

This document and the accompanying materials are important and require your immediate attention. They require the securityholders of Delavaco Properties Inc. and Sereno Capital Corporation to make important decisions. Please carefully read this joint management information circular, including the appendices thereto, as they contain detailed information relating to, among other things, a business combination involving Delavaco Properties Inc. and Sereno Capital Corporation. If you are in any doubt as to how to deal with them, you should consult with your investment dealer, broker, lawyer or other professional advisor. This document and the accompanying materials do not constitute an offer or a solicitation to any person in any jurisdiction in which such offer or solicitation is unlawful.

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS OF
DELAVACO PROPERTIES INC.**

AND

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
OF SERENO CAPITAL CORPORATION**

each to be held on December 30, 2013

JOINT MANAGEMENT INFORMATION CIRCULAR

with respect to a proposed

BUSINESS COMBINATION

involving

**DELAVACO PROPERTIES INC. and
SERENO CAPITAL CORPORATION**

November 29, 2013

Neither the TSX Venture Exchange Inc. (the “Exchange”) nor any securities regulatory authority has in any way passed upon the merits of the Qualifying Transaction described in this Information Circular.

**LETTER TO SHAREHOLDERS OF
DELAVACO PROPERTIES INC.**

November 29, 2013

Dear Delavaco Shareholders:

You are invited to attend a special meeting (the “**Delavaco Meeting**”) of the holders (“**Delavaco Shareholders**”) of Class A and Class B common shares (“**Delavaco Shares**”) of Delavaco Properties Inc. (“**Delavaco**”) to be held at 10:00 a.m. (Toronto time) on December 30, 2013 at the offices of Stikeman Elliott LLP, 53rd Floor, Commerce Court West, 199 Bay Street, Toronto, Ontario.

At the Delavaco Meeting, you will be asked to consider and, if deemed advisable, approve a special resolution (the “**Business Combination Resolution**”) in respect of the amalgamation (the “**Amalgamation**”) under the *Business Corporations Act* (Ontario) (the “**OBCA**”) of Delavaco and 2388079 Ontario Inc. (“**Subco**”), a direct wholly-owned subsidiary of Sereno Capital Corporation (“**Sereno**”).

As detailed in the accompanying joint management information circular (the “**Information Circular**”), Delavaco’s current asset base consists primarily of single-family homes in the Southeastern United States, particularly in the states of Georgia and Florida. In order to provide increased scale and a further diversified source of income (both geographically and by residential property sector) to the existing portfolio of single family homes, it is expected that prior to the closing of the Amalgamation, Delavaco will complete an internal corporate reorganization (the “**Reorganization**”) pursuant to which it will acquire all of the issued and outstanding limited partnership units in certain limited partnerships holding title to various multi-family properties in Austin, Texas and Sunrise, Florida. As part of the Reorganization, Delavaco may (but is not obligated to) acquire all of the issued and outstanding membership interests in an entity called Park Colony LLC (“**Park Colony**”), which holds title to an additional multi-family property in Hollywood, Florida. The acquisition of Park Colony is not a condition precedent to completion of the Amalgamation and Delavaco Shareholders will be asked to approve the Business Combination Resolution both in the event that Park Colony is acquired and in the event it is not.

As a result of the Amalgamation, a newly-formed amalgamated corporation (“**Amalco**”) will become a direct wholly-owned subsidiary of Sereno and Delavaco Shareholders will receive: (i) in the event that Park Colony is acquired, an aggregate of 449,613,067 common shares in the capital of Sereno; and (ii) in the event that Park Colony is not acquired, an aggregate of 382,861,069 common shares in the capital of Sereno (such shares referred to herein as “**Consideration Shares**”), in each case in exchange for outstanding common shares of Delavaco on the basis of 7.36 Consideration Shares for each one (1) Delavaco Share held. Delavaco Shareholders will also receive convertible securities of Sereno in exchange for outstanding convertible securities of Delavaco (the “**Replacement Convertible Securities**”) on the same 7.36 to 1 basis, all as further described in the accompanying Information Circular.

On September 18, 2013, Delavaco and Sereno entered into a business combination agreement (the “**Business Combination Agreement**”). Pursuant to the Business Combination Agreement, Sereno agreed, among other things, to change its name (the “**Name Change**”) to “Delavaco Residential Properties Inc.” (the “**Resulting Issuer**”) and to effect a consolidation of the outstanding Sereno Shares (including the Consideration Shares) on a 7.36 to 1 basis (the “**Consolidation**”), such that the total number of issued and outstanding common shares of the Resulting Issuer following completion of the Amalgamation will be: (i) 61,765,318 in the event that Park Colony is acquired (and the minimum amount of proceeds are raised from the Finco Financing, as described below, such number increasing to 61,944,709 in the event the maximum amount of proceeds are raised from the Finco Financing, in each case expressed on a non-diluted basis); and (ii) 52,695,753 in the event that Park Colony is not acquired (and the minimum amount of proceeds are raised from the Finco Financing, as described below, such number increasing to 52,875,144 in the event the maximum amount of proceeds are raised from the Finco Financing, in each case expressed on a non-diluted basis). In connection with the Business Combination, shareholders of Sereno will also be asked to approve the terms of a new 10% “rolling” stock option plan (the “**New Option Plan**”).

In order to ensure that the Resulting Issuer will meet the minimum public board lot requirements of a Tier 2 Real Estate or Investment Issuer, a new special purpose entity (“**Sereno Finco**”) will, prior to the completion of the Amalgamation, complete an equity financing by raising aggregate gross proceeds of not less than \$43,700 and not more than \$250,000 (the “**Finco Financing**”). Upon completion of the Amalgamation and subsequent to the Consolidation, Sereno will acquire all of the issued and outstanding shares of Sereno Finco such that each shareholder of Sereno Finco will receive one post-Consolidation share of the Resulting Issuer for each share of Sereno Finco so held.

If completed, the Amalgamation and the series of transactions ancillary thereto, pursuant to which the businesses of Delavaco and Sereno will be combined (collectively, the “**Business Combination**”) will constitute the Qualifying Transaction of Sereno, as defined under the policies of the TSX Venture Exchange (the “**Exchange**”). Upon completion of the Business Combination, and assuming the acquisition of Park Colony is completed, current shareholders of Delavaco are expected to own approximately 99% of the common shares of the Resulting Issuer (the “**Resulting Issuer Shares**”) and current Sereno shareholders are expected to own approximately 1% of the Resulting Issuer Shares, on a non-diluted basis. In the event that Park Colony is not acquired, current shareholders of Delavaco are expected to own more than 98% of Resulting Issuer Shares and current Sereno shareholders are expected to own approximately 1.2% of the Resulting Issuer Shares, on a non-diluted basis.

At the Delavaco Meeting, Delavaco Shareholders will be asked to pass a special resolution to approve the Amalgamation, which must be approved by (i) not less than 66⅔% of the votes validly cast by Delavaco Class A Common Shareholders; and (ii) not less than 66⅔% of the votes validly cast by Delavaco Class B Common Shareholders, voting separately as a class pursuant to the OBCA, in each case present in person or represented by proxy at the Delavaco Meeting.

The Board of Directors of Delavaco after consulting with its legal and financial advisors has unanimously approved and endorsed the foregoing transactions and recommends that Delavaco Shareholders vote in favour of the Business Combination.

The accompanying Notice of Meeting and Information Circular provide a more detailed description of the Business Combination and the other matters to be considered at the Delavaco Meeting and include certain additional information to assist you in considering how to vote on the special resolution. You are urged to read this information carefully and, if you require assistance, to consult your tax, financial, legal or other professional advisors.

Your vote is important regardless of the number of Delavaco Shares you own. To be represented at the Delavaco Meeting, you must either attend the Delavaco Meeting in person or complete the applicable enclosed form of proxy and forward it so as to reach or be deposited with Computershare Investor Services Inc. not later than forty-eight (48) hours (other than a Saturday, Sunday or holiday) immediately preceding the date of the Delavaco Meeting (as it may be adjourned or postponed from time to time). If you hold Delavaco Shares through a broker, investment dealer, bank, trust company or other intermediary, you should follow the instructions provided by your intermediary to ensure your vote is counted. Failure to do so may result in your Delavaco Shares not being eligible to be voted at the Delavaco Meeting.

On behalf of Delavaco, I would like to thank all of our shareholders for their continuing support.

Yours very truly,

(signed) “*Andrew DeFrancesco*”

Andrew DeFrancesco
Chairman and Chief Executive Officer

**LETTER TO SHAREHOLDERS OF
SERENO CAPITAL CORPORATION**

November 29, 2013

Dear Sereno Shareholders:

You are invited to attend a special meeting (the “**Sereno Meeting**”) of the holders (“**Sereno Shareholders**”) of common shares (“**Sereno Shares**”) of Sereno Capital Corporation (“**Sereno**”) to be held at 11:00 a.m. (Toronto time) on December 30, 2013 at the offices of Stikeman Elliott LLP, 53rd Floor, Commerce Court West, 199 Bay Street, Toronto, Ontario.

The Sereno Meeting will be held in connection with the proposed amalgamation (the “**Amalgamation**”) under the *Business Corporations Act* (Ontario) (the “**OBCA**”) of Delavaco Properties Inc. (“**Delavaco**”) and 2388079 Ontario Inc. (“**Subco**”), a direct wholly-owned subsidiary of Sereno.

As detailed in the accompanying joint management information circular (the “**Information Circular**”), Delavaco’s current asset base consists primarily of single-family homes in the Southeastern United States, particularly in the states of Georgia and Florida. In order to provide increased scale and a further diversified source of income (both geographically and by residential property sector) to the existing portfolio of single family homes, it is expected that prior to the closing of the Amalgamation, Delavaco will complete an internal corporate reorganization (the “**Reorganization**”) pursuant to which it will acquire all of the issued and outstanding limited partnership units in certain limited partnerships holding title to various multi-family properties in Austin, Texas and Sunrise, Florida. As part of the Reorganization, Delavaco may (but is not obligated to) acquire all of the issued and outstanding membership interests in an entity called Park Colony LLC (“**Park Colony**”), which holds title to an additional multi-family property in Hollywood, Florida. The acquisition of Park Colony is not a condition precedent to completion of the Amalgamation.

As a result of the Amalgamation, a newly-formed amalgamated corporation (“**Amalco**”) will become a direct wholly-owned subsidiary of Sereno and Delavaco Shareholders will receive: (i) in the event that Park Colony is acquired, an aggregate of 449,613,067 common shares in the capital of Sereno; and (ii) in the event that Park Colony is not acquired, an aggregate of 382,861,069 common shares in the capital of Sereno (such shares referred to herein as “**Consideration Shares**”), in each case in exchange for outstanding common shares of Delavaco on the basis of 7.36 Consideration Shares for each one (1) Delavaco Share held. Delavaco Shareholders will also receive convertible securities of Sereno in exchange for outstanding convertible securities of Delavaco (the “**Replacement Convertible Securities**”) on the same 7.36 to 1 basis, all as further described in the accompanying Information Circular.

If completed, the Amalgamation and the series of transactions ancillary thereto, pursuant to which the businesses of Delavaco and Sereno will be combined (collectively, the “**Business Combination**”) will constitute the Qualifying Transaction of Sereno, as defined under the policies of the TSX Venture Exchange (the “**Exchange**”). Upon completion of the Business Combination, and assuming the acquisition of Park Colony is completed, current shareholders of Delavaco are expected to own approximately 99% of the common shares of the Resulting Issuer (the “**Resulting Issuer Shares**”) and current Sereno shareholders are expected to own approximately 1% of the Resulting Issuer Shares, on a non-diluted basis. In the event that Park Colony is not acquired, current shareholders of Delavaco are expected to own more than 98% of Resulting Issuer Shares and current Sereno shareholders are expected to own approximately 1.2% of the Resulting Issuer Shares, on a non-diluted basis.

Pursuant to Policy 2.4 of the Exchange — *Capital Pool Companies* (and in particular Section 2.1 thereof), Sereno Shareholders will not be required to approve the Amalgamation effecting the Qualifying Transaction. However, at the Sereno Meeting, you will also be asked to consider the Consolidation (as defined below), the Name Change (as defined below) and the New Option Plan (as defined below), all as more particularly described in the accompanying Information Circular.

On September 18, 2013, Delavaco and Sereno entered into a business combination agreement (the “**Business Combination Agreement**”). Pursuant to the Business Combination Agreement, Sereno agreed, subject to obtaining the approval of its shareholders in connection therewith, among other things, to change its

name (the “**Name Change**”) to “Delavaco Residential Properties Inc.” (the “**Resulting Issuer**”) and to effect a consolidation of the outstanding Sereno Shares (including the Consideration Shares) on a 7.36 to 1 basis (the “**Consolidation**”), such that the total number of issued and outstanding common shares of the Resulting Issuer following completion of the Amalgamation will be: (i) 61,765,318 in the event that Park Colony is acquired (and the minimum amount of proceeds are raised from the Finco Financing, as described below, such number increasing to 61,944,709 in the event the maximum amount of proceeds are raised from the Finco Financing, in each case expressed on a non-diluted basis); and (ii) 52,695,753 in the event that Park Colony is not acquired (and the minimum amount of proceeds are raised from the Finco Financing, as described below, such number increasing to 52,875,144 in the event the maximum amount of proceeds are raised from the Finco Financing, in each case expressed on a non-diluted basis). In connection with the Business Combination, Sereno has also agreed to put before its shareholders the terms of a new 10% “rolling” stock option plan (the “**New Option Plan**”).

In order to ensure that the Resulting Issuer will meet the minimum public board lot requirements of a Tier 2 Real Estate or Investment Issuer, a new special purpose entity (“**Sereno Finco**”) will, prior to the completion of the Amalgamation, complete an equity financing by raising aggregate gross proceeds of not less than \$43,700 and not more than \$250,000 (the “**Finco Financing**”). Upon completion of the Amalgamation and subsequent to the Consolidation, Sereno will acquire all of the issued and outstanding shares of Sereno Finco such that each shareholder of Sereno Finco will receive one post-Consolidation share of the Resulting Issuer for each share of Sereno Finco so held.

At the Sereno Meeting, Sereno Shareholders will be asked to pass ordinary resolutions to approve the New Option Plan, which must be approved by a simple majority of the votes validly cast by Sereno Shareholders, present in person or represented by proxy at the Sereno Meeting. The resolutions approving the Consolidation and the Name Change must be approved by a special majority (not less than 66 2/3%) of the votes cast by Sereno Shareholders voting in person or represented by proxy at the Sereno Meeting.

The Board of Directors of Sereno after consulting with its legal and financial advisors has unanimously approved and endorsed the foregoing transactions and recommends that Sereno Shareholders vote in favour of the Name Change, the Consolidation and the New Option Plan.

The accompanying Notice of Meeting and Information Circular provide a more detailed description of the Business Combination and the other matters to be considered at the Sereno Meeting and include certain additional information to assist you in considering how to vote on the special resolution. You are urged to read this information carefully and, if you require assistance, to consult your tax, financial, legal or other professional advisors.

Your vote is important regardless of the number of Sereno Shares you own. To be represented at the Sereno Meeting, you must either attend the Sereno Meeting in person or complete the applicable enclosed form of proxy and forward it so as to reach or be deposited with Equity Financial Trust Company not later than forty-eight (48) hours (other than a Saturday or holiday) immediately preceding the date of the Sereno Meeting (as it may be adjourned or postponed from time to time). If you hold Sereno Shares through a broker, investment dealer, bank, trust company or other intermediary, you should follow the instructions provided by your intermediary to ensure your vote is counted. Failure to do so may result in your Sereno Shares not being eligible to be voted at the Sereno Meeting.

On behalf of Sereno, I would like to thank all of our shareholders for their continuing support.

Yours very truly,

(signed) “*Barry Gordon*”

Barry Gordon
Chairman, President and Chief Executive Officer

NOTICE OF SPECIAL MEETING OF DELAVACO SHAREHOLDERS

NOTICE IS HEREBY GIVEN that a special meeting (the “**Delavaco Meeting**”) of the holders (“**Delavaco Shareholders**”) of common shares (“**Delavaco Shares**”) of Delavaco Properties Inc. (“**Delavaco**”) will be held at 10:00 a.m. (Toronto time) on December 30, 2013, at the offices of Stikeman Elliott LLP, 53rd Floor, Commerce Court West, 199 Bay Street, Toronto, Ontario, M5L 1B9 for the following purposes:

1. to consider and, if deemed advisable, to pass, with or without variation, a special resolution (the “**Business Combination Resolution**”), the full text of which is set out in Appendix B of the accompanying management information circular (the “**Information Circular**”), authorizing the amalgamation (the “**Amalgamation**”) under the *Business Corporation Act* (Ontario) (the “**OBCA**”) of Delavaco and 2388079 Ontario Inc. (“**Subco**”), a wholly-owned subsidiary of Sereno Capital Corporation (“**Sereno**”), the purpose of which is to effect, among other things, the business combination of Delavaco and Sereno, all as more particularly set forth in the accompanying Information Circular; and
2. to transact such other business as may properly come before the Delavaco Meeting or any adjournment or postponement thereof.

Specific details of the matters proposed to be put before the Delavaco Meeting are set forth in the Information Circular which accompanies this Notice of Special Meeting of Delavaco Shareholders.

The record date for determining the Delavaco Shareholders entitled to receive notice of and vote at the Delavaco Meeting is the close of business (5:00 p.m. (Toronto time)) on November 28, 2013 (the “**Record Date**”). Only Delavaco Shareholders whose names have been entered in the register of Delavaco Shares as of close of business on the Record Date are entitled to receive notice of and vote at the Delavaco Meeting.

Registered Delavaco Shareholders may attend the Delavaco Meeting in person or may be represented by proxy. Delavaco Shareholders who are unable to attend the Delavaco Meeting, or any adjournment or postponement thereof, in person are requested to date, sign and return the accompanying form of proxy for use at the Delavaco Meeting or any adjournment or postponement thereof. To be effective, the form of proxy must be received by Delavaco’s transfer agent, Computershare Investor Services Inc. (according to the instructions on the proxy), not less than forty-eight (48) hours (other than a Saturday, Sunday or holiday) immediately preceding the date of the Delavaco Meeting (as it may be adjourned or postponed from time to time).

If you are a non-registered holder of Delavaco Shares and have received these materials through your broker or through another intermediary, please follow the instructions set out in the voting instruction form or other instructions received from the financial intermediary to ensure that your Delavaco Shares will be voted at the Delavaco Meeting.

Registered holders of Delavaco Shares have the right to dissent with respect to the Business Combination Resolution and, if the Business Combination Resolution becomes effective, to be paid the fair value of their Delavaco Shares in accordance with the provisions of section 185 of the OBCA. A Delavaco Shareholder’s right to dissent is more particularly described in the Information Circular. The text of section 185 of the OBCA is set forth in Appendix E to the accompanying Information Circular. To exercise such right, (a) a written notice of objection to the Business Combination Resolution must be received by Delavaco, c/o its solicitors at Stikeman Elliott LLP, 5300 Commerce Court West, 199 Bay Street, Toronto, Ontario M5L 1B9, Attention: Ellen Snow, not later than 4:00 p.m. (Toronto time) two business days (being any day other than a Saturday or holiday, each a “**Business Day**”) immediately preceding the date of the Delavaco Meeting (as it may be adjourned or postponed from time to time), (b) the Delavaco Shareholder must not have voted in favour of the Business Combination Resolution, and (c) the Delavaco Shareholder must have otherwise complied with the provisions of section 185 of the OBCA.

Failure to strictly comply with the requirements set forth in section 185 of the OBCA may result in the loss of any right to dissent. Persons who are beneficial owners of Delavaco Shares registered in the name of a broker, custodian, nominee or other intermediary who wish to dissent should be aware that only the registered holders of Delavaco Shares are entitled to dissent. Accordingly, a beneficial owner of Delavaco Shares desiring to exercise the right to dissent must make arrangements for the Delavaco Shares beneficially owned by such holder to be registered in the holder’s name prior to the time the written objection to the Business Combination

Resolution is required to be received by Delavaco or, alternatively, make arrangements for the registered holder of such Delavaco Shares to dissent on behalf of the holder. It is recommended that you seek independent legal advice if you wish to exercise your right of dissent.

**BY ORDER OF THE BOARD OF DIRECTORS OF
DELAVACO PROPERTIES INC.**

(signed) “*Andrew DeFrancesco*”

Andrew DeFrancesco
Chairman and Chief Executive Officer

NOTICE OF SPECIAL MEETING OF SERENO SHAREHOLDERS

NOTICE IS HEREBY GIVEN that a special meeting (the “**Sereno Meeting**”) of the holders (“**Sereno Shareholders**”) of common shares (“**Sereno Shares**”) of Sereno Capital Corporation (“**Sereno**”) will be held at 11:00 a.m. (Toronto time) on December 30, 2013, at the offices of Stikeman Elliott LLP, 53rd Floor, Commerce Court West, 199 Bay Street, Toronto, Ontario, M5L 1B9 for the following purposes:

1. to appoint, conditional upon, and effective as of the completion of the Business Combination, Deloitte LLP as the new auditor of Sereno for the ensuing year at a remuneration to be fixed by the directors;
2. to fix, conditional upon, and effective as of the completion of the Business Combination, the number of directors of Sereno at six (6), and to elect, conditional upon, and effective as of the completion of the Business Combination, as directors of Sereno, Andrew DeFrancesco, Marc Muzzo, Keith L. Ray, Michael Serruya, Kelly Hanczyk and Romeo De Gasperis;
3. to consider and, if thought advisable, to pass, with or without variation, a special resolution, as more particularly set forth in the accompanying Information Circular, empowering the directors of Sereno to determine, from time to time by resolution, the number of directors of Sereno, so long as the total number of directors appointed will not be greater than one and one-third times the number of directors elected at the most recent meeting of Sereno Shareholders at which directors were elected;
4. to consider and, if thought advisable, to pass, with or without variation, a special resolution, as more particularly set forth in the accompanying Information Circular, authorizing the directors of Sereno to amend the articles of incorporation of Sereno to change Sereno’s name to “Delavaco Residential Properties Inc.” following completion of the proposed amalgamation (the “**Amalgamation**”) under the *Business Corporation Act* (Ontario) (the “**OBCA**”) of Delavaco Properties Inc. (“**Delavaco**”) and 2388079 Ontario Inc. (“**Subco**”), a wholly-owned subsidiary of Sereno, the purpose of which is to effect, among other things, the business combination of Delavaco and Sereno, “**Business Combination**”), all as more particularly set forth in the accompanying Information Circular;
5. to consider and, if thought advisable, to pass, with or without variation, a special resolution, as more particularly set forth in the accompanying Information Circular, to approve the consolidation of all of the issued and outstanding Sereno Shares (including shares issued to shareholders of Delavaco in connection with the Amalgamation) on the basis of one (1) post-consolidation Sereno Share for every 7.36 pre-consolidation Sereno Shares;
6. to consider and, if deemed advisable, to approve, with or without variation, by ordinary resolution, as more particularly set forth in the accompanying Information Circular and conditional upon the Business Combination becoming effective, the adoption of a new stock option plan for Sereno; and
7. to transact such other business as may properly come before the Sereno Meeting or any adjournment or postponement thereof.

Specific details of the matters proposed to be put before the Sereno Meeting are set forth in the Information Circular, which accompanies this Notice of Special Meeting of Sereno Shareholders.

The record date for determining the Sereno Shareholders entitled to receive notice of and vote at the Sereno Meeting is the close of business (5:00 p.m. (Toronto time)) on November 29, 2013 (the “**Record Date**”). Only Sereno Shareholders whose names have been entered in the register of Sereno Shares as of the close of business on the Record Date are entitled to receive notice of and vote at the Sereno Meeting.

Registered Sereno Shareholders may attend the Sereno Meeting in person or may be represented by proxy. Sereno Shareholders who are unable to attend the Sereno Meeting, or any adjournment or postponement thereof, in person are requested to date, sign and return the accompanying form of proxy for use at the Sereno Meeting or any adjournment or postponement thereof. To be effective, the form of proxy must be received by Sereno’s transfer agent, Equity Financial Trust Company (according to the instructions on the proxy), not less than forty-eight (48) hours (other than a Saturday or holiday) immediately preceding the date of the Sereno Meeting (as it may be adjourned or postponed from time to time).

If you are a non-registered holder of Sereno Shares and have received these materials through your broker or through another intermediary, please follow the instructions set out in the voting instruction form or other instructions received from the financial intermediary to ensure that your Sereno Shares will be voted at the Sereno Meeting.

**BY ORDER OF THE BOARD OF DIRECTORS
OF SERENO CAPITAL CORPORATION**

(signed) “*Barry Gordon*”

Barry Gordon
Chairman, President and
Chief Executive Officer

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JOINT MANAGEMENT INFORMATION CIRCULAR

Introductory Information

This Management Information Circular (the “**Information Circular**”) is being prepared in accordance with the CPC Policy Exchange Form 3B1 — “*Information Required in an Information Circular for a Qualifying Transaction*”.

This Information Circular is furnished in connection with the solicitation of proxies by and on behalf of the management of Delavaco and Sereno for use at the Delavaco Meeting and the Sereno Meeting (collectively, the “**Meetings**”), respectively, and any adjournments or postponements thereof.

The Delavaco Meeting has been called primarily for the purpose of considering, among other matters, and, if deemed advisable, passing the Business Combination Resolution to approve the Amalgamation. The Sereno Meeting has been called primarily for the purpose of considering, among other matters, and, if deemed advisable, passing the resolutions approving the Consolidation, the Name Change and the New Option Plan.

All summaries of, and references to, the Business Combination and the Amalgamation in this Information Circular are qualified in their entirety by reference to the complete text of the Business Combination Agreement and the Amalgamation Agreement, copies of which are included as Appendices C and D to this Information Circular. **You are urged to read carefully the full text of the Business Combination Agreement and the Amalgamation Agreement.**

Information in this Information Circular

All capitalized terms used in this Information Circular but not otherwise defined herein have the meanings set forth in the Glossary of Terms at Appendix A.

The information contained in this Information Circular is given as at November 29, 2013, except where otherwise noted. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this Information Circular to the extent that a statement contained herein or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Information Circular.

The information concerning each party contained in this Information Circular has been provided by management of that party. Although both parties have no specific knowledge that would indicate that any of such information regarding the other party is untrue or incomplete, both parties assume no responsibility for the accuracy or completeness of information or the failure by the other party to disclose events which may have occurred or may affect the completeness or accuracy of such information which are unknown to that party. Information with respect to securityholdings has been provided by the respective securityholders of Delavaco and Sereno and/or obtained from information publicly available to Delavaco and Sereno. Details of the Business Combination are set forth below under “The Business Combination”.

This Information Circular does not constitute the solicitation of an offer to purchase, or the making of an offer to sell, any securities or the solicitation of a proxy by any person in any jurisdiction in which such solicitation or offer is not authorized or in which the person making such solicitation or offer is not qualified to do so or to any person to whom it is unlawful to make such solicitation or offer.

Cautionary Statement Regarding Forward-Looking Information

This Information Circular and the documents incorporated by reference herein contain certain statements or disclosures that may constitute forward-looking information or statements (collectively, “**forward-looking**

information”) under Applicable Securities Laws. All statements and disclosures, other than those of historical fact, which address activities, events, outcomes, results or developments that management of Delavaco and Sereno, as applicable, anticipates or expects may or will occur in the future (in whole or in part) should be considered forward-looking information. In some cases, forward-looking information can be identified by terms such as “**forecast**”, “**future**”, “**may**”, “**will**”, “**expect**”, “**anticipate**”, “**believe**”, “**could**”, “**potential**”, “**enable**”, “**plan**”, “**continue**”, “**contemplate**”, “**pro forma**” or other comparable terminology. Forward-looking information presented in this Information Circular includes statements or disclosures which, among other things, relate to: completion of the Business Combination and the Amalgamation and satisfaction of the closing conditions relating thereto; the anticipated benefits from the Business Combination; the expected completion and implementation date of the Business Combination; certain combined operational and financial information; the nature of the Resulting Issuer’s operations following the Amalgamation; completion of the Reorganization and the ability to obtain the consent of Fannie Mae and Freddie Mac (each as defined in this Information Circular) in a timely fashion; sources of funds; forecasts of capital expenditures, including general and administrative expenses, and the sources of the financing thereof; expectations regarding the ability to raise capital; the Resulting Issuer’s business outlook following the Business Combination; plans and objectives of management for future operations; forecast business results; and anticipated financial performance. Some of the specific forward looking statements in this Information Circular include, but are not limited to, statements with respect to the following:

- statements with respect to the current state of the United States economy and real estate markets generally and the expectation that any economic recovery will lead to increases in the demand for, and the values of, single-family homes and multi-family properties in the Resulting Issuer’s target markets;
- the ability of the Resulting Issuer to execute its business and growth strategies (including by making additional acquisitions of properties in its target markets, the ability to execute intended renovation and subsequent rental programs to be implemented for the acquired single-family homes and the expected returns therefrom;
- future legislative and regulatory developments that may affect the Resulting Issuer;
- access by the Resulting Issuer to debt and/or equity markets on acceptable terms to the Resulting Issuer; and
- expectations, including anticipated trends and challenges, in respect of the housing sector in major markets in the United States.

The forward-looking information in statements or disclosures in this Information Circular is based (in whole or in part) upon factors which may cause actual results, performance or achievements of Delavaco and Sereno, as applicable, to differ materially from those contemplated (whether expressly or by implication) in the forward-looking information. Those factors are based on information currently available to Delavaco and Sereno, as applicable, including information obtained from third party sources. Actual results or outcomes may differ materially from those predicted by such statements or disclosures. While Delavaco and Sereno do not know what impact any of those differences may have, their business, results of operations, financial condition and credit stability may be materially adversely affected. Factors that could cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking information include, among other things, the inability of Delavaco and Sereno, for any reason, to complete the Business Combination generally or the Amalgamation specifically, including the failure to obtain required regulatory or shareholder approvals; failure to complete the Reorganization or to obtain the consent of Fannie Mae and Freddie Mac in a timely fashion; the imposition of unfavourable terms or conditions in the approvals to be obtained, the failure of Delavaco or Sereno to satisfy all of the conditions to closing as set out in the Business Combination Agreement, substitutions for residential rental units, competition, changes in government regulation, changes in applicable laws, environmental matters including certain hazardous or toxic substances, risks of natural disasters, risks related to real estate ownership including costs of securing possession and control of newly acquired properties, costs arising from renovation of properties, non-refundable deposits, reliance on property services, fixed costs and increased expenses, risks related to interest rates, risks related to insurance renewals, insufficient access to capital of the Resulting Issuer, geographic concentration, “as is” acquisitions of properties, being an early entrant to market and untested business model, operational risks, risks of losses not covered by insurance,

difficulty to access capital, financing risk, degree of leverage, unforeseen or unexpected taxation matters, litigation risks, laws benefitting disabled persons, internal controls over financial processes and reporting, U.S. market and economic factors, severe weather conditions in Florida, Georgia and Texas, contingent liabilities on disposition of investments of the Resulting Issuer, return on investment not guaranteed, liquidity risks associated with the market price of the shares of the Resulting Issuer, as well as those other factors discussed in the section entitled “Risk Factors” in this Information Circular. Although Delavaco and Sereno have attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results to deviate from stated anticipations, estimates or intentions. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. All of the forward-looking statements made in this Information Circular are qualified by these cautionary statements.

Various assumptions or factors are typically applied in drawing conclusions or making the forecasts or projections set out in forward-looking information. Those assumptions and factors are based on information currently available to Delavaco and Sereno, as applicable, including information obtained from third party sources. In some instances, material assumptions and factors are presented or discussed elsewhere in this Information Circular in connection with the statements or disclosure containing the forward-looking information. You are cautioned that the following list of material factors and assumptions is not exhaustive. The factors and assumptions include, but are not limited, to the approval of the Amalgamation by the Delavaco Shareholders and the Sereno Shareholders, the receipt of all required regulatory approvals, including those of the relevant stock exchanges, and all required consents to complete the Business Combination, satisfaction of the conditions to closing in the Business Combination Agreement, and the completion of the Business Combination, no unforeseen changes in the legislative and operating framework for the business of Delavaco and Sereno, as applicable, a stable competitive environment, and no significant event occurring outside the ordinary course of business such as a natural disaster or other calamity.

Certain of the forward-looking statements and forward-looking information and other information contained herein concerning the real estate industry and the general expectations of Delavaco and Sereno concerning the real estate industry and concerning each of Delavaco, Sereno and the Resulting Issuer, are based on estimates prepared by any of Delavaco or Sereno using data from publicly available industry and governmental sources as well as from market research and industry analysis and on assumptions based on data and knowledge of this industry which the Parties believe to be reasonable. However, although generally indicative of relative market positions, market shares and performance characteristics, such data is inherently imprecise. While neither Delavaco nor Sereno are aware of any misstatement regarding any industry data presented herein, the real estate industry involves risks and uncertainties that are subject to change based on various factors.

Delavaco Shareholders and Sereno Shareholders are cautioned not to place undue reliance on forward-looking information, as such information involves significant risks and uncertainties and should not be read as guarantees of future performance or results and will not necessarily be accurate indications of whether or not the times at or by which such performance or results will be achieved. Delavaco and Sereno are not obligated to update or revise any of the forward-looking information in this Information Circular, whether as a result of new information, future events or otherwise, except as required by law.

Notice to Non-Resident Shareholders

For those Delavaco Shareholders and Sereno Shareholders not resident in Canada, the Business Combination described herein is made in respect of the securities of a foreign company. The Business Combination is subject to disclosure requirements of a foreign country that may be different from those of the jurisdiction in which you reside. Financial statements included by reference in this Information Circular have been prepared in accordance with accounting standards that may not be comparable to the financial statements of companies in the jurisdiction in which you reside.

It may be difficult for you to enforce your rights and any claim you may have arising under applicable federal securities laws, since Delavaco and Sereno are located in a foreign country, and some or all of their officers and directors may be residents of a foreign country. You may not be able to sue a foreign company or its officers or directors in a foreign court for violations of the securities laws of the jurisdiction in which you reside. It may be difficult to compel a foreign company and its affiliates to subject themselves to a court's judgment in the jurisdiction in which you reside.

FOR DELAVACO SHAREHOLDERS AND SERENO SHAREHOLDERS RESIDENT IN THE UNITED STATES, NEITHER THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS INFORMATION CIRCULAR IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

You are advised to consult your tax advisor to determine the particular tax consequences to you of the Business Combination described herein.

Non-IFRS Measures

Certain financial information related to Delavaco presented in this Information Circular reflects certain non-International Financial Reporting Standards (“**IFRS**”) financial measures, which include NOI, FFO and AFFO (each as defined below). These measures are commonly used by real estate investment companies as useful metrics for measuring performance; however, they do not have any standardized meaning prescribed by IFRS and are not necessarily comparable to similar measures presented by other real estate investment companies. Delavaco believes that FFO and AFFO are important measures of operating performance, while NOI is an important measure of economic performance. The IFRS measurement most directly comparable to FFO and AFFO is net income.

“**NOI**” or “net operating income” is a term used by industry analysts, investors and management to measure operating performance of Canadian real estate investment companies. NOI represents rental revenue from properties less property operating expenses and excludes certain expenses included in the determination of net income such as interest, amortization and corporate overhead.

“**FFO**” or “funds from operations” is a term used as an industry standard to define the cash flows from operations. FFO evaluates operating performance, but is not indicative of funds available to meet the Resulting Issuer's cash requirements. FFO is computed by Delavaco in accordance with the current definitions of the Real Property Association of Canada (“**REALpac**”). FFO is defined as, in respect of IFRS, net income before fair value gains/losses on real estate properties, gains/losses on the disposition of real estate properties, deferred income taxes and certain other non-cash adjustments.

“**AFFO**” or “adjusted funds from operations” is a term used as a non-IFRS financial measure by most Canadian real estate investment companies, but should not be considered as an alternative to net income, cash flow from operations or any other measure prescribed under IFRS. The directors of Delavaco consider AFFO to be a useful measure of cash available for distributions. AFFO should not be interpreted as an indicator of cash generated from operating activities as it does not consider changes in working capital. AFFO is defined as FFO adjusted by (i) adding amortization of deferred financing costs in place at closing, amortization of free rent and amortization of cash flow hedges, (ii) deducting reserves for maintenance capital expenditures, and (iii) making such other adjustments as may be determined by the directors of Delavaco in their discretion. Maintenance capital expenditures are estimated by management and represent capital expenditures that are required to maintain the existing earning potential of a property; significant judgment is involved.

NOI, FFO and AFFO should not be construed as alternatives to net income or cash flow from operating activities determined in accordance with IFRS. Management's method of calculating NOI, FFO and AFFO may differ from other issuers' methods of calculating NOI, FFO and AFFO, and accordingly, may not be comparable to the NOI, FFO or AFFO reported by other issuers.

Market and Industry Data

The market and industry data contained in this Information Circular is based upon information from independent industry and other publications and the knowledge of management of Delavaco or Sereno, and their experience in the industry in which each of them operates. None of the sources of market and industry data have provided any form of consultation, advice or counsel regarding any aspect of, or is in any way whatsoever associated with, the Business Combination. Market and industry data is subject to variations and cannot be verified with complete certainty due to limits on the availability and reliability of raw data at any particular point in time, the voluntary nature of the data gathering process or other limitations and uncertainties inherent in any statistical survey. Accordingly, the accuracy and completeness of this data are not guaranteed. Neither Delavaco nor Sereno have independently verified any of the data from third party sources referred to in this Information Circular or ascertained the underlying assumptions relied upon by such sources.

Currency

The financial statements and summaries of financial information contained in this Information Circular are reported in United States dollars, unless otherwise indicated.

The following table reflects the low and high rates of exchange in Canadian dollars for one U.S. dollar during the periods noted, the average rate of exchange during such periods and the rates of exchange at the end of such periods, based on the Bank of Canada's nominal noon exchange rates for the specified periods and dates.

	Six months ended June 30		12-month period ended December 31
	2013	2012	2012
	(Cdn\$)	(Cdn\$)	(Cdn\$)
Highest rate during the period	1.0532	1.0418	1.0418
Lowest rate during the period	0.9839	0.9807	0.9710
Average noon exchange rate for the period	1.0159	1.0058	0.9996
Noon exchange rate at the end of the period	1.0512	1.0191	0.9949

As at November 15, 2013, the nominal noon exchange rate as reported by the Bank of Canada for the conversion of Canadian dollars into United States dollars was CDN\$1.00 equals \$0.9562 and the nominal noon exchange rate as reported by the Bank of Canada for the conversion of United States dollars into Canadian dollars was \$1.00 equals CDN\$1.0458.

SUMMARY

The following is a summary of certain information contained in this Information Circular, including its Appendices, relating to Delavaco, Sereno and the Resulting Issuer (assuming completion of the Business Combination) and should be read together with the more detailed information and financial data and statements elsewhere in this Information Circular. This summary is provided for convenience only and is qualified in its entirety by the more detailed information appearing elsewhere in the Notices of Meetings and this Information Circular, including the Appendices hereto and the documents incorporated by reference herein.

The Meetings

Date, Time and Place of the Meetings

The Delavaco Meeting will be held on December 30, 2013 at 10:00 a.m. (Toronto time) at the offices of Stikeman Elliott LLP, 5300 Commerce Court West, 199 Bay Street, Toronto, Ontario M5L 1B9.

The Sereno Meeting will be held on December 30, 2013 at 11:00 a.m. (Toronto time) at the offices of Stikeman Elliott LLP, 5300 Commerce Court West, 199 Bay Street, Toronto, Ontario M5L 1B9.

The Record Date

The record date for determining Delavaco Shareholders who are entitled to receive notice of and vote at the Delavaco Meeting is November 28, 2013.

The record date for determining Sereno Shareholders who are entitled to receive notice of and vote at the Sereno Meeting is November 29, 2013.

Purpose of the Meetings

This Information Circular is furnished in connection with the solicitation of proxies by management of Delavaco and Sereno for use at the Meetings.

Pursuant to Policy 2.4 of the Exchange — *Capital Pool Companies* (and in particular Section 2.1 thereof) Sereno Shareholders will not be required to specifically approve the Amalgamation effecting the Business Combination. However, at the Sereno Meeting, Sereno Shareholders will be asked, among other things:

- (i) to appoint, conditional upon, and effective as of the completion of the Business Combination, Deloitte LLP as the new auditor of Sereno for the ensuing year at a remuneration to be fixed by the directors;
- (ii) to fix, conditional upon, and effective as of the completion of the Business Combination, the number of directors of Sereno at six (6), and to elect, conditional upon, and effective as of the completion of the Business Combination, as directors of Sereno, Andrew DeFrancesco, Marc Muzzo, Keith L. Ray, Michael Serruya, Kelly Hanczyk and Romeo De Gasperis;
- (iii) to consider and, if thought advisable, to pass, with or without variation, a special resolution, empowering the directors of Sereno to determine, from time to time by resolution, the number of directors of Sereno, so long as the total number of directors appointed will not be greater than one and one-third times the number of directors elected at most recent meeting of Sereno shareholders at which directors were elected;
- (iv) to consider and, if thought advisable, to pass, with or without variation, a special resolution authorizing the Name Change;
- (v) to consider and, if thought advisable, to pass, with or without variation, a special resolution authorizing the Consolidation; and
- (vi) to consider and, if deemed advisable, to approve, with or without variation, by ordinary resolution, and conditional upon the Business Combination becoming effective, the adoption of a new stock option plan (the “**New Option Plan**”) for Sereno. See “Business of the Sereno Meeting”

At the Delavaco Meeting, Delavaco Shareholders will be asked to consider and, if thought advisable, to pass, with or without variation a special resolution approving the Amalgamation. The special resolution must be approved by (i) not less than 66⅔% of the votes validly cast by Delavaco Class A Shareholders; and (ii) not less than 66⅔% of the votes validly cast by Delavaco Class B Shareholders, voting separately as a class pursuant to the OBCA, in each case present in person or represented by proxy at the Delavaco Meeting. See “Business of the Delavaco Meeting.”

The Business Combination

Parties to the Business Combination

Sereno was incorporated under the *Business Corporation Act* (Ontario) on March 19, 2007 and is classified as a Capital Pool Company as defined in the policies of the Exchange. There are currently 4,700,000 Sereno Shares and 262,500 Sereno Options issued and outstanding. See “Information Concerning Sereno”.

Subco was incorporated under the *Business Corporation Act* (Ontario) on September 16, 2013 in order to effect the Business Combination. Subco is a wholly-owned subsidiary of Sereno.

Delavaco was incorporated on January 27, 2011 and since that time has been engaged in the business of investing in single-family homes. Delavaco invests in single-family homes, often at prices below replacement costs located in major markets in the United States that were hard-hit by the housing correction but which Delavaco believes now offer substantial upside to the housing recovery and that exhibit favourable demographics, positive economic growth and solid rental demand. Subsequent to the completion of the Reorganization (as described further below) Delavaco will also invest in multi-family properties to provide increased scale and a further diversified source of income (both geographically and by residential property sector) to the existing portfolio of single family homes. Thereafter, Delavaco will seek to grow a stable, cash generating portfolio of both single-family homes and multi-family properties in the Southeast United States (particularly in the states of Florida, Georgia and Texas). There are currently 11,600,000 Class A Delavaco Shares, 13,475,000 Class B Delavaco Shares, 4,682,000 Delavaco Warrants and 2,500,000 Delavaco Options issued and outstanding. See “Information Concerning Delavaco.”

The Amalgamation Agreement

The Amalgamation Agreement, substantially in the form attached as Appendix D to this Information Circular, is expected to be entered into among Delavaco, Sereno and Subco prior to the Effective Date in order to effect the Amalgamation.

The Business Combination Agreement

General:

On September 18, 2013, Delavaco and Sereno entered into the Business Combination Agreement which sets out the terms and conditions on which the parties will complete the Business Combination. The Business Combination Agreement contains various covenants, representations and warranties of and from each of the Parties and various conditions precedent. The terms of the Business Combination are the result of arm’s length negotiations conducted between Delavaco and Sereno and their respective legal advisors. This Information Circular contains a summary of certain provisions of the Business Combination Agreement and is qualified in its entirety by the full text of the Business Combination Agreement, a copy of which is included at Appendix C to this Information Circular.

The purpose of the Business Combination is to effect Sereno’s acquisition of all of the issued and outstanding Delavaco Shares. If the resolution in respect of the Business Combination is approved at the Delavaco Meeting and all other conditions precedent to the Business Combination are satisfied or waived, the Business Combination will be implemented by way of a three-cornered amalgamation whereby Delavaco will amalgamate with Subco under the OBCA to form Amalco and securityholders of Delavaco will receive securities of Sereno. Amalco will continue as a wholly-owned subsidiary of Sereno and, together with Sereno, will continue Delavaco’s business.

Business Combination Steps:

On the Effective Date of the Amalgamation:

- Delavaco and Subco shall be amalgamated and continue as one corporation, Amalco, on the terms prescribed in the Business Combination Agreement and the Amalgamation Agreement.
- Each Delavaco Share shall be cancelled, and former Delavaco Shareholders (other than Delavaco Dissenting Shareholders (who are ultimately entitled to be paid the fair value of their Delavaco Shares)), shall receive that number of Consideration Shares equal to the product of (A) the number of Delavaco Shares so cancelled, and (B) the Exchange Ratio.
- The common shares of Subco shall be cancelled and each replaced with one common share of Amalco.
- The Delavaco Warrants will be adjusted in accordance with the Exchange Ratio so that they will each become exercisable for Sereno Shares.
- As consideration for the issuance of the Consideration Shares to the former Delavaco Shareholders to effect the Amalgamation, Amalco will issue to Sereno one Amalco Share for each Consideration Share so issued.
- Sereno will consolidate all of the issued and outstanding Sereno Shares (including the Consideration Shares on the basis of 7.36 pre-consolidation shares for one (1) post-consolidation share. The Delavaco Warrants (which will have been adjusted in accordance with the Exchange Ratio), as well as the outstanding Sereno Options, will also be consolidated on a 7.36 to 1 basis.
- All of the property and assets of each of Delavaco and Subco will become the property and assets of Amalco, and Amalco will be liable for all of the liabilities and obligations of each of Delavaco and Subco.
- Amalco will be a wholly-owned subsidiary of Sereno under the name “Delavaco Properties Inc.”
- Sereno will change its name to “Delavaco Residential Properties Inc.”
- Delavaco will have completed the Reorganization and acquired all of the issued and outstanding limited partnership units in the Multi-Family Partnerships, thereby having acquired title to the Austin Properties and the Sunrise Properties. As part of the Reorganization, Delavaco may, but is not required to, acquire all of the issued and outstanding membership interests in Park Colony, thereby acquiring title to the Hollywood Properties, it being understood that the acquisition of Park Colony and the Hollywood Properties is not a condition precedent to completing the Reorganization or effecting the Amalgamation.

Following the Amalgamation:

- The Resulting Issuer will carry on the business previously carried on by Delavaco.
- Former shareholders of Sereno will hold 638,586 Resulting Issuer Shares, representing approximately 1.0% of the outstanding Resulting Issuer Shares (in the event that Park Colony is acquired, such number increasing to 1.2% in the event that Park Colony is not acquired).
- Former shareholders of Delavaco will hold 61,088,732 Resulting Issuer Shares representing approximately 99.0% of the outstanding Resulting Issuer Shares (in the event that Park Colony is acquired, such numbers decreasing to 52,019,167 Resulting Issuer Shares and 98.8%, respectively, in the event that Park Colony is not acquired).
- Shareholders of Sereno Finco will hold 38,000 Resulting Issuer Shares in the event the minimum amount of proceeds are raised from the Finco Financing (or 217,391 Resulting Issuer Shares in the event the maximum amount of proceeds are raised from the Finco Financing). Whether or not Park Colony is acquired, shareholders of Sereno Finco will hold less than 1% of the outstanding Resulting Issuer Shares.

Assuming there are no Delavaco Dissenting Shareholders and no Delavaco Options, Delavaco Warrants or Sereno Options are exercised during the period between the date of this Information Circular and the Effective Date, on completion of the Amalgamation (and assuming the acquisition of Park Colony is completed), there

will be 61,765,318 Resulting Issuer Shares issued and outstanding (on a non-diluted basis and assuming the minimum amount of proceeds are raised from the Finco Financing, such number increasing to 61,944,709 in the event the maximum amount of proceeds are raised from the Finco Financing). In the event that the acquisition of Park Colony is not completed, there will be 52,695,753 Resulting Issuer Shares issued and outstanding (on a non-diluted basis and assuming the minimum amount of proceeds are raised from the Finco Financing, such number increasing to 52,875,144 in the event the maximum amount of proceeds are raised from the Finco Financing).

Finco Financing

Concurrent with the completion of the Business Combination, Sereno Finco will complete the Finco Financing to raise aggregate gross proceeds of not less than \$43,700 and not more than \$250,000 at the Issue Price of \$1.15. The Special Shares issued under the Finco Financing will be non-voting, non-participating special shares in the capital of Sereno Finco. Under a share exchange agreement (the “**Share Exchange Agreement**”) to be entered into between all holders of Special Shares, the holder of the sole common share of Sereno Finco and Sereno, Sereno will acquire all of the issued and outstanding Special Shares and the sole issued and outstanding common share of Sereno Finco upon completion of the Business Combination and subsequent to the Consolidation. Each shareholder of Sereno Finco will receive one post-Consolidation share of the Resulting Issuer for each Special Share or common share of Sereno Finco held at a deemed post-consolidated issue price of \$1.15. In the event that the minimum amount of proceeds are raised from the Finco Financing, an aggregate of 38,000 Resulting Issuer Shares will be issued to shareholders of Sereno Finco, such number increasing to 217,391 Resulting Issuer Shares in the event the maximum amount of proceeds are raised. The Resulting Issuer Shares issued to shareholders of Sereno Finco will not be subject to any hold or restricted periods under Applicable Securities Laws. The Resulting Issuer will hold the sole common share and all of the issued and outstanding Special Shares of Sereno Finco following the completion of the Business Combination. See “The Business Combination — Finco Financing.”

Conditions to Completion:

Completion of the Business Combination and the transactions contemplated by the Business Combination Agreement is subject to, among other things:

- all consents and approvals necessary to consummate the Amalgamation having been obtained, including approval by the Delavaco Shareholders of the Business Combination Resolution, approval by the Sereno Shareholders of the Consolidation, Name Change and the New Option Plan and approval of the TSXV, which is in force and has not been modified;
- the receipt of the consent of the Federal National Mortgage Association (“**Fannie Mae**”) and the completion of the acquisition of the Multi-Family Partnerships (it being understood that the receipt of the consent of the Federal Home Loan Mortgage Corporation (“**Freddie Mac**”) and the completion of the acquisition of Park Colony is not a condition precedent to the completion of the Business Combination;
- in connection with the Reorganization, the \$15.25 million of secured debt of DREOC shall be converted into Delavaco Shares, which shares shall subsequently be converted into Resulting Issuer Shares upon completion of the Business Combination;
- the Delavaco Options having been exercised, such that an aggregate of 2,200,000 Delavaco Shares are issued prior to the Amalgamation, with the remaining Delavaco Options being cancelled;
- no Law being in effect that makes the consummation of the Business Combination illegal or otherwise prohibits or enjoins Delavaco or Sereno from consummating the Business Combination;
- Sereno Finco having completed the Finco Financing, such that the Resulting Issuer is in compliance with the minimum public board lot and other initial listing requirements of the TSXV for a Tier 2 Real Estate or Investment Issuer;

- there not having occurred a Material Adverse Effect with respect to Sereno or to Delavaco;
- the Business Combination Agreement shall not have been terminated pursuant to the terms thereof;
- Sereno having cash of not less than \$500,000, without giving effect to the expenses relating to the completion of the Business Combination on such cash position and any liabilities existing prior to the Business Combination; and
- each of Sereno and Delavaco having fulfilled or complied, in all material respects, with all covenants contained in the Business Combination Agreement and any agreements, certificates and other instruments delivered or given pursuant to the Business Combination Agreement, to be fulfilled or complied with by them at or prior to the Effective Date.

Termination of the Business Combination Agreement:

The Business Combination Agreement may be terminated by the mutual written agreement of the Parties, or by either Party upon notice by either one to the other prior to the Effective Date: (a) if the Business Combination Resolution is not approved by the Delavaco Shareholders provided that a Party may not terminate the Business Combination Agreement if the failure to obtain the requisite approval has been caused by, or is a result of, a breach by such Party of any of its representations or warranties or the failure of such Party to perform any of its covenants or agreements under the Business Combination Agreement; (b) if after the date of the Business Combination Agreement, any Law is enacted, made, enforced or amended, as applicable, that makes the consummation of the Business Combination illegal or otherwise permanently prohibits or enjoins Delavaco or Sereno from consummating the Business Combination, and such Law has, if applicable, become final and non-appealable; and (c) if the Effective Date does not occur on or prior to December 31, 2013 (or such later date as Delavaco and Sereno may agree to in writing), provided that the failure of the Effective Date to so occur is not due to Party seeking to terminate the Business Combination Agreement being in breach of one of its representations or warranties or to perform any of the covenants and agreements of such Party set forth therein. In addition to the foregoing, Delavaco may also terminate the Business Combination Agreement if Sereno has breached any of its material representations or warranties or failed to perform any covenant or agreement contained in the Business Combination Agreement and such breach or failure is incapable of being cured or is not cured on or prior to December 31, 2013 (provided that Delavaco is not then in breach of any of its representations, warranties or covenants under the Business Combination Agreement). In addition to the foregoing, Sereno may also terminate the Business Combination Agreement if Delavaco has breached any of its material representations or warranties or failed to perform any covenant or agreement contained in the Business Combination Agreement and such breach or failure is incapable of being cured or is not cured on or prior to December 31, 2013 (provided that Sereno is not then in breach of any of its representations, warranties or covenants under the Business Combination Agreement). See “The Business Combination Agreement” for particulars of the terms and conditions of the Business Combination Agreement.

Recommendation of the Delavaco Board

The Business Combination has been unanimously approved by the Delavaco Board, which has determined that the Business Combination in the best interests of Delavaco. **The Delavaco Board unanimously recommends that the Delavaco Shareholders vote in favour of the Business Combination.** See “The Business Combination — Recommendation of the Delavaco Board.”

Shareholder Approval

Pursuant to Policy 2.4 of the Exchange, Sereno Shareholders are not required to vote on the Business Combination Resolution and the Amalgamation (which, once completed, will constitute the Qualifying Transaction of Sereno). Sereno Shareholders will, however, be asked to vote on the Consolidation, the Name Change and the New Option Plan in connection with the Business Combination.

Pursuant to the OBCA and the by-laws of Delavaco, the Business Combination Resolution approving the Amalgamation must be passed, with or without variation, by (i) not less than 66⅔% of the votes validly cast by

Delavaco Class A Shareholders; and (ii) not less than 66⅔% of the votes validly cast by Delavaco Class B Shareholders, voting separately as a class pursuant to the OBCA, in each case present in person or represented by proxy at the Delavaco Meeting.

Notwithstanding the foregoing, the Business Combination Resolution authorizes the Delavaco Board, without further notice to or approval of the Delavaco Shareholders, subject to the terms of the Business Combination Agreement, to decide not to proceed with the Business Combination and to revoke the Business Combination Resolution at any time prior to completion of the Business Combination.

If the Delavaco Shareholders fail to approve the Business Combination Resolution, the Business Combination may be terminated. See “The Business Combination — Shareholder Approval”.

Regulatory Approvals

It is a condition to the completion of the Business Combination that all regulatory approvals, including approval of the TSXV, shall have been obtained on terms and conditions satisfactory to Delavaco and Sereno, in each case acting reasonably, on appeal or otherwise. The Exchange has conditionally accepted the Business Combination subject to Sereno fulfilling all of the requirements of the Exchange, including the additional public distribution pursuant to the Finco Financing, on or before February 24, 2014. See “The Business Combination — Regulatory Approvals”.

Timing

Subject to all conditions precedent to the Business Combination as set forth in the Business Combination Agreement being satisfied or waived by the appropriate Party, the Business Combination will become effective on the Effective Date, which the Parties currently anticipate to occur on or about December 31, 2013.

Procedure for Exchange of Securities

A Letter of Transmittal has been sent to the Delavaco Shareholders with this Information Circular. The Letter of Transmittal sets out the procedure to be followed by Shareholders to deposit their Delavaco Shares. If the Business Combination becomes effective, in order to receive Resulting Issuer Shares to which a Delavaco Shareholder is entitled under the Business Combination, a Delavaco Shareholder must deliver the Letter of Transmittal, properly completed and duly executed, together with certificate(s) representing their respective shares and all other required documents to the Depositary at the address set forth in the Letter of Transmittal. It is each Delavaco Shareholder's responsibility to ensure that the Letter of Transmittal is received by the Depositary. If the Business Combination is not completed, the Letter of Transmittal will be of no effect and the Depositary will return all certificates representing Delavaco Shares to the holders thereof as soon as practicable at the address specified in the Letter of Transmittal. Delavaco Shareholders whose Delavaco Shares are registered in the name of a broker, dealer, bank, trust company or other nominee must contact their nominee to deposit their respective shares. See “The Business Combination — Procedure for Exchange of Securities”.

Right of Dissent

Registered holders of Delavaco Shares have the right to dissent with respect to the Business Combination Resolution and, if the Business Combination Resolution becomes effective, to be paid the fair value of their Delavaco Shares in accordance with the provisions of section 185 of the OBCA. A Delavaco Shareholder's right to dissent is more particularly described in the Information Circular. The text of section 185 of the OBCA is set forth in Appendix E to the accompanying Information Circular. A Delavaco Dissenting Shareholder must send a written objection to the Business Combination Resolution, which written objection must be received by Delavaco c/o its solicitors at Stikeman Elliott LLP, 5300 Commerce Court West, 199 Bay Street, Toronto, Ontario M5L 1B9, Attention: Ellen Snow, by 4:00 p.m. (Toronto time) on the second to last Business Day immediately preceding the date of the Delavaco Meeting.

Delavaco Shareholders who are not Registered Shareholders and who wish to exercise Dissent Rights must arrange for their intermediary to dissent on their behalf. Dissent Rights are not available to optionholders or warrant holders.

Reorganization

Prior to the closing of the Business Combination, Delavaco will complete the Reorganization pursuant to which it will acquire, through a “master” Delaware limited partnership (the “**Master LP**”) (currently a wholly-owned subsidiary of Delavaco that was formed in order to effect the Reorganization) all of the issued and outstanding limited partnership units in the Multi-Family Partnerships, which collectively own the Austin Properties and the Sunrise Properties. As part of the Reorganization, Delavaco may (but is not obligated to) acquire all of the issued and outstanding membership interests in Park Colony, which owns the Hollywood Properties. For greater certainty, the acquisition of Park Colony is not a condition precedent to completion of the Amalgamation. All of the issued and outstanding limited partnership units in the Multi-Family Partnerships and the membership interests in Park Colony are owned and controlled, directly or indirectly, by Mr. Andrew DeFrancesco, Chairman and Chief Executive Officer of Delavaco.

Completion of the acquisition of the Multi-Family Partnerships is conditional upon receipt of approval from Fannie Mae, which has registered mortgages against the Austin Properties and the Sunrise Properties in an aggregate amount of \$15,250,000. Once the Multi-Family Partnerships are acquired, the Resulting Issuer will assume the outstanding mortgages on the Austin Properties and the Sunrise Properties. Completion of the acquisition of Park Colony is conditional upon receipt of approval from Freddie Mac, which has registered mortgages against the Hollywood Properties in an aggregate amount of \$31,794,000. In the event that Park Colony is acquired, the Resulting Issuer will assume the outstanding mortgages on the Hollywood Properties.

In the event that all conditions precedent have been satisfied with respect to the completion of the Business Combination and Freddie Mac’s consent has not been obtained, the Hollywood Properties will not be transferred to Delavaco at that time and will not form part of the Multi-Family Properties of Delavaco at the Effective Date. See “The Business Combination — Reorganization.”

Concurrent Debt Conversion

Between September and December, 2012, Delavaco Real Estate Opportunities Corp. (“**DREOC**”) (an entity controlled by Mr. Andrew DeFrancesco) issued a total of \$15.25 million aggregate principal amount of non-interest bearing, secured promissory notes (the “**DREOC Notes**”) due August 31, 2013 pursuant to a private placement at a subscription price of \$1,000 per DREOC Note. Upon their original issuance, the DREOC Notes were convertible for common shares of DREOC at a price per share equal to the fair value of such share, as mutually agreed between the subscribers and DREOC.

In lieu of having the DREOC Notes convert into common shares of DREOC, and subject to completion of the Business Combination, noteholders of DREOC have agreed to receive 14,413,988 Resulting Issuer Shares at an effective price of \$1.058 per Resulting Issuer Share. The consideration of \$1.058 represents an 8.0% discount to the projected initial listing price of the Resulting Issuer of \$1.15 (such discount incurred as a result of the fact that the DREOC Notes were not converted prior to the August 31, 2013 maturity date).

Upon completion of an initial public offering, reverse takeover, or other transaction providing common shareholders comparable liquidity (each a “**Liquidity Event**”), the terms of Delavaco’s outstanding Unsecured Notes provide that such notes will automatically be converted to Resulting Issuer Shares. The Business Combination constitutes a Liquidity Event under the terms of the Unsecured Notes. As such, upon completion of the Business Combination, the \$10 million aggregate amount of Unsecured Notes will convert into Resulting Issuer Shares at a price of \$0.9775 per Resulting Issuer Share, representing an aggregate of 10,230,179 Resulting Issuer Shares (the lower conversion price when compared to the conversion of the DREOC Notes results from a penalty provision under the terms of the Unsecured Notes as a result of the fact that a Liquidity Event did not occur by a prescribed date).

Also concurrent with a Liquidity Event, which includes the completion of the Business Combination, all of the principal amount of the Unsecured Debentures, plus accrued but unpaid interest thereon, may be converted, at the option of the holders thereof, into Resulting Issuer Shares at price equal to \$1.15 per Resulting Issuer Share, being a ratio of 869.5652 Resulting Issuer Shares per \$1,000 principal amount of Unsecured Debentures. See “The Business Combination — Concurrent Debt Conversion.”

Interests of Insiders

It is anticipated that the following persons will own of record or beneficially, directly or indirectly, or exercise control or direction over more than 10% of the issued and outstanding Resulting Issuer Shares after giving effect to the Business Combination:

<u>Name and Municipality of Residence</u>	<u>Resulting Issuer Shares Owned or Controlled</u>	<u>Percentage of Outstanding Resulting Issuer Shares (Non-Diluted/Fully Diluted)⁽¹⁾⁽²⁾</u>
Mr. Andrew DeFrancesco Fort Lauderdale, FL, USA	14,450,014	23.4%/17.5%
Dynamic Power Hedge Fund ⁽³⁾ Toronto, Ontario	7,390,359	12.0%/9.0%
PowerOne Capital Markets Limited ⁽⁴⁾ Toronto, Ontario	8,230,840	13.3%/10.0%
Marc Muzzo Toronto, Ontario	6,268,218	10.2%/8.0%

- (1) Expressed as a percentage assuming completion of the acquisition of Park Colony. In the event that the acquisition of Park Colony is not completed, the percentages for each of Mr. DeFrancesco, Dynamic, PowerOne and Mr. Muzzo (on a non-diluted and fully diluted basis) would be 10.2%/7.3%, 14.0%/10.1%, 13.3%/9.5% and 11.9%/9.0%, respectively.
- (2) The minimum decrease in ownership will be 0.05% of current ownership percentage as a result of the Finco Financing. The maximum decrease in ownership will be 0.41% of current ownership percentage as a result of the Finco Financing.
- (3) 550,000 of these shares are held beneficially by Mr. Rohit Sehgal.
- (4) Such shares held beneficially by Mr. Pat Di Capo.

Escrow Agreement

The Resulting Issuer Shares to be issued to management and directors of the Resulting Issuer (as well as their associates and affiliates) will be subject to the Value Security Escrow Agreement and are to be incrementally released beginning on the date the Exchange issues the Final Exchange Bulletin. See “Information Concerning the Resulting Issuer — Escrowed Securities.”

Arm’s Length Transaction

The Business Combination is not a Non-Arm’s Length Qualifying Transaction.

Selected Pro Forma Financial Information of the Resulting Issuer

The following table sets forth certain pro forma financial information of the Resulting Issuer after giving effect to the Business Combination and assuming that the minimum amount of proceeds are raised from the Finco Financing. Such unaudited *pro forma* consolidated financial statements are based on certain assumptions and adjustments and are not necessarily indicative of the Resulting Issuer's consolidated financial position if the events reflected therein were in effect for the periods presented, nor do they purport to project the Resulting Issuer's financial position or results from operations for any future period.

