Condensed Consolidated Interim Financial Statements of

TITANSTAR PROPERTIES INC.

For the three and six months period ended June 30, 2017

Responsibility for Financial Statements

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

These unaudited 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 June 30, 2017 and December 31, 2016, and the results of its operations and its cash flows for the three and six months period ended June 30, 2017 and June 30, 2016.

TITANSTAR PROPERTIES INC.

Condensed Consolidated Interim Statements of Financial Position
(Expressed in Canadian dollars)

	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash	**$ 664,266**	$ 829,321
Amounts receivable	**111,988**	56,311
Prepaid expenses and deposits	**49,773**	43,387
	826,027	929,019
Investment properties (note 4)	**24,068,698**	25,237,874
Mortgage reserve fund	**213,157**	340,820
Interests in joint ventures and associates (note 5)	**12,157,568**	13,679,922
	$ 37,265,450	$ 40,187,635
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 1,018,184**	$ 1,099,415
Notes payable (note 6)	**2,005,718**	2,040,593
Current portion of mortgages payable (note 7)	**213,259**	150,612
Due to related parties (note 9)	**36,299**	64,066
Embedded derivative liability	**5,000**	192,623
	3,278,460	3,547,309
Convertible debentures - related parties (note 8b)	**2,354,813**	6,534,446
Tenants' security deposits	**109,545**	112,885
Mortgages payable (note 7)	**16,542,892**	17,229,505
Convertible debentures – non-related parties (note 8a)	**4,384,758**	4,262,451
	26,670,468	31,686,596
Shareholders' equity:		
Share capital (note 10)	**17,828,049**	14,283,090
Equity component of convertible debentures	**230,397**	230,397
Contributed surplus	**1,247,679**	1,244,323
Accumulated other comprehensive income	**4,225,248**	4,889,320
Deficit	**(12,936,391)**	(12,146,091)
	10,594,982	8,501,039
	$ 37,265,450	$ 40,187,635

Commitments (note 14)
Subsequent events (note 15)

See accompanying notes to financial statements.

Approved on behalf of the Board:

"T. Richard Turner"
Board Chair

"Greg Yuel"
Chair, Audit Committee

TITANSTAR PROPERTIES INC.

Condensed Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss)
(Expressed in Canadian dollars)

	For three months ended June 30, 2017	June 30, 2016	For six months ended June 30, 2017	June 30, 2016
Revenue:				
Rental income and recoveries	**$ 638,029**	$ 308,542	**$ 1,279,672**	$ 315,216
Property operating expenses				
Operating and leasing expenses	**(272,461)**	(81,173)	**(385,773)**	(81,173)
Earnings from property operations	**365,568**	227,369	**893,899**	234,043
Other revenues (expenses):				
General and administrative	**(192,539)**	(291,533)	**(435,411)**	(448,194)
Depreciation	**(239,773)**	(100,869)	**(467,727)**	(102,969)
Share of loss of joint ventures & associates (note 5)	**(664,231)**	(285,397)	**(975,707)**	(743,378)
Net finance costs	**(493,250)**	(356,798)	**(1,080,120)**	(743,956)
Share-based compensation	**(1,642)**	(5,418)	**(3,356)**	(10,836)
Interest income	**8**	-	**8**	11
Change in fair value of embedded derivative liability	**-**	(111,027)	**186,000**	(97,945)
Gain on settlement of financial liabilities (note 10)	**175,188**	-	**1,126,622**	-
Foreign exchange gain (loss)	**12,232**	32,733	**(34,508)**	(26,249)
	(1,404,007)	(1,118,309)	**(1,684,199)**	(2,173,516)
Income (loss) for the period	**(1,038,439)**	(890,940)	**(790,300)**	(1,939,473)
Other comprehensive income (loss):				
Foreign currency translation on US operations	**(482,139)**	43,863	**(664,072)**	(1,178,665)
Comprehensive income (loss)	**$ (1,520,578)**	$ (847,077)	**$ (1,454,372)**	$ (3,118,138)
Weighted average number of units	**211,243,972**	119,148,346	**172,102,822**	118,885,888
Basic and diluted loss per common share (note 11)	**$ (0.00)**	$ (0.01)	**$ (0.00)**	$ (0.02)

See accompanying notes to financial statements.

TITANSTAR PROPERTIES INC.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
(Expressed in Canadian dollars)

	Number of shares	Share capital	Convertible debentures	Contributed surplus	Accumulated other comprehensive income	Deficit	Total
Balance, December 31, 2015	118,623,430	$ 14,181,376	$ 238,284	$ 1,227,963	$ 5,370,811	$ (8,655,831)	$ 12,362,603
Share issue – management fees	555,434	33,326	-	-	-	-	33,326
Share issue costs	-	(279,562)	-	-	-	-	(279,562)
Share-based compensation	-	-	-	10,836	-	-	10,836
Loss for the period	-	-	-	-	-	(1,939,473)	(1,939,473)
Other comprehensive income (loss)	-	-	-	-	(1,178,665)	-	(1,178,665)
Balance, June 30, 2016	119,178,864	$ 13,935,140	$ 238,284	$ 1,238,799	$ 4,192,146	$ (10,595,304)	$ 9,009,065
Balance, December 31, 2016	123,431,412	14,283,090	230,397	1,244,323	4,889,320	(12,146,091)	8,501,039
Conversion of debentures	88,209,527	3,496,625	-	-	-	-	3,496,625
Share issue – management fees	1,611,118	48,334	-	-	-	-	48,334
Share-based compensation	-	-	-	3,356	-	-	3,356
Income (loss) for the period	-	-	-	-	-	(790,300)	(790,300)
Other comprehensive income (loss)	-	-	-	-	(664,072)	-	(664,072)
Balance, June 30, 2017	213,252,057	$ 17,828,049	$ 230,397	$ 1,247,679	$ 4,255,248	$ (12,936,391)	$ 10,594,982

