Consolidated Financial Statements of

REALIA PROPERTIES INC. (formerly TitanStar Properties Inc.)

Years ended December 31, 2019 and 2018

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Independent Auditor's Report

To the Shareholders of
Realia Properties Inc.

Opinion

We have audited the consolidated financial statements of Realia Properties Inc. (hereafter "the Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of income (loss) and comprehensive loss, the consolidated statements changes in shareholders' equity and the consolidated statements cash flows for the years then ended, and notes to consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 2 to the consolidated financial statements, which indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Information other than the consolidated financial statements and the auditor's report thereon

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, included in Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Karine Desrochers.

Raymond Chabot Grant Thornton LLP[1]

Montréal
June 12, 2020

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[1] CPA auditor, CA public accountancy permit no. A127023

REALIA PROPERTIES INC. (formerly TitanStar Properties Inc.)

Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

December 31, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash	$ 803,021	$ 3,050,264
Amounts receivable	488,352	416,359
Prepaid expenses and deposits	56,590	88,285
	1,347,963	3,554,908
Investment properties (note 5)	38,343,769	41,050,682
Mortgage reserve fund	661,870	501,505
	$ 40,353,602	$ 45,107,095
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,143,513	$ 1,262,414
Notes payable (note 7)	1,299,000	2,102,000
Current portion of mortgages payable (note 8)	11,937,966	12,269,126
Due to related parties (note 10)	287,273	154,548
Convertible debentures – non-related parties (note 9)	4,375,450	-
	19,043,202	15,788,088
Tenants' security deposits	221,558	208,293
Mortgages payable (note 8)	15,985,230	17,040,361
Convertible debentures – non-related parties (note 9)	-	4,169,461
	35,249,990	37,206,203
Shareholders' equity:		
Share capital (note 11)	21,612,003	21,612,003
Equity component of convertible debentures (note 9)	269,319	269,319
Contributed surplus	1,248,058	1,248,058
Accumulated other comprehensive income	866,657	1,338,259
Deficit	(18,961,744)	(16,639,992)
Equity attributable to the shareholders of Realia Properties Inc.	5,034,293	7,827,647
Non-controlling interest	69,319	73,245
Total Shareholders' equity	5,103,612	7,900,892
	$ 40,353,602	$ 45,107,095

Subsequent events (note 20)

See accompanying notes to consolidated financial statementsf for additional clarification.

Approved on behalf of the Board:

"Jean-Daniel Cohen"
Director

"Stephane Amine"
Chair, Audit Committee

REALIA PROPERTIES INC. (formerly TitanStar Properties Inc.)

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

Years ended December 31, 2019, and 2018

	2019	2018
Revenue:		
Rental income	$ 3,377,926	$ 2,065,666
Recoveries of operating expenses income	1,277,211	730,567
Other income	36,275	144,541
	4,691,412	2,940,774
Property operating expenses:		
Operating and leasing expenses	(1,537,378)	(951,862)
Earnings from property operations	3,154,034	1,988,912
Other revenues (expenses):		
General and administrative (note 13)	(747,312)	(661,731)
Depreciation and amortization	(1,766,804)	(1,137,073)
Share of income (loss) of joint ventures and associates (note 6)	-	109,540
Net finance costs (note 14)	(2,591,296)	(1,787,610)
Loss on settlement of dispute (Note 19)	(411,626)	-
Gain on settlement of financial liabilities (notes 9 and 11)	-	18,324
Gain on debt extinguishment (note 9)	-	222,510
Foreign exchange gain	37,326	2,990,387
	(5,479,712)	(245,653)
Net Income (loss) for the year	(2,325,678)	1,743,259
Other comprehensive income (loss):		
Foreign currency translation on US operations	471,602	681,569
Reclassification to income (loss) for the year	-	(3,018,030)
Comprehensive loss	$ (1,854,076)	$ (593,202)
Net income (loss) for the year attributed to:		
Non-controlling interest	$ (3,926)	$ (1,521)
Shareholders of Realia Properties Inc.	(2,321,752)	1,744,780
	$ (2,325,678)	$ 1,743,259
Comprehensive loss attributed to:		
Non-controlling interest	$ (3,926)	$ (1,521)
Shareholders of Realia Properties Inc.	(1,850,150)	(591,681)
	$ (1,854,076)	$ (593,202)
Weighted average number of common shares	249,636,640	215,809,093
Basic and diluted income (loss) per common share (note 15)	$ (0.01)	$ 0.01

See accompanying notes to consolidated financial statements.

REALIA PROPERTIES INC. (formerly TitanStar Properties Inc.)

Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian dollars)
Years ended December 31, 2019 and 2018

	Number of shares	Share capital	Share capital to be issued	Equity component of convertible debentures	Contributed surplus	Accumulated other comprehensive income	Deficit	Total attributable to owners of the parent	Non-controlling interest	Total shareholders' equity
Balance, December 31, 2017	214,249,087	17,852,974	-	222,510	1,248,058	3,674,720	(18,384,772)	4,613,490	-	4,613,490
Modification of debentures	-	-	-	46,809	-	-	-	46,809	-	46,809
Share issue – add'l ownership interest[1]	-	-	3,710,875	-	-	-	-	3,710,875	-	3,710,875
Non-controlling's share of acquisition of assets	-	-	-	-	-	-	-	-	74,766	74,766
Share issue – debt settlement	2,512,781	48,154	-	-	-	-	-	48,154	-	48,154
Net income (loss) for the year	-	-	-	-	-	-	1,744,780	1,744,780	(1,521)	1,743,259
Other comprehensive income (loss)	-	-	-	-	-	(2,336,461)[2]	-	(2,336,461)	-	(2,336,461)
Balance, December 31, 2018	216,761,868	17,901,128	3,710,875	269,319	1,248,058	1,338,259	(16,639,992)	7,827,647	73,245	7,900,892
Share issue – add'l ownership interest[1]	38,459,269	3,710,875	(3,710,875)	-	-	-	-	-	-	-
Net income (loss) for the year	-	-	-	-	-	-	(2,321,752)	(2,321,752)	(3,926)	(2,325,678)
Other comprehensive income (loss)	-	-	-	-	-	(471,602)	-	(471,602)	-	(471,602)
Balance, December 31, 2019	255,221,137	21,612,003	-	269,319	1,248,058	866,657	(18,961,744)	5,034,293	69,319	5,103,612

See accompanying notes to consolidated financial statements.

(1) 38,459,269 shares issued February 22, 2019 (note 11c)
(2) including a reclassification to income for the year of ($3,018,030)

REALIA PROPERTIES INC. (formerly TitanStar Properties Inc.)

