Condensed consolidated interim financial statements of

Delavaco Residential Properties Corp.

(formerly Sereno Capital Corporation)

Three month periods ended March 31, 2014, and 2013 (Unaudited)

(In US Dollars)

Notice of No Auditor Review of Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The management of Delavaco Residential Properties Corp. is responsible for the preparation of the accompanying condensed consolidated interim financial statements. The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards and are considered by management to present fairly the consolidated financial position, operating results and cash flows of the Company.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor. These financial statements include all adjustments, consisting of normal and recurring items, that management considers necessary for a fair presentation of the consolidated financial position, results of operations and cash flows.

"Andrew DeFrancesco"	"Michael Galloro"
Andrew DeFrancesco	Michael Galloro
Chief Executive Officer	Chief Financial Officer

May 29, 2014

Delavaco Residential Properties Corp. (formerly Sereno Capital Corporation)

Condensed Consolidated Interim Statements of Financial Position
(Expressed in US Dollars)

	March 31, 2014	December 31, 2013 (restated - note 4)
Assets	$	$
Current assets		
Cash and cash equivalents	1,363,875	4,757,929
Accounts receivable, net (note 6)	512,140	358,285
Other assets (note 7 and 19)	1,587,631	1,563,308
Prepaid expenses	414,742	579,733
Assets held for sale (note 20)	3,649,533	3,649,533
Total current assets	7,527,921	10,908,788
Non-current assets		
Promissory note receivable (note 19)	4,303,248	4,303,248
Investment properties (note 8)	98,279,744	96,310,668
Property and equipment, net (note 9)	62,994	66,963
Total non-current assets	102,645,986	100,680,879
Total assets	110,173,907	111,589,667
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	2,900,706	3,301,212
Current portion of mortgages payable (note 14)	105,066	86,076
Derivative financial instruments (note 15)	1,491,375	1,948,095
Liabilities associated with assets held for sale (note 20)	37,062	79,727
Total current liabilities	4,534,209	5,415,110
Non-current liabilities		
Mortgages payable (note 12)	15,107,256	15,139,275
Notes payable (note 10)	23,098,828	22,918,429
Convertible debentures payable (note 11)	18,328,707	18,189,233
Deferred tax liability	270,465	550,815
Total liabilities	61,339,465	62,212,862
Shareholders' Equity		
Share capital (note 13)	47,981,412	47,981,412
Contributed surplus	17,140	17,140
Equity portion of convertible debentures (note 11)	1,549,831	1,549,831
Accumulated foreign currency translation reserve	3,331,940	3,331,940
Deficit	(4,045,881)	(3,503,518)
Total shareholders' equity	48,834,442	49,376,805
Total liabilities and shareholders' equity	110,173,907	111,589,667

Subsequent events (note 23)

Approved by the Board "Andrew DeFrancesco" Director **(Signed)** "Keith Ray" Director **(Signed)**

See accompanying notes to the condensed consolidated interim financial statements

Delavaco Residential Properties Corp. **(formerly Sereno Capital Corporation)**

Condensed Consolidated Inteirm Statements of Loss and Comprehensive Loss
Three month periods ended March 31, 2014, and 2013
(Expressed in US Dollars)

	March 31, 2014	March 31, 2013 (restated - note 4)
	$	$
Revenue		
Rental	2,419,860	1,255,152
Operating expenses		
Operating costs	1,240,548	553,160
Utilities	146,677	104,068
Property taxes	246,721	114,731
	(1,633,946)	(771,959)
Net rental income	785,914	483,193
General and administrative	627,730	729,296
Professional fees	288,879	184,698
Net finance costs (notes 10, 11, 12 & 19)	1,242,527	1,721,450
Amortization (note 9)	7,295	29,459
	2,166,431	2,664,903
	(1,380,517)	(2,181,710)
Other income (expenses)		
Transaction costs (note 21)	(290,814)	(669,760)
Foreign exchange loss	(23,058)	(548,386)
Fair value adjustments of investment properties (note 8)	414,956	1,255,522
Fair value gain on derivative financial instruments (note 15)	456,720	-
Share-based compensation (note 14)	-	(49,691)
Net loss before income taxes	(822,713)	(2,194,025)
Income tax recovery	(280,350)	(346,051)
Net loss for the period	(542,363)	(1,847,974)
Other comprehensive income		
Foreign currency translation	-	541,682
Comprehensive loss for the period	(542,363)	(1,306,292)
Loss per share		
Basic (note 16)	(0.01)	(0.08)
Diluted (note 16)	(0.01)	(0.08)

See accompanying notes to the condensed consolidated interim financial statements

Delavaco Residential Properties Corp. (formerly Sereno Capital Corporation)

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
Three month periods ended March 31, 2014, and 2013
(Expressed in US Dollars)

	Share capital	Warrants	Contributed surplus	Equity portion of convertible debentures	Accumulated foreign currency translation reserve	Retained earnings	Total
	$	$	$	$	$	$	$
Balance at December 31, 2012	19,445,529	1,369,182	737,090	-	3,445	4,496,012	26,051,258
Share-based compensation (Note 14)	-	-	49,691	-	-	-	49,691
Other comprehensive income for the period	-	-	-	-	541,682	-	541,682
Net loss for the period	-	-	-	-	-	(1,847,974)	(1,847,974)
Balance at March 31, 2013	19,445,529	1,369,182	786,781	-	545,127	2,648,038	24,794,657
Balance at December 31, 2013	47,981,412	-	17,140	1,549,831	3,331,940	(3,503,518)	49,376,805
Net loss for the period	-	-	-	-	-	(542,363)	(542,363)
Balance at March 31, 2014	47,981,412	-	17,140	1,549,831	3,331,940	(4,045,881)	48,834,442

