units with each unit comprised of one common share and one share purchase warrant of the Company 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. Accrued interest is convertible under the same terms, except the conversion price is the lesser of \$0.09 and the market price at the date of conversion during the first year. Each warrant will entitle the holder to acquire an additional common 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 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 calculated present value of the embedded derivative liability at inception was \$280,989 and the residual balance of \$2,219,011 was allocated to the debt component.

As at December 31, 2016, the embedded derivative liability is classified as a current liability on the consolidated statement of financial position and is carried at a fair value of \$191,000 (December 31, 2015 – nil; April 30, 2015 - \$89,899).

- (ii) On October 30, 2015, the Company issued a convertible unsecured subordinated debenture with a face value of \$450,000 in exchange for cash proceeds of \$450,000. The debenture is held by a private company of which a director of the Company is the Chairman. The debenture bears interest at 8% per annum, commencing in August 2016, and matures on October 30, 2020. The Company may repay all or a portion of the indebtedness owing under the debenture at any time without penalty.

The principal portion of the 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. Accrued interest is convertible under the same terms, except that the conversion price is the greater of \$0.06825 and the market price at the date of conversion during the first year.

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 calculated present value of the embedded derivative liability at inception was \$30,456 and the residual balance of \$419,544 was allocated to the debt component.

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

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## 9. Convertible debentures (continued):

### (b) Related parties (continued):

#### (ii) (continued):

As at December 31, 2016, the embedded derivative liability is classified as a current liability on the consolidated statement of financial position and is carried at a fair value of nil (December 31, 2015 - \$13,849).

(iii) On March 30, 2016, the Company issued a convertible unsecured subordinated debenture with a face value of \$4,050,000 in exchange for cash proceeds of \$4,050,000. The debenture is held by a private company of which a director of the Company is the Chairman. The debenture bears interest at 8% per annum and matures on March 30, 2021. The Company may repay all or a portion of the indebtedness owing under the debenture at any time without penalty.

The principal portion of the 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. Accrued interest is convertible under the same terms, except that the conversion price is the greater of \$0.05381 and the market price at the date of conversion during the first year.

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 calculated present value of the embedded derivative liability at inception was \$59,368 and the residual balance of \$3,990,632 was allocated to the debt component. Transaction costs allocated to the debt component were \$279,562.

As at December 31, 2016, the embedded derivative liability is classified as a current liability on the consolidated statement of financial position and is carried at a fair value of \$1,623.

For the year ended December 31, 2016, the Company incurred \$468,542 (eight months ending December 31, 2015 - \$130,539; April 30, 2015 - \$110,798) of interest on the convertible debentures due to related parties, which is included in finance costs (note 15).

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

## 10. Related party balances and transactions:

Other related party transactions and balances, not already disclosed in the consolidated financial statements include:

	December 31, 2016	December 31, 2015	April 30, 2015
Due to Inovalis	\$ 28,680	\$ 3,326	\$ -
Due to Titanstar Capital	35,386	58,627	-
Due from the Chairman of the Board	-	(3,241)	-
	\$ 64,066	\$ 58,712	\$ -

Included in accounts payable and accrued liabilities are \$321,000 of accrued interest (eight months ending December 31, 2015 - \$123,336; April 30, 2015 - \$55,918) owing to private companies related through common directors.

### (a) Key management personnel compensation

Key management personnel include the members of the Board of Directors and executive officers of the Company. For the year ended December 31, 2016, the Company paid \$84,000 (eight months ended December 31, 2015 - \$56,000; April 30, 2015 - \$84,000) of service fees to the chief financial officer and nil (2015 - nil) to the Board of Directors.

### (b) Asset management agreement:

On April 16, 2010, the Company 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., and is a related entity as it is owned by the Chairman of the Board 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 year ended December 31, 2016, the Company incurred operating expenses of \$66,942 (eight months ended December 31, 2015 - \$36,593; April 30, 2015 - \$62,489), included in general and administrative expenses, that were charged by the Asset Manager.