Assuming the acquisition of Park Colony is completed:

	Pro Forma as at June 30, 2013 after Giving Effect to the Business Combination⁽¹⁾
Balance Sheet	—
Current Assets	\$17,387,263
Current Liabilities	\$ 3,069,051
Shareholders' Equity	\$54,192,045

(1) In the event the maximum amount of proceeds are raised from the Finco Financing, current assets and shareholders' equity will increase by an additional \$206,300.

Assuming the acquisition of Park Colony is not completed:

	Pro Forma as at June 30, 2013 after Giving Effect to the Business Combination⁽¹⁾
Balance Sheet	—
Current Assets	\$16,541,448
Current Liabilities	\$ 2,417,405
Shareholders' Equity	\$43,762,045

(1) In the event the maximum amount of proceeds are raised from the Finco Financing, current assets and shareholders' equity will increase by an additional \$206,300.

Available Funds and Principal Purposes

Upon completion of the Business Combination, the Resulting Issuer will have approximately \$4,243,700 of estimated funds available. The use of funds can be broken down as follows:

Type of Funds	Amount
Estimated consolidated working capital as at October 31, 2013	\$4,200,000
Proceeds raised from the Finco Financing ⁽¹⁾	\$ 43,700
Total⁽²⁾	\$4,243,700

(1) In the event the maximum amount of proceeds are raised from the Finco Financing, this number will increase to \$250,000 and total available funds will be \$4,450,000.

(2) These funds will be equal whether or not Park Colony is acquired.

The Resulting Issuer intends to use these funds over the next twelve (12) months as set out in the following table:

<u>Anticipated Use of Funds⁽¹⁾</u>	<u>Amount (with Park Colony)</u>	<u>Amount (without Park Colony)</u>
Renovations and other capital expenditures	\$1,030,000	\$ 890,000
Transaction costs ⁽²⁾	\$1,000,000	\$ 660,000
Unallocated ⁽³⁾	\$2,213,700	\$2,693,700
Total	<u>\$4,243,700</u>	<u>\$4,243,700</u>

- (1) All debt service costs and general and administrative costs will be paid out of net operating income generated from the Single Family Homes Portfolio and the Multi-Family Properties Portfolio.
- (2) The only reduction if the acquisition of Park Colony is not completed relates to the fee to transfer the underlying mortgage. All other costs would remain consistent as Park Colony is cash flow independent.
- (3) Assumes the minimum amount of proceeds are raised from the Finco Financing. In the event the maximum amount of proceeds are raised, this number would increase to \$2,420,000 (with Park Colony) and \$2,900,000 (without Park Colony).

Notwithstanding the foregoing, there may also be circumstances where, for sound business reasons, a reallocation of funds may be necessary for the Resulting Issuer to achieve its objectives. The Resulting Issuer may require additional funds in order to fulfill all of the Resulting Issuer's expenditure requirements to meet its objectives, in which case the Resulting Issuer expects to either issue additional equity securities or incur indebtedness. There is no assurance that additional funding required by the Resulting Issuer would be available if required. See "Information Concerning the Resulting Issuer — Available Funds and Principal Purposes".

Listing and Share Price on the Exchange

The Sereno Shares are listed and posted for trading on the Exchange under the trading symbol "SZZ.H". The price of the Sereno Shares on May 23, 2013, being the last day the Sereno Shares traded prior to the announcement of the Business Combination, was \$0.045. See "Information Concerning Sereno — Trading History".

There is currently no public market for any securities of Delavaco.

Conflicts of Interest

Neither Delavaco nor Sereno is aware of any conflicts of interest among itself or its directors and/or officers in relation to the Business Combination.

Sponsor

GMP Securities L.P., with its principal address at 145 King Street West, Suite 300, Toronto, Ontario, M5H 1J8, has agreed to serve as a Sponsor for the purposes of Exchange approval. As compensation for their services they will receive a fee of CDN\$75,000, plus all reasonable out-of-pocket expenses of GMP in connection with its role as sponsor.

The Sponsor is independent of Delavaco and Sereno and is not currently the beneficial holder of any securities of either company.

There are no actual or anticipated agreements between Delavaco or Sereno with any registrant to provide sponsorship or corporate financing services either now or in the future.

Interests of Experts

There is no interest, direct or indirect, in any securities or property of Delavaco, Sereno or the Resulting Issuer, or of an associate or affiliate of Delavaco, Sereno or the Resulting Issuer, received or to be received by an expert.

For the purposes hereof, “expert” means any person or company whose profession or business gives authority to a statement made by that person or company and who is named as having prepared or certified a part of this Information Circular, or prepared or certified a report or valuation described or included in this Information Circular. See “General Matters — Experts of Delavaco and Sereno”.

Conditional Listing Approval

The Exchange has conditionally approved the Business Combination subject to Sereno fulfilling all the requirements of the Exchange, including the additional public distribution pursuant to the Finco Financing, on or before February 24, 2014. It is anticipated that upon completion of the Business Combination, the Resulting Issuer will meet the public distribution requirements of a Tier 2 Real Estate or Investment issuer as set out in the Exchange’s Policy 2.1 — *Initial Listing Requirements*.

Risk Factors

There are certain risk factors associated with the Business Combination which should be carefully considered by Shareholders, including the fact that the Business Combination may not be completed if, among other things, the Business Combination Resolution is not approved at the Delavaco Meeting or if any other conditions precedent to the completion of the Business Combination, such as obtaining all regulatory requirements, are not satisfied or waived as applicable. See “Risk Factors”. If the Business Combination is completed as contemplated, the business of the Resulting Issuer upon completion of the Business Combination will be the business of Delavaco. There are numerous risks associated with such business and the real estate industry in general, including risks relating to the geographic concentration of the Resulting Issuer’s business, risks relating to acquisitions, including the condition of purchased properties and the loss of non-refundable deposits, the Resulting Issuer’s novel business model, operational risks, natural disasters, insurance risks, risks relating to access to capital and financing, leverage risks, litigation risk, unanticipated expenses related to laws benefitting disabled persons, potential conflicts of interest with directors, the effectiveness of internal controls, the volatility of U.S. markets, weather, contingent liabilities on disposition of investments, liquidity risks, reliance on assumptions, general real estate ownership risks, the demand and availability of substitutions for residential rental units, risks relating to a highly competitive industry, potential change to government regulations and applicable laws, environmental risks, unanticipated costs relating to newly acquired properties, the risk of increased expenses and taxes and interest rate risks. Such risk factors are more particularly described in “Risk Factors”.

GENERAL PROXY INFORMATION CONCERNING THE MEETINGS

Date, Time and Place of Meetings

The Delavaco Meeting will be held on December 30, 2013 at 10:00 a.m. (Toronto time) at the offices of Stikeman Elliott LLP, 5300 Commerce Court West, 199 Bay Street, Toronto, Ontario M5L 1B9.

The Sereno Meeting will be held on December 30, 2013 at 11:00 a.m. (Toronto time) at the offices of Stikeman Elliott LLP, 5300 Commerce Court West, 199 Bay Street, Toronto, Ontario M5L 1B9.

Proxy Related Matters

Solicitation of Proxies

This Information Circular is provided in connection with the solicitation of proxies by the management of Delavaco and Sereno for use at the Meetings for the purposes set forth in the accompanying Notice of Meetings and the associated costs will be borne by Delavaco and Sereno, respectively. The solicitation of proxies will be conducted primarily by mail. However, directors, officers and regular employees of Delavaco and Sereno may also solicit proxies by telephone, facsimile, e-mail or in person without special compensation.

Appointment and Revocation of Proxies

The persons named in the enclosed forms of proxy are directors and officers of Delavaco and Sereno. A Shareholder has the right to appoint a person or company (who need not be a Shareholder) other than the persons designated in the form of proxy provided by Delavaco and Sereno to represent the Shareholder at the Meetings. To exercise this right, the respective Shareholder should strike out the names of management designees in the enclosed form of proxy and insert the name of the desired representative in the blank space provided in the form of proxy or submit another appropriate form of proxy. In order to be effective, Delavaco Shareholders must send their proxy to Delavaco's registrar and transfer agent, Computershare Investor Services Inc., 100 University Ave., 9th Floor, North Tower, Toronto, Ontario, M5J 2Y1, not less than forty-eight (48) hours (excluding Saturdays, Sundays and holidays) before the time fixed for the Delavaco Meeting. In order to be effective, Sereno Shareholders must send their proxy to Sereno's registrar and transfer agent, Equity Financial Trust Company, 200 University Avenue, Suite 400, Toronto, Ontario, M5H 4H1, not less than forty-eight (48) hours (excluding Saturdays, Sundays and holidays) before the time fixed for the Sereno Meeting. The chair of either of the Meetings may waive this cut-off at his discretion without notice but proxies will not be accepted by the chair at the Meetings. The proxy shall be in writing and executed by the respective Shareholder or such Shareholder's attorney authorized in writing, or if such Shareholder is a corporation, under its corporate seal or by a duly authorized officer or attorney.

In addition to revocation in any other manner permitted by Applicable Laws, a Shareholder may revoke a proxy by signing and dating a written notice of revocation and delivering it:

- (a) to the office of Computershare Investor Services Inc. or Equity Financial Trust Company, as applicable, at the respective address of each set forth above at any time up to and including the close of business on the last Business Day before the day of the applicable Meeting, or any adjournment or postponement thereof (the notices of revocation will be forwarded to Delavaco's or Sereno's registered office); or
- (b) to the chair of the Delavaco Meeting or the Sereno Meeting, as applicable, before the vote is taken.

Voting of Proxies

The Delavaco Shares and Sereno Shares represented by an effective proxy will be voted or withheld from voting in accordance with the instructions specified therein on any ballot that may be called. **Where no choice is specified, the Delavaco Shares and Sereno Shares will be voted in favour of the matters set forth therein.** The enclosed form of proxy confers discretionary authority in respect of amendments or variations to matters identified in the Notice of Meetings and with respect to other matters which may properly come before the Meetings, or any adjournment or postponement thereof. As at the date of this Information Circular, management of Delavaco and Sereno are not aware of any amendments, variations, or other matters which may

be brought before the Meetings. If such should occur, the persons designated by management will vote in accordance with their best judgment, exercising discretionary authority.

Advice to Nonregistered Shareholders

You are a Nonregistered Shareholder if your shares are registered in the name of a nominee, such as a brokerage firm, through which you purchased the shares; a bank, trust company, trustee or administrator of self-administered RRSP's, RRIF's, RESP's and similar plans. In Canada, the vast majority of such shares held by Nonregistered Shareholders are registered under the name of CDS & Co., the registration name for The Canadian Depository for Securities Inc., which company acts as a nominee of many Canadian brokerage firms. Shares held by brokers or their nominees can only be voted for or against resolutions upon the instructions of the Nonregistered Shareholder. Without specific instructions, brokers/nominees are prohibited from voting shares for their clients. The directors and officers of Delavaco and Sereno do not know for whose benefit the Delavaco Shares and the Sereno Shares registered in the name of CDS & Co. are held.

Applicable regulatory policy requires intermediaries/brokers to seek voting instructions from Nonregistered Shareholders in advance of shareholders' meetings. Every intermediary/broker has its own mailing procedures and provides its own return instructions, which should be carefully followed by Nonregistered Shareholders in order to ensure that their shares are voted at the Meetings. Often the form of proxy supplied to a Nonregistered Shareholder by its broker is identical to the form of proxy provided by Delavaco and Sereno to the registered shareholders. However, its purpose is limited to instructing the registered shareholder how to vote on behalf of the Nonregistered Shareholder. The majority of brokers now delegate responsibility for obtaining instructions from clients to Broadridge Financial Solutions, Inc. ("**Broadridge**"). Broadridge typically mails the voting instruction forms or proxy forms to the Nonregistered Shareholders and asks the Nonregistered Shareholders to return the proxy of voting instruction forms to Broadridge. Broadridge then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of shares to be represented at the Meetings. A Nonregistered Shareholder receiving a proxy or voting instruction form from Broadridge cannot use that proxy to vote shares directly at the Meetings — the proxy must be returned to Broadridge well in advance of the Meetings in order to have the shares voted.

If you are a Nonregistered Shareholder and wish to vote in person at the Meetings, please contact your broker or agent well in advance of the Meetings to determine how you can do so.

Record Date and Quorum

November 28, 2013 is the record date for the purpose of determining those Delavaco Shareholders entitled to receive notice of and to vote at the Delavaco Meeting. November 29, 2013 has been fixed in advance by the Sereno Board as the record date for the purpose of determining those Sereno Shareholders entitled to receive notice of and to vote at the Sereno Meeting.

If you held Delavaco Shares or Sereno Shares, as applicable, as of the close of business on the respective record dates noted above, you have the right to cast one vote per share on any resolution to be voted upon at the Delavaco Meeting or Sereno Meeting, as applicable.

Pursuant to the by-laws of Delavaco, the quorum for the transaction of business at a meeting of Delavaco Class A Shareholders is a majority of the shareholders entitled to vote at a meeting, whether present in person or represented by proxy. Delavaco Class B Shareholders are not, pursuant to the terms of their shares entitled to vote at a meeting of Delavaco Shareholders. However, pursuant to Section 176(3) of the OBCA, Delavaco Class B Shareholders are afforded a statutory right to vote, separately as class, for certain enumerated matters which include the Amalgamation. Under the OBCA, the quorum for the transaction of business at a meeting of Delavaco Class B Shareholders is a majority of the shareholders entitled to vote at a meeting, whether present in person or represented by proxy. For Sereno, the quorum for the transaction of business at a meeting of shareholders is, subject to the OBCA in respect of a majority shareholder, two persons present in person, each being a shareholder entitled to vote at the meeting or a duly appointed proxyholder or representative for a shareholder so entitled.

Dissent Rights

The following description of the rights of a dissenting shareholder is applicable to Delavaco Shareholders in respect of their approval of the Business Combination Resolution (referred to herein as “**Delavaco Dissenting Shareholders**”). This description is not a comprehensive statement of the procedures to be followed by a Delavaco Dissenting Shareholder who seeks payment of the fair value of its share and is qualified in its entirety by Section 185 of the OBCA, which is attached to this Information Circular as Appendix E. A Delavaco Dissenting Shareholder who intends to exercise the right to dissent should carefully consider and comply with the provisions of section 185 of the OBCA. Failure to comply with the provisions of that section and to adhere to the procedures established therein may result in the loss of all rights thereunder.

Under Section 185, each Delavaco Shareholder who is a Registered Shareholder is entitled, in addition to any other rights the holder may have, to dissent and to be paid by Amalco the fair value of the shares held by the holder (“**Dissent Rights**”) in respect of which the holder dissents, determined as of the close of business on the last business day before the day on which the resolution from which such holder dissents was adopted. Only Registered Shareholders may dissent and a dissenting holder may only dissent with respect to all shares held on behalf of any one beneficial holder and registered in the name of such dissenting Registered Shareholder. Persons who are Nonregistered Shareholders who wish to dissent should be aware that they may only do so through their intermediary.

A Delavaco Dissenting Shareholder must send to Delavaco a written objection to the Business Combination Resolution and such written objection must be received by Delavaco c/o its solicitors at Stikeman Elliott LLP, 5300 Commerce Court West, 199 Bay Street, Toronto, Ontario M5L 1B9, Attention: Ellen Snow, not later than 4 p.m. (Toronto time) on December 24, 2013, two Business Days immediately preceding the date of the Delavaco Meeting (as it may be adjourned or postponed from time to time). No Delavaco Shareholder who has voted its shares in favour of the Business Combination Resolution shall be entitled to exercise Dissent Rights with respect to such shares. A Registered Shareholder may not exercise the right to dissent in respect of only a portion of such holder’s shares.

An application may be made to the Court by Amalco or by a Delavaco Dissenting Shareholder to fix the fair value of the Delavaco Dissenting Shareholder’s shares. If after the Business Combination is completed, such an application to the Court is made by a Delavaco Dissenting Shareholder, Amalco must, unless the Court otherwise orders, send to each Delavaco Dissenting Shareholder a written offer to pay such person an amount considered by Amalco to be the fair value of such shares held by such Delavaco Dissenting Shareholders. The offer, unless the Court otherwise orders, will be sent to each Delavaco Dissenting Shareholder at least 10 days before the date on which the application is returnable, if Amalco is the applicant, or within 10 days after Amalco is served with notice of the application, if a Delavaco Dissenting Shareholder is the applicant. The offer will be made on the same terms to each Delavaco Dissenting Shareholder and will be accompanied by a statement showing how the fair value was determined.

In such circumstances, a Delavaco Dissenting Shareholder may make an agreement with Amalco for the purchase of its shares in the amount of Amalco’s offer at any time before the Court pronounces an order fixing the fair value of the shares. A Delavaco Dissenting Shareholder is not required to give security for costs in respect of an application and, except in special circumstances, will not be required to pay the costs of the application and appraisal. On the application, the Court will make an order fixing the fair value of the shares of all Delavaco Dissenting Shareholders who are parties to the application, giving judgment in that amount against Amalco and in favour of each of those Delavaco Dissenting Shareholders, and fixing the time within which Amalco must pay that amount payable to the Delavaco Dissenting Shareholders. The Court may in its discretion allow a reasonable rate of interest on the amount payable to each Delavaco Dissenting Shareholder calculated from the date on which the Delavaco Dissenting Shareholder ceases to have any rights as a shareholder until the date of payment.

On the Business Combination becoming effective, or upon the making of an agreement between Amalco and the Delavaco Dissenting Shareholder as to the payment to be made by Amalco to the Delavaco Dissenting Shareholder, or the pronouncement of a Court order, whichever first occurs, the Delavaco Dissenting Shareholder will cease to have any rights as a shareholder other than the right to be paid the fair value of such

shareholder's shares in the amount agreed to between Amalco and the Delavaco Dissenting Shareholder or in the amount of the judgment, as the case may be.

Amalco shall not make a payment to a Delavaco Dissenting Shareholder if there are reasonable grounds for believing that Amalco is or would after the payment be unable to pay its liabilities as they become due, or that the realizable value of their assets would thereby be less than the aggregate of its liabilities. In such event, Amalco shall notify each Delavaco Dissenting Shareholder that it is lawfully unable to pay Delavaco Dissenting Shareholders for their shares in which case the Delavaco Dissenting Shareholder may, by written notice to Amalco, within 30 days after receipt of such notice, withdraw its written objection. In such event, the Delavaco Dissenting Shareholder shall be deemed to have participated in the Business Combination. If the Delavaco Dissenting Shareholder does not withdraw its written objection, it retains its status as a claimant against Amalco to be paid as soon as Amalco is lawfully entitled to do so.

The above summary does not purport to provide a comprehensive statement of the procedures to be followed by Delavaco Dissenting Shareholders who seek payment of the fair value of their shares. Section 185 of the OBCA requires adherence to the procedures established therein and failure to do so may result in the loss of all rights thereunder. Accordingly, each Delavaco Dissenting Shareholder who is considering exercising Dissent Rights should carefully consider and comply with the provisions of that section, the full text of which is set out in Appendix E to this Information Circular, and consult their own legal advisor.

Voting Shares and Principal Holders

As at the date of this Information Circular, 4,700,000 Sereno Shares and 25,075,000 Delavaco Shares (consisting of 11,600,000 Delavaco Class A Shares and 13,475,000 Delavaco Class B Shares) are issued and outstanding.

To the knowledge of the directors and executive officers of Delavaco, as at the date of this Information Circular, the following are the only parties that beneficially own, or control or direct, directly or indirectly, voting securities carrying 10% or more of the voting rights attached to the voting securities of Delavaco:

<u>Name</u>	<u>Number of Voting Securities</u>	<u>Percentage</u>
PowerOne Capital Limited ⁽¹⁾	3,550,500	30.6%
Andrew DeFrancesco	2,660,000	22.9%
Marc Muzzo ⁽²⁾	2,487,500	21.4%

(1) Such shares held beneficially by Mr. Pat Di Capo.

(2) Mr. Muzzo owns 2,200,000 of his shares through Mardis Group Inc.

To the knowledge of the directors and executive officers of Sereno as at the date of this Information Circular, the following are the only parties that beneficially own, or control or direct, directly or indirectly, voting securities carrying ten percent (10%) or more of the voting rights attached to the voting securities of Sereno:

<u>Name</u>	<u>Number of Voting Securities</u>	<u>Percentage</u>
Barry Gordon	950,000	20.2%

Interest of Certain Persons in Matters to be Acted Upon

Delavaco:

Directors and officers of Delavaco own beneficially, directly or indirectly, or exercise control or direction over, an aggregate of approximately 3,074,500 Delavaco Shares (approximately 12.3% of the Delavaco Shares outstanding as of the date hereof). The directors and officers of Delavaco are expected to vote all of the Delavaco Shares beneficially held by them in favour of the Business Combination.

Other than in their capacity as Delavaco Shareholders or as described above or elsewhere in this Information Circular, no director or senior officer, nor any associate or affiliate of the foregoing, is expected to benefit in any matters to be acted upon at the Delavaco Meeting.

Sereno:

Directors and officers of Sereno own beneficially, directly or indirectly, or exercise control or direction over, an aggregate of approximately 1,100,000 Sereno Shares (approximately 23.4% of the Sereno Shares outstanding as of the date hereof). The directors and officers of Sereno are expected to vote all of the Sereno Shares beneficially held by them in favour of the Consolidation, the Name Change and the New Option Plan.

BUSINESS OF THE SERENO MEETING

Election of Directors

At the Sereno Meeting, the Sereno Shareholders will be asked to elect, conditional upon and effective as of the completion of the Business Combination, the directors of Sereno to hold offices until the next annual meeting of Sereno Shareholders or until the successors of such directors are elected or appointed. If the Business Combination is completed, it will be desirable to increase the size of the board of directors of the resulting issuer (the “**Resulting Issuer Board**”) from three directors to six directors and to elect six members to the expanded Resulting Issuer Board, including all the nominees currently affiliated with Delavaco (as described more particularly below, the “**Resulting Issuer Directors**”), with the Resulting Issuer Directors to take office upon the completion of the Business Combination. At the time of the Sereno Meeting, the Business Combination will not yet have been completed.

It is not appropriate to give effect to an increase to the size of the Sereno Board or to elect the nominees currently affiliated with Delavaco until the Business Combination is completed. The Sereno Board presently consists of three directors, namely, Frank Davis, Barry Gordon and Brandon Gordon. Andrew DeFrancesco, Marc Muzzo, Keith Ray, Michael Serruya, Kelly Hanczyk and Romeo De Gasperis will succeed the Sereno Directors (as defined below) upon completion of the Business Combination. The Sereno Shareholders will be able to vote in favour of, or withhold from voting, separately for each of the Resulting Issuer Directors. If elected, such nominees will take office upon the completion of the Business Combination. Immediately upon completion of the Business Combination, and assuming the election of the aforementioned directors, Frank Davis, Barry Gordon and Brandon Gordon (the “**Sereno Directors**”) will resign as directors of Sereno. If the Business Combination is not completed, the Sereno Directors will remain as directors of Sereno and the number of directors shall remain at three (3).

The management representatives designated in the form of proxy (or voting instruction form, as applicable) will vote or withhold from voting the Sereno Shares in respect of which they are appointed by proxy in the election of the nominees for director in accordance with the instructions of the shareholder as indicated on the proxy. In the absence of such instructions, such Sereno Shares will be voted FOR the election of such directors. Management does not contemplate that any of the proposed nominees will be unable to serve as a director but, if that should occur for any reason before the Sereno Meeting, the management representatives designated in the form of proxy (or voting instruction form, as applicable) reserve the right to vote for another nominee at their discretion. Each Resulting Issuer Director elected will hold office from and after the completion of the Business Combination until Sereno’s next annual meeting or until his successor is elected or appointed. The Sereno Directors have agreed to resign from the Sereno Board with effect as of the completion of the Business Combination. See below for detailed information on the Sereno Directors and the Resulting Issuer Directors under the corresponding headings.

In order to allow the Resulting Issuer Board the flexibility to appoint additional directors in accordance with corporate law, the Sereno Shareholders will be asked at the Sereno Meeting to consider, and if thought appropriate, to pass a special resolution, requiring the affirmative vote of at least two-thirds of the votes cast in respect thereof by shareholders present in person or represented by proxy at the Sereno Meeting, the text of which is as follows:

BE IT RESOLVED, AS A SPECIAL RESOLUTION, THAT:

1. The directors of Sereno are hereby empowered to determine, from time to time by resolution, the number of directors of Sereno, so long as the total number of directors appointed will not be greater than one and one-third times the number of directors elected at the most recent meeting of Sereno Shareholders at which directors were elected.

The directors of Sereno may determine to revoke or decline to proceed with this resolution before it is acted upon without further approval from the shareholders.

Unless instructed otherwise, the management designees in the accompanying form of proxy intend to vote FOR the foregoing resolution.

Sereno Directors

The following table and notes set out the name of each of the current Sereno Directors, their principal occupation, the year they first became a director of Sereno and the number of shares of Sereno beneficially owned, or controlled or directed, directly or indirectly, by each such individual as of the date hereof.

<u>Name and Municipality of Residence</u>	<u>Position Held</u>	<u>Principal Occupation</u>	<u>Director Since</u>	<u>Number of Sereno Shares⁽²⁾</u>
Frank Davis ⁽¹⁾ Ontario Canada	Director	Counsel, Bennett Jones LLP	March 4, 2011	50,000
Barry Gordon ⁽¹⁾ Ontario, Canada	Chairman, President, CEO, Secretary and Director	Chairman, Primary Capital Inc., a private exempt market dealer	March 4, 2011	950,000
Brandon Gordon ⁽¹⁾ Ontario, Canada	Director	President, Investment Venture Capital Company, a private investment company	March 4, 2011	50,000

(1) Member of the Audit Committee.

(2) The information as to shares beneficially owned, directly or indirectly, or over which control is exercised is not within the knowledge of Sereno and has been furnished by the respective individuals.

Corporate Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the knowledge of Sereno, no director or executive officer of Sereno, or shareholder holding a sufficient number of securities of Sereno to affect materially the control of the Corporation:

- (a) is, as at the date hereof, or has been, within the 10 years before the date hereof, a director or executive officer of any corporation that, while that person was acting in such capacity:
 - (i) was the subject of a cease trade or similar order or an order that denied the relevant corporation access to any exemption under securities legislation, for a period of more than 30 consecutive days;
 - (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the corporation being the subject of a cease trade or similar order or an order that denied the relevant corporation access to any exemption under securities legislation, for a period of more than 30 consecutive days;
 - (iii) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (b) has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to the bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, officer or shareholder.

To the knowledge of Sereno, no director or executive officer of Sereno, or a shareholder holding sufficient number of securities of Sereno to affect materially the control of Sereno, has been subject to:

- (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Resulting Issuer Directors

See “Information Concerning the Resulting Issuer — Directors, Officers and Promoters” for information on the proposed directors of the Resulting Issuer comprising the Resulting Issuer Directors.

Appointment of New Auditors

Sereno Shareholders will be asked to approve the appointment of Deloitte LLP, as the auditor of Sereno and the Resulting Issuer on completion of the Business Combination, at a remuneration to be fixed by the Sereno Board.

Pursuant to the terms of the Business Combination and subject to Exchange approval, Sereno proposes to nominate Deloitte LLP, as auditor of the Resulting Issuer for the ensuing year, until the close of the next annual general meeting of the Resulting Issuer Shareholders at a remuneration to be fixed by the directors. The appointment of Deloitte LLP as auditor of the Resulting Issuer is conditional upon, and shall be effective as of, the completion of the Business Combination.

Approval of the New Option Plan

Exchange policy requires all of its listed companies to have a stock option plan if the company intends to grant options. The existing stock option plan, the Sereno Stock Option Plan, was adopted by Sereno in connection with its initial public offering and listing on the Exchange as a capital pool company on March 19, 2007. The Sereno Stock Option Plan is a “rolling” 10% plan, which allows for a maximum number of shares issuable under it that is equal to 10% of the issued and outstanding Sereno Shares from time to time.

At the Sereno Meeting, Sereno Shareholders will be asked to consider, and if thought appropriate, approve, conditional upon the Business Combination becoming effective, the adoption of the New Option Plan. The full text of the New Option Plan is set out in Appendix F to this Information Circular. The purpose of the New Option Plan is to (i) replace the existing Sereno Stock Option Plan; (ii) encourage stock ownership by Eligible Persons (as defined in the New Option Plan); (iii) increase the proprietary interest of Eligible Persons in the success of the Resulting Issuer; (iv) encourage Eligible Persons to remain with the Resulting Issuer; and (v) attract new directors, employees and officers.

The New Option Plan is a rolling plan with the Resulting Issuer authorized to issue that number of options which is 10% of the issued and outstanding share capital at the date of the grant of shares, less the aggregate number of shares reserved for issuance or issuable under any Share Compensation Arrangement (as defined in the New Option Plan).

The New Option Plan is subject to the following restrictions:

- (i) the Resulting Issuer must not grant an option where the aggregate number of Resulting Issuer Shares reserved for issuance under options may exceed 10% of the outstanding common shares of the Resulting Issuer from time to time;
- (ii) the Resulting Issuer must not grant an option to an Eligible Person (such person referred to herein as a “**Participant**”) in any 12 month period that exceeds 5% of the outstanding Resulting Issuer Shares, unless the Resulting Issuer has obtained by a majority of the votes cast by the shareholders eligible to vote at a shareholders’ meeting, excluding votes attaching to Resulting Issuer Shares beneficially owned by insiders and their associates (“**Disinterested Shareholder Approval**”);
- (iii) the aggregate number of options granted to all Persons conducting “Investor Relations Activities” in any 12 month period must not exceed, in the aggregate, 2% of the outstanding common shares of the Resulting Issuer; and
- (iv) the Resulting Issuer must not grant aggregate options to any one consultant or consultant company in any 12 month period that exceeds 2% of the outstanding common shares of the Resulting Issuer.

Material Terms of the Resulting Issuer Stock Option Plan

The following is a summary of the material terms of the New Option Plan:

- (i) persons who are Participants of the Resulting Issuer are eligible to receive grants of options under the New Option Plan;
- (ii) options granted under the New Option Plan are non-assignable and non-transferable, other than by will or by the laws of descent;
- (iii) options granted under the New Option Plan are exercisable for a maximum of 10 years from the date of grant;
- (iv) in the case of options granted to a Participant who is an employee, consultant, consultant company or management company employee, the Participant must be a bona fide employee, consultant, consultant company or management company employee, as the case may be, of the Resulting Issuer or its subsidiaries;
- (v) except as otherwise determined by the Board of Directors of the Resulting Issuer:
 - (A) if a Participant who is a non-executive director of the Resulting Issuer ceases to be an Eligible Person as a result of his or her retirement from the Board other than termination for cause, each unvested option held by such Participant shall automatically vest on the date of his or her retirement from the Board, and thereafter each vested option held by such Participant will cease to be exercisable on the earlier of the original expiry date of the option and six (6) months after the date of his or her retirement from the Board;
 - (B) if the Board service, consulting relationship, or employment of a Participant with the Resulting Issuer or its subsidiaries terminated for cause, each vested and unvested option held by the Participant will automatically terminate and become void on the Termination Date;
 - (C) if a Participant dies, the legal representative of the Participant may exercise the Participant's vested options for a period until the earlier of the original expiry date of the option and 12 months after the date of the Participant's death, but only to the extent the options were by their terms exercisable on the date of death. For greater certainty, all unvested Options held by a Participant who dies shall terminate and become void on the date of death of such Participant; and
 - (D) if a Participant ceases to be an Eligible Person for any reason whatsoever other than referred to in (A) to (C) above, each vested option held by the Participant will cease to be exercisable on the earlier of the original expiry date of the option and six (6) months after the Termination Date.
- (vi) provided the Resulting Issuer Shares are listed on the Exchange, the exercise price of each option will be set by the Board of the Resulting Issuer on the date such option is granted, and will not be less than the Market Price (as defined in the New Option Plan); and
- (vii) in the event of an actual or potential Change of Control Event (as defined in the New Option Plan), the Board may, in its discretion, without the necessity or requirement for the agreement of any Participant: (A) accelerate, conditionally or otherwise, on such terms as it sees fit, the vesting date of any option; (B) permit the conditional exercise of any option, on such terms as it sees fit; (C) otherwise amend or modify the terms of the option, including for greater certainty permitting Participants to exercise any option, to assist the Participants to tender the underlying Resulting Issuer Shares to, or participate in, the actual or potential Change of Control Event or to obtain the advantage of holding the underlying Resulting Issuer Shares during such Change of Control Event; and (D) terminate, following the successful completion of such Change of Control Event, on such terms as it sees fit, the options not exercised prior to the successful completion of such Change of Control Event.

At the Sereno Meeting, Sereno Shareholders will be asked to consider and, if thought fit, approve an ordinary resolution approving and adopting the New Option Plan. In order for the resolution approving and adopting the New Option Plan to be effective, it must be approved by the affirmative vote of a majority of the votes cast in respect thereof by shareholders present in person or represented by proxy at the Sereno Meeting.

BE IT RESOLVED, AS AN ORDINARY RESOLUTION, THAT:

1. Subject to the Business Combination becoming effective, the current stock option plan of Sereno be replaced and superseded by a new stock option plan (the “**New Option Plan**”), substantially in the form set out as Appendix F to the joint management information circular (the “**Information Circular**”) of Delavaco Properties Inc. and Sereno Capital Corporation dated November 29, 2013 be and the same is hereby approved and authorized.
2. All outstanding options of Sereno at the date of the Information Circular will, after giving effect to the Consolidation, be rolled into and deemed granted under the New Option Plan, subject to the terms thereof.
3. All outstanding options of Delavaco Properties Inc. at the date of the Information Circular will, after giving effect to the Consolidation, be rolled into and deemed granted under the New Option Plan, subject to the terms thereof.
4. Any director or officer of the Resulting Issuer be and is hereby authorized to do such things and to sign execute and deliver all documents that such director or officer may, in their discretion, determine to be necessary in order to give full effect to the intent and purpose of this resolution.

The directors of Sereno may determine to revoke or decline to proceed with this resolution before it is acted upon without further approval from the shareholders.

Unless instructed otherwise, the management designees in the accompanying form of proxy intend to vote FOR the foregoing resolution.

Approval of the Consolidation

At the Sereno Meeting, Sereno Shareholders will be asked to consider and, if deemed appropriate, to pass, with or without variation, a special resolution in the form set out below (the “**Consolidation Resolution**”), subject to such amendments, variations or additions as may be approved at the Sereno Meeting, to approve the consolidation of the Sereno Shares (as soon as practicable after giving effect to the Amalgamation) on the basis of one (1) post-consolidation Sereno Share for every 7.36 pre-consolidation Sereno Shares.

No fractional Sereno Shares will be issued in connection with the Consolidation and the aggregate number of Sereno Shares that any Sereno Shareholder shall be entitled to receive post-consolidation shall be rounded down to the nearest whole number of Sereno Shares, and no cash amount shall be payable in respect of such fractional shares.

The text of the Consolidation Resolution to be submitted to shareholders at the Sereno Meeting is as follows:

BE IT RESOLVED, AS A SPECIAL RESOLUTION, THAT:

1. After giving effect to the Amalgamation (as defined in the joint management information circular (the “**Information Circular**”) of a wholly-owned subsidiary of Sereno Capital Corporation (“**Sereno**”) and Delavaco Properties Inc.), Sereno is hereby authorized to amend the articles of incorporation of Sereno to provide that the authorized share capital of Sereno be altered by consolidating all of the issued and outstanding common shares in the capital of Sereno on the basis of one (1) post-consolidation share for every 7.36 pre-consolidation shares (the “**Consolidation**”).
2. No fractional Sereno Shares shall be issued in connection with the Consolidation and, in the event a shareholder would otherwise be entitled to receive a fractional Sereno Share in connection with the Consolidation, the number of Sereno Shares to be received by such shareholder shall be rounded down to the next highest whole number of Sereno Shares and no cash amount shall be payable in respect of such fractional shares.
3. Notwithstanding that this resolution has been passed (and the Consolidation approved) by the shareholders of Sereno, the directors of Sereno are hereby authorized and empowered, without further

notice to or approval of the shareholders of Sereno, to not proceed with the Consolidation at any time prior to the filing of such articles of amendment to effect the Consolidation.

4. Any director or officer of Sereno is hereby authorized and directed, acting for, in the name of and on behalf of Sereno, to execute or cause to be executed, under the seal of Sereno or otherwise, and to deliver or cause to be delivered, such other documents and instruments, and to do or cause to be done all such other acts and things, as may in the opinion of such director or officer of Sereno be necessary or desirable to carry out the intent of the foregoing resolution.

The directors of Sereno may determine to revoke or decline to proceed with this resolution before it is acted upon without further approval from the shareholders.

The Consolidation Resolution must be approved by at least two-thirds of votes cast by the Sereno Shareholders, in person or represented by proxy, at the Sereno Meeting. **It is the intention of the persons named in the enclosed form of proxy, in the absence of instructions to the contrary, to vote the proxy FOR the Consolidation Resolution.**

Approval of the Name Change

If the Amalgamation is completed, Sereno will be engaged primarily in the business of its new wholly-owned subsidiary, Amalco. Accordingly, the Sereno Board is recommending that the corporate name of Sereno be changed to “Delavaco Residential Properties Inc.”

At the Sereno Meeting, Sereno Shareholders will be asked to consider and, if deemed appropriate, to pass, with or without variation, a special resolution in the form set out below (the “**Name Change Resolution**”), subject to such amendments, variations or additions as may be approved at the Sereno Meeting, to approve the change of Sereno’s name to “Delavaco Residential Properties Inc.”

The text of the Name Change Resolution to be submitted to shareholders at the Sereno Meeting is as follows:

BE IT RESOLVED, AS A SPECIAL RESOLUTION, THAT:

1. Sereno is hereby authorized to amend its articles to change Sereno’s name to “Delavaco Residential Properties Inc.”
2. Notwithstanding that this resolution has been passed (and the change of name of Sereno approved) by the shareholders of Sereno, the directors of Sereno are hereby authorized and empowered without further notice to or approval of the shareholders of Sereno to not proceed with the change of the Sereno’s name to “Delavaco Residential Properties Inc.”
3. Any director or officer of Sereno is hereby authorized and directed, acting for, in the name of and on behalf of Sereno, to execute or cause to be executed, under the seal of Sereno or otherwise, and to deliver or cause to be delivered, such other documents and instruments, and to do or cause to be done all such other acts and things, as may in the opinion of such director or officer of Sereno be necessary or desirable to carry out the intent of the foregoing resolution.

The directors of Sereno may determine to revoke or decline to proceed with this resolution before it is acted upon without further approval from the shareholders.

The Name Change Resolution must be approved by at least two-thirds of votes cast by the Sereno Shareholders, present in person or represented by proxy, at the Sereno Meeting. **It is the intention of the persons named in the enclosed form of proxy, in the absence of instructions to the contrary, to vote the proxy FOR the Name Change Resolution.**

BUSINESS OF THE DELAVACO MEETING

Approval of the Amalgamation

At the Delavaco Meeting, the Delavaco Shareholders will be asked to consider and, if deemed advisable, approve the Business Combination Resolution set forth in Appendix B hereto adopting the Amalgamation Agreement providing for the Amalgamation in order to effect, among other things, the Business Combination. Details of the Business Combination are provided below.

The Business Combination Resolution must be approved by (i) not less than 66 $\frac{2}{3}$ % of the votes validly cast by Delavaco Class A Shareholders; and (ii) not less than 66 $\frac{2}{3}$ % of the votes validly cast by Delavaco Class B Shareholders, each voting separately as a class pursuant to the OBCA, in each case present in person or represented by proxy at the Delavaco Meeting. **It is the intention of the persons named in the enclosed form of proxy, in the absence of instructions to the contrary, to vote the proxy FOR the Business Combination Resolution.**

THE BUSINESS COMBINATION

The Business Combination will be carried out pursuant to the Business Combination Agreement and the Amalgamation Agreement. The Business Combination will result in the combination of the businesses, assets and liabilities of Sereno and Delavaco. Pursuant to the Amalgamation, Delavaco will amalgamate with Sereno's wholly-owned subsidiary, Subco, and Delavaco Shareholders will receive Sereno Shares in exchange for their Delavaco Shares. The amalgamated company, Amalco, will continue as a wholly-owned subsidiary of Sereno and the Resulting Issuer will continue the business of Delavaco. Upon completion of the Amalgamation, Amalco's corporate name will be "Delavaco Properties Inc." The following summary does not purport to be complete and is qualified in its entirety by reference to the Business Combination Agreement and the Amalgamation Agreement. The Business Combination Agreement has been filed by Sereno under its corporate profile on SEDAR at www.sedar.com. The Amalgamation Agreement will be entered into prior to the Effective Date, substantially in the form set out in Appendix D to this Information Circular.

Background to the Business Combination

Sereno is a "capital pool company" within the meaning of the policies of the Exchange. It does not have any operations and has no assets other than cash and HST recoverable. Sereno's business is to identify and evaluate businesses and assets with a view to completing a "Qualifying Transaction" under the policies of the Exchange.

Delavaco was incorporated on January 27, 2011 and since that time has been engaged in the business of investing in single-family homes. Delavaco invests in single-family homes, often at prices below replacement costs located in major markets in the United States that were hard-hit by the housing correction but which Delavaco believes now offer substantial upside to the housing recovery and that exhibit favourable demographics, positive economic growth and solid rental demand. Subsequent to the completion of the Reorganization (as described further below) Delavaco will also invest in multi-family properties to provide increased scale and a further diversified source of income (both geographically and by residential property sector) to the existing portfolio of single family homes. Thereafter, Delavaco will seek to grow a stable, cash generating portfolio of both single-family homes and multi-family properties in the Southeast United States (particularly in the states of Florida, Georgia and Texas).

On May 24, 2013, Sereno and Delavaco entered into a letter of intent setting out the basic terms of a proposed business combination, whereby Sereno would acquire all of the issued and outstanding Delavaco Shares pursuant to a court-approved plan of arrangement and subsequently convert into a real estate investment trust. On September 18, 2013, Sereno issued a press release announcing the updated terms of the Business Combination as set forth in this Information Circular and the signing of the Business Combination Agreement.

The terms of the Business Combination are the result of arm's length negotiations conducted between Sereno and Delavaco and their respective legal advisors. On September 18, 2013, Sereno and Delavaco entered into the Business Combination Agreement. See "The Business Combination Agreement" below for particulars of the terms and conditions of the Business Combination Agreement.

Finco Financing

Concurrent with the completion of the Business Combination, Sereno Finco will complete the Finco Financing to raise aggregate gross proceeds of not less than \$43,700 and not more than \$250,000 at the Issue Price of \$1.15. The Special Shares issued under the Financing will be non-voting, non-participating special shares in the capital of Sereno Finco. Under the Share Exchange Agreement, Sereno will acquire all of the issued and outstanding Special Shares and the sole issued and outstanding common share of Sereno Finco upon completion of the Business Combination and subsequent to the Consolidation. Each shareholder of Sereno Finco will receive one post-Consolidation share of the Resulting Issuer for each Special Share or common share of Sereno Finco held at a deemed post-consolidated issue price of \$1.15. In the event that the minimum amount of proceeds are raised from the Finco Financing, an aggregate of 38,000 Resulting Issuer Shares will be issued to shareholders of Sereno Finco, such number increasing to 217,391 Resulting Issuer Shares in the event the maximum amount of proceeds are raised. The Resulting Issuer Shares issued to shareholders of Sereno Finco will not be subject to any hold or restricted periods under Applicable Securities Laws. The Resulting Issuer will

hold the sole common share and all of the issued and outstanding Special Shares of Sereno Finco following the completion of the Business Combination.

Terms of the Business Combination

The following is a summary of the terms of the Business Combination. Full particulars of the Business Combination are contained in the Business Combination Agreement and the Amalgamation Agreement. The Business Combination Agreement has been filed by Sereno under its corporate profile on SEDAR at www.sedar.com. The Amalgamation Agreement is expected to be entered into among Sereno, Delavaco and Subco, substantially in the form attached as Appendix D to this Information Circular, prior to the Effective Date. Delavaco Shareholders and Sereno Shareholders are urged to review each of the Business Combination Agreement and the Amalgamation Agreement in its entirety.

On September 18, 2013, Sereno and Delavaco entered into the Business Combination Agreement which sets out the terms and conditions on which the parties will complete the Business Combination. The purpose of the Business Combination is to effect Sereno's acquisition of all of the issued and outstanding Delavaco Shares. If the Business Combination Resolution is approved at the Delavaco Meeting and all other conditions precedent to the Business Combination are satisfied or waived, the Business Combination will be implemented by way of a three-cornered amalgamation whereby Delavaco will amalgamate with Subco under the OBCA to form Amalco. Amalco will continue as a wholly-owned subsidiary of Sereno and together with Sereno will continue Delavaco's business and its principal assets will be single-family homes and multi-family properties in Florida, Georgia and Texas. The Resulting Issuer will examine additional geographic opportunities, subject to market conditions and the overall state of the real estate market, but at this time has not made any decisions to expand beyond Florida, Georgia and Texas. See "Information Concerning Delavaco" and "Information Concerning the Resulting Issuer".

On the Effective Date of the Amalgamation:

- Delavaco and Subco shall be amalgamated and continue as one corporation, Amalco, on the terms prescribed in the Business Combination Agreement and the Amalgamation Agreement.
- The Delavaco Shares shall be cancelled, and former Delavaco Shareholders (other than Delavaco Dissenting Shareholders (who are ultimately entitled to be paid the fair value of their Delavaco Shares)), shall receive that number of Consideration Shares equal to the product of (A) the number of Delavaco Shares so cancelled, and (B) the Exchange Ratio.
- The common shares of Subco shall be cancelled and each replaced with one common share of Amalco issued by Amalco.
- The Delavaco Warrants will be adjusted in accordance with the Exchange Ratio so that they will each become exercisable for Sereno Shares.
- As consideration for the issuance of the Consideration Shares to effect the Amalgamation, Amalco will issue to Sereno one Amalco Share for each Consideration Share so issued.
- Sereno will consolidate all of the issued and outstanding Sereno Shares (including the Consideration Shares) on the basis of 7.36 pre-consolidation shares for one (1) post-consolidation share. The Delavaco Warrants (which will have been adjusted in accordance with the Exchange Ratio), as well as the outstanding Sereno Options, will also be consolidated on a 7.36 to 1 basis.
- All of the property and assets of each of Delavaco and Subco will become the property and assets of Amalco and Amalco will be liable for all of the liabilities and obligations of each of Delavaco and Subco.
- Amalco will be a wholly-owned subsidiary of Sereno under the name "Delavaco Properties Inc."
- Sereno will change its name to "Delavaco Residential Properties Inc."
- Delavaco will have completed the Reorganization and acquired all of the issued and outstanding limited partnership units in the Multi-Family Partnerships, thereby having acquired title to the Austin Properties and the Sunrise Properties. As part of the Reorganization, Delavaco may, but is not required to, acquire

all of the issued and outstanding membership interests in Park Colony, thereby acquiring title to the Hollywood Properties, it being understood that the acquisition of Park Colony and the Hollywood Properties is not a condition precedent to completing the Reorganization or effecting the Amalgamation.

Following the Amalgamation:

- The Resulting Issuer will carry on the business previously carried on by Delavaco.
- Former shareholders of Sereno will hold 638,586 Resulting Issuer Shares, representing approximately 1.0% of the outstanding Resulting Issuer Shares (in the event that Park Colony is acquired, such number increasing to 1.2% in the event that Park Colony is not acquired).
- Former shareholders of Delavaco will hold 61,088,732 Resulting Issuer Shares representing approximately 99.0% of the outstanding Resulting Issuer Shares (in the event that Park Colony is acquired, such numbers decreasing to 52,019,167 Resulting Issuer Shares and 98.8%, respectively, in the event that Park Colony is not acquired).
- Shareholders of Sereno Finco will hold 38,000 Resulting Issuer Shares in the event the minimum amount of proceeds are raised from the Finco Financing (or 217,391 Resulting Issuer Shares in the event the maximum amount of proceeds are raised from the Finco Financing). Whether or not Park Colony is acquired, shareholders of Sereno Finco will hold less than 1% of the outstanding Resulting Issuer Shares.

Assuming there are no Delavaco Dissenting Shareholders and no Delavaco Options, Delavaco Warrants or Sereno Options are exercised during the period between the date of this Information Circular and the Effective Date, on completion of the Amalgamation (and assuming the acquisition of Park Colony is completed), there will be 61,765,318 Resulting Issuer Shares issued and outstanding (on a non-diluted basis and assuming the minimum amount of proceeds are raised from the Finco Financing, such number increasing to 61,944,709 in the event the maximum amount of proceeds are raised from the Finco Financing). In the event that the acquisition of Park Colony is not completed, there will be 52,695,753 Resulting Issuer Shares issued and outstanding (on a non-diluted basis and assuming the minimum amount of proceeds are raised from the Finco Financing, such number increasing to 52,875,144 in the event the maximum amount of proceeds are raised from the Finco Financing).

Benefits of and Reasons for the Business Combination

Although Sereno Shareholders are not required to vote for the Business Combination Resolution in accordance with Policy 2.4 of the Exchange, the Sereno Board has elected to move forward with the Business Combination as it believes that the Business Combination provides the following benefits for the Sereno Shareholders:

- the Business Combination would constitute the Qualifying Transaction for Sereno under the policies of the Exchange thereby permitting it to graduate from a capital pool company to a Tier 2 Real Estate or Investment Issuer.

The Delavaco Board believes that the Business Combination provides the following benefits for the Delavaco Shareholders:

- increased liquidity and access to a public market for their Delavaco Shares; and
- access to additional financing sources available to public companies, to increase funding to further advance Delavaco's business objectives and to develop its properties and assets.

Recommendation of the Delavaco Board for the Business Combination

After careful consideration of the alternatives available to Delavaco, the advice of legal counsel and other relevant matters, the Delavaco Board approved the Business Combination Agreement and the Business Combination.

In reaching its decision to approve the Business Combination and to recommend to Delavaco Shareholders that they vote for the Business Combination Resolution, the Delavaco Board carefully considered all aspects of

the Business Combination Agreement, the Amalgamation Agreement and the Business Combination, and considered a number of factors in concluding that the Business Combination is in the best interests of Delavaco, including the following:

- the reasons outlined under “Benefits of and Reasons for the Business Combination” above;
- the terms of the Business Combination will result in holders of Delavaco Shares continuing to own, indirectly, an interest in all of the assets and properties currently held by Delavaco, through each Delavaco Shareholder’s respective ownership of the Resulting Issuer Shares;
- Delavaco Shareholders are expected to own approximately over 98% of the issued and outstanding Resulting Issuer Shares upon completion of the Business Combination (regardless of whether the acquisition of Park Colony is complete);
- Delavaco Shareholders will have increased liquidity for their shares;
- Delavaco Shareholders that do not vote in favour of the Business Combination may exercise Dissent Rights; and
- the evaluation by the Delavaco Board of other possible strategic alternatives to maximize shareholder value, and the perceived risks to Delavaco (many of which are beyond Delavaco’s control) associated with such alternatives and the timing and uncertainty of successfully accomplishing any of such alternatives, and the conclusion of the Delavaco Board that none of those alternatives were reasonably likely to present superior opportunities for Delavaco, or reasonably likely to create greater value for Delavaco Shareholders in comparison to the Business Combination.

In the course of its deliberations, the Delavaco Board also identified and considered a variety of risks, including, but not limited to:

- the risks to Delavaco if the Business Combination is not completed, including the costs incurred in pursuing the Business Combination, the diverting of significant management attention away from the conduct of Delavaco’s business and the uncertainty that current and prospective Delavaco employees may experience concerning their future roles with Delavaco following successful completion of the Business Combination, which may adversely affect Delavaco’s ability to attract or retain key management and other personnel;
- the limitations contained in the Business Combination Agreement on the ability of Delavaco to solicit further expressions of interest from third parties; and
- the risk factors applicable to the Resulting Issuer as outlined in this Information Circular.

The foregoing discussion of the information and factors considered by the Delavaco Board is not intended to be exhaustive but summarizes the material factors considered by the Delavaco Board. The Delavaco Board collectively reached its decision with respect to the Business Combination in light of the factors described above and other factors that each member of the Delavaco Board considered appropriate.

In reaching its determination to approve and recommend the Business Combination, the Delavaco Board did not find it useful or practicable to, and did not, quantify, rank or otherwise attempt to make any specific assessments of, or otherwise assign any relative or specific weight to, the factors that were considered. The Delavaco Board’s determination and recommendation were made after consideration of all of the factors relating to the Business Combination and in light of their own knowledge of the business, financial condition and prospects of Delavaco and were based upon the advice of the financial and legal advisors to Delavaco. Individual directors may have assigned or given different weights to different factors.

The Delavaco Board unanimously recommends that the Delavaco Shareholders vote in favour of the Business Combination Resolution

Effective Date of the Business Combination

If the Business Combination Resolution is passed and every other requirement of the OBCA relating to the Amalgamation is complied with and all other conditions precedent to the Business Combination contained in

the Business Combination Agreement and the Amalgamation Agreement are satisfied or waived, the Amalgamation will become effective on the Effective Date. Sereno and Delavaco currently expect that the Effective Date will be on or about December 31, 2013.

Shareholder Approvals

In accordance with Policy 2.4 of the Exchange, Sereno Shareholders are not required to approve a resolution similar to the Business Combination Resolution (resulting in the completion of the Qualifying Transaction for Sereno). However, Sereno Shareholders will be asked to consider, and if thought advisable pass, with or without variation, the Consolidation, the Name Change and the New Option Plan.

The resolution approving the New Option Plan must be passed, with or without variation, by a majority of the votes cast by the Sereno Shareholders present in person or represented by proxy at the Sereno Meeting. The special resolutions approving the Consolidation and the Name Change must be passed, with or without variation, by at least 66⅔% of the votes cast by the Sereno Shareholders present in person or represented by proxy at the Sereno Meeting.

Pursuant to the OBCA and the by-laws of Delavaco, the Business Combination Resolution approving the Business Combination Resolution must be passed, with or without variation, by at least two-thirds of all votes cast with respect to the Business Combination Resolution by the Delavaco Class A Shareholders present in person or represented by proxy at the Delavaco Meeting.

Delavaco Class B Shareholders are not, pursuant to the terms of their shares, entitled to vote at a meeting of Delavaco Shareholders. However, pursuant to Section 176(3) of the OBCA, Delavaco Class B Shareholders are afforded a statutory right to vote, separately as class, for certain enumerated matters which include the Amalgamation. Under the OBCA, a resolution in the nature of the Business Combination Resolution approving the Business Combination Resolution must be passed, with or without variation, by at least two-thirds of all votes cast with respect to the Business Combination Resolution by the Delavaco Class B Shareholders present in person or represented by proxy at the Delavaco Meeting.

Notwithstanding the foregoing, the Business Combination Resolution authorizes the Delavaco Board, without further notice to or approval of the Delavaco Shareholders, subject to the terms of the Business Combination Agreement, to decide not to proceed with the Amalgamation and the Business Combination and to revoke the Business Combination Resolution at any time prior to completion of the Amalgamation. See Appendix B to this Information Circular for the full text of the Business Combination Resolution.

Regulatory Approvals

It is a condition to the completion of the Business Combination that all necessary regulatory approvals, including without limitation the conditional approval of the TSXV, shall have been obtained on terms and conditions satisfactory to Sereno and Delavaco, in each case acting reasonably. The Parties submitted an application seeking Exchange approval of the Business Combination on October 10, 2013.

On November 25, 2013, the Exchange conditionally approved the Business Combination subject to the satisfaction of the customary listing requirements of the Exchange, including but not limited to a minimum amount of proceeds being raised pursuant to the Finco Financing, on or before February 24, 2014. Final acceptance by the Exchange is subject to the filing of various documents and information, including evidence of requisite shareholder approvals.

Reorganization

Prior to the closing of the Business Combination, Delavaco will complete the Reorganization pursuant to which it will acquire, through the Master LP all of the issued and outstanding limited partnership units in the Multi-Family Partnerships, which collectively own the Austin Properties and the Sunrise Properties. As part of the Reorganization, Delavaco may (but is not obligated to) acquire all of the issued and outstanding membership interests in Park Colony, which owns the Hollywood Properties. For greater certainty, the acquisition of Park Colony is not a condition precedent to completion of the Amalgamation. All of the issued and outstanding limited partnership units in the Multi-Family Partnerships and the membership interests in Park

Colony are owned and controlled, directly or indirectly, by Mr. Andrew DeFrancesco, Chairman and Chief Executive Officer of Delavaco.

Pursuant to a loan and security agreement entered into between Park Colony, as borrower and Walker & Dunlop, LLC, as lender (as later assigned to Freddie Mac), any transfers or series of transfers of any legal or equitable interest that results in a change of more than 50% of the ownership interests in the borrower under such agreement constitutes a transfer requiring the consent of the lender. Equivalent transfer restrictions are contained in the loan agreements between the Multi-Family Partnerships and Fannie Mae.

As such, completion of the acquisition of the Multi-Family Partnerships is conditional upon receipt of approval from Fannie Mae, which has registered mortgages against the Austin Properties and the Sunrise Properties in an aggregate amount of \$15,250,000. Once the Multi-Family Partnerships are acquired, the Resulting Issuer will assume the outstanding mortgages on the Austin Properties and the Sunrise Properties. Completion of the acquisition of Park Colony is conditional upon receipt of approval from Freddie Mac, which has registered mortgages against the Hollywood Properties in an aggregate amount of \$31,794,000. In the event that Park Colony is acquired, the Resulting Issuer will assume the outstanding mortgages on the Hollywood Properties. See “The Resulting Issuer — Pro Forma Consolidated Capitalization.”

In the event that all conditions precedent have been satisfied with respect to the completion of the Business Combination and Freddie Mac’s consent has not been obtained, the Hollywood Properties will not be transferred to Delavaco at that time and will not form part of the Multi-Family Properties of Delavaco at the Effective Date. If, however, the Park Colony acquisition is completed, Mr. DeFrancesco will receive an additional 9,069,565 Delavaco Shares, such shares to be subsequently exchanged for an equal number of Resulting Issuer Shares in accordance with the terms of the Amalgamation, such consideration representing a portion of the equity value in Park Colony.

To date, Delavaco has made deposits of \$5,081,334 in order to secure the future acquisition of the Multi-Family Properties. In the event that the acquisition of Park Colony is not completed as a result of the inability to obtain the consent from Freddie Mac, Delavaco will have effectively made an over-deposit of \$4,303,248 on the Multi-Family Properties.

In order to ensure that this portion of the deposit is payable back to Delavaco, Delavaco will issue at Closing a secured promissory note (the “**Note**”) payable to Andy DeFrancesco in the event that all conditions precedent have been satisfied with respect to the completion of the Business Combination and Freddie Mac’s consent has not been obtained, such Note to be in the amount of \$4,303,248 with an interest rate of 7.0% per annum, payable quarterly in arrears. The Note shall have a term of two (2) years and be a non-recourse loan secured, in whole, by the Resulting Issuer Shares held by Mr. DeFrancesco. The Resulting Issuer Shares held by Mr. DeFrancesco will be held in escrow pursuant to the escrow agreement between Mr. DeFrancesco and the Escrow Agent entered into as part of the requirements of the TSXV. In the event the Note, or any interest accrued and outstanding thereunder, is not paid in full or there is a breach of any of the obligations under the Note, Delavaco shall be entitled upon the release of any Mr. DeFrancesco’s shares under the escrow agreement to cause such shares released from escrow from time to time to be purchased for cancellation by Delavaco at the then prevailing fair market value of the shares until the total amount of the Note, and any interest accrued and outstanding thereunder, is paid in full, at which time the Note shall be cancelled and terminated by Delavaco. To ensure Delavaco has rights to such shares upon their release from escrow, Mr. DeFrancesco shall enter into a pledge agreement on Closing, pledging all such shares to and in favour of Delavaco, such pledge to be released only upon the full satisfaction of Mr. DeFrancesco’s obligations under the Note. The Note will contain a set off provision, which will be triggered upon a default under the Note, with respect to any amounts payable to Mr. DeFrancesco under his Employment Agreement and the Services Agreement.

Concurrent Debt Conversion

Between September and December, 2012, DREOC issued a total of \$15.25 million aggregate principal amount of DREOC Notes due August 31, 2013 pursuant to a private placement at a subscription price of \$1,000 per DREOC Note. Upon their original issuance, the DREOC Notes were convertible for common shares of DREOC at a price per share equal to the fair value of such share, as mutually agreed between the subscribers and DREOC.

In lieu of having the DREOC Notes convert into common shares of DREOC, and subject to completion of the Business Combination, noteholders of DREOC have agreed to receive 14,413,988 Resulting Issuer Shares at an effective price of \$1.058 per Resulting Issuer Share. The consideration of \$1.058 represents an 8.0% discount to the projected initial listing price of the Resulting Issuer of \$1.15 (such discount incurred as a result of the fact that the DREOC Notes were not converted prior to the August 31, 2013 maturity date).

Upon completion of an initial public offering, reverse takeover, or other transaction providing common shareholders comparable liquidity (each a “**Liquidity Event**”), the terms of Delavaco’s outstanding Unsecured Notes provide that such notes will automatically be converted to Resulting Issuer Shares. The Business Combination constitutes a Liquidity Event under the terms of the Unsecured Notes. As such, upon completion of the Business Combination, the \$10 million aggregate amount of Unsecured Notes will convert into Resulting Issuer Shares at a price of \$0.9775 per Resulting Issuer Share, representing an aggregate of 10,230,179 Resulting Issuer Shares. The lower conversion price applicable to the conversion of such Unsecured Notes, when compared to the DREOC Notes, results from a penalty provision that was triggered under the Unsecured Trust Indenture for failing to cause the occurrence of a Liquidity Event by June 20, 2013.

Also concurrent with a Liquidity Event, which includes the completion of the Business Combination, all of the principal amount of the Unsecured Debentures, plus accrued but unpaid interest thereon, may be converted, at the option of the holders thereof, into Resulting Issuer Shares at price equal to \$1.15 per Resulting Issuer Share, being a ratio of 869.5652 Resulting Issuer Shares per \$1,000 principal amount of Unsecured Debentures.

Procedure for Exchange of Securities

Following the Amalgamation and upon the Effective Date, the registered holders of Delavaco Shares will be deemed to be registered holders of the Resulting Issuer Shares in accordance with the Business Combination. Until surrendered, each certificate which immediately prior to the Amalgamation represented Delavaco Shares will be deemed, at any time after the Amalgamation, to represent only the right to receive upon such surrender the certificate representing the Resulting Issuer Shares pursuant to the Business Combination.

The holders of certificates representing Delavaco Shares are required to surrender such certificates pursuant to the Letter of Transmittal, as the case may be, and upon such surrender, will be entitled to receive certificates representing the number of Resulting Issuer Shares to which they are so entitled under the Business Combination.

Delavaco Shareholders whose Delavaco Shares are registered in the name of a broker, dealer, bank, trust company or other nominee must contact their nominee holder to arrange for completion of the Letter of Transmittal.

Letter of Transmittal

The Letter of Transmittal sets out the details for the surrender of the certificates representing Delavaco Shares and the address of the Depositary. Provided that a Delavaco Shareholder has delivered and surrendered to the Depositary certificates representing such shareholder’s Delavaco Shares, together with the Letter of Transmittal, duly completed and executed in accordance with the instructions thereon or in an otherwise acceptable form and such other documents as may be required by the Depositary, the Depositary will forward the certificates representing the Resulting Issuer Shares that the Delavaco Shareholder is entitled to receive to such address or addresses as the Delavaco Shareholder may direct in the Letter of Transmittal or, in the absence of any direction, to the address of the Delavaco Shareholder as shown on the securities register maintained by Delavaco, or as may be otherwise set out in the Letter of Transmittal.

Cancellation after Six Years

Certificates representing the Resulting Issuer Shares to which former Delavaco Shareholders would otherwise have been entitled, will be held by the Depositary for a maximum of six years from the Effective Date. If former Delavaco Shareholders fail to return the certificates representing the Delavaco Shares together with a duly completed Letter of Transmittal and such other required documents on or prior to the sixth anniversary of the Effective Date, each such former certificate representing Delavaco Shares shall cease to represent a right or

claim of any kind or nature. Accordingly, persons who tender certificates for Delavaco Shares after the sixth anniversary of the Effective Date will not receive the Resulting Issuer Shares and will not own any interest in Delavaco or the Resulting Issuer and will not be paid any cash or other compensation. The Resulting Issuer Shares issued to such Delavaco Shareholders under the Amalgamation will be deemed to be surrendered to the Resulting Issuer, together with all dividends thereon declared or held for such holder.

