

## **TITANSTAR PROPERTIES INC.**

### **UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**For the three and nine months ended January 31, 2014  
(unaudited)**

#### **Responsibility for Financial Statements**

The accompanying unaudited 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 January 31, 2014 and April 30, 2013, and the results of its operations and its cash flows for the three and nine months ended January 31, 2014 and January 31, 2013.

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

	January 31, 2014	April 30, 2013
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 1,315,295	\$ 39,744
Short-term investments (note 4)	69,649	62,969
Amounts receivable	194,762	57,430
Deferred financing costs	24,878	-
Prepaid expenses and deposits	<u>393,614</u>	<u>387,364</u>
	1,998,198	547,507
Advances to joint ventures (note 5)	2,950,882	2,232,877
Interests in joint ventures (note 5)	<u>16,673,774</u>	<u>9,068,052</u>
	<u>\$21,622,854</u>	<u>\$11,848,436</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 655,689	\$ 265,169
Due to related parties (note 6)	1,200,000	500,000
Current portion of long-term debt (note 7)	<u>3,191,397</u>	<u>1,265,895</u>
	5,047,086	2,031,064
Long-term debt (note 7)	3,299,554	1,321,969
Convertible debentures (note 8)	<u>4,099,965</u>	<u>-</u>
	<u>12,446,604</u>	<u>3,353,033</u>
<b>Shareholders' equity</b>		
Share capital (note 9)	8,999,670	8,152,591
Convertible debentures (note 8)	246,132	-
Contributed surplus	1,180,695	1,114,780
Accumulated other comprehensive income	1,248,979	60,871
Deficit	<u>( 2,499,226)</u>	<u>( 832,839)</u>
	<u>9,176,249</u>	<u>8,495,403</u>
	<u>\$21,622,854</u>	<u>\$11,848,436</u>

Approved by the Board:

"T. Richard Turner"  
Board Chair

"D. Neil McDonnell"  
Chair, Audit Committee

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

	For the three months ended		For the nine months ended	
	2014	January 31, 2013	2014	January 31, 2013
<b>EXPENSES</b>				
General and administrative (note 13)	\$ 436,215	\$ 364,974	\$ 809,386	\$ 558,991
Finance costs (note 14)	579,210	-	1,202,877	-
Share-based compensation (note 11)	1,645	-	4,394	-
<b>OPERATING LOSS</b>	<u>( 1,017,070)</u>	<u>( 364,974)</u>	<u>( 2,016,657)</u>	<u>( 558,991)</u>
<b>OTHER ITEMS</b>				
Share of income (loss) of joint ventures (note 5)	( 52,100)	124,896	372,118	93,876
Interest income	6	-	524	7
Foreign exchange gain (loss)	( 6,187)	( 33)	( 22,042)	2,968
	<u>( 58,281)</u>	<u>124,863</u>	<u>350,600</u>	<u>96,851</u>
<b>NET LOSS</b>	<u>(\$ 1,075,351)</u>	<u>(\$ 240,111)</u>	<u>(\$ 1,666,057)</u>	<u>(\$ 462,140)</u>
<b>Basic and diluted loss per common share (note 10)</b>	<u>(\$ 0.03)</u>	<u>(\$ 0.01)</u>	<u>(\$ 0.05)</u>	<u>(\$ 0.01)</u>
<b>NET LOSS</b>	(\$ 1,075,351)	(\$ 240,111)	(\$ 1,666,057)	(\$ 462,140)
<b>OTHER COMPREHENSIVE INCOME</b>				
Currency translation adjustment of joint ventures	694,243	( 15,219)	1,188,108	77,242
<b>COMPREHENSIVE LOSS</b>	<u>(\$ 381,108)</u>	<u>(\$ 255,330)</u>	<u>(\$ 477,949)</u>	<u>(\$ 384,898)</u>