See accompanying notes to financial statements.

TITANSTAR PROPERTIES INC.

Condensed Consolidated Interim Statements of Cash Flows
(Expressed in Canadian dollars)

	Six months ended June 30, 2017	Six months ended June 30, 2016
Cash provided by (used in):		
Cash flows from operating activities:		
Income (loss) for the period	$ (790,300)	$ (1,939,474)
Adjustment to reconcile loss for the period to net cash provided by operating activities:		
Share-based compensation	3,356	10,836
Depreciation expense	467,727	102,969
Amortization of transaction costs	106,029	83,904
Accretion of convertible debentures	30,255	28,325
Accretion of convertible unsecured subordinated debentures	30,529	45,278
Gain on settlement of financial liabilities	(1,126,622)	-
Share of loss of joint ventures and associates	975,707	743,378
Foreign exchange gain	34,508	26,249
Change in fair value of embedded derivative liability	(186,000)	97,945
Financing fees	-	150,000
Interest expense	913,307	270,293
Changes in operating assets and liabilities	280,120	776,920
	738,616	396,623
Cash flows from investing activities:		
Acquisition of investment properties	121,933	(11,977,115)
Distributions from joint ventures and associates	119,450	200,811
Security deposits received	(3,339)	-
	238,044	(11,776,304)
Cash flows from financing activities:		
Repayment of debt	(4,596,667)	-
Advances from related parties	-	4,050,000
Proceeds from issuance of shares	-	33,326
Proceeds from mortgages	-	7,909,472
Repayment of mortgage	(51,625)	-
Share issue costs	-	(279,562)
Contributions to mortgage reserve fund	127,663	-
Redemption of convertible debentures	4,500,000	-
Interest paid	(825,285)	(318,900)
	(845,915)	11,394,336
Effect of exchange rate changes on cash	(295,800)	(148,094)
Change in cash and cash equivalents	(165,055)	(133,439)
Cash, beginning of period	829,321	241,804
Cash, end of period	$ 664,266	$ 108,365

See accompanying notes to financial statements.

1. Organization:

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

The sole business of the Company is the ownership of real property interests, consistent with a well-established investment policy. The Company seeks to create a portfolio of stabilized income producing real estate assets primarily in the United States southwest area with value to be maximized through the acquisition of well-positioned, quality assets. The initial focus is on necessity-based, nationally-anchored retail/ commercial properties, community centers and industrial properties.

These condensed consolidated interim financial statements have been approved for issue by the Board of Directors on August 28, 2017.

2. Basis of presentation and statement of compliance:

These condensed consolidated interim financial statements are prepared in accordance with International Accounting Standards ("IAS") 34 – Interim Financial Reporting using the same presentation and accounting policies in the December 31, 2016 audited consolidated financial statements. They do not include all the information and disclosures normally provided in annual financial statements and should be read in conjunction with the audited annual consolidated financial statements and the notes thereto for the year ended December 31, 2016.

3. Significant accounting policies:

The following standards will be effective for subsequent annual periods. The Company is currently evaluating the impact of these standards on its consolidated financial statements.

(a) On May 28, 2014 the IASB issued IFRS 15 - *Revenue from Contracts with Customers*. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

(b) IFRS 9 - *Financial Instruments*, issued in July 2014 replaces IAS 39 - *Financial Instruments: Recognition and Measurement* and deals with classification and measurement of financial assets and financial liabilities. The requirements of IFRS 9 represent a significant change from the existing requirements in IAS 39. The changes will affect the classification and measurement of financial assets and financial liabilities, the rules and requirements relating to hedge accounting as well as impairment of financial assets.

3. Significant accounting policies (continued):

The mandatory effective date of IFRS 9 is January 1, 2018 and is required to be applied retrospectively when initially applied.

(c) IFRS 16 - *Leases* was issued in January 2016 and sets out a new model for lease accounting, replacing IAS 17 - *Leases*. Leases requires lessees to account for leases on the statement of financial position by recognizing a right of use asset and lease liability. IFRS 16 will be effective for accounting periods beginning on or after January 1, 2019.

4. Investment properties:

(a) On March 30, 2016, the Company announced it had completed the purchase of a 100% interest in Metro Gateway Shopping Center (TSP Metro Gateway, LLC) , a retail real estate property located in Phoenix, Arizona.

