# TITANSTAR PROPERTIES INC.

## UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## For the six months ended October 31, 2014

**Responsibility for Financial Statements**

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

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

Management believes these unaudited condensed consolidated interim financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2014 and April 30, 2014, and the results of its operations and its cash flows for the three and six months ended October 31, 2014 and October 31, 2013.

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

| | October 31, 2014 | April 30, 2014 |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash | $ 521,549 | $ 545,020 |
| Short-term investments (note 4) | 70,509 | 68,526 |
| Amounts receivable | 572,187 | 213,496 |
| Prepaid expenses and deposits | 53,403 | 87,590 |
| | 1,217,648 | 914,632 |
| Advances to joint ventures (note 5) | - | 3,026,127 |
| Interests in joint ventures and associates (note 5) | 15,614,279 | 16,168,074 |
| | $ 16,831,927 | $ 20,108,833 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | $ 274,975 | $ 1,378,679 |
| Promissory note payable (note 7) | 400,000 | 400,000 |
| Current portion of long-term debt (note 6) | 217,983 | 6,563,304 |
| | 892,958 | 8,431,983 |
| **Long-term debt** | | |
| Due to related parties (note 6) | 2,222,564 | 800,000 |
| Convertible debentures (note 9) | 4,007,716 | 4,147,861 |
| | 7,123,238 | 13,289,844 |
| **Shareholders' equity** | | |
| Share capital (note 10) | 11,099,507 | 8,984,954 |
| Convertible debentures (note 9) | 247,865 | 257,096 |
| Contributed surplus | 1,200,584 | 1,192,124 |
| Accumulated other comprehensive income | 2,160,135 | 1,515,545 |
| Deficit | ( 4,999,401) | ( 5,130,730) |
| | 9,708,689 | 6,818,989 |
| | $ 16,831,927 | $ 20,108,833 |

Approved by the Board:

*"T. Richard Turner"*
Board Chair

*"D. Neil McDonnell*
Chair, Audit Committee

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

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

| | For the three months ended October 31, 2014 | For the three months ended October 31, 2013 | For the six months ended October 31, 2014 | For the six months ended October 31, 2013 |
|---|---|---|---|---|
| **EXPENSES** | | | | |
| General and administrative (note 13) | $ 228,384 | $ 247,384 | $ 268,757 | $ 373,171 |
| Finance costs (note 14) | 426,476 | 460,964 | 837,828 | 623,667 |
| Share-based compensation | 3,475 | 2,265 | 8,460 | 2,749 |
| **OPERATING LOSS** | ( 658,335) | ( 710,613) | ( 1,115,045) | ( 999,587) |
| **OTHER ITEMS** | | | | |
| Share of income of joint ventures and associates (note 5) | 1,137,925 | 429,740 | 1,105,767 | 424,220 |
| Interest income | 8 | - | 18 | 520 |
| Other income | 63,005 | - | 63,005 | - |
| Foreign exchange gain (loss) | 79,175 | ( 9,856) | 77,584 | ( 15,855) |
| | 1,280,113 | 419,884 | 1,246,374 | 408,885 |
| **NET INCOME (LOSS)** | $ 621,778 | ($ 290,729) | $ 131,329 | ($ 590,702) |
| **Basic and diluted income (loss) per common share (note 15)** | 0.01 | ($ 0.01) | 0.00 | ($ 0.02) |
| **NET INCOME (LOSS)** | $ 621,778 | ($ 290,729) | $ 131,329 | ($ 590,702) |
| **OTHER COMPREHENSIVE INCOME** | | | | |
| Currency translation adjustment of joint ventures and associates | 585,033 | 268,012 | 644,590 | 493,863 |
| **COMPREHENSIVE INCOME (LOSS)** | $ 1,206,811 | ($ 22,717) | $ 775,919 | ($ 96,839) |

