

**TITANSTAR PROPERTIES INC.**

**UNAUDITED CONDENSED CONSOLIDATED  
INTERIM FINANCIAL STATEMENTS**

**For the three and nine months ended January 31, 2012**

**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, 2012 and April 30, 2011, and the results of its operations and its cash flows for the three and nine months ended January 31, 2012 and January 31, 2011.

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

	January 31, 2012	April 30, 2011
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 494,843	\$ 564,299
Trade and other receivables	28,920	32,461
Prepaid expenses	<u>14,450</u>	<u>9,367</u>
	538,213	606,127
Advances to joint ventures	2,222,462	1,590,194
Interests in joint ventures (note 4)	<u>6,203,316</u>	<u>5,673,164</u>
	<u>\$ 8,963,991</u>	<u>\$ 7,869,485</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current</b>		
Accounts payable and accrued liabilities	<u>\$ 7,319</u>	<u>\$ 28,115</u>
<b>Shareholders' equity</b>		
Share capital (note 6)	8,014,293	7,914,727
Contributed surplus	1,152,042	1,048,644
Accumulated other comprehensive loss	( 8,272)	( 401,223)
Deficit	<u>( 201,391)</u>	<u>( 720,778)</u>
	<u>8,956,672</u>	<u>7,841,370</u>
	<u>\$ 8,963,991</u>	<u>\$ 7,869,485</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 INCOME (LOSS) AND NET COMPREHENSIVE INCOME (LOSS)**  
(expressed in Canadian Dollars)  
(unaudited)

	Three months ended		Nine months ended	
	2012	January 31, 2011	2012	January 31, 2011
<b>EXPENSES</b>				
General and administrative (note 10)	\$ 26,676	\$ 188,432	\$ 103,813	\$ 279,437
Share-based compensation (note 7)	<u>-</u>	<u>2,347</u>	<u>3,063</u>	<u>58,153</u>
<b>OPERATING LOSS</b>	<u>( 26,676)</u>	<u>( 190,779)</u>	<u>( 106,876)</u>	<u>( 337,590)</u>
<b>OTHER ITEMS</b>				
Share of income (loss) of joint ventures (note 4)	( 66,395)	( 66,530)	564,753	( 117,365)
Foreign exchange gains	<u>9,775</u>	<u>1,339</u>	<u>61,510</u>	<u>2,429</u>
	<u>( 56,620)</u>	<u>( 65,191)</u>	<u>626,263</u>	<u>( 114,936)</u>
<b>NET INCOME (LOSS)</b>	<u>(\$ 83,296)</u>	<u>(\$ 255,970)</u>	<u>\$ 519,387</u>	<u>(\$ 452,526)</u>
<b>Basic and diluted income (loss) per common share (note 5)</b>	<u>(\$ 0.00)</u>	<u>(\$ 0.01)</u>	<u>\$ 0.02</u>	<u>(\$ 0.02)</u>
<b>NET INCOME (LOSS)</b>	(\$ 83,296)	(\$ 255,970)	\$ 519,387	(\$ 452,526)
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Currency translation adjustments of joint ventures	<u>71,714</u>	<u>( 129,440)</u>	<u>392,951</u>	<u>( 97,024)</u>
<b>NET COMPREHENSIVE INCOME (LOSS)</b>	<u>(\$ 11,582)</u>	<u>(\$ 385,410)</u>	<u>\$ 912,338</u>	<u>(\$ 549,550)</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 Income (Loss)	Deficit	Total
<b>Balance, April 30, 2011</b>	30,017,056	\$ 7,914,727	\$ 1,048,644	(\$ 401,223)	(\$ 720,778)	\$ 7,841,370
Issuance of shares for cash	623,750	230,788	-	-	-	230,788
Share issuance costs	-	( 38,319)	-	-	-	( 38,319)
Proceeds allocated to warrants	-	( 92,903)	92,903	-	-	-
Issuance of warrants for agents	-	-	7,432	-	-	7,432
Share-based compensation	-	-	3,063	-	-	3,063
Net income for the period	-	-	-	-	519,387	519,387
Other comprehensive income	-	-	-	392,951	-	392,951
<b>Balance, January 31, 2012</b>	<u>30,640,806</u>	<u>\$ 8,014,293</u>	<u>\$ 1,152,042</u>	<u>(\$ 8,272)</u>	<u>(\$ 201,391)</u>	<u>\$ 8,956,672</u>
<b>Balance, May 1, 2010</b>	22,952,983	\$ 6,527,144	\$ 20,251	\$ 73,646	(\$ 114,364)	\$ 6,506,677
Issuance of shares for cash	7,064,073	2,610,732	-	-	-	2,610,732
Share issuance costs	-	( 331,479)	-	-	-	( 331,479)
Proceeds allocated to warrants	-	( 893,100)	893,100	-	-	-
Issuance of warrants for agents	-	-	71,448	-	-	71,448
Reallocation of amounts	-	1,430	( 1,430)	-	-	-
Share-based compensation	-	-	58,153	-	-	58,153
Net loss for the period	-	-	-	-	( 452,526)	( 452,526)
Other comprehensive loss	-	-	-	( 97,024)	-	( 97,024)
<b>Balance, January 31, 2011</b>	<u>30,017,056</u>	<u>\$ 7,914,727</u>	<u>\$ 1,041,522</u>	<u>(\$ 23,378)</u>	<u>(\$ 566,890)</u>	<u>\$ 8,365,981</u>