The acquisition cost of $11,803,610 (USD$9,100,000) before standard closing costs and adjustments was financed with a $7,886,368 (USD$6,080,000) mortgage with the remainder financed with part of the proceeds from a $4,500,000 issuance of convertible unsecured subordinated debentures to a related party (note 8). The seller was at arm's length to the Company.

(b) On August 31, 2016, the Company completed the purchase of 116th Street Centre (the "116th Street"), a retail real estate property located in Carmel, Indiana.

The acquisition cost of $12,894,330 (USD$9,825,000) before standard closing costs and adjustments was financed in part through a first mortgage of $9,154,974 (USD$6,975,750) with the remainder provided by $3,301,358 (USD$2,515,512) of proceeds from the sale of the Company's interests in Swanway and San Tan joint ventures, and the bridging loans provided – 50% by Titanstar Finance Inc., a Company of which the Chairman of the Board of Directors is a principal, and 50% by a private company owned by a director of the Company. The seller was at arm's length to the Company.

(Expressed in Canadian dollars)

4. Investment properties (continued):

The purchase price of the investment properties was allocated to the fair value of the assets acquired as follows:

Assets acquired:	
Land	$ 4,976,289
Building	17,414,125
Furniture and fixtures	1,266,406
Intangible assets	1,355,322
	$ 25,012,142
Settled by:	
Cash paid to vendor	$ 25,012,142

	June 30, 2017	December 31, 2016
Balance, beginning of year	**$ 25,237,874**	$ -
Cost of acquisitions	**-**	25,012,142
Additional improvements	**121,933**	-
Depreciation and amortization	**(467,727)**	(498,689)
Foreign currency translation	**(823,382)**	742,421
Balance, end of the year	**$ 24,068,698**	$ 25,237,874

The estimated fair value of the Company's investment properties at June 30, 2017 was $24,558,972 (USD$18,925,000).

(Expressed in Canadian dollars)

5. Interests in joint ventures and associates:

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

	June 30, 2017	December 31, 2016
Interest in joint ventures and associates,beginning of period	**$ 13,679,922**	$ 19,334,118
Distributions	**(119,450)**	(337,348)
Disposal of interests in joint ventures	**-**	(2,972,334)
Share of loss for the period	**(975,707)**	(1,669,216)
Currency translation adjustments	**(427,197)**	(675,298)
Interest in joint ventures and associates end of period	**$ 12,157,568**	$ 13,679,922

At June 30, 2017, the Company held the following joint venture interests and associates accounted for on the equity basis:

Property name	Investment	%	City	State	Date acquired
(a) Deer Springs Crossing ("DSC")	Joint venture	50%	Las Vegas	NV	04/16/10
(b) Adams Dairy Landing ("ADL")	Associate	38.4%	Blue Springs	MO	09/27/13
(c) Martin Downs Town Center ("MDTC")	Associate	49%	Palm City	FL	09/18/15

At June 30, 2016, the Company held the following joint venture interests and associates accounted for on the equity basis:

Property name	Investment	%	City	State	Date acquired
(a) Deer Springs Crossing ("DSC")	Joint venture	50%	Las Vegas	NV	04/16/10
(b) Swanway Plaza ("SWP")	Joint venture	50%	Tucson	AZ	12/31/12
(c) San Tan Plaza ("STP")	Joint venture	50%	Chandler	AZ	01/25/13
(d) Adams Dairy Landing ("ADL")	Associate	38.4%	Blue Springs	MO	09/27/13
(e) Martin Downs Town Center ("MDTC")	Associate	49%	Palm City	FL	09/18/15

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

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

(b) Adams Dairy Landing represents a 38.4% interest in a retail shopping center, in Blue Springs, Missouri, Blue Springs Partners, LP. The Company's interest is held through its wholly owned-subsidiary, TitanStar US Inc. (37.5% limited partnership interest in Blue Springs Partners, LP) and Adams Dairy Landing GP, Inc. (0.9% general partnership interest in Blue Springs Partners, LP).

(c) Martin Downs Town Center represents a 49% interest in a retail shopping center in Palm City, Florida, Martin Downs NSC LLC. The Company's interest is held through its wholly owned subsidiary, Titanstar US Inc.

(d) SWP represents a 50% interest in TSP LP I, L.P., a joint venture in which the Company and Romspen Investment Corporation ("Romspen") each have a 50% indirect interest. The Company's interest is through two wholly-owned subsidiaries, TSP LP Holdings Inc. (49.75% limited partnership interest in TSP LP I, L.P.) and TSP GP Holdings Inc. (0.25% general partnership interest in TSP LP I, L.P. through a 50% interest in the general partner of TSP LP I, L.P., TSP GPCo. I, Inc.).

(e) STP represents a 50% interest in TSP LP II, L.P., a joint venture in which the Company and Romspen each have a 50% indirect interest. The Company's interest is through two wholly-owned subsidiaries, TSP LP Holdings Inc. (49.75% limited partnership interest in TSP LP II, L.P.) and TSP GP Holdings Inc. (0.25% general partnership interest in TSP LP II, L.P. through a 50% interest in the general partner of TSP LP II, L.P., TSP GP Co. II, Inc.).