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

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## 10. Related party balances and transactions (continued):

### (c) Non-binding term sheet:

On May 2015, the Company entered into a non-binding term sheet with Inovalis S.A (“Inovalis”) and Hoche Partners International (“Hoche”), significant shareholders of the Company. Under the agreement, Titanstar Capital and Inovalis will each receive management fees in the form of shares of the Company for services provided. The dollar amount of fees by Titanstar Capital and Inovalis are calculated as follows:

- (i) 0.75% to Titanstar Capital of the net asset value of the Company calculated quarterly in arrears;
- (ii) 0.75% to Inovalis of the equity raised or arranged by Inovalis; and
- (iii) 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.

For the year ended December 31, 2016, the Company recorded \$130,964 (eight months ended December 31, 2015 - \$59,328; April 30, 2015 - nil) to Titanstar Capital and \$53,529 to Inovalis (eight months ended December 31, 2015 - \$3,326; April 30, 2015 - nil) for management fees pursuant to the non-binding term sheet, for an aggregate total of \$188,493 (note 14). These fees were settled by the Company through the issuance of shares (note 11).

### (d) 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 (US\$2,369,075). 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.

### (e) Loan facility:

On December 15, 2015, the Company 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 Chairman of the Board of the Company is a principal.

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

## 11. Share capital:

At December 31, 2016, December 31, 2015 and April 30, 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.

	December 31, 2016		December 31, 2015		April 30, 2015	
	Common shares	Amount	Common Shares	Amount	Common shares	Amount
Issued and outstanding, beginning of period	118,623,430	\$ 14,181,376	64,650,538	\$ 11,091,632	36,847,470	\$ 8,984,954
Conversion of debentures	-	-	49,230	3,527	726,148	50,126
Conversion of due to related parties	-	-	-	-	9,846,152	800,000
Share issue – debt settlement (a) - (c)	4,807,982	101,714	-	-	-	-
Share issue – property acquisition	-	-	50,552,705	3,033,162	-	-
Share issue – private placement	-	-	1,524,804	91,489	17,230,768	1,400,000
Share issue – bonus shares	-	-	1,846,153	150,000	-	-
Share issue costs	-	-	-	(188,434)	-	(143,448)
Issued and outstanding, end of period	123,431,412	\$ 14,283,090	118,623,430	\$ 14,181,376	64,650,538	\$ 11,091,632

During the year ended December 31, 2016, the following share transactions occurred:

- The Company issued 555,434 common shares to TitanStar Capital and Inovalis, as settlement of amounts charged in relation to the non-binding term sheet (Note 10c) with a fair value of \$16,663.
- With TSXV approval, the Company issued 1,756,628 common shares at a fair value of \$35,133 of debt with a private company of which a principal is a director of the Company. The common shares issued were subject to a four month hold resale restriction.
- The Company issued 2,495,920 common shares to TitanStar Capital and Inovalis, as settlement of amounts charged in relation to the non-binding term sheet (Note 10c) with a fair value of \$49,918.

The shares were issued at a fair value of \$101,714 in settlement of financial liabilities of the Company of \$358,744 and as a result \$257,030 has been recorded as a gain on settlement of financial liabilities in the statement of loss and comprehensive loss.

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

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## 11. Share capital (continued):

During the eight-month period ended December 31, 2015, the following share transactions occurred:

- (a) 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.
- (b) The Company closed a non-brokered private placement and issued 1,524,804 common shares at price of \$0.06 per share, for gross aggregate proceeds of \$91,489.
- (c) The Company issued 49,230 common shares in connection with the conversion of convertible debentures.
- (d) In consideration of the loan facility described in note 10(e), 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.

During the year ended April 30, 2015, the following share transactions occurred:

- (a) 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.
- (b) The Company issued 50,126 common shares in connection with the conversion of convertible debentures.
- (c) On May 28, 2014, the Company issued an aggregate total of 9,846,152 common shares for the repayment of a total of \$800,000 amounts due to related parties.