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

	Number of Shares	Share Capital	Convertible Debentures	Contributed Surplus	Accumulated Other Comprehensive Income (loss)	Deficit	Total
<b>Balance, April 30, 2013</b>	31,140,806	\$ 8,152,591	\$ -	\$ 1,114,780	\$ 60,871	(\$ 833,169)	\$ 8,495,073
Conversion of debentures	1,316,922	107,079	( 17,419)	-	-	-	89,660
Bonus shares issued	2,661,539	240,000	-	-	-	-	240,000
Conversion of due to related parties	1,666,666	500,000	-	-	-	-	500,000
Share-based compensation	-	-	-	4,394	-	-	4,394
Convertible debentures	-	-	263,551	-	-	-	263,551
Issuance of agents warrants	-	-	-	61,521	-	-	61,521
Net loss for the period	-	-	-	-	-	( 1,666,057)	(1,666,057)
Other comprehensive income	-	-	-	-	1,188,108	-	1,188,108
<b>Balance, January 31, 2014</b>	<u>36,785,933</u>	<u>\$ 8,999,670</u>	<u>\$ 246,132</u>	<u>\$ 1,180,695</u>	<u>\$1,248,979</u>	<u>(\$2,499,226)</u>	<u>\$ 9,176,250</u>
<b>Balance, April 30, 2012</b>	30,640,806	\$ 8,052,591	\$ -	\$ 1,113,744	(\$ 146,401)	(\$ 243,628)	\$ 8,776,306
Bonus shares issued	500,000	100,000	-	-	-	-	100,000
Share-based compensation	-	-	-	68	-	-	68
Net loss for the period	-	-	-	-	-	( 462,140)	( 462,140)
Other comprehensive income	-	-	-	-	77,242	-	77,242
<b>Balance, January 31, 2013</b>	<u>31,140,806</u>	<u>\$ 8,152,591</u>	<u>\$ -</u>	<u>\$ 1,113,812</u>	<u>(\$ 69,159)</u>	<u>(\$ 705,768)</u>	<u>\$ 8,491,476</u>

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

	For the nine months ended January 31, 2014	For the nine months ended January 31, 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	(\$ 1,666,057)	(\$ 462,140)
Adjustments to reconcile net loss to net cash provided by operating activities		
Foreign exchange (gain) loss	22,042	( 2,968)
Share of loss (income) of joint ventures	( 372,118)	( 93,876)
Bonus shares included in financing fees	240,938	100,000
Share-based compensation	4,394	-
Amortization of transaction costs	403,778	-
Accretion	8,228	-
Changes in operating assets and liabilities (note 15)	<u>535,000</u>	<u>( 43,456)</u>
	<u>( 823,795)</u>	<u>( 502,440)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investments in and contributions to joint ventures	( 7,766,520)	( 3,785,107)
Distributions from joint ventures	642,233	248,094
Advances to joint ventures	<u>( 631,890)</u>	<u>-</u>
	<u>( 7,756,177)</u>	<u>( 3,537,013)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of convertible debentures	5,360,000	-
Expenditures on transaction costs	( 957,959)	-
Issuance of common shares	912,993	500,000
Advances from related parties	700,000	500,000
Change in long-term debt	<u>3,847,142</u>	<u>3,412,926</u>
	<u>9,862,176</u>	<u>3,912,926</u>
<b>Effect of exchange rate changes on cash</b>	<u>( 6,653)</u>	<u>2,968</u>
<b>Change in cash for the period</b>	1,275,551	( 123,559)
<b>Cash, beginning of period</b>	<u>39,744</u>	<u>470,166</u>
<b>Cash, end of period</b>	<u>\$ 1,315,295</u>	<u>\$ 346,607</u>
<b>Interest paid</b>	<u>\$ 546,757</u>	<u>\$ 35,866</u>

# TITANSTAR PROPERTIES INC.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

January 31, 2014

(expressed in Canadian dollars)

(unaudited)

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### 1. Organization

TitanStar Properties Inc. (the “Company”) was incorporated under the *Canada Business Corporations Act* on June 3, 2008 and is a real estate holding company trading on the TSX Venture Exchange (common shares “TSXV: TSP”, convertible debentures “TSXV: TSP.DB”). The Company issued share capital and commenced operations on June 30, 2008. The registered office of the Company is 950-789 West Pender, Vancouver, BC, V6C 1H2.

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 nine months period ended January 31, 2014, the Company had a comprehensive loss of \$477,949 (2013 – \$384,898) and has a deficit of \$2,499,226 (April 30, 2013 - \$833,169). 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 consolidated 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 consolidated 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 March 27, 2014.