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended December 31, 2019 and 2018

	2019	2018
Cash provided by (used in):		
Cash flows from operating activities:		
Net income (loss) for the year	$ (2,325,678)	$ 1,743,259
Adjustments to reconcile net (income) loss for the year to net cash provided by operating activities:		
Depreciation and amortization	1,838,181	1,289,084
Accretion of convertible debentures	134,612	80,051
Gain on debt extinguishment	-	(222,510)
Gain on settlement of financial liabilities	-	(18,324)
Share of loss (income) of joint ventures and associates	-	(109,540)
Foreign exchange (gain) loss	-	27,644
Interest expense	2,379,944	1,563,798
Change in operating assets and liabilities	27,404	(46,225)
	1,958,460	4,307,237
Cash flows from investing activities:		
Additions to investment properties	(640,384)	(172,285)
Distributions from joint ventures and associates	-	465,212
Security deposits received	23,147	83,007
Proceeds from disposal of interests in joint ventures	-	4,458,778
	(617,237)	4,834,712
Cash flows from financing activities:		
Repayment of debt	(1,058,698)	(4,325,237)
Net variance in advances from related parties	-	50,701
Proceeds from notes payable	-	400,000
Contributions to mortgage reserve fund	(160,365)	(39,147)
Interest paid	(2,368,631)	(1,531,415)
Convertible debentures transaction costs	-	(152,084)
	(3,587,694)	(5,597,182)
Effect of exchange rate changes on cash	(96,775)	(757,289)
Increase (decrease) in cash	(2,247,243)	2,787,478
Cash, beginning of year	3,050,264	262,786
Cash, end of year	$ 803,021	$ 3,050,264
Non-cash investing and financing transactions		
Repayment of debt with common share issuances	$ -	$ (171,692)
Acquisition of additional interest in joint venture	-	(1,302,000)
Acquisition of investment properties	-	(3,710,875)

See accompanying notes to consolidated financial statements.

1. Organization:

Realia Properties Inc. ("Realia" and collectively with its subsidiaries the "Company") (formerly TitanStar Properties Inc. before a name change effective October 18, 2019) 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: RLP", convertible debentures "TSXV: RLP.DB"). The Company issued share capital and commenced operations on June 30, 2008. The registered office of the Company is 151 Yonge Street, 11th Floor, Toronto, Ontario M5C 2W7.

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 within the United States with value to be maximized through the acquisition of well-positioned quality assets. The focus is on necessity-based, retail / commercial properties and community centers.

These consolidated financial statements have been approved and authorized for issue by the Board of Directors on June 12, 2020.

2. Basis of presentation and statement of compliance:

(a) Statement of compliance:

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

(b) Basis of presentation:

(*i*) The consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. For the year ended December 31, 2019, the Company reported a loss of $2,325,678 (December 31, 2018: profit of $1,743,259), the Company has a deficit of $18,961,744 and a working capital deficiency of $17,695,239. The Company's liabilities include due to related parties of $287,273, notes payable of $1,299,000 due to related parties, convertible debentures of $4,375,450 due to non-related parties and mortgages payable of $27,923,196 due to non-related parties.

The ability of the Company to continue as a going concern and realize its assets and discharge its liabilities in the normal course of business is dependent on the Company's ability to raise additional financings, on the continued support from the third-party convertible debenture holders, its related parties and on its ability to achieve profitable operations in the future.

2. Basis of presentation and statement of compliance (continued):

(b) Basis of presentation (continued):

(*i*) (continued):

Management is of the opinion that sufficient working capital will be obtained from the cash flows from its investment properties and from proceeds received from the sale of a portion of interest in its properties to meet the Company's debt obligations and commitments as they become due and that the Company's current credit facilities and shareholder arrangements are sufficient to support future operations. In addition to ongoing working capital requirements, the Company may be required to secure sufficient funding for general and administration costs and interest charges. Although management may have been successful in the past in undertaking financings, there can be no assurance that management will be able to do so in the future on terms acceptable to the Company.

The application of the going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There is, primarily as a result of the conditions described above, material uncertainties that cast significant doubt as to the appropriateness of the use of the going concern assumption. These consolidated financial statements have been prepared on a going concern basis notwithstanding these conditions. If the going concern basis was not appropriate for these consolidated financial statements then adjustments would be necessary to the carrying values of assets and liabilities, the reported revenues and expenses, and consolidated statement of financial position classifications used. These adjustments could be material.

(*ii*) The consolidated financial statements have been prepared on a historical basis.

(*iii*) The preparation of these consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

(c) Functional and presentation currencies:

These consolidated financial statements are presented in Canadian dollars, which is also the functional currency of Realia, the parent company. The Company owns subsidiaries and investment properties in the United States and their functional currency is the US dollar.

2. Basis of presentation and statement of compliance (continued):

(d) Presentation of consolidated financial statements:

The Company uses a classified consolidated statement of financial position. The consolidated statement of financial position distinguishes between current and non-current assets and liabilities. Current assets and liabilities are those expected to be recovered or settled within twelve months from the reporting date and non-current assets and liabilities are those where the recovery or settlement is expected to occur more than twelve months from the reporting date. The Company classifies the consolidated statements of income (loss) and comprehensive loss using the function of expense method, which classifies expenses according to their functions, such as costs of operations or administrative activities.

3. Significant accounting policies:

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. The accounting policies have been applied consistently by the group entities unless otherwise stated.

(a) Basis of consolidation:

The consolidated financial statements include the assets and liabilities and results of operations of Realia and its subsidiaries. The assets and liabilities and results of operations include the consolidation of its wholly owned subsidiaries TitanStar DSC Holdings, Inc., TSP GP Holdings, Inc., TSP LP Holdings, Inc., Realia Properties US (formerly TitanStar US, Inc.), TSP Metro Gateway, LLC and TSP 116th Street, LLC as well as Martin Downs NSC, LLC (since acquisition of control in October 2018) which is 99% owned.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are prepared for the same reporting period as the Company using consistent accounting policies.

All material intercompany balances and transactions are eliminated upon consolidation.

Where the Company’s interest in a subsidiary is less than 100%, the Company recognizes non-controlling interest.

3. Significant accounting policies (continued):

(b) Joint arrangement and associates:

The Company classifies its interest in joint arrangements as either joint operations or joint ventures depending on the Company's rights to assets and obligations for the liabilities of the arrangements. When making this assessment, management considers the structure of the arrangement, the legal form of any separate entities, the contractual terms of the arrangement and other facts and circumstances. The Company classifies entities it has significant influence over as associates.

The Company reports its interest in joint ventures and associates using the equity method. Under the equity method, interests in joint ventures and associates are recorded at initial cost plus the Company's share of post-acquisition income or loss, plus contributions less distributions received. Subsequent to the acquisition date, the Company's share of net income is reported in income of joint ventures and associates in the consolidated statements of income (loss) and comprehensive loss.