Lost Securities

In the event any certificate, which immediately before the Effective Date represented one or more outstanding Delavaco Shares that is to be exchanged pursuant to the Business Combination, is lost, stolen or destroyed, upon the making of an affidavit of that fact (and provision to the Depository of such bond or indemnity as may be required) by the person claiming such certificate to be lost, stolen or destroyed, the Depository will issue in exchange for such lost, stolen or destroyed certificate, the Resulting Issuer Shares to which such person is entitled in respect of the securities represented by such lost, stolen, or destroyed certificate in accordance with such person's Letter of Transmittal and the provisions of the Business Combination Agreement. When authorizing such issuances in exchange for any lost, stolen or destroyed certificate, the person to whom the Resulting Issuer Shares is to be issued will, as a condition precedent to the issuance thereof, give a bond satisfactory to Delavaco and Sereno and the transfer agent of the Resulting Issuer in such sum as Delavaco, Sereno and the Resulting Issuer may direct or otherwise indemnify Delavaco and Sereno in a manner satisfactory to them, against any claim that may be made against one or both of them with respect to the certificate alleged to have been lost, stolen or destroyed.

Securities Law Considerations

The Resulting Issuer Shares to be issued Delavaco Shareholders pursuant to the Business Combination will be issued in reliance on exemptions from prospectus requirements of applicable securities laws of the various applicable provinces in Canada and will generally, subject to applicable escrow and resale restrictions imposed by the Exchange (See "Information Concerning the Resulting Issuer — Escrowed Securities") be "freely tradable" (and not subject to any "restricted period" or "hold period") if the following conditions are met: (i) the trade is not a control distribution (as defined in Applicable Securities Laws); (ii) no unusual effort is made to prepare the market or to create a demand for the securities that are the subject of the trade; (iii) no extraordinary commission or consideration is paid to a person or company in respect of the trade; and (iv) if the selling security holder is an insider or officer of the Resulting Issuer, the selling security holder has no reasonable grounds to believe that the Resulting Issuer is in default of securities legislation.

THE BUSINESS COMBINATION AGREEMENT

General

The Business Combination Agreement is dated September 18, 2013, and is made between Sereno and Delavaco. The Business Combination Agreement provides for the acquisition by Sereno of all of the outstanding Delavaco Shares by way of a three-cornered amalgamation pursuant to which Delavaco and Subco will amalgamate under the provisions of the OBCA. Amalco will be a wholly-owned subsidiary of the Resulting Issuer and, with the Resulting Issuer, will continue to operate the business of Delavaco.

Conditions Precedent to the Business Combination

Completion of the Business Combination and the transactions contemplated by the Business Combination Agreement is subject to, among other things, the satisfaction or waiver of the following conditions to be completed at or before the Effective Date:

- all consents and approvals necessary to consummate the Business Combination having been obtained, including approval by the Delavaco Shareholders of the Business Combination Resolution and approval of the TSXV which is in force and has not been modified;
- the receipt of the consent of Fannie Mae and the completion of the acquisition of the Multi-Family Partnerships (it being understood that the receipt of the consent of Freddie Mac and the completion of the acquisition of Park Colony is not a condition precedent to the completion of the Business Combination);
- in connection with the Reorganization, the \$15.25 million of secured debt of DREOC shall be converted into Delavaco Shares, which shares shall subsequently be converted into Resulting Issuer Shares upon completion of the Business Combination;
- the Delavaco Options having been exercised, such that an aggregate of 2,200,000 Delavaco Shares are issued prior to the Amalgamation, with the remaining Delavaco Options being cancelled;
- no Law being in effect that makes the consummation of the Business Combination illegal or otherwise prohibits or enjoins Delavaco or Sereno from consummating the Business Combination;
- Sereno Finco having completed the Finco Financing, such that the Resulting Issuer is in compliance with the minimum public board lot and other initial listing requirements of the TSXV for a Tier 2 Real Estate or Investment Issuer;
- the Business Combination Agreement shall not have been terminated pursuant to the terms thereof;
- there not having occurred a Material Adverse Effect with respect to Sereno or to Delavaco;
- Sereno having cash of not less than \$500,000, without giving effect to the expense relating to the completion of the Business Combination; and
- each of Sereno and Delavaco having fulfilled or complied, in all material respects, with all covenants contained in the Business Combination Agreement and any agreements, certificates and other instruments delivered or given pursuant to the Business Combination Agreement, to be fulfilled or complied with by them at or prior to the Effective Date.

Termination of the Business Combination Agreement

The Business Combination Agreement may be terminated by the mutual written agreement of the Parties, or by either Party upon notice by either one to the other prior to the Effective Date: (a) if the Business Combination Resolution is not approved by the Delavaco Shareholders provided that a Party may not terminate the Business Combination Agreement if the failure to obtain the requisite approval has been caused by, or is a result of, a breach by such Party of any of its representations or warranties or the failure of such Party to perform any of its covenants or agreements under the Business Combination Agreement; (b) if after the date of the Business Combination Agreement, any Law is enacted, made, enforced or amended, as applicable, that makes the consummation of the Business Combination illegal or otherwise permanently prohibits or enjoins Delavaco

or Sereno from consummating the Business Combination, and such Law has, if applicable, become final and non-appealable; and (c) if the Effective Date does not occur on or prior to December 31, 2013 (or such later date as Delavaco and Sereno may agree to in writing), provided that the failure of the Effective Date to so occur is not due to Party seeking to terminate the Business Combination Agreement being in breach of one of its representations or warranties or to perform any of the covenants and agreements of such Party set forth therein. In addition to the foregoing, Delavaco may also terminate the Business Combination Agreement if Sereno has breached any of its material representations or warranties or failed to perform any covenant or agreement contained in the Business Combination Agreement and such breach or failure is incapable of being cured or is not cured on or prior to December 31, 2013 (provided that Delavaco is not then in breach of any of its representations, warranties or covenants under the Business Combination Agreement). In addition to the foregoing, Sereno may also terminate the Business Combination Agreement if Delavaco has breached any of its material representations or warranties or failed to perform any covenant or agreement contained in the Business Combination Agreement and such breach or failure is incapable of being cured or is not cured on or prior to December 31, 2013 (provided that Sereno is not then in breach of any of its representations, warranties or covenants under the Business Combination Agreement).

Representations and Warranties

The Business Combination Agreement contains customary representations and warranties made by each of Delavaco and Sereno. The assertions embodied in those representations and warranties were made solely for purposes of the Business Combination Agreement and may be subject to important qualifications and limitations agreed to by the Parties in connection with negotiating its terms. Moreover, some of those representations and warranties are subject to a contractual standard of materiality or Material Adverse Effect (as defined in the Business Combination Agreement) different from that generally applicable to public disclosure to Shareholders, or are used for the purpose of allocating risk between the Parties. For the foregoing reasons, you should not rely on the representations and warranties contained in the Business Combination Agreement as statements of factual information at the time they were made or otherwise.

The Business Combination Agreement contains customary representations and warranties of Delavaco relating to certain matters including, among other things: organization, corporate authority, registration, no default, no conflict, enforceability, authorized capitalization, non-reporting issuer status, litigation, financial matters, ordinary course of business, Taxes, voting control, compliance with Laws, title to properties and assets, material contracts, environmental matters, ownership of subsidiaries and employment and collective bargaining agreements.

In addition, the Business Combination Agreement contains representations and warranties of Sereno relating to certain matters including, among other things: organization, necessary corporate action, no default, no conflict, enforceability, authorized capitalization, reporting issuer status, no cease trade orders or suspensions, no shop with respect to a Qualifying Transaction, availability of material information, cash liquidity, no liabilities and compliance with Laws.

INFORMATION CONCERNING SERENO

Corporate Structure

Sereno was incorporated on March 19, 2007, by Certificate of Incorporation issued pursuant to the provisions of the *Business Corporations Act* (Ontario). Sereno is a capital pool company created pursuant to Exchange Policy 2.4 — *Capital Pool Companies* (the “CPC Policy”).

The head and the registered office of Sereno is located at 130 King Street West, Suite 2110, Toronto, ON M5X 1B1.

General Development of the Business

The principal business of Sereno is the identification and evaluation of assets or businesses with a view to completing a Qualifying Transaction pursuant to the policies of the Exchange. Sereno has not commenced operations and has no assets other than a minimum amount of cash and HST recoverable. Except as specifically contemplated in the CPC Policy, until the completion of the Qualifying Transaction, Sereno will not carry on any business other than the identification and evaluation of assets or businesses with a view to completing a Qualifying Transaction.

Sereno completed an initial public offering (“**Sereno CPC Listing**”) of its common shares on August 13, 2007 pursuant to a prospectus dated July 11, 2007. The Sereno CPC Listing consisted of an offering of 1,500,000 common shares at a price of CDN\$0.20 per share for gross proceeds of CDN\$300,000. In accordance with the CPC Policy, Sereno was obliged to complete a Qualifying Transaction on or before August 13, 2009. Sereno applied for and was granted an extension of the date to complete a Qualifying Transaction to February 15, 2010 pursuant to the Exchange’s bulletins released on November 3, 2008 and March 6, 2009 describing temporary relief measures for current market conditions. Sereno failed to complete a Qualifying Transaction by this date that resulted in the suspension of trading of Sereno’s shares.

On October 29, 2009, Sereno held an annual and special meeting at which time the shareholders of Sereno passed a resolution approving the migration of Sereno to NEX (the market on which former issuers of the Exchange who do not meet the Tier 2 listed issuer requirements may continue to trade). The shareholders also approved the cancellation of one-half of the seed shares held by non-arm’s length parties in the event that Sereno did not complete its Qualifying Transaction within the time period prescribed by the policies of the Exchange. As a result of its inability to complete a Qualifying Transaction within the time periods, as extended, Sereno cancelled 600,000 seed shares and transferred the listing of its common shares to NEX.

On May 24, 2013, Sereno and Delavaco entered into a letter of intent setting out the basic terms of a proposed business combination, whereby Sereno would acquire all of the issued and outstanding Delavaco Shares pursuant to a court-approved plan of arrangement and subsequently convert into a real estate investment trust. On September 18, 2013, Sereno issued a press release announcing the updated terms of the Business Combination as set forth in this Information Circular and the signing of the Business Combination Agreement.

Selected Consolidated Financial Information and Management’s Discussion and Analysis

The following tables set out certain selected financial information of Sereno at and for the three month period ended July 31, 2013 and the year ended April 30, 2013. The selected consolidated financial information has been derived from Sereno’s audited financial statements and interim financial statements. The following information should be read in conjunction with Sereno’s financial statements, included with this Information Circular. The financial results are not necessarily indicative of the results that may be expected for any other

interim period or a full year. Sereno's annual consolidated financial statements and interim financial statements are presented in Canadian dollars and are prepared in accordance with IFRS.

	Period Ended	
	July 31, 2013	April 30, 2013
	(CDN\$)	(CDN\$)
Total Expenses ⁽¹⁾	44,083	33,568
Amounts deferred in connection with the Business Combination	Nil	Nil

(1) The figure for July 31, 2013 is taken from the unaudited interim financial statements of Sereno for the three months ended July 31, 2013 and July 31, 2012. The figure for April 30, 2013 is taken from the financial statements of Sereno for the years ended April 30, 2013 and April 30, 2012, together with the notes thereto and the auditor's report thereon.

Management's Discussion and Analysis

Sereno's Management's Discussion and Analysis for the year ended April 30, 2013, the interim period ended July 31, 2013 and the associated financial statements for the same periods are included as Appendix G to this Information Circular.

Description of Securities

Sereno is authorized to issue an unlimited number of common shares. Each common share provides the holder with one vote. As of the date of this Information Circular, there are 4,700,000 common shares issued and outstanding. On May 16, 2011, Sereno granted 262,500 options to directors and officers. The options vested immediately and are exercisable at CDN\$0.25 per share for five years from the date of the grant.

Sereno Shares carry equal rights in that the holders thereof participate equally, share for share, as to dividends declared by the board of the Sereno out of funds legally available for the payment of such dividends. In the event of the liquidation, dissolution or winding-up of Sereno, the holders of the Sereno Shares would be entitled, share for share, to receive on a pro rata basis, all of the assets of Sereno after payment of all of Sereno's liabilities. Sereno Shareholders are entitled to receive notice of any meetings of shareholders of Sereno and are entitled to attend and vote at such meetings. Sereno Shares carry one vote per share.

Stock Option Plan

Sereno has an incentive stock option plan (the "**Sereno Stock Option Plan**") which provides that the board may from time to time, in its discretion, grant to directors, officers, employees and consultants of the Corporation, or its subsidiaries, non-transferable options to purchase Sereno Shares provided that the number of Sereno Shares reserved for issuance under the Sereno Stock Option Plan does not exceed 10% of the issued and outstanding Sereno Shares exercisable for a period of up to five years from the date of grant if Sereno is a Tier 2 issuer (as such term is defined in the policies of the Exchange) and exercisable for a period of 10 years from the date of grant if Sereno is a Tier 1 issuer (as such term is defined in the policies of the Exchange).

Notwithstanding the foregoing, optionees may assign their options to a corporation wholly-owned by the optionee or a registered retirement savings plan or registered income fund established by and where the sole beneficiary is the optionee.

In addition, the number of Sereno Shares reserved for issuance in any 12 month period to any one person shall not exceed 5% of the issued and outstanding Sereno Shares (unless Sereno is a Tier 1 issuer and has obtained Disinterested Shareholder Approval) and the number of Sereno Shares reserved for issuance in any 12 month period to any one technical consultant will not exceed 2% of the issued and outstanding Sereno Shares.

Options may be exercised after 90 days following cessation of the optionee's position with Sereno (other than for cause of death), or such reasonable period of time as may be determined by the Sereno Board not to exceed the greater of 12 months and the expiry date of the option.

On May 16, 2011, Sereno granted 262,500 options to certain consultants, directors and officers to purchase common shares. The options vest immediately and are exercisable at CDN\$0.25 per share for five years from the date of the grant. As of the date of this Information Circular, none of Sereno's outstanding stock options are in-the-money.

Prior Sales

The following disclosure relates to Sereno Shares and securities convertible into Sereno Shares issued or granted since the incorporation of Sereno:

Description of Transaction	Date of Sale/Grant	Aggregate Number and Type of Securities Issued	Issuance Price(CDN\$)/ Exercise Price(CDN\$) and Expiry Date
Offering of 1,300,000 common shares ⁽¹⁾	March 31, 2007	1,300,000 common shares	CDN\$0.10 per share
Private Placement of common shares . . .	April 18, 2007	2,000,000 common shares	CDN\$0.20 per share
Private Placement of common shares . . .	May 17, 2007	500,000 common shares	CDN\$0.20 per share
Initial Public Offering	August 8, 2007	1,500,000 common shares	CDN\$0.20 per share
Agent Option ⁽²⁾	August 8, 2007	150,000 Options	CDN\$0.20 per share expiring August 8, 2009
Stock Option Grant	May 16, 2011	262,500 Options	CDN\$0.25 per share expiring May 16, 2016

- (1) These shares were placed in escrow in accordance with the policies of the Exchange and an Escrow Agreement dated May 17, 2007. As a result of Sereno's inability to complete a qualifying transaction within the time periods prescribed by the Exchange, Sereno cancelled 600,000 of these shares on October 30, 2009.
- (2) Sereno appointed Canaccord Capital Corporation (the "Agent") as its agent to complete the Sereno CPC Listing on a commercially reasonable efforts basis. In addition to a commission of 7.5% of the gross proceeds of the Sereno CPC Listing, Sereno granted to the Agent a non-transferable option, expiring twenty-four months after the date of the listing of the Sereno Shares on the Exchange, to purchase 150,000 of its common shares at CDN\$0.20 per common share. The option granted to the Agent has expired.

Trading History

The following table sets forth the monthly high and low closing prices and the volume of the trading of Sereno Shares for each month of the current quarter and the immediately preceding quarter and on a quarterly basis for the next preceding seven quarters:

Date	High	Low	Volume
June 2013 – November 29, 2013 ⁽¹⁾	—	—	—
May 2013 ⁽¹⁾	0.045	0.045	27,000
February 2013 – April 2013	0.060	0.045	26,000
November 2012 – January 2013	0.080	0.045	102,000
August 2012 – October 2012	0.100	0.050	35,000
May 2012 – July 2012	0.055	0.045	17,000
February 2012 – April 2012	0.155	0.130	115,000
November 2011 – January 2012	0.200	0.150	375,000
August 2011 – October 2011	0.260	0.250	292,000

- (1) The trading of Sereno Shares on the Exchange was halted on May 24, 2013 at Sereno's request due to the announcement of the Business Combination.
- (2) Sereno's financial year end is April 30. The listing of quarterly trading information is based on fiscal quarters, not calendar quarters.

Arm's Length Transaction

None of the insiders of Sereno, or their associates and affiliates, have any interest in the Business Combination or are otherwise an insider of, or have any relationship with, Delavaco or its direct and indirect shareholders. As such, the Business Combination is not a Non-Arm's Length Transaction as defined in the policies of the Exchange.

Legal Proceedings

As of the date hereof, Sereno is not currently a party to any legal proceedings, nor is Sereno currently contemplating any legal proceedings, which are material to its business. Management of Sereno is currently not aware of any legal proceedings contemplated against Sereno.

Auditor, Transfer Agent and Registrar

The auditor of Sereno is Koster, Spinks & Koster LLP Chartered Professional Accountants, at 4 Glengrove Avenue West, Toronto, ON M4R 1N4. It is anticipated that Deloitte LLP will be appointed auditor of the Resulting Issuer after giving effect to the Business Combination.

The transfer agent and registrar of Sereno is Equity Financial Trust Company, Suite 400, 200 University Avenue, Toronto, Ontario, M5H 4H1.

Material Contracts

Sereno has not entered into any contracts material to investors, other than in the ordinary course of business, since incorporation, other than the Business Combination Agreement. For further details on the Business Combination Agreement, see “The Business Combination Agreement”. The Amalgamation Agreement is expected to be entered into among Sereno, Delavaco and Subco, substantially in the form attached as Appendix D to this Information Circular, prior to the Effective Date for the purpose of effecting the Amalgamation”.

A copy of these agreements will be available for inspection at the registered office of Sereno located at 130 King Street West, Suite 2110, Toronto, ON M5X 1B1, during ordinary business hours on any day prior to the Meetings and for a period of 30 days thereafter. In addition, a copy of the Business Combination Agreement is available under Sereno’s corporate profile on SEDAR at www.sedar.com.

INFORMATION CONCERNING DELAVACO

Corporate Structure

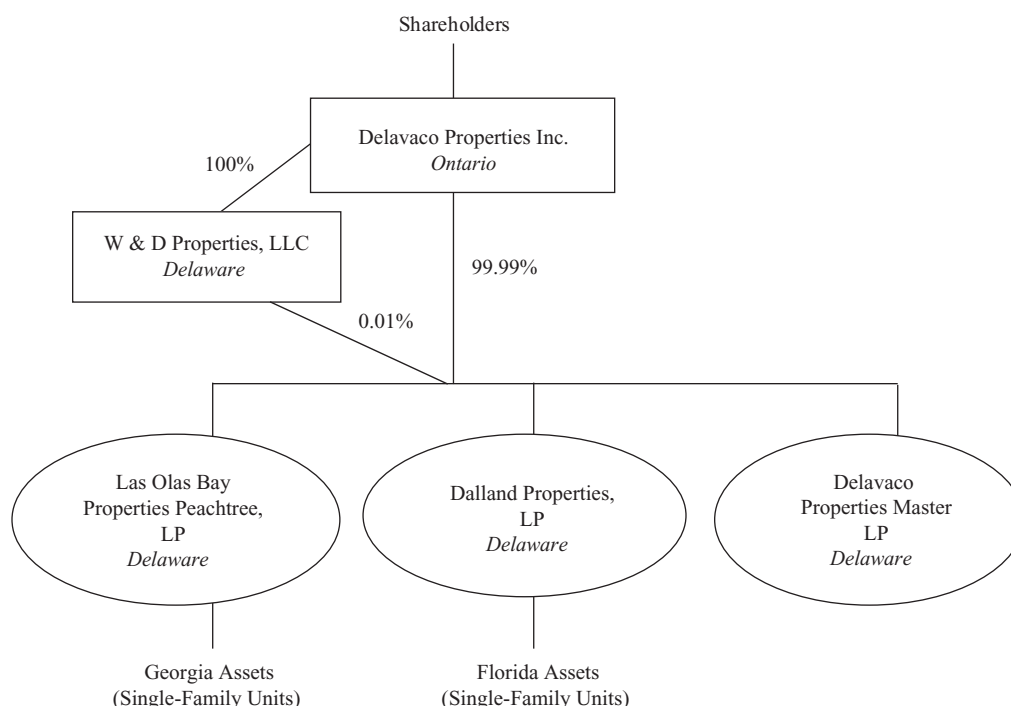
Name and Incorporation

Delavaco is a privately-owned company incorporated on January 27, 2011, under the laws of the Province of Ontario, Canada. Delavaco continues to be governed by the OBCA. The principal, registered and head office of Delavaco is located at 130 King Street West, Suite 1100, Toronto, ON M9N 1L5.

Intercorporate Relationships

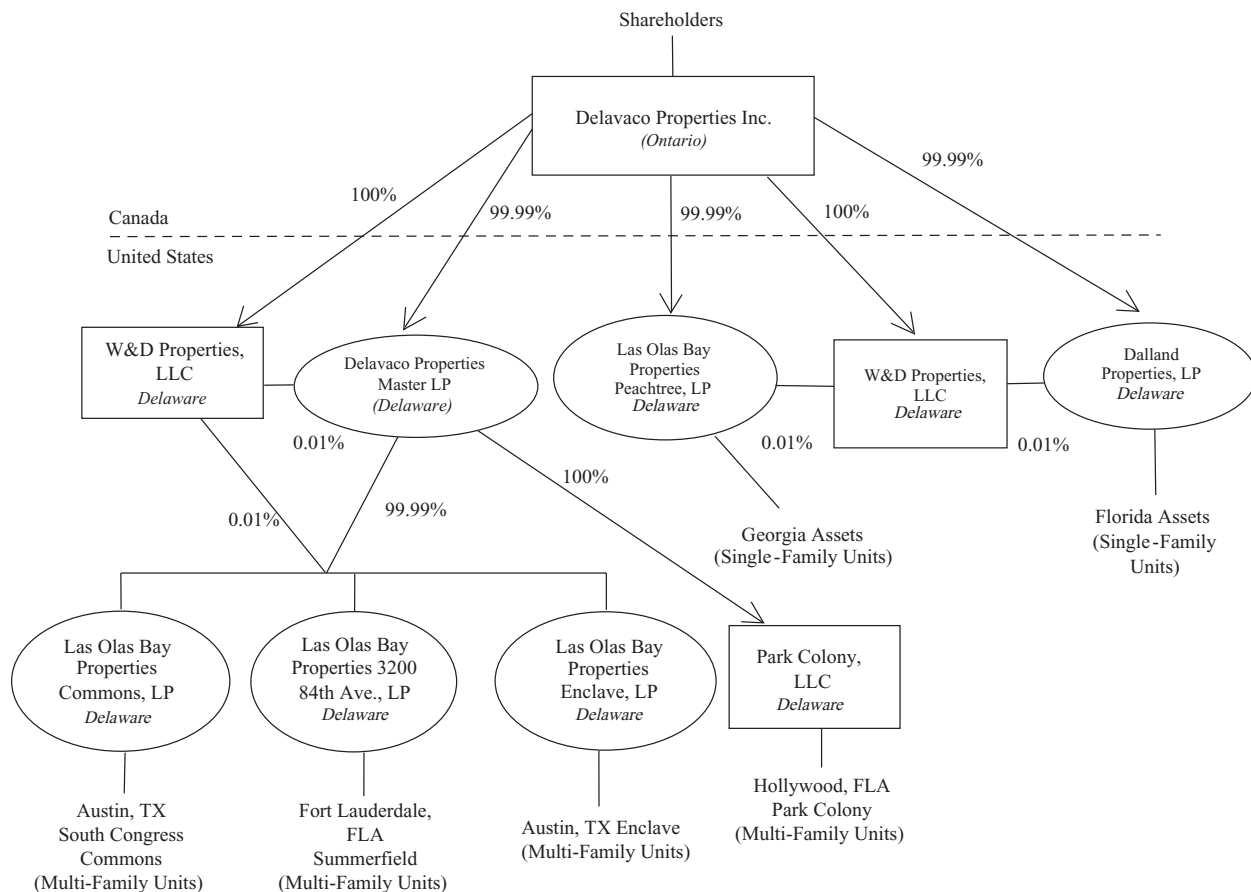
Delavaco's real estate portfolio consists of single-family homes and, subsequent to the completion of the reorganization, will include multi-family properties in the Southeast United States and Texas. Both the single-family homes and the multi-family properties are held directly by limited partnerships in the United States, each of which are either direct or indirect subsidiaries of Delavaco.

The following chart sets out the simplified organizational structure of Delavaco as of the date of this Information Circular:



The Dalland Partnership is a limited partnership formed under the laws of the State of Delaware and governed by the Dalland Partnership Agreement. The Peachtree Partnership is a limited partnership formed under the laws of the State of Delaware and governed by the Peachtree Partnership Agreement (the Dalland Partnership together with the Peachtree Partnership, the “**Single-Family Partnerships**”). The Dalland Partnership currently holds title to the Miami Properties and the Tampa Bay Properties and the Peachtree Partnership currently holds title to the Atlanta Properties. The Master LP is governed by the Master LP Agreement. It currently does not hold any assets and was formed as a vehicle designed to effect the Reorganization. The general partner of the Single-Family Partnerships and the Master LP is W&D Properties, LLC (the “**General Partner**”).

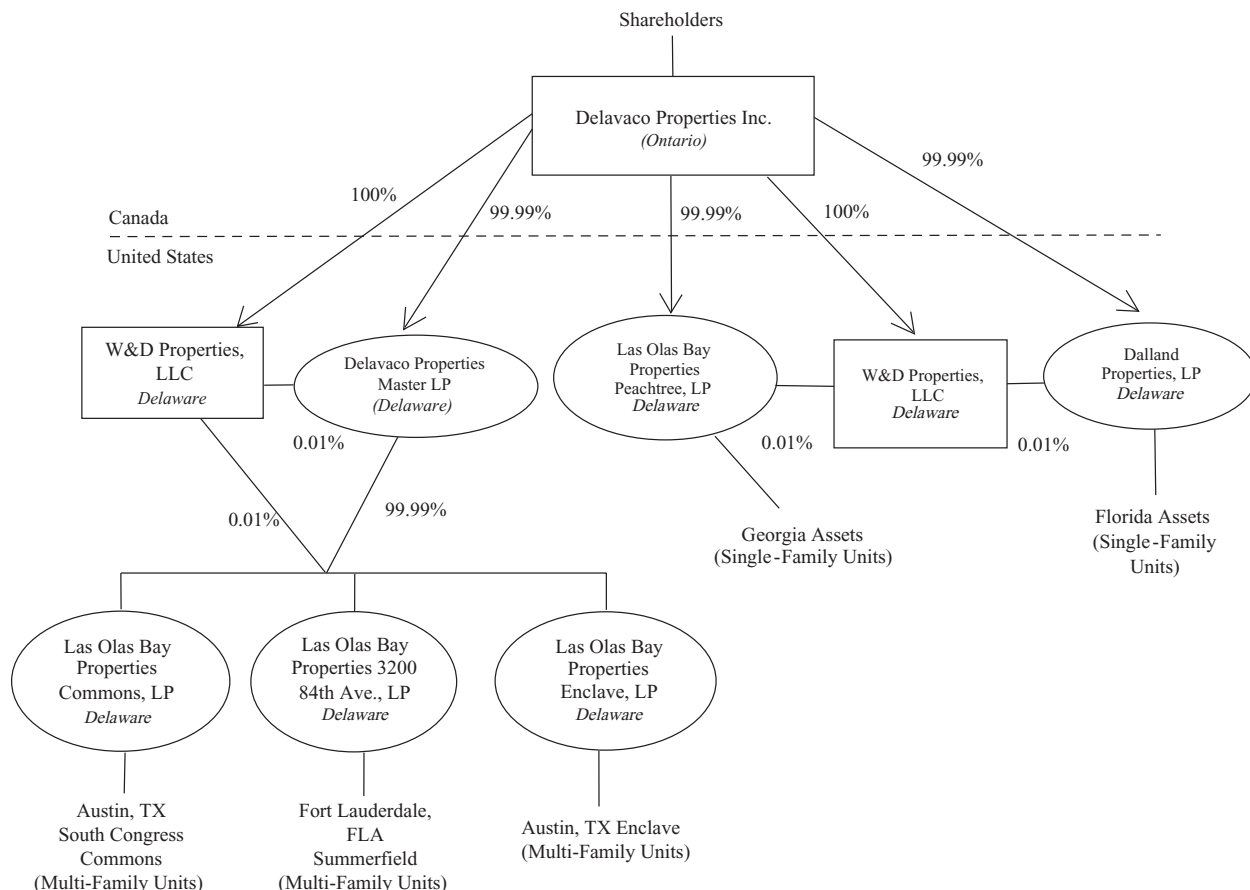
The following chart sets out the simplified organizational structure of Delavaco subsequent to the completion of the Reorganization (assuming the acquisition of Park Colony is completed):



If the Reorganization is completed with the acquisition of Park Colony, the Master LP will directly own all of the issued and outstanding limited partnership units in the Multi-Family Partnerships and all of the issued and outstanding membership interests in Park Colony. Park Colony is a limited liability company formed under the laws of the State of Delaware. The South Common Partnership, Enclave Partnership and Summerfield Partnership are each limited partnerships formed under the laws of the State of Delaware.

Through its ownership of the Multi-Family Partnerships and Park Colony, the Master LP will indirectly own all of the interests in the Multi-Family Properties. W&D Properties, LLC is currently the general partner of the Single-Family Partnerships and, subsequent to the Reorganization, will also become the general partner of the Master LP.

The following chart sets out the simplified organizational structure of Delavaco subsequent to the completion of the Reorganization (assuming the acquisition of Park Colony is not completed):



If the Reorganization is completed without the acquisition of Park Colony, the Master LP will, through its ownership of the Multi-Family Partnerships, own all of the interests in the Austin Properties and the Sunrise Properties. It will not, however, own the Hollywood Properties.

Regardless of whether the acquisition of Park Colony is completed, the business and affairs of the Single-Family Partnerships and the Master LP will be managed and controlled by the General Partner which is bound by the investment guidelines and operating policies applicable to Delavaco. Delavaco will not be entitled to take part in the management or control of the business or affairs of the Master LP or the Single-Family Partnerships (which management and control rests exclusively with the General Partner). The Resulting Issuer Board determines the composition of the board of directors of the General Partner subject to the proviso that the General Partner must have a majority of directors who are “independent” within the meaning of Applicable Securities Laws. The Master LP and the Single-Family Partnerships will operate in a manner to ensure, to the greatest extent possible, the limited liability of Delavaco.

General Development of Business

History

On January 27, 2011, Delavaco was incorporated in the Province of Ontario with an initial investment of \$1 million and the acquisition of eight properties. Throughout 2011 and early 2012, Delavaco concurrently raised CDN\$5 million through an equity private placement (the “**2011 Private Placement**”) and CDN\$3.95 million through a debt private placement. The proceeds of these private placements were used to acquire single-family homes and multi-family units (which now form part of the Single-Family Home Portfolio) and for general corporate purposes. Through private placements of Delavaco Shares in January, February and April of 2012

(the “**2012 Private Placements**”), Delavaco raised an aggregate of CDN\$12.25 million that allowed Delavaco to continue to grow its portfolio and acquire additional single-family homes.

Under the terms of the subscription agreements for the 2011 Private Placement and the 2012 Private Placements, subscribers were entitled to a liquidity premium or pro rata “penalty”, equal to 10% of their respective purchase prices (payable in Delavaco Shares) in the event Delavaco failed to complete an initial public offering or similar transaction (such as the Business Combination) prior to December 31, 2012 (which date was later extended to March 31, 2013). As a result, an aggregate of 600,000 Class A common shares and 1,225,000 Class B common shares were issued as penalty shares effective April 1, 2013.

Additional Debt Financings

Secured Notes

On June 4, 2012, Delavaco closed the private placement of the Secured Notes in the principal amount of \$25 million, the proceeds of which were used to repay outstanding private placement debt, to continue to purchase single-family homes and for general corporate purposes. Delavaco deployed these proceeds by December 31, 2012, acquiring a total of 509 single-family homes during 2012, raising the total number of homes that Delavaco owned at year-end to 549.

The Secured Notes mature on June 30, 2016 and bear interest at a rate of 7.50% per annum, payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year, commencing on September 30, 2012. The Secured Notes are secured by a first-ranking mortgage and charge on all single-family homes within the Single-Family Home Portfolio as of June 4, 2012 as well as all single-family homes that were acquired using the proceeds from the Secured Notes for a total of 638.

Each Secured Note is redeemable for cash at the option of Delavaco at a redemption price equal to 105% of the principal amount of the Secured Notes being redeemed (if the redemption occurs after June 4, 2013, but on or prior to June 4, 2014), 102.5% of the principal amount of the Secured Notes being redeemed (if the redemption occurs after June 4, 2014, but on or prior to June 4, 2015) and at par (if the redemption occurs after June 4, 2015, but on or prior to June 30, 2016) plus, in each case, accrued and unpaid interest. Upon a change of control (as defined in the Secured Trust Indenture) involving the acquisition of voting control over more than 50% of the then outstanding shares by any person or group of persons acting jointly or in concert, or the sale of all or substantially all of the Properties, holders of Secured Notes have the right to require Delavaco to repurchase their Secured Notes, in whole or in part, at a price equal to 101% of the principal amount of such Secured Notes plus accrued and unpaid interest.

Concurrent with the issuance of the Secured Notes, holders thereof received one hundred and fifty-four (154) common share purchase warrants for each \$1,000 principal amount of the Secured Note purchased, for a total of 3,850,000 common share purchase warrants (the “**Delavaco Class C Warrants**”). The warrants are exercisable at \$1.18 and expire on June 3, 2017.

Unsecured Notes

On December 20, 2012, Delavaco issued the Unsecured Notes in the principal amount of \$10,000,000 on a private placement basis to accredited investors, the proceeds of which are being used to acquire additional single-family homes. The Unsecured Notes are unsecured obligations and are subordinated to the full and final payment of the Secured Notes. The Unsecured Notes have a maturity date of December 20, 2014 and originally bore interest at a rate of 7.50% per annum, payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year, commencing on March 31, 2013. Under the terms of the Unsecured Trust Indenture, upon and during an event of default, interest was to increase to a rate of 9.00% per annum. One of the events of default prescribed under the Unsecured Trust Indenture was the failure to complete a “Liquidity Event” (which includes the completion of the Business Combination) on or before June 20, 2013. As a result, interest on the Unsecured Notes increased to 9.00% per annum on June 21, 2013.

Concurrent with a “Liquidity Event” (as defined in the Unsecured Trust Indenture), which includes the completion of the Business Combination, all of the principal amount of the Unsecured Notes, plus accrued but unpaid interest thereon, shall be automatically converted into Resulting Issuer Shares at price equal to a 15%

discount to the per Resulting Issuer Share offering price under such Liquidity Event, subject to customary adjustments. See “The Business Combination — Debt Conversion”.

Unsecured Debentures

Between July, 2013 and November 12, 2013, Delavaco completed a series of private placements pursuant to which it issued the Unsecured Debentures in the principal amount of \$18,500,000 on a private placement basis to accredited investors, the proceeds of which are being used to acquire additional single-family homes in the Southeast United States, to pay down outstanding indebtedness and for general working capital purposes. The Unsecured Debentures mature on July 31, 2018 and bear interest at a rate of 7.00% per annum, payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year, commencing on September 30, 2013. The Unsecured Debentures are unsecured obligations, rank equally with the Unsecured Notes and are subordinated to the full and final payment of the Secured Notes.

Concurrent with a Liquidity Event (as defined in the Debenture Indenture), which includes the completion of the Business Combination, all of the principal amount of the Unsecured Debentures may be converted, at the option of the holders thereof, into Resulting Issuer Shares at price equal to \$1.15 per Resulting Issuer Share, being a ratio of 869.5652 Resulting Issuer Shares per \$1,000 principal amount of Debentures, subject to customary adjustments. See “The Business Combination — Debt Conversion”.

Narrative Description of Business

Delavaco aims to invest in single-family homes, often at prices below replacement costs and (subsequent to the completion of the Reorganization) multi-family properties at attractive capitalization rates located in select markets in the United States, primarily in the southern United States to date, that were hard-hit by the residential housing market downturn and that exhibit favourable demographics, positive economic growth and solid rental demand. While Delavaco will continue to invest in multi-family properties on an opportunistic basis, the principal focus will be on the acquisition of single-family homes, as management believes that such properties offer greater potential returns resulting from a housing recovery.

Delavaco's primary objectives are to enhance the value of its assets through active strategic management and grow the business through accretive acquisitions and capital gains. Management believes that by building a cash flow generating asset base while property prices are below replacement costs with respect to single-family homes, and selectively acquiring multi-family properties at attractive capitalization rates, the residential rental business becomes a long-term business opportunity that is sustainable through economic cycles. Management believes that stabilizing occupancy rates above 90% for both the single-family homes and multi-family properties is a priority that will help to ensure that Delavaco's objectives are met. This target has already been achieved with respect to the Multi-Family Properties Portfolio and management hopes to achieve such results in respect of the Single-Family Home Portfolio on or before June 30, 2014.

As the housing market recovers and the cost of residential real estate increases, the underlying value of Delavaco's assets is expected to increase. Delavaco believes that rental rates will increase in such a recovery due to the correlation between home prices and rents. As a result, Management believes the timing is opportune to build a stable portfolio of single-family and multi-family properties in anticipation of a long-term housing market recovery.

Objectives and Growth Strategy

Overview

Delavaco has focused on acquiring and renting single-family homes in working-class neighbourhoods hit hard by the U.S. housing crisis and that offer the greatest opportunity for long-term capital appreciation. These homes can be purchased at a meaningful discount to peak pricing and replacement cost while providing stable rental income and high occupancy rates. By focusing on working-class neighbourhoods, Delavaco has avoided competition from a number of property developers, private equity firms and individual investors that have focused on higher priced real estate such as the waterfront condominium market in Florida. The lack of significant mortgage lending combined with the number of people who have been subject to foreclosures has

created a dislocation in the housing market in working-class neighbourhoods. Delavaco believes that, in addition to providing cash flow in the short term, its targeted single-family home portfolio will be well-positioned to provide meaningful capital appreciation upside as the housing market continues to recover. Management believes that the U.S. housing recovery is still in its infancy, and with the “shadow inventory” remaining large, there is an abundance of distressed single-family homes for purchase.

Following completion of the Reorganization, Delavaco will focus on acquiring multi-family properties which have tenants from a mix of income levels and have a portion of deferred maintenance and repair obligations (“Class B” buildings) and which are located in well-developed, mature neighbourhoods. With little new land for development in these mature neighbourhoods, any new development, due to the cost of land, will likely be “Class A” (meaning properties that were typically built within the past 10 years and that have minimal deferred maintenance and repair obligations). This minimizes the potential for new direct competitors in Delavaco’s locations and any development that does take place will further increase property value. Delavaco believes that superior returns can be achieved by targeting such properties as a result of the stable income provided by the multi-family property market in the United States, the abundant supply of such properties at attractive price levels, and the emerging recovery of the U.S. economy as a whole.

Delavaco believes that the Multi-Family Properties Portfolio provides a stable cash flow base to the business, in addition to the meaningful upside it may experience as the housing market continues to recover. Following the completion of the Reorganization, stabilized occupancy levels in the Multi-Family Properties Portfolio are expected to be in excess of 95% and Management believes that level can be maintained over the long term. In addition, Delavaco is undertaking a series of targeted renovations (including some or all of kitchen and bath cabinets, flooring, new appliances, electrical and plumbing fixtures, etc.) to the Multi-Family Properties Portfolio that it expects will drive rent increases in the near term, further boosting returns.

Acquisition Strategy

Delavaco’s ultimate objective is to own a geographically diverse portfolio of single-family homes and multi-family properties. When Delavaco considers expanding into a new geographic area, management first considers the overall state of the real estate market including long-term and recent movements in real estate prices, trends in market rents and residential tenancy rights. Management also considers various economic and demographic factors such as population growth, GDP growth, changes in unemployment rates. If management believes that a geographic area deserves further scrutiny, they will visit the area to tour potential neighbourhoods, meet local real estate professionals and investigate property management solutions.

To date, Delavaco has identified Florida and Georgia as exhibiting the demographic, economic growth and rental demand to sustain a portfolio of single-family homes and similarly identified specific multi-family acquisition opportunities in Florida and Texas. Delavaco will continue to assess expansion opportunities in additional states.

Management employs different criteria and processes when evaluating single-family and multi-family acquisition opportunities, owing to the qualitative differences between these two asset classes. Such criteria and processes are described in detail below.

Single-Family Homes

Delavaco’s management team will work to identify and purchase, directly from U.S. banks and real estate wholesalers, single-family homes with the following characteristics:

- distressed, foreclosed or undervalued singles, duplexes, triplexes or quadplexes with purchase prices of approximately \$45,000 – \$95,000 per unit;
- rentable square footage of 1,000 – 2,000 square feet;
- properties requiring cosmetic renovations of less than \$15,000 on average and possessing no structural deficiencies;
- located in robust, working class neighbourhoods either in, or in close proximity to, major metropolitan areas with populations in excess of 500,000;

- Package property acquisition cap rate between 10% – 14%, occasionally higher; and
- priced 30 – 50% below estimated replacement cost (with little to no value placed on land) providing potential for meaningful long-term property value appreciation.?

After identifying a property as meeting the general acquisition criteria noted above, Delavaco begins a thorough investigation into its history. As part of that investigation, Delavaco employees and/or trusted consultants who have significant experience building and renovating single-family homes physically inspect all of the properties under contract. The inspection allows management to understand the need for immediate and future renovations and to confirm there are no structural deficiencies. Delavaco's limited geographic focus allows management to conduct inspections and consider local market characteristics in an efficient manner. In addition to the physical state of the property, Delavaco conducts a thorough title search using an independent title agent and secures title insurance on closing.

Delavaco has historically acquired single-family homes through multiple channels including bulk sales, REO (as described below) and short sales. Bulk purchases from individual sellers typically involve the acquisition of 10 to 50 homes partially leased at the time of sale. REOs typically involve the purchase of 1 to 10 vacant homes typically in need of renovation prior to leasing. Short sales refer to properties sold by a homeowner for an amount less than the amount owed to lenders with a lien on the property. Short sales are almost always related to a single home and they require the consent of the lender making the process more time consuming and challenging to close. To date, 290 of Delavaco's homes have been purchased through bulk sales of more than 10 units.

Over the last twelve months, Delavaco has focused on acquiring stable portfolios of single-family homes through bulk purchases that require limited or no cosmetic renovations and that are already partially leased. This focus decreases the time between the acquisition of homes and the leasing of such homes. Going forward, Delavaco intends to continue to focus on the acquisition of stable portfolios of single-family homes, provided that the price of such homes remains attractive.

The typical process for the acquisition, renovation, leasing and management of the Single-Family Properties is set out below.

Activity	Typical Timeline	Description of Activity
Acquisition	1 to 90 days	Identify and purchase off-market, directly from U.S. banks and real estate wholesalers, distressed, foreclosed or undervalued portfolios of single-family homes at prices below replacement cost that meet the target property criteria. Delavaco will target homes located in working-class neighbourhoods of large municipalities hit hardest by the U.S. housing crisis and that therefore offer the greatest opportunity for long-term appreciation. Delavaco typically contracts for a 30-day closing on all purchases. In certain circumstances, sellers will require more than 30 days to close in order to provide clean and clear title. In the event that a transaction goes beyond its scheduled closing date, Delavaco can cancel the deal at its discretion.

<u>Activity</u>	<u>Typical Timeline</u>	<u>Description of Activity</u>
Renovation	10 to 30 days	Increase the marketability and value of the Properties by completing cosmetic renovations (where necessary) in a timely and cost-effective manner with tradespeople consistently working with Delavaco. If a home is purchased vacant, Delavaco, if it deems it necessary, will immediately schedule a renovation. Delavaco, through its third party property managers, will manage any such renovations to allow for an efficient and effective process. If the home is purchased with a tenant in place, Delavaco will not initially renovate the property but it will wait until the initial turnover to do any necessary work.
Leasing/Section 8 Qualification	30 to 150 days	Where possible, occupy the homes with tenants eligible under U.S. Government's Section 8 Housing Choice Voucher Program, on whose behalf the U.S. Government pays, directly to Delavaco's operating subsidiaries, as landlords, up to 100% of the monthly fair market rent. Where a Section 8 Program eligible tenant has been identified, undergo the process to qualify the applicable home for the U.S. Government's Section 8 Housing Choice Voucher Program. Delavaco's third party service providers use referrals, web site marketing, traditional yard signage and general advertising in order to attract qualified tenants.
Active Management . . .	On-going	Delavaco uses third party service providers with oversight from Delavaco employees to manage post-leasing and ongoing property management activities. This model is designed to minimize operating costs while maintaining adequate control internally.

Multi-Family Properties

Following the Reorganization, Delavaco's internal team will work to identify and purchase quality multi-family properties in major markets across the United States with the following characteristics:

- "Class B" buildings located within suitable built-up areas designed for further construction and development ("Class B" meaning properties that were: built within the last 20 years; have tenants with a mix of income levels; and have some deferred maintenance and repair obligations);
- Little new land for development nearby, so any new projects are "Class A" (due to the cost of the land) and thus not direct competitors ("Class A" meaning properties that were: typically built within the past 10 years; have credit worthy tenants with good income; and have minimal deferred maintenance and repair obligations);
- Building exteriors in excellent shape but interiors require renovation (target internal rate of return of 15% or more on renovations);
- Strong historical occupancy and low turnover; and
- Located within good school districts.

In identifying future opportunities for its Multi-Family Properties Portfolio, Delavaco anticipates being approached by brokers who are aware of the type of properties that Delavaco is interested in acquiring. Management will then proceed with a preliminary analysis to determine if the property meets the general investment criteria identified above. If the property meets the basic criteria, a thorough due diligence will be conducted to understand all aspects of the property. As part of that investigation, employees of Delavaco will

physically inspect the properties and perform detailed financial and legal due diligence to determine the historic financial performance of the property, occupancy trends, title history and other relevant factors. In addition, Management will obtain a Phase I environmental site assessment prepared by independent environmental consultants to determine whether evidence of environmental contamination exists.

Management believes there are numerous acquisition opportunities within the Company's target markets to acquire multi-unit residential properties that fit within its strategy and meet the investment criteria described above. Delavaco will seek to keep its investment strategy flexible, which will enable it to adapt to shifts in economic, real estate and capital market conditions and to exploit opportunities resulting from such shifts. Consistent with this strategy, investment decisions will depend on prevailing market conditions and may change over time in response to emerging opportunities. Management believes this approach will allow the company to identify undervalued opportunities in all market cycles.

Active Strategic Management

Delavaco previously used an internalized property management structure for its single-family homes in the state of Florida and relied on external property managers for both its Georgia single-family homes and its multi-family properties in both Texas and Florida. In August 2013, a decision was taken to outsource the property-level management functions in connection with Delavaco's Florida single-family homes in order to reduce Delavaco's operating expenses and to allow Management to focus on executing Delavaco's acquisition and growth strategies. The change to an outsourced property management model was fully implemented on or around October 1, 2013.

Delavaco's internal management team will supervise the external managers, who will manage the individual homes and buildings in Delavaco's portfolio, and will develop and implement strategies to maximize occupancy and monthly rent, to efficiently manage Delavaco's operating costs and will continue to assess and execute Delavaco's acquisition and growth strategies. Management intends to capture the economic upside potential in each property through strategic capital improvements and increasing rents as the market will bear.

As at July 1, 2013 Delavaco, combined with those managing the Multi-Family Properties Portfolio, had 32 full-time employees and 8 consultants. The consultants and full-time employees have historically provided a broad range of services to Delavaco including property management, maintenance, accounting and administration, leasing and management. Subsequent to the implementation of Delavaco's outsourced property management model, Delavaco has retained 9 non-executive full-time employees to oversee finance, property management, leasing and maintenance.

Section 8 Qualification and Leasing

The U.S. Government's Section 8 Housing Choice Voucher Program is applicable only to Delavaco's Single-Family Home Portfolio. Once single-family homes have been renovated and are ready to be leased, Delavaco works with local officials to put those homes in a position to qualify for the Section 8 Program and will look to occupy homes with Section 8 eligible tenants on whose behalf the U.S. Government pays, directly to Delavaco, as landlord, up to 100% of the monthly fair market rent, thereby effectively substituting a prospective tenant's credit risk with that of the U.S. Government.

Delavaco attempts to match increases in market rent with increases in its portfolio. The Section 8 program is designed to allow landlords to charge fair market rents and thus allows for rental increases on existing tenants if market rents have increased. In 2012, Delavaco was successful in increasing rents by up to 5% for renewing Section 8 tenants in its Single Family Home Portfolio, depending on their specific circumstances.

Leverage

In addition to continuing to grow its Single-Family Home Portfolio with equity capital, Delavaco will seek traditional and non-traditional debt financing to acquire additional homes at a lower cost of capital. Although not currently available, management believes that property level mortgage financing will eventually become available as a means to finance its Single-Family Home Portfolio.

Subsequent to the Reorganization, Delavaco will maintain the property level mortgages on its Multi-Family Properties. These mortgages range from 44.1% to 63.2% on a loan to value basis with 10 year terms and an interest only period of 0 to 5 years. Mortgages on the Multi-Family Properties acquired to date were provided by Fannie Mae and Freddie Mac and interest rates on the loans provided to date have been between 3.80% and 4.22%.

Divestitures

From time to time and while not a focus of Delavaco's business model, Delavaco may opportunistically sell income-producing properties to redirect capital into properties with a better potential return on capital.

Assets of Delavaco

Single-Family Homes

As of the date of this Information Circular, Delavaco owns 464 single-family homes in Florida, 270 single-family homes in Georgia and 65 residential units across four multi-family buildings in Florida (collectively, the "**Single-Family Home Portfolio**"). The Single-Family Home Portfolio was acquired by Delavaco in several independent transactions between January 2011 and September 2013. The Single-Family Home Portfolio has an occupancy rate of 75%. As the Single Family Home Portfolio's occupancy continues to increase each month, the projected occupancy from new acquisitions upon completion of the Business Combination is estimated to be approximately 90% given Delavaco's focus on acquiring occupied single-family homes.

The following table highlights certain information about the Single-Family Home Portfolio as at June 30, 2013:

	Miami Properties	Tampa Bay Properties	Atlanta Properties	Total
Number of Units	362	164	171	697
Aggregate Purchase Price	\$ 19,701,821	\$ 6,910,964	\$ 8,767,438	\$ 35,380,223
Average Purchase Price	\$ 54,425	\$ 42,140	\$ 51,272	\$ 50,761
Average Unit Size (Sq. Ft)	1,075	1,091	1,120	1,090
Average Monthly Rent Per Property	\$ 1,101	\$ 822	\$ 835	\$ 970
Average Occupancy (Actual)	77.9%	64.6%	91.2%	78.0%
Average Age of Property	47 years	70 years	59 years	56 years
Range of Monthly Rent per Unit	\$ 500 – \$1,768	\$ 450 – \$1,200	\$ 500 – \$1,386	\$ 450 – \$1,768

The following are details of some of the representative acquisitions in Delavaco's Single-Family Home Portfolio (all numbers are approximate):

Fort Lauderdale — Section 8 Renter

	4 Bedroom, 2 Bathroom, 1,480 ft ²	
	Previous Sale Price (Aug 2006)	\$270,000
	Purchase Price	\$ 68,000
	Closing Costs	\$ 1,100
	Rehab Costs	\$ 5,000
	Total Cost	\$ 74, 100
	Monthly Rental Rate	\$ 1,675
	Annual Rent	\$ 20,100
	Repair/Vacancy Allowance	\$ (5,000)
	Taxes/Insurance	\$ (3,603)
	Net Annual Rent	\$ 11,497
	ROI	15.5%

Atlanta — Section 8 Renter

	4 Bedroom, 2 Bathroom, 1,100 ft ²	
	Previous Sale Price (Aug 2006)	\$115,000
	Purchase Price	\$ 58,000
	Closing Costs	\$ 2,850
	Rehab Costs	\$ 2,000
	Total Cost	\$ 62,850
	Monthly Rental Rate	\$ 1,100
	Annual Rent	\$ 13,200
	Repair/Vacancy Allowance	\$ (3,300)
	Taxes/Insurance	\$ (1,450)
	Net Annual Rent	\$ 8,450
	ROI	13.4%

Tampa Bay — Section 8 Renter

	3 Bedroom, 1 Bathroom, 1,469 ft ²	
	Previous Sale Price (Aug 2006)	\$60,000
	Purchase Price	\$30,000
	Closing Costs	\$ 3,000
	Rehab Costs	\$ 2,500
	Total Cost	\$35,500
	Monthly Rental Rate	\$ 795
	Annual Rent	\$ 9,540
	Repair/Vacancy Allowance	\$(2,385)
	Taxes/Insurance	\$(1,931)
	Net Annual Rent	\$ 5,224
	ROI	14.7%

Multi-Family Properties

Upon completion of the Reorganization, Delavaco will own four multi-family properties (collectively comprising 627 residential units), including the Hollywood Properties (316 residential units), the Sunrise Properties (153 residential units) and the Austin Properties (consisting of 90 residential units at the Enclave in Austin, Texas and 68 residential units at the South Congress Commons in Austin, Texas (collectively, the “**Multi-Family Properties Portfolio**”).

The following table highlights certain information about the Multi-Family Properties Portfolio as at June 30, 2013:

(\$ Millions unless otherwise noted)	Park Colony	Summerfield	The Enclave	South Congress Commons	Total/Average
Location	Hollywood, FL	Ft. Lauderdale, FL	Austin, TX	Austin, TX	
Property Valuation	\$50.3	\$16.8	\$7.7	\$6.8	\$81.6
Implied Cap Rate	5.31%	5.95%	5.71%	5.8%	5.52%
# of Units	316	153	90	68	627
Average Unit Size (s.f.)	862	1,078	547	553	836
Price per Door	\$159,266	\$109,806	\$85,055	\$100,339	\$130,154
Gross Potential Rent /per Door	\$1,098	\$1,036	\$968	\$830	\$1,035
Occupancy	96.0%	97.0%	94.4%	88.2%	95.2%
Mortgages	\$31.8	\$7.9	\$4.3	\$3.0	\$47.0
Interest Rate on Mortgage	4.16%	3.80%	4.22%	4.12%	4.10%

Park Colony — 812 S. Park Road, Hollywood, Florida



Park Colony is a collection of 15 two and three-storey walk up buildings and one single-storey clubhouse near the intersection of Hollywood Blvd. and South Park Road, in Hollywood Florida. Park Colony is in close proximity to public transit and local retail establishments. The complex is situated on approximately 13.28 acres of land and contains a total of 316 suites. Park Colony has one, two and three bedroom floor plans. The weighted average of the units is of 861 square feet. The building has 2 laundry facilities, and provides 474 surface parking spaces. The building was constructed in 1987 and was built of cast in place concrete slab floors and stucco over concrete block walls. Exterior capital improvements include new roofs completed in 2006 and exterior painting that was completed in 2007.

Summerfield — 3200 NE 84th Ave. Sunrise, Florida



Summerfield is a collection of six two-storey walk up buildings and one single-storey clubhouse near the intersection of West Oakland Park Blvd. and North University Drive, in Sunrise Florida. Summerfield is in close proximity to public transit and local retail establishments. The two-storey buildings and clubhouse are situated on approximately 7 acres of land and contain a total of 153 suites. Summerfield apartments are comprised one and two bedroom suites with one three bedroom, two bath unit. The weighted average of the units is of 1,078 square feet. The building has 6 laundry facilities, and provides 253 surface parking spaces. The building was constructed in 1975 and was built of cast in place concrete slab floors and brick over concrete block walls. Exterior capital improvements include new roofs completed in 2012 and exterior painting that was completed in 2013.

The Enclave — 1005 W. Stassney Lane, Austin, Texas



The Enclave is a collection of five separate two-storey walk-up buildings near the intersection of South Congress Avenue and West Stassney Lane, in Austin Texas. The Enclave is in close proximity to public transit and local retail establishments. The buildings are situated on approximately 2.5 acres of land and contain a total of 90 suites. The Enclave apartments consist of studio and one-bedroom suites. The weighted average of the units is of 547 square feet. The Enclave has one laundry facility, and provides 114 surface parking spaces. The buildings were constructed in 1982 and were built of cast in place concrete slab floors and Hardiplank over composite walls. Exterior capital improvements include new roofs completed in 2012 and Hardiplank siding that was completed in 2012.

South Congress Commons — 116 & 126 W. Alpine Drive, Austin, Texas



South Congress Commons is a collection of four two-storey walk up buildings near the intersection of South Congress Ave. and Alpine Road West, in Austin Texas. South Congress Commons are in close proximity to public transit and local retail establishments. The two-storey buildings are situated on approximately 2 acres of land and contain a total of 68 suites. The apartments are comprised of studio and one-bedroom suites. The weighted average of the units is of 567 square feet. The building has one laundry facility, and provides 86 surface parking spaces. The building was constructed in 1981 and was built of cast in place concrete slab floors and vinyl over composite walls. Exterior capital improvements include new roofs completed in 2010 and exterior painting that was completed in 2011.

Environmental Assessment of the Multi-Family Properties

Each of the Multi-Family Properties had a Phase I environmental site assessment report conducted and prepared by independent environmental consultants before their acquisition. The purpose of the Phase I environmental site assessments was to assess whether evidence of potential or actual environmental contamination exists. The Phase I environmental site assessments were prepared in general accordance with industry practice for assessment reports. Intrusive sampling and analysis were not part of these Phase I environmental site assessments. Environmental site assessments involving intrusive soil and/or groundwater sampling and analysis were deemed not necessary to be carried out by the results of the Phase I assessments.

Management is not aware of any non-compliance with environmental laws that would have a material adverse effect on the Company. Management is not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with the Multi-Family Properties.

Property Condition Assessment of the Multi-Family Properties

Property condition assessment reports (“**PCA Reports**”) were prepared for each of the Multi-Family Properties by independent engineering firms for the purpose of assessing and documenting the existing condition of each building and major building operating components and systems. The assessments identified and qualified any major defects in materials or systems that might significantly affect the value of any of the Multi-Family Properties or the continued operation thereof. The PCA Reports for the Summerfield apartments was completed in August 2012 and the PCA Reports for each of the Hollywood Properties and the Austin Properties were all completed in the first five months of 2013. In addition to required regular maintenance on the various components of the buildings, each of the PCA Reports assessed both work to be completed immediately (i.e., within 90 days of acquiring the property) and work recommended to be completed during the subsequent 10-12 year time period in order to maintain the building in its current condition.

Based on the PCA Reports, each of the Multi-Family Properties was determined to be in good condition commensurate with its age and comparable to other similar properties in its respective market.

Operations

Acquisitions and Renovations

The average purchase price for properties in the Single-Family Home Portfolio is approximately \$50,800, which management estimates is thirty percent (30%) to fifty percent (50%) below replacement costs. At those price levels, management estimates that it can deploy between \$6 million and \$8 million of capital monthly to acquire additional single-family homes. Delavaco purchases two (2) types of homes: (i) foreclosed homes that are typically vacant; or (ii) packages of leased homes from third parties (“**stabilized single-family homes**”). Management expects foreclosed property acquisitions to account for 10% of all single-family home acquisitions going forward, whereas, historically, approximately sixty percent (60%) of the single-family homes have been acquired under foreclosure.

Management anticipates that renovations to a vacant home purchased out of foreclosure will be approximately \$5,000 – \$25,000 per home. Typical renovations include some or all of the following: replacement/installation of new appliances, repainting, minor landscaping, replacing of air conditioners, replacing carpets with tile flooring, roof repair, smoke alarm installation, screen installation on windows, plumbing and electrical updates to current code. In some cases, additional bathrooms or bedrooms may be added if no structural changes are required and management believes the renovation will increase the home’s value for renting and resale. Renovations take place as soon as practicable after acquisition in order to transition the property into the pool of homes available to be rented.

When Delavaco purchases a package of homes from a third party there are often tenants in the homes and thus major renovations are not necessary. In some cases, following the move out of the initial tenant, Delavaco anticipates that approximately \$2,000 – \$5,000 of renovations may be necessary in order to maintain consistent standards for all of the properties in the Single-Family Home Portfolio. Whether a given home is purchased out of foreclosure or from a third party, Delavaco capitalizes qualifying renovation costs.

Following completion of the Reorganization, the average purchase price expressed on a per unit basis for the Multi-Family Properties Portfolio is expected to be \$130,154. Delavaco will purchase only operating and fully leased multi-family properties requiring minor internal and external renovations that will directly impact rents. Management expects that any future multi-family property acquisitions will be similar in all material respects to its current portfolio.

Management anticipates that renovations to a multi-family property will generate additional rents directly in the unit or more broadly to common area renovations. The target internal rate of return on all renovations is 15% or greater and the potential to generate those returns is analyzed during the due diligence process. Typical renovations include any of kitchen and bath cabinets, flooring, new appliances, electrical and plumbing fixtures and similar such renovations.

Rent & Occupancy

Delavaco's average rent across the Single-Family Home Portfolio is approximately \$970 per month. Management believes that once occupancy rates approach stabilized levels the average rent in the state of Florida will be approximately \$1,100 and the average rent in the State of Georgia will be approximately \$900, each as supported by the fair market rents in the respective counties.

The Single-Family Home Portfolio currently consists of homes ranging from one (1) bedroom and one (1) bathroom to five (5) bedrooms and two (2) bathrooms. The majority of the Single-Family Home Portfolio consists of three (3) bedrooms, one (1) bathroom.

As at June 30, 2013, the occupancy rate across the Single-Family Home Portfolio was 78%. Adjusted for the single-family homes currently under renovation, the occupancy rate for the entire portfolio of properties is 87%. A significant number of tenants are subsidized under the U.S. Government's Section 8 Housing Choice Voucher Program. As at June 30, 2013, approximately sixty-six percent (66%) of all tenants were eligible under the program. The government portion of Section 8 Program rental payments represents approximately eighty-six percent (86%) of all rents from tenants subsidized under the program.

Subject to completion of the Reorganization, Delavaco's average rent across its Multi-Family Property Portfolio of 627 units will be \$1,035 per month with an average occupancy of 95.2% at June 30, 2013. Management believes that such rental and occupancy rates are stable in the short term and rents will see upward movement due to economic factors in the medium to long term.

The Multi-Family Property Portfolio will consist of units ranging from studio apartments to units with 3 bedrooms and 2 bathrooms. The majority of the units will be 1 bedroom, 1 bathroom suites.

Expenses

Property Taxes

Delavaco pays property tax on each property that it owns. Effective property tax rates for 2013 ranged from 1.9% to 2.5% of the assessed value of a single-family home in Florida and approximately 1.8% to 3.4% of the assessed value of a single-family home in Georgia. On the Multi-Family Properties Portfolio, Delavaco expects to pay approximately 2% of the assessed value of the properties in both Texas and Florida. Delavaco reviews assessed values closely and, if it believes an assessed value is inappropriate, it appeals the assessment. Property taxes are paid annually.

Insurance

Delavaco at all times maintains property and liability insurance coverage in amounts, with such insurers and on such terms as the Delavaco Board considers appropriate. Delavaco specifically maintains homeowners insurance (including liability coverage) as well as business interruption insurance on all of the single-family homes properties in the portfolio. In addition, in Florida, Delavaco maintains separate windstorm insurance on all of its properties. Of the insurance costs incurred for the single-family homes located in Florida, the cost of windstorm insurance ranges from approximately sixty percent (60%) to seventy-five percent (75%) of the cost of insurance per home. On the multi-family properties, Delavaco will maintain traditional property and liability coverage (which includes windstorm coverage) as well as business interruption insurance.

