

**TITANSTAR PROPERTIES INC.**

**FORM 51-102F1**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the three and six months ended October 31, 2012**

**TITANSTAR PROPERTIES INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2012**

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This Management's Discussion and Analysis ("MD&A") dated December 20, 2012 is in respect of the three and six months ended October 31, 2012, and should be read in conjunction with the unaudited condensed interim financial statements for the three and six months ended October 31, 2012, together with the audited consolidated financial statements and appended notes and MD&A for the year ended April 30, 2012, and the condensed consolidated interim financial statements and MD&A for the three months ended July 31, 2012.

**FORWARD-LOOKING STATEMENTS**

This MD&A may contain forward-looking statements with respect to TitanStar Properties Inc. ("TitanStar" or the "Company"). These forward-looking statements by their nature involve risks and uncertainties that could cause actual results to differ materially from those contemplated by such statements. The Company considers the assumptions on which these forward-looking statements are based to be reasonable at the time they were prepared, but cautions the reader that these assumptions regarding future events, many of which are beyond the control of management, may ultimately prove to be incorrect. Investors are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements.

**OVERVIEW OF THE COMPANY**

TitanStar Properties Inc. (formerly DPVC Inc.) 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 (the "Exchange"). The Company issued share capital and commenced operations on June 30, 2008. On September 27, 2010, the Company's shareholders passed a special resolution approving a change in the Company's name from DPVC Inc. to TitanStar Properties Inc. As at October 31, 2012, the Company held a 50% interest in two income properties under co-ownership accounted for on an equity basis; Deer Springs Crossing and Sahara Crossing, both located in Las Vegas, Nevada.

Previously, the Company engaged a syndicate of investment dealers led by Sora Group Wealth Advisors Inc. (the "Lead Agent") to act as Agents for a brokered private placement financing (the "Offering") on a commercially-reasonable best efforts basis, via offering memorandum and other exemptions from the prospectus requirements, to offer a minimum of 8,108,109 and a maximum of 16,216,217 Units at a price of \$0.37 per Unit, for a minimum of CAD \$3 million and a maximum of CAD \$6 million in proceeds. Each Unit is comprised of one common share of the Company (a "Common Share") and one non-transferable share purchase warrant (a "Warrant"), with each warrant exercisable by the holder to acquire one additional common share of the Company for a period of 24 months from issuance at an exercise price of CAD \$0.40 per share in the first year and an exercise price of CAD \$0.45 per share in the second year. The Agents for the Offering receive a cash commission equal to 8.0% of the gross proceeds raised under the Offering, and that number of Agent's warrants that will entitle the holder thereof to purchase that number of common shares that is equal to 8.0% of the number of Units issued under the Offering. On January 27, 2011, the Company issued 7,046,573 common shares and 7,046,573 warrants along with 563,726 warrants to the Agent in connection with the Offering.

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On June 29, 2011, the Company further issued 623,750 common shares and 623,750 warrants along with 49,900 warrants to the Agent in connection with the Offering.

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 real estate assets in the United States with value to be maximized through the acquisition of well-positioned, undervalued or underperforming assets.

The initial focus is on necessity-based, nationally-anchored retail/commercial properties, community centers, industrial properties, and income-producing residential apartments that require investment or creativity to create value.

In prior reporting periods, the Company made the following investments, either directly or through a subsidiary, in its interests in joint ventures:

- 50% interest in each of two Nevada limited partnerships, Deer Springs Crossing, LP (“DSC LP”) and LV Loan Holdings, LP (“LVLH LP”).

DSC LP owns certain lands located in Las Vegas, Nevada (the “Deer Springs Property”) and LVLH LP owns a promissory note (with respect to a loan related to the Deer Springs Property) and certain related security documents (the “Deer Springs Note”).

- 50% interest in a Nevada limited partnership, Sahara Crossing, LP (“Sahara LP”).

Sahara LP was formed by the Company and Sahara Crossing Development Company, LLC (“SCDC”), a related party of Juliet Companies LLC (“Juliet”) and completed its acquisition of a commercial retail property located in Las Vegas, Nevada (the “Sahara Property”). The Venture intends to own and develop the Sahara Property. Net proceeds from Sahara LP will be firstly applied to repay each of the Company and SCDC's respective capital accounts, and lastly distributed to the Company and SCDC equally.