# TITANSTAR PROPERTIES INC.

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

| | Number of Shares | Share Capital | Convertible Debentures | Contributed Surplus | Accumulated Other Comprehensive Income (loss) | Deficit | Total |
|---|---|---|---|---|---|---|---|
| **Balance, April 30, 2013** | $31,140,806 | $ 8,152,591 | $ - | $ 1,114,780 | $ 60,871 | ($ 832,839) | $ 8,495,403 |
| Conversion of debentures | 1,292,307 | 105,079 | ( 7,282) | - | - | - | 97,797 |
| Bonus common shares issued | 200,000 | 40,000 | - | - | - | - | 40,000 |
| Conversion of due to related parties | 1,666,666 | 500,000 | - | - | - | - | 500,000 |
| Share-based compensation | - | - | - | 2,749 | - | - | 2,749 |
| Convertible debentures | - | - | 263,551 | - | - | - | 263,551 |
| Issuance of agents warrants | - | - | - | 61,521 | - | - | 61,521 |
| Net loss for the period | - | - | - | - | - | ( 590,702) | ( 590,702) |
| Other comprehensive income | - | - | - | - | 493,863 | - | 493,863 |
| **Balance, October 31, 2013** | $34,299,779 | $ 8,797,670 | $ 256,269 | $ 1,179,050 | $ 554,734 | ($ 1,423,541) | $ 9,364,182 |
| **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 due to related parties | 9,846,148 | 800,000 | - | - | - | - | 800,000 |
| Conversion of debentures | 713,845 | 58,000 | ( 9,231) | - | - | - | 48,769 |
| Share issue – private placement | 17,230,768 | 1,400,000 | - | - | - | - | 1,400,000 |
| Share issue costs | - | ( 143,447) | - | - | - | - | ( 143,447) |
| Share-based compensation | - | - | - | 8,460 | - | - | 8,460 |
| Net loss for the period | - | - | - | - | - | 131,329 | 131,329 |
| Other comprehensive income | - | - | - | - | 644,590 | - | 644,590 |
| **Balance, October 31, 2014** | $64,638,231 | $11,099,507 | $ 247,865 | $ 1,200,584 | $ 2,160,135 | ($ 4,999,401) | $ 9,708,689 |

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

| | For the six months ended October 31, 2014 | 2013 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net loss | $ 131,330 | ($ 590,702) |
| Adjustments to reconcile net loss to net cash provided by operating activities | | |
| Foreign exchange (gain) loss | (77,584) | 15,855 |
| Share-based compensation | 8,460 | 2,749 |
| Bonus shares included in financing fees | - | 40,000 |
| Amortization of transaction costs | 96,822 | 313,507 |
| Accretion of convertible debt | 26,590 | 11,957 |
| Write-off of potential projects | 346,004 | - |
| Share of income of joint ventures and associates | (1,105,767) | (424,220) |
| Changes in operating assets and liabilities (note 16) | (1,428,209) | 512,539 |
| | (2,002,354) | (118,315) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Investments in and contributions to joint ventures and associates | (180,239) | (6,733,028) |
| Distributions from joint ventures and associates | 1,839,801 | 302,443 |
| Advances to joint ventures and associates | 3,026,127 | (631,890) |
| Purchase of short-term investments | (1,983) | - |
| | 4,683,706 | (7,062,475) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Advances from related parties | 1,703,553 | 200,000 |
| Proceeds from promissory note payable | - | - |
| Proceeds from issuance of common shares | 2,114,552 | - |
| Proceeds from issuance of convertible debentures | (195,763) | 5,360,000 |
| Expenditures on transaction costs | 422,099 | (1,201,366) |
| Change in long-term debt | (6,760,971) | 3,847,142 |
| | (2,716,531) | 8,205,776 |
| **Effect of exchange rate changes on cash** | 11,707 | 25 |
| **Change in cash for the period** | (23,471) | 1,025,011 |
| **Cash, beginning of period** | 545,020 | 39,744 |
| **Cash, end of period** | $ 521,549 | $ 1,064,755 |
| **Interest paid** | $ 480,246 | $ 252,411 |
| **Income taxes paid** | $ - | $ - |