## 12. 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.

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

## 12. Share options (continued):

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 eight-month period 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:

	December 31, 2016		December 31, 2015		April 30, 2015	
	Number of share options	Weighted average exercise price	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	1,580,000	\$ 0.20
Share options expired	-	-	(425,000)	0.35	(105,000)	0.34
Share options granted	-	-	1,245,000	0.06	-	-
Outstanding, end of period	2,295,000	\$ 0.09	2,295,000	\$ 0.09	1,475,000	\$ 0.19
Share options exercisable	1,738,333		1,015,000		774,999	
Weighted average remaining life (years)	5.4		6.4		2.38	
Weighted average remaining life (years) - vested	4.96		5.45		1.54	

Total share-based compensation expense recognized for the year was \$16,360 (eight months ended December 31, 2015 - \$22,419; April 30, 2015 - \$13,420).

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

## 12. Share options (continued):

Share options vested and share options outstanding for the year ended December 31, 2016 are summarized as follows:

Share options outstanding	Share options vested	Exercise price	Remaining contractual life (years)
125,000	83,333	\$ 0.35	0.69
625,000	625,000	0.10	1.67
300,000	200,000	0.08	1.95
1,245,000	830,000	0.06	8.58
2,295,000	1,738,333		

## 13. Warrants:

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

	December 31, 2016		December 31, 2015		April 30, 2015	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding, beginning of period	-	\$ -	4,617,844	\$ 0.08	4,617,844	\$ 0.08
Warrants expired	-	-	(4,617,844)	0.08	-	-
Outstanding, end of period	-	\$ -	-	\$ -	4,617,844	\$ 0.08
Weighted average remaining life (years)	-	-	-	-	0.27	-



# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

## 14. General and administrative expenses:

	Year ended December 31, 2016	Eight months ended December 31, 2015	Year ended April 30, 2015
Insurance	\$ 24,432	\$ 15,913	\$ 22,903
Bank charges	2,311	2,393	2,316
Bad debts	-	-	329,184
Filing fees	58,669	16,328	31,367
Office costs	85,786	32,255	63,397
Management fees (Note 10b)	188,493	70,904	12,600
Potential project costs	3,539	-	70,094
Professional fees	368,270	156,592	231,573
Office administration	74,124	30,978	43,433
Travel	25,366	10,219	28,811
REIT related expenses	-	-	(131,063)
Subscription receipts and prospectus	-	-	(59,299)
	\$ 830,990	\$ 335,582	\$ 645,316

## 15. Finance costs:

	Year ended December 31, 2016	Eight months ended December 31, 2015	Year ended April 30, 2015
Interest on long-term debt	\$ 1,451,104	\$ 427,893	\$ 851,682
Financing fees	168,680	10,924	37,109
Amortization of transaction costs	223,544	106,453	348,974
Accretion of convertible debenture – non-related parties	57,111	36,377	51,691
Accretion of convertible debentures – related parties	79,946	37,044	25,553
	\$ 1,980,385	\$ 618,691	\$ 1,315,009

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

## 16. Loss per share:

The weighted average basic and diluted common shares outstanding for the year ended December 31, 2016 are 120,400,936 (December 31, 2015 - 87,001,497; April 30, 2015 - 60,707,728).

The following securities were not included in the diluted net income per unit calculation for the year ended December 31, 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	189,741,304	0.042
	192,036,304	

## 17. Capital management:

The Company's objectives when managing capital of \$39,088,220 (December 31, 2015 - \$19,713,901; April 30, 2015 - \$16,048,817), which is share capital, contributed surplus, equity component of convertible debentures, accumulated other comprehensive income, deficit, note payable, mortgage 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.

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

## 18. 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:

### (a) Liquidity risk:

Liquidity risk is the risk that the Company cannot meet its financial obligations associated with financial liabilities in full.

The Company's financial liabilities include accounts payable, convertible debentures, due to related parties, and notes payable.