For the six months ended June 30, 2013, insurance expense for the Single-Family Home Portfolio was \$375,906, or approximately \$556 per average door owned during the period. For the six months ended June 30, 2013, insurance expense for the Multi-Family Property Portfolio was \$174,418, or approximately \$278 per door over the period.

Third Party Property Management

Single-Family Homes

The Single-Family Home Portfolio was historically managed internally in Florida and externally in Georgia. Due to the distance between Delavaco's office in Fort Lauderdale, Florida and the Atlanta Properties,

management decided to implement a pilot project to externally manage those properties. Due to the success of the pilot project, management decided in August, 2013, to outsource the management of its Florida single-family homes in order to better manage its expense profile. The change to an outsourced property management model was fully implemented on or around October 1, 2013. Accordingly, Delavaco has entered into separate leasing and management agreements (each a “**Leasing and Management Agreement**”) with Elite Home Management Services (the “**Manager**”) to manage the Atlanta Properties, the Tampa Bay Properties and the Miami Properties. Pursuant to these agreements the Manager has agreed to exclusively rent, lease, operate and manage the Single-Family Home Portfolio for Delavaco.

The Manager has the exclusive right to lease and manage the Atlanta Properties until June 30, 2014 and the Miami Properties and the Tampa Bay Properties until September 30, 2014. The Leasing and Management Agreements will be automatically renewed for an additional period of one year unless either the Manager or Delavaco provides not less than 60 days’ written notice of their intent not to renew the Agreements.

During the term of the Leasing and Management Agreement, Delavaco pays the Manager \$70 per month per home on the first day of each calendar month. Additional fees are owed to the Manager in certain circumstances.

Tenant leasing fees will be payable to the Manager in the amount equal to one month rent for any lease of six months or longer, and any negotiation of renewals of any existing residential rental agreement by the Manager shall carry a fee of 25% of one month rent payable by Delavaco for any lease of six months or longer. If Delavaco sells any of the Atlanta Properties, Miami Properties or Tampa Bay Properties to a tenant (or any immediate member of a tenant’s family) obtained by the Manager either during the term of the lease or for a period of one year thereafter, then the Manager is entitled to a one-time payment of 3% of the sale price per property. For the six months ended June 30, 2013, property management fees to the Manager, for its management of the Atlanta Properties, were \$43,023 or approximately 8% of the total revenues collected from the Atlanta Properties.

Multi-Family Properties

Following completion of the Reorganization, the Multi-Family Properties Portfolio will have a property management agreement in place for three of the four Multi-Family Properties with arm’s length third-party service providers. Assuming that the acquisition of Park Colony is completed, the Hollywood Properties (comprising the Park Colony apartment homes) will be managed by GREP Southeast, LLC doing business as Greystar (“**Greystar**”). The Austin Properties (comprising the Enclave and the South Congress Commons apartment communities) will be managed by Roscoe Properties, Inc. (“**Roscoe**”).

Under the terms of an apartment management agreement between Greystar and Park Colony dated February 12, 2013 (the “**Apartment Management Agreement**”), Greystar manages, operates, maintains and services the Hollywood Properties and supervises the leasing and renting operations of same. Greystar also has responsibility to hire and/or retain by contract, all personnel necessary to fulfill its obligations under the agreement. Park Colony, as owner of the Hollywood Properties, maintains the general supervision and control of the Hollywood Properties, including the pre-approval of the operating budgets and oversight of any potential environmental risk.

As consideration for its services, Greystar receives a monthly management fee equal to the greater of (i) 3% of all gross revenue collected on the properties; and (ii) \$9,000 per month, as well as reimbursement for certain operating and other expenses that are pre-approved by Park Colony in the operating budget. The Apartment Management Agreement has a one-year term expiring in February 2014, thereafter continuing on a month-to-month basis. The Apartment Management Agreement can be terminated on thirty days’ prior written notice by Greystar or Park Colony.

Under the terms of two separate management agreements dated October 31, 2012 and May 14, 2013 between Roscoe and certain limited partnerships of Delavaco (the “**Roscoe Management Agreements**”), Roscoe is responsible for the management, maintenance and operation of the Austin Properties. This includes the collection of all rents and other charges, repair and servicing of the properties. Las Olas Bay Properties

Enclave, LP and Las Olas Bay Properties South Common, LP, in their capacity as owners, pre-approve all operating and capital budgets and otherwise maintain general control and supervision of the Austin Properties.

As consideration for its services, Roscoe receives a monthly management fee equal to 4% of total income, plus additional fees that are reimbursed for the costs of gross salary and wages of all on-site personnel employed by Roscoe in connection with managing the Austin Properties. The Roscoe Management Agreements continue for an indefinite term subject to thirty days' prior written notice by either Roscoe or the property owners.

The same employee of Delavaco who oversees the third party property managers of the Hollywood Properties and the Austin Properties manages the Sunrise Properties internally. Management believes that the on-site staff at the Sunrise Properties and the employees of Delavaco can adequately manage these properties internally. If the Multi-Family Property Portfolio continues to grow, management will reassess the internal management structure and outsource it if necessary.

Maintenance

Renovations and maintenance expenses are a significant cost borne by Delavaco. When Delavaco purchases a vacant single-family home, it incurs costs to prepare the newly acquired property to be rented in the marketplace. These costs are capitalized and depreciated. On an ongoing basis, expenditures for ordinary maintenance and repairs are expensed to operations as incurred and expenditures for significant renovations that improve the asset in ways which create a probable future economic benefit, including extending the useful life of the asset, are capitalized and depreciated over their estimated useful life. In addition, when Delavaco installs a new or used HVAC unit, new or used appliances or other items that meet Delavaco's capitalization policy, these costs are capitalized and depreciated accordingly.

Delavaco defines maintenance expense as any maintenance or renovation expense that is not significant and does not increase the economic value or the life of a given property following the placement of the first tenant in a property. For the six months ended June 30, 2013, maintenance expenses, were \$301,003 or 11% of revenue for the Single-Family Home Portfolio and \$151,291, or 3.8% for the Multi-Family Properties Portfolio. Management believes that on a stabilized basis maintenance expenses for the Single-Family Home Portfolio will represent approximately ten percent (10%) of revenues.

Utilities

Tenants generally pay the utilities costs of the properties they occupy. Delavaco pays utilities for all vacant properties, in certain tenant arrangements that are subsidized by the U.S. Government's Section 8 Housing Choice Voucher Program, and in common area charges for multi-family units. For the six months ended June 30, 2013, utilities expenses were \$157,525 or 5.8% of revenue for the Single-Family Home Portfolio and \$191,146 or 4.8% for the Multi-Family Properties Portfolio. Management expects utilities costs to decrease as occupancy improves in the Single-Family Portfolio and expects utilities costs to be stable in the Multi-Family Properties Portfolio.

Other Expenses

Other property operating expenses include costs for leasing activities, property inspection, cleaning and janitorial services. For the six months ended June 30, 2013, other property operating expenses were \$282,880 or 10.4% of revenues for the Single-Family Homes Portfolio and \$785,134, or 19.6% of the Multi-Family Properties Portfolio.

Delavaco incurs other expenses associated with operating the business. These expenses include management and staff salaries, rent and general office expenses, information technology, travel and other miscellaneous expenses. For the six months ended June 30, 2013, these costs totaled \$1,579,370.

Bad Debt Expenses

Bad debt expenses for the Single-Family Home Portfolio was \$200,285 and for the Multi-Family Properties Portfolio was \$27,610, representing 7.3% and 0.7% of each portfolio's revenue for the six months ended June 30, 2013, respectively. As part of Delavaco's leasing efforts, it has focused on increasing the number of government

subsidized tenants currently renting its single-family homes. As of June 30, 2013, approximately sixty-eight percent (68%) of Delavaco's single-family home tenants received benefits, predominantly from the Section 8 Program. As Delavaco transitions its portfolio to a higher percentage of subsidized tenants, it expects that bad debts as a percentage of revenue will be no more than five (5%). Management believes that the Multi-Family Properties Portfolio bad debt experienced in the first six months of 2013 is representative of the long-term bad debt expense associated with this business.

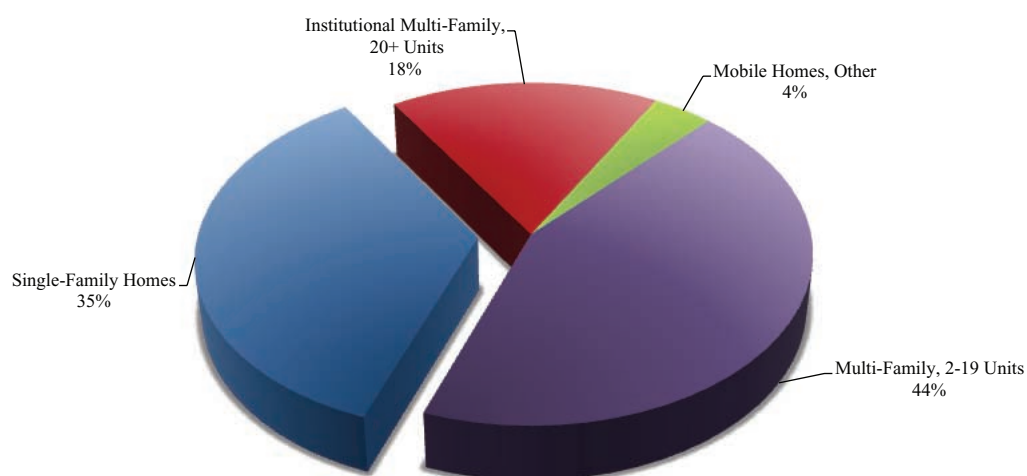
Risks from Foreign Operations

The Properties are all located in the State of Florida, DeKalb and Fulton Counties, Georgia and Austin, Texas. Accordingly, the market value of the Properties and the income to be generated by the Resulting Issuer's performance are particularly sensitive to changes in the economic conditions and regulatory environments of Florida, Georgia and Texas. These states have also historically experienced periods of severe weather, including periods of strong thunderstorms and/or tornadoes which have resulted in wind and rain damage. Additionally, general U.S. market and economic conditions since the beginning of 2008 have been challenging with recession in the North American economy. U.S. markets are currently experiencing increased levels of volatility due to a combination of many factors, including high unemployment, decreasing home prices, the highest level of home foreclosures since the recession began in 2008, limited access to credit markets, higher fuel prices, less consumer spending and the slow rate of recovery. Please see "Geographic Concentration", "Florida, Georgia and Texas Weather" and "U.S. Market Factors" in "Risk Factors — Risks Related to the Operations of the Resulting Issuer" for greater detail on the risks associated with the foreign operations of the Resulting Issuer.

The Market Opportunity

In the United States, single-family homes have always been a large asset class. Of the approximately 40 million occupied rental units in the United States, 6.7 million units are in buildings with 20 or more units whereas 13.8 million units are individually-owned single-family homes. However, the institutional ownership of significant portfolios of single-family homes is a relatively new phenomenon caused by the recent nationwide decline in the U.S. housing market. The market decline and general uncertainty in the housing market led to a large quantity of single-family homes becoming available at prices below replacement cost which, Delavaco believes, will generate above-average yields in the rental market.

Composition of U.S. Rental Housing Stock (in millions)



Source: 2011 American Housing Survey for the U.S.

The multi-family residential market has been the strongest performing property class in the United States real estate sector for over 20 years and management expects this trend to persist. Strong market fundamentals and favourable demographic trends support continued growth for the United States multi-family industry. Delavaco believes that the trends in the United States multi-family sector suggest that this market offers an attractive investment alternative for Canadian investors and may experience stronger cash flow growth and property value appreciation in the near-term relative to Canadian multi-family assets.

Management considered the following attributes when it assessed the opportunity available in the single-family and multi-family sectors:

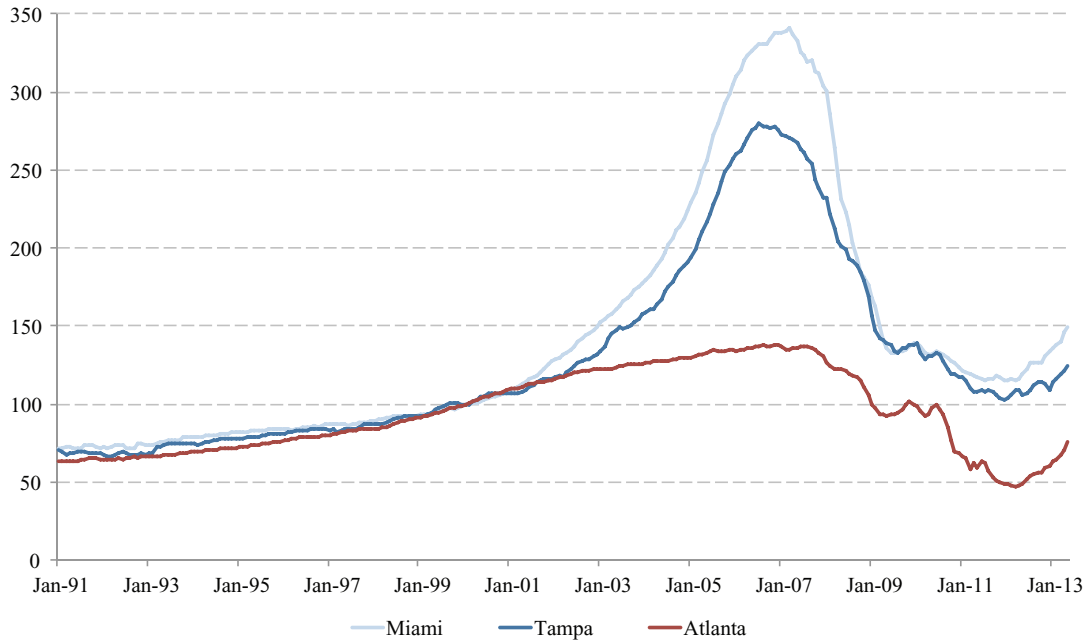
- Large declines in property values and a “dysfunctional” mortgage market in the single-family home sector;
- Natural sellers (lenders, private equity funds, undercapitalized private owners, etc.) of single-family and multi-family properties looking for liquidity;
- Strong demographic fundamentals;
- Limited stock of new housing and stable “Shadow Inventory”;
- Declining U.S. home ownership;
- Strong rental rates;
- Landlord-friendly states; and
- Warm climate resulting in desirable lifestyle characteristics.

The Housing Boom and Bust

A number of factors contributed to the last housing boom including population growth, job creation and, importantly, low cost mortgage financing and speculative investing. As the real estate market appreciated, low-cost financing alternatives proliferated across the United States, while at the same time, the amount of speculative buyers (owners of more than one home) increased in certain “bubble” states from under 25% of new purchases to nearly 45%.

The subsequent collapse of the housing market led to a cycle of recession and deleveraging. Deleveraging led lenders to significantly tighten their lending standards and reduce overall lending capacity. Recession, combined with these tighter lending standards, resulted in increasing foreclosures that placed substantial pressure on real estate values. Lower real estate values caused further deleveraging of the financial system and, by early 2011, home prices across the country had decreased significantly.

Case-Shiller Low Tier Home Price Index
January 1991 – May 2013



Source: S&P/Case-Shiller Home Price Indices

Florida exhibited all of the classic signs of a real estate boom and bust. Georgia, though having avoided the excesses of the real estate bubble, was still impacted by the subsequent recession and nationwide decline in home prices. With respect to Miami, Tampa Bay and Atlanta, the Case-Shiller Low Tier (less than \$143,000) Home Price Index decreased by more than 60% from peak to trough. Based on Case-Shiller data, home prices in Atlanta are currently at levels not seen since the 1980s while Florida is at price levels last seen a decade ago. Nevertheless, the U.S. housing market now appears to be in the infancy of a recovery, with house prices in many major markets showing positive appreciation over the last 12 months.

Home Price Appreciation (HPA) as of May 2013

<u>Market</u>	<u>HPA Peak to Trough</u>	<u>HPA Peak to Current</u>	<u>HPA Prior 12 months</u>	<u>HPA Prior 3 months</u>
<i>Low Tier</i>				
Miami	– 66%	– 56%	25%	9%
Tampa	– 63%	– 55%	18%	7%
Atlanta	– 66%	– 45%	55%	16%
<i>Aggregate</i>				
Miami	– 51%	– 42%	14%	6%
Tampa	– 48%	– 39%	11%	6%
Atlanta	– 40%	– 23%	20%	9%

Source: S&P/Case-Shiller Home Price Indices

Strong Demographic Fundamentals

According to the 2010 census, Florida, Georgia and Texas all experienced strong population growth in the last decade.

Florida's population was approximately 18.8 million on April 1, 2010, an increase of approximately 2.8 million since April 2000. The 2000-2010 decade was the fourth consecutive ten-year period that Florida's population grew by more than 17% and, despite the economic turmoil, Florida's population continues to grow. Georgia's population has grown at a consistent rate, increasing from 8.2 million in 2000 to 9.7 million in 2010, an increase of over 1.5 million residents in the last decade. Texas' population grew from 20.9 million in 2000 to 25.2 million in 2010. Since 1940, Texas has experienced no less than 16% population growth in any decade. Delavaco expects that continued population growth in these states will lead residents to first seek out rental housing rather than buying homes, increasing demand for rental housing and supporting the single-family and multi-family residential property market.

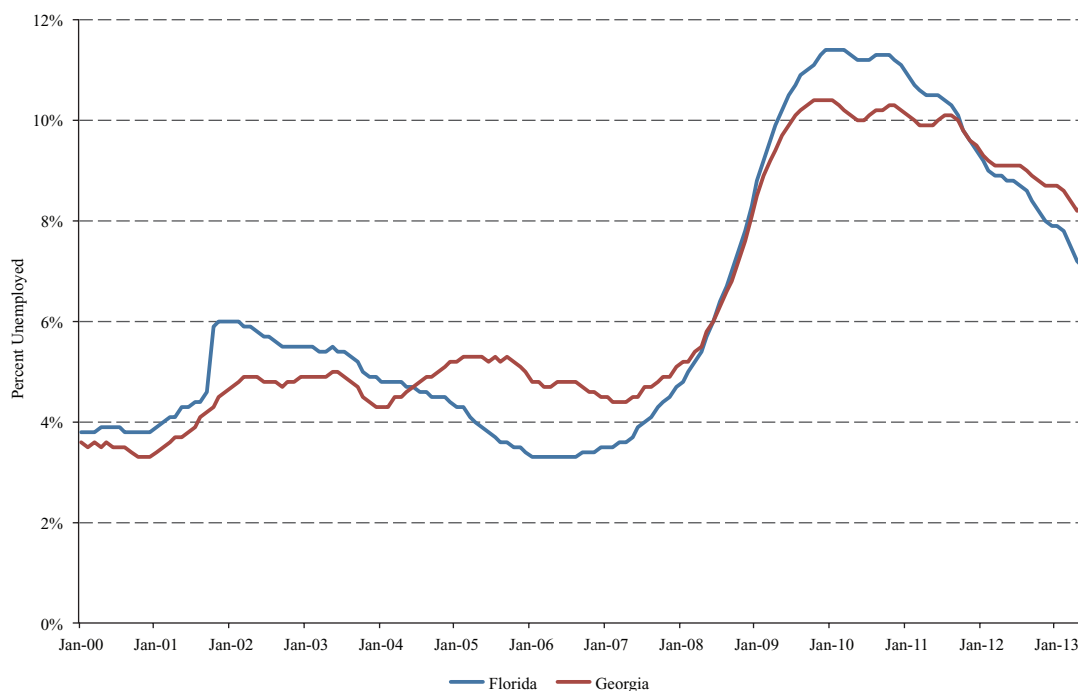
Florida, Georgia and Texas Population Growth Since 1990

	1990	2000	2010	2012	CAGR
Florida	12,937,926	15,982,378	18,801,310	19,317,568	1.8%
Georgia	6,478,216	8,186,453	9,687,653	9,919,945	2.0%
Texas	16,986,510	20,851,820	25,145,561	26,059,203	2.0%

Source: U.S. Census Bureau and Bureau of Economic Analysis

Delavaco believes that employment growth is one of the most important factors affecting the near-term single-family and multi-family market. While the unemployment rate has moderated from its peak in October 2009, the improvement is largely a statistical one driven by a decline in labor force participation. As a result, unemployment rates may be expected to remain elevated longer than usual, as individuals who suspended their job searches during the downturn begin to re-enter the labor pool. A stable-but-slack job market creates a strong rental dynamic, as households still have income to pay rent but do not feel comfortable enough to commit to a long-term mortgage.

Unemployment Rate by State

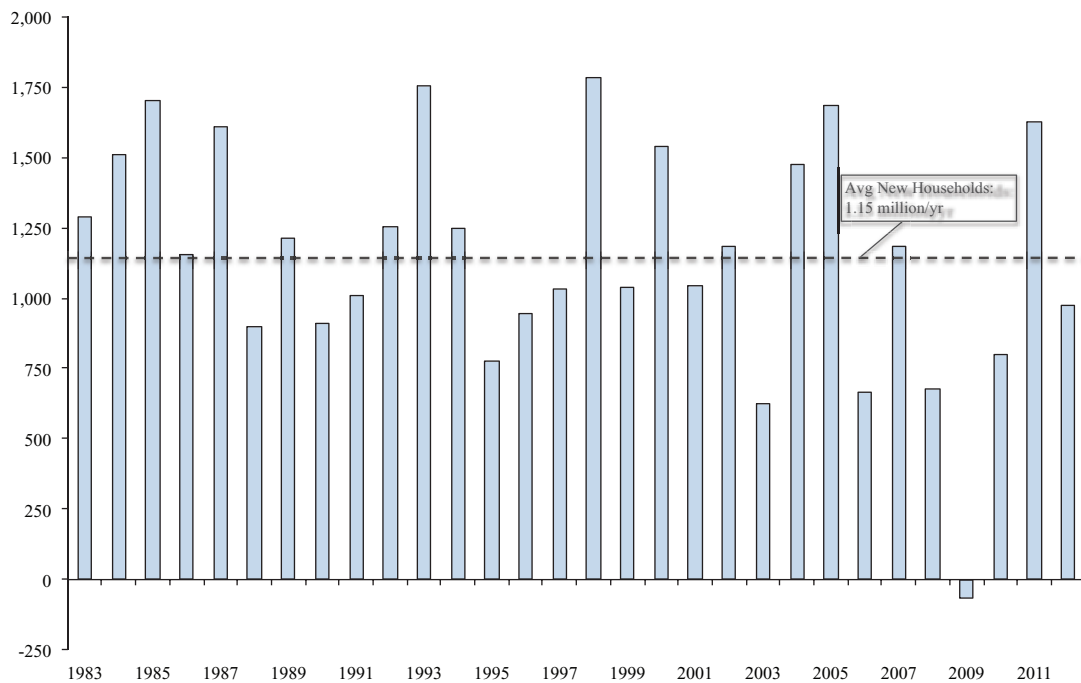


Source: U.S. Department of Labor: Bureau of Economic Analysis and Bureau of Labor Statistics

Declining U.S. Home Ownership

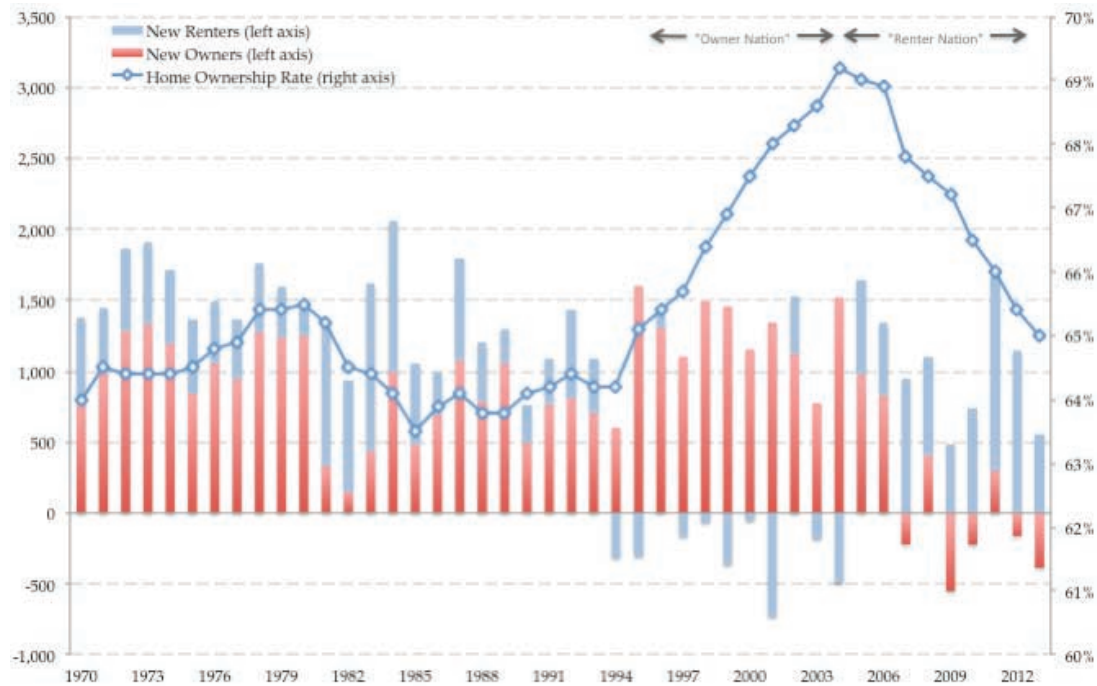
One of the most significant contributors to the projection for demand of rental suites is the declining level of home ownership, particularly in the United States. As of June 30, 2013, the percentage of United States residents that own their home was 65.0%, down 4.2% from its all-time high of 69.2% in 2004, down 0.5% from June 2012 and below its long-term historic average of 65.3%. Based on industry sources, management believes that an increase in the home ownership rate is unlikely for the foreseeable future and that the current downward trend will continue. Renting provides the tenant with certainty about rental payments and they are not exposed to changes in the underlying value of the real estate or interest rate fluctuations. Housing data firm CoreLogic reported that, at the end of the first quarter of 2013, 9.7 million United States households, or 19.8% of all mortgaged homes in the United States were still in a negative equity position. In addition, 2.1 million borrowers in the United States had less than 5% equity in their homes.

Year-Over-Year Growth in Household Formation (000s)



Source: U.S. Census Bureau

U.S. Home Ownership Rate

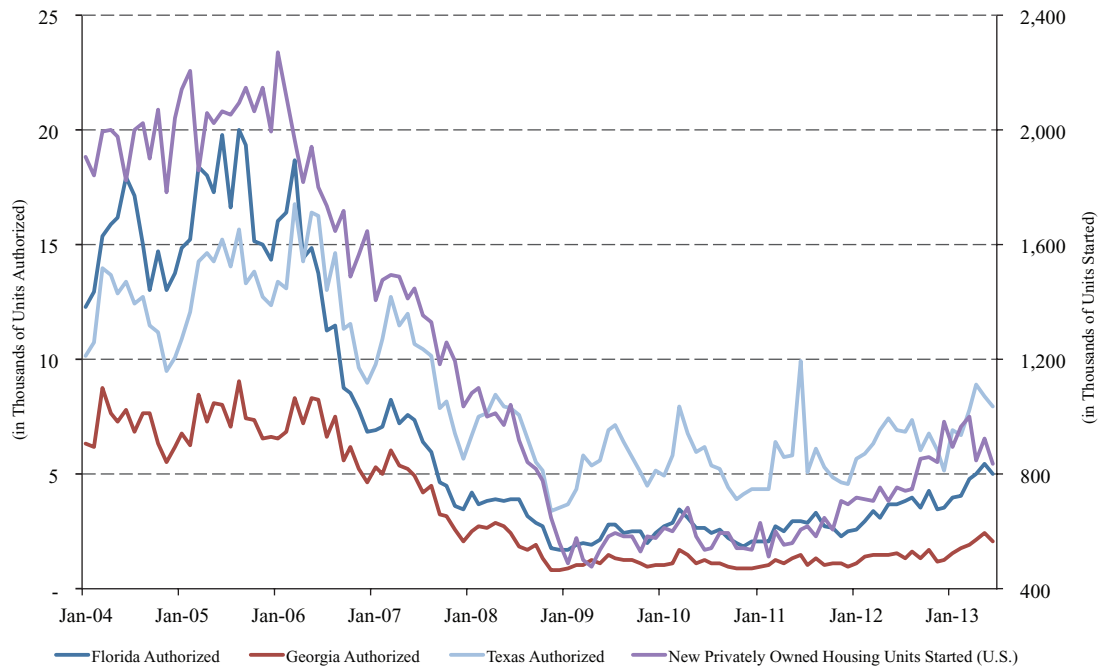


Source: U.S. Department of Labor — Bureau of Economic Analysis, Bureau of Labor Statistics and Federal Reserve Bank of St. Louis, Economic Research Division

Limited Supply of New Housing and Stable "Shadow Inventory"

The U.S. economic downturn resulted in a significant reduction in the construction of new single-family homes in Florida, Georgia and Texas. As shown below, the number of units authorized for building in Florida fell from over 20,000 units per month at the peak to less than 2,000 units per month at the trough while in Georgia, the decline was from 9,000 units per month to less than 1,000 units per month. Management believes these continued depressed levels of construction will spur demand for existing properties and when combined with other factors, such as a lack of mortgage financing availability, will lead to enhanced occupancy and rental rates.

New Privately Owned Housing Units Authorized and Started (Single Unit Housing)



Source: U.S. Census Bureau

The U.S. economic downturn also slowed multi-family development, creating a supply-demand balance that favours owners of existing multi-family assets. The supply of newly completed units hit historical lows in 2010 and 2011. Over 539,000 multifamily units in the U.S. were absorbed during this two year period, while only approximately 141,000 units were completed. Delavaco believes that multi-family properties can be acquired at values significantly below replacement cost, making it difficult for newly developed properties to generate returns similar to Delavaco and dampening the likelihood of significant new construction.

In addition to the slower pace of property construction, management believes that a key factor in the success of Delavaco's single-family business is the volume of houses that comprise the **"Shadow Inventory"** (defined as any properties that are 90 days or more delinquent in their mortgage payments, are in the foreclosure process, or are bank/lender owned, excluding those distressed properties identified as being on the market) and that there is a window of opportunity to capitalize on the dislocation in the single-family housing sector as Shadow Inventory remains large (though declining) and home prices appear to have bottomed (and may be increasing).

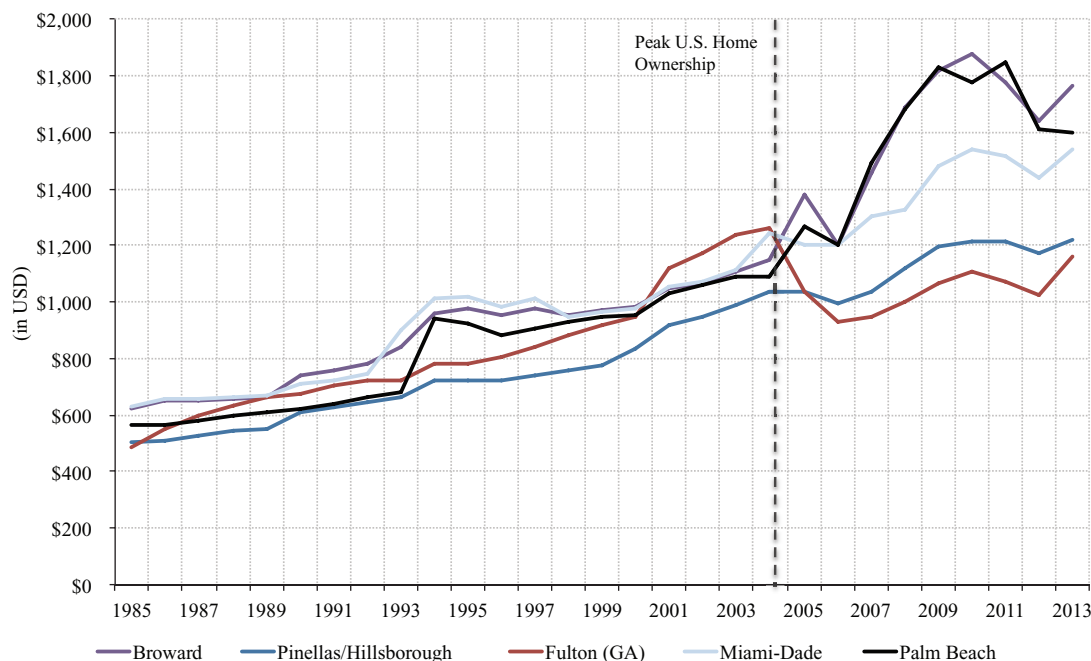
According to CoreLogic, as of January 2013 there were 2.2 million homes in the Shadow Inventory in the United States versus 2.6 million homes in January 2012. The dollar volume of those homes is estimated to be \$350 billion in January 2013 versus \$402 billion in January 2012. Forty-five percent of those homes (1.0 million) are delinquent but not yet foreclosed, 798,000 are in foreclosure and 342,000 are in REO. With 2.2 million homes in the Shadow Inventory, management believes that distressed properties will remain a significant feature of the residential real estate market in the United States for many years to come.

Strong Rental Rates

The United States Department of Housing and Urban Development (**"HUD"**) is required to measure Fair Market Rent (**"FMR"**) in numerous geographic areas in order to help administer the Section 8 Housing Choice Voucher Program. In general, the FMR for an area is the amount that would be needed to pay the gross rent (rent plus utilities) of privately owned, decent, and safe rental housing of a modest, non-luxury nature with

suitable amenities. HUD uses a sophisticated methodology relying on multiple data sources to determine FMR and thus management considers FMR to be an accurate way to track trends in rental rates of housing stock similar to Delavaco's Single-Family Home Portfolio. Despite some year-to-year volatility, FMR has not been significantly influenced by the bubble in housing or the subsequent housing price decline. The trend has generally been upward over time and 2013 FMR was flat or higher than 2012 FMR in all of Delavaco's geographic areas.

**Fair Market Rent by County
(3 Bedroom Dwelling)**



Source: U.S. Department of Housing and Urban Development, U.S. Census Bureau

Historically Stable Asset Class

The multi-family asset class has historically provided investors with the lowest variability of risk-adjusted returns among all classes of real estate, owing to the necessity for housing, which is typically not materially affected by economic slow-downs. Management believes that over time the single-family asset class will experience similar risk adjusted returns. Furthermore, cash flow from such properties is diversified across a tenant base that comprises numerous individual households, mitigating the negative impact of the loss of any one tenant.

Landlord Friendly States

The Florida, Georgia and Texas rental housing markets benefit from a number of factors that are often referred to as being “landlord friendly”. The first major factor is the lack of rent control or rent stabilization practices that could impede charging market rent. While rent cannot be increased during the period of a lease contract, no restrictions exist following expiry of a lease. The second major factor is that the eviction procedure in all three states is straightforward. From start to finish, evictions typically take one to three months in the event a tenant fails to pay their rent. This compares favourably to many “tenant friendly” jurisdictions where evictions can take six to twelve months from start to finish. Other than as described above, and with respect to the Section 8 Program described below in “Stable Cash Flow Partially Subsidized by U.S. Government”, there are no material market controls or regulations within the market segment and specific geographical area that affect Delavaco or its assets.

Warm Climate Resulting in Desirable Lifestyle Characteristics

Florida, Georgia and Texas are located in the Southern United States and enjoy warm climates with little or no winter. All three states continue to draw residents and investors from across the United States and around the world. New residents are drawn by lifestyle factors such as climate, beaches and sunshine, as evidenced by Florida, Georgia and Texas's 10-year population growth rates of 17.6%, 18.3% and 20.6%, respectively, compared to a national average of 9.7%. Management believes that Florida, Georgia and Texas will continue to be desirable locations for net migration for the indefinite future.

Competitive Conditions

Delavaco operates in a market segment without perfect competitors because other potential competitors such as Blackstone Group LP, a large operator of single-family rental homes, are seeking to purchase and operate larger portfolios, and are unlikely to directly compete with Delavaco's targeted acquisitions of single-family homes and multi-family properties. Additionally, a majority of Delavaco's single-family tenants receive benefits, predominantly from the Section 8 Program described below in "Stable Cash Flow Partially Subsidized by U.S. Government". This further separates Delavaco from potential competitors who do not have a comparable composition of tenants.

Trends

Management believes that while the recent market and regulatory environments relating to single-family homes and multi-family properties have been changing rapidly, making future trends difficult to forecast, there are certain current trends that will continue to have a positive impact on Delavaco's business. There has been growth in the amount and size of publicly-held single-family rental property operators, and management believes this is a positive indicator of a strong and growing market segment. These companies have also been successful in raising large amounts of capital through debt and equity financings which management believes is indicative of the strength of rental homes as an asset class.

Investment Highlights

Single-Family and Multi-Family Focused

Delavaco's focus on both single-family homes and multi-family properties allows it to select the residential assets in a given geographic location most likely to achieve long term price appreciation and yield stability. The diversification benefits of owning single-family and multi-family properties further enhances the stability of the yield and allows for property price appreciation before a complete recovery in the residential housing market. The flexibility to invest in either asset class will allow management to build a portfolio with strong risk adjusted returns for investors.

Attractive Vehicle Leveraged to the U.S. Housing Recovery

Delavaco has focused on acquiring and renting single-family homes and multi-family properties that have meaningful upside potential when the U.S. economy strengthens and the housing market fully recovers and begins to grow.

Delavaco has acquired single-family homes in working-class neighbourhoods hardest hit by the U.S. housing crisis and that therefore offer the greatest opportunity for long-term appreciation. The lack of significant mortgage lending combined with the number of people who have been subject to foreclosures has created a dislocation in the housing market in working-class neighbourhoods. Delavaco is capitalizing on this dislocation by investing in single-family homes that are being sold at prices below replacement costs while providing stable rental income and high occupancy rates in the long term.

Subsequent to the Reorganization, Delavaco will acquire Class B multi-family properties in well-developed, mature neighbourhoods in Austin, Texas and Fort Lauderdale, Florida. Focusing on Class B buildings in mature neighbourhoods in major markets with limited new land for development shields the business from direct competition because the cost of land in the immediate area makes any new development likely to be Class A. A

further focus on properties with strong historical occupancy located in good school districts positions the properties for long-term price appreciation.

Stable Cash Flow Partially Subsidized by U.S. Government

A high proportion of Delavaco's single-family tenants participate in rental assistance programs sponsored by the U.S. Government. As of June 30, 2013, 66% of Delavaco's single-family tenants receive benefits, predominantly from the Section 8 Housing Choice Voucher Program. Section 8 of the United States Housing Act of 1937 authorizes the payment of rental housing assistance to private landlords on behalf of approximately 3.1 million low-income households throughout the United States (the "**Section 8 Program**"). The Section 8 Program is managed by HUD.

Delavaco benefits from the Section 8 Program by transferring to the U.S. Government up to 100% of the credit risk associated with the Section 8 Program tenants themselves. Delavaco currently receives approximately 86% of the total rent payable by Section 8 Program tenants from the U.S. Government. Delavaco receives from the government a direct deposit into its bank account during the first week of each month, with the balance collected monthly directly from the Section 8 Program tenants.

Tenants are typically conscientious about adhering to the rules of the Section 8 Program in order to maintain their voucher benefits. A tenant that breaks these rules runs the risk of losing his or her voucher and permanent removal from the Section 8 Program. Tenants can lose their vouchers for various reasons including: failure to pay rent, breaking the law, failure to maintain property, failure to pay utility bills, letting unreported people move into the unit, abuse of alcohol or drugs and disturbing neighbours.

The Multi-Family Properties Portfolio will not have tenants participating in rental assistance programs. As part of the due diligence process for a multi-family acquisition, management analyzes historical payment patterns, turnover and occupancy. In order for a property to be purchased management must be convinced that the properties will generate stable cash flows in line with historic performance. Due to the nature of the properties that are purchased, finding credit worthy and conscientious tenants on a timely basis to replace tenants moving out of units is expected to be manageable.

Experienced Management and Directors Aligned with Shareholders

Delavaco has assembled an experienced management team and board of directors. Members of the Board have a history of entrepreneurial ventures and start-ups including asset management ventures as well as ventures involving residential real estate in Delavaco's target markets in the United States. In addition, Delavaco's management team has extensive capital market experience, having funded numerous private and public entities and held senior positions in numerous publicly traded companies.

Management's internalized structure ensures an alignment of interest, with no fees payable to management on the basis of assets under management, financings or acquisitions.

Selected Consolidated Financial Information and Management's Discussion and Analysis

Management's Discussion and Analysis

The following table presents selected financial information for Delavaco as at and for the periods indicated. This management's discussion and analysis should be read in conjunction with the reviewed financial statements of Delavaco as at and for the three and six month periods ended June 30, 2013, and 2012, and the audited financial statements of Delavaco for the year ended December 31, 2012, and from the date of incorporation, January 27, 2011, to December 31, 2011, and the notes thereto set forth in "Appendix H — Financial Statements" of this Information Circular.

SINGLE-FAMILY HOME PORTFOLIO

Summary of Properties

Quarter	2013	2013	2012	2012
Total	Q2	Q1	Q4	Q3
Single-Family Homes — Florida	526	525	525	509
Single-Family Homes — Georgia	171	153	89	Nil
Total Units	697	678	615	509
Book Value of Properties ⁽¹⁾	\$38,815,884	\$37,718,226	\$36,406,152	\$26,223,837
Average Book Value Per Property	\$55,690	\$55,631	\$59,197	\$51,520

Quarter	2012	2012	2011	2011
Total	Q2	Q1	Q4	Q3
Single-Family Homes — Florida	327	226	183	183
Single-Family Homes — Georgia	Nil	Nil	Nil	Nil
Total Units	327	226	183	183
Book Value of Properties ⁽¹⁾	\$17,811,616	\$11,566,810	\$9,001,870	\$8,506,471
Average Cost Per Property	\$54,470	\$51,181	\$49,191	\$46,483

(1) Includes net book value of properties classified as assets held for sale.

Summary of Annual Results:

This table contains annual financial information derived from financial statements that have been prepared in accordance with IFRS.

	Six months ended June 30, 2013	Year ended December 31, 2012	Period from January 27, 2011, to December 31, 2011
Rental revenue	\$ 2,719,047	\$ 3,108,834	\$ 929,660
Property operating expenses	1,401,890	1,658,745	835,309
Net operating income	1,317,157	1,450,089	94,351
Corporate expenses	8,893,820	7,101,824	1,945,041
Net loss	(7,576,663)	(5,651,735)	(1,850,690)
Net loss (per share)	(0.31)	(0.27)	(0.23)
AFFO, before corporate expenses	1,148,157	1,353,089	67,351
AFFO, before corporate expenses (per share)	0.05	0.06	0.01
AFFO	(3,778,563)	(3,539,127)	(1,593,276)
AFFO (per share)	(0.16)	(0.17)	(0.20)
Total assets	43,276,825	46,764,652	9,415,883
Total long-term liabilities	22,564,583	22,235,059	3,428,761
Dividends	\$ —	\$ —	\$ —

Six months ended June 30, 2013

During the six months ended June 30, 2013, Delavaco saw an increase in its net operating income percentage to 48.4%, as Delavaco's occupancy percentage increased in addition to increased revenue per door and efficiencies in operating expenditures, all key focuses of Delavaco. At the same time, Delavaco saw a significant increase in corporate expenses for current the six months period as Delavaco incurred approximately \$1,550,000 in costs associated with a going public transaction. There was also a significant increase in the financing costs being \$3,104,617 for the six month period due to non-cash accretion expense of approximately \$1,800,000 of which a large portion relates to the \$10,000,000 convertible unsecured debentures that closed in

December 2012. Delavaco also had a foreign exchange loss of \$1,574,121 during the six month period. General and administrative costs of \$1,779,655 were incurred during the period of which salaries and wages made up \$857,660, bad debt was \$200,285, and the remainder consisted of other administrative costs.

Year ended December 31, 2012

During the year ended December 31, 2012, Delavaco had significant expansion increasing the number of units owned by 432, including the addition of 89 units in Georgia. As Delavaco continued its expansion during 2012, it increased its operations headcount to manage its then rapid expansion and lay the groundwork for its continued strategy to build on the foundation of properties. Delavaco had a net operating income of \$1,450,089, approximately 46.6% which is a significant increase from 2011 due to the purchases of additional properties, and an increase in the occupancy of the units. The corporate expenses incurred were made up of general and administrative of \$2,934,787, which consisted of approximately \$1,680,000 in salaries and wages, \$262,893 in bad debt, and the remainder in other general and administrative costs. Delavaco also incurred non-cash items of \$381,305 in share-based compensation and had a foreign exchange loss of \$236,340. During the year, Delavaco issued secured debentures, which led to a significant increase in finance costs to \$1,758,918 as well as a loss on early extinguishment of debt of \$195,509, due to the early replacement of the 2011 debt to take advantage of lower interest rates.

Period from January 27, 2011 to December 31, 2011

During the period from incorporation, January 27, 2011 to December 31, 2011, Delavaco was focused on developing the legal and tax structure as well as the operational infrastructure needed to support substantial growth in the portfolio. The significant expenditures incurred during the period were professional fees of \$480,659, general and administrative costs of \$1,002,633, which includes management salaries and wages of \$415,003. Delavaco also incurred share-based compensation of \$355,785 and incurred finance costs of \$224,571 on debt obligations. In addition, Delavaco recognized a \$304,099 foreign exchange gain due to changes in the prevailing USD/CDN exchange rate.

Summary of Quarterly Results:

	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
Rental revenue	\$ 1,463,895	\$ 1,255,152	\$ 1,102,007	\$ 854,871	\$ 619,313	\$ 532,643
Property operating expenses	696,369	705,521	635,657	416,536	375,879	230,673
Net operating income	767,526	549,631	466,350	438,335	243,434	301,970
Corporate expenses	4,819,790	4,074,030	2,476,901	2,601,722	896,505	1,126,696
Net loss	(4,052,264)	(3,524,399)	(2,010,551)	(2,163,387)	(653,071)	(824,726)
Net loss (per share)	(0.16)	(0.15)	(0.09)	(0.09)	(0.03)	(0.06)
Total assets	43,276,825	44,975,664	46,764,652	39,567,454	40,242,839	19,556,724
Total long-term liabilities	22,564,583	22,395,988	22,235,059	22,075,248	21,851,236	—
Working Capital	(8,120,516)	(4,448,991)	2,073,367	13,774,706	21,709,224	4,597,553
Dividends	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

Summary of Property Operating Expenses:

For the three months ended	June 30, 2013,		March 31, 2013,		December 31, 2012,	
	\$	\$ per property	\$	\$ per property	\$	\$ per property
Property operating expenses						
Repairs and maintenance	156,145	226	144,858	219	88,323	141
Insurance	206,925	299	190,682	289	178,163	284
Utilities	53,457	77	104,068	158	95,111	152
Property management ⁽¹⁾	18,403	27	79,961	121	62,571	100
Property taxes	121,247	175	114,731	174	133,593	213
Other	140,192	203	71,221	108	77,896	124
Total property operating expenses	696,369	1,008	705,521	1,069	635,657	1,015
Average number of properties owned		<u>691</u>		<u>660</u>		<u>626</u>

For the three months ended	September 30, 2012,		June 30, 2012,		March 31, 2012,	
	\$	\$ per property	\$	\$ per property	\$	\$ per property
Property operating expenses						
Repairs and maintenance	72,584	163	106,884	383	43,957	218
Insurance	86,955	195	56,930	204	38,873	192
Utilities	85,001	191	82,078	294	49,464	245
Property management ⁽¹⁾	56,741	127	58,217	209	67,649	335
Property taxes	54,694	123	33,255	119	14,391	71
Other	60,561	136	38,515	138	16,339	81
Total property operating expenses	416,536	934	375,879	1,347	230,673	1,142
Average number of properties owned		<u>446</u>		<u>279</u>		<u>202</u>

(1) Relates to fees paid for the external property management of certain Florida properties, which were sold during Q1, 2013 and properties in Georgia.

Rental Revenues:

Delavaco's revenue has continued to increase as Delavaco acquired additional properties and focused on increasing its occupancy. For the quarter ended June 30, 2013, Delavaco's revenue increased by \$844,582 (136%) year over year and by \$208,743 (17%) quarter over quarter. Delavaco had 697 units on June 30, 2013 compared to 328 units on June 30, 2012, an increase of 369 (113%) units accounting for the majority of the increase in revenue, the rest is an overall decline in vacancy as Delavaco focused on leasing up its units. Through the end of 2012 and for the six month period ended, Delavaco has been focused on acquiring occupied units in contrast with early acquisition strategy of vacant properties at higher yields and longer turn over time from acquisition to lease up date. This continues to be the focus of Delavaco.

Property Operating Expenses:

Property operating expenses include repairs and maintenance, insurance, utilities, property management fees, property taxes and other costs directly attributable to the portfolio of Single-Family Homes. Property operating costs for the three months ended June 30, 2013, were \$696,369, an increase of \$320,490 (85%) year over year and a decrease of \$9,152 (1%) quarter over quarter, reflective of a larger property portfolio, while Delavaco maintains operating cost reductions to maximize net operating income.

Corporate Expenses:

Corporate expenses include general and administrative expenses, professional fees, transaction costs, depreciation and amortization, and all costs that are not directly attributable to the property portfolio. Total corporate expenses for the three months ended June 30, 2013 were \$4,819,790, an increase of \$3,923,285 year over year. Significant areas of corporate expenses are as follows:

(i) Finance Costs

Finance costs increased year over year by \$1,135,207 due to Delavaco's use of leverage to finance growth. In June 2011, Delavaco received \$940,000 through loans bearing interest at 12% per annum. Half of the \$940,000 was repaid in December 2011 and the remainder in January 2012. The original debt facility was replaced with a new facility in the form of notes in the amount of \$3,950,000 bearing interest at 10% per annum. On June 4, 2012, Delavaco completed a private placement for \$25,000,000 in debentures that bear interest at 7.5% per annum, of which a portion of the proceeds were used to repay the 10% notes. In December 2012, Delavaco issued \$10,000,000 unsecured convertible debentures that originally bore interest at 7.5% (now bearing interest at 9.0%) to continue the acquisition of properties.

(ii) General and Administrative Expenses

General and administrative expenses consist largely of salaries and wages, travel, bad debts and the costs of rent and office operations. General and administrative expenses increased by \$386,948 (65%) year over year and \$188,187 (24%) quarter over quarter. The increase year over year is a result of the increased number of units in the portfolio and the corresponding administration required to manage the portfolio. Delavaco continued to hire employees throughout 2012 and early 2013 as the purchasing of units continued resulting in an increase in salaries and wages. Bad debts also increased during the period, of which approximately \$40,000 related to structuring and identifying of problem tenants in Georgia properties, a situation that has been remedied. Delavaco is focused on managing its tenant base and it continues to improve its processes over collections.

(iii) Professional Fees

Professional fees saw an increase of \$17,455 (20%) year over year. Quarter over quarter there was a decrease of approximately \$78,900 (43%). Fluctuations are caused by timing of audit and tax compliance expenditures including general corporate legal services.

(iv) Transaction Costs

As Delavaco is actively pursuing a going public transaction, it has incurred significant transaction costs over the last six months. During the three months ended June 30, 2013, the Company incurred \$885,096, an increase over the \$669,760 incurred during the prior period.

Summary of Significant Items in the Statement of Financial Position

Properties

Delavaco acquired net 17 units during the six months ended June 30, 2013, net of dispositions of 65 multi-family units disposed of during the period. During the year ended June 30, 2013, Delavaco acquired net 496 units, net of dispositions of 14 Florida units. This has resulted in an increase in investment properties net book value of \$29,964,488 from January 1, 2012 through June 30, 2013, a total increase of 239% during the eighteen month period. As at June 30, 2013, Delavaco's average net book value per unit is \$55,690. As the Florida market for single family properties has seen an increase in pricing, Delavaco has managed to move into new attractive, landlord friendly markets where price increases exist, however at a slower rate, allowing Delavaco to continue its acquisition strategy at attractive capitalization rates. This led to the decision to expand into Georgia to optimize capitalization rate potential.

The market trend for increased housing prices on a retail basis has been capitalized by Delavaco as experienced by the resulting gains of divested properties. The gain on disposition of investment properties also includes the write-off of certain components of investment properties which had to be disposed of and fully

replaced, such as HVAC units. The total gain on dispositions of units to date is \$395,912, whereas the total loss on replacement of certain components is approximately \$48,887.

Below is a summary of Delavaco's investment properties from incorporation through to June 30, 2013:

<u>IN CAD</u>	<u>At Incorporation</u>	<u>Additions</u>	<u>Depreciation</u>	<u>Dispositions</u>	<u>June 30, 2013</u>
	\$	\$	\$	\$	\$
Building structure	—	7,895,637	(157,033)	—	7,738,604
Land	—	869,190	—	—	869,190
HVAC	—	182,010	(12,865)	—	169,145
In-place leases	—	—	—	—	—
Appliances	—	90,051	(15,594)	—	74,457
Total	—	<u>9,036,888</u>	<u>(185,492)</u>	—	<u>8,851,396</u>

	<u>As at December 31, 2011</u>	<u>Additions</u>	<u>Depreciation</u>	<u>Dispositions</u>	<u>Reclassified to assets held for sale</u>	<u>December 31, 2012</u>
	\$	\$	\$	\$	\$	\$
Building Structure	7,738,604	23,776,605	(544,059)	(256,952)	(2,136,200)	28,577,998
Land	869,190	3,832,032	—	(32,010)	(254,910)	4,414,302
HVAC	169,145	589,730	(33,437)	(14,625)	(53,850)	656,963
In-place leases	—	309,291	(172,392)	—	—	136,899
Appliances	74,457	160,790	(56,017)	(4,200)	(20,373)	154,657
Total	<u>8,851,396</u>	<u>28,668,448</u>	<u>(805,905)</u>	<u>(307,787)</u>	<u>(2,465,333)</u>	<u>33,940,819</u>

	<u>As at December 31, 2012</u>	<u>Additions</u>	<u>Depreciation</u>	<u>Dispositions</u>	<u>June 30, 2013</u>
	\$	\$	\$	\$	\$
Building structure	28,577,998	4,736,560	(563,402)	(43,225)	32,707,931
Land	4,414,302	667,064	—	—	5,081,366
HVAC	656,963	216,592	(30,424)	(48,887)	794,244
In-place leases	136,899	29,935	(121,482)	—	45,352
Appliances	154,657	77,867	(45,533)	—	186,991
Total	<u>33,940,819</u>	<u>5,728,018</u>	<u>(760,841)</u>	<u>(92,112)</u>	<u>38,815,884</u>

Debt

In June 2011, Delavaco received loans in the amount of CDN\$940,000 bearing interest at 12% per annum. This loan was repaid in two installments. The first CDN\$470,000 was repaid in cash in December 2011, and the remainder was repaid via the issuance of 455,000 common shares at CDN\$1.00 per common share and a payment of CDN\$15,000 cash in January 2012.

In the third and fourth quarter of 2011 and the first quarter of 2012, Delavaco issued CDN\$3,950,000 of notes payable bearing interest at 10% per annum. These notes were used to continue the acquisition of single-family homes and for general corporate purposes. In February 2012, CDN\$1,000,000 of the notes were repaid via the issuance of 1,000,000 common shares at CDN\$1.00 per common share. The remaining CDN\$2,950,000 of the notes were repaid in cash in early June 2012.

On June 4, 2012, Delavaco closed a private secured debt offering of \$25,000,000 in which 25,000 units were issued, bearing interest at 7.5% per annum payable quarterly, and maturing on June 30, 2016. Delavaco paid agents fees of 4.5% of the gross proceeds. Each unit included a \$1,000 principal amount secured debenture and 154 common share purchase warrants. The warrants are exercisable at \$1.30 and expire on June 3, 2017. These debentures remain outstanding.

On December 20, 2012, Delavaco issued \$10,000,000 of convertible debentures, which originally bore interest of 7.5% per annum (now at 9.0% per annum), payable quarterly and mature on December 20, 2014. The debentures contain a forced conversion such that Delavaco may force full conversion to common shares if Delavaco completes a liquidity event where Delavaco lists on the TSXV, or provides the holders with comparable liquidity while contemporaneously raising a minimum of CDN\$25,000,000 (the “**Liquidity Event**”). The debentures convert at a 15% discount to the price per share of the Liquidity Event. If Delavaco does not complete a Liquidity Event by June 20, 2013, the interest rate increases to 9.0% per annum, and the holders of the convertible debentures hold the option to force Delavaco to repay the convertible debentures with a minimum approval of 25% of the debenture holders.

Performance Measures

Management believes that FFO and AFFO are key measures for real estate investment companies. The calculations are as follows:

	Six months ended June 30, 2013	Year ended December 31, 2012	From January 27, 2011 to December 31, 2011
Net loss	\$ (7,576,663)	\$ (5,651,735)	\$ (1,850,690)
Add (deduct):			
Depreciation	820,527	899,953	185,492
Loss (gain) on disposition of investment properties . . .	(329,661)	(17,364)	—
Unrealized foreign exchange (gain) loss	1,574,121	236,340	(304,099)
Funds From Operations (FFO)	<u>(5,511,676)</u>	<u>(4,532,806)</u>	<u>(1,969,297)</u>
Add (deduct):			
Amortization of deferred financing costs	1,802,904	513,865	47,236
Loss on early extinguishment of debt	—	195,509	—
Share-based compensation	99,209	381,305	355,785
Replacement reserve	(169,000)	(97,000)	(27,000)
Adjusted Funds From Operations (AFFO)	<u><u>\$(3,778,563)</u></u>	<u><u>\$(3,539,127)</u></u>	<u><u>\$(1,593,276)</u></u>
FFO per unit — basic	<u>\$ (0.23)</u>	<u>\$ (0.22)</u>	<u>\$ (0.25)</u>
AFFO per unit — basic	<u><u>\$ (0.16)</u></u>	<u><u>\$ (0.17)</u></u>	<u><u>\$ (0.20)</u></u>

Outlook

For further details on outlook, see “Information Concerning Delavaco — Narrative Description of Business”.

Financings Liquidity and Capital Resources

Issued and outstanding as at November 15, 2013:

Common Shares	25,075,000
Dilutive effect of Unsecured Notes	10,230,179
Dilutive effect of Unsecured Debentures	16,086,956
Warrants	4,682,000
Options	<u>2,500,000</u>
Fully diluted	<u><u>58,574,135</u></u>

For further details of the shares, warrants and stock options issued to date, see “Information Concerning Delavaco — Prior Sales”. Subsequent to quarter end, on July 20, 2013, 500,000 options were cancelled.

As at June 30, 2013, Delavaco had a working capital deficit of approximately \$8,373,584. Since the Unsecured Notes are included as a current liability and Delavaco expects them to be converted within the year

(pursuant to the terms of the Unsecured Notes), Delavaco's adjusted working capital excluding these two instruments would be \$2,238,641. For further details on Delavaco's liquidity, see "Summary — Available Funds and Principal Uses".

Related Party Transactions

Transactions with related parties are incurred in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and approved by the related parties. During the three and six month periods ended June 30, 2013, and 2012, Delavaco entered into the following transactions with related parties:

During the six month period ended June 30, 2013 and year ended December 31, 2012:

- (i) Delavaco incurred \$32,674 (December 31, 2012 — \$38,639) in rent expense and \$12,010 (December 31, 2012 — \$40,964) in accounting fees to a company controlled by a senior officer and director of Delavaco.
- (ii) Delavaco incurred \$Nil (December 31, 2012 — \$24,943) in consulting fees to a corporation controlled by a director of Delavaco.
- (iii) Delavaco incurred \$42,770 (2012 — \$Nil) in administration fees to a corporation controlled by a director of Delavaco.
- (iv) 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 \$21,600 for the six months ended June 30, 2013, and \$316,800 for the year ended December 31, 2012. On January 31, 2013, this agreement was terminated.
- (v) During the period ended June 30, 2013, Delavaco signed four letters of intent, one with a director, and three with a company controlled by a director of Delavaco to purchase four limited partnerships each of which owns a multi-unit residential property.

During the year ended December 31, 2012, and from date of incorporation January 27, 2011 to December 31, 2011:

- (i) During 2011, Delavaco obtained a \$294,985 note (the "note") from an entity in which a senior officer and director of Delavaco having a controlling interest and which is a significant shareholder of Delavaco. At December 31, 2012, \$Nil (December 31, 2011 — \$51,662) remains outstanding on the note receivable.
- (ii) During 2011, Delavaco received an interest-free, unsecured loan of \$50,000 from a director and significant shareholder of Delavaco to fund working capital requirements. The balance of the loan remained in accounts payable and accrued liabilities as at December 31, 2011, but was repaid in 2012.
- (iii) During 2011, Delavaco acquired investment properties from an entity in which a senior officer and a director of Delavaco have a controlling interest. Delavaco issued a promissory note of CDN\$1,000,000 as consideration for the investment properties acquired, which was ultimately used to settle the CDN\$1,000,000 promissory note due to Delavaco in respect of the January 27, 2011, common share issuance disclosed in Note 10. There was \$nil outstanding as at December 31, 2011.
- (iv) As part of its investment property acquisitions in 2011, Delavaco acquired several multi-family units and a single family home from companies in which a senior officer of Delavaco has a controlling interest. Delavaco paid \$754,054 and \$87,000, respectively, as consideration for the properties acquired. \$Nil was outstanding as at December 31, 2011 in respect of these transactions.
- (v) During the year ended December 31, 2012, Delavaco incurred \$38,639 (December 31, 2011 — \$41,541) in rent expense and \$40,964 (December 31, 2011 — \$2,572) in accounting fees to a company controlled by a senior officer and director of Delavaco.

- (vi) During the year ended December 31, 2012, Delavaco incurred \$24,943 (December 31, 2011 — \$nil) in consulting fees to a corporation controlled by a director of Delavaco.
- (vii) On July 1, 2012, Delavaco signed an agreement related to identification, investigation and acquisition of investment properties with a company controlled by a director whereby Delavaco is required to pay \$900 to the company for every unit acquired. Based on this agreement, Delavaco paid \$316,800 for the year ended December 31, 2012 (December 31, 2011 — \$nil). The term of the agreement is ten years subject to termination by either party upon ninety days prior written notice to the other party. On January 31, 2013, this agreement was terminated.
- (viii) During 2012, Delavaco paid share issuance costs in the amount of \$219,993 to a company controlled by a director.

MULTI-FAMILY PROPERTIES PORTFOLIO

I. Park Colony (the Hollywood Properties):

Overview

The Hollywood Properties located at 812 S. Park Road are a multi-family real estate property that is located in Hollywood, Florida. The Hollywood Properties have a combined rentable square footage of 272,272 and represent an overall land area of approximately 13.28 acres. The Hollywood Properties are comprised of 316 units with an average unit size of 862 square feet, were built in 1987 and include amenities such as a clubhouse, tennis court, fitness center, two swimming pools and onsite laundry facilities.

The following table presents selected financial information for the Hollywood Properties as at June 30, 2013. These tables should be read in conjunction with the unaudited “carve-out” financial statements of Park Colony as at June 30, 2013, and the notes thereto set forth in “Appendix H — Financial Statements”.

Summary of Property:

	June 30, 2013	December 31, 2012	December 31, 2011	December 31, 2010
Number of units	316	316	316	316
Rentable square feet	272,272	272,272	272,272	272,272
Average unit size	862	862	862	862
Economic occupancy ⁽¹⁾	93.3%	93.3%	92.3%	93.1%
Fair market value	\$50,328,070	\$49,134,817	\$40,850,176	\$36,121,039
Average book value per unit	\$ 159,266	\$ 155,490	\$ 129,273	\$ 114,307
Mortgage payable	\$31,794,000	\$21,903,428	\$22,341,950	\$22,801,421
Mortgage interest rate	4.2%	4.76-5.26%	4.76-5.26%	4.76-5.26%
Loan to fair market value	63.2%	44.6%	54.7%	63.1%

(1) One less vacancy loss divided by gross potential rent

Summary of Annual Results:

This table contains annual financial information derived from financial statements that have been prepared in accordance with IFRS.