See accompanying notes to the condensed consolidated interim financial statements

Delavaco Residential Properties Corp. (formerly Sereno Capital Corporation)

Condensed Consolidated Interim Statements of Cash Flows
Three month periods ended March 31, 2014, and 2013
(Expressed in US Dollars)

	March 31, 2014	March 31, 2013 (restated - note 4)
	$	$
Operating activities		
Net Loss for the year	(542,363)	(2,194,025)
Add (Deduct):		
Amortization (note 9)	7,295	29,459
Share-based compensation (note 14)	-	49,691
Accretion expense	319,873	1,074,189
Fair value gain on investment properties (note 8)	(414,956)	(1,255,522)
Fair value gain on derivative financial instruments (note 15)	(456,720)	-
Deferred taxes	(280,350)	-
Changes in non-cash operating working capital:		
Accounts receivable, net	(153,855)	68,556
Other assets	168,527	(78,166)
Prepaid expenses	164,991	(72,379)
Accounts payable and accrued liabilities	(443,171)	86,308
Total operating activities	(1,630,729)	(2,291,889)
Investing activities		
Acquisition of investment properties (note 8)	(1,554,120)	(4,188,763)
Acquisition of property and equipment (note 9)	(3,326)	(2,313)
Investment properties deposits in escrow (note 7)	(192,850)	(360,545)
Proceeds from disposition of investment properties	-	2,739,501
Total investing activities	(1,750,296)	(1,812,120)
Financing activities		
Deferred transaction costs	-	(43,832)
Mortgages repayments	(13,029)	-
Total financing activities	(13,029)	(43,832)
Decrease in cash and cash equivalents	(3,394,054)	(4,147,841)
Cash and cash equivalents, beginning of period	4,757,929	8,379,360
Effects of exchange rate changes on the balance of cash held in foreign currency	-	587,559
Cash and cash equivalents, end of period	1,363,875	4,819,078

See accompanying notes to the condensed consolidated interim financial statements

1. Nature of operations

Delavaco Residential Properties Corp. (formerly Sereno Capital Corporation) ("Sereno") was incorporated under the Business Corporation Act (Ontario) on March 19, 2007. On December 30, 2013, Sereno was acquired by Delavaco Properties Inc. ("DPI") in a reverse takeover transaction (note 5) and changed its name to Delavaco Residential Properties Corp. (the "Company" or "DRPC"). The Company is listed on the TSX Venture Exchange ("TSXV") under the trading symbol "DVO.U". The address of the Company's registered office is 130 King Street West, Suite 2210, Toronto, Ontario, M5X 1A9.

DRPC is a real estate company where the revenues are derived from, the ownership, management and rental of residential real estate properties in the United States of America, principally in the south.

The consolidated financial statements were authorized for issue by the Board of Directors on May 23, 2014.

2. Basis of preparation

Statement of compliance

The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting ("IAS 34") as issued by the IASB and, except as described in Note 3, follow the same accounting policies and methods of application as the annual consolidated financial statements of the Company for the year ended December 31, 2013. These condensed consolidated interim financial statements do not contain all disclosures required by IFRS and accordingly should be read in conjunction with the 2013 annual consolidated financial statements and the notes thereto.

Basis of presentation

The unaudited condensed consolidated interim financial statements are prepared on a going concern basis and have been presented in US dollars which is the Company's reporting currency. Standards and guidelines not effective for the current accounting period are described in note 3.

Basis of measurement

The condensed consolidated interim financial statements have been prepared on the cost basis except as otherwise noted.

Basis of consolidation

The condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation. Subsidiaries are consolidated from the date control commences until control ceases.

Functional currency

As at December 31, 2013, the Company and all of its subsidiaries' functional currencies are the US Dollar ("USD"). On December 30, 2013, in conjunction with the reverse takeover transaction, the Company and DPI changed their functional currencies prospectively from the Canadian Dollar ("CAD") to the USD, as the Company completed a private placement and commenced trading on the TSXV, both in USD.

3. Future accounting policy changes

IFRS 9 Financial Instruments ("IFRS 9") was issued by the IASB on November 12, 2009 and revised October 2010, and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

(Expressed in US Dollars unless otherwise noted)

4. Changes in accounting policies and prior year reclassification

In December, 2013, the Company voluntarily elected to change its accounting policy for measuring its investment properties from the historical cost model to the fair value model, under which the properties will now be recognized at cost on acquisition and re-measured to fair value at the end of each reporting period with changes recorded in the condensed consolidated interim statement of loss and comprehensive loss.

As a result certain numbers have been reclassified and adjusted for the three month period ended, March 31, 2013, to conform to the change in policy. The following provides a reconciliation for the change in policy of the statement of loss and comprehensive loss:

Statement of loss and comprehensive loss for the thee months ended March 31, 2013

	Balance as previously reported	**Adjustment**	**Adjusted balance**
Loss for the period (excluding the below items)	(3,420,088)	-	(3,420,088)
Amortization	(440,816)	411,357	(29,459)
Gain (loss) on disposition of investment properties	336,505	(336,505)	-
Gain on revaluation of investment properties	-	1,255,522	1,255,522
Income tax recovery	-	(346,051)	346,051
Net income for the period	(3,524,399)	984,323	(1,847,974)

5. Reverse takeover transaction

On December 30, 2013, the Company completed a reverse takeover of Sereno Capital Corp. ("Sereno") (the "Transaction"). Immediately prior to the completion of the Transaction, Sereno changed its name to Delavaco Residential Properties Corp. By way of a three-cornered amalgamation, Delavaco Residential Properties Corp. acquired all of the issued and outstanding shares of Delavaco Properties Inc. by issuing 7.36 shares of DRPC for each share of DPI. All shares were then consolidated on the basis of 7.36 shares for one share post-consolidation. Each stock option issued and outstanding at DRPT before the transaction went through the same consolidation as the shares.