# TITANSTAR PROPERTIES INC.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

January 31, 2014

(expressed in Canadian dollars)

(unaudited)

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### 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 Financial Reporting Standards as disclosed in the April 30, 2013 audited financial statements. They do not include all 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, 2013. The financial statements have been prepared on a historical cost basis.

Effective May 1, 2013, the Company adopted IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, and IFRS 13 *Fair Value Measurement*. The adoption of IFRS 10 did not result in any change to the consolidation of any of the Company's subsidiaries. The adoption of IFRS 11 did not result in any changes in the accounting methods for the Company's joint ventures. The adoption of IFRS 13 did not require any changes to the valuation techniques used by the Company to measure fair value and did not result in changes to fair values as at May 1, 2013.

### 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 in the circumstances, but which may be inherently uncertain and unpredictable. In the process of applying the Company's accounting policies, management has applied the same methodologies in making significant accounting judgments, estimates and assumptions as disclosed in the Company's consolidated financial statements for the year ended April 30, 2013.

### 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, 2013 – 0.05% interest per annum) and are due April 7, 2014.

# TITANSTAR PROPERTIES INC.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

January 31, 2014

(expressed in Canadian dollars)

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### 5. Interests in joint ventures

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

	Nine months ended January 31, 2014	Year ended April 30, 2013
Interests in joint ventures, beginning of period	\$ 9,068,052	\$ 6,115,317
Contributions and investments	6,714,880	3,810,958
Distributions	( 642,233)	( 1,083,031)
Share of net income	372,121	60,974
Currency translation adjustments	<u>1,160,955</u>	<u>163,834</u>
Interests in joint ventures, end of period	<u>\$16,673,775</u>	<u>\$ 9,068,052</u>

Net proceeds from the Sahara Crossing will first be allocated 90% to repay the Company's advance to the joint venture of \$2,950,882 (April 30, 2013 – \$2,232,877) and 10% to repay advances from the other venturer. Subsequent proceeds will be distributed to the Company and other venturer equally.

The following summarized financial information of the Company's interest in joint ventures represents 100% of the net assets and operations of the joint ventures:

	Nine months ended January 31, 2014	Nine months ended January 31, 2013
Revenue, including operating recoveries	\$ 4,151,484	\$ 382,468
Operating expenses, leasing and depreciation	( 3,562,949)	( 240,285)
Interest expense	( 1,069,744)	( 48,307)
Lease termination fee	<u>1,135,474</u>	<u>-</u>
Net income	<u>\$ 654,265</u>	<u>\$ 93,876</u>

  

	As at January 31, 2014	As at April 30, 2013
Cash	\$ 1,712,668	\$ 1,045,644
Amounts receivable	757,906	617,590
Prepaid expenses	121,558	72,350
Income properties	<u>101,586,681</u>	<u>31,276,570</u>
	<u>\$104,178,813</u>	<u>\$ 33,012,154</u>



# TITANSTAR PROPERTIES INC.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

January 31, 2014

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

	As at January 31, 2014	As at April 30, 2013
Accounts payable and accrued liabilities	\$ 2,021,901	\$ 172,874
Deferred revenue	1,842,379	51,778
Loan payable	50,683,491	2,232,878
Mortgage loan	12,388,528	12,418,520
Equity	<u>37,242,514</u>	<u>18,136,104</u>
	<u>\$104,178,813</u>	<u>\$ 33,012,154</u>

On December 31, 2012, TSP LP I, a joint venture in which the Company and Romspen Investment Corporation (“Romspen”) each have a 50% indirect interest, acquired a retail shopping center known as the Swanway Plaza (“Swanway Plaza”) located in Tucson, Arizona. 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.).

In addition, on January 25, 2013, TSP LP II, a joint venture in which the Company and Romspen each have a 50% indirect interest, acquired a second retail shopping center known as Kohl’s San Tan Plaza (“San Tan Plaza”) located in Chandler, Arizona. 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.).

On September 24, 2013, the Company amended the Sahara Crossing limited partnership agreement, previously requiring additional contributions of US \$874,295 by December 31, 2013. The new contribution requirement was reduced and funded in the amount of \$631,890 on September 24, 2013.