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

	For the nine months ended January 31, 2012	For the nine months ended January 31, 2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 519,387	(\$ 452,526)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Foreign exchange gain	( 61,510)	( 2,429)
General and administrative expenses	-	78,047
Share-based compensation	3,063	58,153
Share of loss (income) of joint ventures	( 564,753)	117,365
Changes in operating assets and liabilities (note 11)	<u>( 22,338)</u>	<u>( 313,520)</u>
	<u>( 126,151)</u>	<u>( 514,910)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investments in and contributions to joint ventures	( 70,966)	( 263,173)
Distributions from joint ventures	453,876	-
Advances to joint ventures	<u>( 541,611)</u>	<u>( 1,705,292)</u>
	<u>( 158,701)</u>	<u>( 1,968,465)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of common shares, net of costs	199,901	2,350,701
Proceeds from short term loans, net of costs	-	2,047,749
Repayments of short term loans	<u>-</u>	<u>( 2,110,000)</u>
	<u>199,901</u>	<u>2,288,450</u>
<b>Effect of exchange rate changes on cash</b>	<u>15,495</u>	<u>( 2,018)</u>
<b>Change in cash for the period</b>	( 69,456)	( 196,943)
<b>Cash, beginning of period</b>	<u>564,299</u>	<u>588,754</u>
<b>Cash, end of period</b>	<u>\$ 494,843</u>	<u>\$ 391,811</u>

# TITANSTAR PROPERTIES INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(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 (“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, 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 29, 2012.

## 2. Summary of significant accounting policies

### a) Statement of compliance

The accompanying condensed consolidated interim financial statements are prepared in accordance with International Financial Accounting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These standards include IAS 34 – Interim Financial Reporting, and IFRS 1 – First-time Adoption of International Financial Reporting Standards (“IFRS 1”).

Subject to certain transition elections disclosed in Note 4 to the condensed consolidated interim financial statements for the first quarter of 2012, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at May 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 3 discloses the impact of the transition to IFRS on the Company’s equity for the nine months ended January 31, 2011, and statement of net income or loss and net comprehensive income or loss for the three and nine months ended January 31, 2011. See Note 4 to the condensed consolidated interim financial statements for the first quarter of 2012 for the impact of the transition to IFRS on the Company’s reported financial position, statements of net income or loss and net comprehensive income or loss, and cash flows, including the nature and effects of significant changes in accounting policies from those used in the Company’s consolidated financial statements as at May 1, 2010 and for the year ended April 30, 2011.

# **TITANSTAR PROPERTIES INC.**

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

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## **2. Summary of significant accounting policies (continued)**

These condensed consolidated interim financial statements are based on the accounting policies consistent with those disclosed in Note 2 to the condensed consolidated interim financial statements for the three months ended July 31, 2011.

These condensed consolidated interim financial statements do not include all of the financial statement disclosures required for annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements for the year ended April 30, 2011 and condensed consolidated interim financial statements for the first quarter of 2012.

### **b) Basis of presentation**

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

In these condensed consolidated interim financial statements, "Historical GAAP" refers to Canadian generally accepted accounting principles before the adoption of IFRS.

### **c) Future changes to Significant Accounting Policies**

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

IFRS 7 – Financial Instruments – Disclosure, amendments relating to disclosures with respect to the transfers of financial assets, effective for annual periods beginning on or after July 1, 2011 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, 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 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.

# **TITANSTAR PROPERTIES INC.**

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

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## **2. Summary of significant accounting policies (continued)**

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.

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.