**SELECTED FINANCIAL INFORMATION**

**Quarterly Results**

A summary of selected financial information for the three and six months ended October 31, 2012 and the three and six months ended October 31, 2011 is as follows:

	Three months ended October 31, 2012	Three months ended October 31, 2011
Share of income (loss) of joint ventures	\$ (45,167)	\$ 694,476
Net income (loss)	(377,737)	669,089
Comprehensive income (loss)	(362,339)	961,985
Net income (loss) per share, basic and diluted	(0.01)	0.02

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Total assets	\$ 9,171,249	\$ 9,019,234
	Six months ended October 31, 2012	Six months ended October 31, 2011
Share of income (loss) of joint ventures	\$ (31,020)	\$ 631,148
Net income (loss)	(400,438)	560,425
Comprehensive income (loss)	(307,977)	923,920
Net income (loss) per share, basic and diluted	(0.01)	0.02
Total assets	\$ 9,171,249	\$ 9,019,234

The Company experienced a significant net loss and comprehensive loss in the three months ended October 31, 2012 compared to significant net income and comprehensive income in the three months ended October 31, 2011. This increase in the net loss and comprehensive loss was a result of a significant increase in professional fees and financing costs incurred during the quarter. In addition, the Company's interests in joint ventures generated a loss in the current period compared to generating income in the corresponding period in the prior year.

The financial effects described above for the three months ended October 31, 2012 also provide the basis for the differences in the year to date results for the six months ended October 31, 2012 over the comparable six month period ended October 31, 2011.

Expenses incurred by the Company during the three and six months ended October 31, 2012 consisted primarily of professional fees, financing costs, travel, insurance and filing fees.

Total assets as at October 31, 2012 included \$6,152,157 of interests in joint ventures, \$2,214,040 of advances to joint ventures, \$220,951 of prepaid expenses and deposits, \$4,245 of amounts receivable and \$579,856 of cash, the current balance of which was financed primarily by loans received from related parties on October 15, 2012.

A comparative of the Company's financial condition as at October 31, 2012 and April 30, 2012 is as follows:

	October 31, 2012	April 30, 2012
Total Assets	\$ 9,171,249	\$ 8,818,969
Working Capital	\$ 202,132	\$ 471,550

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**Results of Operations**

A summary of selected financial information for the three and six months ended October 31, 2012 and October 31, 2011 is as follows:

	Three months ended October 31, 2012	Three months ended October 31, 2011
<b>Revenue</b>	\$ -	\$ -
General and administrative expense	333,658	40,005
Share-based compensation expense	-	-
<b>Total expenses</b>	\$ <b>333,658</b>	\$ <b>40,005</b>
Share of income (loss) of joint ventures	(45,167)	694,476
Foreign exchange gain	1,088	14,618
<b>Total other items</b>	\$ <b>(44,079)</b>	\$ <b>709,094</b>
<b>Net income (loss)</b>	\$ <b>(377,737)</b>	\$ <b>669,089</b>

	Six months ended October 31, 2012	Six months ended October 31, 2011
<b>Revenue</b>	\$ -	\$ -
General and administrative expense	372,426	77,137
Share-based compensation expense	-	3,063
<b>Total expenses</b>	\$ <b>372,426</b>	\$ <b>80,200</b>
Share of income (loss) of joint ventures	(31,020)	631,148
Interest income	7	-
Foreign exchange gain	3,001	9,477
<b>Total other items</b>	\$ <b>(28,012)</b>	\$ <b>640,625</b>
<b>Net income (loss)</b>	\$ <b>(400,438)</b>	\$ <b>560,425</b>

Expenses incurred during the three and six months ended October 31, 2012 consisted primarily of professional fees, financing costs, travel, insurance and filing fees. The expenses for the period were higher than the corresponding period in the prior year as a result of additional professional fees and financing costs incurred during the current period.

As to the effect of share of income (loss) of joint ventures and foreign exchange gain, please refer to discussions under Quarterly Results.

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**Selected Quarterly Financial Information**

A summary of selected quarterly financial information for the most recent eight quarters is as follows:

	<b>Quarter Ended October 31, 2012</b>	<b>Quarter Ended July 31, 2012</b>	<b>Quarter Ended April 30, 2012</b>
Net income (loss)	\$ (377,737)	\$ (22,701)	\$ (55,145)
Comprehensive income (loss)	\$ (362,339)	\$ 54,362	\$ (180,367)
Net income (loss) per share, basic and diluted	\$ (0.01)	\$ 0.00	\$ 0.00

	<b>Quarter Ended January 31, 2012</b>	<b>Quarter Ended October 31, 2011</b>	<b>Quarter Ended July 31, 2011</b>
Net income (loss)	\$ (85,680)	\$ 669,090	\$ (108,664)
Comprehensive income (loss)	\$ (11,582)	\$ 961,986	\$ (38,065)
Net income (loss) per share, basic and diluted	\$ 0.00	\$ 0.02	\$ 0.00

	<b>Quarter Ended April 30, 2011</b>	<b>Quarter Ended January 31, 2011</b>
Net income (loss)	\$ (107,600)	\$ (240,257)
Comprehensive income (loss)	\$ (531,736)	\$ (385,408)
Net income (loss) per share, basic and diluted	\$ (0.01)	\$ (0.01)

In the quarter ended January 31, 2011, expenses included interest and transaction costs amortization expenses, professional fees and the Company's share of losses in the joint ventures. Currency fluctuations in the quarter ended January 31, 2011 resulted in cumulative translation losses resulting in an increased comprehensive loss compared to net loss.