On September 27, 2013, the Company acquired a \$6,704,099 38.4% interest in a third retail shopping center known as Adam’s Dairy Landing (Adam’s Dairy) located in Blue Springs, Missouri. 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 has 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 at a cost of US \$150,000 each. The Company elected to execute its right to acquire the additional 51.6% beneficial interest and paid the extension fees on February 18, 2014 and March 17, 2014 respectively.

# TITANSTAR PROPERTIES INC.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

January 31, 2014

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

If the Company does 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. If the buyback occurs prior to April 16, 2014 any extension fees will be refunded to the Company.

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

<b>Property Name</b>	<b>%</b>	<b>City</b>	<b>State</b>	<b>Date Acquired</b>
Deer Springs Crossing	50%	Las Vegas	NV	04/16/10
Sahara Crossing	50%	Las Vegas	NV	10/18/10
Swanway Plaza	50%	Tucson	AZ	12/31/12
San Tan Plaza	50%	Chandler	AZ	01/25/13
Adam's Dairy Landing	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.

### 6. Due to related parties

During 2010, the Company 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 December 20, 2013, the Company announced that it received an aggregate amount \$1,000,000 in loan proceeds. The loans were advanced by three separate lenders, two of which are companies in which a director of the Company holds beneficial interest, and the third of whom is at arm's length to the Company. Each of the loans accrues interest at a rate of 6% per annum, and are payable upon demand. In connection with the loans, the Company will issue, at no additional consideration and subject to the prior approval of the TSX Venture Exchange, an aggregate total of 2,461,539 common shares at \$0.08125 per share.

# **TITANSTAR PROPERTIES INC.**

## **NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

January 31, 2014

(expressed in Canadian dollars)

(unaudited)

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### **6. Due to related parties (continued)**

On May 27, 2013, the Company received \$200,000 in loan proceeds from one of its directors. The loan is payable on demand, with interest accruing at 6% per annum. In addition, the Company issued 200,000 bonus common shares to the director. As the loan is due on demand, it is short term in nature and has been reflected as such on the statement of financial position.

On October 15, 2012, the Company received \$500,000 in loan proceeds from the President, CEO and a director, each at \$250,000. Each loan was payable on demand, with interest accruing at 6% per annum. In addition, the Company issued 500,000 bonus common shares to these same directors. On June 11, 2013, the President, CEO and a director of the Company as well as a second director of the Company, received shares of the Company in lieu of cash for the repayment of a previous loan owed to them in the amounts of \$500,000. Each individual received 833,333 common shares of the Company as payment of the debt.

For the three month and nine month periods ended January 31, 2014, the Company paid \$3,150 and \$9,450 (\$3,000 and \$9,000 plus GST) to the Asset Manager for management fees pursuant to the asset management agreement (three months and nine months ended January 31, 2013 - \$3,360 and \$10,560).

For the three month and nine month periods ended January 31, 2014, the Company paid \$4,500 and \$13,500 (2013 - \$7,500 and \$7,500) of interest on amounts due to related parties.

For the three month and nine month periods ended January 31, 2014 the Company paid \$21,000 and \$28,000 (2013 - \$nil and \$nil) of service fees to the CFO.

### **7. 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. Advance under the credit facility have 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.

# TITANSTAR PROPERTIES INC.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

January 31, 2014

(expressed in Canadian dollars)

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### 7. Long-term debt (continued)

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.

As at	January 31, 2014	April 30, 2013
Romspen debt excluding transaction costs	\$ 6,785,546	\$ 2,938,404
Transaction costs	( 294,596)	( 350,540)
Long-term debt	6,490,950	2,587,864
Less: long-term debt – current	( 3,191,396)	( 1,265,895)
Long-term debt – non-current	\$ 3,299,554	\$ 1,321,969

### 8. Convertible debentures

On August 8, 2013, the Company closed its previously announced offering for a principal amount of \$4,500,000 of 8.5% convertible, redeemable, unsecured subordinated debentures (“Debentures”). On September 4, 2013, the Company received a second tranche of closing for an additional amount of \$860,000. On August 27, 2013 Debentures with a face value of \$105,000 were converted to common shares. On December 11, 2013 Debentures with a face value of \$2,000 were converted to common shares. Debentures with a face value of \$5,253,000 were outstanding as at January 31, 2014 (April 30, 2013 - \$nil).