The Company is currently evaluating the impact of these standards on its financial statements.

## **3. Transition to IFRS**

The Company has adopted IFRS effective May 1, 2010 (the “transition date”) and has prepared its opening IFRS balance sheet as at that date. Prior to the adoption of IFRS, the Company prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles in effect at that time (“Historical GAAP”).

The Company has elected the following optional and mandatory exemptions from full retroactive application:

# TITANSTAR PROPERTIES INC.

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

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## 3. Transition to IFRS (continued)

### Business combinations

The Company has applied the business combinations exemption in IFRS 1 to not apply IFRS 3 – Business Combinations, retroactively to past business combinations. Accordingly, the Company has not restated business combinations that took place prior to May 1, 2010.

### Share-based payments

The Company has applied the share-based payments exemption in IFRS 1 to not apply IFRS 2 – Share-based payments to liabilities arising from share-based payment transactions that were settled prior to May 1, 2010. Accordingly, the Company has not restated for the settlement of liabilities arising from share-based payments that took place prior to May 1, 2010.

### Reconciliation of equity

The following is a reconciliation of the Company's total equity in accordance with Historical GAAP to its balance sheet in accordance with IFRS:

	Nine months ended January 31, 2011
Total equity as reported under Historical GAAP	\$ 8,414,032
Adjustments related to interests in joint ventures	
- Foreign exchange losses	( 24,673)
- Cumulative translation adjustments	<u>( 23,378)</u>
Total equity as reported under IFRS	<u>\$ 8,365,981</u>

### Adjustments related to interests in joint ventures

Under Historical GAAP, the Company accounted for its investment in joint ventures through proportionate consolidation. Under IFRS, the Company has elected to restate its investment interests in joint ventures under the equity method, as permitted by IAS 31 – Interest in Joint Ventures. The Company previously showed a proportionate share of all the assets and liabilities of its jointly controlled investees, notably including income properties, intangible assets and loans payable. From the Transition Date, the Company now presents its net investment in joint ventures at initial cost plus the Company's share of post acquisition income or loss less distributions received.

# TITANSTAR PROPERTIES INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(expressed in Canadian dollars)

(unaudited)

### 3. Transition to IFRS (continued)

#### Reconciliation of net income (loss) and net comprehensive income (loss)

The following is a reconciliation of the Company's net comprehensive loss reported in accordance with Historical GAAP to its net comprehensive loss in accordance with IFRS for the three and nine months ended January 31, 2011:

	Three months ended January 31, 2011	Nine months ended January 31, 2011
As reported under Historical GAAP	(\$ 225,588)	(\$ 427,853)
Adjustments made to interests in joint ventures		
Eliminate joint venture balances		
- Revenue	( 64,476)	( 73,084)
- General and administrative expenses	39,444	83,599
- Amortization of income properties	19,784	23,166
- Interest expense	56,731	66,269
- Loan cost amortization	15,047	17,415
- Foreign exchange losses	( 30,382)	( 24,673)
Share of loss in joint ventures	<u>( 66,530)</u>	<u>( 117,365)</u>
Net loss as reported under IFRS	(\$ 255,970)	(\$ 452,526)
Other comprehensive income under Historical GAAP	-	-
Other comprehensive loss under IFRS		
Currency translation adjustments of joint ventures	<u>( 129,440)</u>	<u>( 97,024)</u>
As reported under IFRS	<u>(\$ 385,410)</u>	<u>(\$ 549,550)</u>

#### Adjustments related to interest in joint ventures

Under Historical GAAP, income properties and intangible assets held by the Company's joint venture investments were recorded at cost and depreciated over their estimated useful lives. The Company also proportionately consolidated its share of the jointly controlled entities' income. Under IFRS, income from interests in joint ventures is adjusted to eliminate the amortization of building and improvements, tenant relationships, lease origination costs, and in-place leases. The Company's share of the jointly controlled entities' revenues and administrative expenses is also eliminated. The income or loss from joint ventures is restated as a net figure in income from interests in joint ventures.

# TITANSTAR PROPERTIES INC.

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

### 3. Transition to IFRS (continued)

#### Reconciliation of cash flows

There were no material changes to the statements of cash flows on adoption of IFRS, except for the cash provided or used in our interests in joint ventures. Under Historical GAAP, increases and decreases in cash in joint ventures were proportionately consolidated. Under IFRS, the Company accounts for joint ventures using the equity method and increases and decreases in cash are presented in cash from investing activities.