	Six months ended June 30, 2013	Six months ended June 30, 2012	Period from January 1, 2012 to December 31, 2012	Period from January 1, 2011 to December 31, 2011	Period from January 1, 2010 to December 31, 2010
Total revenue	\$ 2,305,993	\$ 2,148,592	\$ 4,347,092	\$ 4,095,684	\$ 4,050,713
Property operating expenses . . .	1,038,413	936,417	1,986,457	1,894,088	1,844,098
Net operating income	1,267,580	1,212,175	2,360,635	2,201,596	2,206,615
Finance costs	712,913	557,793	1,115,233	1,136,931	1,160,458
FFO	554,667	654,382	1,245,402	1,064,665	1,046,157
AFFO	475,667	575,382	1,166,402	985,665	967,157
Total assets	51,173,885	49,324,827	50,002,053	41,278,812	36,558,118
Total long-term liabilities	31,811,373	38,903	36,138	21,945,096	22,389,148
Working capital	194,169	(21,696,476)	(21,344,373)	(116,092)	(204,112)

Summary of Property Operating Expenses and Capital Expenditures

For the six months ended	June 30, 2013		June 30, 2012	
	\$	\$ per unit	\$	\$ per unit
Operating costs	519,631	1,644	437,748	1,385
Insurance	104,353	330	111,378	352
Utilities	59,844	189	47,132	149
Property taxes	354,585	1,122	340,159	1,076
Total property operating expenses	1,038,413	3,286	936,417	2,963
Property capital expenditures	72,317	229	328,573	1,040

	Period from January 1, 2012 to December 31, 2012		Period from January 1, 2011 to December 31, 2011		Period from January 1, 2010 to December 31, 2010	
	\$	\$ per unit	\$	\$ per unit	\$	\$ per unit
Operating costs	995,696	3,151	902,207	2,855	876,553	2,774
Insurance	228,202	722	219,239	694	244,050	772
Utilities	119,794	379	104,383	330	103,219	327
Property taxes	642,765	2,034	668,259	2,115	620,276	1,963
Total property operating expenses	1,986,457	6,286	1,894,088	5,994	1,844,098	5,836
Property capital expenditures	564,725	1,787	532,593	1,685	n/a	n/a

Total Revenue

Total revenue continued to increase as occupancy rates remained stable and fair market rents improved. For the six months ended June 30, 2013, total revenue increased by \$157,401 (7.3%) year over year. Annualized, revenues for the period would represent a \$264,894 (6.1%) increase over the 2012 fiscal year.

Property Operating Expenses

Property operating expenses include property management, repairs and maintenance, insurance, property taxes, utilities and other costs directly attributable to the day-to-day operations of the Hollywood Properties. Property operating expenses for the six months ended June 30, 2013, were \$1,038,413, an increase of \$101,996 (10.9%) year over year. The decision to externalize property management accounts for the majority of the increase in property operating expenses, while utilities costs and property taxes also increased.

Finance Costs

Finance costs for the six months ended June 30, 2013 were \$712,913, which related to mortgage interest. Finance costs increased year over year by \$155,120 (27.8%) as the Hollywood Properties held a larger mortgage balance as at June 30, 2013.

Summary of Significant Items in the Statement of Financial Position

(i) Investment Property

The Hollywood Properties consist of one multi-family real estate property. As at June 30, 2013, the fair market value of the investment property was \$50,328,070. This represents a year over year increase of 3.9%, resulting from a lower implied capitalization rate reflective of increased market values in the geographic region.

(ii) Mortgage payable

As at December 31, 2010, the Hollywood Properties had a first mortgage balance of \$20,981,329, at an interest rate of 4.76% per year. The mortgage was settled on February 12, 2013.

As at December 31, 2010, the Hollywood Properties had a second mortgage balance of \$1,915,852, at an interest rate of 5.26% per year. The mortgage was settled on February 12, 2013.

As at February 12, 2013, the Hollywood Properties obtained a mortgage of \$31,794,000, at an interest rate of 4.16% per year. The mortgage has an interest only period until March 1, 2015 and matures March 1, 2023.

Park Colony's overall debt level was 63.2% of the fair market value of its investment properties as at June 30, 2013.

Performance Measures

Management believes that FFO and AFFO are key measures for real estate investment companies. The calculations are as follows:

	Six months ended June 30, 2013	Six months ended June 30, 2012	Period from January 1, 2012 to December 31, 2012	Period from January 1, 2011 to December 31, 2011	Period from January 1, 2010 to December 31, 2010
Net income	\$ 1,675,603	\$ 7,912,800	\$ 8,965,318	\$ 5,261,209	\$ (868,265)
Add (deduct):					
Fair value (gain) loss on investment properties	(1,120,936)	(7,258,418)	(7,719,916)	(4,196,544)	1,914,422
Funds from operations (FFO) . .	\$ 554,667	\$ 654,382	\$ 1,245,402	\$ 1,064,665	\$1,046,157
Add (deduct):					
Replacement reserve	(79,000)	(79,000)	(79,000)	(79,000)	(79,000)
Adjusted funds from operations (AFFO)	<u>\$ 475,667</u>	<u>\$ 575,382</u>	<u>\$ 1,166,402</u>	<u>\$ 985,665</u>	<u>\$ 967,157</u>

Outlook

Park Colony is continuing its management of the investment property in accordance with its core strategy and primary objectives. For further details on outlook, see "Information Concerning Delavaco — Narrative Description of Business".

Liquidity and Capital Resources

As at June 30, 2013, the Hollywood Properties had a working capital surplus of approximately \$194,169.

II. South Congress Commons (part of the Austin Properties):

Overview

The portion of the Austin Properties located at 126 W. Alpine Road (“**South Congress Commons**”) is a multi-family real estate property located in Austin, Texas. South Congress Commons has a combined rentable square footage of 38,556 and represents an overall land area of approximately two acres. South Congress Commons is comprised of 68 units with an average unit size of 567 square feet, was built in 1981 and includes amenities such as onsite laundry facilities and a dog park.

The following table presents selected financial information for South Congress Commons as at June 30, 2013. This table should be read in conjunction with the unaudited “carve-out” financial statements of South Congress Commons as at June 30, 2013, and the notes thereto set forth in “Appendix H—Financial Statements” of this Information Circular.

Summary of Property

	June 30, 2013	December 31, 2012	December 31, 2011	December 31, 2010
Number of units	68	68	68	68
Rentable square feet	37,584	37,584	37,584	37,584
Average unit size	553	553	553	553
Economic occupancy ⁽¹⁾	90.3%	96.7%	93.0%	n/a
Investment properties, at fair value	\$6,823,040	\$5,397,264	\$3,013,800	\$3,169,349
Average book value per unit	\$ 100,339	\$ 79,372	\$ 44,321	\$ 46,608
Mortgage payable	\$3,010,000	\$ 0	\$1,692,752	\$1,732,249
Effective mortgage interest rate	4.1%	n/a	3.50%	4.26%
Loan to fair market value	44.1%	0.0%	56.2%	54.7%

(1) for the six and twelve months ended

Summary of Annual Results:

This table contains annual financial information derived from financial statements that have been prepared in accordance with IFRS.

	Six months ended June 30, 2013	Six months ended June 30, 2012	Period from January 1, 2012 to December 31, 2012	Period from January 1, 2011 to December 31, 2011	Period from June 15, 2010 to December 31, 2010
Total revenue	\$ 314,615	\$ 283,584	\$ 583,377	\$ 477,297	\$ 171,034
Property operating expenses	128,722	138,196	263,334	308,245	147,565
Net operating income	185,893	145,388	320,043	169,052	23,469
Finance costs	10,334	53,743	59,475	60,004	43,399
FFO	175,559	91,645	260,568	109,048	(19,930)
AFFO	(17,000)	(17,000)	(17,000)	(17,000)	(9,268)
Total assets	6,853,430	5,069,647	5,415,080	3,018,854	3,210,422
Total long-term liabilities	2,959,836	—	—	—	1,692,752
Working Capital	(88,979)	(52,860)	(22,678)	(1,724,729)	(142,144)

Summary of Property Operating Expenses and Capital Expenditures

For the six months ended

	June 30, 2013		June 30, 2012	
	\$	\$ per unit	\$	\$ per unit
Operating costs	81,405	1,197	91,135	1,340
Insurance	7,578	111	5,964	88
Utilities	17,899	263	20,097	296
Property taxes	21,840	321	21,000	309
Total property operating expenses	128,722	1,893	138,196	2,032
Property capital expenditures	28,054	413	18,004	265

	Period from January 1, 2012 to December 31, 2012		Period from January 1, 2011 to December 31, 2011		Period from June 15, 2010 to December 31, 2010	
	\$	\$ per unit	\$	\$ per unit	\$	\$ per unit
Operating costs	173,835	2,556	212,172	3,120	94,792	1,394
Insurance	13,680	201	15,888	234	6,321	93
Utilities	30,050	442	35,869	527	23,568	347
Property taxes	45,769	673	44,316	652	22,884	337
Total property operating expenses	263,334	3,873	308,245	4,533	147,565	2,170
Property capital expenditures	37,854	557	131,725	1,937	n/a	n/a

Total Revenue

For the six months ended June 30, 2013, total revenue increased by \$31,031 (10.9%) year over year. Annualized, revenues for the period would represent a \$45,853 (7.9%) increase over the 2012 fiscal year. The variance is largely due to increases of market rents attributed to improvements in the local rental market.

Property Operating Expenses

Property operating expenses include property management, repairs and maintenance, insurance, property taxes, utilities and other costs directly attributable to the day-to-day operations of South Congress Commons. Property operating expenses for the six months ended June 30, 2013, were \$128,722, a decrease of 6.9% year over year, largely due to decreases in maintenance and leasing personnel costs.

Finance Costs

South Congress Commons consists of one multi-family real estate property. As at June 30, 2013, the fair market value of the investment property was \$6,823,040. This represents a year-over-year increase of 34.8%, as recoveries in the rental market caused market rents to increase by \$2.55 per square foot over the last twelve months

Summary of Significant Items in the Statement of Financial Position

(i) Investment Property

As at June 30, 2013, the fair market value of the investment property was \$6,823,040. This represents a year-over-year increase of 34.8%, as recoveries in the rental market caused market rents to increase by \$2.55 per square foot over the last twelve months.

(ii) Mortgage payable

As at December 31, 2010, South Congress Commons had a first mortgage balance of \$1,732,249, with a variable interest rate. The effective interest rate throughout the 2010 fiscal year was 4.26%. The mortgage was settled on October 31, 2012.

On May 10, 2013, South Congress Commons obtained a mortgage of \$3,010,000, at an interest rate of 4.12%, per year. The mortgage is amortized over 360 months and matures June 1, 2023.

Performance Measures

Management believes that FFO and AFFO are key measures for real estate investment companies. The calculations are as follows:

	Six months ended June 30, 2013	Six months ended June 30, 2012	Period from January 1, 2012 to December 31, 2012	Period from January 1, 2011 to December 31, 2011	Period from June 15, 2010 to December 31, 2010
Net income	\$ 1,573,281	\$ 2,121,074	\$ 2,606,178	\$(178,226)	\$(19,930)
Add (deduct):					
Fair value (gain) loss on investment properties	(1,397,722)	(2,029,429)	(2,345,610)	287,274	—
Funds from operations (FFO)	\$ 175,559	\$ 91,645	\$ 260,568	\$ 109,048	\$(19,930)
Add (deduct):					
Replacement reserve	(17,000)	(17,000)	(17,000)	(17,000)	(9,268)
Adjusted Funds From Operations (AFFO)	<u>\$ 158,559</u>	<u>\$ 74,645</u>	<u>\$ 243,568</u>	<u>\$ 92,048</u>	<u>\$(29,198)</u>

Outlook

South Congress Commons is continuing its management of the investment property in accordance with its core strategy and primary objectives. For further details on outlook, see “Information Concerning Delavaco — Narrative Description of Business”.

Liquidity and Capital Resources

As at June 30, 2013, South Congress Commons had a working capital deficit of approximately \$88,979. The Property expects to replenish working capital by retaining cash generated from operations.

III. The Enclave (part of the Austin Properties):

Overview

The portion of the Austin Properties located at 1005 W. Stansley Lane (the “**Enclave**”) is a multi-family real estate property that is located in Austin, Texas. The Enclave has a combined rentable square footage of 49,274 and represents an overall land area of approximately 2.5 acres. The Enclave is comprised of 90 units with an average unit size of 547 square feet, was built in 1982 and includes amenities such as a swimming pool and onsite laundry facilities.

The following table presents selected financial information for the Enclave as at June 30, 2013. This table should be read in conjunction with the unaudited “carve-out” financial statements of Enclave as at June 30, 2013, and the notes thereto set forth in “Appendix H — Financial Statements” of this Information Circular.

Summary of Property

	June 30, 2013	December 31, 2012	December 31, 2011	December 31, 2010
Number of units	90	90	90	90
Rentable square feet	49,274	49,274	49,274	49,274
Average unit size	547	547	547	547
Economic occupancy ⁽¹⁾	96.1%	79.2%	91.0%	100.0%
Fair market value	\$7,654,912	\$6,154,017	\$3,959,849	\$2,713,764
Average book value per unit	\$ 85,055	\$ 68,378	\$ 43,998	\$ 30,153
Mortgage payable	\$4,340,000	\$1,882,026	\$1,929,035	\$2,280,000
Mortgage interest rate	4.2%	0.0%	0.0%	0.0%
Loan to fair market value	56.7%	30.6%	48.7%	84.0%

(1) for the six and twelve months ended

Summary of Annual Results:

This table contains annual financial information derived from financial statements that have been prepared in accordance with IFRS.

	Six months ended June 30, 2013	Six months ended June 30, 2012	Period from January 1, 2012 to December 31, 2012	Period from January 1, 2011 to December 31, 2011	Period from May 1, 2010 to December 31, 2010
Total revenue	\$ 430,491	\$ 265,070	\$ 654,899	\$ 578,924	\$ 356,574
Property operating expenses	206,796	168,309	409,719	366,188	224,278
Net operating income	223,695	96,761	245,180	212,736	132,296
Finance costs	69,416	51,012	121,305	212,988	121,602
FFO	154,279	45,749	123,875	(252)	10,694
AFFO	131,779	23,249	101,375	(22,752)	(4,347)
Total assets	7,785,172	5,991,901	6,182,225	3,962,230	2,800,249
Total long-term liabilities	4,340,000	—	—	1,882,026	1,929,035
Working capital	54,110	(2,155,965)	(2,205,740)	(73,933)	(323,993)

Summary of Property Operating Expenses and Capital Expenditures

For the six months ended	June 30, 2013		June 30, 2012	
	\$	\$ per unit	\$	\$ per unit
Operating costs	134,165	1,491	110,827	1,231
Insurance	11,433	127	6,757	75
Utilities	29,191	324	21,725	241
Property taxes	32,007	356	29,000	322
Total property operating expenses	206,796	2,298	168,309	1,870
Property capital expenditures	91,483	1,016	414,348	4,604

	Period from January 1, 2012 to December 31, 2012		Period from January 1, 2011 to December 31, 2011		Period from May 1, 2010 to December 31, 2010	
	\$	\$ per unit	\$	\$ per unit	\$	\$ per unit
Operating costs	280,571	3,117	232,770	2,586	135,213	1,502
Insurance	11,319	126	10,936	122	11,486	128
Utilities	60,369	671	69,815	776	48,613	540
Property taxes	57,460	638	52,667	585	28,966	322
Total property operating expenses	409,719	4,552	366,188	4,069	224,278	2,492
Property capital expenditures	579,838	6,443	55,473	616	610,692	n/a

Total Revenue

Total revenue continued to increase as the Enclave was focused on decreasing vacancy. For the six months ended June 30, 2013, total revenue increased by \$165,421 (62.4%) year over year. Annualized, revenues for the period would represent a \$206,083 (31.5%) increase over the 2012 fiscal year. Economic occupancy improved from 66.8% at June 30, 2012 to 96.1% at June 30, 2013. Improved occupancy and a strong rental market are attributable to the increase in revenue.

Property Operating Expenses

Property operating expenses include property management, repairs and maintenance, insurance, property taxes, utilities and other costs directly attributable to the day-to-day operations of the Enclave. Property operating expenses for the six months ended June 30, 2013, were \$206,796, an increase of \$38,487 (22.9%) year over year, largely due to increases in leasing and property management expenses directly resulting from higher occupancy.

Finance Costs

Finance costs for the six months ended June 30, 2013 were \$69,416, which related to mortgage interest. Finance costs increased year over year by \$18,404 (36.1%) as the Property held a larger mortgage balance as at June 30, 2013.

Summary of Significant Items in the Statement of Financial Position

(i) Investment Property

The Enclave consists of one multi-family real estate property. As at June 30, 2013, the fair market value of the investment property was \$7,654,912, an increase of 28.5% year over year. Significant property capital expenditures of \$579,838 to renovate the Enclave in fiscal 2012 can be attributed to this increase.

(ii) Mortgage payable

As at May 1, 2010, the Enclave had a mortgage balance of \$2,280,000, at an interest rate of 8.0% per year. The mortgage was settled on December 13, 2011.

On December 14, 2011, the Enclave obtained a mortgage of \$1,929,035, at an interest rate of 5.85% per year. The mortgage was settled on May 14, 2013.

May 10, 2013, the Enclave obtained a mortgage of \$4,340,000, at an interest rate of 4.22% per year. The mortgage has an interest only period until July 1, 2017 and matures June 1, 2023.

Performance Measures

Management believes that FFO and AFFO are key measures for real estate investment companies. The calculations are as follows:

	Six months ended June 30, 2013	Six months ended June 30, 2012	Period from January 1, 2012 to December 31, 2012	Period from January 1, 2011 to December 31, 2011	Period from May 1, 2010 to December 31, 2010
Net income	\$ 1,563,691	\$ 1,628,819	\$ 1,738,205	\$ 1,190,360	\$(166,234)
Add (deduct):					
Fair value (gain) loss on investment properties	(1,409,412)	(1,583,070)	(1,614,330)	(1,190,612)	176,928
Funds from operations (FFO)	\$ 154,279	\$ 45,749	\$ 123,875	\$ (252)	\$ 10,694
Add (deduct):					
Replacement reserve	\$ (22,500)	\$ (22,500)	\$ (22,500)	\$ (22,500)	\$ (15,041)
Adjusted funds from operations (AFFO)	<u>\$ 131,779</u>	<u>\$ 23,249</u>	<u>\$ 101,375</u>	<u>\$ (22,752)</u>	<u>\$ (4,347)</u>

Outlook

The Enclave is continuing its management of the investment property in accordance with its core strategy and primary objectives. For further details on outlook, see “Information Concerning Delavaco — Narrative Description of Business”.

Liquidity and Capital Resources

As at June 30, 2013, the Enclave had a working capital surplus of approximately \$54,110.

IV. Summerfield (the Sunrise Properties):

Overview

The Sunrise Properties, located at 3200 NW 84th Ave., is a multi-family real estate property that is located in Sunrise, Florida. The Sunrise Properties have a combined rentable square footage of 164,934 and represent an overall land area of approximately 7 acres. The Sunrise Properties are comprised of 153 units with an average unit size of 1,078 square feet, were built in 1975 and includes amenities such as a clubhouse, pool, fitness centre and on-site laundry facilities.

The following tables present selected financial information for the Sunrise Properties as at June 30, 2013. These tables should be read in conjunction with the unaudited “carve-out” financial statements of the Sunrise Properties at June 30, 2013, and the notes thereto set forth in “Appendix H — Financial Statements” of this Information Circular.

Summary of Property

	June 30, 2013	December 31, 2012	December 31, 2011	December 31, 2010
Number of units	153	153	153	153
Rentable square feet	164,880	164,880	164,880	164,880
Average unit size	1,078	1,078	1,078	1,078
Economic Occupancy ⁽¹⁾	95.2%	93.4%	89.6%	93.4%
Investment property, at fair value	\$16,800,333	\$14,130,611	\$13,169,984	\$ 12,634,138
Average book value per unit	\$ 109,806	\$ 92,357	\$ 86,078	\$ 82,576
Mortgage payable	\$ 7,900,000	\$ 7,900,000	\$ 5,658,126	\$ 5,735,467
Mortgage interest rate	3.8%	3.8%	Variable ⁽²⁾	5.42%-6.36%
Loan to fair market value	47.0%	55.9%	43.0%	45.4%

(1) for the six and twelve months ended

(2) Minimum of daily LIBOR + 2.5% and 4%

Summary of Annual Results:

This table contains annual financial information derived from financial statements that have been prepared in accordance with IFRS.

	Six months ended June 30, 2013	Six months ended June 30, 2012	Period from January 1, 2012 to December 31, 2012	Period from January 1, 2011 to December 31, 2011	Period from January 1, 2010 to December 31, 2010
Total revenue	\$ 926,170	\$ 877,203	\$ 1,804,668	\$ 1,729,712	\$ 1,802,095
Property operating expenses	422,160	499,832	1,050,470	1,081,386	1,066,233
Net operating income	504,010	377,371	754,198	648,326	735,862
Finance costs	150,934	108,865	264,740	366,614	370,976
FFO	353,076	268,506	489,458	281,712	364,886
AFFO	49,026	48,294	—	—	1,459
Total assets	17,231,041	15,208,061	15,311,748	13,636,116	12,961,510
Total long-term liabilities	7,900,000	—	7,900,000	—	—
Working Capital	165,130	(5,056,141)	794,543	(5,324,647)	(5,574,535)

Summary of Property Operating Expenses and Capital Expenditures

For the six months ended	June 30, 2013		June 30, 2012	
	\$	\$ per unit	\$	\$ per unit
Operating Costs	201,224	1,315	312,898	2,045
Insurance	51,054	334	34,496	225
Utilities	84,212	550	95,325	623
Property taxes	85,670	560	57,113	373
Total property operating expenses	422,160	2,759	499,832	3,267
Property capital expenditures	85,441	558	—	—

	Period from January 1, 2012 to December 31, 2012		Period from January 1, 2011 to December 31, 2011		Period from January 1, 2010 to December 31, 2010	
	\$	\$ per unit	\$	\$ per unit	\$	\$ per unit
Operating Costs	538,892	3,522	650,834	4,254	608,016	3,974
Insurance	129,695	848	63,352	414	61,067	399
Utilities	189,442	1,238	200,380	1,310	208,912	1,365
Property taxes	192,441	1,258	166,820	1,090	188,238	1,230
Total property operating expenses	1,050,470	6,866	1,081,386	7,068	1,066,233	6,969
Property capital expenditures	106,350	695	31,824	208	649,885	n/a

Total Revenue

Total revenue continued to increase as the Sunrise Properties were focused on decreasing vacancy. For the six months ended June 30, 2013, total revenue increased by 5.6% year over year. Annualized, revenues for the period would represent a 2.6% increase over the 2012 fiscal year.

Property Operating Expenses

Property operating expenses include property management, repairs and maintenance, insurance, property taxes, utilities and other costs directly attributable to the day-to-day operations of the Sunrise Properties. Property operating costs for the six months ended June 30, 2013, were \$422,160, a decrease of 15.5% year over year as the Property moved to an internally managed business model. This yielded significant cost savings in terms of property operating expenses related to office and administrative activities. Further, occupancy improved to 95.2%, on an economic basis, which helped reduce utilities costs that the Sunrise Properties pay on vacant units only.

Finance Costs

Finance costs for the six months ended June 30, 2013 were \$150,934, which related to mortgage interest. Finance costs increased year over year by \$42,069 as the Sunrise Properties held a larger mortgage balance as at June 30, 2013.

Summary of Significant Items in the Statement of Financial Position

(i) Investment Property

The Sunrise Properties consist of one multi-family real estate property. As at June 30, 2013, the fair market value of the investment property was \$16,800,333. This represents a year-over-year increase of 33.6%, as the Sunrise Properties realized significant increases in net operating margin, which increased from 43.0% to 54.4%, year over year.

(ii) Mortgage payable

As at January 1, 2010, the Sunrise Properties had a first mortgage balance of \$4,067,048, at an interest rate of 6.36% per year. The mortgage matured on December 1, 2011.

As at January 1, 2010, the Sunrise Properties had a second mortgage balance of \$1,812,133, at an interest rate of 5.42% per year. The mortgage matured on December 1, 2011.

On December 14, 2010, the Sunrise Properties obtained a mortgage of \$6,000,000, at an interest rate calculated as the maximum of 4% and daily LIBOR plus 2.5%, per year. The mortgage was settled on September 28, 2012.

On September 28, 2012, the Sunrise Properties obtained a mortgage of \$7,900,000, at an interest rate of 3.8% per year. The mortgage has an interest only period until November 1, 2017 and matures October 1, 2022.

The Sunrise Properties' overall debt level was 47.0% of the fair market value of its investment properties as at June 30, 2013.

Performance Measures

Management believes that FFO and AFFO are key measures for real estate investment companies. The calculations are as follows:

	Six months ended June 30, 2013	Six months ended June 30, 2012	Period from January 1, 2012 to December 31, 2012	Period from January 1, 2011 to December 31, 2011	Period from January 1, 2010 to December 31, 2010
Net income	\$ 2,937,357	\$ 1,440,097	\$1,343,735	\$ 785,734	\$ 6,487,951
Add (deduct):					
Fair value (gain) loss on investment properties	(2,584,281)	(1,171,591)	(854,277)	(504,022)	(6,123,065)
Funds from operations (FFO)	\$ 353,076	\$ 268,506	\$ 489,458	\$ 281,712	\$ 364,886
Add (deduct):					
Amortization of deferred financing costs	\$ —	\$ —	\$ —	\$ 17,992	\$ 19,627
Replacement reserve	\$ (38,250)	\$ (38,250)	\$ (38,250)	\$ (38,250)	\$ (38,250)
Adjusted Funds From Operations (AFFO)	<u>\$ 314,826</u>	<u>\$ 230,256</u>	<u>\$ 451,208</u>	<u>\$ 261,454</u>	<u>\$ 346,263</u>

Outlook

Summerfield is continuing its management of the investment property in accordance with its core strategy and primary objectives. For further details on outlook, see “Information Concerning Delavaco — Narrative Description of Business”.

Liquidity and Capital Resources

As at June 30, 2013, the Sunrise Properties had a working capital surplus of approximately \$165,130.

GENERAL INFORMATION APPLICABLE TO BOTH PORTFOLIOS

Future accounting changes

The following accounting standards, amendments and interpretations have been issued but are not yet effective for Delavaco. Management is currently assessing the impact of the new standards on Delavaco’s accounting policies and consolidated financial statement presentation.

- IFRS 9 — Financial Instruments (“**IFRS 9**”) was issued by the IASB in October 2010 and will replace IAS 39 — Financial Instruments: Recognition and Measurement (“**IAS 39**”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. 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. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 does not currently have a mandatory effective date.

Disclosure controls and procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

Management conducted an evaluation of the effectiveness of the design and operation of their disclosure controls and procedures as of June 30, 2013. Based on this evaluation, the Chief Executive Officer and Chief

Financial Officer have concluded that Delavaco's disclosure controls and procedures are effective to ensure that information required to be disclosed in reports that they file or submit under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in those rules and forms.

It should be noted that while Delavaco's Chief Executive Officer and Chief Financial Officer believe that Delavaco's disclosure controls and procedures will provide a reasonable level of assurance and that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors and frauds. A control system, no matter how well designed or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Description of Securities

The material provisions of the securities of Delavaco are summarized below:

As of the date of this Information Circular, Delavaco has an aggregate of 25,075,000 Delavaco Shares issued and outstanding, consisting of 11,600,000 Class A common shares and 13,475,000 Class B common shares. The terms of the Class A and Class B common shares are identical in all respects, save that the Class B shares are non-voting and, at the option of the holders thereof, are convertible into Class A common shares.

In addition to the Delavaco Shares, Delavaco has 2,500,000 Delavaco Options issued and outstanding and three (3) classes of Warrants: 200,000 Delavaco Class A Warrants; 632,000 Delavaco Class B Warrants and 3,850,000 Delavaco Class C Warrants.

On January 27, 2011, Delavaco granted the Delavaco Options to Mr. Dallas Wharton, the Chief Operating Officer of the General Partner, at an exercise price of \$0.10 per option. The options vest equally on each of December 31, 2012, 2013 and 2014 and expire on January 27, 2021. Prior to the completion of the Amalgamation, the vesting provisions of the Delavaco Options will be accelerated such that an aggregate of 2,200,000 Delavaco Shares will be issued, with the remaining Delavaco Options being cancelled.

On June 13, 2011, Delavaco issued the Delavaco Class A Warrants pursuant to a loan agreement. The Delavaco Class A Warrants entitle each holder thereof to purchase one Delavaco Share at a price of \$1.00 per share. The Delavaco Class A Warrants expire on March 13, 2015.

During the period July 27, 2011, through February 16, 2012, Delavaco issued the Delavaco Class B Warrants pursuant to various loan agreements. The Delavaco Class B Warrants entitle each holder thereof to purchase one Delavaco Share at a price of \$1.25 per share. The Delavaco Class B Warrants expire 3 years from the date of issuance of each tranche.

On June 4, 2012, Delavaco issued the Delavaco Class C Warrants pursuant to the Delavaco Class C Warrant Indenture for a total of up to 3,850,000 Delavaco Class C Warrants in the aggregate. The Delavaco Class C Warrants entitle each holder thereof to purchase one Delavaco Share at a price of \$1.18 per share, as adjusted, subject to further adjustment in certain events in accordance with the provisions of the Delavaco Class C Warrant Indenture. The Delavaco Class C Warrants expire on 5:00 p.m. (Toronto time) on June 3, 2017, after which time they will be void and of no effect. The original exercise price of \$1.30 per share was amended to \$1.18 per share, as Delavaco did not complete a Liquidity Event prior to December 31, 2012, which included the completion of a public offering of Delavaco Shares, the sale for cash proceeds of all of the issued and outstanding shares in the capital of Delavaco, or the amalgamation or any other corporate transaction involving Delavaco with or into another entity pursuant to which the common shares of such resulting issuer from such transaction become listed on a recognized stock exchange in Canada or the United States.

The Delavaco Class C Warrant Indenture provides for adjustments in the number of shares issuable upon the exercise of the Delavaco Class C Warrants upon the occurrence by Delavaco of certain events, including, without limitation, a Delavaco share reorganization, a rights offering, a special distribution and a capital reorganization. Holders of Delavaco Class C Warrants are not conferred any voting or shareholder meeting rights or any other rights which a Delavaco Shareholder would have, except where expressly provided in the Delavaco Class C Warrant Indenture. All Delavaco Class C Warrants shall rank *pari passu*, whatever may be the actual date of issue or the class of same. Delavaco covenants in the Delavaco Class C Warrant Indenture that, during the period in which the Delavaco Class C Warrants are exercisable, it will give notice to holders of

Delavaco Class C Warrants of certain stated events, including events that would result in an adjustment to the exercise price of the Delavaco Class C Warrants, at least 10 days prior to the effective date or record date of such event. The foregoing summary of certain provisions of the Delavaco Class C Warrants contains all of the material attributes and characteristics of the Delavaco Class C Warrants, but does not purport to be complete and is qualified in its entirety to the provisions of the Delavaco Class C Indenture.

Consolidated Capitalization

The following table sets out changes in, and the effect of such changes on, the share structure of Delavaco, on a consolidated basis, since December 31, 2012, the date of the financial statements for the most recently completed financial year of Delavaco contained in this Information Circular and November 1, 2013:

Designation of Security ⁽¹⁾	Amount authorized or to be authorized	Amount outstanding as at December 31, 2012	Amount outstanding as of November 1, 2013 ⁽²⁾
Delavaco Class A Shares	Unlimited	11,000,000	11,600,000
Delavaco Class B Shares	Unlimited	12,250,000	13,475,000
Delavaco Options	—	3,000,000	2,500,000
Delavaco Class A Warrants	—	200,000	200,000
Delavaco Class B Warrants	—	632,000	632,000
Delavaco Class C Warrants	—	3,850,000	3,850,000
Secured Notes	—	\$25,000,000	\$25,000,000
Unsecured Notes	—	\$10,000,000	\$10,000,000
Unsecured Debentures ⁽³⁾	—	—	\$18,500,000

(1) See “Information Concerning Delavaco — Description of Securities” for terms of the Delavaco Options and the Delavaco Warrants.

(2) Prior to giving effect to the Business Combination.

(3) An aggregate of \$1,000,000 of Unsecured Debentures were issued after November 1, 2013, as noted in the “Prior Sales” table below.

(4) As at June 30, 2013, Delavaco had a deficit of \$15,079,088.

Prior Sales

The following disclosure relates to Delavaco Shares and securities convertible into Delavaco Shares issued or granted during the 12-month period prior to the date of this Information Circular:

Description of Transaction	Date of Sale/Grant	Aggregate Number and Type of Securities Issued	Issuance Price (\$)/ Exercise Price (\$) and Expiry Date
Penalty Shares ⁽¹⁾	April 1, 2013	1,825,000 Shares	\$1.00 per initial private placement share ⁽¹⁾
Private Placement of Unsecured Notes	December 20, 2012	Aggregate \$10,000,000 7.50% subordinated unsecured notes	\$0.9775 per share, expiring December 20, 2014
Private Placement of Unsecured Debentures	July 19, 2013 – November 12, 2013	Aggregate \$18,500,000 7.00% subordinated unsecured debentures	\$1.15 per share, expiring July 31, 2018

(1) Number of aggregate “penalty shares” issued to shareholders of Delavaco who subscribed for common shares in a three-tranche private placement (at a price of \$1.00 per share) that closed on January 27, February 17 and April 2, 2012. Under the terms of the subscription agreements for these common shares, subscribers were entitled to a pro rata penalty, equal to 10% of the purchase price (payable in common shares) in the event Delavaco failed to complete an initial public offering or similar transaction (such as the Business Combination) prior to December 31, 2012, subsequently extended to March 31, 2013. No additional cash proceeds were received from the issuance of the penalty shares.

Executive Compensation

Summary Compensation Table

Delavaco's only Named Executive Officers during the years ended December 31, 2011 and December 31, 2012 were Andrew DeFrancesco (Chairman and Chief Executive Officer), Steven Ridgeway (consultant), Dallas Wharton (Chief Operating Officer of the General Partner) and Michael Galloro (Chief Financial Officer). The following table sets out information concerning the fiscal 2011, 2012 and 2013 compensation earned by, paid to, or awarded to the NEOs.

Name and Principal Position	Year ⁽¹⁾	Salary (\$)	Share-based awards (\$)	Option-based awards (\$)	Non-equity incentive plan compensation		Pension value (\$)	All other compensation ⁽⁴⁾ (\$)	Total compensation (\$)
					Annual incentive plans (\$)	Long-term incentive plans (\$)			
ANDREW DEFRANCESCO Chairman and Chief Executive Officer	2013	90,000	nil	nil	nil	nil	nil	7,500	97,500
	2012	150,000	nil	nil	nil	nil	nil	125,000	275,000
	2011	110,000	nil	nil	nil	nil	nil	nil	110,000
STEVEN RIDGEWAY Consultant	2013	88,591	nil	nil	nil	nil	nil	nil	88,591
	2012	155,062	nil	nil	nil	nil	nil	125,000	280,062
	2011	54,918	nil	nil	nil	nil	nil	nil	54,918
DALLAS WHARTON ⁽³⁾ Chief Operating Officer of the General Partner	2013	105,000	nil	nil	nil	nil	nil	9,000	114,000
	2012	206,500	nil	nil	nil	nil	nil	113,000	319,500
	2011	181,500	nil	895,945	nil	nil	nil	nil	1,077,445
MICHAEL GALLORO ⁽¹⁾ Chief Financial Officer	2013	59,061	nil	nil	nil	nil	nil	nil	59,061
	2012	70,028	nil	nil	nil	nil	nil	30,012	100,040
	2011	nil	nil	nil	nil	nil	nil	nil	nil

- (1) 2013 represents the six month period ended June 30, 2013 and 2011 represents from the date of incorporation on January 27, 2011 to December 31, 2011.
- (2) Appointed Chief Financial Officer on June 1, 2012.
- (3) Options granted on January 27, 2011. The value of option-based awards was determined using the Black-Scholes option pricing model, a mathematical valuation model that ascribes a value to a stock option based on a number of variables, including the exercise price of the options, the market price of the underlying shares on the date the option was granted, the term of the option and assumptions with respect to the volatility of the price of the underlying share and the risk-free rate of return. Delavaco used this model because it is the methodology recommended by the Canadian Institute of Chartered Accountants in its Handbook for valuing securities based compensation.
- (4) All other compensation amounts consist of bonuses and car allowances provided to employees.

Outstanding Share and Option Based Awards

The following table discloses the particulars of the share and option based awards outstanding as at December 31, 2012 held by all NEOs and directors of Delavaco:

Name & Position ⁽¹⁾	Option Based Awards			
	Number of Securities Underlying Unexercised Options	Option Exercise Price (per share)	Option Expiration Date	Value of Unexercised 'In the Money' Options ⁽²⁾
DALLAS WHARTON Chief Operating Officer of the General Partner	2,500,000	\$0.10	January 27, 2021	\$875,000

- (1) Mr. Wharton was the only NEO or director holding option-based awards as at December 31, 2012. No NEO or director holds any other share-based awards.
- (2) Options are 'in the money' if the market price of the Company's shares is greater than the exercise price of the options. The value of such options is the product of the number of shares multiplied by the difference between the exercise price and the closing market price on the financial year end. Options which were not vested at the financial year end are not included in this value. The value allocated here assumes a Resulting Issuer share price of \$1.15.

Compensation of Directors

Delavaco currently has one director who will be a director of the Resulting Issuer. Since incorporation, Delavaco has paid no cash compensation (including salaries, director's fees, commissions, options, bonuses paid for services rendered, bonuses paid for services rendered in a previous year or any other compensation) to the directors for services rendered in their capacity as directors.

Non-Arm's Length Party Transactions

Please see "Business of Delavaco — Selected Consolidated Financial Information and Management's Discussion and Analysis" for information on transactions that Delavaco has entered into with related parties.

Legal Proceedings

Delavaco is not currently a party to any legal proceedings, nor is Delavaco currently contemplating any legal proceedings, which are material to its business. Management of Delavaco is currently not aware of any existing or contemplated legal proceedings to which it is or was a party to, or to which any of its Properties is or was the subject of, since its incorporation.

Auditor, Transfer Agent and Registrar

The auditors of Delavaco are Deloitte LLP, Chartered Professional Accountants, Licensed Public Accountants, Brookfield Place, 181 Bay Street, Suite 1400, Toronto, Ontario M5J 2V1. The transfer agent and registrar for the Delavaco Shares is Computershare Investor Services Inc. at its principal office in Toronto, Ontario.

Material Contracts

The following are the only material agreements of Delavaco or its subsidiaries that will be in effect on closing of the Business Combination (other than the Business Combination Agreement, the Amalgamation Agreement and certain contracts entered into in the ordinary course of business):

- (a) the Services Agreement;
- (b) the Dalland Partnership Agreement;
- (c) the Peachtree Partnership Agreement;
- (d) the Master LP Agreement;
- (e) the Secured Trust Indenture;
- (f) the Debenture Indenture;
- (g) the Leasing and Management Agreements;
- (h) the Roscoe Management Agreements;
- (i) the Apartment Management Agreement;
- (j) the Delavaco Class C Warrant Indenture;
- (k) Mr. DeFrancesco's Employment Agreement; and
- (l) the Financial Management Agreement with Aloe Financial Inc.

Copies of these agreements will be available for inspection (without charge) at the registered office of Delavaco located at 130 King Street West, Suite 1100, Toronto, ON M9N 1L5 during ordinary business hours on any day prior to the Meetings and for a period of 30 days thereafter.

INFORMATION CONCERNING THE RESULTING ISSUER

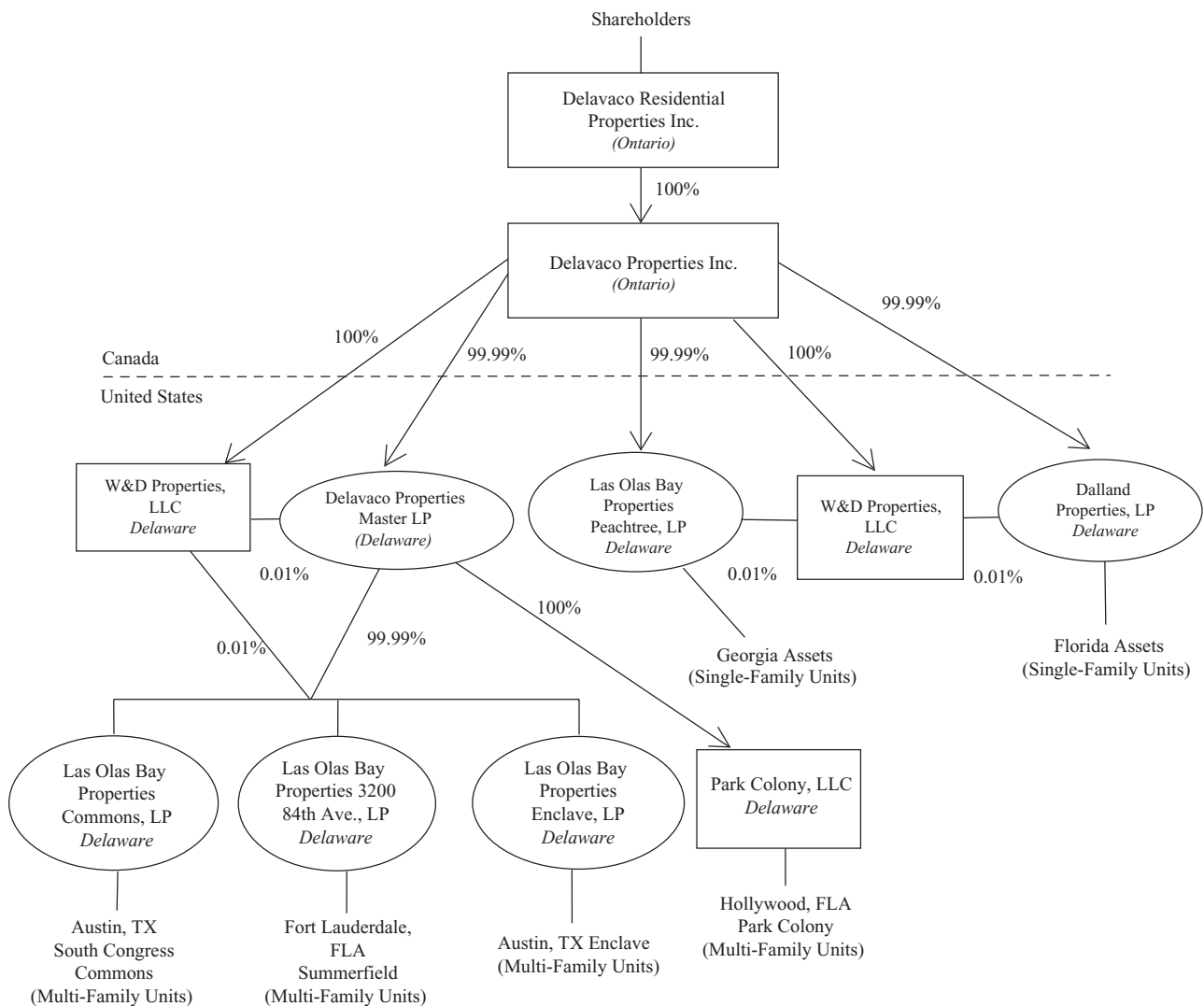
Corporate Structure

Name and Incorporation

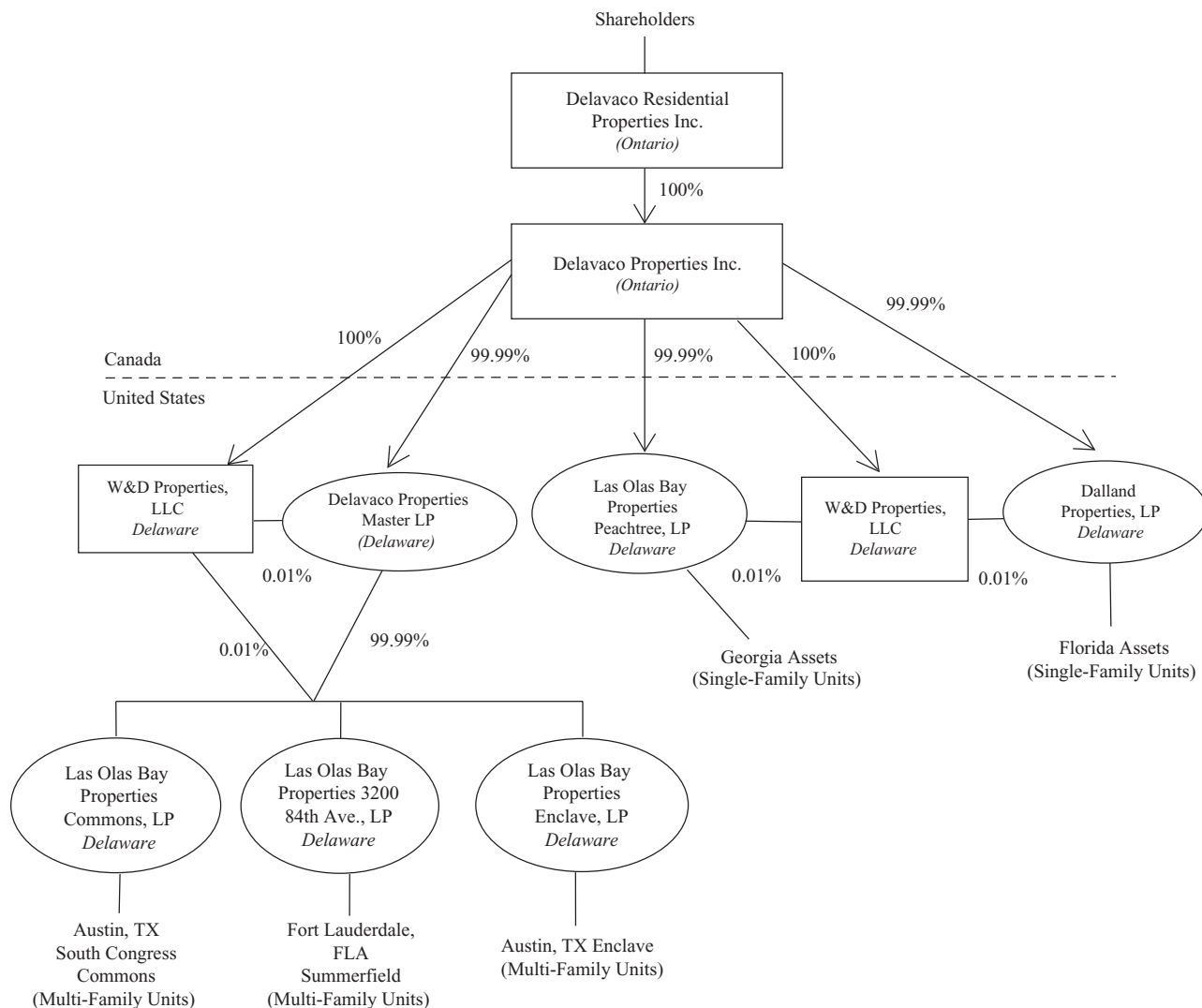
As part of the Business Combination, Sereno will change its name to “Delavaco Residential Properties Inc.” and will continue to be a corporation incorporated under the laws of the Province of Ontario. The Resulting Issuer’s head and registered office will remain at 130 King Street West, Suite 1100, Toronto, ON M9N 1L5. In connection with the Business Combination, the constating documents of Sereno will remain unchanged and shall become the constating documents of the Resulting Issuer.

Intercorporate Relationships

The organizational chart below sets out the corporate structure of the Resulting Issuer including its subsidiaries, their respective jurisdictions of incorporation, and the percentage of voting rights held following completion of the Business Combination. After giving effect to the Business Combination, Delavaco and Subco will have effected the Amalgamation to become Amalco and the Resulting Issuer’s intercorporate relationship will be as follows (assuming the acquisition of Park Colony is completed):



In the event the acquisition of Park Colony is not completed, the Resulting Issuer's intercorporate relationship will be as follows:



- (1) Sereno Finco will become a subsidiary of the Resulting Issuer following the completion of the Amalgamation, although the Resulting Issuer will immediately wind up this entity after Closing.

Narrative Description of the Business

Business Strategy and Objectives

Upon completion of the Business Combination, the business of Delavaco will become the business of the Resulting Issuer. Except as described below, the Resulting Issuer's business strategy and objectives will be the same as that of Delavaco. See "Information Concerning Delavaco — Narrative Description of the Business."

Services Agreement

Subject to the completion of the Reorganization, the Resulting Issuer intends to enter into an advisory services agreement (the "**Services Agreement**") with Delavaco Capital Inc., a holding company owned and controlled by Mr. Andrew DeFrancesco, Chairman and Chief Executive Officer whereby Mr. DeFrancesco will provide various advisory, financial and other support services to the Resulting Issuer during the integration period following the Reorganization.

The basis of the Services Agreement is rooted in the initial acquisition and financing of the Multi-Family Properties Portfolio by Mr. DeFrancesco. As part of the terms of the mortgages underlying the Multi-Family Properties Portfolio by each of Fannie Mae and Freddie Mac, the credit rating, source of financing and underlying funding commitment is back-stopped by certain financial covenants and a guarantee of Mr. DeFrancesco in his personal capacity. It is expected that upon receipt of the consent of Fannie Mae and Freddie Mac (assuming same is obtained), Delavaco will assume all of the obligations under the existing mortgages and loan and security arrangements for the Multi-Family Properties and that Mr. DeFrancesco will no longer be an obligor or a guarantor under such loan and security arrangements. However, there are no assurances that Mr. DeFrancesco will not continue to be responsible as an obligor or a guarantor in respect of the obligations under such loan and security arrangements until the definitive terms of the lender approvals are received in respect of the transfer of the Multi-Family Properties.

Accordingly, the Services Agreement is intended to provide Mr. DeFrancesco with market bench-marked consideration for continuing to be personally liable to Fannie Mae and Freddie Mac. The underlying economics supporting the Services Agreement are similar to that of a stand-by commitment for a letter of credit or other similar revolving credit facilities for a reporting issuer, as without the financial covenant and funding commitment of Mr. DeFrancesco, the proposed transfer of the Multi-Family Properties to Delavaco could not otherwise be achieved. The Services Agreement has been currently structured as a one year term with no termination rights in favor of either party. It is expected that as soon as Mr. DeFrancesco is no longer responsible for any such obligations under the loan and security agreements for the Multi-Family Properties as an obligor or a guarantor, the Services Agreement will not be renewed by Mr. DeFrancesco upon the earlier of: (i) the initial one year term or any quarterly renewal thereof, and (ii) the payment of the maximum funding fee amount as contemplated thereunder.

The maximum funding fee amount is based on the present value of 0.90% of the total asset value of the Multi-Family Properties (equal to \$31.3 million, representing a monthly fee of approximately \$23,500, if the Hollywood Properties are excluded or \$81.6 million, representing a monthly fee of approximately \$61,000, if the Hollywood Properties are included). Expressed as a percentage to the overall funding commitment available to Delavaco by Fannie Mae and Freddie Mac, such funding fee is less than the prevailing market rates for a similar stand-by funding commitment for a reporting issuer from an arm's length financial institution.

In addition to the foregoing, Mr. DeFrancesco will also continue to provide for no additional consideration during the term of the Services Agreement certain additional advisory services to Delavaco which have been provided since inception through Delavaco Capital Inc., including, without limitation (i) assisting with sourcing, identifying, investigating and recommending new single and multi-family residential property acquisition opportunities in the United States, (ii) assisting with arranging, securing and structuring investments in or acquisitions of such single and multi-family residential properties and the budgeting thereof, (iii) assisting in the development of acquisition strategies and in the formulation, consolidation and analysis of related financial information and industry data in respect of the residential property industry generally in North America.

Description of Securities

The authorized share capital of the Resulting Issuer is comprised of an unlimited number of Resulting Issuer Shares. Upon completion of the Business Combination and after giving effect to the Amalgamation, a total of 82,569,939 Resulting Issuer Shares will be issued and outstanding assuming the Park Colony acquisition is completed and in the event the minimum amount of proceeds are raised from the Finco Financing, such number increasing to 82,749,330 in the event that the maximum amount of proceeds are raised from the Finco Financing (each expressed on a fully diluted basis). In the event that the Park Colony acquisition is not completed, a total of 73,500,374 Resulting Issuer Shares will be issued and outstanding assuming the minimum amount of proceeds are raised from the Finco Financing, such number increasing to 73,679,765 in the event that the maximum amount of proceeds are raised from the Finco Financing (each expressed on a fully diluted basis).

Resulting Issuer Shares

The Resulting Issuer Shares rank equally as to dividends, voting powers, and participation in assets and in all other respects, on liquidation, dissolution or winding-up of the Resulting Issuer, whether voluntary or

involuntary, or any other disposition of the assets of the Resulting Issuer among its shareholders for the purpose of winding up its affairs after the Resulting Issuer has paid out its liabilities. The Resulting Issuer Shares are not subject to call or assessment rights or any pre-emptive or conversion rights. The holders of the Resulting Issuer Shares are entitled to one vote for each share on all matters to be voted on at a meeting of the shareholders. There are no provisions for redemption, purchase for cancellation, surrender or purchase of funds.

Resulting Issuer Warrants

The Resulting Issuer Warrants include the 200,000 Delavaco Class A Warrants, 632,000 Delavaco Class B Warrants, and 3,850,000 Delavaco Class C Warrants that will be cancelled and replaced with 4,682,000 Resulting Issuer Warrants.

Each Resulting Issuer Warrant will entitle the holder to acquire one Resulting Issuer Share on due exercise of the Resulting Issuer Warrants in accordance with their terms. The terms of the Resulting Issuer Warrants will be the same as the terms of the Delavaco Warrants prior to the Business Combination, as amended in accordance with the Exchange Ratio and the Consolidation.

Resulting Issuer Options

Of the options granted by Sereno, 35,665 Options (post-Consolidation) remain outstanding and will be securities of the Resulting Issuer in accordance with their terms (as applicable). Of the options granted by Delavaco, none will remain outstanding after completion of the Business Combination as an aggregate of 2,200,000 Delavaco Options will be exercised, with the remaining Delavaco Options being cancelled prior to the Effective Date. If the New Option Plan is approved by the Sereno Shareholders, then all outstanding options will be rolled into and deemed granted under the New Option Plan.

Upon the completion of the Business Combination the Resulting Issuer will also reserve, in addition to the Resulting Shares reserved for the Sereno Options, 6,140,066 Resulting Issuer Shares to eligible participants under the New Option Plan assuming the Park Colony acquisition is completed (and further assuming the minimum amount of proceeds are raised from the Finco Financing, such number increasing to 6,158,805 in the event that the maximum amount of proceeds are raised from the Finco Financing). In the event that the Park Colony acquisition is not completed, the Resulting Issuer will reserve 5,233,910 Resulting Issuer Shares to eligible participants under the New Option Plan (assuming the minimum amount of proceeds are raised from the Finco Financing, such number increasing to 5,251,849 in the event that the maximum amount of proceeds are raised from the Finco Financing). In either scenario, the total number of Resulting Issuer Shares reserved for issuance will be equal to 10% of the total number of Resulting Issuer Shares issued and outstanding on the Effective Date.

Pro Forma Consolidated Capitalization

The following table sets forth the pro forma consolidated capitalization of the Resulting Issuer, on a consolidated basis, after giving effect to the Business Combination. The information in this table is based on the pro forma consolidated financial statements of the Resulting Issuer, included with this Information Circular.

Share Capital:

<u>Designation of Security</u>	<u>Amount Authorized or to be Authorized</u>	<u>Amount Outstanding After Giving Effect to the Business Combination⁽¹⁾</u>	<u>Amount Outstanding After Giving Effect to the Business Combination⁽²⁾</u>
Resulting Issuer Shares to be issued to Sereno Shareholders	Unlimited	638,586	638,586
Resulting Issuer Shares to be issued to Delavaco Shareholders	Unlimited	61,088,732	52,019,167
Resulting Issuer Shares to be issued to Sereno Finco Shareholders ⁽³⁾	Unlimited	38,000 (217,391)	38,000 (217,391)
Resulting Issuer Warrants	—	4,682,000	4,682,000
Resulting Issuer Options	10% of issued and outstanding Resulting Issuer Shares	35,665	35,665

(1) Assuming the Park Colony acquisition is completed, expressed on a non-diluted basis.

(2) Assuming the Park Colony acquisition is not completed, expressed on a non-diluted basis.

(3) Such share totals represent the Resulting Issuer Shares to be issued to shareholders of Sereno Finco in the event the minimum amount (or maximum amount) of proceeds are raised from the Finco Financing.

Loan Capital:

<u>Designation of Security</u>	<u>Amount Authorized or to be Authorized</u>	<u>Amount Outstanding After Giving Effect to the Business Combination</u>
Secured Notes	—	\$25,000,000
Unsecured Debentures	—	\$18,500,000
Outstanding Mortgages on Single-Family Homes and Multi-Family Properties Portfolio	—	\$47,044,000 ⁽¹⁾

(1) This number assumes the completion of the Park Colony acquisition. In the event that Park Colony is not acquired, the total value of the mortgages assumed on the Austin Properties and the Sunrise Properties is \$15,250,000.

Fully Diluted Share Capital of the Resulting Issuer

The following table sets out the fully diluted share capital of the Resulting Issuer after giving effect to the Business Combination and assuming completion of the Park Colony acquisition:

	Number of Resulting Issuer Shares	Percentage of Total⁽¹⁾
Shares held by Delavaco shareholders	25,075,000	30.4%
Shares held by current Sereno shareholders	638,586	0.8%
Shares to be issued as consideration for the Reorganization	9,069,565	11.0%
Shares to be issued with respect to \$15.25 million concurrent debt conversion (provided the Reorganization is completed)	14,413,988	17.5%
Shares issued as a result of the exercise of the Delavaco Options	2,200,000	2.7%
Shares to be issued with respect to conversion of outstanding Unsecured Notes	10,230,179	12.4%
Shares that are issuable with respect to conversion of outstanding Unsecured Debentures	16,086,956	19.5%
Shares to be issued for executive services rendered ⁽²⁾	100,000	0.1%
Shares underlying options and warrants	4,717,665	5.7%
Shares to be issued from the Finco Financing ⁽³⁾	38,000	<0.1%
Total (fully-diluted)⁽⁴⁾	<u>82,569,939</u>	<u>100%</u>

(1) Percentages are approximate and do not include the shares to be issued from the Finco Financing.

(2) Shares to be issued as consideration for past services performed by Michael Galloro, the current Chief Financial Officer (“CFO”) of Delavaco and the incoming CFO of the Resulting Issuer. The nature of the services provided by Mr. Galloro for which he is receiving these shares include: (i) preparation of all applicable budgets and financial forecasts with respect to the proposed Business Combination; (ii) consideration of the optimal pro forma capital structure subsequent to the completion of the Business Combination; and (iii) such other services commensurate with the duties of the CFO completed during his tenure with Delavaco.

(3) Such share totals represent the Resulting Issuer Shares to be issued in the event the minimum amount of proceeds are raised from the Finco Financing. In the event the maximum amount of proceeds are raised, an aggregate of 217,391 Resulting Issuer will be issued, representing approximately 0.2% of the Resulting Issuer Shares issued and outstanding.

(4) Such number to be increase to 82,749,330 in the event the maximum amount of proceeds are raised from the Finco Financing.

The following table sets out the fully diluted share capital of the Resulting Issuer after giving effect to the Business Combination and assuming the Park Colony acquisition is not completed:

	Number of Resulting Issuer Shares	Percentage of Total ⁽¹⁾
Shares held by Delavaco shareholders	25,075,000	34.1%
Shares held by current Sereno shareholders	638,586	0.9%
Shares to be issued with respect to \$15.25 million concurrent debt conversion (provided the Reorganization is completed)	14,413,988	19.6%
Shares issued as a result of the exercise of the Delavaco Options	2,200,000	3.0%
Shares to be issued with respect to conversion of outstanding Unsecured Notes	10,230,179	13.9%
Shares that are issuable with respect to conversion of outstanding Unsecured Debentures	16,086,956	21.9%
Shares to be issued for executive services rendered ⁽²⁾	100,000	0.1%
Shares underlying options and warrants	4,717,665	6.4%
Shares to be issued from the Finco Financing ⁽³⁾	38,000	0.1%
Total (fully-diluted)	<u>73,500,374</u>	<u>100%</u>

(1) Percentages are approximate and do not include the shares to be issued from the Finco Financing.

(2) Shares to be issued as consideration for past services performed by Michael Galloro, the current Chief Financial Officer (“CFO”) of Delavaco and the incoming CFO of the Resulting Issuer. The nature of the services provided by Mr. Galloro for which he is receiving these shares include: (i) preparation of all applicable budgets and financial forecasts with respect to the proposed Business Combination; (ii) consideration of the optimal pro forma capital structure subsequent to the completion of the Business Combination; and (iii) such other services commensurate with the duties of the CFO completed during his tenure with Delavaco.

(3) Such share totals represent the Resulting Issuer Shares to be issued in the event the minimum amount of proceeds are raised from the Finco Financing. In the event the maximum amount of proceeds are raised, an aggregate of 217,391 Resulting Issuer will be issued, representing approximately 0.3% of the Resulting Issuer Shares issued and outstanding.

(4) Such number to be increase to 73,679,765 in the event the maximum amount of proceeds are raised from the Finco Financing.

Available Funds and Principal Purposes

Upon completion of the Business Combination, the Resulting Issuer will have approximately \$4,243,700 of estimated funds available. The use of funds can be broken down as follows:

Type of Funds	Amount
Estimated consolidated working capital as at October 31, 2013	\$4,200,000
Proceeds raised from the Finco Financing ⁽¹⁾	\$ 43,700
Total⁽²⁾	<u>\$4,243,700</u>

(1) In the event the maximum amount of proceeds are raised from the Finco Financing, this number will increase to \$250,000 and total available funds will be \$4,450,000.

(2) These funds will be equal whether or not Park Colony is acquired.

The Resulting Issuer intends to use these funds over the next twelve (12) months as set out in the following table:

<u>Anticipated Use of Funds⁽¹⁾</u>	<u>Amount (with Park Colony)</u>	<u>Amount (without Park Colony)</u>
Renovations and other capital expenditures	\$1,030,000	\$ 890,000
Transaction costs ⁽²⁾	\$1,000,000	\$ 660,000
Unallocated ⁽³⁾	\$2,213,700	\$2,693,700
Total	<u>\$4,243,700</u>	<u>\$4,243,700</u>

- (1) All debt service costs and general and administrative costs will be paid out of net operating income generated from the Single Family Homes Portfolio and the Multi-Family Properties Portfolio.
- (2) The only reduction if the acquisition of Park Colony is not completed relates to the fee to transfer the underlying mortgage. All other costs would remain consistent as Park Colony is cash flow independent.
- (3) Assumes the minimum amount of proceeds are raised from the Finco Financing. In the event the maximum amount of proceeds are raised, this number would increase to \$2,420,000 (with Park Colony) and \$2,900,000 (without Park Colony).

Notwithstanding the foregoing, there may also be circumstances where, for sound business reasons, a reallocation of funds may be necessary for the Resulting Issuer to achieve its objectives. The Resulting Issuer may require additional funds in order to fulfill all of the Resulting Issuer's expenditure requirements to meet its objectives, in which case the Resulting Issuer expects to either issue additional equity securities or incur indebtedness. There is no assurance that additional funding required by the Resulting Issuer would be available if required.

Principal Securityholders

It is anticipated that the following persons will own of record or beneficially, directly or indirectly, or exercise control or direction over more than 10% of the issued and outstanding Resulting Issuer Shares after giving effect to the Business Combination:

<u>Name and Municipality of Residence</u>	<u>Resulting Issuer Shares Owned or Controlled</u>	<u>Percentage of Outstanding Resulting Issuer Shares (Non-Diluted/Fully Diluted)⁽¹⁾⁽²⁾</u>
Mr. Andrew DeFrancesco Fort Lauderdale, FL, USA	14,700,014	23.4%/17.5%
Dynamic Power Hedge Fund ⁽³⁾ Toronto, Ontario	7,390,359	12.0%/9.0%
PowerOne Capital Markets Limited ⁽⁴⁾ Toronto, Ontario	8,230,840	13.3%/10.0%
Marc Muzzo Vaughan, Ontario	6,268,218	10.2%/8.0%

- (1) Expressed as a percentage assuming completion of the acquisition of Park Colony. In the event that the acquisition of Park Colony is not completed, the percentages (non-diluted/fully diluted) for each of Mr. DeFrancesco, Dynamic, PowerOne and Mr. Muzzo would be: Mr. DeFrancesco — 10.2% / 7.3%, Dynamic — 14.0% / 10.1%, PowerOne — 13.3% / 9.5%, Mr. Muzzo — 11.9% / 9.0%.
- (2) The minimum decrease in ownership will be 0.05% of current ownership percentage as a result of the Finco Financing. The maximum decrease in ownership will be 0.41% of current ownership percentage as a result of the Finco Financing.
- (3) 550,000 of such shares held beneficially by Mr. Rohit Sehgal.
- (4) Such shares held beneficially by Mr. Pat Di Capo.