In the quarter ended April 30, 2011, expenses included foreign exchange losses, professional fees and the Company's share of losses in the joint ventures. Currency fluctuations in the quarter ended April 30, 2011 resulted in cumulative translation losses resulting in an increased comprehensive loss compared to net loss.

In the quarter ended July 31, 2011, expenses primarily included professional fees. Currency fluctuations in the quarter ended July 31, 2011 resulted in cumulative translation gains compared to losses in prior quarters, resulting in a decreased comprehensive loss compared to net loss.

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In the quarter ended October 31, 2011, the large increase in net income was primarily due to the Company's share of income of joint ventures which resulted from a gain on the sale of a portion of land and the related ground lease on the Deer Springs Property. The significant increase in comprehensive income compared to net income for the quarter was due to the currency translation adjustments of joint ventures, the interests in which are held in US dollars, as a result of the significant strengthening of the US dollar relative to the Canadian dollar during the quarter.

In the quarter ended January 31, 2012, expenses primarily included foreign exchange losses, professional fees, and the Company's share of losses in the joint ventures. There were no significant transactions similar to the previous quarter. As a result, the Company returned to a net loss position similar to quarters prior to the quarter ended October 31, 2011. Currency fluctuations in the quarter ended January 31, 2012 resulted in cumulative translation gains resulting in a decrease from net loss to comprehensive loss.

In the quarter ended April 30, 2012, expenses primarily included foreign exchange losses, professional fees, and the Company's share of losses in the joint ventures. The decrease in net loss was primarily due to the decrease in the Company's share of losses of joint ventures. Currency fluctuations in the quarter ended April 30, 2012 resulted in cumulative translation losses compared to gains in the prior three quarters, resulting in an increased comprehensive loss compared to net loss.

In the quarter ended July 31, 2012, expenses primarily included professional fees. The increase in net income was primarily due to the Company's share of income of joint ventures. Currency fluctuations in the quarter ended July 31, 2012 resulted in cumulative translation gains compared to losses in prior quarters, resulting in a comprehensive income compared to net loss.

The results for the quarter ended October 31, 2012 are previously described under Quarterly Results.

### **Financing and Capital Resources**

On June 29, 2011, the Company issued 623,750 common shares and 623,750 warrants for gross proceeds of \$230,788 and incurred issue costs of \$35,482 in connection with the Offering, which included the value of 49,900 warrants issued to the Agent. Previously, on January 27, 2011, the Company issued 7,046,573 common shares and 7,046,573 warrants for gross proceeds of \$2,607,232 and incurred issue costs of \$331,479, which included the value of 563,726 warrants issued to the Agent.

During the quarter ending January 31, 2012, Sahara LP refinanced entered into a new mortgage which provides for aggregate borrowings of US\$4,500,000 of which US\$3,500,000 has been advanced at October 31, 2012. The remaining US\$1,000,000 will be allocated for certain development and tenant improvement costs. As security against such indebtedness, Sahara LP pledged its interest in the Sahara Property. The Company's financial statements reflect its proportionate equity interest in Sahara LP of 50%.

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On October 15, 2012, the Company received \$500,000 from two directors of the Company and, in exchange, the Company issued a \$500,000 promissory note payable to those directors. In addition, as consideration for those directors granting the loans to the Company, the Company issued 500,000 bonus shares to those directors and recognized financing costs of \$100,000, representing the fair value of those shares as at that date.

Subsequent to period end, the Company arranged for a \$25 million revolving equity bridge loan facility with Romspen Investment Corporation ("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 (subject to the prior consent of any senior lenders), 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 will pledge 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, and the Company must, within the first year of such term, repay 50% of any amounts drawn down within that year. Romspen will receive a fee equal to 3% of any advance drawn from the loan facility, and will be reimbursed for its reasonable expenses in connection therewith.

### **Liquidity**

As at October 31, 2012, the Company had working capital of \$202,132. The decrease in working capital from April 30, 2012 was a result of the professional fees and financing costs incurred during the current quarter.

### **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

### **Transactions with Related Parties**

On April 16, 2010, the Company entered into an asset management agreement with TitanStar Capital Corp. (the "Asset Manager"), pursuant to which the Asset Manager will provide management advisory, asset management and administrative 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 an advisory fee of \$1,000 per month. 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, payable monthly.



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Also on April 16, 2010, the Company granted the Asset Manager options to purchase 100,000 common shares. Each option will allow the Asset Manager to purchase one common share at a price of \$0.35 per share from the date of issuance until the fifth anniversary of the issuance of such options.

For the three and six months ended October 31, 2012, the Company accrued and paid \$3,360 and \$7,200, respectively, to the Asset Manager for management fees pursuant to the asset management agreement (three and six months ended October 31, 2011 - \$3,000 and \$6,000). Management fees expense for the three and six months ended October 31, 2012 also includes applicable taxes paid on management fees.