The Debentures maturity date is September 30, 2018. Interest at the rate of 8.5% per annum is payable quarterly in arrears commencing September 30, 2013. The 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 Debentures.

For both tranches, the agents received 6% cash compensation and compensation options (note 12). 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 \$59,831 allocated to equity.

As at	January 31, 2014	April 30, 2013
Convertible debentures	\$ 4,960,121	\$ -
Transaction costs	( 860,156)	-
Convertible debentures	\$ 4,099,965	\$ -

# TITANSTAR PROPERTIES INC.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

January 31, 2014

(expressed in Canadian dollars)

(unaudited)

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### 9. Share capital

At January 31, 2014, the authorized share capital comprised an unlimited number of common shares and non-voting preferred securities. On October 10, 2013, the shareholders of the Company approved the creation of an unlimited number of non-voting preferred securities. The preferred securities will be undated, perpetual securities having no fixed maturity date or redemption date. The preferred securities will be redeemable at any time at the Company's option, in whole or in part and will bear simple interest at a rate per annum to be determined by the Company. The board of directors of the Company may issue the preferred securities at any time and from time to time in one or more series.

On December 20, 2013, the Company received an aggregate amount \$1,000,000 in loan proceeds. The loans were advanced by three separate lenders, two of which are companies in which a director of the Company holds beneficial interest, and the third of whom is at arm's length to the Company. Each of the loans accrues interest at a rate of 6% per annum, and are payable upon demand. In connection with the loans, the issued an aggregate total of 2,461,539 common shares at \$0.08125 per share.

On December 11, 2013, 24,615 common shares of the Company were issued, resulting from the conversion of convertible debentures with a face value of \$2,000.

On August 27, 2013, 1,292,307 common shares of the Company were issued, resulting from the conversion of convertible debentures with a face value of \$105,000.

On June 11, 2013, the President, CEO and director of the Company as well as a second director of the Company, received shares of the Company in lieu of cash for the repayment of a previous loan owed to them in the amounts of \$500,000. Each individual received 833,333 common shares of the Company as payment of the debt.

On May 27, 2013, the Company received \$200,000 in loan proceeds from one of its directors. The loan is payable on demand, with interest accruing at 6% per annum. In addition, the Company issued 200,000 bonus common shares to the same director.

On October 15, 2012, the Company received a total of \$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.

# TITANSTAR PROPERTIES INC.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

January 31, 2014

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(unaudited)

### 10. Loss per share

The weighted average basic and diluted common shares outstanding for the three and nine month periods ended January 31, 2014 are 35,557,869 and 34,083,421 (three and nine months ended January 31, 2013 – 31,140,806 and 30,838,270).

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

	Number of Common Shares	Weighted Average Exercise Price / Conversion Price
Share options	1,280,000	\$0.23
Warrants	4,917,844	\$0.08
Convertible debentures	64,652,307	\$0.08125
Total	<u>70,850,152</u>	

### 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 additional stock options under its stock 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 option vest 1/3<sup>rd</sup> at the end of each of the first three years and have a term of five years in accordance with the terms of the Plan.

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 granted during the six months ended October 31, 2013 and 2012:

Dividend yield	0% (2012 – 0%)
Risk-free interest rate	1.90% (2012 - 1.31%)
Expected average option term	5 years (2012 – 5 years)
Volatility	35% (2012 - 97%)

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**11. Share options (continued)**

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

	Nine months ended January 31, 2014		Nine months ended January 13, 2013	
	Number of Share Options	Weighted Average Exercise Price	Number of Share Options	Weighted Average Exercise Price
Outstanding, beginning of period	650,000	\$0.35	700,000	\$0.35
Share options forfeited	-	-	-	-
Share options granted	630,000	\$0.10	-	-
Outstanding, end of period	1,280,000	\$0.23	650,000	\$0.35
Share options exercisable	566,666		700,000	
Weighted average remaining life (years)	3.15		2.31	
Weighted average remaining life (years) – vested	1.47		2.3	

