

**TITANSTAR PROPERTIES INC.**

**UNAUDITED CONDENSED CONSOLIDATED  
INTERIM FINANCIAL STATEMENTS**

**For the three and nine months ended January 31, 2013**

**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, 2013 and April 30, 2012, and the results of its operations and its cash flows for the three and nine months ended January 31, 2013 and January 31, 2012.

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

	January 31, 2013	April 30, 2012
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 346,607	\$ 470,166
Amounts receivable	413,794	31,097
Prepaid expenses and deposits	<u>140,601</u>	<u>12,950</u>
	901,002	514,213
Advances to joint ventures (note 3)	2,210,272	2,189,439
Interests in joint ventures (note 3)	<u>9,802,615</u>	<u>6,115,317</u>
	<u>\$12,913,889</u>	<u>\$ 8,818,969</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 509,555	\$ 42,663
Due to related parties (note 8)	500,000	-
Current portion of long-term debt (note 9)	<u>1,706,463</u>	<u>-</u>
	2,716,018	42,663
Long-term debt (note 9)	<u>1,706,463</u>	<u>-</u>
	<u>\$ 4,422,481</u>	<u>\$ 42,663</u>
<b>Shareholders' equity</b>		
Share capital (note 5)	8,152,591	8,052,591
Contributed surplus	1,113,744	1,113,744
Accumulated other comprehensive loss	( 69,159)	( 146,401)
Deficit	<u>( 705,768)</u>	<u>( 243,628)</u>
	<u>8,491,408</u>	<u>8,776,306</u>
	<u>\$12,913,889</u>	<u>\$ 8,818,969</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 INCOME (LOSS)**  
(expressed in Canadian Dollars)  
(unaudited)

	For the three months ended		For the nine months ended	
	January 31,		January 31,	
	2013	2012	2013	2012
<b>EXPENSES</b>				
General and administrative (note 10)	\$ 364,974	\$ 26,676	\$ 558,991	\$ 103,813
Share-based compensation (note 6)	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,063</u>
<b>OPERATING LOSS</b>	<u>364,974</u>	<u>26,676</u>	<u>558,991</u>	<u>106,876</u>
<b>OTHER ITEMS</b>				
Share of income (loss) of joint ventures (note 3)	124,896	( 66,395)	93,876	564,753
Interest income	-	-	7	-
Foreign exchange gain (loss)	( 33)	7,391	2,968	16,868
	<u>124,863</u>	<u>( 59,004)</u>	<u>96,851</u>	<u>581,621</u>
<b>NET INCOME (LOSS)</b>	<u>(\$ 240,111)</u>	<u>(\$ 85,680)</u>	<u>(\$ 462,140)</u>	<u>\$ 474,745</u>
<b>Basic and diluted income (loss)</b> <b>per common share (note 4)</b>	<u>(\$ 0.01)</u>	<u>\$ 0.00</u>	<u>(\$ 0.01)</u>	<u>\$ 0.02</u>
<b>NET INCOME (LOSS)</b>	(\$ 240,111)	(\$ 85,680)	(\$ 462,140)	\$ 474,745
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Currency translation adjustments of joint ventures	( 15,219)	74,098	77,242	437,593
<b>NET COMPREHENSIVE INCOME (LOSS)</b>	<u>(\$ 255,330)</u>	<u>(\$ 11,582)</u>	<u>(\$ 384,898)</u>	<u>\$ 912,338</u>