The accounting policies of the joint arrangements and associates are consistent with the accounting policies of the Company. Where the Company transacts with its joint ventures and associates, unrealized profits and losses are eliminated to the extent of the Company's interest in the investment. Balances outstanding between the Company and its joint ventures and associates in which it has an interest are not eliminated in the consolidated statements of financial position.

At each reporting period, the Company evaluates whether there is objective evidence that its interest in each joint venture investment is impaired. The entire carrying amount of the interest in joint venture investment is compared to the recoverable amount, which is the higher of value in use, or fair value less costs to sell. The recoverable amount of each investment is considered separately.

(c) Property acquisitions and business combinations:

When property is acquired, management considers the substance of the agreement in determining whether the acquisition represents the acquisition of a property or a business combination. The Company accounts for an acquisition as a business combination if the acquired property meets the definition of a business, being an integrated set of activities and assets that are capable of being managed for the purpose of providing goods or services to customers generating investment income (such as dividends or interests) or generating other income from ordinary activities.

Where such acquisitions are not judged to be a business combination, they are treated as asset acquisitions. The cost to acquire the property, including transaction costs, is allocated between the identifiable assets acquired and liabilities assumed based on their relative fair values at the acquisition date. The assets acquired and liabilities assumed include land, building and intangible assets such as above and below market leases and in-place operating leases. The Company expenses transaction costs on business combinations.

3. Significant accounting policies (continued):

(d) Investment properties:

Investment properties are comprised of properties held to earn rental revenue or for capital appreciation or both. Investment properties are measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating.

Investment properties include land and buildings and lease related intangible assets which include below and above market rents, value of in-place leases and prepaid lease origination costs. Investment properties are measured at cost less accumulated depreciation and accumulated impairment losses.

Depreciation of buildings is calculated using the straight-line method with reference to each property's cost, estimated useful life of the building, components, and residual value.

The basis of depreciation and estimated useful lives of buildings, major components and lease related intangibles are as follows:

Asset	Basis	Rate
Buildings	Straight-line	35 - 45 years
Major components	Straight-line	5 - 15 years
Lease related intangibles	Straight-line	Weighted average term of the lease

Depreciation methods, useful lives and residual values are reviewed annually and adjusted as required.

Note 5 discloses the fair value of the investment properties. The following approaches either individually or in combination, are used by management, in their determination of the fair value of investment properties:

— The Income Approach derives market value by estimating the future cash flows that will be generated by the property and then applying an appropriate capitalization rate or discount rate to those cash flows. This approach can utilize the direct capitalization method and/or the discounted cash flow analysis.

— The Direct Comparison Approach involves comparing or contrasting the recent sale, listing or optioned prices of properties comparable to the subject and adjusting for any significant differences between them.

3. Significant accounting policies (continued):

(d) Investment properties (continued):

Management reviews independent appraisals when obtained for properties, to ensure the assumptions used by the appraisers are reasonable. The fair value amount determined by management and disclosed in note 5 reflects those assumptions used in the approaches above.

An investment property is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income (loss) and comprehensive loss in the period of retirement or disposal.

(e) Cash and equivalents:

Cash and equivalents consist of cash on hand and in the bank and highly-liquid investments having terms of three months or less from the date of acquisition and that are readily convertible to known amounts of cash. Cash and equivalents exclude cash subject to restrictions.

(f) Revenue recognition:

Rental revenue is recognized on a straight line basis over the term of the lease subject to ultimate collection being reasonably assured.

Revenue includes recoveries of specified operating expenses, in accordance with the terms of the lease agreements. Recoveries are recognized in the period in which the related operating expense was incurred.

(g) Finance income (expenses):

Finance income consists of interest income. Finance expense includes interest on long-term debt, financing fees, amortization of deferred financing costs and accretion of convertible debentures.

Finance income is recognized in the period in which it is earned, while finance expenses are recognized in the period in which they are incurred.

(h) Provisions:

Provisions are recognized in other liabilities when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material, such as closure costs.

3. Significant accounting policies (continued):

(i) Convertible debentures:

Convertible debentures are separated into debt and equity components based on the residual method. The value of the debt component is calculated at the estimated fair value of the future interest and principal payments due under the terms of the convertible debentures, with the residual value assigned to the equity component.

Transaction costs directly related to the debt component reduce the carrying value of the convertible debentures. Transaction costs related to the equity component of convertible debentures are recognized in the value of the equity component, net of deferred income tax.

Subsequent to initial recognition, the liability component of convertible debentures is measured at amortized cost using the effective interest rate method and is accreted up to its face value. The equity component is not re-measured subsequent to initial recognition.

For convertible debentures in which the conversion feature is determined to be an embedded derivative liability, the embedded derivative liability is valued first, with the residual value assigned to the debt component of the instrument at inception. Transaction costs allocated to the embedded derivative component are recognized in profit or loss. The embedded derivative liability is recognized at fair value with changes in fair value recognized in profit or loss.

(j) Share options and warrants:

The Company has a share option plan available for officers, employees, and consultants. The fair value based method of accounting is applied to all share-based compensation. Compensation expense is recognized when share options are granted over the vesting periods. Awards of share options and warrants related to private placements or public offerings of shares are treated as share issue costs.

The fair value of share options and warrants granted are estimated on the date of grant using the Black-Scholes option pricing model and is recorded as an expense over the applicable vesting period based on the number of awards expected to vest. Each tranche of an award is considered a separate award within its own vesting period and grant date fair value. On the exercise of share options, the consideration received and the grant date fair value of the option is credited to share capital.

3. Significant accounting policies (continued):

(k) Share capital:

For equity-settled share-based payment transactions, the entity shall measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

Transaction costs related to the issuance of the shares are recognized directly in shareholders' equity as a reduction of the proceeds received.

(l) Income or loss per share:

Basic income or loss per share is calculated by dividing the income or loss by the weighted average number of common shares outstanding during the period. The Company computes dilutive effects of options, warrants and similar instruments. The dilutive effect on income per share is recognized by the use of proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period.

(m) Foreign currency translation:

Foreign operations

The functional currency of the Company's subsidiaries is the United States dollar as it is the currency of the primary economic environment in which the subsidiaries operate. In determining the functional currency consideration is given to the denomination of major cash flows of the entity. The functional currency of entities within the group has remained unchanged during the reporting period.

Upon consolidation, assets and liabilities of the subsidiaries are translated to Canadian dollars, the presentation currency of the Company, at the period end rate of exchange and the results of their operations translated at average rates of exchange for the period. The resulting translation adjustments are included in accumulated other comprehensive income in equity. Translation adjustments from monetary receivables and payables within the Company's subsidiaries for which settlement is neither planned nor likely to occur in the foreseeable future are included in the accumulated other comprehensive income in equity.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the respective group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate).

3. Significant accounting policies (continued):

(m) Foreign currency translation (continued):

Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognized in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

(n) Income taxes:

Current income tax for each entity is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the consolidated statement of financial position date and includes adjustments to tax payable or recoverable in respect of previous periods.