On October 15, 2012, the Company received \$500,000 in loan proceeds from two of its directors, each at \$250,000. Each loan is payable on demand, with interest accruing at 6% per annum. In addition, 500,000 bonus common shares at a value of \$100,000 were issued to the directors for no additional consideration.

### **Implementation of International Financial Reporting Standards (“IFRS”)**

The Canadian Institute of Chartered Accountants Accounting Standards Board (“AcSB”) has adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards for public companies were required to converge with International Financial Reporting Standards (“IFRS”) for fiscal years beginning on or after January 1, 2011 with comparative figures presented on the same basis.

The Company completed its transition to the new standards in its consolidated financial statements for the year ended April 30, 2012.

The Company continues to evaluate the impact of new standards being issued under IFRS to its financial statements. This will be an ongoing process as the International Accounting Standards Board and the AcSB issue new standards and recommendations.

### **Internal Controls over Financial Reporting and Disclosure**

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Chief Executive Officer and Chief Financial Officer evaluated, or caused to be evaluated, the design of the Company’s internal controls over financial reporting (as defined in NI 52-109) as at October 31, 2012. Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company’s internal controls over financial reporting were appropriately designed and were operating effectively as at October 31, 2012.

During the three and six months ended October 31, 2012 no changes to internal controls over financial reporting have materially affected the Company’s financial reporting process.

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All control systems have inherent limitations, and the evaluation of a control system cannot provide absolute assurance that all control issues have been detected, including risks of misstatement due to error or fraud. As a growing enterprise, management anticipates that the Company will be continually evolving and enhancing its systems of controls and procedures.

**Financial Instruments and Other Instruments**

The Company's financial instruments consist of cash, amounts receivable, advances to joint ventures and accounts payable and accrued liabilities. It is management's opinion that the Company is not exposed to significant liquidity or credit risks arising from these financial instruments and that the fair value of these financial instruments approximates their carrying values.

Interest rate risk is the risk that changes in market interest rates may have an effect on the cash flows or fair value associated with some financial instruments. The Company is exposed to interest rate risk, through its interests in joint ventures, as Sahara LP has a mortgage payable which is impacted by changes in the prime rate.

For a review of the interest rate risk exposure, please see the section entitled Interest Fluctuations and Financing Risk in the Risk and Uncertainty section below.

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 venture 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 expense. The Company may enter into forward exchange contracts to manage part of the foreign exchange risk exposures denominated in U.S. currency, but has no forward contracts as at October 31, 2012.

For a review of the foreign exchange risk exposure on US dollar denominated monetary assets and liabilities of the Company, please see the section entitled Foreign Currency in the Risk and Uncertainty section below.

**Proposed Transactions**

The Company does not have any proposed transactions.

**Additional Disclosure for Venture Issuers without Significant Revenue**

As the Company has not had significant revenue from operations in the last two financial years, the following is a breakdown of the material costs incurred:

Material Components	Three months ended October 31, 2012	Three months ended October 31, 2011
General and administrative expenses	\$ 333,658	\$ 40,005

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Consisting of:		
- Insurance	5,117	3,350
- Bank charges	26	6
- Filing fees	12,118	15,745
- Office costs	43	627
- Management fees	3,360	3,000
- Professional fees	113,325	12,983
- Financing fees	195,000	-
- Marketing and promotion	570	1,891
- Travel	4,099	2,403
Other material costs not referred to above		
- Share-based compensation	\$ -	\$ -

Material Components	Six months ended October 31, 2012	Six months ended October 31, 2011
General and administrative expenses	\$ 372,426	\$ 77,137
Consisting of:		
- Insurance	10,217	6,350
- Bank charges	26	115
- Filing fees	16,761	18,589
- Office costs	736	710
- Management fees	7,200	6,000
- Professional fees	127,663	37,267
- Financing fees	195,000	-
- Marketing and promotion	2,507	3,328
- Travel	12,316	4,778
Other material costs not referred to above		
- Share-based compensation	\$ -	\$ 3,063

**Disclosure of Outstanding Share Data**

As at October 31, 2012 and the date of this MD&A, the following is a description of the outstanding equity securities and convertible securities previously issued by the Company:

	As at October 31, 2012	As at the date of this MD&A
Voting or equity securities authorized	Unlimited	Unlimited
Securities convertible or exercisable into voting or equity securities – share options	Share options to acquire up to 10% of outstanding common shares	Share options to acquire up to 10% of outstanding common shares
Voting or equity securities issued and outstanding	31,140,806	31,140,806

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	common shares	common shares
Securities convertible or exercisable into voting or equity securities – asset manager’s share options	100,000	100,000
Securities convertible or exercisable into voting or equity securities – directors and officers share options	600,000	600,000
Securities convertible or exercisable into voting or equity securities – unit holder warrants	7,670,323	7,670,323
Securities convertible or exercisable into voting or equity securities – agent’s warrants	613,626	613,626
Total voting or equity securities issuable on conversion or exchange of outstanding securities	8,983,949	8,983,949

**Additional Disclosure for Venture Issuers with Significant Equity Investees**

The following table summarizes the assets, liabilities and results of operations of the Company’s equity investees, DSC LP, LVLH LP and Sahara LP, for which the Company holds a 50% interest in each. All figures are translated to Canadian dollars at the rate of exchange in effect at the quarter end date for net assets and at average rates prevailing during the period for net income.