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

	Number of Shares	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total
<b>Balance, April 30, 2012</b>	30,640,806	\$ 8,052,591	\$ 1,113,744	(\$ 146,401)	(\$ 243,628)	\$ 8,776,306
Issuance of shares	-	-	-	-	-	-
Bonus shares issued	500,000	100,000	-	-	-	100,000
Share issuance costs	-	-	-	-	-	-
Proceeds allocated to warrants	-	-	-	-	-	-
Share-based compensation	-	-	-	-	-	-
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>\$ 1,113,744</u>	<u>(\$ 69,159)</u>	<u>(\$ 705,768)</u>	<u>\$ 8,491,408</u>
<b>Balance, April 30, 2011</b>	30,017,056	\$ 7,914,727	\$ 1,048,644	(\$ 458,772)	(\$ 663,229)	\$ 7,841,370
Issuance of shares	623,750	230,788	-	-	-	230,788
Share issuance costs	-	( 35,482)	4,595	-	-	( 30,887)
Proceeds allocated to warrants	-	( 57,442)	57,442	-	-	-
Share-based compensation	-	-	3,063	-	-	3,063
Net income for the period	-	-	-	-	474,745	474,745
Other comprehensive income	-	-	-	437,593	-	437,593
<b>Balance, January 31, 2012</b>	<u>30,640,806</u>	<u>\$ 8,052,591</u>	<u>\$ 1,113,744</u>	<u>(\$ 21,179)</u>	<u>(\$ 188,484)</u>	<u>\$ 8,956,672</u>

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

	For the nine months ended January 31, 2013	For the nine months ended January 31, 2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	(\$ 462,140)	\$ 474,745
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Foreign exchange gain	( 2,968)	( 16,868)
Share-based compensation	-	3,063
Share of income of joint ventures	( 93,876)	( 564,753)
Bonus shares included in financing fees	100,000	-
Changes in operating assets and liabilities (note 11)	<u>(43,456)</u>	<u>( 22,338)</u>
	<u>( 502,440)</u>	<u>( 126,151)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investments in joint ventures	( 3,785,107)	( 70,966)
Distributions from joint ventures	248,094	453,876
Advances to joint ventures	<u>-</u>	<u>( 541,611)</u>
	<u>( 3,537,013)</u>	<u>( 158,701)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of common shares	-	199,901
Advances from related parties	500,000	-
Advances of long-term debt	<u>3,412,926</u>	<u>-</u>
	<u>3,912,926</u>	<u>199,901</u>
<b>Effect of exchange rate changes on cash</b>	<u>2,968</u>	<u>15,495</u>
<b>Change in cash for the period</b>	( 123,559)	( 69,456)
<b>Cash, beginning of period</b>	<u>470,166</u>	<u>564,299</u>
<b>Cash, end of period</b>	<u>\$ 346,607</u>	<u>\$ 494,843</u>

# TITANSTAR PROPERTIES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(expressed in Canadian dollars)  
(unaudited)

---

## 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 (“TSXV: TSP”). 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. The principal place of business 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 through its interests in joint ventures, 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.

These condensed consolidated interim financial statements have been approved for issue by the Board of Directors on March 28, 2013.

## 2. Basis of presentation and significant accounting policies

### a) Basis of presentation

The Company prepares its financial statements in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standard (“IAS”). These accompanying condensed consolidated interim financial statements are prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, “*Interim Financial Reporting*.” These financial statements should be read in conjunction with the annual consolidated financial statements and the notes thereto for the year ended April 30, 2012 and do not include all of the financial statement disclosures required for annual financial statements.

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

### b) Significant accounting policies

These financial statements are based on the accounting policies consistent with those disclosed in Note 2 to the annual consolidated financial statements for the year ended April 30, 2012.

# **TITANSTAR PROPERTIES INC.**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(expressed in Canadian dollars)  
(unaudited)

---

## **2. Basis of presentation and significant accounting policies (continued)**

### c) Future 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 and IFRIC 9 – Reassessment of Embedded Derivatives, retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value, effective for annual periods beginning on or after January 1, 2015 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 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee, effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

IFRS 11 – Joint Arrangements – supersedes IAS 31 – Interest in Joint Ventures and SIC-13 – Jointly Controlled Entities – Non-monetary Contributions by Venturers, established principles for the financial reporting by parties to a joint arrangement, effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

IFRS 12 – Disclosure of Interest in Other Entities, combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangement, associates and unconsolidated 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, IAS 28 – Investments in Associates and Joint Ventures, and IAS 31 – Interests in 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 disclosure about fair value measurements, effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

# TITANSTAR PROPERTIES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(expressed in Canadian dollars)  
(unaudited)

---

## 2. Basis of presentation and significant accounting policies (continued)

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 the impact of these standards on its financial statements.