## 1. Organization

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

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

For the six months period ended October 31, 2014, the Company had a comprehensive income of $775,920 (2013 – loss of $96,839) and has a deficit of $4,999,401 (2013 - $1,423,541). As at October 31, 2014, the Company had a working capital of $324,690 (2013 – working capital deficiency $2,602,604). In addition to ongoing working capital requirements, the Company may be required to secure sufficient funding for acquisitions, general and administration costs and interest charges. Although management may have been successful in the past in undertaking financings, there can be no assurance that management will be able to do so in the future on terms acceptable to the Company. These condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of operations for the foreseeable future. These condensed consolidated interim financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses, and consolidated statement of financial position classifications that may be necessary were the going concern assumption inappropriate. These adjustments could be material.

These condensed consolidated interim financial statements have been approved for issue by the Board of Directors on December 18, 2014.

## 2. Basis of presentation

These interim financial statements are prepared in accordance with *IAS34 Interim Financial Reporting* using the same presentation and accounting policies under International Reporting Standards as disclosed in the April 30, 2014 audited financial statements. They do not include all the information and disclosures normally provided in annual financial statements and should be read in conjunction with the audited annual consolidated financial statements and the notes thereto for the year ended April 30, 2014.

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

## 3. Critical accounting judgments, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected. Management bases their judgments, estimates and assumptions on factors they believe to be reasonable on the circumstances, but which maybe inherently uncertain and unpredictable. In the process of applying the Company's accounting policies, management has applied the same methodologies in making significant accounting judgments, estimates and assumptions as disclosed in the Company's consolidated statements for the year ended April 30, 2014.

## 4. Short-term investments

Short-term investments consist of term deposits held with a chartered bank bearing interest at 0.05% interest per annum (April 30, 2014 – 0.05% interest per annum) and are due December 2014 (2013 – December 2013).

(expressed in Canadian dollars)

## 5. Interests in joint ventures and associates

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

| | Six months ended October 31, 2014 | Year ended April 30, 2014 |
|---|---|---|
| Interests in joint ventures and associates, beginning of period | $16,168,074 | $ 9,068,052 |
| Contributions and investments | 180,239 | 6,746,933 |
| Distributions | ( 2,312,656) | ( 983,231) |
| Share of net income | 1,105,767 | 124,828 |
| Currency translation adjustments | 472,855 | 1,211,426 |
| Interests in joint ventures and associates, end of period | $15,614,279 | $16,168,074 |

At October 31, 2014, the Company held the following joint venture interests and associates accounted for on the equity basis:

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

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

Sahara Crossing represents a 50% interest in SC LP through the Company's 100% wholly owned subsidiary, TitanStar DSC Holdings Inc.

On September 5, 2014, the Sahara Crossing Property (Sahara Crossing LP) was sold. The buyer was at arm's length to the Company and Juliet Companies, LLC, the other partner in Sahara Crossing LP.

The total purchase price for the Sahara Property was approximately US$8,675,000. The property was originally purchased in October 2010 at a price of US$5,340,000. The sale represents a substantial gain to the Company and captures an increase in value of 62% over four years. The property was 100% leased at the time of sale. The Company received net proceeds of US$3,931,962, representing a return of invested capital and share of the gain on sale. The net proceeds were allocated to partial repayment of the Company's line of credit facility with Romspen Investment Corporation.

## 5. Interests in joint ventures and associates (continued)

Swanway Plaza represents a 50% interest in TSP LP I, 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) and TSP GP Holdings Inc. (0.25% general partnership interest in TSP LP I through a 50% interest in the general partner of TSP LP I, TSP GPCo I, Inc.).

San Tan Plaza represents a 50% interest in TSP LP II, 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) and TSP GP Holdings Inc. (0.25% general partnership interest in TSP LP II through a 50% interest in the general partner of TSP LP II, TSP GPCo II, Inc.).