The Transaction has been accounted for as a reverse acquisition that does not constitute a business combination, with the purchase price allocation as follows:

	$
Consideration:	
638,607 shares at a price of $1.15 per share	734,398
35,666 options exercisable at $1.84 until May 16, 2016	9,164
Total consideration	743,562
Net assets acquired	
Cash and cash equivalents	259,418
Other assets	41,069
Accounts payable and accrued liabilities	(5,313)
	295,174
Excess attributed to cost of listing recorded as transaction costs	448,388
Total	743,562

The $1.15 per share was based on the private placement completed in conjunction with the reverse takeover transaction.

For accounting purposes, these condensed consolidated interim financial statements reflect a continuation of the financial position, financial performance and cash flows of the Company's legal subsidiary, Delavaco Properties Inc.

(Expressed in US Dollars unless otherwise noted)

6. Accounts receivable, net

The balance of accounts receivable, net is comprised as follows:

	March 31, 2014	December 31, 2013
	$	$
Trade receivables		
Rent receivable	773,743	494,030
Less: allowance for doubtful accounts	(261,603)	(135,745)
	512,140	358,285

The movement in the provision for impairment of trade receivables during the period ended March 31, 2014 and the year ended December 31, 2013, were as follows:

	March 31, 2014	December 31, 2013
	$	$
As at January 1	135,745	104,220
Provision for impairment of trade receivables	184,277	794,391
Receivables written off during the period as uncollectible	(58,419)	(762,866)
	261,603	135,745

7. Other assets

Other assets consist of the following:

	March 31, 2014	December 31, 2013
	$	$
HST receivable	140,265	240,947
Deposits	409,841	591,851
Investment properties deposits in escrow	235,360	42,510
Non-interest bearing promissory note	802,165	688,000
	1,587,631	1,563,308

The non-interest bearing promissory note is a note receivable from a senior officer and director of the Company. The promissory note bears no interest and is repayable on demand (note 19(iii)). The investment properties deposits in escrow represent pre-payments made for pending acquisitions of investment properties.

8. Investment properties

	March 31, 2014	December 31, 2013
Balance, beginning of period	96,310,668	47,833,000
Additions:		
Acquisitions from business combinations	-	32,418,634
Property acquisitions	879,820	12,001,389
Building improvements	674,300	1,869,337
Investment properties disposed	-	(99,025)
Investment properties classified as held for sale	-	(3,649,533)
Fair value adjustments to investment properties	414,956	5,936,866
Balance, end of period	98,279,744	96,310,668

(Expressed in US Dollars unless otherwise noted)

8. Investment properties (continued)

The Company determined the fair value of the single family home and multifamily portfolio of investment properties based on an internal valuation methodology. Annually, the Company has the portfolio reviewed by an independent valuator.

Acquisitions from business combinations

On December 30, 2013, the Company completed the acquisition of three limited partnerships (the “LP’s”), each partnership owning a multi-family building (two are located in Texas and one located in Florida) consisting of 311 units from a company controlled by an officer and director of the Company. To complete the acquisition, the Company paid $1,057,752 and issued 14,149,843 common shares valued at $1.15 per common share.

All assets and liabilities included in the LP’s statement of financial position have been adjusted to reflect the fair value determined by the Company as part of the purchase price allocation.

The identified assets and liabilities below are a result of management’s best estimates and assumptions after taking into account all of the relevant information available. The final purchase price allocation is summarized as follows:

Purchase Price:		
Cash deposit	$	1,057,752
Issuance of 14,149,843 common shares at $1.15		16,272,319
Total Purchase Price	$	17,330,071
Fair value of net assets acquired:		
Cash	$	147,042
Accounts receivable, net		35,760
Other assets		546,502
Prepaid expenses		103,248
Property and equipment, net		7,795
Investment properties		32,418,634
Accounts payable and accrued liabilities		(551,951)
Other liabilities		(151,608)
Mortages payable		(15,225,351)
	$	17,330,071

9. Property and equipment, net

The carrying amounts of the property and equipment at March 31, 2014, and December 31, 2013, is as follows:

	Cost	Accumulated depreciation	Net book value March 31, 2014	Net book value December 31, 2013
	$	$	$	$
Leasehold improvements	155,387	(145,414)	9,973	13,299
Furniture and equipment	84,324	(31,303)	53,021	53,664
	239,711	(176,717)	62,994	66,963

(Expressed in US Dollars unless otherwise noted)

9. Property and equipment, net (continued)

A continuity of the property and equipment balance is as follows:

	As at December 31, 2013	Additions	Depreciation	Dispositions	March 31, 2014
	$	$	$	$	$
Leasehold improvements	13,299	-	(3,326)	-	9,973
Furniture and equipment	53,664	3,326	(3,969)	-	53,021
Total	66,963	3,326	(7,295)	-	62,994

10. Notes payable

$25,000,000 Financing

On June 4, 2012, the Company closed a private placement debt offering (the "Offering") comprised of 7.50% Senior Secured Notes (the "Notes"), due June 30, 2016. The Company contemporaneously entered into an Underwriting Agreement (the "Agreement") and a 7.50% Senior Secured Notes Trust Indenture Agreement (the "Indenture") which governs the Notes issuance. The Company raised a total amount of $25,000,000 under the Agreement by way of issuing 25,000 units, each unit consisting of: (i) one (1) $1,000 principal amount 7.50% Note issued pursuant to the Agreement and Indenture; and (ii) 154 common share purchase warrants of the Company. As the Company did not meet certain liquidity conditions within a specified time frame, the warrants are exercisable at CAD$1.18 and expire on June 3, 2017.