## 3. Interests in joint ventures

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

	Nine months ended January 31, 2013	Year ended April 30, 2012
Interests in joint ventures, beginning of period	\$ 6,115,317	\$ 5,673,164
Contributions and investments	3,785,107	70,966
Distributions	( 248,094)	( 453,876)
Share of net income	93,876	568,953
Currency translation adjustments	<u>56,409</u>	<u>256,110</u>
Interests in joint ventures, end of period	<u>\$ 9,802,615</u>	<u>\$ 6,115,317</u>

Net proceeds from the Sahara Crossing will first be allocated 90% to repay the Company's advance to the joint venture and 10% to repay advances from the other venturer. Subsequent proceeds will be distributed to the Company and other venturer equally.



# TITANSTAR PROPERTIES INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(expressed in Canadian dollars)

(unaudited)

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

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

	Nine months ended January 31, 2013	Nine months ended January 31, 2012
Revenue	\$ 316,038	\$ 220,765
General and administrative expenses	( 240,285)	( 256,465)
Interest expense	( 48,307)	( 164,978)
Gain on sale of income properties	<u>66,430</u>	<u>765,431</u>
Net income	93,876	564,753
Currency translation adjustments	<u>56,409</u>	<u>348,309</u>
Comprehensive income	<u>\$ 150,285</u>	<u>\$ 913,062</u>

	As at January 31, 2013	As at April 30, 2012
Cash	\$ 459,934	\$ 534,082
Amounts receivable	272,195	146,160
Prepaid expenses	28,851	44,705
Income properties	<u>15,542,759</u>	<u>8,243,115</u>
	<u>\$ 16,303,739</u>	<u>\$ 8,968,062</u>
Accounts payable and accrued liabilities	\$ 46,077	\$ 22,298
Deferred revenue	36,825	30,692
Loan payable	1,105,136	1,094,720
Mortgage loan	5,313,086	1,705,035
Equity	<u>9,802,615</u>	<u>6,115,317</u>
	<u>\$ 16,303,739</u>	<u>\$ 8,968,062</u>

On December 31, 2012, TSP LP I, a joint venture in which the Company and Romspen Investment Corporation ("Romspen") (collectively, the "Joint Venturers") 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. (49.5% limited partnership interest in TSP LP I) and TSP GP Holdings Inc. (0.5% 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. (49.5% limited partnership interest in TSP LP II) and TSP GP Holdings Inc. (0.5%

# TITANSTAR PROPERTIES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(expressed in Canadian dollars)  
(unaudited)

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

general partnership interest in TSP LP II through a 50% interest in the general partner of TSP LP II, TSP GPCo II, Inc.).

Consideration for both properties amounted to US\$14,185,080, of which US\$3,511,300 was contributed by each of the Joint Venturers with the remainder being financed through various mortgages and loans.

At January 31, 2013, the Company held the following income properties under co-ownership 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
Kohl's San Tan Plaza	50%	Chandler	AZ	01/25/13

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.

### 4. Income or loss per share

The weighted average basic and diluted common shares outstanding for the three and nine months ended January 31, 2013 are 31,140,806 and 30,838,270, respectively (three and nine months ended January 31, 2012 - 30,640,806 and 30,506,983, respectively). As the Company is in a loss position, share options outstanding are anti-dilutive.

The following securities were not included in the diluted net income per unit calculation for the nine months ended January 31, 2013 as the effect would have been anti-dilutive:

	<b>Number of Common Shares</b>	<b>Weighted Average Exercise Price</b>
Share options	700,000	\$0.35
Warrants	673,650	\$0.45
Outstanding, end of period	<u>1,373,650</u>	

## **TITANSTAR PROPERTIES INC.**

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

(expressed in Canadian dollars)

(unaudited)

---

#### **5. Share capital**

At January 31, 2013, the authorized share capital comprised an unlimited number of common shares. The common shares do not have a par value. All issued shares are fully paid.

On October 15, 2012, the Company received a total of \$500,000 from two directors of the Company (note 8) 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.