Adam's Dairy Landing represents a 38.4% interest in Blue Springs Partners LP. This interest is termed as "associate" for accounting purposes. The Company's interest is through two wholly owned subsidiaries, TSP Holdings Inc. (37.5% limited partnership interest in Blue Springs Partners LP) and TSP GP Holdings Inc. (0.9% general partnership interest in Blue Springs Development II LLC).

The Company had an option to acquire an additional 51.6% interest in Adams Dairy for an additional amount of US $8,062,500 on or before February 18, 2014 ("Second Closing Date") with two extensions to March 17, 2014 and April 16, 2014. The Second Closing Date was extended to May 2, 2014. In the event that the Company did not acquire the additional 51.6% by the Second Closing Date, the seller has a buy back right at the original sale value (US $6,000,000) on the 38.4% interest within six months of the Second Closing Date. The Second Closing Date was not exercised by the Company and accordingly the buy-back right is in effect. The Company is currently monitoring leasing progress on the property and will consider negotiating purchasing an additional 51.6% interest during the third quarter of its fiscal year end.

(expressed in Canadian dollars)

## 5. Interests in joint ventures and associates (continued)

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

As at October 31, 2014:

| | DSC | SC | SWP | STP | ADL | TOTAL |
|---|---|---|---|---|---|---|
| Current assets | | | | | | |
| Cash | $ 412,079 | $ 84,221 | $ 95,115 | $ 31,291 | $ 1,087,248 | $ 1,709,955 |
| Amounts receivable | 4,550 | - | 7,043 | 32,205 | 797,278 | 841,075 |
| Prepaids & deposits | 13,042 | 2,942 | 295,533 | 125,509 | 12,339 | 449,365 |
| | 429,671 | 87,162 | 397,691 | 189,005 | 1,896,865 | 1,000,395 |
| Income properties | 12,388,714 | - | 11,430,254 | 4,264,205 | 67,997,779 | 96,080,952 |
| Current liabilities | | | | | | |
| Accounts payable & accrued liabilities | (27,266) | (60,640) | (115,996) | (98,888) | (6,294,054) | (6,596,843) |
| Current portion of long-term debt | - | - | (115,915) | (40,855) | (47,735,538) | (47,892,308) |
| | (27,266) | (60,640) | (231,911) | (139,743) | (54,029,592) | (52,580,893) |
| Note payable | - | - | - | - | - | - |
| Long-term debt | - | - | (7,117,655) | (2,565,292) | - | (9,682,947) |
| Net assets at 100% | $ 12,791,120 | $ 26,523 | $ 4,478,379 | $ 1,748,175 | $ 15,865,052 | $ 34,909,249 |
| Company share | $ 6,395,560 | $ 13,261 | $ 2,239,190 | $ 874,088 | $ 6,092,180 | $ 15,614,279 |

As at April 30, 2014:

| | DSC | SC | SWP | STP | ADL | TOTAL |
|---|---|---|---|---|---|---|
| Current assets | | | | | | |
| Cash | $ 506,139 | $ 489,492 | $ 66,956 | $ 30,990 | $ 828,816 | $ 1,922,393 |
| Amounts receivable | - | 207,465 | 6,003 | 39,608 | 348,338 | 601,414 |
| Prepaids & deposits | 19,354 | 14,009 | 203,937 | 65,333 | 6,322 | 308,955 |
| | 525,493 | 710,966 | 276,896 | 135,931 | 1,183,476 | 2,832,762 |
| Income properties | 12,014,914 | 5,859,116 | 11,285,428 | 4,225,211 | 67,298,253 | 100,682,922 |
| Current liabilities | | | | | | |
| Accounts payable & accrued liabilities | (5,989) | (44,247) | (78,911) | (57,529) | (5,401,375) | (5,588,051) |
| Current portion of long-term debt | - | (67,044) | (121,481) | (42,811) | (46,700,561) | (46,931,897) |
| | (5,989) | (111,291) | (200,392) | (100,340) | (52,101,936) | (52,519,948) |
| Note payable | - | (3,026,127) | - | - | - | (3,026,127) |
| Long-term debt | - | (2,363,135) | (6,959,414) | (2,510,802) | - | (11,833,351) |
| Net assets at 100% | $ 12,534,418 | $ 1,069,529 | $ 4,402,518 | $ 1,750,000 | $ 16,379,793 | $ 36,136,258 |
| Company share | $ 6,267,209 | $ 534,765 | $ 2,201,259 | $ 875,000 | $ 6,289,841 | $ 16,168,074 |