On issuance, the total instrument amount was allocated amongst the Notes payable and the warrants. The financial liability portion was determined by calculating the fair value of the Notes payable using the expected discounted cash flows assuming a 9% discount rate. Accordingly, $23,751,941 was allocated to the Notes payable, which was their fair value on the date of issuance, less transaction costs of $1,871,417, and the residual amount of $1,248,059 was allocated to the warrants less transaction costs of $98,334.

Total finance cost for the three months ended March 31, 2014, was $649,149 (2013 - $630,001) comprised of interest of $468,750 (2013 - $468,750) and accretion expense of $180,399 (2013 - $161,251).

11. Convertible debentures payable

$10,000,000 Convertible Debentures

On December 20, 2012, the Company issued $10,000,000 of convertible debentures which bear interest of 7.5% per annum, payable quarterly, and mature on December 20, 2014. The debentures contained a forced conversion (the "Conversion Feature") such that the Company had the ability to force full conversion to common shares if the Company completed a liquidity event where the Company listed on the TSX, or provided the holders with comparable liquidity while contemporaneously raising a minimum of CAD$25,000,000 (the "Liquidity Event"). The debentures convert at a 15% discount to the price per share of the Liquidity Event. As the Company did not complete a Liquidity Event by June 20, 2013, the interest rate increased to 9.0% per annum, and the holders of the convertible debentures held the option to force the Company to repay the convertible debentures with a minimum approval of 25% of the debenture holders. The Company incurred total transaction costs of $959,190.

The Conversion Feature of the debentures was considered a derivative financial instrument under IAS 39 and was measured at its fair value which was the estimated additional equity value to be received above the par value of the convertible debentures upon conversion. The value allocated to the derivative financial instrument is approximately $1,764,000 less proportionate transaction costs of $169,201.

On December 30, 2013, the Company completed a qualifying Liquidity event, and the Company converted the convertible debenture into 10,230,167 common shares valued at $1.15.

Total finance costs for the three months ended March 31, 2014, was $Nil (2013 - $1,091,499) comprised of interest of $Nil (2013 - $184,932) and accretion expense of $Nil (2012 - $906,567).

(Expressed in US Dollars unless otherwise noted)

11. Convertible debentures payable (continued)

$21,600,000 Convertible Debentures

During the year ended December 31, 2013, the Company completed a multi-tranche private placement financing raising gross proceeds of $21,600,000 through the issuance of unsecured subordinated convertible debentures (the "Debentures"). The Debentures bear interest at 7% per annum, payable quarterly and mature on July 31, 2018. The Debentures also hold a conversion feature which allows the holder to convert at any time after the Company becomes a publicly traded entity, at a price of $1.15 per common share (the "Conversion Price"). Once publicly listed, if the Company has a closing price of $2.00 or greater for a period of ten consecutive trading days, the debentures will automatically convert at the Conversion Price. The Company incurred transaction costs of $1,410,450.

The Company used the residual method to allocate the liability and equity portion of the convertible debenture. The Company allocated a fair value of $19,310,699 less transaction costs of $1,277,208 to the debt component and $2,289,301 less transaction costs of $133,242 to equity. The fair value of the liability was measured using a discounted cash flow method. In determining fair value of the liability, the Company applied an interest coupon of 10% which assumes no conversion feature.

Total finance costs for the three months ended March 31, 2014 was $517,474 (2013 - $Nil) comprised of interest of $378,000 (2013 - $Nil) and accretion expense of $139,474 (2013 - $Nil).

12. Mortgages payable

	$
Mortgages payable	15,212,322
Less: current portion	(105,066)
	15,107,256

As at March 31, 2014, the mortgages payable of $15,107,256 (including the current portion) bear interest at an average rate of 3.98% per annum, are secured by the multi-family properties and have maturity dates ranging between October, 2022 and June, 2023.

The following annual payments of principal and interest are required over the next five years in respect of the mortgages:

2014	534,981
2015	734,608
2016	735,442
2017	757,363
2018	871,967
Thereafter	16,754,292

13. Share capital

The Company is authorized to issue an unlimited number of Class A and Class B common shares. The Class A common shares are voting and entitle the holder to dividends as and when declared by the board of directors of the Company. The Class B common shares are non-voting, are convertible into Class A common shares on a one-to-one basis at the option of the holder and are entitled to receive the payment of dividends when declared by the board of directors of the Company. The common shares have no stated par value.