On June 29, 2011, the Company issued 623,750 common shares and 623,750 non-transferable share purchase warrants for gross proceeds of \$230,788. The warrants were valued at \$57,442 and are exercisable for a period of 24 months from June 29, 2011. The exercise price of the warrants is \$0.40 per share for the first year of issuance, and \$0.45 per share from the first anniversary of issuance to expiry. Issue costs of \$35,482 were incurred in connection with the offering, which included the value of 49,900 non-transferable share purchase warrants issued to the agent. The agent warrants were valued at \$4,595 and are exercisable for a period of 24 months from June 29, 2011. The exercise price of the agent's warrants is \$0.40 per share for the first year of issuance, and \$0.45 per share from the first anniversary of issuance to expiry.

On January 27, 2011, the Company issued 7,046,573 common shares and 7,046,573 non-transferable share purchase warrants for gross proceeds of \$2,607,232. The warrants were valued at \$893,100 and are exercisable for a period of 24 months from January 27, 2011. The exercise price of the warrants is \$0.40 per share for the first year of issuance, and \$0.45 per share from the first anniversary of issuance to expiry. Issue costs of \$331,479 were incurred in connection with the offering, which included the value of 563,726 non-transferable share purchase warrants issued to the agent. The agent warrants were valued at \$71,448 and are exercisable for a period of 24 months from January 27, 2011. The exercise price of the agent's warrants is \$0.40 per share for the first year of issuance, and \$0.45 per share from the first anniversary of issuance to expiry. As at January 31, 2013, these had expired unexercised.

#### **6. Share options**

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

**TITANSTAR PROPERTIES INC.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
(expressed in Canadian dollars)  
(unaudited)**6. Share options (continued)**

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

	Nine months ended January 31, 2013		Nine months ended January 31, 2012	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	700,000	\$0.35	845,000	\$0.35
Share options forfeited	-	-	(145,000)	\$0.35
Outstanding, end of period	700,000	\$0.35	700,000	\$0.35
Share options exercisable	700,000		700,000	
Weighted average remaining life (years)	2.31		3.31	

For the nine months ended January 31, 2013, the Company recognized \$nil in share-based compensation relating to share options as no share options were granted (nine months ended January 31, 2012 - \$3,063).

**7. Warrants**

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

	Nine months ended January 31, 2013		Nine months ended January 31, 2012	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	8,283,949	\$0.45	7,710,299	\$0.43
Warrants issued	-	-	673,650	\$0.43
Warrants expired	(7,610,299)	\$0.45	-	-
Outstanding, end of period	673,650	\$0.45	8,383,949	\$0.43
Weighted average remaining life (years)	0.41		1.02	

## **TITANSTAR PROPERTIES INC.**

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

(expressed in Canadian dollars)

(unaudited)

---

#### **7. Warrants (continued)**

For the nine months ended January 31, 2013, the Company recognized \$nil in contributed surplus relating to warrants as no warrants were granted (nine months ended January 31, 2012 - \$100,335).

#### **8. Related party transactions**

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, payable monthly.

Also in 2010, the Company granted to the Asset Manager options to purchase 100,000 common shares (note 6). 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.

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, the Company issued 500,000 bonus common shares to these same directors (note 5). As the loans are due on demand, they are short term in nature and have been reflected as such on the statement of financial position.

For the three and nine months ended January 31, 2013, the Company accrued and paid \$3,360 and \$10,560, respectively, to the Asset Manager for management fees pursuant to the asset management agreement (three and nine months ended January 31, 2012 - \$3,000 and \$9,000, respectively). Management fees expense for the three and nine months ended January 31, 2013 also includes applicable taxes paid on management fees.

# TITANSTAR PROPERTIES INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(expressed in Canadian dollars)

(unaudited)

### 9. Long-term debt

On January 1, 2013, the Company entered into a \$25 million revolving equity bridge loan facility with Romspen. Pursuant to a loan facility agreement, the Company may, from time to time, draw down on the loan facility for the purposes of acquiring new real estate assets, subject to the terms and conditions thereto. Any indebtedness under the loan facility will incur interest at 10% per annum, and will be secured against the Company's interest in such new real estate assets, a second-ranking general assignment of all present and future rents with respect to leases in such real estates, a first-ranking all-assets general security agreement, and a specific assignment of the Company's interest in material agreements pertaining to such real estate assets. Additionally, the Company has pledged its interest in any holding subsidiary or limited partnership through which its existing or any future real estate assets are held. The credit facility has a term of two years, expiring on January 1, 2015, 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.