### 4. Interests in joint ventures

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

	Nine months ended January 31, 2012	Year ended April 30, 2011
Interests in joint ventures, beginning of period	\$ 5,673,164	\$ 5,976,939
Contributions and investments	70,966	289,617
Distributions	( 453,876)	-
Share of net income (loss)	564,753	( 176,072)
Currency translation adjustments	<u>348,309</u>	<u>( 417,320)</u>
Interests in joint ventures, end of period	<u>\$ 6,203,316</u>	<u>\$ 5,673,164</u>

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

	Nine months ended January 31, 2012	Nine months ended January 31, 2011
Revenue	\$ 220,765	\$ 73,083
General and administrative expenses	( 256,465)	( 124,178)
Interest expense	( 164,978)	( 66,270)
Gain on sale of income property and ground lease	<u>765,431</u>	<u>-</u>
Net income (loss)	564,753	( 117,365)
Currency translation adjustments	<u>348,309</u>	<u>( 85,766)</u>
Total comprehensive income (loss)	<u>\$ 913,062</u>	<u>(\$ 203,131)</u>

**TITANSTAR PROPERTIES INC.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(expressed in Canadian dollars)

(unaudited)

**4. Interests in joint ventures (continued)**

	Nine months ended January 31, 2012	Nine months ended January 31, 2011
Operating activities	(\$ 303,758)	\$ 5,449
Financing activities	( 206,987)	2,833,624
Investing activities	<u>1,016,453</u>	<u>(2,793,979)</u>
Increase in cash	<u>\$ 505,708</u>	<u>\$ 45,094</u>
	As at January 31, 2012	As at April 30, 2011
Cash	\$ 563,504	\$ 57,796
Trade and other receivables	90,788	20,579
Prepaid expenses	37,823	24,374
Loan receivable	85,698	-
Income properties	<u>8,317,032</u>	<u>8,183,961</u>
	<u>\$ 9,094,845</u>	<u>\$ 8,286,710</u>
Accounts payable and accrued liabilities	\$ 21,900	\$ 9,668
Deferred revenue	31,155	29,916
Loan payable	1,111,231	946,101
Mortgage loan	<u>1,727,243</u>	<u>1,627,861</u>
	2,891,529	2,613,546
Net assets	<u>6,203,316</u>	<u>5,673,164</u>
	<u>\$ 9,094,845</u>	<u>\$ 8,286,710</u>

During the nine months ended January 31, 2012, the Company did not acquire an interest in any additional joint ventures.

At January 31, 2012, the Company held the following income properties under co-ownership accounted for on the equity basis:

<u>Property Name</u>	<u>%</u>	<u>City</u>	<u>State</u>	<u>Date Acquired</u>	<u>Sq. Ft.</u>
Deer Springs Crossing	50%	Las Vegas	NV	04/16/10	N/A
Sahara Crossing	50%	Las Vegas	NV	10/18/10	61,125

At January 31, 2012, the fair value of the Company's share of income properties held by jointly controlled entities approximates the carrying value of those income properties.

# **TITANSTAR PROPERTIES INC.**

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

(expressed in Canadian dollars)

(unaudited)

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### **4. Interests in joint ventures (continued)**

Summarized financial information of the Company's proportionate share in its joint ventures is not presented here because the adjustments from Historical GAAP to IFRS presented in Note 3 cover the Company's proportionate share of assets, liabilities and loss.

### **5. Income or loss per share**

The weighted average basic and diluted common shares outstanding for the three and nine months ended January 31, 2012 are 30,640,806 and 30,506,983, respectively (three and nine months ended January 31, 2011 - 23,276,856 and 23,072,607). As the company is in a loss position, share options outstanding are anti-dilutive.

### **6. Share capital**

At January 31, 2012 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 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.

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 \$92,903 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 \$38,319 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 \$7,432 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.

# TITANSTAR PROPERTIES INC.

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

## 7. 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 April 16, 2010, 100,000 share options with an exercise price of \$0.35 per share were granted to TitanStar Capital Company. The options vested immediately and expire five years after the grant date if unexercised.

On June 1, 2010, 600,000 share options with an exercise price of \$0.35 per share were granted to four directors and officers. The options vested immediately and expire five years after the grant date if unexercised.