Deferred income tax is recognized using the statement of financial position method in respect of all temporary differences between the tax bases of assets and liabilities, and their carrying amounts for financial reporting purposes, except as indicated below.

Deferred income tax liabilities are recognized for all taxable temporary differences, except where the deferred income tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in an acquisition that is not a business combination and, at the time of the acquisition, affects neither the accounting profit nor taxable profit or loss and in respect of taxable temporary differences associated with investment in subsidiaries, interest in joint ventures and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3. Significant accounting policies (continued):

(n) Income taxes (continued):

Deferred income tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the asset is realized or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the statement of financial position date.

Current and deferred income taxes relating to items recognized directly in equity are recognized in equity and not in the consolidated statement of income (loss) and comprehensive loss.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same tax authority on either the same taxable entities or in different taxable entities, and, where there is the intent to settle the balance on a net basis.

(o) Financial instruments:

Recognition and derecognition

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortized cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

In the periods presented, the Company does not have any financial assets categorized as FVTPL or FVOCI.

3. Significant accounting policies (continued):

(o) Financial instruments (continued):

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within net finance costs, except for impairment of trade receivables which is presented within operating and leasing expenses.

Subsequent measurement of financial assets

Financial assets at amortized cost

Financial assets are measured at amortized cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortized cost using the effective interest method.

Discounting is omitted where the effect of discounting is immaterial.

Classification and measurement of financial liabilities

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

Derivative instruments

Derivative instruments are initially recorded at fair value including those derivatives that are embedded in a financial instrument or other contract but are not closely related to the host financial instrument or contract, respectively. Subsequent to initial recognition, changes in the fair values of derivative instruments are recognized in net loss, except for derivatives that are designated as cash flow hedges.

3. Significant accounting policies (continued):

(o) Financial instruments (continued):

Transaction costs are expensed as incurred for financial instruments classified or designated at fair value through profit or loss.

The following is a summary of the classification adopted by the Company for each significant category of financial instrument.

Financial instruments	Classification	Measurement
Cash	Financial assets at amortized cost	Amortized cost
Amounts receivable	Financial assets at amortized cost	Amortized cost
Mortgage reserve fund	Financial assets at amortized cost	Amortized cost
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	Amortized cost
Due to related parties	Financial liabilities at amortized cost	Amortized cost
Notes payable	Financial liabilities at amortized cost	Amortized cost
Convertible debentures	Financial liabilities at amortized cost	Amortized cost
Mortgages payable	Financial liabilities at amortized cost	Amortized cost
Tenants' security deposits	Financial liabilities at amortized cost	Amortized cost

(p) Impairment of assets:

(*i*) Financial assets:

The Company applies an expected loss model that assesses the risk a financial asset will default rather than whether a loss has been incurred. The Company applied the simplified approach to estimate expected credit losses which requires the loss allowance to be measured for lifetime expected credit losses. While the Company's financial assets are subject to the expected credit loss requirements, the identified loss was immaterial.

(*ii*) Non-financial assets:

Investment properties are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purpose of assessing impairment, assets are grouped into cash generating units ("CGU's"), defined as the lowest levels for which there are separately identifiable cash inflows. An impairment loss is recognized within impairment of assets for the amount by which the carrying amount of the individual asset or CGU exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and value-in-use. In determining fair value less costs to sell, recent market transactions are taken into account, if available. In absence of such transactions, an appropriate valuation model is

3. Significant accounting policies (continued):

(p) Impairment of assets: (continued)

(*ii*) Non-financial assets (continued):

used. Value-in-use is assessed using the present value of the expected future cash flows of the relevant asset or CGU.

Impairments are reversed to the extent that events or circumstances give rise to changes in the estimate of recoverable amount since the period the impairment was recorded. Impairment reversals are recognized within impairment of assets.

(q) Fair values:

The fair value of a financial instrument is the amount of consideration that could be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no obligation to act. In certain circumstances, however, the initial fair value may be based on other observable current market transactions in the same instrument, without modification or on a valuation technique using market based inputs.

Fair value measurements recognized in the consolidated statement of financial position are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobserved inputs) (Level 3).

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

(r) New accounting policies adopted in the current period:

Adoption of IFRS 16, Leases ("IFRS 16")

IFRS 16 was issued in January 2016 and applies to annual financial reporting periods beginning on or after January 1, 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 replaces IAS 17, *Leases*, and related interpretations. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. All leases result in the lessee obtaining the right to use an asset at the start of the lease and incurring a financing obligation corresponding to the lease payments to be made over time.

The adoption of IFRS 16 did not have an impact on the Company's consolidated financial statements for the year ended December 31, 2019.

3. Significant accounting policies (continued):

(s) Future changes to significant accounting policies:

Certain standards, amendments and interpretations have been issued but are not yet effective up to the date of the issuance of these consolidated financial statements. Such issued standards and interpretations are not expected to have a material impact on the Company's consolidated financial statements.

4. Critical accounting judgments, estimates and assumptions:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that effect the reported amounts in the consolidated financial statements. Management bases its judgments, estimates and assumptions on factors it believes to be reasonable in the circumstances, but which may be inherently uncertain and unpredictable. The uncertainty of these judgments, assumptions and estimates could results in actual results that differ from the estimates and outcomes that require a material adjustment to the carrying amount of assets and liabilities in the future.

(a) Judgements:

The following are critical accounting judgments that have been made in applying the Company's accounting policies:

(i) Business combinations:

The Company acquires interests in entities that own investment properties. At the time of acquisition, the Company considers whether the acquisition represents a business combination or acquisition of a group of assets and liabilities. The Company accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the investment property. When the acquisition does not represent a business combination, it is accounted for as an acquisition of a group of assets and liabilities, and the acquisition cost is allocated to the assets and liabilities acquired based on their relative fair values at the acquisition date. The Company may elect to use the concentration test as permitted and defined in the amendment to IFRS 3 to assess if a transaction could be accounted for as an asset acquisition

(ii) Investment properties:

The Company's accounting policy relating to investment properties is described in note 3(d). In applying this policy, judgment is applied to determine the significant components of each property, including the useful lives over which the componentized assets are to be amortized.

4. Critical accounting judgments, estimates and assumptions (continued):

(a) Judgements: (continued)

(iii) Going concern:

The assessment of the Company's ability to continue on a going concern basis, to obtain sufficient funds to cover ongoing operating expenses and to meet its obligations for the coming year involves a large part of judgment based on past experience and other factors, including expectations of future events that are considered reasonable in the circumstances.

(b) Estimates:

The significant areas of estimation include the following:

(*i*) Fair value of the investment properties:

The fair value of investment properties disclosed in note 5 is determined by management.