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	1.2
425,000	425,000	0.35	1.33
125,000	41,666	0.35	3.61
630,000	-	0.10	4.59
1,280,000	566,666		

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### 12. Warrants

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

	Nine months ended January 31, 2014		Nine months ended January 31, 2013	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	673,650	\$0.45	8,283,949	\$0.45
Warrants issued	4,917,844	\$0.08	-	-
Warrants expired	(673,650)	\$0.45	(7,610,299)	-
Outstanding, end of period	4,917,844	\$0.08	673,650	\$0.45
Weighted average remaining life (years)	1.73		0.41	

On December 14, 2013, the Company granted 300,000 options to acquire common shares of the Company at an exercise price of \$0.08125 per share for a period of five years.

On September 4, 2013, the Company granted 635,076 non-transferable compensation options to the agents involved in the second tranche Debentures transaction (note 8). An additional 105,846 non-transferable compensation options were issued to the Lead Agent. These compensation options has the same terms noted below.

On August 8, 2013, the Company granted 3,323,076 non-transferable compensation options to the agents involved in the first tranche Debentures transactions (note 8). Each compensation option entitles the holder thereof to purchase one additional share at \$0.08125 per share up to August 8, 2015. An additional 553,846 non-transferable compensation options with the same terms noted above have been issued to the Lead Agent.

For the three months and six months ended October 31, 2013, the Company recognized \$61,521 in contributed surplus for warrants granted. 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 granted during the six months ended October 31, 2013:

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



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**13. General and administrative expenses**

	For the three months ended January 31,		For the nine months ended January 31,	
	2014	2013	2014	2013
Insurance	\$ 5,461	\$ 5,202	\$ 16,821	\$ 15,419
Bank charges	677	913	2,370	939
Filing fees	56,693	7,642	139,888	24,403
Office costs	3,414	695	13,386	1,431
Management fees	3,150	3,360	9,450	10,560
Potential project costs	24,848	-	130,357	1,944
Marketing & promotion	-	( 563)	-	2,507
Professional fees	47,316	195,925	198,988	240,179
REIT related expenses	271,171	-	271,171	-
Travel	23,485	( 5,613)	26,955	6,703
General and administrative Expenses	<u>\$ 436,215</u>	<u>\$ 207,561</u>	<u>\$ 809,386</u>	<u>\$ 304,085</u>

**14. Finance costs**

	For the three months ended January 31,		For the nine months ended January 31,	
	2014	2013	2014	2013
Interest on long-term debt and convertible debentures	\$ 288,554	\$ 35,866	\$ 546,757	\$ 35,866
Financing fees	204,114	121,547	244,114	221,547
Amortization of transaction costs	90,271	-	403,778	-
Accretion of convertible debt	( 3,729)	-	8,228	-
	<u>\$ 579,210</u>	<u>\$ 157,413</u>	<u>\$ 1,202,877</u>	<u>\$ 257,413</u>

**15. Changes in operating assets and liabilities**

	For the nine months ended January 31,	
	2014	2013
Amounts receivable	(\$ 137,331)	(\$ 382,697)
Prepaid expenses and deposits	282,171	( 127,651)
Accounts payable and accrued liabilities	<u>390,160</u>	<u>466,892</u>
	<u>\$ 535,000</u>	<u>(\$ 43,456)</u>

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### **16. Capital management**

The Company's objectives when managing capital of \$19,767,164 (April 30, 2013 - \$11,083,267), which is share capital, contributed surplus, equity component of convertible debentures, accumulated other comprehensive income (loss), deficit, long-term debt and convertible debentures, 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.

### **17. Risk management and fair values**

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

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

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

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

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 favourable 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 within a year, long-term debt and convertible debentures, which are repayable as follows:

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Accounts payable	\$ 655,689	\$ -	\$ -	\$ -	\$ -
Long-term debt	3,392,773	3,392,773	-	-	-
Convertible debentures	-	-	-	-	5,255,000
	<u>\$ 4,048,462</u>	<u>\$3,392,773</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$5,255,000</u>

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 as the interest is impacted by changes in the prime rate. If interest rates would have been 1% higher (or lower) for the three and nine months ended January 31, 2014, the Company would have higher (or lower) share of income (loss) of joint ventures included in net income (loss) of approximately \$19,700 and \$31,800 (three months and nine months ended January 31, 2013 - \$4,400 and \$13,200).