On March 9, 2016, the Company received from Romspen a "buy/sell" notice with respect to its respective 50% interest in SWP and STP, at property values of $12,905,100 (USD$9,750,000) for SWP and $5,625,300 (USD$4,250,000) for STP for an aggregate value of $18,530,400 (USD$14,000,000).

On August 31, 2016, the Company completed the sale of its interest in the SWP and STP properties. Pursuant to the limited partnership agreements governing the properties, the Company received proceeds from the sale equal to the net worth of each partnership, for aggregate total proceeds of $3,301,358 (USD$2,515,512). The Company recognized an aggregate gain on sale of $290,860 on disposition of its interest in the two properties.

(Expressed in Canadian dollars)

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

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

As at June 30, 2017:

	DCS	ADL	MDTC	Total
Current assets:				
Cash	$ 54,778	$ 797,743	$ 288,081	$ 1,140,602
Amounts receivable	-	884,009	86,145	970,154
Prepaids and deposits	33,280	1,962,107	292,309	2,287,696
	88,058	3,643,859	666,535	4,398,452
Income properties	15,148,361	65,644,936	13,608,507	94,401,804
Total assets	$15,236,419	$ 69,288,795	$14,275,042	$ 98,800,256
Current liabilities				
Accounts payable and accrued liabilities	$ (141,233)	$ (7,445,084)	$ (192,585)	$ (7,778,902)
Current portion of long-term debt	-	-	(140,152)	(140,152)
	(141,233)	(7,445,084)	(332,737)	(7,919,054)
Long-term debt	(1,081,446)	(55,361,697)	(8,510,458)	(64,953,601)
Total liabilities	$ (1,222,679)	$(62,806,781)	$ (8,843,195)	$(72,872,655)
Net assets at 100%	$14,013,740	$ 6,482,014	$ 5,431,847	$ 25,927,601
Company's share	**$ 7,006,870**	**$ 2,489,093**	**$ 2,661,605**	**$ 12,157,568**

As at December 31, 2016:

	DCS	ADL	MDTC	Total
Current assets:				
Cash	$ 100,477	$ 390,191	$ 282,969	$ 773,637
Amounts receivable	-	1,205,869	62,573	1,268,442
Prepaids and deposits	18,908	1,000,111	240,223	1,259,242
	119,385	2,596,171	585,765	3,301,321
Income properties	15,686,603	70,594,775	14,312,782	100,594,160
Total assets	$15,805,988	$ 73,190,946	$14,898,547	$103,895,481
Current liabilities				
Accounts payable and accrued liabilities	$ (159,429)	$ (6,942,484)	$ (157,046)	$ (7,258,959)
Current portion of long-term debt	-	-	(133,733)	(133,733)
	(159,429)	(6,942,484)	(290,779)	(7,392,692)
Long-term debt	(772,592)	(57,281,460)	(8,894,280)	(66,948,332)
Total liabilities	$ (932,021)	$ (64,223,944)	$ (9,185,059)	$(74,341,024)
Net assets at 100%	$14,783,967	$ 8,967,002	$ 5,713,488	$ 29,554,457
Company's share	$ 7,436,984	$ 3,443,329	$ 2,799,609	$ 13,679,922

(Expressed in Canadian dollars)

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

For the six months period ended June 30, 2017:

	DSC	ADL	MDTC	TOTAL
Revenue, including operating recoveries	$ 79,301	$ 3,756,467	$ 870,980	$ 4,706,748
Operating and leasing expenses	(88,773)	(1,492,660)	(226,620)	(1,808,053)
Depreciation	(352,620)	(2,819,722)	(270,634)	(3,442,976)
Interest expense	(12,562)	(1,693,123)	(220,152)	(1,925,837)
Net income (loss) at 100%	$ (374,654)	$ (2,249,038)	$ 153,574	$ (2,470,118)
Company's share	**$ (187,327)**	**$ (863,631)**	**$ 75,251**	**$ (975,707)**

For the six months ended June 30, 2016:

	DSC	ADL	MDTC	SWP	STP	TOTAL
Revenue, including operating recoveries	$ 21,597	$ 3,552,737	$ 881,870	$ 613,352	$ 322,571	$ 5,392,127
Operating and leasing expenses	(85,590)	(1,372,635)	(138,413)	(181,139)	(123,620)	(1,901,397)
Depreciation	-	(2,692,870)	(441,368)	(210,877)	(96,834)	(3,441,949)
Interest expense	-	(1,554,853)	(221,659)	(175,289)	(61,813)	(2,013,614)
Net income (loss) at 100%	$ (63,993)	$ (2,067,621)	$ 80,430	$ 46,047	$ 40,304	$ (1,964,833)
Company's share	$ (31,997)	$ (793,966)	$ 39,411	$ 23,024	$ 20,152	$ (743,378)

(Expressed in Canadian dollars)

6. Notes payable:

		June 30, 2017	December 31, 2016
Debt Resolution Corp.	(a)	**$ 1,005,718**	$ 1,040,593
Titanstar Finance Inc.	(b)	**1,000,000**	1,000,000
Total notes payable		**$ 2,005,718**	$ 2,040,593

(a) On August 30, 2016, the Company entered into an agreement with Debt Resolution Corp., a private company which is related through common directors, to borrow an aggregate amount of USD$775,000 (CAD$1,040,593) for the purpose of funding the Company's costs in relation to the acquisition of a retail real estate asset, 116th Street Centre.