The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets (i.e., tenant profiles, future revenue streams and overall repair and condition of the property), discount rates applicable to those assets' cash flows and capitalization rates. These estimates are based on market conditions existing at the reporting date.

(*ii*) Convertible debentures:

For convertible debentures containing an equity component, the Company assesses the value of the debt component which is calculated at the estimated fair value of the future interest and principal payments due under the terms of the convertible debentures, using an estimated discount rate based on Management's estimated cost of capital.

For convertible debentures which do not contain an equity component, the Company is required to estimate the fair value of the embedded derivative liability which is calculated based on using a model which considers inputs requiring significant judgement.

(Expressed in Canadian dollars)

5. Investment properties:

	2019	2018
Balance, beginning of year	$ 41,050,682	$ 22,952,025
Cost of acquisition[1]	-	16,384,593
Capital additions	640,384	172,285
Depreciation	(1,443,931)	(933,627)
Foreign currency translation	(1,903,366)	2,475,406
Balance, end of the year	$ 38,343,769	$ 41,050,682

(1) relates to the value of the investment properties of Martin Downs NSC, LLC, following acquisition of control by the Company in October 2018 as described hereunder.

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

The acquisition cost of $11,803,610 (US$9,100,000) before standard closing costs and adjustments was financed with a $7,886,368 (US$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 9). The seller was at arm’s length to the Company.

(b) On August 31, 2016, the Company completed the purchase of a 100% interest in 116th Street Centre, a retail real estate property located in Carmel, Indiana.

The acquisition cost of $12,894,330 (US$9,825,000) before standard closing costs and adjustments was financed in part through a first mortgage of $9,154,974 (US$6,975,750) with the remainder provided by $3,301,358 (US$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. The bridge loans were settled in January 2018.

(c) On September 15, 2015, the Company acquired a 49% interest in Martin Downs NSC, LLC, which holds Martin Downs Town Center (“MTDC”), a retail real shopping center located in Palm Springs, Florida for total consideration, including transaction costs, of $3,146,172 (US$2,369,075), paid by issuance of common shares. The Company’s interest is held through its wholly-owned subsidiary, Realia US, Inc. Martin Downs NSC, LLC being jointly controlled by the partners, the Company accounted for its interest under the equity method.

On August 31, 2018, the Company acquired an additional 9% ownership interest for $1,304,750 (US$1,000,000), for a note payable still outstanding as at December 31, 2019 (note 7.(d)).

5. Investment properties (continued):

On October 17, 2018, the Company acquired an additional 41% interest. The acquisition was a result of the Company exercising an option from the original 2015 Purchase and Sales agreement. In consideration for the acquisition cost of $3,710,875, the Company issued 38,459,269 common shares as at February 22, 2019. As of October 17, 2018, the Company holds 99% in Martin Downs NSC, LLC and therefore, is deemed to have acquired control and therefore, begin to consolidate Martin Downs NSC, LLC at the time of the acquisition of the additional 41% interest.

It was determined, using the optimal concentration test permitted in the amendments of IFRS 3 that the Company early adopted as at January 1, 2018, that the transaction was not a business acquisition. Therefore, the transaction was accounted for at cost, as an asset acquisition, without remeasurement of the previously held equity interest in Martin Downs NSC, LLC.

The estimated fair value of the Company's investment properties at December 31, 2019 was $42,854,010 (US$32,990,000) and at December 31, 2018 was $45,002,100 (US$33,000,000).

(Expressed in Canadian dollars)

6. Interests in joint ventures and associates:

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

	2019	2018
Interest in joint ventures and associates, beginning of year	$ -	$ 7,109,300
Additions [1]	-	5,012,874
Distributions	-	(465,212)
Disposal of interests in joint ventures	-	(4,458,778)
Disposal of an interest in joint ventures following acquisition of control	-	(7,401,868)
Share of income (loss) for the year	-	109,540
Foreign currency translation	-	94,144
Interest in joint ventures and associates, end of year	$ -	$ -

[1] represents the acquisitions of the additional 9% interest in Martin Downs NSC, LLC in August 2018 and the additional 41%, in October 2018

At December 31, 2019 and 2018, the Company no longer held any interests in joint venture interests and associates.

For the year ended December 31, 2018:

	DSC	ADL	MDTC	Total
Revenue, including operating recoveries	$ 38,556	$ -	$ 1,454,794	$ 1,493,350
Operating and leasing expenses	(42,644)	-	(463,100)	(505,744)
Depreciation	(38,913)	-	(317,251)	(356,164)
Interest expense	(19,002)	-	(386,462)	(405,464)
Net income (loss) at 100%	$ (62,004)	$ -	$ 287,981	$ (225,977)
Company's share	**$ (31,002)**	**$ -**	**$ 140,542**	**$ 109,540**

As at December 31, 2018, DSC has sold its interest in the real estate property it was holding.

7. Notes payable:

(Expressed in Canadian dollars)

	2019	2018
Titanstar Finance Inc. (a) (b)	$ -	$ 400,000
Round Table Management	-	400,000
Martin Downs GP, LLC	1,299,000	1,302,000
Total notes payable	$ 1,299,000	$ 2,102,000

(a) On August 31, 2016, the Company entered into an agreement with Titanstar Finance Inc., a private company which, at the time, was related through common directors, to borrow an aggregate amount of $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 bore interest at a fixed rate of (i) 8% per annum for the first three month period commencing on the date that the lender advanced any portion of the principal amount and ending on the interest adjustment date which was three months after the completion of the acquisition, and (ii) 10% per annum from and including the interest adjustment date until all indebtedness owing was repaid. The note matured on August 31, 2017 and was extended to January 15, 2018. On January 11, 2018, the Company paid $600,000 and the residual $400,000 was replaced on February 22, 2018 (note 7.(b)).

7. Notes payable (continued):

(b) On February 22, 2018, the Company entered into an agreement with Titanstar Finance Inc., a private company which, at the time, was related through common directors, to borrow an aggregate amount of $400,000 for the purpose of funding working capital requirements, as a replacement of the residual $400,000 due on a previously issued note payable (note 7.(a)).

The note payable bore interest at a fixed rate of 7.5% per annum commencing on the date that the lender advanced any portion of the principal amount and ending when all indebtedness owing was repaid. The note payable was settled on September 20, 2019, as part of the litigation settlement (Note 19).

(c) On February 23, 2018, the Company entered into an agreement with Round Table Management, a private company which, at the time, was related through common directors, to borrow an aggregate amount of $400,000. Proceeds of the loan were used to settle outstanding indebtedness to another director.

The note payable bore interest at a fixed rate of 7.5% per annum commencing on the date that the lender advanced any portion of the principal amount and ending when all indebtedness owing was repaid. The note payable was settled on September 20, 2019 , as part of the litigation settlement (Note 19).