As at	January 31, 2013
Long-term debt excluding financing costs	\$3,620,996
Deferred financing costs	(208,070)
Long-term debt	3,412,926
Less: long-term debt – current	(1,706,463)
Long-term debt – non-current	\$1,706,463

### 10. General and administrative expenses

	Three months ended		Nine months ended	
	January 31,		January 31,	
	2013	2012	2013	2012
Insurance	\$ 5,202	\$ 5,100	\$ 15,419	\$ 11,450
Bank charges	913	212	939	327
Interest on long-term debt	35,866	-	35,866	-
Filing fees	7,642	3,763	24,403	22,352
Office costs	695	-	1,431	710
Management fees	3,360	3,000	10,560	9,000
Professional fees	195,925	7,275	240,179	44,542
Financing fees	121,547	-	221,547	-
Marketing and promotion	( 563)	511	1,944	3,839
Travel	( 5,613)	6,815	6,703	11,593
General and administrative expenses	<u>\$ 364,974</u>	<u>\$ 26,676</u>	<u>\$ 558,991</u>	<u>\$ 103,813</u>

# TITANSTAR PROPERTIES INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(expressed in Canadian dollars)

(unaudited)

---

---

### 11. Changes in operating assets and liabilities

	Nine months ended January 31, 2013	Nine months ended January 31, 2012
Amounts receivable	(\$ 382,697)	\$ 3,541
Prepaid expenses and deposits	( 127,651)	( 5,083)
Accounts payable and accrued liabilities	<u>466,892</u>	<u>( 20,796)</u>
	<u>(\$ 43,456)</u>	<u>(\$ 22,338)</u>

### 12. 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:

#### 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.

Pursuant to the Sahara Crossing, LP limited partnership agreement, as amended, the Company is required to provide additional contributions of US\$874,295 to the partnership on or before June 30, 2013.

## **TITANSTAR PROPERTIES INC.**

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

(expressed in Canadian dollars)

(unaudited)

---

#### **12. Risk management and fair values (continued)**

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 venture 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, 2013, the Company would have higher (or lower) share of income (loss) of joint ventures included in net income or loss of approximately \$4,400 and \$13,200, respectively (three and nine months ended January 31, 2012 - \$4,500 and \$13,200, respectively).

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.

Credit risk:

Credit risk arises from the possibility that debtors 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, which may include the analysis of the financial position of the debtor and review of credit limits. The Company also may review credit history before establishing credit and review credit performance. 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 accounts receivable.



# TITANSTAR PROPERTIES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(expressed in Canadian dollars)  
(unaudited)

---

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

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, 2013. 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, 2013	January 31, 2012
Cash	\$ 341,801	\$ 207,269
Advances to joint venture	2,210,272	2,222,462

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 or loss for the three month period ended January 31, 2013 of approximately \$17,100 (January 31, 2012 - \$10,400) and additional loss from currency translation adjustments of joint ventures included in other comprehensive income or loss for the three month period ended January 31, 2013 of approximately \$601,100 (January 31, 2012 - \$421,000). If the Canadian dollar had weakened 5 percent against the U.S. dollar with all other variables held constant, the Company would have additional income from foreign exchange included in net income or loss for the three month period ended January 31, 2013 of approximately \$17,100 (January 31, 2012 - \$10,400) and additional income from currency translation adjustments of joint ventures included in other comprehensive income or loss for the three month period ended January 31, 2013 of approximately \$601,100 (January 31, 2012 - \$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.

## **TITANSTAR PROPERTIES INC.**

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

(expressed in Canadian dollars)

(unaudited)

---

#### **12. Risk management and fair values (continued)**

Fair values:

The fair value of cash, amounts receivable and accounts payable and accrued liabilities 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. 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.

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

Subsequent to year end, on February 13, 2013, the Company, together with Romspen, completed due diligence for the potential acquisition of the Metro Towne Center. As such, the Company and Romspen advanced a refundable deposit of US\$317,000 to the vendor of the Metro Towne Center. If the acquisition is completed, such deposit will be credited towards the total purchase price of US\$32,000,000.