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

	Nine months ended January 31, 2012		Nine months ended January 31, 2011	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	845,000	\$0.35	200,000	\$0.28
Share options granted	-	-	725,000	\$0.35
Share options exercised	-	-	(17,500)	\$0.20
Share options forfeited	(145,000)	\$0.35	(82,500)	\$0.20
Outstanding, end of period	700,000	\$0.35	825,000	\$0.35
Share options exercisable	700,000		700,000	
Weighted average remaining life (years)	3.31		4.34	

# TITANSTAR PROPERTIES INC.

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

## 7. Share options (continued)

For the three and nine months ended January 31, 2012, the Company recognized \$nil and \$3,063, respectively, in share-based compensation for share options granted (three and nine months ended January 31, 2011 - \$2,347 and \$58,153). The fair value of each share option grant is estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

Dividend yield	0%
Risk-free interest rate	2.44% - 2.61%
Expected average option term	5 years
Volatility (two year)	22.8% - 96.3%

## 8. Warrants

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

	Nine months ended January 31, 2012		Nine months ended January 31, 2011	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	7,610,299	\$0.43	-	-
Warrants issued	673,650	\$0.43	7,610,299	\$0.43
Outstanding, end of period	8,283,949	\$0.43	7,610,299	\$0.43
Weighted average remaining life (years)	1.02		1.99	

For the three and nine months ended January 31, 2012, the Company recognized \$nil and \$100,335, respectively, in contributed surplus for warrants granted (three and nine months ended January 31, 2011 - \$nil and \$964,548). The fair value of each warrant grant is estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

Dividend yield	0%
Risk-free interest rate	1.56%
Expected average warrant term	2 years
Volatility (two year)	183.8%

# TITANSTAR PROPERTIES INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(expressed in Canadian dollars)

(unaudited)

### 9. 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. Denise Turner, Executive Vice President and Secretary of the Company is also a Director and Officer of TitanStar Capital Corp. and TitanStar Investment Group Inc. 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 7). 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 nine months ended January 31, 2012, the Company accrued and paid \$3,000 and \$9,000, respectively, to the Asset Manager for management fees pursuant to the asset management agreement (three and nine months ended January 31, 2011 - \$3,000 and \$9,000).

### 10. General and administrative expenses

	Three months ended		Nine months ended	
	January 31,		January 31,	
	2012	2011	2012	2011
Insurance	\$ 5,100	\$ 3,000	\$ 11,450	\$ 3,500
Bank charges	212	46	327	94
Filing fees	3,763	1,033	22,352	4,612
Office costs	-	2,986	710	12,439
Management fees (Note 9)	3,000	3,000	9,000	9,000
Professional fees	7,275	36,900	44,542	81,634
Marketing and promotion	511	-	3,839	1,923
Travel	6,815	7,932	11,593	12,535
Financing costs	-	68,348	-	78,048
Interest expense	-	65,187	-	75,652
General and administrative expenses	<u>\$ 26,676</u>	<u>\$ 188,432</u>	<u>\$ 103,813</u>	<u>\$ 279,437</u>

# TITANSTAR PROPERTIES INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(expressed in Canadian dollars)

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### 11. Changes in operating assets and liabilities

	Nine months ended January 31, 2012	Nine months ended January 31, 2011
Trade and other receivables	\$ 3,541	(\$ 247,295)
Prepaid expenses	( 5,083)	( 5,167)
Accounts payable and accrued liabilities	<u>( 20,796)</u>	<u>( 61,058)</u>
	<u>(\$ 22,338)</u>	<u>(\$ 313,520)</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\$874,275 to the partnership on or before August 1, 2012.

## **TITANSTAR PROPERTIES INC.**

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

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#### **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, 2012, the Company would have higher (or lower) share of net income of joint ventures included in net income or loss of approximately \$4,500 and \$13,200 (three and nine months ended January 31, 2011 - \$4,500 and \$5,200).

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.

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  
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### 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, 2012. 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, 2012	April 30, 2011
Cash	\$ 207,269	\$ 109,720
Advances to joint venture	2,222,462	1,590,194

If the Canadian dollar had strengthened (or weakened) 5 percent against the U.S. dollar with all other variables held constant, the Company would have additional income (or loss) from foreign exchange included in net comprehensive income or loss for the three month period ended January 31, 2012 of approximately \$121,400 (January 31, 2011 - \$90,100). The foreign currency exchange rate sensitivity in net comprehensive income or loss in 2012 is attributable to a change in the translation of monetary assets and liabilities 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**

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

Fair values:

The fair value of cash, trade and other receivables, advances to joint ventures 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.

The fair value hierarchy of financial instruments measured at fair value on the balance sheet as at January 31, 2012 is level 1 for cash (April 30, 2011 – level 1 for cash).