The note payable bears interest at a fixed rate of (i) 8% per annum for the first three month period commencing on the date that the lender advance any portion of the principal amount and ending on the interest adjustment date which is three months after the completion of the acquisition, and (ii) 10% per annum from and including the interest adjustment date until all indebtedness owing is repaid. The note matures August 31, 2017.

(b) On August 31, 2016, the Company entered into an agreement with Titanstar Finance Inc., a private company which is related through common directors, to borrow an aggregate amount of CAD$1,000,000 for the purpose of funding the Company's costs in relation to the acquisition of a retail real estate asset, 116th Street Centre.

The note payable bears interest at a fixed rate of (i) 8% per annum for the first three month period commencing on the date that the lender advance any portion of the principal amount and ending on the interest adjustment date which is three months after the completion of the acquisition, and (ii) 10% per annum from and including the interest adjustment date until all indebtedness owing is repaid. The note matures August 31, 2017.

For the six months period ended June 30, 2017, the Company incurred $88,750 (2016 - $Nil) of interest on the notes payable, which is included in finance costs.

(Expressed in Canadian dollars)

7. Mortgages payable:

	June 30, 2017	December 31, 2016
Mortgage payable bears a fixed interest rate of 4.78% maturing September 2026. The loan is being amortized over 30 years and is payable in blended monthly payments of USD$36,515	**$ 9,052,431**	$ 9,366,339
Mortgage payable bears a fixed interest rate of 5.553% maturing April 2021. The loan is being amortized over 30 years and is payable in blended monthly payments of USD$34,724	**7,816,528**	8,140,717
	16,868,959	17,507,056
Less: deferred financing costs (net of accumulated amortization of $9,625 (2016 – $2,259)	**(112,808)**	(126,939)
Less: current portion	**(213,259)**	(150,612)
	$ 16,542,892	$ 17,229,505

The mortgages payable are recorded at amortized cost and bear a weighted average effective interest rate of 5.26% as at June 30, 2017 (2016 – 5.14%).The mortgages payable are secured by charges on the Company's investment properties.

Principal repayments, as of June 30, 2017, based on scheduled repayments to be made on the mortgages payable over the next five years and thereafter are as follows:

2017	$ 85,575
2018	240,755
2019	253,555
2020	264,628
2021	7,595,360
Thereafter	8,429,086
	$ 16,868,959

For the six months period ended June 30, 2017, the Company incurred $450,176 (2016 - $495,757) of interest on the mortgages payable, which is included in finance costs.

(Expressed in Canadian dollars)

8. Convertible debentures:

(a) Non-related parties:

	June 30, 2017	December 31, 2016
Liability, beginning of period	**$ 4,590,175**	$ 4,689,216
Accretion	**30,255**	57,111
Redemption of debentures via sinking fund	**-**	(156,152)
Liability, end of period	**4,620,430**	4,590,175
Transaction costs, beginning of period	**(327,724)**	(511,632)
Redemption of debentures via sinking fund	**-**	14,158
Amortization of transaction costs	**92,052**	169,750
Transaction costs, end of period	**(235,672)**	(327,724)
Convertible debentures	**$ 4,384,758**	$ 4,262,451

The Company entered into a trust indenture on July 31, 2013 with BNY Trust Company of Canada under which the Company could issue convertible debentures to a maximum principal amount of $11,500.000.

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

The Company is required to pay annually on September 30, 2014 through September 30, 2017, as a mandatory sinking fund for the redemption of the convertible debentures, an amount which is equal to 3.0% of the aggregate outstanding principal amount of all convertible debentures outstanding. The maximum aggregate amount of all manadatory sinking fund payments made by the Company shall not exceed 20.0% of the aggregate principal amount of all convertible debentures. The Company can also make optional sinking fund payments. Sinking fund payments are used to redeem debentures on September 30 of each year, commencing with September 30, 2014 and ending on September 30, 2017.

Upon a change in control, the Company is required to make a redemption offer to all debenture holders equal to the principal amount plus accrued and unpaid interest and has the option to redeem all remaining debentures if 90% or more of the aggregate principal amount outstanding have been tendered for purchase under the redemption offer.

(Expressed in Canadian dollars)

8. Convertible debentures (continued):

(a) Non-related parties (continued):

A reconciliation of the face value of the convertible debentures is as follows:

	June 30, 2017	December 31, 2016
Principal, beginning of period	**$ 4,703,000**	$ 4,864,000
Redemption of debentures via sinking fund	**-**	(161,000)
Principal, end of period	**$ 4,703,000**	$ 4,703,000

As a condition of the convertible debentures, the Company is required to maintain a debt service coverage ratio. As of June 30, 2017, the Company was in compliance with the covenant. As such, the convertible debentures are presented as a long term liability.

For the six months period ended June 30, 2017, the Company incurred $199,877 (2016 - $206,720) of interest on the convertible debentures – non related parties, which is included in finance costs.