(Expressed in US Dollars unless otherwise noted)

13. Share capital (continued)

The following is a summary of changes in common share capital:

	Number of shares	Value
		$
Balance at December 31, 2011	9,545,000	6,405,545
Issuance of common shares, for repayment of loans (a)	455,000	444,126
Issuance of common shares, for repayment of notes (b)	1,000,000	1,001,500
Issuance of common shares, net of issuance costs (c)	12,250,000	11,594,358
Balance at December 31, 2012	23,250,000	19,445,529
Issuance of common shares from penalty clause (d)	1,825,000	-
Issuance of common shares for private placement (e)	41,000	47,150
Issuance costs of private placement (e)	-	(47,150)
Issuance of common shares and options upon RTO (f)	638,607	734,398
Issuance of common shares upon conversion of debentures (g)	10,230,167	11,764,000
Exercise of stock options (h)	2,200,000	935,736
Issuance of shares for compensation (i)	100,000	115,000
Issuance of common shares for acquisition of investment properties (j)	14,149,830	16,272,319
Change in functional currency (k)		(1,285,570)
Balance at March 31, 2014 and December 31, 2013	52,434,604	47,981,412

(a) On January 13, 2012, the Company repaid the outstanding $444,126 (CAD$455,000) loan by issuing 455,000 Class A common shares (note 11).

(b) On February 23, 2012, the Company repaid $1,001,500 (CAD$1,000,000) in notes payable by issuing 1,000,000 Class A common shares (note 12).

(c) The Company issued 12,250,000 Class B common for gross proceeds of $12,269,730 (CAD$12,250,000), closing in three tranches, incurring total issuance costs of $637,783. The first tranche of $4,993,500 (CAD$5,000,000) was completed on January 27, 2012, the second tranche of $1,654,950 (CAD$1,650,000) was completed on February 17, 2012, and the third tranche of $5,621,280 (CAD$5,600,000) was completed on April 2, 2012.

(d) On April 1, 2013, for no proceeds, the Company issued 600,000 Class A common shares and 1,225,000 Class B common shares related to penalty clauses in prior issuances of common shares as the Company had not completed a going public transaction.

(e) On December 30, 2013, the Company completed a reverse takeover transaction (note 5). In conjunction with the reverse takeover transaction, the Company issued 41,000 shares at $1.15 per share for gross proceeds of $47,150. The Company incurred transaction costs of $47,150.

(f) As part of the reverse takeover transaction, 638,607 post-consolidation shares of the Company were issued to the former Sereno shareholders valued at $1.15 per share.

(g) On December 30, 2013, as the Company completed a Liquidity Event by completing the reverse takeover transaction, the Company converted the $10,000,000 in convertible debentures into 10,230,167 common shares (note 13).

(h) On December 30, 2013, the Company expedited the vesting period of the remaining 2,500,000 options such that they all immediately vested. 2,200,000 common shares were then issued for the exercise of 2,200,000 options and the remaining 300,000 options were cancelled as consideration for the cashless exercise.

(Expressed in US Dollars unless otherwise noted)

13. Share capital (continued)

(i) On December 30, 2013, the Company issued 100,000 common shares at $1.15 per share to an officer of the Company for past services provided. The resulting expense was recorded as part of general and administration.

(j) On December 30, 2013, the Company completed the acquisition of the LP's (note 9) by issuing 14,149,830 common shares at $1.15 per share.

(k) On December 30, 2013, the Company changed its functional currency from CAD to US Dollar. This change in functional currency resulted in an accounting decrease of share capital of $1,285,570.

14. Share-based compensation

The Company has a 10% rolling incentive stock option plan which provides for the issuance of incentive stock options to directors, management, employees and consultants of the Company.

A continuity of the Company's stock options is as follows:

	Number of Options	Weighted Avg Exercise Price
Balance as at December 31, 2012 and 2011	3,000,000	$ 0.15
Options cancelled or expired	(500,000)	0.40
Options surrendered for cashless option exercise (note 13(h))	(300,000)	0.10
Options exercised (note 13(h))	(2,200,000)	0.10
Options issued as part of reverse acquisition (note 5)	35,666	1.84
Balance as at March 31, 2014 and December 31, 2013	35,666	$ 1.84

The estimated fair value of the options is expensed over the vesting period, which approximates four years for all options, within share-based compensation expense in the consolidated statements of loss and comprehensive loss. For the three month period ended March 31, 2014, $Nil (2013 – $49,691) share-based compensation expense was recorded for the fair value of stock options vested. The outstanding options as at March 31, 2014, were as follows:

Grant date	Number of options	Number of non-exercisable options	Number of exercisable options	Weighted average exercise price	Expiry date
				$	
December 30, 2013	35,666	Nil	35,666	1.84	May 16, 2016
	35,666	Nil	35,666	1.84	

No options were issued during the three months ended March 31, 2014. The fair value of all the Company's stock options issued during the year ended December 31, 2013, which consist of the Sereno options issued in conjunction with the reverse takeover transaction, was estimated using the Black-Scholes option pricing model using the following assumptions:

Volatility	N/A	(2013 – 60%)
Risk-free interest rate	N/A	(2013 – 1.09%)
Expected life (years)	N/A	(2013 – 2.38)
Dividend yield	N/A	(2013 – Nil)
Forfeiture rate	N/A	(2013 – 0%)
Share price	N/A	(2013 – 1.15)
Exercise price	N/A	(2013 – 1.84)

Volatility is determined based on a review of share price volatilities of public companies considered comparable to the Company, given that the Company's own shares have no trading history.

(Expressed in US Dollars unless otherwise noted)

15. Derivative financial instruments

As at March 31, 2014, the Company's derivative financial instruments consists solely of warrants with an exercise price in CAD. Because the exercise price is denominated in a currency other than the Company's functional currency, the fair value of the exercise proceeds can vary due to foreign exchange rate fluctuations between CAD and USD and the warrants are therefore considered a derivative financial instrument.

The warrants were originally classified within equity on initial recognition; however, the change in the Company's functional currency from CAD to USD required a change in the warrants' classification to a derivative financial instrument.