	October 31, 2012	April 30, 2012
Total assets	\$ 18,156,006	\$ 17,936,124
Total liabilities	\$ 5,851,692	\$ 5,705,490
Net assets	\$ 12,304,314	\$ 12,230,634
Titanstar’s share of net assets	\$ 6,125,157	\$ 6,115,317

	Six months ended October 31, 2012	Six months ended October 31, 2011
Revenue and gains	\$ 339,970	\$ 1,849,508
Expenses	\$ 402,010	\$ 587,212
Net income (loss)	\$ (62,040)	\$ 1,262,296
Titanstar’s share of net income (loss)	\$ (31,020)	\$ 631,148

Additional information regarding the Company’s proportionate interest in the significant equity investees is disclosed in note 3 in the October 31, 2012 condensed consolidated interim financial statements.

**RISKS AND UNCERTAINTIES**

**General Business Risks**

The Company will be subject to general business risks and to risks inherent in the commercial real estate industry, including the ownership of real property. These risks include general economic and market factors, local real estate conditions, competition, changes in government

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regulation, interest rates, the availability of equity and debt financing, environmental and tax related matters, availability of specialized trades people and reliance on key personnel. Any one of, or a combination of, these factors may adversely affect the financial position of the Company.

**Real Property Ownership**

All real property investments are subject to elements of risk. Such investments are affected by general economic conditions, local real estate markets, the attractiveness of the properties to residents, supply and demand for space, and competition from other available space and various other factors.

The performance of the economy in the area in which the Deer Springs Property and Sahara Property (together called "the Properties") are located affects occupancy, market rental rates and expenses. These factors consequently can have an impact on the future share of income/(loss) attributable to the Company from the Properties, and the value of the underlying investments in the joint ventures.

Other factors may further adversely affect the future share of income/(loss) from joint ventures and value of the Properties. These factors include local conditions in the areas in which the Properties are located, such as an oversupply of commercial real estate properties or a reduction in the demand for commercial real estate properties, the attractiveness of the Properties to tenants, competition from other properties and the Company's ability to provide adequate facilities, maintenance, services and amenities. Operating costs, including real estate taxes, insurance and maintenance costs, and mortgage payments, if any, do not, in general, decline when circumstances cause a reduction in income from a property. The Company could sustain a loss as a result of foreclosure on the Properties if they are mortgaged to secure payment of indebtedness and the Company or its wholly-owned subsidiary, TitanStar DSC Holdings Inc., as applicable, was unable to meet its mortgage payments. In addition, applicable laws, including tax laws, interest rate levels and the availability of financing also affect revenues from properties and real estate values generally.

**Asset and Development Strategy**

It is intended that the Company's business strategy will involve expansion through acquisitions and further development projects that are in addition to the Properties. These activities require the Company to identify acquisition or development candidates or investment opportunities that meet its criteria and are compatible with its growth strategy. The Company may not be successful in identifying commercial real estate properties that meet its acquisition or development criteria or in completing acquisitions, developments, or investments on satisfactory terms. Failure to identify or complete acquisitions or developments will slow the Company's growth. The Company could also face significant competition for acquisitions and development opportunities. Some of the Company's competitors have greater financial resources than the Company and, accordingly, have a greater ability to borrow funds to acquire and develop properties. These competitors may also be willing and/or able to accept more risk than the Company can prudently manage, including risks with respect to the geographic concentration of

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investments and the payment of higher prices. This competition for investments may reduce the number of suitable investment opportunities available to the Company and may increase acquisition costs in certain areas where the Company's facilities are located or in areas targeted for growth and, as a result, may adversely affect the Company's operating results.

Even if the Company were successful in identifying suitable acquisitions or development projects, newly acquired properties may fail to perform as expected and management of the Company may underestimate the costs associated with the integration of the acquired properties. In addition, any expansions the Company undertakes in the future are subject to a number of risks, including, but not limited to, construction delays or cost overruns that may increase project costs, financing risks, the failure to meet anticipated occupancy or rent levels, failure to receive required zoning, land use and other governmental permits and authorizations and changes in applicable zoning and land use laws. If any of these problems occur, expansion costs for a project will increase, and there may be significant costs incurred for projects that are not completed. In deciding whether to acquire or expand a particular property, the Company will make certain assumptions regarding the expected future performance of that property. If the Company's acquisition or expansion of properties fails to perform as expected or incurs significant increases in projected costs, the joint ventures' net income could be lower than expected, resulting in the Company recognizing a lower than expected share of income from joint ventures, or potentially a share of loss from joint ventures.