(b) Related parties:

	June 30, 2017	December 31, 2016
Liability, beginning of period	**$ 6,771,729**	$ 2,701,152
Issuances	**-**	3,990,631
Accretion	**30,529**	79,946
Conversion of debentures	**(4,447,445)**	-
Liability, end of period	**2,354,813**	6,771,729
Transaction costs, beginning of period	**(237,283)**	(279,562)
Amortization of transaction costs	**13,978**	42,279
Conversion of debentures	**223,305**	-
Transaction costs, end of period	**-**	(237,283)
Convertible debentures	**$ 2,354,813**	$ 6,534,446

A reconciliation of the face value of the convertible debentures is as follows:

	June 30, 2017	December 31, 2016
Principal, beginning of period	**$ 7,000,000**	$ 2,950,000
Issuances	-	4,050,000
Conversion of debentures	**(4,500,000)**	-
Principal, end of period	**$ 2,500,000**	$ 7,000,000

8. Convertible debentures (continued):

(b) Related parties (continued):

(i) On September 30, 2014, the Company closed a private placement of an aggregate principal amount of $2.5 million convertible unsecured subordinated debentures which mature on September 30, 2019. The debentures are held by companies which are related by common directors. The interest owing on the debentures was modified from 9.0% to 7.5% per annum on October 22, 2014. The Company may repay all or a portion of the indebtedness owing under the debentures at any time without penalty.

The principal portion of the debenture is convertible into units with each unit comprised of one common share and one share purchase warrant of the Company at a conversion price of $0.09 in the first year, and for each year thereafter at a conversion price equal to the greater of the closing sales price (or the closing bid, if no sales were reported on the date of determination) of the common shares on the TSX Venture Exchange or $0.10. Accrued interest is convertible under the same terms, except the conversion price is the lesser of $0.09 and the market price at the date of conversion during the first year. Each warrant will entitle the holder to acquire an additional common share at an exercise price equal to the conversion price of the debentures in effect at the time such warrants are issued, and will expire on September 30, 2019.

The conversion feature is considered an embedded derivative liability as the conversion price varies based on the conversion date and closing sales price of the Company's common shares. The calculated present value of the embedded derivative liability at inception was $280,989 and the residual balance of $2,219,011 was allocated to the debt component.

As at June 30, 2017, the embedded derivative liability is classified as a current liability on the consolidated statement of financial position and is carried at a fair value of $5,000 (2016 - $192,623).

(ii) On October 30, 2015, the Company issued a convertible unsecured subordinated debenture with a face value of $450,000 in exchange for cash proceeds of $450,000. The debenture is held by a private company of which a director of the Company is the Chairman. The debenture bears interest at 8% per annum, commencing in August 2016, and matures on October 30, 2020. The Company may repay all or a portion of the indebtedness owing under the debenture at any time without penalty.

The principal portion of the debenture is convertible into common shares at a conversion price of $0.06825 per share in the first year, and for each year thereafter at a conversion price equal to the greater of the market price of the Company's common shares at the time of conversion or $0.10. Accrued interest is convertible under the same terms, except that the convertion price is the greater of $0.06825 and the market price at the date of conversion during the first year.

8. Convertible debentures (continued):

(b) Related parties (continued):

(ii) (continued):

The conversion feature is considered an embedded derivative liability as the conversion price varies based on the conversion date and closing sales price of the Company's common shares. The calculated present value of the embedded derivative liability at inception was $30,456 and the residual balance of $419,544 was allocated to the debt component.

(iii)On March 30, 2016, the Company issued a convertible unsecured subordinated debenture with a face value of $4,050,000 in exchange for cash proceeds of $4,050,000. The debenture is held by a private company of which a director of the Company is the Chairman. The debenture bears interest at 8% per annum and matures on March 30, 2021. The Company may repay all or a portion of the indebtedness owing under the debenture at any time without penalty.

The principal portion of the debenture is convertible into common shares at a conversion price of $0.05381 per share in the first year, and for each year thereafter at a conversion price equal to the greater of the market price of the Company's common shares at the time of conversion or $0.10. Accrued interest is convertible under the same terms, except that the converstion price is the greater of $0.05381 and the market price at the date of conversion during the first year.

The conversion feature is considered an embedded derivative liability as the conversion price varies based on the conversion date and closing sales price of the Company's common shares. The calculated present value of the embedded derivative liability at inception was $59,368 and the residual balance of $3,990,632 was allocated to the debt component. Transaction costs allocated to the debt component were $279,562.

For the six months period ended June 30, 2017, the Company incurred $174,503 (2016 - $100,472) of interest on the convertible debentures due to related parties, which is included in finance costs.

On March 21, 2017, the Company issued an aggregate total of 81,858,226 common shares upon conversion of outstanding related party convertible debentures in the total aggregate principal amount of $4,500,000. Of these shares, 75,264,820 were issued at $0.5381 per share and 6,593,406 were issued at $0.06825 per share. The shares were issued to Hoche, a company related by common directors.