(d) On August 31, 2018, concurring with the refinancing of the mortgage loan related to Martin Downs Town Center, the Company acquired an additional 9% interest in Martin Downs NSC, LLC from the Martin Downs GP, LLC, a private entity in which one of the Company's officers is a partner for an amount of $1,304,750 (US$1,000,000).

Correspondingly, the US$1,000,000 note payable to Martin Downs GP, LLC to finance the 9% ownership interest acquisition bears interest at a rate of 10%. The note matured on August 30, 2019 and was extended to February, 2020 in exchange for an extension fees of $21,053 (US$15,000). Subsequent to year-end, the note was further extended to August 31, 2020 in exchange for extension fees of $20,124 (US$15,000). The Company may, from time to time, repay all or any part of the amount due without penalty.

(Expressed in Canadian dollars)

8. Mortgages payable:

	2019	2018
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 monthly payments of US$36,515, capital and interest	$ 8,752,648	$ 9,336,923
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 monthly payments of US$34,724, capital and interest	7,564,043	8,058,354
Mortgage payable bears a floating interest rate, the greater of 1-month LIBOR plus 4.95% (6.71% as at December 31, 2019; 7.45% at December 31, 2018) or 7.075%, maturing on April 29, 2021 (a)	11,691,000	12,273,300
	28,007,691	29,668,577
Less: deferred financing costs	(84,495)	(359,090)
Less: current portion	(11,937,966)	(12,269,126)
	$ 15,985,230	$ 17,040,361

(a) The original maturity date of the mortgage payable was August 20, 2019. A first amendment to the mortgage loan agreement extended the maturity date to February 29, 2020, and a second amendment extended again the maturity date to April 29, 2020. An extension fee of $59,706 (US$45,000) was charged by the lender, payable at maturity. A third amendment to the mortgage loan agreement extended the current maturity date to April 29, 2021.

The mortgages payable are recorded at amortized cost and bear a weighted average effective interest rate of 6.12% as at December 31, 2019 (2018 – 6.06%). The mortgages payable are secured by the Company's investment properties.

Principal repayments, as of December 31, 2019, based on scheduled repayments to be made on the mortgages payable over the next five years and thereafter are as follows:

2020	$ 11,955,893
2021	7,602,968
2022	163,907
2023	172,029
2024	179,442
Thereafter	7,933,452

(Expressed in Canadian dollars)

	$ 28,007,691

8. Mortgages payable (continued):

For the year ended December 31, 2019, the Company incurred $1,759,823 (2018 - $1,053,406) of interest on the mortgages payable, which is included in finance costs (note 14).

9. Convertible debentures:

(a) Non-related parties:

	2019	2018
Liability, beginning of year	$ 4,294,371	$ 4,492,969
Accretion	134,612	80,051
Impact of convertible debenture modification	-	(278,649)
Liability, end of year	4,428,983	4,294,371
Transaction costs, beginning of year	(124,910)	(134,167)
Amortization of transaction costs	71,377	152,011
Debt modification - transaction costs	-	(142,754)
Transaction costs, end of year	(53,533)	(124,910)
Convertible debentures	$ 4,375,450	$ 4,169,461

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 were set to mature on September 30, 2018. Interest at the initial 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.

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)

9. Convertible debentures (continued):

(a) Non-related parties (continued):

On September 28, 2018, the Debenture holders approved an Extraordinary Resolution authorizing (i) the maturity extension of the Debentures from September 30, 2018 to September 30, 2020; (ii) a reduction in the conversion price at which the Debenture may be converted into common shares of the Corporation from $0.08125 to $0.06 per common share; and (iii) an increase of the interest rate payable on the Debentures from 8.5% per annum to 9.5% per annum, which took effect as of October 1, 2018.

This transaction was accounted for as a debt extinguishment due to substantial modifications made to the original debt. Therefore, convertible debentures of $4,542,000 as at September 28, 2018 were derecognized and a new liability of $4,263,350 and an equity component of convertible debentures of $278,649 were accounted for, resulting in a gain on debt extinguishment of $222,510 in the consolidated statement of income (loss) and comprehensive loss. The Company determined the fair value of the new liability based on the net present value of future cash flows using a discount rate of 13%.

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

	2019	2018
Principal, beginning of year	$ 4,542,000	$ 4,542,000
Principal, end of year	$ 4,542,000	$ 4,542,000

For the year ended December 31, 2019, the Company incurred $431,490 (2018 - $398,187) of interest on the convertible debentures, which is included in finance costs (note 14).

As a condition of the convertible debentures, the Company is required to maintain a debt service coverage ratio.

As a condition of the convertible debentures, the Company is required to maintain a debt service coverage ratio. At the end of each fiscal quarter in 2019 and as of year-end 2019, the Company was in compliance with the covenant.

(Expressed in Canadian dollars)

9. Convertible debentures (continued):

(b) Related parties:

	2019	2018
Liability, beginning of year	$ -	$ 2,384,113
Settlement of debt	-	(2,384,113)
Liability, end of year	-	-
Transaction costs, beginning of year	-	-
Amortization of transaction costs	-	-
Settlement of debt	-	-
Transaction costs, end of year	-	-
Convertible Debentures	$ -	$ -

(*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 were held by companies which were related by common directors. The interest owing on the debentures was modified from 9.0% to 7.5% per annum on October 22, 2014.

On January 10, 2018, the Company settled the $2.5 million convertible unsecured subordinated debentures and payables to Titanstar Finance Inc. of $740,044 (including Notes Payable of $600,000, Loan facility of $120,000, financing fees of $15,000 and interest expense) from its share of the proceeds from the sale of DSC. The convertible unsecured subordinated debentures had a carrying value of $2,384,113. As a result, the difference (net of transaction costs and accretion) of $110,887 has been recorded as a loss on settlement of financial liabilities in the consolidated statement of income (loss) and comprehensive loss.

On January 22, 2018, the Company issued 523,116 common shares at a deemed price of $0.10 per share to settle a total of $52,311 of accrued interest on the convertible unsecured subordinated debenture. The shares were issued at a fair value of $18,309. As a result, the difference of $34,002 has been recorded as gain on settlement of financial liabilities in the consolidated statement of income (loss) and comprehensive loss. For the year ended December 31, 2019, the Company incurred $Nil (2018 - $13,093) of interest on the convertible debentures due to related parties. The Company holds no convertible debentures – related parties as of December 31, 2019.

(Expressed in Canadian dollars)

10. Related party balances and transactions:

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

	2019	2018
Due to Hoche Private Equity Investors SARL (b) (c)	$ 151,960	$ 154,548
Due to Inovalis USA LLC (d)	135,313	-
	$ 287,273	$ 154,548

Included in accounts payable and accrued liabilities is $18,906 of accrued interest charges (2018 - $7,592) owing to private companies related through common directors.