(expressed in Canadian dollars)

## 5. Interests in joint ventures and associates (continued)

As at October 31, 2014:

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

As at October 31, 2013:

| | DSC | SC | SWP | STP | ADL | TOTAL |
|---|---|---|---|---|---|---|
| Revenue, including operating recoveries | $ 10,200 | $ 1,392,882 | $ 538,546 | $ 257,942 | $ 602,704 | $ 2,802,275 |
| Operating & leasing expenses | (80,681) | (233,763) | (256,817) | (90,390) | (265,577) | (927,228) |
| Depreciation | - | (98,351) | (163,841) | (75,312) | (293,093) | (630,597) |
| Interest expense | - | (58,128) | (126,436) | (57,265) | (187,444) | (429,273) |
| Net income at 100% | (70,481) | 1,002,640 | (8,548) | 34,975 | (143,410) | 815,176 |
| Company share | (35,240) | 501,320 | (4,274) | 17,487 | (55,073) | 424,220 |
| Other comprehensive income | 202,233 | 4,318 | 76,158 | 29,484 | 77,448 | 389,641 |
| Total comprehensive Income | $ 166,993 | $ 505,638 | $ 71,884 | $ 46,971 | $ 22,375 | $ 813,861 |

## 6. Related party transactions

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

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

On September 30, 2014, the Company announced that it had closed its private placement of an aggregate principal amount of $2.5 million of 9.0% convertible unsecured subordinated debentures. The debentures are held by a private company of which the President and CEO of the Company is a principal, and by a private company of which a director of the Company is a director.

The Debentures will bear interest at 9.0% per annum and will mature on September 30, 2019. The Company may repay all or a portion of the indebtedness owing under the Debentures at any time without penalty.

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

The calculated present value of $2,219,011 was allocated to long-term debt using a discount rate of 10%, and the residual amount of $280,989 was allocated to current portion of long term debt to an account called embedded derivative liability. The embedded derivative liability will need to be revalued on a quarterly basis until September 30, 2015, at which time the liability will be adjusted to $nil.

## 6. Related party transactions (continued)

On October 22, 2014, the Company announced that it had negotiated a reduced rate of interest on the indebtedness owing by it under convertible unsecured subordinated debentures issued in September 30, 2014. The Company and the Debentureholders agreed to reduce the debenture rate from 9% per annum to 7.5% per annum. All other terms of the debentures remain unchanged.

For the six months period ended October 31, 2014, the Company paid $6,000 plus GST (2013 - $6,000 plus HST) to the Asset Manager for management fees pursuant to the asset management agreement.

For the six months period ended October 31, 2014, the Company paid $20,408 (2013 - $10,500) of interest on amounts due to related parties.

For the six months period ended October 31, 2014 the Company paid $42,000 (2013 - $7,000) of service fees to the CFO.

## 7. Promissory note payable

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

## 8. Long-term debt

On January 1, 2013, the Company entered into a $25 million revolving equity bridge loan facility with Romspen. Pursuant to a loan facility agreement, the Company may, from time to time, draw down on the loan facility for the purposes of acquiring new real estate assets, subject to the terms and conditions thereto. Any indebtedness under the loan facility will incur interest at 10% per annum, and will be secured against the Company’s interest in such new real estate assets, a second-ranking general assignment of all present and future rents with respect to leases in such real estates, a first-ranking all-assets general security agreement, and a specific assignment of the Company’s interest in material agreements pertaining to such real estate assets. Additionally, the Company has pledged its interest in any holding subsidiary or limited partnership through which its existing or any future real estate assets are held. The credit facility has a term of two years.