A continuity of the warrants liability and reserve are as follows:

	Number of warrants	Warrants liability	Warrants reserve	Weighted average exercise price
			$	$
December 31, 2012	4,682,000	-	1,369,182	CAD1.18
Reclassification of warrants to derivative liability	-	1,369,182	(1,369,182)	-
Revaluation of warrants	-	578,913	-	-
December 31, 2013	4,682,000	1,948,095	-	CAD1.18
Revaluation of warrants	-	(456,720)	-	-
March 31, 2014	4,682,000	1,491,375	-	CAD1.18

The warrants liability as at March 31, 2014, and December 31, 2013, was calculated using the Black Scholes option-pricing model. The key assumptions used in the model were; stock price of $0.97 (2013 - $1.15); exercise price ranging from $0.90 to $1.13 (2013 - $0.94 to $1.18); expected life ranging, in years, from 0.32 to 3.17 (2013 - 0.57 to 3.42); volatility of 60% (2013 - 60%); risk free rate of 1.07% (2013 - 1.10% to 1.65%); and no dividends.

The Company had the following share purchase warrants outstanding and exercisable at March 31, 2014 and December 31, 2013:

Issuance Date	Number of Warrants	Weighted average exercise price	Expiry Date
		$	
June 13, 2011	200,000	CAD1.00	March 13, 2015
July 27, 2011	160,000	CAD1.25	July 27, 2014
September 9, 2011	16,000	CAD1.25	September 9, 2014
September 11, 2011	344,000	CAD1.25	September 11, 2014
October 8, 2011	16,000	CAD1.25	October 8, 2014
December 14, 2011	48,000	CAD1.25	December 14, 2014
December 16, 2011	16,000	CAD1.25	December 16, 2014
February 16, 2012	32,000	CAD1.25	February 16, 2015
June 4, 2012	3,850,000	CAD1.18	June 3, 2017
Total	4,682,000	CAD1.18	

16. Loss per share

	2014	2013
	$	$
Numerator		
Net income (loss) for the year	(542,363)	(1,847,974)
Denominator		
Weighted average shares - basic	52,434,604	23,250,000
Stock options	-	-
Warrants	-	-
Denominator for diluted income (loss) per share)	52,434,604	23,250,000
Basic income (loss) per share	(0.01)	(0.08)
Diluted income (loss) per share	(0.01)	(0.08)

During the three month periods ended March 31, 2014, and 2013, the Company had warrants and stock options outstanding which could potentially dilute basic loss per share, but were excluded from the computation of diluted loss per share in the period presented, as their effect would have been anti-dilutive.

17. Financial instruments and risk management

Risk management

In the normal course of its business, the Company is exposed to a number of financial risks that can affect its operating performance. These risks, and the actions taken to manage them, are as noted below.

Market risk

Market risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in the market prices. Market prices are comprised of two types of risk:

Foreign currency risk

The Company's operations are based principally in the United States of America, but it has exposure to foreign exchange risk from the CAD. Foreign exchange risk arises from the recognized financial assets and liabilities denominated in CAD. The following CAD amounts are presented in USD to demonstrate the effects of changes in foreign exchange rates:

	CAD
	$
Cash and cash equivalents	343,568
Other assets	140,265
Accounts payable and accrued liabilities	(1,400,454)
Total	(916,621)
Effect of +/- 10% change in exchange rate	(91,662)

Interest rate risk

The Company is subject to cash flow interest rate risk due to fluctuations in the prevailing levels of market interest rates. As all mortgages, loans and notes payable bear interest at fixed rates, interest rate risk is limited to potential decreases on the interest rate offered on cash held with chartered Canadian and American financial institutions. The risk exists of a change in interest rates when the Company is required to renew its debt. The Company's objective of managing interest rate risk is to minimize the volatility of earnings. Interest rate risk has been minimized as the mortgage has been financed at a fixed interest rate. As a result of the debt not being subject to floating interest rates, changes in prevailing interest rates would not be expected to have a material impact on profit or loss. The Company considers this risk to be immaterial.

(Expressed in US Dollars unless otherwise noted)

17. Financial instruments and risk management (continued)

Credit risk and concentration risk

Credit risk refers to the risk that a tenant or counterparty will default on its contractual obligations resulting in financial loss to the Company. Financial instruments which are potentially subject to credit risk for the Company consists primarily of non-payment of accounts and other receivables. The Company mitigates this risk by monitoring the credit worthiness of its tenants. To ensure that tenants continue to meet their credit terms, the financial viability of tenants is kept under review. Credit risk, or the risk of a counterparty defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. Where appropriate, the Company obtains security deposits as collateral.

The credit risk on cash is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The carrying amount of financial assets recorded in the consolidated financial statements, net of any allowance for losses, represents the Company's maximum exposure to credit risk.

The Company derives approximately 45% of its revenues from tenant subsidies received pursuant to Section 8 of the United States Housing Act of 1937, as amended, and certain other government subsidies.

Liquidity risk

Liquidity risk is the risk that the Company may not be able to generate sufficient cash resources to settle its obligations as they fall due. The Company's strategy is to satisfy its liquidity needs using cash on hand, cash flow generated from operating activities, and cash flow provided by financing activities.

Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of the Company's cash and cash equivalents, investments, accounts receivable, other receivables, and accounts payable and accrued liabilities are estimated by management to approximate their carrying values due to their short-term nature. Loans payable, convertible debentures payable and mortgages payable are also fairly reflected by its book value as they have been financed at interest rates which are similar to current market interest rates.