(a) Key management personnel compensation

	2019	2018
Former CFO:		
Consulting fees	$ -	$ 21,000
Current CFO:		
Consulting fees	79,737	44,340
Corporate Secretary:		
Consulting fees	66,140	31,751
	$ 145,877	$ 97,091

Key management personnel include the members of the Board of Directors and executive officers of the Company.

(b) Loan facility:

On April 4, 2018, the Company obtained a loan facility for up to $100,000. Under the terms of the loan facility, the Company may draw from time to time from April 4, 2018 to December 31, 2018, 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 $3,000. The Company is currently pursuing negotiation for the extension of the maturity of the loan facility.

The Company drew $100,000 in 2018 under this loan facility. The loan remains outstanding at December 31, 2019.

10. Related party balances and transactions (continued):

(c) Down payment:

On July 6, 2018, a private company of which the Chairman of the Board of the Company is a principal provided a $52,336 (US$40,000) down payment for the refinancing of the Martin Downs mortgage. The down payment is repayable upon demand.

(d) Asset Management and Disposition Fees – Martin Downs:

On July 22, 2013, Martin Downs NSC, LLC entered into a management agreement with Inovalis USA LLC, pursuant to which Inovalis USA LLC provided management services to Martin Downs NSC, LLC with respect to the investment properties it holds. As payment for its services, Inovalis USA LLC was entitled, until October 31, 2018, to 1% of gross revenues collected, as asset management fees. Inovalis USA LLC was also entitled to a 1% disposition fee associated with the sale of its ownership interest in Martin Downs to the Company. On September 30, 2019, the Company formally terminated the management agreement with Inovalis USA LLC and the associated fees became due (management fee – $84,700 (US$63,975) and disposition fee – $53,213 (US$40,192).

(e) Non-biding 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.

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.

On May 30, 2018, the Board of Directors approved the payment of all asset management fees up to March 31, 2018, but that asset management fees would not be paid going forward. Payment was made in shares.

For the year ended December 31, 2018 the Company recorded $2,125 to Titanstar Capital and $14,028 to Inovalis for management fees pursuant to the non-binding term sheet.

(Expressed in Canadian dollars)

11. Share capital:

At December 31, 2019 and 2018, 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.

	December 31, 2019		December 31, 2018	
	Common shares	Amount	Common Shares	Amount
Issued and outstanding, beginning of year	216,761,868	$ 21,612,003	214,249,087	$ 17,852,974
Share issue – debt settlement (a) (b)	-	-	2,512,781	48,154
Share issue – additional interest in Martin Downs NSC, LLC (c)	38,459,269	-	-	3,710,875
Issued and outstanding, end of year	255,221,137	$ 21,612,003	216,761,868	$ 21,612,003

During the years ended December 31, 2018 and 2019, the following share transactions occurred:

(a) The Company issued 1,989,665 common shares to TitanStar Capital and Inovalis, as settlement of amounts charged in relation to non-binding term sheet (Note 10.e)). The shares were issued at a fair value of $29,845 in settlement of financial liabilities of the Company of $119,379 and as a result $89,535 has been recorded as a gain on settlement of financial liabilities in the consolidated statement of income (loss) and comprehensive loss.

(b) The Company issued 523,116 common shares to Round Table Management as settlement of $52,311 accrued interest charged on the $1.25M convertible debentures. The shares were issued at a fair value of $18,309 , the difference of $34,002 was recorded as gain on settlement of financial liabilities in the consolidated statement of income (loss) and comprehensive loss.

(c) With respect to the acquisition in October 2018 of the additional 41% interest in Martin Downs NSC, LLC (Note 5c), the Company issued 38,459,269 common shares on February 22, 2019 to Inovalis and Hoche. As these common shares were not yet issued as at December 31, 2018 as the Company was waiting for final approval from regulatory authorities, the shares were presented as share capital to be issued in the consolidated statement of changes in shareholders' equity. The shares were issued at a fair value of $3,710,875.

12. Share options:

The Company's 2008 stock 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. On July 12, 2019, the board of directors of the Company adopted a modification to the plan to adopt a 2% fixed stock option plan of up to a maximum of 5,104,422 options available for issuance. The exercise price of an option will be determined by the board of directors but will, in

(Expressed in Canadian dollars)

12. Share options (continued):

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.

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

	December 31, 2019		December 31, 2018	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Outstanding, beginning of year	360,000	$ 0.06	1,920,000	$ 0.07
Share options expired	-	-	(1,560,000)	0.08
Outstanding, end of year	360,000	$ 0.06	360,000	$ 0.06
Share options exercisable	360,000		360,000	
Weighted average remaining life (years)	5.58		6.58	
Weighted average remaining life (years) - vested	5.58		6.58	

Total share-based compensation expense recognized for the year was $Nil (2018 - $Nil).

Share options vested and share options outstanding for the year ended December 31, 2019 are summarized as follows:

Share options outstanding	Share options vested	Exercise price	Remaining contractual life (years)
360,000	360,000	0.06	5.58

13. General and administrative expenses:

	2019	2018
Insurance	$ 16,900	$ 25,635
Bank charges	2,887	2,979
Filing fees	27,810	23,675
Office costs	62,557	90,701
Management fees (note 10e)	-	16,153
Professional fees	635,374	495,956
Travel	1,784	6,992
	$ 747,312	$ 661,731

(Expressed in Canadian dollars)

14. Finance costs:

	2019	2018
Interest on long-term debt and notes payable	$ 2,379,944	$ 1,563,798
Financing fees	5,364	4,566
Amortization of transaction costs	71,377	152,011
Accretion of convertible debenture – non-related parties	134,612	80,051
Interest income	-	(12,816)
	$ 2,591,296	$ 1,787,610

15. Earnings per share:

The weighted average basic and diluted common shares outstanding for the year ended December 31, 2019 are 249,636,640 (2018 - 215,809,093). The share options and convertibles debentures were excluded from the diluted net income per common shares as their effect would be anti-dilutive.

16. Capital management:

The Company's objectives when managing capital of $38,919,212 (2018 - $43,563,143), which is share capital, contributed surplus, equity component of convertible debentures, accumulated other comprehensive income, deficit, notes payable, mortgages payable, due to related parties, convertible debentures 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.

(Expressed in Canadian dollars)

17. Risk management and fair values:

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

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

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

(a) Liquidity risk:

Liquidity risk is the risk that the Company cannot meet its financial obligations associated with financial liabilities in full.

The Company's financial liabilities include accounts payable and accrued liabilities, convertible debentures, mortgages payable, due to related parties, and notes payable.