(Expressed in Canadian dollars)

9. Related party balances and transactions:

Other related party transactions and balances, not already disclosed in the consolidated financial statements include:

		June 30, 2017		December 31, 2016
Due to Inovalis	**$**	**14,184**	$	28,680
Due to Titanstar Capital		**22,115**		35,386
	$	**36,299**	$	64,066

Included in accounts payable and accrued liabilities are $99,703 of accrued interest (2016 - $159,255) owing to private companies related through common directors.

(a) Key management personnel compensation

Key management personnel include the members of the Board of Directors and executive officers of the Company. For the six months period ended June 30, 2017, the Company paid $42,000 (2016 - $42,000) of service fees to the chief financial officer and $40,000 (2016 -$nil) to the Chairman of the Board of the Company.

(b) Asset management agreement:

On April 16, 2010, the Company entered into an asset management agreement with TitanStar Capital Corp. ("Titanstar Capital") (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 is a corporation owned by TitanStar Investment Group Inc., and is a related entity as it is owned by the Chairman of the Board 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.

For the six months period ended June 30, 2017, the Company incurred operating expenses of $41,935 (2016 – $28,322), included in general and administrative expenses, that were charged by the Asset Manager.

(c) Non-binding term sheet:

On May 2015, the Company entered into a non-binding term sheet with Inovalis S.A ("Inovalis") and Hoche Partners International ("Hoche"), significant shareholders of the Company. Under the agreement, Titanstar Capital and Inovalis will each receive management fees in the form of shares of the Company for services provided. The dollar amount of fees by Titanstar Capital and Inovalis are calculated as follows:

(*i*) 0.75% to Titanstar Capital of the net asset value of the Company calculated quarterly in arrears;

(*ii*) 0.75% to Inovalis of the equity raised or arranged by Inovalis; and

(*iii*) 0.375% to Inovalis and 0.375% to Titanstar Capital on the equity raised on the Canadian capital market.

(Expressed in Canadian dollars)

9. Related party balances and transactions (continued):

(c) Non-binding term sheet (continued):

The number of shares to be issued in exchange for the dollar amount of fees of the Company will be calculated using the one week average share price prior to payment of the asset management fees, with a minimum price of $0.06 per share.

For the six months period ended June 30, 2017, the Company recorded $40,688 (2016 - $95,578) to Titanstar Capital and $28,212 to (2016 - $24,849) to Inovalis for management fees pursuant to the non-binding term sheet.

(d) Martin Downs Town Center:

On September 18, 2015, the Company acquired a 49% interest in Martin Downs Town Center for total consideration, including closing costs, of $3,146,172 (USD$2,369,075). Consideration and closing costs for the acquisition were paid by the issuance of common shares and cash. The Company acquired its interest from a company jointly owned and controlled by Inovalis and Hoche.

(e) Loan facility:

On December 15, 2015, the Company obtained a loan facility for up to $750,000. Under the terms of the loan facility, the Company may draw advances in any amount from time to time from January 1, 2016 to December 31, 2016. Interest on any outstanding drawdowns will accrue at a fixed rate of 8% per annum, and is payable monthly. Outstanding indebtedness is payable on demand. The loan facility is provided by a private company of which the Chairman of the Board of the Company is a principal.

10. Share capital:

At June 30, 2017, and December 31, 2016, the authorized share capital comprised an unlimited number of common shares and non-voting, perpetual, redeemable preferred shares. No preferred shares have been issued to date.

	June 30, 2017		December 31, 2016	
	Common Shares	**Amount**	Common Shares	Amount
Issued and outstanding,beginning of period	**123,431,412**	**$ 14,283,090**	118,623,430	$ 14,181,376
Conversion of debentures	-	-	-	-
Conversion of due to related parties	**88,209,527**	**3,496,625**	-	-
Share issue – debt settlement (a) - (c)	**1,611,118**	**48,334**	4,807,982	101,714
Issued and outstanding, end of period	**213,252,057**	**$ 17,828,049**	123,431,412	$ 14,283,090

10. Share capital (continued):

During the six months period ended June 30, 2017, the following share transactions occurred:

(a) The Company issued an aggregate total of 81,858,226 common shares to Hoche upon conversion of outstanding related party convertible debentures in the total aggregate principal amount of $4,500,000. The shares were issued at a fair value of $3,274,329. As a result the difference (net of transactions costs and accretion) of $951,433 has been recorded as gain on settlement of financial liabilities in the statement of loss and comprehensive loss.

(b) The Company issued 6,351,301 common shares to Hoche as settlement of $349,150 accrued interests charged on the $4.5 million convertible debentures. The shares were issued at a fair value of $222,295, the difference of $126,855 was recorded as gain on settlement of financial liabilities in the statement of loss and comprehensive loss.

(c) The Company issued 1,611,118 common shares to TitanStar Capital and Inovalis, as settlement of amounts charged in relation to the non-binding term sheet (Note 10c). The shares were issued at a fair value of $48,334 in settlement of financial liabilities of the Company of $96,667 and as a result $48,334 has been recorded as a gain on settlement of financial liabilities in the statement of loss and comprehensive loss.