It is intended that the Company will invest in new developments which carry a certain risk that projected financial returns may not be achieved and that cost overruns, or start-up losses may require further equity injections. The Company manages this risk through detailed evaluation of each development separately and ensuring certain criteria have been met, including an extensive supply and demand analysis and establishing capital participants.

**Dependence on and Relationship with Asset Manager**

The financial performance of the Company will depend in part on the performance of the Asset Manager. The success of the Company is dependent on the services of certain management personnel, including T. Richard Turner, the Chief Executive Officer of the Company. The loss of the services of such personnel could have an adverse effect on the Company.

**Joint Venture Investments**

The Company has a 50% interest in LV Loan Holdings GP Inc. and LVLH LP and, through its wholly-owned subsidiary, TitanStar DSC Holding Inc., has a 50% interest in each of the Deer Springs Property (through DSC LP) and the Sahara Crossing Property (through Sahara LP). The Company may also enter into further joint ventures with respect to other properties in the future. In any such joint venture, the Company may not be in a position to exercise sole decision-making authority regarding the properties owned through joint ventures. Investments in joint ventures may, under certain circumstances, involve risks not present when a third party is not involved, including the possibility that joint venture partners might become bankrupt or fail to fund their share of required capital contributions. Joint venture partners may have business

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interests or goals that are inconsistent with the Company's business interests or goals and may be in a position to take actions contrary to the Company's policies or objectives. Such investments also have the potential risk of impasse on strategic decisions, such as a sale, because neither the Company nor the joint venture partner would have full control over the joint venture. Any disputes that may arise between the Company and its joint venture partners could result in litigation or arbitration that could increase the Company's expenses and distract its officers and/or directors from focusing their time and effort on the Company's business. In addition, the Company might in certain circumstances be liable for the actions of its joint venture partners.

**Investment Concentration**

The Company will be susceptible to adverse developments in Las Vegas, Nevada, the sole market in which it is initially operating, such as new developments, changing demographics and other factors. Presently, the Company's 50% interest in the Deer Springs Property (through its indirect ownership of the DSC LP Interest) and 50% interest in Sahara Property (through its indirect ownership of the Sahara LP Interest) accounts for 100% of the Company's total real property assets. As a result of this concentration of assets, the Company will be particularly susceptible to adverse market conditions in this region. Any adverse economic or real estate developments in the area in which the Properties are located, or in the future in any of the other markets in which the Company operates, or any decrease in demand for commercial real estate resulting from the local economy or demographics could adversely affect the rental revenues of the joint ventures. This effect could impair the ability of the joint ventures to service their debt obligations and generate stable positive cash flow from operations to generate a return for the Company.

In addition, because the Company's investments will initially consist of its indirect ownership of the Properties, it will be subject to risks inherent in investments in a single industry. Demand for commercial real estate could be adversely affected by weakness in the national, regional and local economies, changes in supply of, or demand for, similar or competing properties in an area and the excess amount of units in a particular market. To the extent that any of these conditions occur, they are likely to affect market rents for space, which could cause a decrease in the joint ventures' future potential rental revenue from the Properties. Any such decrease could impair the joint ventures' ability to satisfy their debt service obligations, generate stable positive cash flow from their operations and generate a return for the Company.

**Illiquidity**

Real property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. Such illiquidity in the joint ventures may tend to limit the Company's ability to vary its portfolio promptly in response to changing economic or investment conditions.

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**Uninsured Losses**

DSC LP and Sahara LP will carry comprehensive general liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for properties similar to the Properties. There are, however, certain types of risks, generally of a catastrophic nature, such as wars or environmental contamination, which are either uninsurable or not insurable on an economically viable basis. Should an uninsured or under-insured loss occur, the Company could lose its investment in, and anticipated profits and cash flows from the Properties.

**Environmental Risk**

As an indirect owner of real property in the United States, the Company is subject to various federal, state and municipal laws relating to environmental matters. Such laws provide that the Company could be liable for the costs of removal of certain hazardous substances and repair of certain hazardous locations. The failure to remove or remediate such substances or locations, if any, could adversely affect the Company's ability to sell such real estate or to borrow using such real estate as collateral and could potentially also result in claims against the Company.

Management is not aware of any material non-compliance with environmental laws with respect to the Properties. The Company is also not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with the Properties. However, The Company cannot guarantee that any material environmental conditions do not or will not otherwise exist with respect to the Properties.

**Public Market Risk**

It is not possible to predict the price at which the Shares will trade and there can be no assurance that an active trading market for the Shares will be sustained. The Shares will not necessarily trade at values determined solely by reference to the value of the underlying business of the Company or its assets. Accordingly, the Shares may trade at a premium or a discount to the value implied by the value of the Company's assets. The market price for the Shares may be affected by changes in general market conditions, fluctuations in the markets for equity securities and numerous other factors beyond the control of the Company.