On September 9, 2014, the Company used 100% net proceeds from Sahara Property sale to partially settle the Romspen revolving line of credit.

On September 30, 2014, the Company used the proceeds from the private placement to settle the full balance of the Romspen revolving line of credit.

(expressed in Canadian dollars)

## 9. Convertible debentures

On August 8, 2013, the Company issued convertible debentures in the amount of $4,500,000. On September 4, 2013, the Company received a second tranche of closing for an additional amount of $860,000 convertible debentures. The agents received 6% cash compensation and compensation options (note 12).

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

The calculated present value of $5,036,618 was allocated to debt using a discount rate of 10%, and the residual amount of $323,382, net of transaction costs of $60,779 allocated to equity. The convertible debentures were allocated into their liability and equity components on the date of issuance as follows:

| | | Convertible debentures (at face value) |
|---|---|---|
| Liability | $ | 5,036,618 |
| Equity | | 323,382 |
| Principal on issuance | | 5,360,000 |
| Conversion of debentures | | (170,000) |
| Principal on October 31, 2014 | $ | 5,190,000 |

At October 31, 2014, the convertible debentures are presented in the Statement of Financial Position (Balance Sheet) as $4,007,716 (liability portion) and $247,865 (equity portion) for a total of $4,255,581. This total is net of present value, sinking fund payment, accretion and transaction costs.

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

(expressed in Canadian dollars)

## 10. Share capital

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

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

At October 31, 2014, the authorized share capital comprised an unlimited number of common shares and non-voting, perpetual, redeemable preferred securities. No preferred securities have been issued to date

| | October 31, 2014 | | April 30, 2014 | |
|---|---|---|---|---|
| | Common Shares | Share Capital | Common Shares | Share Capital |
| Issued and outstanding, beginning of period | 36,847,470 | $ 8,984,954 | 31,140,806 | $ 8,152,591 |
| Bonus common shares issued | - | | 2,661,539 | 240,000 |
| Conversion of due to related parties | 9,846,148 | 800,000 | 1,666,666 | 500,000 |
| Conversion of debentures | 713,845 | 58,000 | 1,378,459 | 92,363 |
| Common shares issued – private placement | 17,230,768 | 1,256,553 | - | - |
| Issued and outstanding, end of period | 64,638,231 | $11,099,507 | 36,847,470 | $ 8,984,954 |

## 11. Share options

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

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

(expressed in Canadian dollars)

## 11. Share options (continued)

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

The fair value of each share option is estimated on the date of the grant using the Black-Scholes option pricing model. The following assumptions were used for options issued during the years ended April 30, 2014 and 2013:

| | |
|---|---|
| Dividend yield | 0% (2013 – 0%) |
| Risk-free interest rate | 1.90% (2013 – 1.31%) |
| Expected average option term | 5 years (2013 – 5 years) |
| Volatility | 48-79% (2013 – 97%) |

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

| | Six months ended October 31, 2014 | | Year ended April 30, 2014 | |
|---|---|---|---|---|
| | Number of Share Options | Weighted Average Exercise Price | Number of Share Options | Weighted Average Exercise Price |
| Outstanding, beginning of period | 1,580,000 | $0.20 | 650,000 | $0.35 |
| Share options forfeited | - | - | - | - |
| Share options granted | - | - | 930,000 | 0.09 |
| Outstanding, end of period | 1,580,000 | $0.20 | 1,580,000 | $0.20 |
| Share options exercisable | 776,666 | | 566,666 | |
| Weighted average remaining life (years) | 2.21 | | 3.23 | |
| Weighted average remaining life (years) – vested | 1.57 | | 1.23 | |