Directors, Officers and Promoters

In connection with the Business Combination, it is proposed that each of the directors of Sereno will resign as directors and that Andrew DeFrancesco, Marc Muzzo, Keith L. Ray, Michael Serruya, Kelly Hanczyk and Romeo De Gasperis will be appointed as directors of the Resulting Issuer. The appointment of each of these persons is conditional upon the closing of the Business Combination. In the event the Business Combination is not approved at the Meetings, the current directors of Sereno will remain as directors.

The following table sets forth certain information regarding each of the proposed individuals who will be directors of the Resulting Issuer at Closing. The names of the directors and officers of the Resulting Issuer, their municipalities of residence, their positions with the Resulting Issuer, the periods served as a director of Delavaco or Sereno, as applicable, the number and percentage of voting securities of the Resulting Issuer proposed to be beneficially owned by them, directly or indirectly (on a non-diluted basis), or over which control or direction is proposed to be exercised, and their principal occupations during the past five years are as follows:

Name and Municipality of Residence	Proposed Position with Resulting Issuer	Director or Officer of Delavaco Since⁽⁷⁾	Principal Occupation, Business or Employment During Past Five Years	Number of Resulting Issuer Shares Beneficially Owned, Controlled or Directed, Directly or Indirectly⁽¹⁾⁽⁸⁾
ANDREW DEFRANCESCO ⁽³⁾ Fort Lauderdale, U.S.A.	Chairman and Chief Executive Officer, Director	January 27, 2011	Chairman and Chief Executive Officer, Delavaco	14,700,014 (23.4%)
MICHAEL GALLORO Toronto, Ontario	Chief Financial Officer	June 1, 2012	Chief Financial Officer, Delavaco	122,000 (0.2%)
MARC MUZZO ⁽³⁾⁽⁴⁾ Vaughan, Ontario	Independent Director	To be elected effective on the Business Combination	Principal, Muzzo Group, Director and Vice President of HCI Holdings	6,268,218 (10.2%)
KEITH L. RAY ⁽²⁾⁽⁵⁾ Toronto, Ontario	Independent Director	To be elected effective on the Business Combination	Chief Executive Officer, Realvest Management, formerly Partner of KPMG LLP	432,302 (0.7%)
MICHAEL SERRUYA ⁽²⁾⁽³⁾⁽⁶⁾ . . Thornhill, Ontario	Independent Director	To be elected effective on the Business Combination	Chairman and co-Chief Executive Officer Kahala Corp.	1,385,180 (2.2%)
KELLY HANCZYK ⁽²⁾ Toronto, Ontario	Independent Director	To be elected effective on the Business Combination	Chief Executive Officer, Edgefront Realty Corp.	94,518 (0.2%)
ROMEO DE GASPERIS ⁽³⁾ . . . Thornhill, Ontario	Independent Director	To be elected effective on the Business Combination	Vice President and Chief Executive Officer Condrain Group	Nil.

(1) Expressed on a non-diluted basis and excluding the share to be issued from the Finco Financing.

(2) Proposed member of the Audit Committee.

(3) Proposed member of the Compensation and Governance Committee.

(4) Mr. Muzzo also holds \$1,000,000 of the Secured Notes, 160,000 warrants exercisable at \$1.25 per share and 154,000 warrants exercisable at \$1.18 per share.

(5) Mr. Ray also holds \$100,000 of the Secured Notes, 24,000 warrants exercisable at \$1.25 per share and 15,400 warrants exercisable at \$1.18 per share.

(6) Mr. Serruya also holds \$1,000,000 of the Secured Notes, 320,000 warrants exercisable at \$1.25 per share and 154,000 warrants exercisable at \$1.18 per share.

(7) With the exception of Mr. DeFrancesco, the proposed directors of the Resulting Issuer are not currently directors of Delavaco.

(8) The minimum decrease in ownership will be 0.05% of current ownership percentage as a result of the Finco Financing. The maximum decrease in ownership will be 0.41% of current ownership percentage as a result of the Finco Financing.

The term of office of the Resulting Issuer directors will expire on the date of the first annual meeting of the Resulting Issuer Shareholders or until their successors are duly elected, unless their office is earlier vacated in accordance with the OBCA.

Following completion of the Business Combination, and assuming that the Park Colony acquisition is completed, it is expected that the directors and executive officers of the Resulting Issuer, as a group, will

beneficially own, or exercise control or direction over, directly or indirectly, an aggregate of 22,630,232 Resulting Issuer Shares, representing 36.7% of the issued and outstanding Resulting Issuer Shares. In the event that the Park Colony acquisition is not completed, it is expected that the directors and executive officers of the Resulting Issuer, as a group, will beneficially own, or exercise control or direction over, directly or indirectly, an aggregate of 13,560,667 Resulting Issuer Shares, representing 25.8% of the issued and outstanding Resulting Issuer Shares. The minimum decrease in ownership will be 0.05% of current ownership percentage as a result of the Finco Financing. The maximum decrease in ownership will be 0.41% of current ownership percentage as a result of the Finco Financing

Management

The following is a summary biography of each of the proposed directors and executive officers of the Resulting Issuer:

Andrew DeFrancesco — Chairman, Chief Executive Officer, Director

Andrew DeFrancesco, a graduate of University of Western Ontario, is the Co-Founder, Chairman & Chief Executive Officer of Delavaco. His capital raising experience includes having funded, jointly funded, or arranged funding in excess of \$1.1 billion. He carries over 18 years of capital markets experience through various roles, including as head equity trader at C.M. Oliver Inc., an independent investment bank and President of Apollo Capital, a private fund specializing in hedge fund and private equity investments. Mr. DeFrancesco carries a breadth of corporate experience, having been an executive for numerous companies. He is the Chairman and Chief Executive Officer of the Delavaco Group, a private equity firm with a focus on real estate, retail and certain natural resource investments. Mr DeFrancesco was the founder, Chairman and Chief Executive Officer of Delavaco Energy Inc., a Canadian Oil and Gas company that sold for \$102 million which is now part of Pacific Rubiales. He was also founder and Chief Executive Officer of Dalradian Resources Inc., an Irish mineral exploration company that trades on the TSX. Mr. DeFrancesco was Co-Founder and former Chairman of APO Energy and P1 Energy Corp — two oil and gas companies that merged for \$447 million. In 2011, Mr. DeFrancesco sold Colcan Energy, a company he founded and acted as Chairman to Sintana Energy, a publicly traded oil and gas company with operations in Colombia in partnership with Exxon Mobil. Mr. DeFrancesco sits on the boards of Santa Maria Petroleum, Tolima Gold and North America's Favorite Brands. Along with being a strategic investor, Mr. DeFrancesco has spearheaded, with fellow director Michael Serruya, the funding and turnaround of a number of companies in the retail and consumer product sectors including Jamba Juice, American Apparel, Swisher Hygiene and most recently Crumbs Bake Shops, all of which are companies listed on the NASDAQ stock market. He has served as Special Advisor to the board of directors of 3P International Energy, a publicly traded natural gas company in the Ukraine, as well as Special Advisor to Brownstone Energy. Mr. DeFrancesco is active in a number of charities including Sunnybrook Hospitals' Natal Unit. Mr. DeFrancesco will, as Chief Executive Officer, devote as much time as required to the Resulting Issuer in order to perform his duties.

Dallas Wharton — Chief Operating Officer of Dalland Properties LP

Dallas Wharton is the co-founder and current Chief Operating Officer of Dalland Properties LP, and has over 15 years of experience in the real estate, construction and property management industries in both Toronto, Ontario and Florida. After attending the University of Florida, Mr. Wharton was involved in the development and management of a real estate portfolio comprised of over two million square feet of industrial, commercial and automotive dealership assets located in Toronto, Ontario. In 2007, Mr. Wharton established a private management company focusing on the foreclosure property management business, for which he maintained and managed bank-owned properties scheduled for eventual disposition. Mr. Wharton has also developed, managed and sold numerous residential projects throughout southern Florida and has secured many third-party management contracts ranging from apartment buildings to single-family residences. Following completion of the Business Combination, Mr. Wharton will remain as Chief Operating Officer of Dalland Properties, LP. Mr. Wharton will, as Chief Operating Officer of the General Partner, devote as much time as required to the Resulting Issuer in order to perform his duties.

Michael Galloro — Chief Financial Officer and Corporate Secretary

Michael Galloro is a Chartered Professional Accountant, Chartered Accountant (CPA, CA) with over 18 years of experience having earned his designation while working for KPMG LLP. While engaged as Vice President of Finance for a public company that was listed on the Toronto Stock Exchange, Mr. Galloro gained experience in finance and capital markets, corporate governance, human resources and administration. Mr. Galloro pursued a consulting career working on various projects in securities legislation compliance, valuations, mergers and acquisitions and initial public offerings. His experience stems internationally having been exposed to various global markets. He has been an officer and/or director of both private and publicly-listed companies operating domestically and in emerging markets. Mr. Galloro will, as Chief Financial Officer, devote as much time as required to the Resulting Issuer in order to perform his duties.

The following is additional information in respect of the non-executive and independent directors of the Resulting Issuer.

Marc Muzzo — Director

Marc Muzzo, a graduate from the University of Toronto with a B.A. in Economics, is a principal in the Muzzo Group of Companies, which encompasses but is not limited to Marel Contractors, Canada's largest drywall contractor and The Pemberton Group, one of Canada's leading condominium developers. Mr. Muzzo is also Director & Vice President of Consolidated HCI Holdings Corporation, a publicly traded real estate company based in Ontario, Canada. The Muzzo Group of Companies are also affiliates of numerous privately owned corporations. Mr. Muzzo's philanthropic contributions include chairing the Muzzo Family Charitable Foundation and serving as Vice Chair of the G.U./Prostate cancer team at the Princess Margaret Hospital Foundation. In addition, Mr. Muzzo is a member of the board of directors for the Toronto General and Western Hospital Foundation.

Keith L. Ray — Director

Keith L. Ray carries a breadth of experience in various real estate companies, including both private and public REITs. Mr. Ray served for 27 years as a partner at KPMG and its predecessor firm. As an audit partner at KPMG, he helped oversee the first initial public offering of a REIT in Canada. He carried the role of audit partner and relationship partner for H&R REIT until his retirement in 2007. In addition, Mr. Ray was an audit partner for Firm Capital, an income trust, which operated as a mortgage lender primarily in Ontario. Throughout his professional career, Mr. Ray has acted as a consultant for large, private, family-owned business — primarily with real estate operations. Mr. Ray's community involvement includes involvement with the audit committees of Mount Sinai Hospital and the UJA Federations. Mr. Ray's educational experience includes a B. Comm from the University of Toronto and a Chartered Professional Accountant, Chartered Accountant (CPA, CA) designation.

Michael Serruya — Director

Michael Serruya co-founded Coolbrands International Inc. in 1986 and served as its President and Chief Executive Officer from November 17, 2006 to November 2010, and as a director from September 1994 to 2010. He served as Chairman of Coolbrands International Inc. until 2010. Mr. Serruya served as President and Chief Executive Officer of Yogen Frus from 1995 to February 2000. He served as Chairman of Yogen Frus from 1995 to February 2000. He has been Director of Response Genetics, Inc. since March 2000. He was a Director of Jamba Inc. from 2009 to 2011, and was a Director of Swisher Hygiene Inc. from 2010 to November 2013. Mr. Serruya is currently the Chairman and Co-Chief Executive Officer of Kahala Corp. He has also served as Member of the Board of Ontario Jobs and Investment.

Kelly Hanczyk — Director

Kelly Hanczyk is a resident of Toronto, Ontario. He is currently the President, Chief Executive Officer and a director of Edgefront Realty Corp. Previously he was the Chief Executive Officer and a trustee of TransGlobe Apartment Real Estate Investment Trust (a TSX listed real estate investment trust) overseeing its growth from its Initial Public Offering to over \$1 billion in market capitalization. Mr. Hanczyk was also the Chief Executive

Officer of TransGlobe Investment Management Ltd. (a real estate management company) from November 2009 to September 2011 and prior to his appointment as Chief Executive Officer, he held the positions of Chief Operating Officer and Senior Vice President of Asset Management within the TransGlobe group of companies. From September 2006 to October 2007, Mr. Hanczyk was the Vice President of Asset Management for Whiterock Real Estate Investment Trust (a TSX listed real estate investment trust). Prior to that, he was the Director of Operations and Leasing for Summit Real Estate Investment Trust (another TSX listed real estate investment trust). Mr. Hanczyk has extensive experience in all disciplines of commercial and residential real estate including corporate strategy, leasing, development, acquisitions and dispositions, financing, property management and asset management. He obtained a Bachelor of Business Administration degree from Acadia University.

Romeo De Gasperis — Director

Romeo De Gasperis is the Vice President and Chief Executive Officer of Condrain Group. He has had extensive experience working in the construction and civil engineering industry for the past 30 years through his family's business. He is currently the Vice President of Countrywide Homes and Condor Properties. Mr. De Gasperis has also served as President and Chief Executive Officer of Futureway Communications (FCI Broadband) from 2002 to 2003 and as a director of FCI Broadband until 2007. He also served as a director of Cool Brands International from 1996 to 2007. He is also chairman and director of Ebuild.ca while also serving as a director of Metrus Land Development. More recently his involvement in Aquatech Dewatering as Vice President came from a growing demand for enhanced environmental awareness.

Promoter Consideration

Mr. Andrew DeFrancesco has taken the initiative in founding and organizing Delavaco and may therefore be considered a promoter of the Resulting Issuer for the purposes of Applicable Securities Laws. Upon completion of the Business Combination and assuming completion of the Park Colony acquisition, Mr. DeFrancesco is expected to own or control, directly or indirectly, 14,450,014 Resulting Issuer Shares, representing approximately 23.4% of the outstanding Resulting Issuer Shares. In the event that the Park Colony acquisition is not completed, Mr. DeFrancesco is expected to own or control, directly or indirectly, 5,380,449 Resulting Issuer Shares, representing approximately 10.2% of the outstanding Resulting Issuer Shares. The minimum decrease in ownership will be 0.05% of current ownership percentage as a result of the Finco Financing. The maximum decrease in ownership will be 0.41% of current ownership percentage as a result of the Finco Financing.

Corporate Cease Trade Orders and Penalties

Other than as described below, no proposed director or executive officer of the Resulting Issuer is, as at the date of this Information Circular, or was within ten (10) years before the date of this Information Circular, a director, chief executive officer or chief financial officer of any company that was:

- (a) subject to a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than thirty (30) consecutive days, that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or
- (b) was subject to a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than thirty (30) consecutive days, that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

Mr. DeFrancesco was previously a director of Fareport Capital Inc. ("**Fareport**"). Due to its inability to comply with its continuous disclosure obligations, on July 25, 2007, approximately two months prior to Mr. DeFrancesco joining Fareport's board of directors, Fareport was placed under a permanent management cease trade order. On September 28, 2007, an entity controlled by Mr. DeFrancesco acquired control of Fareport, the management team was reconstituted and Mr. DeFrancesco was appointed to the Fareport board of

directors. After the change of control, the new Fareport management found that it was unable to confirm the reliability of the year-end audit from July 2006 due to the previous management's failure to maintain proper records and the inadequacy of Fareport's internal audit system prior to the change of control. Thus, Fareport was unable to comply with its continuous disclosure obligations under National Instrument 51-102. Ultimately, in August 2008, Fareport was placed under a permanent issuer cease trade order by the TSX and ceased to operate shortly thereafter.

On December 13, 2006, the Ontario Securities Commission issued a management cease trade order covering the directors and officers of the CoolBrands International Inc. for failure to file certain continuous disclosure documents as required by applicable securities law. Romeo DeGasperi and Michael Serruya each were subject to the cease trade order. CoolBrands International Inc. subsequently filed the documents that were the subject of the initial default and the management cease trade order was revoked by the Ontario Securities Commission on March 10, 2009.

Penalties and Sanctions

Other than as disclosed in this Information Circular, no proposed director or executive officer of the Resulting Issuer, or a securityholder that is expected to hold a sufficient number of securities of the Resulting Issuer to affect materially the control of the Resulting Issuer, has been subject to:

- (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Personal Bankruptcies

No proposed director, officer or promoter of the Resulting Issuer, or a securityholder anticipated to hold sufficient securities of the Resulting Issuer to affect materially the control of the Resulting Issuer, or a personal holding company of any such persons, has, within the 10 years before the date of this Information Circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, officer or promoter.

Conflicts of Interest

There are potential conflicts of interest to which some of the directors, officers, insiders and Promoters of the Resulting Issuer will be subject in connection with the operations of the Resulting Issuer. All of the directors, officers, insiders and Promoters are engaged in and will continue to be engaged in corporations or businesses which may be in competition with the business of the Resulting Issuer. Accordingly, situations may arise where some or all of the directors, officers, insiders and Promoters will be in direct competition with the Resulting Issuer. Conflicts, if any, will be subject to the procedures and remedies as provided under the OBCA.

Other Reporting Issuer Experience

The following table sets out the proposed directors, officers and promoters of the Resulting Issuer that are, or have been within the last five years, directors, officers or promoters of other reporting issuers.

Name of Director, Officer or Promoter	Name and Jurisdiction of Reporting Issuer	Name of Trading Market	Position	Period
ANDREW DEFRADESCO	NXA Inc., Canada	TSXV	Director	March 2010 — Present
	Santa Maria Petroleum Inc., Canada	TSXV	Director	July 2012 — Present
	Tolima Gold Corp., Canada	TSXV	Director	February 2011 — Present
MICHAEL GALLORO . . .	AgriMinco Corp., Canada	TSXV	Chief Financial Officer, Director	September 2010 — Present
	Alberta Oilsands Inc.	CNSX	Interim Chief Financial Officer	July 2012 — Present
	Black Sparrow Capital Corp., Canada	TSXV	Chief Executive Officer, Chief Financial Officer, Director	December 2011 — Present
	Goldstream Minerals Inc.	TSXV	Chief Financial Officer, Director	August 2012 — Present
	Mahdia Gold Corp.	CNSX	Chief Financial Officer	September 2012 — Present
	Organic Potash Corp., Canada	CNSX	Director	July 2011 — Present
	SustainCo Inc., Canada	TSXV	Director	March 2012 — Present
	Yangaroo Inc., Canada	TSXV	Chief Financial Officer	December 2010 — Present
MARC MUZZO	Consolidated HCI Holdings Corporation, Canada	TSX	Director, Vice-President	December 2005 — Present
MICHAEL SERRUYA	Cool Brands International Inc., Canada	TSX	Chairman and Chief Executive Officer	November 2006 — November 2010
	Committed Capital Acquisition Corporation	OTC	Director	October 2013 — Present
	Kahala Corp.	OTC	Chairman and Co-Chief Executive Officer	August 2013 — Present
	Jamba Inc., USA	Nasdaq	Director	August 2009 — September 2010
	Response Genetics Inc., USA	Nasdaq	Director	March 2000 — Present
	Sprylogics International Corp., Canada	TSXV	Director	September 2011 — Present
	Swisher Hygiene Inc., USA	Nasdaq	Director	November 2010 — November 2013
KELLY HANCZYK	Edgefront Realty Corp., Canada	TSXV	Chief Executive Officer, Director	September 2012 — Present
	Plymouth Realty Capital Corp, Canada	TSXV	Director	August 2013 — Present
	Transglobe Apartment Real Estate Investment Trust, Canada	TSX	Chief Executive Officer	April 2010 — June 2012

Committees of the Resulting Issuer Board

The Resulting Issuer proposes to establish two committees: the Audit Committee and the Compensation & Governance Committee (the “**C&G Committee**”). All members of the Audit Committee and a majority of the members of the C&G Committee will be independent directors upon Closing.

Audit Committee

The Audit Committee will initially consist of Keith Ray (Chair), Kelly Hanczyk and Michael Serruya, each of whom is “independent” and “financially literate” within the meaning of National Instrument 52-110 — *Audit Committees*. Each of the Audit Committee members has an understanding of the accounting principles used to prepare the Resulting Issuer’s financial statements, experience preparing, auditing, analyzing or evaluating comparable financial statements and experience as to the general application of relevant accounting principles, as well as an understanding of the internal controls and procedures necessary for financial reporting.

The Board has adopted a written charter for the Audit Committee which sets out the Audit Committee’s responsibility in reviewing the financial statements of the Resulting Issuer and public disclosure documents containing financial information and reporting on such review to the Board, ensuring that adequate procedures are in place for the review of the Resulting Issuer’s public disclosure documents that contain financial information, overseeing the work and reviewing the independence of the external auditors and reviewing, evaluating and approving the internal control procedures that are implemented and maintained by management. The Audit Committee will also be responsible for recommending the adoption of an enterprise risk management program and an environmental management program for the Resulting Issuer and for supervising the Resulting Issuer’s compliance with and implementation of the risk and environmental programs.

Compensation and Governance Committee

The C&G Committee will initially consist of Michael Serruya (Chair), Romeo De Gasperis and Marc Muzzo, each of whom is “independent” within the meaning of National Instrument 58-101 — *Disclosure of Corporate Governance Practices*. The C&G Committee will be charged with reviewing, overseeing and evaluating the governance and nominating policies and the compensation policies of the Resulting Issuer. In addition, the C&G Committee will be responsible for: (i) assessing the effectiveness of the Board, each of its committees and individual directors; (ii) overseeing the recruitment and selection of candidates as directors of the Resulting Issuer; (iii) organizing an orientation and education program for new directors and coordinating continuing director development programs; (iv) considering and approving proposals by the directors to engage outside advisers on behalf of the Board as a whole or on behalf of the independent directors; (v) reviewing and making recommendations to the Board concerning any change in the number of directors composing the Board; (vi) administering any stock option or purchase plan of the Resulting Issuer or any other compensation incentive programs; (vii) assessing the performance of the officers and other members of the executive management team of the Resulting Issuer; (viii) reviewing and approving the compensation paid by the Resulting Issuer, if any, to consultants of the Resulting Issuer; and (ix) reviewing and making recommendations to the Board concerning the level and nature of the compensation payable, if any, to the directors and officers of the Resulting Issuer.

To ensure the C&G Committee has the expertise to carry out its mandate, it is intended that its members will have, or acquire within a reasonable period of time after being appointed, an understanding of relevant issues relating to governance and compensation.

Executive Compensation

Overview

The Resulting Issuer’s compensation practices will be designed to retain, motivate and reward its executive officers for their performance and contribution to the Resulting Issuer’s long-term success. The Board will seek to compensate the Resulting Issuer’s executive officers by combining short and long-term cash and equity incentives. It will also seek to reward the achievement of corporate and individual performance objectives, and to align executive officers’ incentives with shareholder value creation. The Board will seek to tie individual goals to the area of the executive officer’s primary responsibility. These goals may include the achievement of specific financial or business development goals. The Board will also seek to set company performance goals that reach across all business areas and include achievements in finance/business development and corporate development.

Both the existing independent directors of Delavaco and the proposed independent directors of the Resulting Issuer have approved the executive compensation arrangements for the Employment Agreements for Mr. DeFrancesco and Mr. Galloro in their capacity as Chief Executive Officer and Chief Financial Officer of

Delavaco, respectively. In addition, GMP, as sponsor, has independently reviewed and confirmed the appropriateness of the compensation packages summarized below. Subject to the completion of the Business Combination, any changes, modifications or amendments to the Employment Agreements for Mr. DeFrancesco and Mr. Galloro will require consideration and approval by the independent directors of the Board prior to implementation.

Compensation Discussion and Analysis

The compensation of the Named Executive Officers or NEOs will include three major elements: (a) base salary, (b) an annual, discretionary cash bonus, and (c) long-term equity incentives, consisting of stock options granted under the New Option Plan and any other equity plan that may be approved by the Board. These three principal elements of compensation are described below.

Following the completion of the Business Combination, the C&G Committee, in conjunction with the Board, is expected to establish an appropriate comparator group for purposes of setting the future compensation of the Named Executive Officers.

The Named Executive Officers will not benefit from pension plan participation. Perquisites and personal benefits are not a significant element of compensation of the Named Executive Officers.

Base Salary

Base salaries are intended to provide an appropriate level of fixed compensation that will assist in employee retention and recruitment. Base salaries will be determined on an individual basis, taking into consideration the past, current and potential contribution to our success, the position and responsibilities of the Named Executive Officers and competitive industry pay practices for other real estate investment companies of comparable size. The Resulting Issuer does not engage compensation consultants for the purposes of performing benchmarking or apply specific criteria for the selection of comparable real estate businesses. Other comparable real estate businesses that may be considered for benchmarking purposes include other small capitalization public Canadian real estate investment trusts and real estate operating companies. Increases in base salary are at the sole discretion of the Board, with input from the C&G Committee.

Annual Cash Bonus

The Board, in its sole discretion, may award Named Executive Officers with an annual bonus of up to 200% of such Named Executive Officer's base salary for that year, payable in cash. Annual bonuses will be awarded based on qualitative and quantitative performance standards, and will reward performance of the named executive officer individually. The determination of a Named Executive Officer's performance may vary from year to year depending on economic conditions and conditions in the real estate industry, and may be based on measures such as stock price performance, the meeting of financial targets against budget (such as adjusted funds from operations), the meeting of acquisition objectives and balance sheet performance.

Stock Option Plan

See "Information Concerning the Resulting Issuer — Options to Purchase Securities".

Employment, Termination and Change of Control Benefits

The Resulting Issuer intends to enter into an executive employment agreement with Andrew DeFrancesco and a financial management agreement, pursuant to which Michael Galloro, through a company called Aloe Financial Inc., will provide his services as Chief Financial Officer. Dallas Wharton will continue to act as the Chief Operating Officer of Dalland Properties LP, for which he will receive an annual salary of \$210,000, but he will not have a separate employment agreement with the Resulting Issuer.

The employment agreement with Mr. DeFrancesco provides for, among other things, the continuation of the executive's employment for an indeterminate term in accordance with Applicable Laws, subject to termination in certain specified events. The financial management agreement with Mr. Galloro is subject to a five-year term.

Upon completion of the Business Combination, Mr. DeFrancesco is entitled to a salary at the rate of \$222,000 per annum, an annual discretionary bonus of up to 200% of the base salary, to be approved by the Board and stock options of the Resulting Issuer pursuant to the New Option Plan or any other equity plan as may be approved by the Board. Mr. DeFrancesco shall also be eligible to receive a commission on any financing that is raised by the Resulting Issuer after the Effective Date as follows: 1% of all equity financings, 0.75% of any conventional bond financing and 0.4% of any other debt financing, provided that under no circumstance shall the Resulting Issuer have an obligation to pay such commissions to Mr. DeFrancesco to the extent that any such payment, together with any other commission, fee or other similar payment in respect of any financing completed by the Company, exceeds, in the aggregate, the commission, fee or other similar payment that an independent and qualified financial advisor would receive for a similar financing in similar market conditions for a reporting issuer in the same industry and of a similar market capitalization.

In the event Mr. DeFrancesco is terminated without cause or resigns for good reason, in each case within two years following a Change of Control (as defined in Mr. DeFrancesco's employment agreement), he will be entitled to receive a lump sum payment equal to the greater of (i) the amount available to Mr. DeFrancesco in the event he is terminated without cause; and (ii) a payment equal to 1.15% of the difference between the Market Capitalization of the Resulting Issuer calculated on the date of the Change of Control and the Initial Market Capitalization of the Resulting Issuer (as such terms are defined in his employment agreement). In the event that Mr. DeFrancesco's employment is terminated without cause, he will be entitled to a payment equal to base salary and bonus, the bonus amount used for such calculation being the actual bonus that was paid to Mr. DeFrancesco in the year immediately preceding the date of termination.

Mr. Galloro will provide the services of a Chief Financial Officer, through Aloe Financial Inc., pursuant to a financial management agreement. Upon completion of the Business Combination, Mr. Galloro will receive a monthly fee of \$15,000, an annual discretionary bonus of up to 200% of the base salary to be approved by the Board and stock options of the Resulting Issuer pursuant to the New Option Plan. In the event of a Change of Control (as defined in the financial management agreement), and if within twenty-four months of such Change of Control (i) there is an adverse change in any of the duties, powers, rights, discretion, fees or benefits of Mr. Galloro, (ii) there is a diminution of Mr. Galloro's title, or (iii) there is a change in the person or body to whom Mr. Galloro reports (unless such person or body is of equivalent rank or stature), then Mr. Galloro shall be entitled to terminate the financial management and to receive a payment equal to the greater of (i) the amount available to Mr. Galloro in the event he is terminated without cause; and (ii) a payment equal to 0.75% of the difference between the Market Capitalization of the Resulting Issuer calculated on the date of the Change of Control and the Initial Market Capitalization of the Resulting Issuer (as such terms are defined in the financial management agreement). In the event that Mr. Galloro's services are terminated without cause, he will be entitled to a payment equal to base salary and bonus for two years, based on the actual bonus received in the immediately preceding year.

Remuneration of Directors

The compensation for each of the Resulting Issuer's directors for the 12 month period following completion of the Business Combination shall be finalized by the C&G Committee subsequent to the completion of the Business Combination. In reviewing director compensation, it is expected that the C&G Committee will consider the responsibilities and time commitment of the directors and benchmark compensation against comparable Canadian real estate companies and others in the real estate industry more generally. The Resulting Issuer will disclose the terms of any agreements entered into with any of the Resulting Issuer's directors at the time such agreements are entered into.

Indebtedness of Directors and Officers

No director or officer of the Parties or any person proposed to be a director or officer of the Resulting Issuer or person who was a director or officer of the Parties in the most recently completed financial year of the Parties, respectively, or any affiliate or associate of any such individual, is indebted to the Parties or has any indebtedness to another entity the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by any of the Parties.

Investor Relations Arrangements

Except as provided in the Services Agreement, no written or oral agreement or understanding has been reached with any person to provide any promotional or investor relations activities for the Resulting Issuer following completion of the Business Combination.

Options to Purchase Securities

Subject to the completion of the Business Combination, The 35,665 outstanding post-Consolidation Sereno Options will be held by Frank Davis (10,190 post-Consolidation Sereno Options), Barry Gordon (10,190 post-Consolidation Sereno Options), Brandon Gordon (10,190 post-Consolidation Sereno Options) and Dave Guebert (5,095 post-Consolidation Sereno Options) which will entitle the holders thereof to purchase, in the aggregate, 35,665 Resulting Issuer Shares at \$1.84 per share, expiring on May 16, 2016.

Upon the completion of the Business Combination the Resulting Issuer will also reserve, in addition to the Resulting Shares reserved for the Sereno Options, 6,140,066 Resulting Issuer Shares to eligible participants under the New Option Plan assuming the Park Colony acquisition is completed (and further assuming the minimum amount of proceeds are raised from the Finco Financing, such number increasing to 6,158,805 in the event that the maximum amount of proceeds are raised from the Finco Financing). In the event that the Park Colony acquisition is not completed, the Resulting Issuer will reserve 5,233,910 Resulting Issuer Shares to eligible participants under the New Option Plan (assuming the minimum amount of proceeds are raised from the Finco Financing, such number increasing to 5,251,849 in the event that the maximum amount of proceeds are raised from the Finco Financing). In either scenario, the total number of Resulting Issuer Shares reserved for issuance will be equal to 10% of the total number of Resulting Issuer Shares issued and outstanding on the Effective Date.

Stock Option Plan

In connection with the Business Combination, the Resulting Issuer is seeking approval of the New Option Plan, a copy of which is attached hereto as Appendix F. The purpose of the New Option Plan is to (i) replace the existing Sereno Stock Option Plan; (ii) encourage stock ownership by Eligible Persons (as defined in the New Option Plan); (iii) increase the proprietary interest of Eligible Persons in the success of the Resulting Issuer; (iv) encourage Eligible Persons to remain with the Resulting Issuer; and (v) attract new directors, employees and officers.

The New Option Plan is a rolling plan with the Resulting Issuer authorized to issue that number of options which is 10% of the issued and outstanding share capital at the date of the grant of shares, less the aggregate number of shares reserved for issuance or issuable under any Share Compensation Arrangement (as defined in the New Option Plan).

The New Option Plan is subject to the following restrictions:

- (i) the Resulting Issuer must not grant an option where the aggregate number of Resulting Issuer Shares reserved for issuance under options may exceed 10% of the outstanding common shares of the Resulting Issuer from time to time;
- (ii) the Resulting Issuer must not grant an option to an Eligible Person (such person referred to herein as a “Participant”) in any 12 month period that exceeds 5% of the outstanding Resulting Issuer Shares, unless the Resulting Issuer has obtained by a majority of the votes cast by the shareholders eligible to vote at a shareholders’ meeting, excluding votes attaching to Resulting Issuer Shares beneficially owned by insiders and their associates (“**Disinterested Shareholder Approval**”);
- (iii) the aggregate number of options granted to all Persons conducting “Investor Relations Activities” in any 12 month period must not exceed, in the aggregate, 2% of the outstanding common shares of the Resulting Issuer; and
- (iv) the Resulting Issuer must not grant aggregate options to any one consultant or consultant company in any 12 month period that exceeds 2% of the outstanding common shares of the Resulting Issuer.

Material Terms of the New Option Plan

The following is a summary of the material terms of the New Option Plan:

- (i) persons who are Participants of the Resulting Issuer are eligible to receive grants of options under the New Option Plan;
- (ii) options granted under the New Option Plan are non-assignable and non-transferable, other than by will or by the laws of descent;
- (iii) options granted under the New Option Plan are exercisable for a maximum of 10 years from the date of grant;
- (iv) in the case of options granted to a Participant who is an employee, consultant, consultant company or management company employee, the Participant must be a bona fide employee, consultant, consultant company or management company employee, as the case may be, of the Resulting Issuer or its subsidiaries;
- (v) except as otherwise determined by the Board of Directors of the Resulting Issuer:
 - (A) if a Participant who is a non-executive director of the Resulting Issuer ceases to be an Eligible Person as a result of his or her retirement from the Board other than termination for cause, each unvested option held by such Participant shall automatically vest on the date of his or her retirement from the Board, and thereafter each vested option held by such Participant will cease to be exercisable on the earlier of the original expiry date of the option and six (6) months after the date of his or her retirement from the Board;
 - (B) if the Board service, consulting relationship, or employment of a Participant with the Resulting Issuer or its subsidiaries terminated for cause, each vested and unvested option held by the Participant will automatically terminate and become void on the Termination Date;
 - (C) if a Participant dies, the legal representative of the Participant may exercise the Participant's vested options for a period until the earlier of the original expiry date of the option and 12 months after the date of the Participant's death, but only to the extent the options were by their terms exercisable on the date of death. For greater certainty, all unvested Options held by a Participant who dies shall terminate and become void on the date of death of such Participant.
 - (D) if a Participant ceases to be an Eligible Person for any reason whatsoever other than referred to in (A) to (C) above, each vested option held by the Participant will cease to be exercisable on the earlier of the original expiry date of the option and six (6) months after the Termination Date.
- (vi) provided the Resulting Issuer Shares are listed on the Exchange, the exercise price of each option will be set by the Board of the Resulting Issuer on the date such option is granted, and will not be less than the Market Price (as defined in the New Option Plan);
- (vii) in the event of an actual or potential Change of Control Event (as defined in the New option Plan), the Board may, in its discretion, without the necessity or requirement for the agreement of any Participant:
 - (A) accelerate, conditionally or otherwise, on such terms as it sees fit, the vesting date of any option;
 - (B) permit the conditional exercise of any option, on such terms as it sees fit; (C) otherwise amend or modify the terms of the option, including for greater certainty permitting Participants to exercise any option, to assist the Participants to tender the underlying Resulting Issuer Shares to, or participate in, the actual or potential Change of Control Event or to obtain the advantage of holding the underlying Resulting Issuer Shares during such Change of Control Event; and (D) terminate, following the successful completion of such Change of Control Event, on such terms as it sees fit, the options not exercised prior to the successful completion of such Change of Control Event.

Escrowed Securities

Currently Escrowed Shares

An aggregate of 1,200,000 Sereno Shares are currently held in escrow (the “**Sereno Escrow Shares**”) with Equity Financial Trust Company under the provisions of a CPC Escrow Agreement dated May 17, 2007. The Sereno Escrow Shares will be released as to 10% thereof following issuance by the Exchange of the Final Exchange Bulletin in respect of the Business Combination and as to fifteen (15%) thereof on each of the six (6), twelve (12), eighteen (18), twenty-four (24), thirty (30) and thirty-six (36) month anniversaries of the Final Exchange Bulletin, assuming the Resulting Issuer is listed on Tier 2 of the Exchange.

Exchange Escrowed Securities — Principals

To the knowledge of Sereno and Delavaco, assuming completion of the Business Combination, then following securities of the Resulting Issuer anticipated to be held by principals of the Resulting Issuer following the completion of the Business Combination will be held in escrow:

Name and Municipality	Prior to giving effect to the Business Combination	After giving effect to the Business Combination	
	Number of Securities held in Exchange Escrow	Number of Securities held in Exchange Escrow	Percentage of class (Non-diluted/Fully diluted) ⁽¹⁾⁽²⁾
ANDREW DEFRANCESCO . Fort Lauderdale, U.S.A.	Nil.	14,450,014 Resulting Issuer Shares	(23.4%/17.5%)
MARC MUZZO Vaughan, Ontario	Nil.	6,268,218 Resulting Issuer Shares 314,000 Resulting Issuer Warrants	(10.2%/8.0%)
KEITH L. RAY Toronto, Ontario	Nil.	432,302 Resulting Issuer Shares 39,400 Resulting Issuer Warrants	(0.7%/0.6%)
MICHAEL SERRUYA Thornhill, Ontario	Nil.	1,385,180 Resulting Issuer Shares 474,000 Resulting Issuer Warrants	(2.2%/2.3%)
CLARA SERRUYA Thornhill, Ontario	Nil.	440,000 Resulting Issuer Shares	(0.7%/0.5%)
KELLY HANCZYK Toronto, Ontario	Nil.	94,518 Resulting Issuer Shares	(0.2%/0.1%)
ROMEO DE GASPERIS . . . Thornhill, Ontario	Nil.	\$3,000,000 aggregate principal amount of Unsecured Debentures	(Nil%/3.2%)
MICHAEL GALLORO Toronto, Ontario	Nil.	122,000 Resulting Issuer Shares	(0.2%/0.1%)
DALLAS WHARTON Fort Lauderdale, U.S.A.	Nil.	2,200,000 Resulting Issuer Shares	(3.6%/2.7%)

(1) Expressed as a percentage assuming completion of the acquisition of Park Colony. In the event that the acquisition of Park Colony is not completed, the percentages (non-diluted/fully diluted) for each aforementioned principal would be: Mr. DeFrancesco (10.2%/7.3%); Mr. Muzzo (11.9%/9.0%); Mr. Ray (0.8%/0.6%); Mr. Serruya (2.6%/ 2.5%); Mrs. Serruya (0.8%/0.6%); Mr. Hanczyk (0.2%/0.1%); Mr. De Gasperis (Nil%/3.6%); Mr. Galloro (0.2%/0.2%); and Mr. Wharton (4.2% / 3.0%).

(2) The minimum decrease in ownership will be 0.05% of current ownership percentage as a result of the Finco Financing. The maximum decrease in ownership will be 0.41% of current ownership percentage as a result of the Finco Financing

In accordance with Policy 5.4 — *Escrow, Vendor Consideration and Resale Restrictions* of the Exchange’s Corporate Finance Manual, upon completion of the Business Combination, all of the 25,392,232 Resulting Issuer Shares and 827,400 Resulting Issuer Warrants which will be issued to the above listed principals will be

escrowed. Due to the fact that the number of securities characterized as “Surplus Securities” does not exceed 25% of the number of securities characterized as “Value Securities”, all the principals’ securities will be escrowed under a Value Security Escrow Agreement

This Value Security Escrow Agreement will be entered into between each of such persons, the Resulting Issuer and Computershare Trust Company of Canada (the “**Escrow Agent**”). As the Resulting Issuer is expected to be listed as a Tier 2 Issuer on the Exchange upon completion of the Business Combination, the Value Securities will be subject to an 36 month escrow period and be released from escrow as follows:

<u>Percentage of Value Securities</u>	<u>Released from Escrow Release Date</u>
10%	Date of Final Exchange Bulletin
15%	6 months from Final Exchange Bulletin
15%	12 months from Final Exchange Bulletin
15%	18 months from Final Exchange Bulletin
15%	24 months from Final Exchange Bulletin
15%	30 months from Final Exchange Bulletin
15%	36 months from Final Exchange Bulletin

The Value Securities held pursuant to the Value Security Escrow Agreement may not be sold, assigned, transferred, redeemed, surrendered or otherwise dealt with in any manner except as provided by the Value Security Escrow Agreement. The Value Securities may be transferred within escrow to an individual who is a director or senior officer of the Resulting Issuer or a material operating subsidiary of the Resulting Issuer, provided that certain requirements of the Exchange are met, including that the new proposed transferee agrees to be bound by the terms of the Value Security Escrow Agreement. In the event of the bankruptcy of a holder of Value Securities, the Value Securities held by such holder may be transferred within escrow to the trustee in bankruptcy or other person legally entitled to such Value Securities provided that certain prescribed Exchange requirements are met.

Auditor, Transfer Agent and Registrar

The auditors of the Resulting Issuer will be Deloitte LLP, Chartered Professional Accountants, Licensed Public Accountants, Brookfield Place, 181 Bay Street, Suite 1400, Toronto, Ontario M5J 2V1. The transfer agent and registrar for the Resulting Issuer will be Computershare Investor Services Inc. at its principal office in Toronto, Ontario.

Material Contracts

In addition to the Services Agreement, the only material contracts to which the Resulting Issuer will be a party are described under the sections entitled, “Information Concerning Sereno — Material Contracts” and “Information Concerning Delavaco — Material Contracts.”

RISK FACTORS

There are certain risk factors relating to the Parties and the Business Combination which should be carefully considered by Shareholders, including the fact that the Business Combination may not be completed if, among other things, the Business Combination Resolution does not receive the requisite approval at the Meetings, or if any other conditions precedent to the completion of the Business Combination are not satisfied or waived as applicable. In assessing the Business Combination, Shareholders should carefully consider the risk factors which exist for each of Sereno and Delavaco as described in this Information Circular and the documents incorporated herein by reference. See “Information Concerning Sereno” and “Information Concerning Delavaco”.

Risks Related to the Business Combination

The Business Combination May Not Be Completed

Each of the Parties has the right to terminate the Business Combination Agreement in certain circumstances. Accordingly, there is no certainty, nor can the Parties provide any assurance, that the Business Combination Agreement will not be terminated before the completion of the Business Combination.

In addition, the completion of the Business Combination is subject to a number of conditions precedent, certain of which are outside the control of the Parties, including approval of the Business Combination Resolution by the Delavaco Shareholders, receipt of all required consents (including the consent of Fannie Mae and Freddie Mac) and approval of the TSXV. There is no certainty, nor can the Parties provide any assurance, that these conditions will be satisfied.

A substantial delay in obtaining satisfactory approvals and/or the imposition of unfavourable terms or conditions in the approvals to be obtained could have an adverse effect on the business, financial condition or results of operations of the Parties or could result in the termination of the Business Combination Agreement. If (a) Delavaco Shareholders choose not to approve the Business Combination, (b) any or each of Delavaco or Sereno otherwise fails to satisfy, or fails to obtain a waiver of the satisfaction of, the closing conditions to the transaction and the Business Combination is not completed, (c) a Material Adverse Effect (as defined in the Business Combination Agreement) has occurred that results in the termination of the Business Combination Agreement, or (d) any legal proceeding results in enjoining the transactions contemplated by the Business Combination, each of, or any of, the Parties could be subject to various adverse consequences, including that each of or any of the Parties would remain liable for significant costs relating to the Business Combination, including, among others, legal, accounting, financial advisory and financial printing expenses. In addition, the financial condition of Sereno and Delavaco, as applicable, may be materially adversely affected.

Failure to Obtain all Regulatory Requirements for Completion of the Business Combination

Completion of the Business Combination is subject to, among other things, the approval of the Exchange and the receipt of all necessary regulatory, Delavaco Shareholder and Sereno Shareholder approvals. There can be no certainty, nor can either party provide any assurance, that these conditions will be satisfied or, if satisfied, when they will be satisfied. The requirement to take certain actions or to agree to certain conditions to satisfy such requirements or obtain any such approvals may have a material adverse effect on the business and affairs of the Resulting Issuer or the trading price of the Resulting Issuer Shares after completion of the Business Combination.

Risks Related to the Operations of the Resulting Issuer

Geographic Concentration

The Properties are all located in the State of Florida, DeKalb and Fulton Counties, Georgia and Austin, Texas. Accordingly, the market value of the Properties and the income to be generated by the Resulting Issuer's performance are particularly sensitive to changes in the economic conditions and regulatory environments of Florida, Georgia and Texas. Adverse changes in the economic condition or regulatory environment of Florida or Georgia may have a material adverse effect on the Resulting Issuer's business, cash flows, financial condition and results of operations.

Acquisition Risk

The Resulting Issuer may be subject to significant operating risks associated with its expanded operations. The Resulting Issuer's business strategy includes growth through identifying suitable acquisition opportunities, pursuing such opportunities, consummating acquisitions and effectively operating and leasing such properties. If the Resulting Issuer is unable to manage its growth effectively, it could have a material adverse effect on the Resulting Issuer's business, cash flows, financial condition and results of operations. There can be no assurance as to the pace of growth through property acquisitions or that the Resulting Issuer will be able to acquire assets on an accretive basis. The Resulting Issuer intends to acquire additional Properties selectively. The acquisition of additional Properties entails risks that investments will fail to perform in accordance with expectations. In undertaking such acquisitions, the Resulting Issuer will incur certain risks, including the expenditure of funds, including non-refundable deposits, due diligence costs and inspection fees, and the devotion of management's time to transactions that may not come to fruition. Additional risks inherent in acquisitions include risks that the Properties will not achieve anticipated occupancy levels and that estimates of the costs and benefits of the renovation and repositioning program intended for that Property may prove inaccurate or may not have the intended results.

Purchase Agreements

Additional Properties may be sold to the Resulting Issuer in an "as is" condition, and upon acquisition of properties, the Resulting Issuer may have limited recourse with respect to conditions affecting the purchased properties. The costs of unexpected repair and remediation work could be material and may therefore have an adverse effect on the Resulting Issuer's financial condition and results of operations. Further, representations and warranties made by the seller in a purchase agreement, if any, may survive only for a limited period of time after closing. If claims arising as a result of a breach of a representation or warranty are discovered after this period, the Resulting Issuer may not be able to seek indemnification from the seller and would therefore suffer the financial consequences of such a breach, which could be material. Further, even if the Resulting Issuer was entitled to indemnification from the seller, no assurance can be given that the seller would have sufficient funds to satisfy any such indemnification claims.

Non-refundable Deposits

Property acquisition transactions may require deposits by the Resulting Issuer and costs to be incurred by the Resulting Issuer which may be non-refundable. If such transactions fail to close, these funds may be unrecoverable in whole or in part, thereby reducing funds otherwise available to the Resulting Issuer.

The Resulting Issuer Will Be an Early Entrant Employing a New and Untested Business Model in a New Industry

The large-scale single-family rental homes industry is relatively new in the United States. Until very recently, the single-family rental homes business consisted primarily of private and individual investors in local markets and was managed individually or by small, local property managers. The proposed business of the Resulting Issuer operates on the assumption that a company can acquire and operate single-family homes on a large-scale basis and achieve attractive yields through a disciplined approach to acquisitions and renovations, economies of scale in marketing and management and developing a brand-name presence. This is a new business model that has not been tested on a national scale. The Resulting Issuer's assumptions are unproven, and if they prove to be incorrect, then it may fail to provide the financial returns that investors hope or expect to receive. Accordingly, no assurance can be given that the Resulting Issuer will be successful in implementing its investment strategy or that it will be successful in achieving its objective of providing attractive risk-adjusted returns to its stockholders over the long term.

Operational Risks

Operational risk is the risk that a direct or indirect loss may result from an inadequate or failed infrastructure, from a human process or from external events. The impact of this loss may be financial loss, loss of reputation or legal and regulatory proceedings. The Resulting Issuer endeavors to minimize losses in this area

by ensuring that effective infrastructure and controls exist. These controls are constantly reviewed and if deemed necessary improvements are implemented.

Risk of Natural Disasters

The single-family homes that are located in Florida may have sustained significant storm damage in the past and may sustain significant storm damage in the future. While the Resulting Issuer will take insurance to cover a substantial portion of the cost of such events, the Resulting Issuer's insurance is likely to include deductible amounts and excluded claims and certain items may not be covered by insurance. Future hurricanes, floods or other natural disasters may significantly affect the Resulting Issuer's operations and some or all of the Properties, and more specifically, may cause the Resulting Issuer to experience reduced rental revenue (including from increased vacancy), incur clean-up costs, administration and collection costs or otherwise incur costs in connection with such events. Any of these events may have a material adverse effect on the Resulting Issuer's business, cash flows, financial condition and results of operations and ability to declare and pay dividends, if any, to Resulting Issuer Shareholders. As well, if the Resulting Issuer were unable to obtain adequate insurance, and the Properties experienced damages that would otherwise have been covered by insurance, it could have a material adverse effect on the Resulting Issuer's business, cash flows, financial condition.

Risk of Loss Not Covered By Insurance

The Resulting Issuer will maintain insurance policies previously held by Delavaco related to its business, including casualty, general liability and other policies covering the Resulting Issuer's business operations, employees and assets. However, the Resulting Issuer will be required to bear all losses that are not adequately covered by insurance, as well as any insurance deductibles. In the event of a substantial property loss, the existing insurance coverage may be insufficient to pay the full current market value or current replacement cost of such property loss. In the event of an uninsured loss, the Resulting Issuer could lose some or all of its capital investment, cash flow and anticipated profits related to one or more Properties. Although Delavaco believes that its insurance programs are adequate, assurance cannot be provided that the Resulting Issuer will not incur losses in excess of insurance coverage or that insurance can be obtained in the future at acceptable levels and reasonable cost.

Risk Related to Insurance Renewals

Certain events could make it more difficult and expensive to obtain property and casualty insurance, including coverage for catastrophic risks. When Delavaco's current insurance policies expire, the Resulting Issuer may encounter difficulty in obtaining or renewing property or casualty insurance on the Properties at the same levels of coverage and under similar terms. Such insurance may be more limited and, for catastrophic risks (e.g., earthquake, hurricane, flood and terrorism), may not be generally available to fully cover potential losses. Even if the Resulting Issuer is able to renew policies at levels and with limitations consistent with Delavaco's current policies, the Resulting Issuer cannot be sure that it will be able to obtain such insurance at premiums that are reasonable. If the Resulting Issuer is unable to obtain adequate insurance on the Properties for certain risks, it could cause the Resulting Issuer to be in default under specific covenants on certain of its indebtedness or other contractual commitments that it has which require the Resulting Issuer to maintain adequate insurance on the Properties to protect against the risk of loss. If this were to occur, or if the Resulting Issuer were unable to obtain adequate insurance, and the Properties experienced damages that would otherwise have been covered by insurance, it could have a material adverse effect on the Resulting Issuer's business, cash flows, financial condition and results of operations.

Access to Capital

The real estate industry is highly capital intensive. The Resulting Issuer will require access to capital to maintain the Properties, as well as to fund its growth strategy and significant capital expenditures from time to time. There can be no assurance that the Resulting Issuer will have access to sufficient capital or access to capital on terms favourable to the Resulting Issuer for future property acquisitions, financing or refinancing of the Properties, funding operating expenses or other purposes.

In addition, global financial markets have experienced a sharp increase in volatility during recent years. This has been, in part, the result of the re-valuation of assets on the balance sheets of international financial institutions and related securities. This has contributed to a reduction in liquidity among financial institutions and has reduced the availability of credit to those institutions and to the companies who borrow from them. While central banks as well as governments continue attempts to restore liquidity to the global economy, no assurance can be given that the combined impact of the significant re-valuations and constraints on the availability of credit will not continue to materially and adversely affect economies around the world in the near to medium term. These market conditions and unexpected volatility or illiquidity in financial markets may inhibit the Resulting Issuer's access to long-term financing in the Canadian capital markets. As a result, it is possible that financing which the Resulting Issuer may require in order to grow and expand its operations, upon the expiry of the term of financing, on refinancing any particular Property owned by the Resulting Issuer or otherwise, may not be available or, if it is available, may not be available on favourable terms to the Resulting Issuer. Failure by the Resulting Issuer to access required capital could have a material adverse effect on the Resulting Issuer's business, cash flows, financial condition and results of operations and ability to declare and pay dividends, if any, to Resulting Issuer Shareholders.

Financing Risk

Following the completion of the Business Combination, and subject to the completion of the Reorganization, the total Indebtedness of the Resulting Issuer will be comprised of the \$25,000,000 principal amount of Secured Notes, the \$47,044,000 principal amount of mortgages held on the Multi-Family Properties by Fannie Mae and Freddie Mac and the \$18,500,000 of principal amount of Unsecured Debentures. See "Information Concerning the Resulting Issuer — Pro Forma Consolidated Capitalization". A portion of the cash flow generated by the Properties will be devoted to servicing such indebtedness, and there can be no assurance that the Resulting Issuer will continue to generate sufficient cash flow from operations to meet required interest and principal payments. If the Resulting Issuer is unable to meet interest or principal payments, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. The failure of the Resulting Issuer to make or renegotiate interest or principal payments or obtain additional equity, debt or other financing could have a material adverse effect on the Resulting Issuer's business, cash flows, financial condition and results of operations.

The Resulting Issuer will be subject to the risks associated with debt financing, including the risk that the Secured Notes, mortgages and banking facilities secured by the Properties will not be able to be refinanced or that the terms of such refinancing will not be as favourable as the terms of existing indebtedness. If the Resulting Issuer decides to utilize variable rate debt, such debt will result in fluctuations in the Resulting Issuer's cost of borrowing as interest rates change. To the extent that interest rates rise following completion of the Business Combination, there may be a material adverse effect on the Resulting Issuer's business, cash flows, financial condition and results of operations.

The Resulting Issuer will seek to manage its financing risk by maintaining a balanced maturity profile with no significant amounts coming due in one particular period. Given the increased credit quality of such debt, the probability of the Resulting Issuer being unable to renew the maturing debt or transfer the debt to another accredited lending institution is significantly reduced. However, there can be no assurance that the renewal of debt will be on as favourable terms as existing indebtedness.

The Resulting Issuer's credit facilities may also contain covenants that require it to maintain certain financial ratios on a consolidated basis. If the Resulting Issuer does not maintain such ratios, its ability to issue declare and pay dividends, if any, will be limited.

Degree of Leverage

The Resulting Issuer's degree of leverage could have important consequences to Resulting Issuer Shareholders. For example, the degree of leverage could affect the Resulting Issuer's ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, development or other general purposes, making the Resulting Issuer more vulnerable to a downturn in business or the economy in general.

As interest rates fluctuate in the lending market, generally so too do capitalization rates which affect the underlying value of real estate. As such, when interest rates rise, generally capitalization rates should be expected to rise. Over the period of investment, capital gains and losses at the time of disposition can occur due to the increase or decrease of these capitalization rates.

Litigation Risks

In the normal course of the Resulting Issuer's operations, whether directly or indirectly, it may become involved in, named as a party to or the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions relating to personal injuries, property damage, property taxes, land rights, the environment and contract disputes. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty and may be determined in a manner adverse to the Resulting Issuer and as a result, could have a material adverse effect on the Resulting Issuer's assets, liabilities, business, financial condition and results of operations. Even if the Resulting Issuer prevails in any such legal proceeding, the proceedings could be costly and time-consuming and may divert the attention of management and key personnel from the Resulting Issuer's business operations, which could have a material adverse effect on the Resulting Issuer's business, cash flows, financial condition and results of operations.

Laws Benefitting Disabled Persons

Laws benefiting disabled persons may result in unanticipated expenses being incurred by the Resulting Issuer. Under the *Americans with Disabilities Act* of 1990 (the "ADA"), all places intended to be used by the public are required to meet certain federal requirements related to access and use by disabled persons. The *Fair Housing Amendments Act* of 1988 (the "FHAA") requires apartment properties first occupied after March 13, 1991 to comply with design and construction requirements for disabled access. For those projects receiving federal funds, the *Rehabilitation Act* of 1973 also has requirements regarding disabled access. These and other federal, state and local laws may require modifications to the Resulting Issuer Properties, or affect renovations of the Properties. Non-compliance with these laws could result in the imposition of fines or an award of damages to private litigants and also could result in an order to correct any non-complying feature, which could result in substantial capital expenditures. Although the Parties believe that the Properties are substantially in compliance with present requirements, the Resulting Issuer may incur unanticipated expenses to comply with the ADA, the FHAA and the *Rehabilitation Act* of 1973 in connection with the ongoing operation or redevelopment of the Properties.

Potential Conflicts of Interest with Directors

There are potential conflicts of interest to which some of the directors, officers, insiders and Promoters of the Resulting Issuer will be subject in connection with the operations of the Resulting Issuer. All of the directors, officers, insiders and Promoters are engaged in and will continue to be engaged in corporations or businesses which may be in competition with the business of the Resulting Issuer. Accordingly, situations may arise where some or all of the directors, officers, insiders and Promoters will be in direct competition with the Resulting Issuer. Conflicts, if any, will be subject to the procedures and remedies as provided under the OBCA.

Internal Controls

Effective internal controls are necessary for the Resulting Issuer to provide reliable financial reports and to help prevent fraud. Although the Resulting Issuer will undertake a number of procedures and will implement a number of safeguards, in each case, in order to help ensure the reliability of its financial reports, including those imposed on the Resulting Issuer under Canadian securities law, the Resulting Issuer cannot be certain that such measures will ensure that the Resulting Issuer will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Resulting Issuer's results of operations or cause it to fail to meet its reporting obligations. If the Resulting Issuer or its auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Resulting Issuer's consolidated financial statements and materially adversely affect the trading price of the shares.

U.S. Market Factors

The Properties will be located in the U.S. market and economic conditions since the beginning of 2008 have been challenging with recession in the North American economy. U.S. markets are currently experiencing increased levels of volatility due to a combination of many factors, including high unemployment, decreasing home prices, the highest level of home foreclosures since the recession began in 2008, limited access to credit markets, higher fuel prices, less consumer spending and the slow rate of recovery. Although the recession technically ended in June 2009, the U.S. economy has not returned to operating at normal capacity and the effects of the current market dislocation may persist as governments wind down fiscal stimulus programs. At this time, although national and local economies are slowly recovering from a severe recession, other factors, such as an impending European debt crisis, could serve to prevent such recovery from continuing, or perhaps even cause the economy to weaken, perhaps substantially. Concern about the stability of the markets generally and the strength of the economic recovery may lead lenders to reduce or cease to provide funding to businesses and consumers, and force financial institutions to continue to take the necessary steps to restructure their business and capital structures, and, in a worst case scenario, this could result in a complete loss of properties if a lender was to foreclose. As a result, this economic downturn has reduced demand for space and removed support for rents and property values. Although a recovery in the real estate market is in its early stages, the Parties cannot predict when the real estate markets will return to their pre-downturn levels. The value of the Properties may decline if current market conditions persist or worsen.

Florida, Georgia and Texas Weather

Florida, Georgia and Texas historically have experienced periods of severe weather, including periods of strong thunderstorms and/or tornadoes which have resulted in wind and rain damage. Severe weather, including hurricanes and/or tornadoes, can have a negative impact upon the Resulting Issuer's operating results and financial condition, including damage to property and equipment, increasing material costs, increasing labour costs, increasing insurance premiums, increased time to completion of renovation due to the foregoing factors, and increase in government regulations with respect to setbacks, drainage and engineering of seawalls and other protective features.

Contingent Liabilities on Disposition of Investments

In connection with the disposition of a real estate investment, the Resulting Issuer may be required to make representations about such property. The Resulting Issuer may also be required to indemnify purchasers of such properties to the extent that any such representations are inaccurate. These arrangements may result in the occurrence of contingent liabilities for which reserves or escrow accounts may be required. Such actions could result in losses to the Resulting Issuer and investors and/or delay the receipt of any dividends, if any, to Resulting Issuer Shareholders.

Liquidity

The Resulting Issuer cannot predict at what prices the Resulting Issuer Shares will trade upon completion of the Business Combination, and there can be no assurance that an active trading market in the Resulting Issuer Shares will develop or be sustained. Final approval of the Exchange has not yet been obtained. There is a significant liquidity risk associated with an investment in the Resulting Issuer Shares.

Reliance on Assumptions

The Resulting Issuer's investment objectives and strategy have been formulated based on the its analysis and expectations regarding recent economic developments in the U.S., the future recovery of U.S. real estate markets generally, and the U.S. to Canadian dollar exchange rate. Such analysis may be incorrect and such expectations may not be realized.

Risks Related to the Real Estate Industry

General Real Estate Ownership Risks

All real property investments are subject to risks generally incident to the ownership, remodeling, operation and sale of real estate, including: (a) changes in general economic or local conditions; (b) changes in supply of or demand for similar or competing properties in a particular geographic area; (c) bankruptcies, financial difficulties or defaults by vendors, contractors, tenants and others; (d) increases in operating costs, such as Taxes and insurance; (e) the inability to achieve occupancy at rental rates adequate to produce desired financial returns; (f) periods of high interest rates and tight money supply; (g) excess supply of rental properties in the market area; (h) liability for uninsured losses resulting from natural disasters or other perils; (i) liability for environmental hazards; (j) changes in tax, real estate or environmental laws or regulations, and (k) changes in availability of financing. For these and other reasons, no assurance can be given that the investment will be profitable or that it will achieve its financial objectives.

Certain significant expenditures, including property taxes, maintenance costs, insurance costs and related charges must be made throughout the period of ownership of real property regardless of whether a property is producing any income. Real property investments tend to be relatively illiquid. This illiquidity will tend to limit the ability of the Resulting Issuer to respond to changing economic or investment conditions. If the Resulting Issuer were to be required to liquidate assets quickly, there is a risk the proceeds realized from such sale would be less than the book value of the assets or less than what could be expected to be realized under normal circumstances. By specializing in a particular type of real estate, the Resulting Issuer is exposed to adverse effects on that segment of the real estate market and does not benefit from a broader diversification of its portfolio by property class.

All real property investments are subject to elements of risk. The value of real property and any improvements thereto depend on the credit and financial stability of tenants and upon the vacancy rates of the Properties. The Properties generate revenue through rental payments made by the tenants thereof. The ability to rent un-leased suites in Properties will be affected by many factors, including changes in general economic conditions (such as the availability and cost of mortgage funds), local conditions (such as an oversupply of space or a reduction in demand for real estate in the area), government regulations, changing demographics, competition from other available properties, and various other factors. The ability to declare and pay dividends, if any, will be adversely affected if a significant number of tenants are unable to meet their obligations under their leases or if a significant amount of available space in the Properties becomes vacant and cannot be leased on economically favourable lease terms. If Properties do not generate revenues sufficient to meet operating expenses, including debt service and capital expenditures, this could have a material adverse effect on the Resulting Issuer's business, cash flows, financial condition and results of operations and ability to declare and pay dividends, if any, to Resulting Issuer Shareholders.

Historical occupancy rates and revenues are not necessarily an accurate prediction of the future occupancy rates for the Properties or revenues to be derived therefrom. Reported estimates of market rent can be seasonal and the significance of any variations from quarter to quarter would materially affect the Resulting Issuer's annualized estimated gain-to-lease amount. There can be no assurance that upon the expiration or termination of existing leases that the average occupancy rates and revenues will be higher than historical occupancy rates and revenues and it may take a significant amount of time for market rents to be recognized by the Resulting Issuer due to internal and external limitations on its ability to charge these new market based rents in the short term.

The short-term nature of residential tenant leases exposes the Resulting Issuer to the effects of declining market rent, which could materially adversely affect the Resulting Issuer's results from operations and ability to declare and pay any dividends, if any. Most of the Resulting Issuer's residential tenant leases will be for a term of one year or less. Because the Resulting Issuer's residential tenant leases generally permit residents to leave at the end of their lease term without any penalty, the Resulting Issuer's rental revenue may be materially adversely affected by declines in market rents more quickly than if such leases were for longer terms.