The following table provides the future non-discounted scheduled payments of financial liabilities, including estimated interest payments:

Year ended December 31,	2017	2018	2019	2020	2021 and thereafter
Mortgages payable	\$ 755,602	\$ 1,147,831	\$ 1,147,831	\$ 1,147,831	\$ 16,526,441
Convertible debentures payable	-	4,831,552	-	-	5,057,334
Accounts payable and accrued liabilities	1,099,415	-	-	-	-
<b>Total</b>	<b>\$ 1,855,017</b>	<b>\$ 5,979,383</b>	<b>\$ 1,147,831</b>	<b>\$ 1,147,831</b>	<b>\$ 21,583,775</b>

### (b) 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 financial instruments, known as interest rate cash flow risk, or on the fair value of other financial instruments, known as interest rate price risk.

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

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## 18. Risk management and fair values (continued):

### (b) Interest rate risk (continued):

There is interest rate risk associated with the loan payable in the joint ventures and associates and subsidiaries as the interest is impacted by changes in the prime rate. If interest rates would have been 1% higher (or lower) for the year ended December 31, 2016, the Company would have higher (or lower) share of loss of joint ventures and associates and subsidiaries included in net loss of approximately \$378,619 (eight months ended December 31, 2015 - \$153,400; April 30, 2015 - \$199,200).

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.

### (c) 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.

### (d) 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 and subsidiaries 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 no forward contracts exist as at December 31, 2016.

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

## 18. Risk management and fair values (continued):

### (d) Foreign exchange risk (continued):

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

	December 31, 2016	December 31, 2015	April 30, 2015
Cash	\$ 799,115	\$ 133,434	\$ 218,874
Short-term investments	-	86,633	75,489
Taxes recoverable			523,286
Deposits	30,231	384,802	20,291
Notes payable	1,040,593	-	-
Mortgages payable	17,356,444	-	-
Accounts payable	149,949	127,498	52,295
Accounts receivable	50,054	-	-
Tenants security deposits	112,885	-	-

If the Canadian dollar had strengthened 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 income for the year ended December 31, 2016 of approximately \$836,600 (eight months ended December 31, 2015 - loss \$32,300; April 30, 2015 - loss \$39,300) and additional loss from currency translation adjustments of subsidiaries, joint ventures and associates included in other comprehensive income or loss for the year ended December 31, 2016 of approximately \$1,955,900 (eight months ended December 31, 2015 - loss \$971,000; April 30, 2015 - loss \$772,500).

If the Canadian dollar had weakened 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 year ended December 31, 2016 of approximately \$836,600 (eight months ended December 31, 2015 - income \$32,300; April 30, 2015 - income \$39,300) and additional income from currency translation adjustments of subsidiaries, joint ventures and associates included in other comprehensive income or loss for year ended December 31, 2016 of approximately \$1,955,900 (eight months ended December 31, 2015 - income \$971,000; April 30, 2015 - income \$773,500).

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.

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

## 18. Risk management and fair values (continued):

### (e) Fair values:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Assets and liabilities measured at fair value in the statement of financial position or for which fair value disclosure is required in the notes to the financial statements are classified based on a three-level hierarchy as detailed in note 3(r).

For assets and liabilities that are recognized at fair value in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The embedded derivative is the only liability measured at fair value by the Company. These are classified as Level 2 investments. The Company does not have any assets designated as fair value through profit or loss.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

	December 31, 2016		December 31, 2015		April 30, 2015	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Cash	\$ 829,321	\$ 829,321	\$ 241,804	\$ 241,804	\$ 224,440	\$ 224,440
Short term investments	-	-	86,633	86,633	75,489	75,489
Amounts receivable	56,311	56,311	5,208	5,208	-	-
Mortgage reserve fund	340,820	340,820	-	-	-	-
Investment properties	25,237,874	25,410,598	-	-	-	-
Accounts payable	1,099,415	1,099,415	522,815	522,815	300,138	300,138
Mortgages payable	17,380,117	16,799,911	-	-	-	-
Notes payable	2,040,593	2,040,593	400,000	400,000	400,000	400,000
Due to related parties	64,066	64,066	58,712	58,712	-	-
Embedded derivative liability	192,623	192,623	13,849	13,849	89,899	89,899
Tenant's security deposits	112,885	112,885	-	-	-	-