During the year ended December 31, 2016, the following share transactions occurred:

(a) The Company issued 555,434 common shares to TitanStar Capital and Inovalis, as settlement of amounts charged in relation to the non-binding term sheet (Note 10c) with a fair value of $16,663.

(b) With TSXV approval, the Company issued 1,756,628 common shares at a fair value of $35,133 of debt with a private company of which a principal is a director of the Company. The common shares issued were subject to a four month hold resale restriction.

(c) The Company issued 2,495,920 common shares to TitanStar Capital and Inovalis, as settlement of amounts charged in relation to the non-binding term sheet (Note 10c) with a fair value of $49,918.

The shares were issued at a fair value of $101,714 in settlement of financial liabilities of the Company of $358,744 and as a result $257,030 has been recorded as a gain on settlement of financial liabilities in the statement of loss and comprehensive loss.

(Expressed in Canadian dollars)

11. Loss per share:

The weighted average basic and diluted common shares outstanding for the six months period ended June 30, 2017 are 172,102,822 (2016 – 118,885,888).

The following securities were not included in the diluted net income per unit calculation for the six months period ended June 30, 2017 as the effect would have been anti-dilutive:

	Number of common shares	Weighted average exercise price / conversion price
Share options	2,295,000	$ 0.090
Convertible debentures	107,883,081	0.067
	110,178,081	

12. Capital management:

The Company's objectives when managing capital of $36,247,266 (2016 - $20,756,857), which is share capital, contributed surplus, equity component of convertible debentures, accumulated other comprehensive income, deficit, note payable, mortgage payable, due to related parties, convertible debentures, embedded derivative liability and long-term debt, are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

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

13. Risk management and fair values:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Assets and liabilities measured at fair value in the statement of financial position or for which fair value disclosure is required in the notes to the financial statements are classified based on a three-level hierarchy as detailed in the year ended December 31, 2016 audited consolidated financial statements.

(Expressed in Canadian dollars)

13. Risk management and fair values (continued):

For assets and liabilities that are recognized at fair value in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The embedded derivative is the only liability measured at fair value by the Company. These are classified as Level 2 investments. The Company does not have any assets designated as fair value through profit or loss.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

	June 30, 2017		December 31, 2016	
	Carrying value	**Fair value**	Carrying value	Fair value
Cash	**$ 664,266**	**$ 664,266**	$ 829,321	$ 829,321
Amounts receivable	**111,988**	**111,988**	56,311	56,311
Mortgage reserve fund	**213,157**	**213,157**	340,820	340,820
Investment properties	**24,068,698**	**24,558,972**	25,237,874	25,410,598
Accounts payable	**1,018,184**	**1,018,184**	1,099,415	1,099,415
Mortgages payable	**16,542,892**	**17,304,061**	17,380,117	16,799,911
Notes payable	**2,005,718**	**2,005,718**	2,040,593	2,040,593
Due to related parties	**36,299**	**36,299**	64,066	64,066
Embedded derivative liability	**5,000**	**5,000**	192,623	192,623
Tenant's security deposits	**109,546**	**109,546**	112,885	112,885

The valuation techniques and inputs for the Company's financial instruments are as follows:

(*i*) Short term assets and liabilities

The carrying values of financial assets and financial liabilities not measured at fair value, such as cash, short term investments, accounts receivable, mortgage reserve fund, accounts payable, notes payable, due to related parties and tenant's security deposits approximate their fair values due to the relatively short periods to maturity of these items or because they are receivable or payable on demand.

(*ii*) Mortgages payable

The fair values of the mortgages payable have been calculated based on discounted future cash flows using discount rates that reflect current market conditions for instruments having similar terms and conditions and therefore are classified as Level 2 in the fair value hierarchy.

(*iii*) Investment properties

The fair value of the investment properties is determined by management, using recognized valuation techniques supported, in certain instances, by independent real estate valuation experts. Investment properties are classified as level 3 investments.

There were no transfers between Level 1, Level 2 and Level 3 during the six months period ended June 30, 2017.

(Expressed in Canadian dollars)

14. Commitments:

The Company has entered into a premises lease plus operating costs expiring on July 31, 2019. The minimum payments over the next three years are as follows:

2017	$	19,695
2018		40,021
2019		23,861

15. Subsequent events:

On July 21, 2017, the Company obtained a loan facility for up to $500,000. Under the terms of the loan facility, the Company may draw from time to time from July 12, 2017 to December 31, 2017, for the purpose of funding working capital requirements. Interest on any outstanding drawdowns will accrue at a fixed rate of 10% per annum, and is payable monthly. Outstanding indebtedness is payable on demand, subject to the terms and conditions of the loan facility, but will be subordinated by the Company's senior indebtedness to secured lenders. The loan facility is provided by a private company of which the Chairman of the Board of the Company is a principal. In consideration of providing the loan facility, the loan facility provider will receive $15,000.

On July 21, 2017, the Company announced that it has amended the terms of its loan agreement for US$775,000 dated August 25, 2016 with a private companyof which a director of the Company is a principal, and its loan agreement for $1,000,000 dated August 31, 2016 with a private company of which the Chairman of the Board of the Company is a principal. Under the new terms, the maturity date for each of these loans has been extended to November 30, 2017.