Substitutions for Residential Rental Units

Demand for the Properties is impacted by and inversely related to the relative cost of home ownership. The cost of home ownership depends upon, among other things, interest rates offered by financial institutions on mortgages and similar home financing transactions. With the recent global economic crisis and its impact on the U.S. credit markets, interest rates offered by financial institutions for financing home ownership have been at historically low levels. If the interest rates offered by financial institutions for home ownership financing remain low, demand for rental properties may be adversely affected. Additionally, the southeastern United States continues to experience historically high levels of foreclosures on single-family homes, which has increased the supply of single-family homes available for purchase, and may adversely affect demand for such properties. A reduction in the demand for rental properties may have a material adverse effect on the Resulting Issuer's ability to lease suites in the Properties and on the rents charged. This, in turn, may have a material adverse effect on the Resulting Issuer's business, cash flows, financial condition and results of operations and ability to declare and pay any dividends, if any, to Resulting Issuer Shareholders.

Competition

The single-family housing and multi-family property sectors are highly competitive. The Resulting Issuer faces competition from many sources, including individuals, corporations or other entities engaged in real estate investment activities, many of whom have greater financial resources than the Resulting Issuer. There is also competition from other rental properties in the immediate vicinity of the various Properties and the broader geographic areas where the Properties are and will be located. Furthermore, the Properties that the Resulting Issuer owns or may acquire compete with numerous housing alternatives in attracting tenants, including home ownership. The relative demand for such alternatives may be increased by declining mortgage interest rates, government programs which promote home ownership, or other events or initiatives which increase the affordability of such alternatives to the Properties and could materially adversely affect the Resulting Issuer's ability to retain tenants and increase or maintain rental rates. Such competition may reduce occupancy rates and rental revenues of the Resulting Issuer, and could have a material adverse effect on the Resulting Issuer's business, cash flows, financial condition and results of operations and ability to declare and pay any dividends, if any, to Resulting Issuer Shareholders.

The competition for the Properties available for sale may significantly increase the cost of acquiring such assets, and may result in such assets being acquired by the Resulting Issuer at prices, or on terms, which are comparatively less favourable to the Resulting Issuer or may result in such assets being acquired by competitors of the Resulting Issuer. In addition, the number of entities seeking to acquire single-family homes, multi-family properties and/or the amount of funds competing for such acquisitions may increase. Increases in the cost to the Resulting Issuer of acquiring Properties may materially adversely affect the ability of the Resulting Issuer to acquire such Properties on favourable terms, and may otherwise have a material adverse effect on the Resulting Issuer's business, cash flows, financial condition and results of operations and ability to declare and pay any dividends, if any, to Resulting Issuer Shareholders.

In addition, over-building in the multi-family sector in the United States may increase the supply of total multi-family properties, further increasing the level of competition in those markets.

Government Regulation

The Resulting Issuer's single-family home operations utilize the U.S. Government's Section 8 Housing Choice Voucher Program. The Resulting Issuer's operations must comply with the Section 8 Program's existing qualifications process to qualify newly-renovated homes in order for eligible participants to participate in the Section 8 Program. The Resulting Issuer has no assurances that the existing rules and regulations under such program will not adversely affect the Resulting Issuer's growth strategy, the timing or cost of renting any current or future properties, or that any additional Section 8 Program rules, regulations or standards will not be adopted or any existing Section 8 Program rules, regulations or standards will not be modified, changed or discontinued as they apply to the "tenant-based" or "project-based" voucher systems currently in place, and any such changes could have a material adverse effect on our business, financial conditions and results of operation. The Resulting Issuer also conducts its operations in adherence to determinations made by applicable local public housing

governmental authorities. Such authorities make determinations on which individuals and properties qualify for Section 8 Program funding and the Resulting Issuer cannot ensure that such public housing governmental authorities will qualify or continue to qualify properties under the Section 8 Program.

Changes in Applicable Laws

The Resulting Issuer's operations must comply with numerous federal, state and local laws and regulations, some of which may conflict with one another or be subject to limited judicial or regulatory interpretations. These laws and regulations may include zoning laws, building codes, landlord tenant laws and other laws generally applicable to business operations. Non-compliance with laws could expose the Resulting Issuer to liability.

Lower revenue growth or significant unanticipated expenditures may result from the Resulting Issuer's need to comply with changes in Applicable Laws, including (i) laws imposing environmental remedial requirements and the potential liability for environmental conditions existing on properties or the restrictions on discharges or other conditions, (ii) rent control or rent stabilization laws or other residential landlord/tenant laws, or (iii) other governmental rules and regulations or enforcement policies affecting the development, use and operation of the Properties, including changes to building codes and fire and life-safety codes.

Environmental Matters

Under various environmental and ecological laws, the Resulting Issuer and/or its subsidiaries could become liable for the costs of removal of remediation of certain hazardous or toxic substances released on or in one or more of the Properties or disposed of at other locations. The failure to deal effectively with such substances may adversely affect the Resulting Issuer's ability to sell such Property, and could potentially also result in claims against the Resulting Issuer by third parties.

The Costs of Securing Possession and Control of Newly Acquired Properties May Exceed Expectations

Upon acquiring a new Property, the Resulting Issuer may have to evict residents who are in unlawful possession before the Resulting Issuer can secure possession and control of the property. The holdover occupants may be the former owners or tenants of a property, or they may be squatters or others who are illegally in possession. Securing control and possession from these occupants can be both costly and time-consuming. If these costs and delays exceed our expectations in a large proportion of newly acquired properties, the Resulting Issuer's financial performance may suffer because of the increased expenses incurred or the unexpected delays in turning the Properties into revenue-producing assets.

The Costs Arising From Renovation of Properties

The Resulting Issuer expects that many of the Properties will require some level of renovation immediately upon their acquisition or in the future following expiration of a lease or otherwise. The Resulting Issuer may acquire Properties that it plans to extensively renovate. The Resulting Issuer may also acquire Properties that it expects to be in good condition only to discover unforeseen defects and problems that require extensive renovation and capital expenditures. In addition, the Resulting Issuer will be required to make ongoing capital improvements and replacements and may need to perform significant renovations from time to time to reposition Properties in the rental market. The Resulting Issuer's homes will have infrastructure and appliances of varying ages and conditions. Consequently, the Resulting Issuer expects that its management will routinely retain independent contractors and trade professionals to perform physical repair work and will be exposed to all of the risks inherent in property renovation, including potential cost overruns, increases in labour and materials costs, delays by contractors in completing work, delays in the timing of receiving necessary work permits, certificates of occupancy and poor workmanship. Although the Resulting Issuer does not expect that renovation difficulties on any individual Property will be significant to its overall results, if the assumptions regarding the costs or timing of renovation across the Resulting Issuer's portfolio prove to be materially inaccurate, the Resulting Issuer's earnings and distributable cash may be adversely affected.

Fixed Costs and Increased Expenses

The failure to maintain stable or increasing average monthly rental rates combined with acceptable occupancy levels would likely have a material adverse effect on the Resulting Issuer's business, cash flows, financial condition and results of operations and ability to declare and pay dividends, if any. Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges, must be made throughout the period of ownership of real property regardless of whether a property is producing any income. If the Resulting Issuer is unable to meet mortgage payments on any Property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or sale.

The Resulting Issuer is also subject to utility and property tax risk relating to increased costs that the Resulting Issuer may experience as a result of higher resource prices as well as its exposure to significant increases in property taxes. There is a risk that property taxes may be raised as a result of re-valuations of Properties and their adherent tax rates. In some instances, enhancements to Properties may result in significant increases in property assessments following a re-valuation. Additionally, utility expenses, mainly consisting of natural gas, water and electricity service charges, have been subject to considerable price fluctuations over the past several years. Any significant increase in these resource costs that the Resulting Issuer cannot charge back to the tenant may have a material adverse effect on the Resulting Issuer's business, cash flows, financial condition and results of operations and ability to make declare and pay any dividends. Unlike commercial leases, which generally are "net" leases and allow a landlord to recover expenditures from tenants, residential leases are generally "gross" leases and the landlord is not able to pass on costs to its tenants. The timing and amount of capital expenditures by the Resulting Issuer will affect the amount of any dividends available to Resulting Issuer Shareholders.

Interest Rate Risk

Interest rate risk is the combined risk that the Resulting Issuer would experience a loss as a result of its exposure to a higher interest rate environment (interest rate risk) and the possibility that at the end of a mortgage term the Resulting Issuer would be unable to renew the maturing debt either with the existing lender or a new lender (renewal risk).

The Resulting Issuer will seek to manage its interest rate risk by negotiating, where possible, fixed interest rates on all of its debt.

Assumptions May Prove Inaccurate

In determining whether a particular Property meets its investment criteria, the Resulting Issuer makes a number of assumptions, including assumptions related to estimated time of possession and estimated renovation costs and time frames, annual operating costs, market rental rates and potential rent amounts, time from purchase to leasing and tenant default rates. These assumptions may prove inaccurate, causing the Resulting Issuer to pay too much for Properties it acquires, to overvalue Properties or that Properties do not perform as expected, and adjustments to the assumptions made in evaluating potential purchases may result in fewer properties qualifying under the Resulting Issuer's investment criteria. Improvements in the market prices for single-family homes in the Resulting Issuer's target markets or decreases in the available inventory could also reduce the supply of properties that meet the Resulting Issuer's investment criteria. Reductions in the supply of properties that meet the Resulting Issuer's investment criteria may adversely affect the Resulting Issuer's operating results and ability to implement its business plan.

Furthermore, the Properties are likely to vary materially in terms of time to possession, renovation, quality and type of construction, location and hazards. The Resulting Issuer's success will depend on its ability to acquire properties that can be quickly possessed, renovated, repaired, upgraded and rented with minimal expenses and maintained in rentable condition. The Resulting Issuer's ability to identify and acquire such properties will be fundamental to its success.

In addition, the recent market and regulatory environments relating to single-family homes and multi-family properties have been changing rapidly, making future trends difficult to forecast.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary, as of the date hereof, of the principal Canadian federal income tax considerations under the Tax Act relating to the Amalgamation generally applicable to a Delavaco Shareholder who, for the purposes of the Tax Act and at all relevant times (i) deals at arm's length with Sereno, Subco, the Resulting Issuer and Delavaco, (ii) is not affiliated with Sereno, Subco, the Resulting Issuer or Delavaco, and (iii) holds all Delavaco Shares, and will hold all Resulting Issuer Shares, as capital property (each such Delavaco Shareholder in this summary, a **"Holder"**). A Holder's Delavaco Shares and/or Resulting Issuer Shares will generally be considered to be capital property of the Holder, unless the Holder holds the shares in the course of carrying on a business or acquired the shares in one or more transactions considered to be an adventure or concern in the nature of trade.

This summary is based on the current provisions of the Tax Act and the regulations thereunder and counsel's understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency (**"CRA"**). This summary also takes into account all specific proposals to amend the Tax Act which have been publicly and officially announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the **"Proposed Amendments"**), and assumes all such Proposed Amendments will be enacted in the form proposed. However, no assurances can be given that the Proposed Amendments will be enacted as proposed, or at all. Except for the Proposed Amendments, this summary does not take into account or anticipate any changes in law, whether by judicial, governmental or legislative action or decision, or changes in the administrative policies and assessing practices of the CRA, nor does it take into account provincial, territorial or foreign income tax legislation or considerations, or any considerations that may arise under any income tax convention or treaty, which may differ significantly from the Canadian federal income tax considerations discussed herein.

This summary is not applicable to a Holder (i) that is a "financial institution" as defined in the Tax Act for purposes of the "mark-to-market property" rules, (ii) that is a "specified financial institution" as defined in the Tax Act, (iii) an interest in which is a "tax shelter investment" as defined in the Tax Act, (iv) that reports its "Canadian tax results" within the meaning of section 261 of the Tax Act in a currency other than Canadian currency, or (v) that has entered or will enter into, with respect to the Delavaco Shares or the Resulting Issuer Shares, a "derivative forward agreement" within the meaning of the Proposed Amendments to the Tax Act contained in a Notice of Ways and Means Motion tabled by the Minister of Finance (Canada) on March 21, 2013. In addition, this summary is not applicable to Holders who acquired their Delavaco Shares on the exercise of an employee stock option. Such Holders should consult their own tax advisors.

This summary assumes that each of Sereno, Subco, the Resulting Issuer and Delavaco is, at all material times, a "taxable Canadian corporation" within the meaning of the Tax Act.

This summary is of a general nature only and is not exhaustive of all possible relevant Canadian federal income tax considerations. This summary is not, and should not be construed as, legal or tax advice to any particular Holder, and no representation with respect to the tax consequences to any particular Holder are made. Accordingly, Holders should consult their own tax advisors with respect to the Canadian federal income tax consequences of the Amalgamation and the holding and disposition of Resulting Issuer Shares in their particular circumstances.

This summary does not address the Canadian federal income tax considerations applicable to holders of Delavaco options or warrants. Such holders should consult their own tax advisors as to the tax consequences of the Amalgamation applicable to them.

Holders Resident in Canada

This portion of the summary is generally applicable to a Holder who, at all relevant times, is or is deemed to be resident in Canada for the purposes of the Tax Act (a **"Resident Holder"**).

Exchange of Delavaco Shares for Consideration Shares

A Resident Holder (other than a Delavaco Dissenting Shareholder) who receives no consideration other than Consideration Shares in exchange for its Delavaco Shares on the Amalgamation will not realize any capital

gain or capital loss as a result of the exchange. Such Resident Holder will be deemed to have disposed of its Delavaco Shares for proceeds of disposition equal to the aggregate adjusted cost base of the Delavaco Shares to the Resident Holder immediately before the exchange and to have acquired its Consideration Shares at an aggregate cost equal to such proceeds of disposition. The Resident Holder's cost of such Consideration Shares acquired on the Amalgamation must be averaged with the adjusted cost base of any Sereno Shares held by the Resident Holder as capital property immediately prior to the acquisition of such Consideration Shares to determine the Resident Holder's adjusted cost base of its Sereno Shares immediately following the Amalgamation.

Dissenting Delavaco Shareholders

Under the current administrative practice of the CRA, a Resident Holder who is a Delavaco Dissenting Shareholder (a "**Resident Dissenter**") should be considered to have disposed of its Delavaco Shares for proceeds of disposition equal to the amount paid by Amalco to the Resident Dissenter (excluding any interest awarded by the court) and should realize a capital gain (or capital loss) to the extent that such proceeds of disposition exceed (or are less than) the aggregate adjusted cost base of such Delavaco Shares to such Resident Dissenter and any reasonable costs of disposition. The taxation of capital gains and capital losses is described below under "Holders Resident in Canada — Taxation of Capital Gains and Losses". A Resident Dissenter will be required to include in computing its income any interest awarded by a court in connection with the exercise of the Resident Dissenter's Dissent Rights.

Receipt of Dividends on Resulting Issuer Shares

A Resident Holder who is an individual will be required to include in income any dividend received or deemed to be received on Resulting Issuer Shares and will be subject to the gross-up and dividend tax credit rules normally applicable to dividends received from a taxable Canadian corporation, including the enhanced gross-up and dividend tax credit for dividends that have been designated by the Resulting Issuer as "eligible dividends" (as defined in the Tax Act) in accordance with the provisions of the Tax Act.

A Resident Holder that is a corporation will be required to include in income any dividend received or deemed to be received on Resulting Issuer Shares and generally will be entitled to deduct an equivalent amount in computing its taxable income. A "private corporation" or a "subject corporation" (both as defined in the Tax Act) may be liable for refundable Part IV tax on any dividends received or deemed to be received on Resulting Issuer Shares.

Taxable dividends received by an individual or trust, other than certain specified trusts, may give rise to a liability for alternative minimum tax as calculated under the detailed rules set out in the Tax Act.

Disposition of Resulting Issuer Shares

A Resident Holder that disposes of, or is deemed to dispose of, a Resulting Issuer Share (other than to the Resulting Issuer) will realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition of the Resulting Issuer Share exceed (or are less than) the aggregate of the Resident Holder's adjusted cost base of such Resulting Issuer Share immediately prior to the disposition and any reasonable costs of disposition. The taxation of capital gains and capital losses is described below under "Holders Resident in Canada — Taxation of Capital Gains and Losses".

Taxation of Capital Gains and Losses

A Resident Holder generally will be required to include in computing its income for the taxation year of disposition, one-half of the amount of any capital gain (a "**taxable capital gain**") realized in such year. Subject to and in accordance with the detailed provisions of the Tax Act, a Resident Holder must deduct one-half of the amount of any capital loss (an "**allowable capital loss**") against taxable capital gains realized in the taxation year of disposition and any unused allowable capital loss may be applied to reduce net taxable capital gains realized by the Resident Holder in the three preceding taxation years or in any subsequent taxation year.

A Resident Holder that throughout the relevant taxation year is a “Canadian-controlled private corporation” (as defined in the Tax Act) may be liable to pay an additional refundable tax on its “aggregate investment income” for the year, which is defined to include certain taxable capital gains.

In the case of a Resident Holder that is a corporation, the amount of any capital loss otherwise determined resulting from the disposition of Resulting Issuer Shares may be reduced by the amount of dividends previously received or deemed to have been received on such shares to the extent and under the circumstances prescribed in the Tax Act. Similar rules may apply where shares are owned by a partnership or trust of which a corporation, trust or partnership is a member or beneficiary. Resident Holders to whom these rules may be relevant should contact their own tax advisors.

Capital gains realized by an individual, other than certain trusts, may be subject to an alternative minimum tax. Resident Holders should consult their own tax advisors with respect to the alternative minimum tax provisions.

Eligibility for Investment

Resulting Issuer Shares will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans (“**RRSP**”), registered retirement income funds (“**RRIF**”), registered education savings plans, registered disability savings plans, deferred profit sharing plans and tax-free savings accounts (“**TFSA**”), provided that, at the time of acquisition, the Resulting Issuer Shares are listed on a “designated stock exchange” as defined in the Tax Act (which currently includes Tiers 1 and 2 of the TSXV).

Notwithstanding that a Resulting Issuer Share may be a qualified investment for a trust governed by a TFSA, RRSP or RRIF, the holder of a TFSA or annuitant of a RRSP or RRIF, as applicable, will be subject to a penalty tax in respect of a Resulting Issuer Share held in the TFSA, RRSP or RRIF, as applicable, if such Resulting Issuer Share is a “prohibited investment” for the particular TFSA, RRSP or RRIF. A Resulting Issuer Share will generally not be a “prohibited investment” for a trust governed by a TFSA, RRSP or RRIF unless the holder of the TFSA or the annuitant under the RRSP or RRIF, as applicable, (i) does not deal at arm’s length with the Resulting Issuer for purposes of the Tax Act, (ii) has a “significant interest” (as defined in the Tax Act) in the Resulting Issuer, or (iii) has a “significant interest” (as defined in the Tax Act) in a corporation, partnership or trust with which the Resulting Issuer does not deal at arm’s length for purposes of the Tax Act. Proposals released on December 21, 2012 (the “**December 2012 Proposals**”) propose to delete the condition in (iii) above. In addition, pursuant to the December 2012 Proposals, a Resulting Issuer Share will generally not be a “prohibited investment” if the Resulting Issuer Share is “excluded property” (as defined in the December 2012 Proposals) for trusts governed by a TFSA, RRSP or RRIF. Annuitants under a RRSP or RRIF or holders of a TFSA should consult their own tax advisors as to whether Resulting Issuer Shares will be a “prohibited investment” in their particular circumstances.

Holders Not Resident in Canada

This portion of the summary applies to a Holder who, for the purposes of the Tax Act and at all relevant times, is not resident or deemed to be resident in Canada and does not use or hold, and is not deemed to use or hold, Delavaco Shares or Resulting Issuer Shares in connection with carrying on a business in Canada (a “**Non-Resident Holder**”). Special rules not discussed in this summary may apply to a non-resident insurer carrying on an insurance business in Canada and elsewhere.

Delavaco Shareholders who are resident in a jurisdiction other than Canada should consult their tax advisors with respect to the tax implications of the Amalgamation, including any associated filing requirements, in such jurisdictions and with respect to the tax implications in such jurisdictions of receiving and owning Resulting Issuer Shares after the Amalgamation.

Exchange of Delavaco Shares for Consideration Shares and Subsequent Dispositions of Resulting Issuer Shares

A Non-Resident Holder (other than a Delavaco Dissenting Shareholder) will generally not be subject to tax under the Tax Act in respect of the exchange of Delavaco Shares for Consideration Shares pursuant to the Amalgamation.

A Non-Resident Holder who disposes of its Resulting Issuer Shares will not be liable for Canadian income tax in respect of any gain resulting from the disposition, except where the Resulting Issuer Shares are taxable Canadian property and the Non-Resident Holder cannot benefit from an exemption under an applicable income tax treaty or convention.

Generally, provided that a Resulting Issuer Share is listed on a “designated stock exchange” (which currently includes Tiers 1 and 2 of the TSXV), such share will not be taxable Canadian property to a Non-Resident Holder unless at any time during the 60 month period immediately preceding the disposition of the share: (i) (a) the Non-Resident Holder, (b) persons with whom the Non-Resident Holder did not deal at arm’s length, (c) pursuant to certain Proposed Amendments, partnerships in which the Non-Resident Holder or a person described in (b) holds a membership interest directly or indirectly through one or more partnership, or (d) the Non-Resident Holder together with such persons, owned 25% or more of the issued shares of any class or series of the Resulting Issuer, and (ii) more than 50% of the fair market value of the share was derived directly or indirectly from one or any combination of: (a) real or immovable property situated in Canada; (b) Canadian resource properties; (c) timber resource properties; and (d) options in respect of, or interests in or for civil law rights in, property described in (a) to (c). Notwithstanding the foregoing, a Resulting Issuer Share may be deemed to be taxable Canadian property to a Non-Resident Holder in certain circumstances specified in the Tax Act.

Even if a Resulting Issuer Share is taxable Canadian property to a Non-Resident Holder, any capital gain realized upon the disposition of such share may not be subject to tax under the Tax Act if such gain is exempt from tax pursuant to the provisions of an applicable income tax treaty or convention. If a Non-Resident Holder to whom Resulting Issuer Shares are taxable Canadian property realizes a capital gain upon a disposition of such shares that is not exempt from tax under the Tax Act by virtue of an applicable income tax treaty or convention, the tax consequences described above under “Holders Resident in Canada — Disposition of Resulting Issuer Shares and Taxation of Capital Gains and Losses” will generally apply to such Non-Resident Holder in respect of the disposition of such shares.

Receipt of Dividends on Resulting Issuer Shares

Where a Non-Resident Holder receives or is deemed to receive a dividend on Resulting Issuer Shares, the amount thereof will be subject to Canadian non-resident withholding tax at the rate of 25% of the gross amount of the dividend or such lower rate as may apply under the provisions of an applicable income tax treaty or convention. For instance, where the Non-Resident Holder is a resident of the United States that is entitled to benefits under the *Canada-United States Income Tax Convention (1980)* as amended, and is the beneficial owner of the dividends, the rate of Canadian withholding tax applicable to dividends is generally reduced to 15%.

Dissenting Non-Resident Holders

Under the current administrative practice of the CRA, a Non-Resident Holder who is a Delavaco Dissenting Shareholder (a “**Non-Resident Dissenter**”) should be considered to have disposed of such holder’s Delavaco Shares for proceeds of disposition equal to the amount paid by Amalco to the Non-Resident Dissenter (excluding any interest awarded by the court) and should realize a capital gain (or capital loss) to the extent that such proceeds of disposition exceed (or are less than) the aggregate adjusted cost base of such Delavaco Shares to such Non-Resident Dissenter and any reasonable costs of disposition. A Non-Resident Dissenter will generally not be liable for Canadian income tax in respect of any gain resulting from such disposition, except where the Delavaco Shares constitute taxable Canadian property to the Non-Resident Dissenter and such Non-Resident Dissenter cannot benefit from an exemption in an applicable income tax treaty or convention.

Generally, a Delavaco Share will constitute taxable Canadian property to a Non-Resident Holder if, at any time during the 60-month period immediately preceding the Amalgamation, more than 50% of the fair market value of the Delavaco Share was derived directly or indirectly from one or any combination of real or immovable property situated in Canada, Canadian resource properties (as defined in the Tax Act), timber resources properties (as defined in the Tax Act) or options in respect of, or interests in, or civil law rights in such properties (the “**Real Property Requirement**”). Management of Delavaco has advised counsel that the Real Property Requirement with respect to the Delavaco Shares should not likely be satisfied in the circumstances.

Notwithstanding the foregoing, a Delavaco Share may be deemed to be taxable Canadian property to a Non-Resident Holder in certain circumstances specified in the Tax Act. Non-Resident Holders to whom these rules may be applicable should consult their own tax advisors.

Any amount paid to the Non-Resident Dissenter as interest awarded by a court will not be subject to Canadian withholding tax.

GENERAL MATTERS

Sponsorship and Agent Relationship

GMP Securities L.P., with its principal address at 145 King Street West, Suite 300, Toronto, Ontario, M5H 1J8, has agreed to serve as a Sponsor for the purposes of Exchange approval. As compensation for their services they will receive a fee CDN\$75,000, plus all reasonable out-of-pocket expenses of GMP in connection with its role as sponsor.

The Sponsor is independent of Delavaco and Sereno and is not currently the beneficial holder of any securities of either company.

There are no actual or anticipated agreements between Delavaco or Sereno with any registrant to provide sponsorship or corporate financing services either now or in the future.

Legal Matters

Stikeman Elliott LLP has acted for Delavaco in connection with the Business Combination. As at November 29, 2013, the partners and associates of Stikeman Elliott LLP, as a group, beneficially owned, directly or indirectly, less than 1% of the outstanding Delavaco Shares and less than 1% of the outstanding Sereno Shares.

Bennett Jones LLP has acted for Sereno in connection with the Business Combination. As at November 29, 2013, the partners and associates of Bennett Jones LLP, as a group, beneficially owned, directly or indirectly, less than 1% of the outstanding Delavaco Shares and less than 1% of the outstanding Sereno Shares.

Experts of Delavaco and Sereno

The auditors of Delavaco are Deloitte LLP, Chartered Professional Accountants, Licensed Public Accountants, 181 Bay Street, Brookfield Place, Suite 1400, Toronto, Ontario M5J 2V1. Deloitte LLP has advised Delavaco that it is independent with respect to Delavaco within the meaning of the Rules of Professional Conduct of the Institute of Chartered Professional Accountants of Ontario.

The auditors of Sereno are Koster, Spinks & Koster LLP Chartered Professional Accountants, at 4 Glengrove Avenue West, Toronto, ON M4R 1N4. Koster, Spinks & Koster LLP has advised Sereno that it is independent with respect to Sereno within the meaning of the Rules of Professional Conduct of the Institute of Chartered Professional Accountants of Ontario.

Interest of Informed Persons in Material Transactions

Except as otherwise disclosed herein, no: (a) director, nominee for director, or executive officer of Sereno; (b) person or company who beneficially owns, or controls or directs, directly or indirectly, common shares of Sereno, or a combination of both carrying more than 10% of the voting rights attached to the common shares outstanding (any of these being an Insider); (c) director or executive officer of an Insider; or (d) associate or affiliate of any Insider, has had any material interest, direct or indirect, in any transaction since the commencement of either Sereno's most recently completed financial year or in any proposed transaction which has materially affected or would materially affect Sereno or any of its subsidiaries, except with an interest arising from the ownership of common shares where such person or company will receive no extra or special benefit or advantage not shared on a pro rata basis by all holders of the common shares.

Except as otherwise disclosed herein, no: (a) director, nominee for director, or executive officer of Delavaco; (b) person or company who beneficially owns, or controls or directs, directly or indirectly, common shares of Delavaco, or a combination of both carrying more than 10% of the voting rights attached to the common shares outstanding (any of these being an Insider); (c) director or executive officer of an Insider; or (d) associate or affiliate of any Insider, has had any material interest, direct or indirect, in any transaction since the commencement of either Delavaco's most recently completed financial year or in any proposed transaction which has materially affected or would materially affect Delavaco or any of its subsidiaries, except with an interest arising from the ownership of common shares where such person or company will receive no extra or special benefit or advantage not shared on a pro rata basis by all holders of the common shares.

Directors' and Officers' Liability Insurance

The Resulting Issuer intends to carry director' and officers' liability insurance. Under this insurance coverage, the Resulting Issuer will be reimbursed for insured claims where payments have been made under indemnity provisions on behalf of the directors and officers contained in the OBCA, subject to a deductible for each loss, which will be paid by the Resulting Issuer. Individual directors and officers of the Resulting Issuer will also be reimbursed for insured claims arising during the performance of their duties for which they are not indemnified by the Resulting Issuer. Excluded from insurance coverage will be illegal acts, acts which result in personal profit and certain other acts. The policy covers claims made against the insured during the policy period with a limit of \$10,000,000 during the policy year.

Other Material Facts

The Parties are not aware of any other material facts relating to Delavaco or Sereno or to the Business Combination that are not disclosed under the preceding items and are necessary in order for the Information Circular to contain full, true and plain disclosure of all material facts relating to Delavaco or Sereno, assuming completion of the Business Combination, other than those set forth herein.

Additional Information

Additional information relating to Sereno is available under Sereno's corporate profile on SEDAR at www.sedar.com, and additional information relating to Delavaco can be found on their website at www.Delavaco.ca.

Approval of Directors

The contents of this Information Circular and of the accompanying forms of proxies, as applicable, and the distribution thereof to the Delavaco Shareholders, have been approved by the Board of Directors of Delavaco.

The contents of this Information Circular have been approved by the Board of Directors of Sereno.

CERTIFICATE OF SERENO CAPITAL CORPORATION

The foregoing document constitutes full, true and plain disclosure of all material facts relating to the securities of Sereno Capital Corporation.

DATED: November 29, 2013.

(Signed) "*Barry Gordon*"

Chairman, President and Chief Executive Officer

(Signed) "*Dave Guebert*"

Chief Financial Officer

On Behalf of the Board of Directors

(Signed) "*Frank Davis*"

Director

(Signed) "*Brandon Gordon*"

Director

CERTIFICATE OF DELAVACO PROPERTIES INC.

The foregoing document constitutes full, true and plain disclosure of all material facts relating to the securities of Delavaco Properties Inc.

DATED: November 29, 2013.

(Signed) “*Andrew DeFrancesco*”

Chairman and Chief Executive Officer

(Signed) “*Michael Galloro*”

Chief Financial Officer

On Behalf of the Board of Directors

(Signed) “*Andrew DeFrancesco*”

Director

(Signed) “*Steven Ridgeway*”

Director

APPENDIX A GLOSSARY OF TERMS

Unless the context otherwise requires or where otherwise provided, the following words and terms shall have the meanings set forth below when used in this Information Circular:

“2011 Private Placement” has the meaning ascribed thereto under the heading “Information Concerning Delavaco — General Development of the Business — History”.

“2012 Private Placement” has the meaning ascribed thereto under the heading “Information Concerning Delavaco — General Development of the Business — History”.

“ADA” means *Americans with Disabilities Act of 1990*.

“affiliate” has the meaning attributed to such term under section 1.2 of NI 45-106.

“Amalco” means the OBCA corporation resulting from the Amalgamation, to be named “Delavaco Properties Inc.”.

“Amalco Share” means the common shares in the capital of Amalco.

“Amalgamation” means the amalgamation of Delavaco and Subco pursuant to section 174 of the OBCA to form Amalco, on the terms and conditions set forth in the Business Combination Agreement and the Amalgamation Agreement.

“Amalgamation Agreement” means the amalgamation agreement to be entered into prior to the Effective Date among Sereno, Delavaco and Subco with respect to the Amalgamation, substantially in the form set out in Appendix D hereto, including the schedules attached thereto, as the same may be amended from time to time.

“Apartment Management Agreement” means the management agreement between Greystar and Park Colony dated February 12, 2013, in respect of the third party property management for the Hollywood Properties to be provided by Greystar.

“Applicable Laws” means, with respect to any Person, any laws, statutes, codes, ordinances, decrees, rules, regulations, by-laws, judicial or arbitral or administrative or ministerial or departmental or regulatory judgments, injunctions, orders, decisions, policies, standards, guidelines, rulings, determinations or awards, decrees or other requirements of or applied by any Governmental Authority, statutory body or self-regulatory authority (including the TSXV), including general principles of common law, that are binding upon or applicable to such Person.

“Applicable Securities Laws” means the Securities Act and, to the extent applicable, the equivalent legislation in the other provinces and territories of Canada, as amended from time to time, the rules, regulations and forms made or promulgated under any such statute and the published national instruments, multilateral instruments, policies, bulletins, and notices of the securities commissions and similar regulatory authorities of each of the provinces and territories of Canada, as applicable, and the published rules and policies of the TSXV.

“associate” when used to indicate a relationship with a person has the same meaning as set forth in the Securities Act.

“Atlanta Properties” means, collectively, the 171 single-family properties in Fulton and DeKalb counties.

“Audit Committee” means the Audit Committee of the Resulting Issuer Board.

“Austin Properties” means collectively, the 90 multi-family residential units located in the Enclave in Austin, Texas and the 68 multi-family residential units located in the South Congress Commons in Austin Texas.

“Business Combination” means the series of transactions, as detailed in the Business Combination Agreement, through which the businesses of Delavaco and Sereno will be combined, including the Amalgamation.

“Business Combination Agreement” means the business combination agreement dated September 18, 2013 among Sereno and Delavaco providing for the Business Combination and the Amalgamation, including the schedules attached thereto, as the same may be supplemented or amended from time to time, substantially in the form of Appendix C hereto.

“Business Combination Resolution” means the resolution in respect of Business Combination to be considered by the Delavaco Shareholders at the Delavaco Meeting.

“Business Day” means any day, other than a Saturday, a Sunday or a statutory holiday in Toronto, Ontario.

“CDS” means CDS Clearing and Depository Services Inc.

“C&G Committee” means the Compensation and Governance Committee of the Resulting Issuer Board.

“Class A”, when used in connection with a description of the Multi-Family Properties, means properties that were typically built within the past 10 years, have credit worthy tenants with good income and have minimal deferred maintenance and repair obligations.

“Class B”, when used in connection with a description of the Multi-Family Properties, means properties that were typically built within the last 20 years, have tenants with a mix of income levels and have some deferred maintenance and repair obligations.

“Closing” means the completion of the Business Combination and the Amalgamation on the Effective Date.

“Consideration Shares” means the common shares in the capital of Sereno to be issued to Delavaco Shareholders in exchange for their Delavaco Shares, pursuant to the Business Combination.

“Consolidation” means the consolidation of the securities of Sereno to be affected in accordance with the Business Combination Agreement on the basis of 7.36 pre-consolidation securities for one (1) post-consolidation security.

“Consolidation Resolution” means the special resolution to be put before Sereno Shareholders at the Sereno Meeting, asking them to approve the Consolidation.

“Court” means the Ontario Superior Court of Justice (Commercial List).

“CPC Policy” means Exchange Policy 2.4 — *Capital Pool Companies*.

“CRA” means the Canada Revenue Agency.

“Dalland Partnership” means Dalland Properties, L.P., a limited partnership formed under the laws of the State of Delaware.

“Dalland Partnership Agreement” means the amended and restated limited partnership agreement of the Dalland Partnership, dated July, 2011, between the Dalland Partnership, the General Partner and Delavaco, providing for the organization and operation of the Dalland Partnership amongst the parties.

“Debenture Indenture” means the means the trust indenture dated July 19, 2013 between Delavaco and Computershare Trust Company of Canada, providing for the issuance of the Unsecured Debentures.

“Delavaco” means Delavaco Properties Inc.

“Delavaco Board” means the board of directors of Delavaco.

“Delavaco Class A Warrants” means the 200,000 common share purchase warrants to purchase Delavaco Shares at \$1.00, expiring on March 13, 2015.

“Delavaco Class B Warrants” means the 632,000 common share purchase warrants to purchase Delavaco Shares at \$1.25, expiring between July 27, 2014 and February 16, 2015.

“Delavaco Class C Warrants” means the 3,850,000 common share purchase warrants to purchase Delavaco Shares at \$1.30, expiring June 3, 2017 which were issued in conjunction with the Secured Notes.

“Delavaco Class C Warrant Indenture” means the warrant indenture dated June 4, 2012 between Delavaco and Computershare Trust Company of Canada in respect of the Delavaco Class C Warrants.

“Delavaco Dissenting Shareholders” means a Delavaco Shareholder who validly exercises the right of dissent available to such holder under Section 185 of the OBCA in respect of the Business Combination Resolution;

“Delavaco Meeting” means the special meeting of the Delavaco Shareholders to be held on December 30, 2013 to consider, and if deemed advisable approve, the Amalgamation.

“Delavaco Options” means the incentive stock options of Delavaco, of which there are, as at the date of this Information Circular, 2,500,000 issued and outstanding options to purchase 2,500,000 Delavaco Shares, exercisable at \$0.10.

“Delavaco Shareholder” means, at any time, a holder of Delavaco Shares.

“Delavaco Shares” means, collectively, the Class A common shares and the Class B common shares in the capital of Delavaco, which at the date of the Information Circular, 11,600,000 Class A common shares and 13,475,000 Class B common shares are issued and outstanding.

“Delavaco Warrants” means the Delavaco Class A Warrants, the Delavaco Class B Warrants and the Delavaco Class C Warrants, collectively.

“Depository” means Equity Financial Trust Company.

“Disinterested Shareholder Approval” means, with respect to certain matters under the New Option Plan, the receipt of a majority of the votes cast by shareholders eligible to vote at a shareholders’ meeting, excluding votes attaching to Resulting Issuer Shares beneficially owned by insiders and their associates.

“Dissent Rights” means the right of a Delavaco Shareholder to dissent to the Business Combination and to be paid the fair value of the securities in respect of which the holder dissents, all in accordance with the provisions of the OBCA.

“DREOC” means Delavaco Real Estate Opportunities Corp.

“Effective Date” means the date the Business Combination is completed, as evidenced by the certificate of amalgamation issued by the Director under the OBCA in respect of the Amalgamation.

“Enclave Partnership” means Las Olas Bay Properties Enclave, LP, a limited partnership formed under the laws of the State of Delaware.

“Escrow Agent” means, in the context of the escrow agreements to be entered into between the principals of the Resulting Issuer and the Resulting Issuer, Computershare Trust Company of Canada.

“Exchange” means the TSX Venture Exchange, Inc.

“Exchange Ratio” means 7.36.

“Fannie Mae” the Federal National Mortgage Association.

“FHAA” means *Fair Housing Amendments Act of 1988*.

“Finco Financing” means the special share financing to be completed by Sereno Finco to raise aggregate proceeds of not less than \$43,700 and not more than \$250,000 to ensure that the Resulting Issuer meets the minimum public board lot requirements of a Tier 2 Real Estate or Investment Issuer.

“Freddie Mac” means the Federal Home Loan Mortgage Corporation.

“General Partner” means W&D Properties, LLC, the general partner of the Single-Family Partnerships and, subject to the completion of the Reorganization, the Multi-Family Partnerships.

“Greystar” means GREP Southeast, LLC doing business as Greystar.

“Governmental Authority” means any applicable (i) multinational, federal, provincial, state, regional, municipal, local or other government, governmental or public department, central bank, court, tribunal, arbitral body, commission, board, bureau or agency, whether domestic or foreign, (ii) any subdivision, agency, commission, board or authority of any of the foregoing, or (iii) any quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the foregoing.

“Hollywood Properties” means the 316 multi-family residential units located within the Park Colony Apartment Homes in Hollywood, Florida.

“**HUD**” means the United States Department of Housing and Urban Development.

“**IFRS**” means International Financial Reporting Standards adopted by the International Accounting Standards Board, as updated and amended from time to time.

“**Information Circular**” means this joint management information circular of Delavaco and Sereno dated November 29, 2013 together with all appendices hereto prepared in respect of the Meetings.

“**Issue Price**” means \$1.15, the price at which the Special Shares will be issued in connection with the Finco Financing.

“**Law**” or “**Laws**” means all laws, by-laws, rules, regulations, orders, ordinances, protocols, codes, guidelines, instruments, policies, notices, directions and judgments or other requirements of any Governmental Entity.

“**Leasing and Management Agreement**” means the following agreements in respect of the third party property management for the Atlanta Properties, the Tampa Bay Properties and the Miami Properties: (i) the exclusive leasing/management agreement dated July 10, 2013 between Peachtree Partnership and the Manager, (ii) the exclusive leasing/management agreement dated August, 2013 between Dalland Partnership and the Manager, and (iii) the exclusive leasing/management agreement dated August, 2013 between Dalland Partnership and the Manager; and the following agreements in respect of third party property management for the Austin Properties, the Sunrise Properties and the Hollywood Properties: (x) the management agreement dated May 14, 2013, between

“**Letter of Transmittal**” means the letter of transmittal sent to holders of Delavaco Shares for use in connection with the Business Combination.

“**Liquidity Event**” has the meaning ascribed thereto under the heading “The Business Combination — Concurrent Debt Conversion”

“**Manager**” means Elite Home Management Services, LLC.

“**Master LP**” means the master Delaware limited partnership of Delavaco, which will be the vehicle used to acquire the Multi-Family Properties Portfolio as part of the Reorganization;

“**Master LP Agreement**” means the limited partnership agreement of the Master LP, dated July, 2013, between the Master LP, the General Partner and Delavaco, providing for the organization and operation of the Master LP amongst the parties.

“**Material Adverse Effect**” means any event or change that, individually or in the aggregate with other events or changes, is or would reasonably be expected to be, materially adverse to the business, operations, assets, condition (financial or otherwise) or liabilities, whether contractual or otherwise, of any party hereto, as the case may be, and its subsidiaries (considered as a whole); provided that a Material Adverse Effect shall not include an adverse effect resulting from a change (i) that arises out of a matter that has been publicly disclosed prior to the date of this Agreement or otherwise disclosed in writing by a Party to the other Party hereto prior to the date of this Agreement; (ii) that results from conditions affecting the United States Residential housing market generally in jurisdictions in which it carries on business, including changes in commodity prices or Taxes; (iii) that results from general economic, financial, currency exchange, securities or commodity market conditions in Canada, the United States or elsewhere; (iv) that arises from a decline in the trading price of Sereno Shares, or (v) that is a direct result of any matter permitted by this Agreement or consented to in writing by the applicable party.

“**Meetings**” means the Sereno Meeting and the Delavaco Meeting, collectively.

“**Miami Properties**” means, collectively, the 297 single-family properties and 65 residential units across four multi-family buildings owned in Broward, Miami-Dade and Palm Beach counties.

“**Multi-Family Partnerships**” means the South Common Partnership, the Summerfield Partnership and the Enclave Partnership, collectively.

“**Multi-Family Properties Portfolio**” means the portfolio of Multi-Family Partnerships and Park Colony.

“Multi-Family Properties” means collectively, the Austin Properties, the Sunrise Properties and the Hollywood Properties.

“Name Change” means the name change of Sereno to “Delavaco Residential Properties Inc.” following completion of the Amalgamation.

“Name Change Resolution” means the special resolution to be put before Sereno Shareholders at the Sereno Meeting asking them to approve the Name Change.

“New Option Plan” means the new stock option plan of the Resulting Issuer to be approved at the Sereno Meeting.

“NI 45-106” means National Instrument 45-106 — *Prospectus and Registration Exemptions* of the Canadian Securities Administrators, as amended from time to time.

“Non-Resident Holder” means a holder of Delavaco Shares who, for purposes of the Tax Act and at all relevant times, is not resident or deemed to be resident in Canada, does not use or hold and is not deemed to use or hold, Delavaco Shares in, or in the course of, carrying on business in Canada.

“Notice of Meetings” means the Notice of the Sereno Meeting and Notice of the Delavaco Meeting, which accompanies this Information Circular.

“OBCA” means the *Business Corporation Act* (Ontario) and the regulations made thereunder, as now in effect and as they may be promulgated or amended from time to time.

“Park Colony” means the limited liability company formed under the laws of the State of Delaware and owned by Mr. Andrew DeFrancesco, which owns Hollywood Properties.

“Parties” means Delavaco, Sereno and Subco, collectively, and **“Party”** means any one of them.

“Partnerships” means the Single-Family Partnerships and the Multi-Family Partnerships.

“PCA Reports” means property condition assessment reports.

“Peachtree Partnership” means Las Olas Bay Properties Peachtree, LP, a limited partnership formed under the laws of the State of Delaware.

“Peachtree Partnership Agreement” means the limited partnership agreement of the Peachtree Partnership, between the Peachtree Partnership, A & D Properties, LLC (as later assigned to the General Partner on November 7, 2012) and Las Olas Bay Properties LP, providing for the organization and operation of the Peachtree Partnership amongst the parties.

“Person” includes an individual, partnership, association, body corporate, unincorporated organization, trust, trustee, executor, administrator, legal representative, government (including any Governmental Authority), limited liability company, joint venture or any other entity, whether or not having legal status.

“Properties” means the interests of Delavaco and its subsidiaries in all material properties of Delavaco, including the Single-Family Home Portfolio and the Multi-Family Properties Portfolio, and where the context requires, the interests of the Resulting Issuer in such Properties, and such additional properties that may be purchased from time to time.

“Proposed Amendments” means all specific proposals to amend the Tax Act which have been publicly and officially announced by or on behalf of the Minister of Finance (Canada) prior to the date of this Information Circular.

“Registered Shareholder” means a Sereno Shareholder whose name appears on the registers of Sereno as the owner of Sereno Shares or a Delavaco Shareholder whose name appears on the registers of Delavaco as the owner of Delavaco Shares.

“Reorganization” means the internal corporate reorganization of Delavaco pursuant to which Delavaco: (i) will acquire all of the issued and outstanding limited partnership units in the Multi-Family Partnerships, thereby having acquired title to the Austin Properties and the Sunrise Properties; and (ii) may acquire all of the issued and outstanding membership interests in Park Colony, thereby having acquired title to the Hollywood

Properties, it being understood that the acquisition of Park Colony and the Hollywood Properties is not a condition precedent to completing the Reorganization or effecting the Business Combination.

“**Resident Holder**” means a Delavaco Shareholder who, at all relevant times, is or is deemed to be resident in Canada for purposes of the Tax Act.

“**Replacement Convertible Securities**” means the convertible securities of Sereno to be issued to holders of Delavaco Warrants and Delavaco Options, pursuant to the terms of the Business Combination Agreement.

“**Resulting Issuer**” means Sereno upon completion of the Business Combination, to be renamed “Delavaco Residential Properties Inc.” in connection with the Name Change.

“**Resulting Issuer Board**” means the board of directors of the Resulting Issuer.

“**Resulting Issuer Directors**” has the meaning ascribed thereto under the heading “Business of the Sereno Meeting — Election of Directors.”

“**Resulting Issuer Shareholders**” or “**Shareholders**” means, at any time, the holders of Resulting Issuer Shares.

“**Resulting Issuer Shares**” or “**Shares**” means the common shares in the capital of the Resulting Issuer.

“**Roscoe**” means Roscoe Properties, Inc.

“**Roscoe Management Agreements**” means the two separate management agreements dated October 31, 2012 and May 14, 2013 between Roscoe and Las Olas Bay Properties Common LP and Enclave Partnership, respectively, in respect of the third party property management for the Austin Properties.

“**Section 8 Program**” means the Section 8 Housing Choice Voucher Program of the U.S. Government in existence from time to time as may be amended, changed, modified or otherwise discontinued.

“**Secured Notes**” means the \$25,000,000 principal amount of 7.50% secured notes due June 30, 2016 issued by Delavaco on private placement basis on June 4, 2012.

“**Secured Trust Indenture**” means the trust indenture dated June 4, 2012 between Delavaco, Dalland Partnership and Computershare Trust Company of Canada, as amended, providing for the issuance of the Secured Notes.

“**Securities Act**” means the *Securities Act* (Ontario).

“**Securities Authorities**” means the Ontario Securities Commission and the other securities regulatory authorities in each of the provinces and territories of Canada, collectively.

“**Securities Laws**” means the Securities Act and the rules, regulations, forms, published instruments, policies, bulletins and notices of the Securities Authorities made thereunder, as well as applicable rules, regulations, by-laws as now in effect and as they may be promulgated or amended from time to time.

“**SEDAR**” means the System for Electronic Document Analysis and Retrieval.

“**Sereno**” means Sereno Capital Corporation.

“**Sereno Board**” means the board of directors of Sereno.

“**Sereno CPC Listing**” means the listing of Sereno on the Exchange pursuant to an initial public offering on August 13, 2007.

“**Sereno Directors**” has the meaning ascribed thereto under the heading “Business of the Sereno Meeting — Election of Directors.”

“**Sereno Finco**” means 2396577 Ontario Inc., the special purpose entity set up to effect the Finco Financing.

“**Sereno Meeting**” means the special meeting of the Sereno Shareholders to be held on December 30, 2013, to consider, and if deemed advisable approve, among other things, the Consolidation, the Name Change and the New Option Plan.

“**Sereno Shareholders**” means, at any time, the holders of Sereno Shares.

“**Sereno Shares**” means the common shares in the capital of Sereno.

“Sereno Stock Option Plan” means the stock option plan that was adopted by Sereno in connection with its initial public offering and listing on the Exchange as a capital pool company on March 19, 2007.

“Services Agreement” means the advisory services agreement to be entered into between the Resulting Issuer and Delavaco Capital Inc. pursuant to which Mr. DeFrancesco will provide various advisory, financial and other support services to the Resulting Issuer during the integration period following the Reorganization.

“Shadow Inventory” means any property that is 90 days or more delinquent in its mortgage payments, is in the foreclosure process or is bank lender owned, excluding those distressed properties identified as being on the market.

“Share Exchange Agreement” means the share exchange agreement to be entered into among all of the holders of Special Shares, the holder of the sole common share of Sereno Finco and Sereno prior to the completion of the Amalgamation.

“Shareholders” means Delavaco Shareholders and Sereno Shareholders, collectively.

“Single-Family Partnerships” means the Dalland Partnership and the Peachtree Partnership, collectively.

“Single-Family Home Portfolio” means Delavaco’s interests in the Atlanta Properties, the Miami Properties and the Tampa Bay Properties.

“South Common Partnership” means Las Olas Bay Properties South Common, LP, a limited partnership formed under the laws of the State of Delaware.

“Special Shares” means the non-voting, non-participating special shares in the capital of Sereno Finco.

“Subco” means 2388079 Ontario Inc., a wholly owned subsidiary of Sereno incorporated under the OBCA in order to effect the Business Combination.

“Subsidiary” has the meaning specified in NI 45-106.

“Summerfield Partnership” means Las Olas Bay Properties 3200 84th Ave., LP, a limited partnership formed under the laws of the State of Delaware.

“Sunrise Properties” means the 153 multi-family residential units located within the Summerfield Apartment Homes in Sunrise, Florida.

“Tampa Bay Properties” means, collectively, the 164 single-family properties in Hillsborough and Pinellas counties.

“Tax Act” means, collectively, the *Income Tax Act* (Canada), including the regulations promulgated thereunder.

“Taxes” means all taxes, assessments, charges, dues, duties, rates, fees, imposts, levies and similar charges of any kind lawfully levied, assessed or imposed by any Governmental Entity, including all income taxes (including any tax on or based upon net income, gross income, income as specially defined, earnings, profits or selected items of income, earnings or profits) and all capital taxes, gross receipts taxes, environmental taxes, mining taxes, sales taxes, use taxes, ad valorem taxes, value added taxes, transfer taxes (including, without limitation, taxes relating to the transfer of interests in real property or entities holding interests therein), franchise taxes, license taxes, withholding taxes, health taxes, payroll taxes, employment taxes, Canada or Québec Pension Plan premiums, excise, severance, social security, workers’ compensation, employment insurance or compensation taxes, mandatory pension and other social fund taxes or premium, stamp taxes, occupation taxes, premium taxes, property taxes, windfall profits taxes, alternative or add-on minimum taxes, goods and services tax, harmonized sales tax, customs duties or other taxes, fees, imports, assessments or charges of any kind whatsoever, and any instalments in respect thereof, together with any interest, fines and any penalties or additional amounts imposed by any taxing authority (domestic or foreign) on such entity, and any interest, penalties, fines, additional taxes and additions to tax imposed on such entity with respect to the foregoing and including an amount in respect of the foregoing as a transferee, successor, guarantor or surety or in a similar capacity under a contract, arrangement, agreement, understanding or commitment (whether written or oral) or by operation of law and any liability for the payment of any taxes described herein as a result of being a member of an affiliated,

consolidated, combined or unitary group for any period as a result of any tax sharing or tax allocation agreement, arrangement or understanding.

“**TSXV**” means the Exchange.

“**Unsecured Debentures**” means the \$18,500,000 principal amount of 7.00% unsecured debentures due July 31, 2018 issued by Delavaco on private placement basis pursuant to a series of rolling closings between July, 2013 and November 12, 2013.

“**Unsecured Notes**” means the \$10,000,000 principal amount of 7.50% unsecured notes due December 30, 2014 issued by Delavaco on private placement basis on December 20, 2012.

“**Unsecured Trust Indenture**” means the trust indenture dated December 20, 2012 between Delavaco and Computershare Trust Company of Canada.

“**U.S.**” or “**United States**” means the United States of America, its territories and possessions, any State of the United States and the District of Columbia.

APPENDIX B
BUSINESS COMBINATION RESOLUTION

RESOLVED, AS A SPECIAL RESOLUTION, THAT:

1. The amalgamation under the Business Corporations Act (*Ontario*) of Delavaco Properties Inc. (“**Delavaco**”) and 2388079 Ontario Inc. (“**Subco**”), a wholly owned subsidiary of Sereno Capital Corporation (“**Sereno**”), to effect, among other things, the business combination of Delavaco and Sereno (the “**Business Combination**”), as provided for in and subject to the terms and conditions set forth in the amalgamation agreement (the “**Amalgamation Agreement**”) among Delavaco, Subco and Sereno, with such restrictions or conditions as may be required by the TSX Venture Exchange (the “**Exchange**”) and subject to the acceptance of the Exchange, all as more particularly described in the joint management information circular of Delavaco and Sereno dated November 29, 2013 (the “**Information Circular**”), be and is hereby authorized and approved.
2. The Amalgamation Agreement, substantially in the form attached to the Information Circular as Appendix “D”, be and is hereby approved and authorized.
3. Notwithstanding that this resolution has been passed by the registered holders of common shares in the capital of Delavaco (“**Delavaco Shareholders**”), the board of directors of Delavaco (the “**Delavaco Board**”) is hereby authorized and empowered without further notice to or approval of the Delavaco Shareholders to (i) amend the Amalgamation Agreement; or (ii) decide not to proceed with the Amalgamation or revoke this resolution at any time prior to the Effective Date (as defined in the Amalgamation Agreement) without further notice to or approval of the Delavaco Shareholders.
4. Any director or officer of Delavaco be, and such director or officer of Delavaco hereby is, authorized, instructed and empowered, acting for, in the name of and on behalf of Delavaco, to do or to cause to be done all such other acts and things in the opinion of such director or officer of Delavaco as may be necessary or desirable in order to fulfill the intent of this resolution and the matters authorized hereby.
5. The Delavaco Board may, without the further approval of the Delavaco Shareholders, revoke the above resolution if the Delavaco Board determines, in its sole discretion, that it would be in the best interests of Delavaco to do so.

APPENDIX C
BUSINESS COMBINATION AGREEMENT

See attached.

DELAVACO PROPERTIES INC.

as Delavaco

and

SERENO CAPITAL CORPORATION

as Sereno

TRANSACTION AGREEMENT

September 18, 2013

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SCHEDULE “A”

FORM OF AMALGAMATION AGREEMENT

See attached.

SCHEDULE “B”

CAPITAL STRUCTURE AFTER AMALGAMATION

See attached.

TRANSACTION AGREEMENT

Transaction Agreement dated September 18, 2013 between Delavaco Properties Inc. (“**Delavaco**”) and Sereno Capital Corporation (“**Sereno**”).

WHEREAS Sereno intends to acquire all of the issued and outstanding common shares in the capital of Delavaco, which purchase will be effected pursuant to the Amalgamation as hereinafter set forth and on the terms and subject to the conditions set forth in the Amalgamation Agreement;

NOW THEREFORE in consideration of the foregoing, and the respective covenants, agreements, representations and warranties of the Parties contained herein, and for other good and valuable consideration (the receipt and adequacy of which are acknowledged), the Parties agree as follows:

ARTICLE 1 INTERPRETATION

Section 1.1 Defined Terms.

As used in this Agreement, the following terms have the following meanings:

“**affiliate**” has the meaning specified in National Instrument 45-106 — *Prospectus and Registration Exemptions*.

“**Agreement**” means this transaction agreement, as such agreement may be amended, varied, modified or restated from time to time, together with all Schedules appended to the Agreement.

“**Amalco**” means the corporation continuing from the Amalgamation, to be named “Delavaco Properties Inc.”

“**Amalco Shares**” means the common shares of Amalco.

“**Amalgamating Parties**” means, collectively, Sereno and Delavaco.

“**Amalgamation**” means the amalgamation of Delavaco and Subco pursuant to the OBCA on the terms set forth in this Agreement and the Amalgamation Agreement.

“**Amalgamation Agreement**” means the agreement to be entered into among Sereno, Delavaco and Subco in respect of the Amalgamation, in substantially the form attached hereto as Schedule “A”.

“**Amalgamation Resolution**” means the special resolution approving the Amalgamation to be voted on by the Delavaco Shareholders at the Delavaco Meeting, as more particularly set forth in the Circular.

“**Ancillary Agreements**” means all agreements, certificates and other instruments delivered or given pursuant to this Agreement, including without limitation, the Amalgamation Agreement.

“**Articles of Amalgamation**” means the articles of amalgamation to be filed with the Ontario Ministry of Consumer and Business Services in order to effect the Amalgamation, substantially in the form agreed to between the Amalgamating Parties.

“**associate**” has the meaning specified in the *Securities Act* (Ontario).

“**Authorization**” means, with respect to any Person, any order, permit, approval, consent, waiver, licence or similar authorization of any Governmental Entity having jurisdiction over the Person.

“**Assets**” means all of the right, title, estate and interest in and to its property and assets, real and personal, moveable and immovable, of whatsoever nature and kind and wheresoever situate of Delavaco and its Subsidiaries.

“**Business Day**” means any day of the year, other than a Saturday, Sunday or any day on which major banks are closed for business in Toronto, Ontario or Fort Lauderdale, Florida.

“**Certificate of Amalgamation**” means the certificate of amalgamation to be issued by the Director, as date stamped on the Articles of Amalgamation, evidencing that the Articles of Amalgamation are effective.

“**Circular**” means the notice of the Delavaco Meeting and the notice of the Sereno Meeting and accompanying joint management information circular, including all schedules and appendices attached thereto, to be sent to the Delavaco Shareholders and Sereno Shareholders in connection with the Delavaco Meeting and the Sereno Meeting, respectively.

“**Closing**” means the completion of the Amalgamation on the terms and subject to the conditions set forth herein and in the Amalgamation Agreement.

“**Constituting Documents**” means, in respect of Delavaco or Sereno, as the case may be, the articles of incorporation, amalgamation, or continuation arrangement, as applicable, by-laws and all amendments to such articles or by-laws.

“**Delavaco**” means Delavaco Properties Inc., a corporation existing under the OBCA.

“**Delavaco Board**” means the board of directors of Delavaco.

“**Delavaco Convertible Securities**” means, collectively, all outstanding rights to acquire Delavaco Shares pursuant to Delavaco’s outstanding stock options, warrants, broker warrants, rights of conversion or exchange privileges or other securities entitling the holder thereof to acquire any Delavaco Shares, or any other rights, agreements or commitment of any character requiring the issuance, sale or transfer by Delavaco of any Delavaco Shares.

“**Delavaco Financial Statements**” means the audited comparative financial statements of Delavaco as at and for the financial years ended December 31, 2012 and 2011 and the unaudited comparative financial statements of Delavaco as at and for the six month period ended June 30, 2013.

“**Delavaco Meeting**” means the special meeting of Delavaco Shareholders, including any adjournment or postponement of such special meeting in accordance with the terms of this Agreement, Delavaco’s Constituting Documents and/or the OBCA, to be called and held to consider the Amalgamation Resolution and for any other purpose as may be set out in the Circular and as agreed to in writing by Delavaco and Sereno.

“**Delavaco Shareholders**” means the holders of Delavaco Shares from time to time.

“**Delavaco Shares**” means the common shares in the capital of Delavaco as constituted on the date hereof.

“**Director**” means the director appointed under Section 278 of the OBCA.

“**Effective Date**” means the date shown on the Certificate of Amalgamation issued by the Director giving effect to the Amalgamation, or such earlier or later date as the Parties may mutually agree in writing.

“**Exchange Ratio**” means 7.36.

“**GAAP**” means generally accepted accounting principles as set out in *the Canadian Institute of Chartered Accountants Handbook — Accounting* for an entity that prepares its financial statements in accordance with International Financial Reporting Standards, at the relevant time, applied on a consistent basis.

“**Governmental Entity**” means (i) any international, multinational, national, federal, provincial, state, regional, municipal, local or other government, governmental or public department, central bank, court, tribunal, arbitral body, commission, board, bureau, ministry, agency or instrumentality, domestic or foreign, (ii) any subdivision or authority of any of the above, (iii) any quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the foregoing or (iv) any stock exchange.

“**Laws**” means all laws, statutes, codes, ordinances, decrees, rules, regulations, by laws, statutory rules, principles of law, published policies, forms and guidelines, fee schedules, tariffs, judicial or arbitral or administrative or ministerial or departmental or regulatory judgments, orders, directives, decisions, rulings or awards, including general principles of common and civil law, and terms and conditions of any grant of approval, permission, authority or license of any Governmental Entity, statutory body or self-regulatory authority (including, but not limited to, the TSXV), and the term “applicable” with respect to such Laws and in the context that refers to one or more Persons, means that such Laws apply to such Person or

Persons or its or their business, undertaking, property or securities and emanate from a Governmental Entity (or any other Person) having jurisdiction over the aforesaid Person or Persons or its or their business, undertaking, property or securities.

“**Lien**” means any mortgage, charge, pledge, hypothec, security interest, assignment, lien (statutory or otherwise), easement, title retention agreement or arrangement, conditional sale, deemed or statutory trust, restrictive covenant, adverse claim, exception, reservation, right of occupation, any matter capable of registration against title, right of pre-emption, privilege or other encumbrance of any nature or any other arrangement or condition which, in substance, secures payment or performance of an obligation.

“**Material Adverse Effect**” means any event or change that, individually or in the aggregate with other events or changes, is or would reasonably be expected to be, materially adverse to the business, operations, assets, condition (financial or otherwise) or liabilities, whether contractual or otherwise, of any Party, as the case may be, and its Subsidiaries (considered as a whole); provided that a Material Adverse Effect shall not include an adverse effect resulting from a change (i) that arises out of a matter that has been publicly disclosed prior to the date of this Agreement or otherwise disclosed in writing by a Party to the other Party prior to the date of this Agreement; (ii) that results from conditions affecting the United States residential housing market generally in jurisdictions in which it carries on business, including changes in government policies or programs or taxes; (iii) that results from general economic, financial, currency exchange, interest rate or securities market conditions in Canada or the United States; (iv) that arises from a decline in the trading price of Sereno Shares, or (v) that is a direct result of any matter permitted by this Agreement or consented to in writing by the applicable Party.

“**Material Contracts**” has the meaning specified in Section 3.1(p).

“**Misrepresentation**” means an untrue statement of a material fact or an omission to state a material fact required or necessary to make the statements contained therein not misleading in light of the circumstances in which they are made.

“**Multi-Family Properties**” means the four multi-family properties (collectively comprising 627 residential units) located in the United States to be transferred to Delavaco pursuant to the Pre-Closing Reorganization and such other multi-family properties as may be acquired by subsidiaries of Delavaco after the date hereof and prior to the Effective Date.

“**Notice**” has the meaning specified in Article 8.

“**OBCA**” means the *Business Corporations Act* (Ontario).

“**Ordinary Course**” means, with respect to an action taken by a Person, that such action is consistent with the past practices of the Person and is taken in the ordinary course of the normal day-to-day operations of the Person.

“**Outside Date**” means December 31, 2013 or such later date as may be agreed to in writing by the Parties.

“**Parties**” means, collectively, Delavaco and Sereno, and any other Person who may become a party to this Agreement; and “**Party**” means any one of them.