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

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

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

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### 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 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 January 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:

	January 31, 2014	April 30, 2013
Cash	\$ 184,536	\$ 19,291
Short-term investments	69,649	62,969
Amounts receivable	194,671	57,430
Advances to joint ventures	2,950,882	2,232,877
Accounts payable	163,315	115,727

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

If the Canadian dollar had strengthened 5 percent against the U.S. dollar with all other variables held constant, the Company would have additional loss from foreign exchange included in net income (loss) for the nine months period ended January 31, 2014 of approximately \$9,229 (January 31, 2013 loss of \$17,100) and additional loss from currency translation adjustments of joint ventures included in other comprehensive income or loss for the nine months period ended January 31, 2014 of approximately \$1,031,600 (January 31, 2013 loss of \$601,100). 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 income (loss) for the nine months period ended January 31, 2014 of approximately \$9,200 (January 31, 2013 income of \$17,100) and additional income from currency translation adjustments of joint ventures included in other comprehensive income or loss for the nine months period ended January 31, 2014 of approximately \$1,031,600 (January 31, 2013 income of \$421,000). 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, 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 and accounts 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.

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### **18. Events after the reporting period**

On March 20, 2014, 24,615 common shares of the Company were issued, resulting from the conversion of convertible debentures with a face value of \$2,000.

On March 17, 2014, 24,615 common shares of the Company were issued, resulting from the conversion of convertible debentures with a face value of \$2,000.

On March 4, 2014, 12,307 common shares of the Company were issued, resulting from the conversion of convertible debentures with a face value of \$1,000.

Focus Retail Real Investment Trust (“TitanStar REIT”) was settled on January 2, 2014 to facilitate the conversion of the Company from a corporate structure to a trust structure. Other than the issuance of one trust unit, TitanStar REIT has not conducted any business and will not carry on any business until the Plan of Arrangement (the “Arrangement”) is completed. On March 21, 2014, the Company held a Special General Meeting of shareholders and the Arrangement was approved. On March 25, 2014, court approval for the Arrangement was received. As of the date of this financial statements, the Arrangement has been approved but not completed.

Immediately prior to the Arrangement the Company will transfer its beneficial interest in the Deer Springs Crossing property to Deer Springs Holdings Inc. a wholly owned subsidiary in exchange for common shares of Deer Springs Holdings Inc. and Deer Springs Holdings Inc. options.

Under the Arrangement, shareholders will receive, for each common share of the Company held, one trust unit of TitanStar REIT and the Deer Springs Holdings Inc. shares held by the Company on the effective date of the Arrangement (the “Effective Date”). All assets and liabilities of the Company will become the assets and liabilities of TitanStar REIT. Following completion of the Arrangement, the former shareholders of the Company will hold all outstanding trust units of TitanStar REIT and common shares of Deer Springs Holdings Inc.

Under the Arrangement, all of the issued and outstanding common share options shall be, and shall be deemed to be, exchanged, on a one-for-one basis, for trust unit options and Deer Springs Holdings Inc. options with the same vesting period as such common share options, and the same expiration date as such common share options. The existing exercise price of the common share options will be allocated to the relative value of the trust unit options and Deer Springs Holdings Inc. options to determine the exercise price of the trust unit options and Deer Springs Holdings Inc. options.

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### **18. Events after the reporting period (continued)**

Upon completion of the Arrangement, any debenture that is outstanding immediately prior to the Effective Date will be assumed by and become the obligation of TitanStar REIT. Upon completion of the Arrangement, a holder of a debenture will have the right to convert such debenture into trust units of TitanStar REIT and to common shares of Deer Springs Inc. at the same conversion price, on the same terms and condition, as the holder's right to convert such debenture immediately prior to the Arrangement.

Since the Arrangement does not constitute a change of control for accounting purposes, the financial statements of TitanStar REIT will be the continuation of the Company. As a result of the Arrangement, the financial statements of TitanStar REIT will reflect the assets and liabilities of the Company at their respective carrying amounts.