The following table provides the future non-discounted scheduled payments of financial liabilities, including estimated interest payments:

Year ended December 31,	2020	2021	2022	2023	2024 and thereafter
Mortgages payable	$13,352,899	$ 8,154,704	$ 569,196	$ 569,196	$ 9,150,022
Convertible debentures payable	4,865,617	-	-	-	-
Notes payable	1,385,600	-	-	-	-
Accounts payable and accrued liabilities	1,143,514	-	-	-	-
Due to related parties	287,273	-	-	-	-
Total	$21,034,904	$ 8,814,704	$ 569,196	$ 569,196	$ 9,150,022

In order to meet the 2020 obligations, the Company is pursuing a sale of a portion of its interest in its properties to raise equity. The Company intends to retain 25% interest in each property and receive asset management fees for managing the portfolio.

(Expressed in Canadian dollars)

17. Risk management and fair values (continued):

(b) 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 financial instruments, known as interest rate cash flow risk, or on the fair value of other financial instruments, known as interest rate price risk.

As at December 31, 2019 and 2018, the Company is not exposed to changes in market interest rates as all its borrowings are at fixed interest rate. Therefore, changes in market interest rate do not have a significant impact on interest expense. The Company is exposed to the risk of change in fair value arising from interest rate fluctuations.

(c) Credit risk:

Credit risk arises from the possibility that debtors or tenants may be unable to fulfill their commitments. For a financial asset, this is typically the gross carrying amount, net of any amounts offset and any impairment losses. The Company has credit policies to address credit risk on accounts receivable (tenants), which may include the analysis of the financial position of the debtor or tenant and review of credit limits. The Company also may review credit history before establishing credit and review credit performance. In the case of a tenant, management carefully watches and monitors rent payments which are due each month. An allowance for expected credit losses 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 expected credit losses.

(d) 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 on transactions denominated in currencies other than the functional currency of each of the group's entities. Changes in the applicable exchange rates 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, but no forward contracts exist as at December 31, 2019 and 2018.

The Canadian dollar equivalent of monetary assets and liabilities exposed to the foreign exchange risk are as follows:

	2019	2018
Cash	$ 9,359	$ 162,698
Notes payable	1,299,000	1,302,000
Accounts payable	60,215	102,069

(Expressed in Canadian dollars)

17. Risk management and fair values (continued):

(d) Foreign exchange risk (continued):

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 income and equity for the year ended December 31, 2019 of approximately $62,455 (2018 – $68,146).

(e) 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 consolidated statement of financial position or for which fair value disclosure is required in the notes to the consolidated financial statements are classified based on a three-level hierarchy as detailed in note 3(q).

For assets and liabilities that are recognized at fair value in the consolidated 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.

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.

	December 31, 2019		December 31, 2018	
	Carrying value	Fair value	Carrying value	Fair value
Investment properties	$38,343,769	$42,854,010	$41,050,682	$45,002,100
Mortgages payable	$28,007,691	$28,642,170	$29,309,487	$29,932,820
Convertible debt	$4,375,450	$4,375,450	$4,169,461	$4,169,461

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, accounts receivable, accounts payable and accrued liabilities, notes payable and due to related parties approximate their fair value due to the relatively short periods to maturity of these items or because they are receivable or payable on demand.

17. Risk management and fair values (continued):

(*ii*) Mortgages payable and convertible debentures

The fair values of the mortgages payable and convertible debentures 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 year ended December 31, 2019.

(Expressed in Canadian dollars)

18. Income taxes:

A reconciliation between the statutory Canadian income tax rate and the actual effective rate is as follows:

	2019	2018
Net loss before income taxes	$ (2,325,678)	$ 1,743,259
Basic statutory tax rate	27.00%	27.00%
Expected income taxes (recovery)	(627,933)	470,679
Adjustments resulting from:		
Items non-deductible for income tax purposes	18,173	492
Change in deferred tax asset not recognized	589,113	(355,229)
Prior year adjustments and other	9,991	18,089
Tax rate differences outside Canada	10,656	(4,752)
JV reclass to Investment Property	-	(129,279)
Total income taxe expense (recovery)	$ -	$ -

The significant components of the Company's deferred income tax assets (liabilities) are as follows:

	2019	2018
Investment properties	-	(175,159)
Convertible debentures	(15,257)	(33,430)
Non-capital losses	15,257	208,589
Net Deferred income tax assets (liabilities)	$ -	$ -

(Expressed in Canadian dollars)

18. Income taxes (continued):

Unrecognized deferred tax assets:

	2019	2018
Investment properties	$ 51,661	$ -
Non capital losses carryforwards (Canada)	3,385,803	1,297,989
Non capital losses carryforwards (US)	7,356,916	7,702,129
Tax value of intangible assets	579,383	1,129,796
Deferred financing costs	179,543	309,866
Interest not currently deductible	-	390,700
	$ 11,553,306	$ 10,330,480

As at December 31, 2019, the Company has non-capital losses in Canada of approximately $3,385,803 and in the USA of $7,356,916 that may be applied against future income for income tax purposes. The future benefits from these Canadian and U.S. tax losses have not been recorded in these consolidated financial statements due to uncertainty associated with their recovery.

19. Contingencies:

On July 19, 2018, the Company announced that a Notice of Civil Claim has been filed with the Supreme Court of British Columbia by its former directors and certain entities owned by the former directors against the Company and certain of its current shareholders and directors with respect to:

- an alleged breach of the Shareholder Agreement between the former directors of the Company and the Company
- an alleged breach of the Trade-Name License Agreement and the Domain Name License Agreement between the Company and a company owned by one of the former directors of the Company

The action sought, among other relief, a declaration that the former directors and their entities are no longer required to make any payments to the Company under a loan agreement that was entered into concurrently with the Shareholder Agreement

On August 24, 2018, the Company filed a Response to Civil Claim and a Counterclaim in the Supreme Court of British Columbia in response to the Notice of Civil Claim announced on July 19, 2018. The Company's position in the Response was that:

- it was not in breach of the Shareholder Agreement between the Plaintiffs, the Company and certain of its shareholders

19. Contingencies (continued):

- it was not in breach of the financing agreements between the Plaintiffs, the Company and certain of its shareholders
- it was not in breach of the Trade-Name License Agreement and the Domain Name License Agreement between the Company and TitanStar Investment Group Inc.

On September 18, 2018, the Company received a Response to Counterclaim whereas the defendants in the Counterclaim denied all claims.

On September 9, 2019, the Civil Claim and Counterclaim were settled without admission of guilt by either party and the parties agreed to the repayments by the Company of the notes payables (Note 7) and a settlement payment of $411,626.

20. Subsequent events:

Subsequent to year-end, an outbreak of a new strain of coronavirus (COVID-19) resulted in a major global health crisis which continues to have impacts on the global economy and the financial markets at the date of completion of the financial statements.

These events are likely to cause significant changes to the assets or liabilities in the coming year or to have a significant impact on future operations. As the Company owns retail strip centers, several of the tenants have been deemed non-essential and have been required to close. The Company is actively working with the lenders, loan servicers and tenants to emerge from the crisis together. However, it is impossible to determine the financial implications of these events for the moment.