The valuation techniques and inputs for the Company's financial instruments are as follows:

### (i) Short term assets and liabilities

The carrying values of financial assets and financial liabilities not measured at fair value, such as cash, short term investments, accounts receivable, mortgage reserve fund, accounts payable, notes payable, due to related parties and tenant's security deposits approximate their fair values due to the relatively short periods to maturity of these items or because they are receivable or payable on demand.

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

## 18. Risk management and fair values (continued):

(e) Fair values (continued):

(ii) Mortgages payable

The fair values of the mortgages payable have been calculated based on discounted future cash flows using discount rates that reflect current market conditions for instruments having similar terms and conditions and therefore are classified as Level 2 in the fair value hierarchy.

(iii) Investment properties

The fair value of the investment properties is determined by management, using recognized valuation techniques supported, in certain instances, by independent real estate valuation experts. Investment properties are classified as level 3 investments.

There were no transfers between Level 1, Level 2 and Level 3 during the year ended December 31, 2016.

## 19. Income taxes:

A reconciliation between the statutory Canadian income tax rate and the actual effective rate is as follows:

	Year ended December 31, 2016	Eight months ended December 31, 2015	Year ended April 30, 2015
Net loss before income taxes	\$ (3,490,261)	\$ (2,214,021)	\$ (1,312,527)
Basic statutory tax rate	26.00%	26.00%	26.00%
Expected income taxes (recovery)	(907,468)	(575,600)	(341,300)
Adjustments resulting from:			
Items non-deductible for income tax purposes	(191,568)	5,700	(500)
Differences on investment in joint ventures and associates	(560,816)	289,100	381,900
Change in valuation allowance	1,890,544	106,800	(421,700)
Other	(7,509)	174,000	381,600
OCI adjustments	(153,449)	-	-
Change in tax rates	(5,102)	-	-
Functional currency adjustments	8,054	-	-
Share issuance costs	(72,686)	-	-
Provision for income taxes	\$ -	\$ -	\$ -

# TITANSTAR PROPERTIES INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Year ended December 31, 2016

## 19. Income taxes (continued):

The significant components of the Company's deferred income tax assets (liabilities) are as follows:

	Year ended December 31, 2016	Eight months ended December 31, 2015	Year ended April 30. 2015
Interests in joint ventures and associates	\$ 354,648	\$ (536,800)	\$ (219,700)
Convertible debentures	(34,824)	(106,500)	(99,600)
Cumulative eligible capital	314,682	314,700	290,400
Non-capital loss carry forward	1,560,375	1,410,000	962,700
Capital loss carry forward	112,424	-	-
Transaction costs	138,182	25,700	66,500
Other	552,157	-	-
	2,997,644	1,107,100	1,000,300
Valuation allowance	(2,997,644)	(1,107,100)	(1,000,300)
Provision for income taxes	\$ -	\$ -	\$ -

## 20. Commitments:

The Company has entered into a premises lease plus operating costs expiring on July 31, 2019. The minimum payments over the next three years are as follows:

2017	\$ 39,390
2018	40,021
2019	23,861

## 21. Subsequent events:

On March 21, 2017, the Company issued an aggregate total of 81,858,226 common shares upon conversion of outstanding related party convertible debentures in the total aggregate principal amount of \$4,500,000 (note 9b). Of these shares, 75,264,820 were issued at \$0.05381 per share and 6,593,406 were issued at \$0.06825 per share. The shares were issued to Hoche Partners Private Equity SARL ("Hoche"), a company related by common directors.

On April 10, 2017, the Company issued to Hoche an aggregate total of 6,351,301 shares to settle interest owing on the convertible debentures. Of these shares, 5,839,725 shares were issued at \$0.05381 per share, and the remaining 511,576 shares were issued at \$0.06825 per share.