**Debt Financing**

The Company and joint ventures have incurred and may incur indebtedness in the future in connection with the acquisition or expansion of facilities and its business. The joint ventures may incur unsecured debt or mortgage debt by obtaining loans secured by some or all of their real estate properties or assets. The Company's and/or joint ventures' debt may harm the Company's business and operating results by:



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- requiring the joint ventures to use a substantial portion of their cash flow from operations to pay principal and interest, which will reduce the amount of cash available for generating a return to the Company, and thus, other purposes;
- limiting the Company's ability to borrow more money for operating or capital needs or to finance acquisitions in the future; and
- making the Company more vulnerable to economic and industry downturns and reducing its flexibility in responding to changing business and economic conditions.

In addition to the risks discussed above and those normally associated with debt financing, including the risk that the Company's or the joint ventures' cash flow will be insufficient to meet required payments of principal and interest, the Company will also be subject to the risk that the joint ventures will not be able to refinance potential future indebtedness on their properties and that the terms of any refinancing they could obtain would not be as favourable as the terms of their existing indebtedness. If the joint ventures are not successful in refinancing debt when it becomes due, the Company may be forced to dispose of its interest in the joint ventures on disadvantageous terms, which might adversely affect its ability to service other debt and to meet its other obligations. In addition, the financing arrangements of the Company may contain covenants that will restrict its ability to operate its business in certain ways. If the Company fails to comply with the restrictions in its financing arrangements, its lenders may be able to accelerate related debt as well as any other debt to which a cross-default or cross-acceleration provision applies. A default could also allow creditors to foreclose, sell or realize on the property securing such debt or exercise other remedies against the Company. Credit facilities also typically require repayment of funds or cash flow sweeps when certain coverage ratios are not met. In connection with its financing arrangements, the Company expects that it will grant security interests over substantially all of its assets. If the Company is not able to meet its debt service obligations, it risks the loss of some or all of its assets to foreclosure or sale.

### **Interest Fluctuations and Financing Risk**

The Company may finance future acquisitions in part with debt borrowings, which could bear interest at fixed or variable rates. The interest expense on any variable rate indebtedness of the Company will increase when interest rates increase. Interest rates are currently low relative to historical levels and may increase significantly in the future. A significant increase in interest expense could adversely affect the Company's results of operations.

The Company has interest rate risk through its share of its interests in joint ventures as Sahara LP holds a US\$3,500,000 mortgage payable which is impacted by changes in the prime rate. If interest rates would have been 1% higher (or lower) for the three and six months ended October 31, 2012, the Company would have higher (or lower) share of income (loss) of joint ventures included in net income or loss of approximately \$4,300 and \$8,800 (three and six months ended October 31, 2011 - \$4,400 and \$8,700).

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**Failure to Obtain Additional Financing**

The Company may require additional financing in order to grow and expand its operations. It is possible that such financing will not be available or, if it is available, will not be available on favourable terms. Future financing may take many forms, including debt or equity financing, which could alter the debt-to-equity ratio of the Company or which could be dilutive to Shareholders.

**Dilution**

The number of Shares that the Company is authorized to issue is unlimited. The directors of the Company will have the discretion to issue additional Shares in order to raise additional capital or in connection with future acquisitions, which may have a dilutive effect on Shareholders.

**Potential Volatility of Share Price**

It is not possible to predict the price at which the Shares will trade and there can be no assurance that an active trading market for the Shares will be sustained. The market price of the Shares may be volatile and could be subject to wide fluctuations due to a number of factors, including but not limited to: (i) actual or anticipated fluctuations in the Company's results of operations; (ii) changes in estimates of the Company's future results of operations by management or securities analysts; and (iii) general industry changes. In addition, the financial markets have in the past experienced significant price and value fluctuations that have particularly affected the market prices of equity securities of many venture and real estate issuers and that sometimes have been unrelated to the operating performance of these companies. Broad market fluctuations, as well as economic conditions generally and in the real estate industry specifically, may adversely affect the market price of the Shares.

**Limited Prior Public Market**

The Shares have a limited record of trading publicly on the Exchange. The Company cannot predict at what price the Shares will trade and there can be no assurance that an active trading market will be maintained. A publicly traded real estate company will not necessarily trade at values determined solely by reference to the underlying value of its real estate assets. Accordingly, the Shares may trade at a premium or a discount to values implied by valuations.

**Potential Conflicts of Interest**

Situations may arise where the interests of directors and officers may conflict with the interests of the Company. Conflicts, if any, will be subject to the procedures and remedies provided by the *Canadian Business Corporations Act*.