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

| Share Options Outstanding | Share Options Vested | Exercise Price | Remaining contractual life (years) |
|---|---|---|---|
| 100,000 | 100,000 | $0.35 | 0.45 |
| 425,000 | 425,000 | 0.35 | 0.58 |
| 125,000 | 41,666 | 0.35 | 2.86 |
| 630,000 | 210,000 | 0.10 | 3.84 |
| 300,000 | - | 0.08 | 4.12 |
| 1,580,000 | 776,666 | | |

(expressed in Canadian dollars)

## 12. Warrants

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

| | Six months ended October, 2014 | | Year ended April 30, 2014 | |
|---|---|---|---|---|
| | Number of Warrants | Weighted Average Exercise Price | Number of Warrants | Weighted Average Exercise Price |
| Outstanding, beginning of period | 4,617,844 | $0.08 | 673,650 | $0.45 |
| Warrants issued | - | - | 4,617,844 | $0.08 |
| Warrants expired | - | - | (673,650) | $0.45 |
| Outstanding, end of period | 4,617,844 | $0.08 | 4,617,844 | $0.08 |
| Weighted average remaining life (years) | 0.78 | | 1.27 | |

On August 8, 2013, the Company granted 3,958,152 non-transferable compensation options to the agents involved in the issuance of the convertible debentures (note 9). Each compensation option entitles the holder thereof to purchase one additional share at $0.08125 per share up to August 8, 2015. An additional 659,692 non-transferable compensation options with the same terms noted above were issued to the lead agent.
The fair value of each warrant is estimated on the date of the grant using the Black-Scholes option pricing model. The following assumptions were used for options issued during the year ended April 30, 2014:

| | |
|---|---|
| Dividend yield | 0% |
| Risk-free interest rate | 1.23% |
| Expected average option term | 2 years |
| Volatility | 49% |

## 13. General and administrative expenses

| | For the three months ended October 31, 2014 | 2013 | For the six months ended October 31, 2014 | 2013 |
|---|---|---|---|---|
| Insurance | $ 4,564 | $ 6,158 | $ 10,025 | $ 11,360 |
| Bank charges | 607 | 1,075 | 1,334 | 1,693 |
| Bad debt expense | 219,614 | - | 219,614 | - |
| Filing fees | 8,857 | 56,757 | 25,419 | 83,195 |
| Office costs | 14,506 | 6,396 | 21,590 | 9,972 |
| Management fees | 3,150 | 3,150 | 6,300 | 6,300 |
| Potential project costs | 1,313 | 76,602 | 68,844 | 105,509 |
| Marketing and promotion | - | - | - | - |
| Professional fees | 103,120 | 108,653 | 88,628 | 151,672 |
| REIT related expenses | (68,777) | - | (131,063) | - |
| Subreceipts and prospectus | (68,777) | - | (59,299) | - |
| Travel | 10,207 | (11,407) | 17,364 | 3,470 |
| General and administrative Expenses | $ 228,384 | $ 247,384 | $ 268,756 | $ 373,171 |

(expressed in Canadian dollars)

## 14. Finance costs

| | For the three months ended October 31, 2014 | 2013 | For the six months ended October 31, 2014 | 2013 |
|---|---|---|---|---|
| Interest on long-term debt Convertible debentures | $ 188,790 | $ 180,243 | $ 490,746 | $ 258,203 |
| Financing fees | 223,670 | - | 223,670 | 40,000 |
| Amortization of transaction costs | 308 | 268,764 | 96,822 | 313,507 |
| Accretion of convertible debt | 13,708 | 11,957 | 26,590 | 11,957 |
| Finance costs | $ 426,476 | $ 460,964 | $ 837,828 | $ 623,667 |

## 15. Loss per share

The weighted average basic and diluted common shares outstanding for the six months period ended October 31, 2014 are 56,460,775 (2013 – 34,299,779).