The Company classifies its fair value measurements in accordance with the three levels fair value hierarchy as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The following table summarizes information about financial assets and liabilities measured at fair value on a recurring basis in the consolidated statement of financial position and categorized by level of significance of the inputs used in making the measurements:

	March 31, 2014		
Liabilities	**Level 1**	**Level 2**	**Level 3**
	$	$	$
Derivative financial instruments	-	(1,491,376)	-

There were no transfers between level 1 and 2 during the three months ended March 31, 2014. There were no changes to level 3 during the year ended December 31, 2013.

	December 31, 2013		
Liabilities	**Level 1**	**Level 2**	**Level 3**
	$	$	$
Derivative financial instruments	-	(1,948,095)	-

18. Capital risk management

The capital of the Company includes equity, which is comprised of issued share capital, contributed surplus, equity portion of convertible debentures, warrants and deficit. The Company's objective when managing its capital is to safeguard the ability to continue as a going concern in order to provide returns for its shareholders, and other stakeholders and to maintain a strong capital base to support the Company's core activities, the acquisition, ownership, management and rental of residential real estate properties.

19. Related party transactions

During the three month periods ended March 31, 2014, and 2013, the Company entered into the following transactions with related parties:

(i) On July 1, 2012, the Company signed an agreement related to identification, investigation and acquisition of investment properties with a company controlled by a director whereby the Company is required to pay $900 to the company for every unit acquired. Based on this agreement, the Company paid $Nil during the three months ended March 31, 2014 (2012 - $21,600). On January 31, 2013, this agreement was terminated.

(ii) On December 30, 2013, the Company acquired the LP’s from a company controlled by a senior officer and director of the Company (note 8).

(iii) On December 30, 2013, the Company was still pending approval for the transfer of a mortgage associated with a fourth multifamily property. The transaction to acquire the multifamily property is with a senior officer and director of the Company. The Company had paid $4,303,248 as a deposit on the acquisition of the property. As there is no certainty as to the date the transfer of the mortgage will be completed, a promissory note receivable was signed which bears interest at 7% payable quarterly and matures on December 30, 2015. This has been presented as a promissory note receivable on the consolidated statement of financial position. The Company also has outstanding to the director a non interest bearing note for an amount equal to $802,165 (2013 - $688,000) in respect to the same property to fulfill the mortgagers’ liquidity account requirements, which has been recorded as other assets (note 7).

(iv) On December 30, 2013, the Company signed an advisory services agreement with a company controlled by a senior officer and director of the Company, where services will be provided related to the multifamily properties that were acquired, including acting as a required guarantor on the mortgages payable. Under the terms of the agreement, the Company must pay $23,500 per month. During the three months ended March 31, 2014, the Company incurred advisory costs of $70,500 (2013 - $Nil) in accordance with the advisory agreement.

(v) During the three months ended March 31, 2014, the Company charged interest of $75,307 (2013 - $Nil), related to the promissory note in the amount of $4,303,248, which was recorded as part of net finance costs.

(vi) As at March 31, 2014, the Company owes $45,500 to the CEO of the Company, which is recorded as part of accounts payable and accrued liabilities.

(vii) During the three month period ended March 31, 2014, the Company charged $12,456, netted against general and administrative expenses, to a Company controlled by the CEO related to staff sharing to assist with the management of a multi-unit building. The $12,456 is equal to 1% of the multi-unit buildings revenue. The Company is in the process of acquiring the building.

(Expressed in US Dollars unless otherwise noted)

20. Assets held for sale

As at March 31, 2014, and December 31, 2013, the Company had 116 units in Florida classified as held for sale. These units were classified as held for sale as the Company is actively marketing and intends to sell these properties within one year.

	March 31, 2014	December 31, 2013
Assets	$	$
Investment properties, net	3,649,533	3,649,533
Assets held for sale	3,649,533	3,649,533
Liabilities		
Accounts payable and other liabilities	37,062	79,727
Liabilities related to assets held for sale	37,062	79,727

21. Transaction costs

Transaction costs consists of costs associated with the going public transaction as well as other business acquisitions that do not qualify for capitalization, including the New Jersey acquisition (note 23).

22. Segmented information

The Company defines its reportable segments based on geographical locations and single family versus multi-family buildings. The corporate segment has been provided to reconcile the reportable segments to the consolidated results.

The segmented information based on geographical locations is as follows:

	Georgia	Florida	Texas	Corporate	Total
Thee months ended March 31, 2014	$	$	$	$	$
Rental revenue	643,500	1,392,383	383,977	-	2,419,860
Operating costs	(307,095)	(805,302)	(128,151)	-	(1,240,548)
Utilities	(4,412)	(116,975)	(25,290)	-	(146,677)
Property taxes	(37,602)	(190,557)	(18,562)	-	(246,721)
Net rental income	294,391	279,549	211,974	-	785,914
General and administrative	-	-	-	(627,730)	(627,730)
Professional fees	-	-	-	(288,879)	(288,879)
Finance costs	-	-	-	(1,242,527)	(1,242,527)
Depreciation and amortization	-	(7,295)	-	-	(7,295)
Segment income (loss) from operations	294,391	272,254	211,974	(2,159,136)	(1,380,517)
Transaction costs	-	-	-	(290,814)	(290,814)
Foreign exchange loss	-	-	-	(23,058)	(23,058)
Fair value adjustments of investment properties	118,839	129,204	166,913	-	414,956
Fair value loss on derivative financial instruments	-	-	-	456,720	456,720
Net income (loss) before income taxes	413,230	401,458	378,887	(2,016,288)	(822,713)
Income (tax) recovery expense	(140,813)	(136,802)	(129,111)	687,076	280,350
Net income (loss) for the year	272,417	264,656	249,776	(1,329,212)	(542,363)
As at March 31, 2014					
Total current assets	379,937	4,811,912	254,520	2,081,552	7,527,921
Total non-current assets	25,854,684	57,207,796	15,280,258	4,303,248	102,645,986
Total liabilities	(171,062)	(9,106,946)	(7,471,278)	(44,590,179)	(61,339,465)