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**Foreign Currency**

The results of operations of the Company are reported in Canadian dollars. The Company's operations are anticipated to be conducted almost exclusively in the United States. Any fluctuations in the value of the US dollar relative to the Canadian dollar may result in variations in the share of income/loss from joint ventures and the net income of the Company. The Company does not plan on undertaking any hedging in order to mitigate its foreign currency risks.

At October 31, 2012, the Canadian dollar equivalent of monetary assets and liabilities that are denominated in U.S. dollars are as follows:

	<u>October 31, 2012</u>	<u>October 31, 2011</u>
Cash	\$ 31,696	\$ 200,802
Advances to joint venture	2,214,040	1,814,249

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 or loss for the three month period ended October 31, 2012 of approximately \$1,600 (October 31, 2011 - \$10,000) and additional income (or loss) from currency translation adjustments of joint ventures included in other comprehensive income or loss for the three month period ended October 31, 2012 of approximately \$418,700 (October 31, 2011 - \$420,400). 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 income or loss for the three month period ended October 31, 2012 of approximately \$1,600 (October 31, 2011 - \$10,000) and additional loss from currency translation adjustments of joint ventures included in other comprehensive income or loss for the three month period ended October 31, 2012 of approximately \$418,700 (October 31, 2011 - \$420,400). 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, denominated in U.S. dollars.

**Foreign Political Risk**

The Properties are located in the United States and, as such, a substantial portion of the Company's business will be exposed to various degrees of political, economic and other risks and uncertainties. The Company's operations and investments may be affected by local political and economic developments, including expropriation, nationalization, invalidation of governmental orders, permits or agreements pertaining to property rights, political unrest, labour disputes, limitations on repatriation of earnings, limitations on foreign ownership, inability to obtain or delays in obtaining necessary permits, opposition to property development from local, environmental or other non-governmental organizations, government participation, royalties, duties, rates of exchange, high rates of inflation, price controls, exchange controls, currency fluctuations, taxation and changes in laws, regulations or policies as well as by laws and policies of Canada affecting foreign trade, investment and taxation.

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**Inability to Resell Shares**

There can be no assurance that an active and liquid market for the Shares will be developed and, if developed, will be maintained; and a holder of Shares may find it difficult to resell those Shares.

**Critical Accounting Estimates**

The preparation of financial statements requires the Company to select from possible alternative accounting principles, and to make estimates and assumptions that determine the reported amounts of assets and liabilities at the balance sheet date and reported costs and expenditures during the reporting period. Estimates and assumptions may be revised as new information is obtained, and are subject to change. The Company's accounting policies and estimates used in preparation of the financial statements are considered appropriate in the circumstances, but are subject to judgments and uncertainties inherent in the financial reporting process.

**Changes to Significant Accounting Policies**

The following new or amended standards have been issued by the IASB:

- *IFRS 7 Financial Instruments: Disclosures*, is amended to introduce enhanced disclosure requirements for financial instruments which are offset, effective for annual periods beginning on or after January 1, 2015 with earlier application permitted.
- *IFRS 9 Financial instruments* replaces *IAS 39 Financial instruments: recognition and measurement*, retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value, This standard is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.
- *IFRS 10 Consolidated financial statements* replaces *IAS 27 Consolidated and separate financial statements* and *SIC 12 Consolidation - special purpose entities* and provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. This standard is effective for annual periods beginning on or after January 1, 2015 with earlier application permitted.
- *IFRS 11 Joint arrangements* supersedes *IAS 31 Interests in joint ventures* and *SIC 13 Jointly controlled entities – non-monetary contributions by venturers* and establishes principles for the financial reporting by parties to a joint arrangement. This standard is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.
- *IFRS 12 Disclosure of Interests in Other Entities* combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangement, associates and unconsolidated

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structured entities, effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

- In conjunction with IFRS 10, IFRS 11 and IFRS 12, the IASB also issued amended and retitled IAS 27 - Separate Financial Statements and IAS 28 - Investments in Associates and Joint Ventures, effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.
- *IFRS 13 Fair value measurement* defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. This standard is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.
- IAS 1 – Presentation of Financial Statements, is amended to change the disclosure of items presented in other comprehensive income, including a requirement to separate items presented in other comprehensive income into two groups based on whether or not such items may be brought into net income or loss in the future, effective for annual periods beginning on or after July 1, 2013 with earlier application permitted.
- IAS 19 – Employee Benefits, is amended to provide new requirements for the accounting for defined benefit pension plans, including a requirement for the immediate recognition of actuarial gains and losses, and a requirement for companies to use the same discount rate for both the defined benefit obligation and the expected asset return when calculating the interest component of pension expense, effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.
- IAS 32 – Financial Instruments: Presentation, is amended to provide specific guidance for when an entity can offset financial assets and liabilities, effective for annual periods beginning on or after January 1, 2014 with earlier application permitted.

The Company is currently evaluating but has not yet determined the impact of these standards on its financial statements.

**Other MD&A Requirements**

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).