The following securities were not included in the diluted net income per unit calculation for the period ended October 31, 2014 as the effect would have been anti-dilutive:

| | Number of Common Shares | Weighted Average Exercise Price / Conversion Price |
|---|---|---|
| Share options | 1,580,000 | $0.20 |
| Warrants | 4,617,844 | $0.08125 |
| Convertible debentures | 63,875,925 | $0.08125 |
| Total | 70,073,769 | |

## 16. Changes in operating assets and liabilities

| | Six months ended October 31, 2014 | Six months ended October 31, 2013 |
|---|---|---|
| Amounts receivable | $ 358,691 | $ (143,279) |
| Prepaid expenses and deposits | (34,187) | 334,746 |
| Accounts payable and accrued liabilities | 1,103,704 | 321,072 |
| | $ 1,428,208 | $ 512,539 |

## 17. Capital management

The Company's objectives when managing capital of $16,556,952 (2013 - $19,860,418), which is share capital, contributed surplus, equity component of convertible debentures, accumulated other comprehensive income, deficit, promissory note payable, convertible debentures and long-term debt, are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the 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.

## 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.

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

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

Liquidity risk:

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

The Company's financial liabilities include accounts payable, due to related parties, promissory note payable, convertible debentures at face value and long-term debt which are all currently due.

Interest rate risk:

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

There is interest rate risk associated with the loan payable in the joint ventures and associates as the interest is impacted by changes in the prime rate. If interest rates would have been 1% higher (or lower) for the six months period ended October 31, 2014, the Company would have higher (or lower) share of income of joint ventures and associates included in net loss of approximately $6,403 (2013 - $8,700).

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

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

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

Credit risk:

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

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

Foreign exchange risk:

Foreign exchange risk is the risk that changes in foreign exchange rates may have an effect on future cash flows associated with financial instruments. The Company is exposed to foreign exchange risk as its joint ventures and associates investments undertake their economic activities in U.S. currency. Changes in the applicable exchange rate may result in a decrease or increase in foreign exchange income or loss. The Company may enter into forward exchange contracts to manage part of the foreign exchange risk exposures denominated in U.S. currency, but has no forward contracts as at July 31, 2014.

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

| | October 31, 2014 | April 30, 2014 |
|---|---|---|
| Cash | $ 422,171 | $ 222,021 |
| Short-term investments | 70,508 | 68,526 |
| Amounts receivable | 535,079 | 213,496 |
| Investment in joint ventures | 15,614,279 | 16,168,074 |
| Advances to joint ventures | - | 3,026,127 |
| Accounts payable | 135,356 | 278,257 |

**18. Risk management and fair values (continued)**

If the Canadian dollar had strengthened 5 percent against the U.S. dollar with all other variables held constant, the Company would have additional loss from foreign exchange included in net loss for the six months period ended October 31, 2014 of approximately $42,100 (2013 loss of $8,200) and additional loss from currency translation adjustments of joint ventures and associates included in other comprehensive income or loss for the six months period ended October 31, 2014 of approximately $781,300 (2013 loss of $1,575,000). If the Canadian dollar had weakened 5 percent against the U.S. dollar with all other variables held constant, the Company would have additional income from foreign exchange included in net loss for the six months period ended October 31, 2014 of approximately $42,100 (2013 income of $8,200) and additional income from currency translation adjustments of joint ventures and associates included in other comprehensive income or loss for the three months period ended October 31, 2014 of approximately $781,300 (2013 income of $1,575,000). The foreign currency exchange rate sensitivity in comprehensive income or loss is attributable to a change in the translation of monetary assets and liabilities, and interest in joint ventures and associates, denominated in U.S. dollars.

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

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

Fair values:

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

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

Derivatives, included separated embedded derivatives, are financial liabilities and are recorded initially at fair value. Fair value changes on derivatives are recognized in net loss, unless they are designated as effective hedging instruments.

## 19. Events after the reporting period

There are no subsequent events after the reporting period.