(Expressed in US Dollars unless otherwise noted)

22. Segmented information (continued)

As at December 31, 2013					
Total current assets	300,411	5,169,935	313,164	5,125,278	10,908,788
Total non-current assets	24,680,000	56,597,631	15,100,000	4,303,248	100,680,879
Total liabilities	(115,523)	(9,627,478)	(7,571,290)	(44,898,571)	(62,212,862)

	Georgia	Florida	Texas	Corporate	Total
Thee months ended March 31, 2013	$	$	$	$	$
Rental revenue	151,625	1,103,527	-	-	1,255,152
Operating costs	(93,330)	(459,830)	-	-	(553,160)
Utilities	-	(104,068)	-	-	(104,068)
Property taxes	(9,937)	(104,794)	-	-	(114,731)
Net rental income	48,358	434,835	-	-	483,193
General and administrative	-	-	-	(729,296)	(729,296)
Professional fees	-	-	-	(184,698)	(184,698)
Finance costs	-	-	-	(1,721,450)	(1,721,450)
Depreciation and amortization	-	(29,459)	-	-	(29,459)
Segment income (loss) from operations	48,358	405,376	-	(2,635,444)	(2,181,710)
Transaction costs	-	-	-	(669,760)	(669,760)
Foreign exchange loss	-	-	-	(548,386)	(548,386)
Fair value adjustments of investment properties	1,149,487	106,035	-	-	1,255,522
Share-based compensation	-	-	-	(49,691)	(49,691)
Net income (loss) before income taxes	1,197,845	511,411	-	(3,903,281)	(2,194,025)
Income (tax) recovery expense	(188,929)	(80,662)	-	615,642	346,051
Net income (loss) for the year	1,008,916	430,749	-	(3,287,639)	(1,847,974)

The segmented information based on single family versus multi-family buildings is as follows:

	Single	Multi	Corporate	Total
Thee months ended March 31, 2014	$	$	$	$
Rental revenue	1,569,188	850,672	-	2,419,860
Operating costs	(948,145)	(292,403)	-	(1,240,548)
Utilities	(79,224)	(67,453)	-	(146,677)
Property taxes	(160,536)	(86,185)	-	(246,721)
Net rental income	381,283	404,631	-	785,914
General and administrative	-	-	(627,730)	(627,730)
Professional fees	-	-	(288,879)	(288,879)
Finance costs	-	-	(1,242,527)	(1,242,527)
Depreciation and amortization	(7,295)	-	-	(7,295)
Segment income (loss) from operations	373,988	404,631	(2,159,136)	(1,380,517)
Transaction costs	-	-	(290,814)	(290,814)
Foreign exchange loss	-	-	(23,058)	(23,058)
Fair value adjustments of investment properties	156,242	258,714	-	414,956
Fair value loss on derivative financial instruments	-	-	456,720	456,720
Net income (loss) before income taxes	530,230	663,345	(2,016,288)	(822,713)
Income (tax) recovery expense	(180,683)	(226,043)	687,076	280,350
Net income (loss) for the year	349,547	437,302	(1,329,212)	(542,363)
As at March 31, 2014				
Total current assets	4,847,093	599,276	2,081,552	7,527,921
Total non-current assets	65,555,177	32,787,561	4,303,248	102,645,986
Total liabilities	(1,113,103)	(15,636,183)	(44,590,179)	(61,339,465)

(Expressed in US Dollars unless otherwise noted)

22. Segmented information (continued)

As at December 31, 2013				
Total current assets	4,950,957	832,553	5,125,278	10,908,788
Total non-current assets	63,951,202	32,426,429	4,303,248	100,680,879
Total liabilities	(1,385,381)	(15,928,910)	(44,898,571)	(62,212,862)

During the three months ended March 31, 2013, the Company operated in the single family segment, hence no comparative information has been presented.

23. Subsequent events

New Jersey Acquisition

On March 26, 2014, the Company signed a share purchase agreement, under which it will acquire all of the issued and outstanding shares of H60 Canada Inc. ("H60") for an aggregate purchase price of $6,240,000. H60 owns 19 residential properties located in New Jersey, consisting of 96 separate rental units.

The aggregate purchase price is payable through the issuance of 3,120,000 common shares of the Company priced at $1.00 per common share and two promissory notes in favour of the vendors in the principal aggregate amount of $3,120,000 secured by a first ranking lien over the properties. The promissory notes, which will mature six months from the closing of the transaction, will not bear interest until the date on which the occupancy rate of the 96 rental units exceeds 90% at which point they will bear interest of 5.5% per annum. The acquisition which closed on May 1, 2014, is subject to a working capital adjustment.

Stock Options

On May 12, 2014, the Company issued 3,150,000 stock options to directors, officers and employees of the Company. The stock options have an exercise price of $1.10 per share and expire five years following the date of issuance.

Dispositions

In May, 2014, the Company sold properties in St. Petersburg, Florida, for approximately $1,475,000. The Company sold the properties at the fair value previously recognized in the assets held for sale, hence did not recognize a gain or loss on the disposition.