“**Permitted Liens**” means (i) Liens for Taxes not yet due and delinquent; (ii) easements, encroachments and other minor imperfections of title which do not, individually or in the aggregate, materially detract from the value of or impair the use or marketability of any real property or interests in real property in any material respect; (iii) Liens incurred in connection with Delavaco’s 7.50% Senior Secured Notes due June 30, 2016 and existing on the date hereof; (iv) Liens on the Multi-Family Properties existing on the date hereof; and (v) a subordinate lien in favour of Andy DeFrancesco with respect to the Park Colony properties.

“**Person**” means a natural person, partnership, limited partnership, limited liability partnership, corporation, limited liability corporation, unlimited liability company, joint stock company, trust, unincorporated association, joint venture or other entity or Governmental Entity, and pronouns having a similarly extended meaning.

“Pre-Closing Reorganization” means the transfers to Delavaco of the issued and outstanding securities of certain limited partnerships that directly or indirectly own the Multi-Family Properties, and such other actions as the Parties may agree in writing.

“Public Statement” has the meaning ascribed thereto in Section 8.3 hereof.

“Regulatory Approval” means any consent, waiver, permit, exemption, review, order, decision or approval of, or any registration and filing with, any Governmental Entity, or the expiry, waiver or termination of any waiting period imposed by Law or a Governmental Entity, in each case in connection with the Amalgamation, including any such approval from the TSXV.

“Securities Reports” has the meaning ascribed thereto in Section 4.1(h) hereof.

“SEDAR” means the System for Electronic Document Analysis and Retrieval.

“Sereno” means Sereno Capital Corporation, a corporation existing under the OBCA.

“Sereno Board” means the board of directors of Sereno.

“Sereno Meeting” means the special meeting of Sereno Shareholders, including any adjournment or postponement of such special meeting in accordance with the terms of this Agreement to consider the matters set out in the notice to be provided to Sereno Shareholders in connection with such meeting.

“Sereno Shareholders” means the holders of Sereno Shares from time to time.

“Sereno Shares” means common shares in the capital of Sereno.

“Subco” means 2388079 Ontario Inc., a corporation incorporated under the OBCA and a wholly-owned Subsidiary of Sereno.

“Subsidiary” has the meaning specified in National Instrument 45-106 — *Prospectus and Registration Exemptions* as in effect on the date of this Agreement.

“Taxes” has the meaning specified in Section 3.1(j).

“Termination Payment” with respect to either Party, means a cash amount equal to the invoiced fees and expenses incurred by such Party in connection with this Agreement and the transactions contemplated hereby, up to a maximum of \$250,000.

“TSXV” means the TSX Venture Exchange.

Section 1.2 Gender and Number.

Any reference in this Agreement or any Ancillary Agreement to gender includes all genders. Words importing the singular number only shall include the plural and vice versa.

Section 1.3 Headings, etc.

The provision of a Table of Contents, the division of this Agreement into Articles, Sections and Schedules and the insertion of headings are for convenient reference only and are not to affect its interpretation.

Section 1.4 Currency.

All references in this Agreement or any Ancillary Agreement to dollars, or to \$ are expressed in Canadian currency unless otherwise specifically indicated.

Section 1.5 Certain Phrases, etc.

In this Agreement and any Ancillary Agreement (i) the words “including”, “includes” and “include” mean “including (or includes or include) without limitation”, and (ii) the phrase “the aggregate of”, “the total of”, “the sum of”, or a phrase of similar meaning means “the aggregate (or total or sum), without duplication, of”. In the computation of periods of time from a specified date to a later specified date, unless otherwise expressly

stated, the word “from” means “from and including” and the words “to” and “until” each mean “to but excluding”.

Section 1.6 Knowledge.

Any reference herein to the knowledge of any Party will be deemed to mean the actual knowledge of the directors and executive officers of such Party after reasonable inquiry.

Section 1.7 Accounting Terms.

All accounting terms not specifically defined in this Agreement are to be interpreted in accordance with GAAP.

Section 1.8 Schedules.

The schedules attached to this Agreement form an integral part of this Agreement for all purposes of it.

Section 1.9 References to Persons and Agreements.

Any reference in this Agreement or any Ancillary Agreement to a Person includes such Person’s heirs, administrators, executors, legal personal representatives, successors and permitted assigns. Except as otherwise provided in this Agreement or any Ancillary Agreement, the term “Agreement” and any reference in this Agreement to this Agreement, any Ancillary Agreement or any other agreement or document includes, and is a reference to, this Agreement, such Ancillary Agreement or such other agreement or document as it may have been, or may from time to time be amended, restated, replaced, supplemented or novated and includes all schedules to it.

Section 1.10 Statutes.

Except as otherwise provided in this Agreement, any reference in this Agreement to a statute refers to such statute and all rules and regulations made under it, as it or they may have been or may from time to time be amended or re-enacted.

Section 1.11 Non-Business Days.

Whenever payments are to be made or an action is to be taken on or not later than a day which is not a Business Day, such payment shall be made or such action shall be taken on or not later than the next succeeding Business Day.

ARTICLE 2 AMALGAMATION

Section 2.1 Amalgamation.

- (1) Each of the Parties covenants to take all such actions as are within its power to control and use commercially reasonable efforts to cause other actions to be taken which are not within its power to control, so as to complete the Amalgamation as set forth in this Section 2.1 and otherwise on the terms, and subject to the conditions, set forth in this Agreement.
- (2) Each Party hereby agrees, unless such steps have already been completed, that as soon as reasonably commercially practicable after the date hereof or at such other time as is specifically indicated below in this Section 2.1, and on the applicable terms, and subject to the applicable conditions, set forth in this Agreement and the Amalgamation Agreement, it shall take the following steps:
 - (a) **Preparation and Mailing of Circular.** The Parties shall use all commercially reasonable efforts to prepare and complete, in consultation with each other, the Circular together with any other documents required by Law in connection with the Delavaco Meeting, the Sereno Meeting and the Amalgamation. The Parties shall use their commercially reasonable efforts to cause the Circular and such other documents to be filed under the profile of Sereno on SEDAR and sent to each Delavaco

Shareholder and Sereno Shareholder and such other Persons as required by applicable Law as soon as practicable, and, in any event, no later than November 30, 2013; provided that each Party delivers to the other Party all requisite information of such Party, financial or otherwise, and any other requisite materials for inclusion in the Circular under applicable Law no later than October 1, 2013.

- (b) **Contents of Circular.** The Parties shall ensure that the Circular complies in material respects with Law, does not contain any Misrepresentation and provides the Delavaco Shareholders and the Sereno Shareholders with sufficient information to permit them to form a reasoned judgement concerning the matters to be placed before the Delavaco Meeting and the Sereno Meeting. The Parties shall give each other and their respective legal counsel a reasonable opportunity to review and comment on drafts of the Circular and other related documents, and shall give reasonable consideration to any comments made by the other Party and its counsel. Delavaco and Sereno shall each provide all necessary information concerning them that is required by Law to be included by each of them in the Circular, and shall use their best efforts to ensure that such information does not contain any Misrepresentation. Each Party shall promptly notify the other Party if it becomes aware that the Circular contains a Misrepresentation, or otherwise requires an amendment or supplement. The Parties shall co-operate in the preparation of any such amendment or supplement as required or appropriate, and the Parties shall, as required by applicable Laws, promptly file on SEDAR and mail or otherwise publicly disseminate any such amendment or supplement to the Delavaco Shareholders and the Sereno Shareholders and, if required by Law, file the same with any other Governmental Entity as required.
- (c) **Delavaco and Sereno Meetings.** Delavaco and Sereno will convene and conduct the Delavaco Meeting and the Sereno Meeting, respectively, on or before November 30, 2013 and not adjourn, postpone or cancel (or propose the adjournment, postponement or cancellation of) the Delavaco Meeting or the Sereno Meeting without the prior written consent of the other Party, except in the case of an adjournment, as required for quorum purposes.
- (d) **Filing of Articles of Amalgamation.** Subject to obtaining the required approvals of the Delavaco Shareholders and the Sereno Shareholders, and subject to the satisfaction or waiver of the applicable conditions of Closing as set forth in this Agreement, the Amalgamating Parties will submit the Articles of Amalgamation and such other documents as may be required under the OBCA in connection therewith to give effect to the Amalgamation.
- (e) **Amalgamation Agreement.** The Parties hereby acknowledge that the form of Amalgamation Agreement attached as Schedule "A" complies with the requirements of the OBCA.
- (f) **Articles of Amalgamation.** The Articles of Amalgamation shall, with such other matters as are necessary to effect the Amalgamation, and all as subject to the provisions of the Amalgamation Agreement, provide as follows:
 - (i) the Amalgamating Parties will amalgamate and continue as Amalco;
 - (ii) holders of Delavaco Shares shall receive such number of fully paid and non-assessable Sereno Shares as is equal to product obtained by multiplying the number of Delavaco Shares held by such holder by the Exchange Ratio, and the Delavaco Shares shall thereafter be cancelled;
 - (iii) the shares of Subco will be cancelled and replaced by Amalco Shares on the basis of one Amalco Share for each share of Subco;
 - (iv) as consideration for the issuance of the Sereno Shares to holders of Delavaco Shares to effect the Amalgamation, Amalco will issue to its immediate shareholder, Sereno, one Amalco Share for each Sereno Share so issued;
 - (v) Amalco will be a direct or indirect wholly-owned subsidiary of Sereno upon completion of the Amalgamation; and

- (vi) all of the property, rights, privileges and assets of the Amalgamating Parties will continue as the property, rights, privileges and assets of Amalco, and Amalco will become liable for all of the liabilities and obligations of the Amalgamating Parties.

ARTICLE 3

REPRESENTATIONS AND WARRANTIES OF DELAVACO

Section 3.1 Representations and Warranties of Delavaco.

Delavaco represents and warrants, as of the date of this Agreement, as follows to Sereno and acknowledges and confirms that Sereno is relying on such representations and warranties in connection with the transactions contemplated by this Agreement:

- (a) Delavaco is a corporation duly incorporated and validly subsisting under the laws of the Province of Ontario and has the requisite corporate power and authority to carry on its business as it is now being conducted and to enter into this Agreement. Delavaco is duly registered to do business and is in good standing in each jurisdiction in which the character of its properties, owned or leased, or the nature of its activities make such registration necessary, except where the failure to be so registered or in good standing would not have a Material Adverse Effect on Delavaco.
- (b) Each Subsidiary of Delavaco is a corporation or other entity duly formed and validly subsisting under the laws of its jurisdiction of incorporation or amalgamation and has the requisite corporate power and authority to carry on its business as it is now being conducted. Each Subsidiary of Delavaco is duly registered to do business and is in good standing in each jurisdiction where the character of its properties, owned or leased, or the nature of its activities make such registration necessary, except where the failure to be so registered or in good standing would not have a Material Adverse Effect on Delavaco or such Subsidiary.
- (c) The execution and delivery of and performance by Delavaco of this Agreement and each of the Ancillary Agreements to which it is a party, and the consummation of the transactions contemplated by them have been duly authorized by all necessary corporate action on the part of Delavaco.
- (d) The execution and delivery of and performance by Delavaco of this Agreement and each of the Ancillary Agreements to which it is a party:
 - (i) do not and will not (or would not with the giving of notice, the lapse of time or the happening of any other event or condition) constitute or result in a violation or breach of, or conflict with, or allow any other Person to exercise any rights under, any of the terms or provisions of its Constatting Documents;
 - (ii) do not and will not (or would not with the giving of notice, the lapse of time or the happening of any other event or condition) constitute or result in a breach or violation of, or conflict with or allow any other Person to exercise any rights under, any of the terms or provisions of any material contracts to which it is a party; and
 - (iii) do not and will not result in the violation of any Law.
- (e) This Agreement and each of the Ancillary Agreements to which Delavaco is a party have been duly executed and delivered by Delavaco and constitute legal, valid and binding agreements of Delavaco enforceable against it in accordance with their respective terms subject only to any limitation under applicable Laws relating to (i) bankruptcy, winding-up, insolvency, arrangement, fraudulent preference and conveyance, assignment and preference and other similar laws of general application affecting creditors' rights, and (ii) the discretion that a court may exercise in the granting of equitable remedies such as specific performance and injunction.
- (f) Delavaco has an authorized capital of an unlimited number of Delavaco Shares of which, as at the date hereof, Delavaco has issued and outstanding (i) 25,075,000 Delavaco Shares, and (ii) nil preference shares or other equity securities. In addition, as at the date hereof, Delavaco has issued and outstanding Delavaco Convertible Securities entitling the holders thereof to acquire, and is party

to agreements evidencing rights to acquire, a further 60,973,994 Delavaco Shares and will have, as of the Effective Date, Delavaco Convertible Securities entitling holders thereof to acquire not more than 24,573,304 Delavaco Shares. Except as aforesaid, there are no outstanding shares of Delavaco or options, warrants, rights or conversion or exchange privileges or other securities entitling anyone to acquire any shares of Delavaco or any other rights, agreements or commitments of any character whatsoever requiring the issuance, sale or transfer by Delavaco of any shares of Delavaco (including Delavaco Shares) or any securities convertible into, exchangeable or exercisable for, or otherwise evidencing a right to acquire, any Delavaco Shares or other equity securities of Delavaco. All outstanding Delavaco Shares have been duly authorized and validly issued, and are fully paid and non-assessable and are not subject to, nor have they been issued in violation of any pre-emptive rights, and all Delavaco Shares issuable upon exercise or conversion of outstanding Delavaco Convertible Securities or issuable pursuant to agreements evidencing rights to acquire shares will, when issued in accordance with their respective terms, be duly authorized and validly issued, fully paid and non-assessable and will not be subject to any pre-emptive rights.

- (g) There are no suits, actions or litigation or arbitration proceedings or governmental proceedings in progress pending or, to the best of the knowledge of Delavaco, contemplated or threatened, to which Delavaco is a party or to which the property of Delavaco or the Subsidiaries of Delavaco is subject, except where such suit, action or litigation or arbitration proceeding or governmental proceeding would not result in a Material Adverse Effect to Delavaco and the Subsidiaries of Delavaco taken as a whole. There is not presently outstanding against Delavaco any judgment, injunction, rule or order of any court, governmental department, commission, agency or arbitrator.
- (h) The Delavaco Financial Statements have been prepared in accordance with GAAP applied on a basis consistent with prior periods and present fairly, in all material respects, the assets, liabilities (whether accrued, absolute, contingent or otherwise) and financial condition of Delavaco as at the respective dates of the Delavaco Financial Statements and the sales, earnings and results of operations of Delavaco for the respective periods covered by the Delavaco Financial Statements.
- (i) Since the date of the Delavaco Financial Statements, Delavaco and each Subsidiary of Delavaco has conducted its businesses only in the Ordinary Course. Since the date of the Delavaco Financial Statements, (i) there has been no Material Adverse Effect on Delavaco, or a Subsidiary of Delavaco, or any condition, event or development involving a prospective change that would constitute a Material Adverse Effect on Delavaco or a Subsidiary of Delavaco, and (ii) no liability or obligation of any nature (whether absolute, accrued, contingent or otherwise) material to Delavaco or a Subsidiary of Delavaco has been incurred, other than in the ordinary and normal course of business.
- (j) All taxes (including income tax, capital tax, payroll taxes, employer health tax, workers' compensation payments, property taxes, custom and land transfer taxes), duties, royalties, levies, imposts, assessments, deductions, charges or withholdings and all liabilities with respect thereto including any penalty and interest payable with respect thereto (collectively, "**Taxes**") due and payable by Delavaco and the Subsidiaries of Delavaco have been paid except for where the failure to pay such taxes would not constitute an adverse material fact of Delavaco, or result in a Material Adverse Effect to Delavaco and the Subsidiaries of Delavaco taken as a whole. All tax returns, declarations, remittances and filings required to be filed by Delavaco and the Subsidiaries of Delavaco have been filed with all appropriate governmental authorities and all such returns, declarations, remittances and filings are complete and accurate in all material respects and no material fact or facts have been omitted therefrom which would make any of them misleading except where the failure to file such documents would not constitute an adverse material fact of Delavaco or result in a Material Adverse Effect to Delavaco and the Subsidiaries of Delavaco taken as a whole. To the best of the knowledge of Delavaco: (i) no examination of any tax return of Delavaco and the Subsidiaries of Delavaco is currently in progress; and (ii) there are no issues or disputes outstanding with any Governmental Entity respecting any taxes that have been paid, or may be payable, by Delavaco and any of the Subsidiaries of Delavaco. There are no agreements with any taxation authority providing for an extension of time for any assessment or reassessment of taxes with respect to Delavaco and the Subsidiaries of Delavaco;

- (k) Delavaco is not a party to any agreement which in any manner affects the voting control of any of the shares of Delavaco.
- (l) Each of Delavaco and the Subsidiaries of Delavaco has conducted and is conducting its business in compliance in all material respects with all applicable Laws of each jurisdiction in which it carries on business and with all Laws, tariffs and directives material to its operation.
- (m) Delavaco is not subject to any obligation to make any investment in or to provide funds by way of loan, capital contribution or otherwise to any Persons.
- (n) Each of Delavaco and the Subsidiaries of Delavaco has a valid contractual interest in all of its material properties and Assets, including, without limitation, all properties and Assets reflected in the Delavaco Financial Statements, free and clear of all Liens whatsoever, other than Permitted Liens.
- (o) Delavaco has not received notice of any material defect in its title or claim to the Assets or any notice from any third party claiming such an interest, and, for the period of time that Delavaco has owned the Assets, as applicable, all material relevant obligations of Delavaco have been performed and observed.
- (p) The material contracts of Delavaco previously disclosed in writing to Sereno (the “**Material Contracts**”) are the only material documents and contracts currently in effect under and by virtue of which Delavaco is entitled to the Assets and conducts its business. Each of the Material Contracts is in full force and effect and is unamended and there are no outstanding defaults or breaches under any of the Material Contracts on the part of Delavaco or the Subsidiaries of Delavaco which would have a Material Adverse Effect.
- (q) Other than as previously disclosed to Sereno, Delavaco is not a party to any written management contract or employment agreement which provides for a right of payment in the event of a change in control of Delavaco.
- (r) Delavaco and each Subsidiary of Delavaco is not a “reporting issuer” within the meaning of the *Securities Act* (Ontario) and does not have a similar status in any other province or territory of Canada. No securities commission or similar regulatory authority has issued any order which is currently outstanding preventing or suspending trading in any securities of Delavaco or a Subsidiary of Delavaco, no such proceeding is, to the knowledge of Delavaco, pending, contemplated or threatened and Delavaco and each Subsidiary of Delavaco is not, to its knowledge, in default of any requirement of any securities laws, rules or policies applicable to Delavaco or a Subsidiary of Delavaco or its securities.
- (s) There are no payments required to be made to directors, officers and employees of Delavaco or a Subsidiary of Delavaco as a result of this Agreement or the Amalgamation under all contract settlements, bonus plans, retention agreements, change of control agreements and severance obligations (whether resulting from termination, change of control or alteration of duties).
- (t) No director, officer, consultant, insider or other non-arm’s length party to Delavaco or a Subsidiary of Delavaco (or any associate or affiliate thereof) has any right, title or interest in (or the right to acquire any right, title or interest in) any royalty interest, carried interest, participation interest or any other interest whatsoever which are based on revenue from or otherwise in respect of any Assets of Delavaco or a Subsidiary of Delavaco or any of the Multi-Family Properties to be transferred to Delavaco pursuant to the Pre-Closing Reorganization that will be effective after the Effective Date.
- (u) Except for customary indemnity to its directors and officers, Delavaco and each Subsidiary of Delavaco is not a party to or bound by any agreement, guarantee, indemnification, or endorsement or like commitment respecting the obligations, liabilities (contingent or otherwise) or indebtedness of any Person, firm or corporation, other than as provided in the Ordinary Course of business, in transfer agency agreements, underwriting and agency agreements and agreements in connection with indebtedness of Delavaco or its Subsidiaries outstanding on the date hereof.

- (v) Other than in connection with or in compliance with the provisions of applicable Laws, no filing or registration with, or authorization, consent or approval of any domestic or foreign public body or authority is necessary by Delavaco or a Subsidiary of Delavaco in connection with the consummation of the Amalgamation, except for such filings or registrations which, if not made, or for such authorizations, consents or approvals, which, if not received, would not have any Material Adverse Effect on the ability of Delavaco to consummate the transactions contemplated hereby.
- (w) Except for PowerOne Capital Markets Limited, Delavaco has not retained any financial advisor, broker, agent or finder, or paid or agreed to pay any financial advisor, broker, agent or finder on account of this Agreement or the Amalgamation, any transaction contemplated hereby or any transaction presently ongoing or contemplated.
- (x) Except as would not reasonably be expected to have a Material Adverse Effect on Delavaco, there is not (or are not) (i) any order or directive from any regulatory authority which relates to environmental matters and which requires any material work, repairs, construction, or capital expenditures relating to Delavaco or a Subsidiary of Delavaco or any of its business undertakings, (ii) any demand or notice from any regulatory authority with respect to the breach of any environmental, health or safety law applicable to Delavaco or a Subsidiary of Delavaco or any of its business undertakings, including, without limitation, any regulations respecting the use, storage, treatment, transportation, or disposition of environmental contaminants, or (iii) any spills, releases, deposits or discharges of hazardous or toxic substances, contaminants or wastes, which have not been rectified, on any of the properties or assets owned or leased by Delavaco or a Subsidiary of Delavaco or in which it has an interest or over which it has control.
- (y) Delavaco's registrar and transfer agent with respect to the Delavaco Shares is Computershare Investor Services Inc.
- (z) To the extent applicable, the policies of insurance in force at the date hereof naming Delavaco or a Subsidiary of Delavaco as an insured remain in force and effect, and such policies are equivalent to those used as the industry standard, and will not be cancelled or otherwise terminated as a result of the transactions contemplated herein and there are no pending or outstanding claims, notices of non-renewal or cancellation or, to the knowledge of Delavaco, any events which may give rise to a claim, under such policies.
- (aa) To the knowledge of Delavaco,
 - (i) Delavaco and the Subsidiaries of Delavaco are in good standing under all, and are not in default under any, and
 - (ii) there is no existing condition, circumstance or matter which constitutes or which, with the passage of time or the giving of notice, would constitute a default under any,

leases and other title and operating documents or any other agreements and instruments pertaining to its real property assets to which it is a party or by or to which it or such assets are bound or subject and, to its knowledge, all such leases, title and operating documents and other agreements and instruments are in good standing and in full force and effect and none of the counterparties to such leases, title and operating documents and other agreements and instruments is in default thereunder except to the extent that such defaults would not in the aggregate have a Material Adverse Effect on Delavaco.
- (bb) Delavaco has not agreed to recognize any union or other collective bargaining representative, nor has any other union or other collective bargaining representative been certified as the exclusive bargaining representative of any Delavaco employees or consultants, and Delavaco is not a party to, or bound by, any collective bargaining agreement or any other labour contract applicable to any employees. To the knowledge of Delavaco, no union organizational campaign or representation petitions are currently pending with respect to any Delavaco employees. There is no labour strike or labour dispute, slowdown, lockout or stoppage actually pending or to the knowledge of Delavaco,

threatened against or affecting Delavaco, and Delavaco has not experienced any labour strikes or labour disputes, slowdowns, lockouts or stoppages within the last three years.

- (cc) Except with respect to the Regulatory Approvals and the requisite approvals in respect of the Amalgamation, the Delavaco Meeting and the consent of the lenders in respect of the Multi-Family Properties, there are no third party consents required to be obtained by Delavaco or a Subsidiary of Delavaco in order to complete the transactions contemplated hereby.
- (dd) Delavaco or the Subsidiaries of Delavaco hold all Authorizations required under any environmental Laws in connection with the operation of their respective businesses and the ownership and use of their respective assets, other than those which the failure to hold would not have a Material Adverse Effect on Delavaco, and neither Delavaco nor the Subsidiaries of Delavaco nor any of their respective assets is the subject of any investigation, evaluation, audit or review not in the ordinary and regular course by any Governmental Entity to determine whether any violation of environmental Laws has occurred or is occurring, and neither Delavaco nor the Subsidiaries of Delavaco is subject to any known environmental liabilities.
- (ee) Neither this Agreement nor any Ancillary Agreement to which Delavaco or any of its Subsidiaries is a party (i) contains any untrue statement of a material fact in respect of Delavaco or its Subsidiaries, the affairs, prospects, operations or condition of Delavaco or its Subsidiaries or the Assets, or (ii) to the knowledge of Delavaco, omits any statement of a material fact necessary in order to make the statements in respect of Delavaco or its Subsidiaries, the affairs, prospects, operations or condition of Delavaco or the Assets contained herein or therein not misleading. There is no fact known to Delavaco which materially and adversely affects the affairs, prospects, operations or condition of Delavaco or its Subsidiaries or the Assets which has not been set forth in this Agreement.

ARTICLE 4

REPRESENTATIONS AND WARRANTIES OF SERENO

Section 4.1 Representations and Warranties of Sereno.

Sereno represents and warrants as follows to Delavaco and acknowledges and confirms that Delavaco is relying on such representations and warranties in connection with the transactions contemplated by this Agreement:

- (a) (i) Sereno is a corporation incorporated and existing under the laws of the Province of Ontario, and (ii) has the corporate power and authority to enter into and perform its obligations under this Agreement and each of the Ancillary Agreements to which it is a party.
- (b) The execution and delivery of and performance by Sereno of this Agreement, and by Sereno of each of the Ancillary Agreements to which it is a party, and the consummation of the transactions contemplated by them have been duly authorized by all necessary corporate action on the part of Sereno.
- (c) The execution and delivery of and performance by Sereno of this Agreement, and by Sereno of each of the Ancillary Agreements to which it is a party:
 - (i) do not and will not (or would not with the giving of notice, the lapse of time or the happening of any other event or condition) constitute or result in a violation or breach of, or conflict with, or allow any other Person to exercise any rights under, any of the terms or provisions of its Constatting Documents;
 - (ii) do not and will not (or would not with the giving of notice, the lapse of time or the happening of any other event or condition) constitute or result in a breach or violation of, or conflict with or allow any other Person to exercise any rights under, any of the terms or provisions of any material contracts to which it is a party; and
 - (iii) do not and will not result in the violation of any Law.

- (d) This Agreement and each of the Ancillary Agreements to which Sereno is a party have been duly executed and delivered by Sereno and constitute legal, valid and binding agreements of Sereno enforceable against it in accordance with their respective terms subject only to any limitation under applicable Laws relating to (i) bankruptcy, winding-up, insolvency, arrangement, fraudulent preference and conveyance, assignment and preference and other similar laws of general application affecting creditors' rights, and (ii) the discretion that a court may exercise in the granting of equitable remedies such as specific performance and injunction.
- (e) Sereno is authorized to issue an unlimited number of Sereno Shares, of which 4,700,000 are outstanding as of the date hereof. Sereno has granted options exercisable to acquire an aggregate of 262,500 Sereno Shares. Other than the foregoing, Sereno has no other equity securities issued and outstanding as at the date hereof.
- (f) Sereno is a "reporting issuer" under the laws of British Columbia, Alberta and Ontario and is not in default in any material respect of any requirements of applicable Canadian provincial securities Laws related thereto. Sereno is not, as at the date hereof, included on the list of defaulting reporting issuers maintained by any of the applicable securities regulatory authorities.
- (g) The common shares of Sereno are listed and posted for trading solely on the NEX Market of the TSXV and other than as publicly disclosed, no order ceasing or suspending trading in any securities of Sereno is currently outstanding and no proceeding for such purpose are pending, or to the knowledge of Sereno, threatened.
- (h) Sereno has filed all proxy circulars, reports and other continuous disclosure documents required to be filed by it by applicable Canadian provincial securities Laws ("**Securities Reports**"). Each Securities Report was, as of the date of filing, in compliance in all material respects with all applicable requirements under applicable Canadian provincial securities Laws and none of the Securities Reports, as of their respective filing dates, contained any Misrepresentation. No material change has occurred in relation to Sereno which is not disclosed in the Securities Reports, and Sereno has not filed any confidential material change reports which continue to remain confidential.
- (i) Sereno is not in any discussions and has not entered any outstanding proposals, letters of intent, agreements or any understandings with any Person (other than Delavaco) with respect to a Qualifying Transaction (as defined in Policy 2.4-Capital Pool of Companies of the TSXV).
- (j) Sereno has made available to Delavaco all material information concerning Sereno and all such information as made available to Delavaco is accurate, true and correct in all material respects.
- (k) Sereno has cash on hand of not less than \$500,000 as of the Effective Date, without giving effect to the expenses relating to the completion of the Amalgamation on such cash position and is not carrying on any business.

ARTICLE 5 COVENANTS OF THE PARTIES

Section 5.1 Conduct of Business.

- (1) During the period between the date of this Agreement and the earlier of the Effective Date and the termination of this Agreement in accordance with its terms, except as otherwise expressly contemplated by this Agreement, Delavaco will conduct, and cause the Subsidiaries of Delavaco to conduct, its business in the Ordinary Course.
- (2) Without limiting the generality of Section 5.1(1), Delavaco covenants as follows for the period between the date of this Agreement and the earlier of the Effective Date and the termination of this Agreement in accordance with its terms:
 - (a) Delavaco's and each Subsidiary of Delavaco's business shall be conducted only in the usual and Ordinary Course and Delavaco shall keep Sereno apprised of all material developments relating thereto.

- (b) Delavaco shall not, and shall cause each Subsidiary of Delavaco not to, directly or indirectly do or permit to occur any of the following: (i) amend its Constatng Documents; (ii) declare, set aside or pay any dividend or other distribution or payment (whether in cash, shares or property) in respect of its outstanding shares; (iii) issue (other than for issuances to employees for ongoing salary and severance obligations, and for issuances on exercise of currently outstanding Delavaco Convertible Securities or pursuant to the Amalgamation), grant, sell or pledge or agree to issue, grant, sell or pledge any shares of Delavaco, or securities convertible into or exchangeable or exercisable for, or otherwise evidencing a right to acquire, shares of Delavaco, other than in respect of the Pre-Closing Reorganization; (iv) redeem, purchase or otherwise acquire any of its outstanding shares or other securities, except as permitted hereunder; (v) split, combine or reclassify any of its shares; (vi) reduce its stated capital; (vii) adopt a plan of liquidation or resolutions providing for the liquidation, dissolution, merger, consolidation or reorganization of Delavaco other than in respect of the Pre-Closing Reorganization; (viii) take any action, or refrain from taking any action, permit any action to be taken or not taken, inconsistent with this Agreement, which might directly or indirectly interfere with or adversely affect the consummation of the Amalgamation; or (ix) enter into or modify any contract, other than in respect of the Pre-Closing Reorganization, agreement or commitment with respect to any of the foregoing.
- (c) Delavaco shall not, and shall cause each Subsidiary of Delavaco not to, adopt or amend or make any contribution to any bonus, profit sharing, option, pension, retirement, deferred compensation, insurance, incentive compensation, other compensation or other similar plan, agreement, trust, fund or agreements for the benefit of employees, except as is necessary to comply with the law or with respect to existing provisions of any such plans, programs, or agreements.
- (d) Delavaco shall not, and shall cause each Subsidiary of Delavaco not to, grant any officer, director, employee or consultant an increase in compensation in any form or take any action with respect to the amendment or grant of any severance or termination pay policies for any directors, officers, employees or consultants, nor adopt or amend (other than to permit accelerated vesting of options) or make any contribution to any bonus, profit sharing, option, pension, retirement, deferred compensation, insurance, incentive compensation, other compensation or other similar plan from a trust fund for the benefit of directors, officers, employees or consultants, except as is necessary to comply with applicable local Law or with respect to existing provisions of any such plans, programs, arrangements or agreements.
- (e) Delavaco shall, and shall cause each Subsidiary of Delavaco to, use its reasonable commercial efforts to cause its current insurance (or re insurance) policies not to be cancelled or terminated or any of the coverage thereunder to lapse, unless simultaneously with such termination, cancellation or lapse, replacement policies underwritten by insurance or re insurance companies of nationally recognized standing providing coverage equal to or greater than the coverage under the cancelled, terminated or lapsed policies for substantially similar premiums are in full force and effect.
- (f) except to permit the cancellation of any Delavaco Convertible Securities and as may be required for the purposes of completing the Pre-Closing Reorganization or the Amalgamation on the terms set out in this Agreement, no amendments shall be made to outstanding Delavaco Convertible Securities without the prior written consent of Sereno, acting reasonably.
- (g) Delavaco shall promptly notify Sereno in writing of any Material Adverse Effect on Delavaco, or a Subsidiary of Delavaco, or of any material breach by Delavaco of any representation or warranty provided by Delavaco in this Agreement with respect to itself or a Subsidiary of Delavaco.

Section 5.2 Actions to Satisfy Conditions.

- (1) Delavaco shall take all such actions as are within its power to control and use commercially reasonable efforts to cause other actions to be taken which are not within its power to control, so as to ensure compliance with all of the applicable conditions precedent in favour of Sereno as set forth in this Agreement and the Ancillary Agreements.

- (2) Sereno shall take all such actions as are within its power to control and use commercially reasonable efforts to cause other actions to be taken which are not within its power to control, so as to ensure compliance with all of the applicable conditions precedent in favour of Delavaco as set forth in this Agreement and the Ancillary Agreements.

Section 5.3 No Shop.

The Parties and their respective agents will not, nor will they permit any of their respective directors, officers, employees, representatives or agents (including and without limitation, investment bankers, attorneys and accountants) directly or indirectly to, solicit or accept any offer for the purchase of outstanding securities of such party or the business or the assets of such Party, whether as a primary or backup offer, or take any other action that would reasonably be expected to lead to any commitment or agreement to sell such Party or business or the assets of such Party. Notwithstanding the foregoing, nothing herein will restrict the Parties hereto and their respective directors, officers, employees, representatives or agents (including without limitation, investment bankers, attorneys and accountants) from taking such actions as may be required in order to discharge their obligations pursuant to applicable corporate and securities Laws.

ARTICLE 6 CONDITIONS

Section 6.1 Mutual Conditions Precedent.

The Parties are not required to complete the Amalgamation unless each of the following conditions is satisfied on or prior to the Effective Date, which conditions may only be waived, in whole or in part, by the mutual consent of each of the Parties:

- (1) The Amalgamation Resolution has been approved and adopted by the Delavaco Shareholders at the Delavaco Meeting.
- (2) No Law is in effect that makes the consummation of the Amalgamation illegal or otherwise prohibits or enjoins Delavaco or Subco from consummating the Amalgamation.
- (3) Each Regulatory Approval necessary to consummate the Amalgamation, including all necessary approvals of the TSXV, has been made, given or obtained on terms acceptable to Delavaco and Sereno, each acting reasonably, and each such Regulatory Approval is in force and has not been modified.
- (4) Following the completion of the Amalgamation, Sereno shall satisfy the original listing requirements of the TSXV for a Tier 1 Real Estate or Investment Issuer.
- (5) There shall not have occurred a Material Adverse Effect with respect to Sereno or Delavaco.
- (6) The Pre-Closing Reorganization has been completed in a manner satisfactory to Sereno, acting reasonably.
- (7) All necessary consents have been obtained and conditions satisfied to permit the existing indebtedness of Delavaco and each of its Subsidiaries existing as at the date hereof (excluding trade payables and other liabilities in the ordinary course), being an amount not more than US\$94,344,000, to be novated or assumed by Sereno on terms satisfactory to the existing lenders.

Section 6.2 Conditions for the Benefit of Sereno.

- (1) The completion of the transactions contemplated hereunder is subject to the following conditions being satisfied at or prior to the Effective Date, which conditions are for the exclusive benefit of Sereno and may be waived, in whole or in part, by Sereno in its sole discretion:
 - (a) The representations and warranties of Delavaco which are qualified by references to materiality or by the expression “Material Adverse Effect” were true and correct as of the date of this Agreement and are true and correct as of the Effective Date, in all respects, and all other representations and warranties of Delavaco were true and correct as of the date of this Agreement and are true and correct as of the Effective Date, in all material respects, in each case except for representations and

warranties made as of a specified date, the accuracy of which shall be determined as of such specified date, and Delavaco shall have executed and delivered a certificate of an officer to that effect.

- (b) Delavaco shall have fulfilled or complied, in all material respects, with all covenants contained in this Agreement and the Ancillary Agreements to be fulfilled or complied with by Delavaco at or prior to the Effective Date, and Delavaco shall have executed and delivered a certificate to that effect.
 - (c) The capital structure of Sereno immediately following the completion of the Amalgamation shall be as set out and described in Schedule “B” to this Agreement.
 - (d) There shall not have occurred a Material Adverse Effect with respect to Delavaco.
- (2) Delavaco shall deliver or cause to be delivered to Sereno at or prior to the Effective Date the following in form and substance satisfactory to Sereno acting reasonably:
- (i) a certified copy of the Amalgamation Resolution;
 - (ii) a certified copy of (A) all resolutions of the board of directors of Delavaco approving the entering into of this Agreement and the completion of the Amalgamation, and (B) a list of the directors and officers of Delavaco authorized to sign agreements together with their specimen signatures; and
 - (iii) a certificate of status, compliance, good standing or like certificate with respect to Delavaco issued by appropriate government officials of its jurisdiction of incorporation.

Section 6.3 Conditions for the Benefit of Delavaco.

- (1) The completion of the transactions contemplated hereunder is subject to the following conditions being satisfied at or prior to the Effective Date, which conditions are for the exclusive benefit of Delavaco and may be waived, in whole or in part, by Delavaco in its sole discretion:
- (a) The representations and warranties of Sereno which are qualified by references to materiality and warranties were true and correct as of the date of this Agreement and are true and correct as of the Effective Date, in all respects, and all other representations and warranties of Sereno were true and correct as of the date of this Agreement and are true and correct as of the Effective Date, in all material respects, in each case except for representations and warranties made as of a specified date, the accuracy of which shall be determined as of such specified date, and Sereno shall have executed and delivered a certificate to that effect.
 - (b) Sereno shall have fulfilled or complied, in all material respects, with all covenants contained in this Agreement and any Ancillary Agreement to be fulfilled or complied with by it at or prior to the Effective Date, and Sereno shall have executed and delivered a certificate to that effect.
 - (c) The capital structure of Sereno immediately following the completion of the Amalgamation shall be as set out and described in Schedule “B” to this Agreement.
 - (d) Sereno shall have no liabilities or obligations (contingent or otherwise) in excess of \$10,000, exclusive of liabilities relating to the fees and disbursements of its legal counsel and auditors appointed in connection with the Amalgamation, and Sereno shall have executed and delivered a certificate to that effect.
 - (e) Sereno shall have cash of not less than \$500,000, without giving effect to the expense relating to the completion of the Amalgamation on such cash position.
 - (f) Each of the directors and officers of Sereno shall have resigned from their respective positions.
- (2) Sereno shall deliver or cause to be delivered to Delavaco at or prior to the Effective Date the following in form and substance satisfactory to Delavaco acting reasonably:
- (a) a certified copy of (A) all resolutions of the board of directors of such entity approving the entering into of this Agreement and the completion of the Amalgamation, and (B) a list of the directors and officers authorized to sign agreements together with their specimen signatures; and

- (b) a certificate of status, compliance, good standing or like certificate with respect to Sereno issued by appropriate government officials of their respective jurisdictions of incorporation.

ARTICLE 7 TERMINATION

Section 7.1 Term.

This Agreement shall be effective from the date hereof until the earlier of the Effective Date and the termination of this Agreement in accordance with its terms.

Section 7.2 Termination Rights.

This Agreement may, by Notice in writing given prior to the Effective Date, be terminated:

- (a) by mutual consent of Delavaco and Sereno;
- (b) either Delavaco or Sereno if:
 - (i) the approval of Delavaco Shareholders of the Amalgamation or the approval of Sereno Shareholders of all matters to be considered at the Sereno Meeting, is not obtained at the Delavaco Meeting or the Sereno Meeting, respectively, provided that a Party may not terminate this Agreement pursuant to this Section 7.2(b)(i) if the failure to obtain such approval has been caused by, or is a result of, a breach by such Party of any of its representations or warranties or the failure of such Party to perform any of its covenants or agreements under this Agreement;
 - (ii) after the date of this Agreement, any Law is enacted, made, enforced or amended, as applicable, that makes the consummation of the Amalgamation illegal or otherwise permanently prohibits or enjoins Delavaco or Sereno from consummating the Amalgamation, and such Law has, if applicable, become final and non-appealable; or
 - (iii) the Effective Date does not occur on or prior to the Outside Date, provided that a Party may not terminate this Agreement pursuant to this Section 7.2(b)(iii) if the failure of the Effective Date to so occur has been caused by, or is a result of, a breach by such Party of any of its representations or warranties or the failure of such Party to perform any of its covenants or agreements under this Agreement.
- (c) by Delavaco if a breach of any representation or warranty or failure to perform any covenant or agreement on the part of Sereno under this Agreement occurs that would cause any condition in Section 6.3(1)(a) or Section 6.3(1)(b) not to be satisfied, and such breach or failure is incapable of being cured or is not cured on or prior to the Outside Date; provided that Delavaco is not then in breach of this Agreement so as to cause any condition in Section 6.2(1)(a) or Section 6.2(1)(b) not to be satisfied.
- (d) by Sereno if a breach of any representation or warranty or failure to perform any covenant or agreement on the part of Delavaco under this Agreement occurs that would cause any condition in Section 6.2(1)(a) or Section 6.2(1)(b) not to be satisfied, and such breach or failure is incapable of being cured or is not cured on or prior to the Outside Date; provided that Sereno is not then in breach of this Agreement so as to cause any condition in Section 6.3(1)(a) or Section 6.3(1)(b) not to be satisfied.

Section 7.3 Effect of Termination.

- (1) If a Party waives compliance with any of the conditions, obligations or covenants contained in this Agreement, the waiver will be without prejudice to any of its rights of termination in the event of non-fulfilment, non-observance or non-performance of any other condition, obligation or covenant in whole or in part.

- (2) If this Agreement is terminated, the Parties are released from all of their respective obligations under this Agreement except that each Party's obligations under Section 8.3 and Section 8.4 will survive.

ARTICLE 8 MISCELLANEOUS

Section 8.1 Notices.

Any notice, direction or other communication (each a “**Notice**”) given regarding the matters contemplated by this Agreement or any Ancillary Agreement must be in writing, sent by personal delivery, courier or facsimile (but not by electronic mail) and addressed:

- (a) to Sereno at:

130 King Street West, Suite 2110
Toronto, ON
M5X 1B1

Attention: Brandon Gordon
Fax Number: (416) 214-5954
Email: brandon@edencap.com

with a copy (which shall not constitute notice) to:

Bennett Jones LLP
3400 - One First Canadian Place
100 King Street West
Toronto, ON
M5X 1B8

Attention: James Clare
Fax Number: (416) 863-1716
Email: clarej@bennettjones.com

- (b) to Delavaco at:

The Exchange Tower
130 King St. A, Suite 2210
Toronto, ON M5X 1A9

Attention: Andrew DeFrancesco
Fax Number: (416) 362-2528
Email: andy@delavaco.com

with a copy (which shall not constitute notice) to:

Stikeman Elliott LLP
5300 Commerce Court West
199 Bay Street
Toronto, ON
M5B 1B9

Attention: Curtis Cusinato
Fax Number: (416) 947-0866
Email: ccusnato@stikeman.com

A Notice is deemed to be delivered and received (i) if sent by personal delivery, on the date of delivery if it is a Business Day and the delivery was made prior to 4:00 p.m. (local time in place of receipt) and otherwise on the next Business Day, (ii) if sent by same-day service courier, on the date of delivery if sent on a Business Day and delivery was made prior to 4:00 p.m. (local time in place of receipt) and otherwise on the next Business Day,

(iii) if sent by overnight courier, on the next Business Day, or (iv) if sent by e-mail or facsimile, on the Business Day following the date of confirmation of transmission by the originating facsimile. A Party may change its address for service from time to time by providing a Notice in accordance with the foregoing. Any subsequent Notice must be sent to the Party at its changed address. Any element of a Party's address that is not specifically changed in a Notice will be assumed not to be changed. Sending a copy of a Notice to a Party's legal counsel as contemplated above is for information purposes only and does not constitute delivery of the Notice to that Party. The failure to send a copy of a Notice to legal counsel does not invalidate delivery of that Notice to a Party.

Section 8.2 Time of the Essence.

Time is of the essence in this Agreement.

Section 8.3 Announcements.

No press release, public statement or announcement or other public disclosure (a "**Public Statement**") with respect to this Agreement or the transactions contemplated in this Agreement may be made except with the prior written consent and joint approval of Delavaco and Sereno, or if required by Law or a Governmental Entity. Where the Public Statement is required by Law or a Governmental Entity, the Party required to make the Public Statement will use commercially reasonable efforts to obtain the approval of the other Party as to the form, nature and extent of the disclosure.

Section 8.4 Expenses.

- (1) Except as otherwise expressly provided in this Agreement, each Party will pay for its own costs and expenses incurred in connection with this Agreement and the transactions contemplated herein, it being understood that Sereno will not pay an amount on account of its legal costs prior to the completion of the Amalgamation or the termination of this Agreement pursuant to Article 7 hereof.
- (2) Notwithstanding the foregoing, in the event that this Agreement is terminated:
 - (a) by either party pursuant to Section 7.2(b)(i), then the Party whose shareholders failed to approve the matters referred to in such Section shall pay to the other Party the Termination Payment;
 - (b) by either party pursuant to Section 7.2(b)(iii), then the terminating party shall pay the non-terminating party the Termination Payment;
 - (c) by Delavaco pursuant to Section 7.2(c), then Sereno shall pay Delavaco the Termination Payment; or
 - (d) by Sereno pursuant to Section 7.2(d), then Delavaco shall pay Sereno the Termination Payment.

The Termination Payment shall be paid within two (2) Business Days of the applicable termination of this Agreement by wire transfer of immediately available funds.

- (3) Neither Party shall be obligated to make more than one payment under Section 8.4(2) if more than one of the event specified in Section 8.4(2) occurs.
- (4) Each of the Parties acknowledges that the agreements contained in Section 8.4(2) are an integral part of the transactions contemplated in this Agreement and that, without these agreements, the Parties would not enter into this Agreement. Each Party acknowledges that all of the payment amounts set out in Section 8.4(2) are payments of liquidated damages which are a genuine pre-estimate of the damages which the Party entitled to such damages will suffer or incur as a result of the event giving rise to such payment and the resultant termination of this Agreement and are not penalties. Each Party irrevocably waives any right that it may have to raise as a defence that any such liquidated damages are excessive or punitive. Each of the Parties agrees that the payment by the other party of an amount pursuant to Section 8.4(2) is the sole remedy of such party as a result of the event giving rise to such payment, and where such payment has been paid in full the Party claiming such payment shall be precluded from any other remedy against the other Party, at law or in equity or otherwise.
- (5) The fees and expenses referred to in this Section 8.4 are those which are incurred in connection with the negotiation, preparation, execution and performance of this Agreement, and the transactions

contemplated by this Agreement, including the fees and expenses of legal counsel, investment advisers and accountants.

Section 8.5 Amendments.

This Agreement may only be amended, supplemented or otherwise modified by written agreement signed by the Parties.

Section 8.6 Waiver.

No waiver of any of the provisions of this Agreement or any Ancillary Agreement will constitute a waiver of any other provision (whether or not similar). No waiver will be binding unless executed in writing by the Party to be bound by the waiver. A Party's failure or delay in exercising any right under this Agreement will not operate as a waiver of that right. A single or partial exercise of any right will not preclude a Party from any other or further exercise of that right or the exercise of any other right.

Section 8.7 Entire Agreement.

This Agreement, together with the Ancillary Agreements, constitutes the entire agreement between the Parties with respect to the transactions contemplated by this Agreement and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the Parties. There are no representations, warranties, covenants, conditions or other agreements, express or implied, collateral, statutory or otherwise, between the Parties in connection with the subject matter of this Agreement, except as specifically set forth in this Agreement or any Ancillary Agreement. The Parties have not relied and are not relying on any other information, discussion or understanding in entering into and completing the transactions contemplated by this Agreement and the Ancillary Agreements. If there is any conflict or inconsistency between the provisions of this Agreement and the provisions of any Ancillary Agreement, the provisions of this Agreement shall govern.

Section 8.8 Successors and Assigns.

- (1) This Agreement becomes effective only when executed by Delavaco and Sereno. After that time, it will be binding upon and enure to the benefit of Delavaco and Sereno and their respective successors and permitted assigns.
- (2) Neither this Agreement nor any of the rights or obligations under this Agreement are assignable or transferable by any Party without the prior written consent of the other Parties.

Section 8.9 Severability.

If any provision of this Agreement is determined to be illegal, invalid or unenforceable by an arbitrator or any court of competent jurisdiction, that provision will be severed from this Agreement and the remaining provisions shall remain in full force and effect.

Section 8.10 Governing Law.

- (1) This Agreement will be governed by and interpreted and enforced in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.
- (2) Each Party irrevocably attorns and submits to the exclusive jurisdiction of the Ontario courts situated in the City of Toronto and waives objection to the venue of any proceeding in such court or that such court provides an inconvenient forum.

Section 8.11 Counterparts.

This Agreement may be executed in any number of counterparts (including counterparts by facsimile) and all such counterparts taken together shall be deemed to constitute one and the same instrument.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF the Parties have executed this Transaction Agreement.

DELAVACO PROPERTIES INC.

By:



Authorized Signatory

SERENO CAPITAL CORPORATION

By:



Authorized Signatory

SCHEDULE "A"
FORM OF AMALGAMATION AGREEMENT

See attached.

SCHEDULE "B"
CAPITAL STRUCTURE AFTER AMALGAMATION

See attached.

**APPENDIX D
AMALGAMATION AGREEMENT**

THIS AGREEMENT is dated as of the _____ day of _____, 2013,

A M O N G :

DELAVACO PROPERTIES INC., a corporation existing under the laws of the Province of Ontario

(hereinafter referred to as “**Delavaco**”)

OF THE FIRST PART;

– and –

2388079 ONTARIO INC., a corporation existing under the laws of the Province of Ontario

(hereinafter referred to as “**Subco**”)

OF THE SECOND PART;

– and –

SERENO CAPITAL CORPORATION, a corporation existing under the laws of the Province of Ontario

(hereinafter referred to as “**Sereno**”)

OF THE THIRD PART.

WHEREAS Delavaco and Subco wish to amalgamate and continue as one corporation to be known as “Delavaco Properties Inc.” in accordance with the terms and conditions hereof;

AND WHEREAS Subco is a wholly-owned subsidiary of Sereno and has not carried on active business;

AND WHEREAS Sereno and Delavaco are parties to the Transaction Agreement which contemplates such amalgamation;

AND WHEREAS the parties have entered into this Agreement to provide for the matters referred to in the foregoing recitals and for other matters relating to the proposed amalgamation;

NOW THEREFORE THIS AGREEMENT WITNESSES that for and in consideration of the mutual covenants and agreements herein contained and other lawful and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. **Definitions.** In this Agreement (including the recitals hereto):
 - (a) “**Act**” means the *Business Corporations Act* (Ontario) as from time to time amended or re-enacted;
 - (b) “**Agreement**” means this amalgamation agreement;
 - (c) “**Amalco**” means the continuing corporation constituted upon the amalgamation of the Amalgamating Parties pursuant to the Amalgamation;
 - (d) “**Amalco Shares**” means the common shares in the capital of Amalco;
 - (e) “**Amalgamating Parties**” means, collectively, Delavaco and Subco;
 - (f) “**Amalgamation**” means the amalgamation of Delavaco and Subco on the terms and conditions set forth in this Agreement;

- (g) “**Articles of Amalgamation**” means the articles of amalgamation to be filed with the Ontario Ministry of Consumer and Business Services in order to effect the Amalgamation;
- (h) “**Business Day**” means a day other than a Saturday, Sunday or a civic or statutory holiday in the City of Toronto, Ontario or Fort Lauderdale, Florida;
- (i) “**Certificate of Amalgamation**” means the certificate of amalgamation to be issued by the Director, as date stamped on the Articles of Amalgamation, evidencing that the Articles of Amalgamation are effective;
- (j) “**Consolidation**” means the consolidation of the Sereno Shares, the Sereno Options, the Delavaco Replacement Options and the Delavaco Replacement Warrants, on a 7:36 to 1 basis, as further set out in Section 13(g);
- (k) “**Delavaco Class A Warrants**” means the 200,000 common share purchase warrants to purchase Delavaco Shares at \$1.00, expiring on March 13, 2015;
- (l) “**Delavaco Class B Warrants**” means the 632,000 common share purchase warrants to purchase Delavaco Shares at \$1.25, expiring between July 27, 2014 and February 16, 2015;
- (m) “**Delavaco Class C Warrants**” means the 3,850,000 common share purchase warrants to purchase Delavaco Shares at \$1.30, expiring June 3, 2017;
- (n) “**Delavaco Options**” means the 2,500,000 stock options of Delavaco, each entitling the holder thereof to purchase, at an exercise price of \$0.10 per option, one Delavaco Share;
- (o) “**Delavaco Replacement Options**” means the stock options of Sereno to be issued in exchange for and replacement of the Delavaco Options, each entitling the holder to purchase, such number of Sereno Shares (rounded down to the next nearest whole Sereno Share) as is equal to the number of Delavaco Shares issuable pursuant to the Delavaco Options immediately prior to the filing of the Articles of Amalgamation multiplied by the Exchange Ratio at an exercise price per share (rounded up to the nearest whole cent) equal to the original exercise price per share of each such Delavaco Option divided by the Exchange Ratio;
- (p) “**Delavaco Replacement Warrants**” means the warrants of Sereno to be issued in exchange for and replacement of the Delavaco Warrants, each entitling the holder to purchase, such number of Sereno Shares (rounded down to the next nearest whole Sereno Share), as is equal to the number of Delavaco Shares issuable pursuant to the Delavaco Warrants immediately prior to the filing of the Articles of Amalgamation multiplied by the Exchange Ratio at an exercise price per share (rounded up to the nearest whole cent) equal to the original exercise price per share of each such Delavaco Warrant divided by the Exchange Ratio;
- (q) “**Delavaco Securityholder**” means a registered holder owning Delavaco Shares, Delavaco Options or Delavaco Warrants immediately prior to the filing of the Articles of Amalgamation;
- (r) “**Delavaco Shares**” means the common shares in the capital of Delavaco, as presently constituted on the date hereof;
- (s) “**Delavaco Warrants**” means the Delavaco Class A Warrants, the Delavaco Class B Warrants and the Delavaco Class C Warrants, collectively.
- (t) “**Director**” means the Director appointed under section 278 of the Act;
- (u) “**Dissenting Shareholder**” means a holder of Delavaco Shares who validly exercises the right of dissent available to such holder under Section 185 of the Act in respect of the resolution approving the Amalgamation;
- (v) “**Dissenting Delavaco Shares**” means the number of Delavaco Shares of a Dissenting Shareholder in respect of which such shareholder has validly exercised its dissent rights in respect of the Amalgamation;
- (w) “**Effective Time**” means 12:01 a.m. (Toronto time) on the Qualifying Transaction Date;

- (x) “**Exchange Ratio**” means 7.36;
 - (y) “**Ministry**” means the Ontario Ministry of Consumer and Business Services;
 - (z) “**Paid-up Capital**” has the meaning assigned to the term “paid-up capital” in subsection 89(1) of the *Income Tax Act* (Canada));
 - (aa) “**Qualifying Transaction**” means the business combination between Sereno and Delavaco wherein Sereno will acquire 100% of the issued and outstanding shares of Delavaco by way of the Amalgamation, which will constitute the qualifying transaction of Sereno pursuant to TSXV Policy 2.4 — *Capital Pool Companies*;
 - (bb) “**Qualifying Transaction Date**” means the date the Qualifying Transaction is completed, as evidenced by the issuance of the Certificate of Amalgamation giving effect to the Amalgamation;
 - (cc) “**Sereno Shares**” means the common shares in the capital of Sereno, as presently constituted on the date hereof;
 - (dd) “**Sereno Options**” means the 262,500 existing stock options of Sereno, each entitling the holder to purchase one Sereno Share at an exercise price of \$0.25 per share, in accordance with their terms;
 - (ee) “**Sereno Replacement Options**” has the meaning ascribed to such term in Section 13(g)(iv);
 - (ff) “**Subco Shares**” means the common shares in the capital of Subco;
 - (gg) “**TSXV**” means the TSX Venture Exchange; and
 - (hh) “**Transaction Agreement**” means the transaction agreement dated September 18, 2013 among Sereno and Delavaco governing the terms and conditions of the Qualifying Transaction, as amended from time to time.
2. **Amalgamation.** In accordance with the Transaction Agreement, the Amalgamating Parties hereby agree to amalgamate and continue as one corporation under the provisions of the Act upon the terms and conditions hereinafter set out.
 3. **Certain Phrases, etc.** In this Agreement (i) the words “including”, “includes” and “include” mean “including (or includes or include) without limitation”, and (ii) the phrase “the aggregate of”, “the total of”, “the sum of”, or a phrase of similar meaning means “the aggregate (or total or sum), without duplication, of”. In the computation of periods of time from a specified date to a later specified date, unless otherwise expressly stated, the word “from” means “from and including” and the words “to” and “until” each mean “to but excluding”.
 4. **Effect of Amalgamation.** At the Effective Time, subject to the Act:
 - (a) the amalgamation of the Amalgamating Parties and their continuance as one corporation, Amalco, under the terms and conditions prescribed in this Agreement shall be effective;
 - (b) the property of each of the Amalgamating Parties shall continue to be the property of Amalco;
 - (c) Amalco will be a wholly-owned subsidiary of Sereno;
 - (d) Amalco shall continue to be liable for the obligations of each of the Amalgamating Parties;
 - (e) any existing cause of action, claim or liability to prosecution with respect to either or both of the Amalgamating Parties shall be unaffected;
 - (f) any civil, criminal or administrative action or proceeding pending by or against any of the Amalgamating Parties may be continued to be prosecuted by or against Amalco;
 - (g) any conviction against, or ruling, order or judgment in favour of or against, any of the Amalgamating Parties may be enforced by or against Amalco; and

- (h) the Articles of Amalgamation shall be deemed to be the articles of incorporation of Amalco and the Certificate of Amalgamation shall be deemed to be the certificate of incorporation of Amalco.
5. **Name.** The name of Amalco shall be “Delavaco Properties Inc.”.
6. **Registered Office.** The registered office of Amalco shall be located at The Exchange Tower, 130 King Street West, Suite 2210, Toronto, Ontario M5X 1A9.
7. **Authorized Capital.** The authorized capital of Amalco shall consist of an unlimited number of Amalco Shares, which shares shall have the rights, privileges, restrictions and conditions as set out in the Act.
8. **Restrictions on Business.** There shall be no restrictions on the business which Amalco is authorized to carry on.
9. **Transfer Restrictions.** The right to transfer securities of Amalco shall be restricted. Securities of Amalco, other than non-convertible debt securities, may not be transferred unless:
- (a) (i) the consent of the directors of Amalco is obtained; or (ii) the consent of shareholders holding more than 66⅔% of the shares entitled to vote at such time is obtained; or
 - (b) the restrictions on transfer in any unanimous shareholders’ agreement are complied with; or
 - (c) in the case of securities, other than shares which are subject to restrictions on transfer contained in a securityholders’ agreement, such restrictions on transfer are complied with.
- The consent of the directors or the shareholders for the purposes of this section is evidenced by a resolution of the directors or shareholders, as the case may be, or by an instrument or instruments in writing signed by a majority of the directors, or by all of the shareholders.
10. **Number of Directors.** The minimum number of directors of Amalco shall be one (1) and the maximum number of directors of Amalco shall be ten (10).
11. **By-laws.** The by-laws of Delavaco shall, so far as applicable, be the by-laws of Amalco until repealed or amended in the normal manner provided for in the Act. Prior to the Effective Time, a copy of such by-laws may be examined at the registered address of Delavaco at any time during regular business hours.
12. **First Directors.** The first directors of Amalco, at least one of whom is resident Canadian, shall be the Persons whose names and addresses are set out below, who shall hold office until the first annual meeting of shareholders of Amalco or until their successors are duly elected or appointed and will be responsible for the subsequent management and operation of Amalco:

Name	Address
Andrew DeFrancesco	811 Poinciana Dr. Ft. Lauderdale, Florida, United States 33301
Michael Galloro	73 Richmond Street, PH3 Toronto, Ontario, Canada M5H 1Z4

13. **Treatment of Issued Capital.** Subject to Section 31 hereof, on the Effective Time:
- (a) each issued and outstanding Subco Share will be cancelled and replaced by one issued and fully paid Amalco Share for each Subco Share held by Sereno;
 - (b) holders of issued and outstanding Delavaco Shares (other than Dissenting Delavaco Shares) shall receive from Sereno such number of fully paid Sereno Shares as is equal to the number of Delavaco Shares so held multiplied by the Exchange Ratio;
 - (c) Delavaco Shares replaced by issued and fully paid Sereno Shares in accordance with the provisions of Section 13(b) hereof will be cancelled;

- (d) in consideration of the issuance by Sereno of the Sereno Shares pursuant to Section 13(b), Amalco shall issue to Sereno one fully paid and non-assessable Amalco Share for each Sereno Share issued to former holders of Delavaco Shares;
 - (e) each outstanding Delavaco Option will be replaced with one Delavaco Replacement Option, and each such Delavaco Option will be cancelled;
 - (f) each outstanding Delavaco Warrant will be replaced with one Delavaco Replacement Warrant, and each such Delavaco Warrant will be cancelled; and
 - (g) immediately after the Amalgamation, the Consolidation shall occur, such that:
 - (i) each of the issued and outstanding Sereno Shares (including the Sereno Shares issued pursuant to Section 13(b)) are consolidated on the basis of 7.36 pre-consolidation Sereno Shares for one (1) post-consolidation Sereno Share;
 - (ii) each of the issued and outstanding Delavaco Replacement Options are consolidated such that each holder thereof is entitled to purchase that number of Sereno Shares (rounded down to the next nearest whole Sereno Share) as is equal to the number of Sereno Shares issuable pursuant to the Delavaco Replacement Options immediately prior to the Consolidation divided by 7.36 at an exercise price per share (rounded up to the nearest whole cent) equal to the original exercise price per share of each such Delavaco Replacement Option multiplied by 7.36;
 - (iii) each of the issued and outstanding Delavaco Replacement Warrants are consolidated such that each holder thereof is entitled to purchase that number of Sereno Shares (rounded down to the next nearest whole Sereno Share) as is equal to the number of Sereno Shares issuable pursuant to the Delavaco Replacement Warrants immediately prior to the Consolidation divided by 7.36 at an exercise price per share (rounded up to the nearest whole cent) equal to the original exercise price per share of each such Delavaco Replacement Warrant multiplied by 7.36; and
 - (iv) each of the issued and outstanding Sereno Options are consolidated such that each holder thereof is entitled to purchase that number of Sereno Shares (rounded down to the next nearest whole Sereno Share) as is equal to the number of Sereno Shares issuable pursuant to the Sereno Options immediately prior to the Consolidation divided by 7.36 at an exercise price per share (rounded up to the nearest whole cent) equal to the original exercise price per share of each such Sereno Option multiplied by 7.36 (the “**Sereno Replacement Options**”).
14. **No Fractional Shares, Options or Warrants upon Conversion.** Notwithstanding Section 13 of this Agreement, no Delavaco Securityholder shall be entitled to, and Sereno will not issue, fractions of Sereno Shares, Delavaco Replacement Options or Delavaco Replacement Warrants, as the case may be and no cash amount will be payable by Sereno in lieu thereof. To the extent any Delavaco Securityholder is entitled to receive a fractional Sereno Share, Delavaco Replacement Option or Delavaco Replacement Warrant, as the case may be, such fraction shall be rounded down to the closest whole number of the applicable security.
15. **Certificates.** On the Qualifying Transaction Date:
- (a) the registered holders of Delavaco Shares (other than Dissenting Shareholders who are ultimately entitled to be paid fair value for their Delavaco Shares), Delavaco Options and Delavaco Warrants (collectively, the “**Original Securities**”) shall be deemed to be the registered holders of the Sereno Shares, Delavaco Replacement Options and Delavaco Replacement Warrants (collectively, the “**Replacement Securities**”), respectively, to which they are entitled hereunder, and upon surrender to Sereno of the certificates representing the issued and outstanding Original Securities, such Delavaco Securityholders shall be entitled, in exchange, to receive certificates representing the Replacement Securities, as the case may be, as set forth in Section 13 hereof;

- (b) Sereno, as the registered holder of the Subco Shares, shall be deemed to be the registered holder of the Amalco Shares to which it is entitled hereunder and, upon surrender of the certificates representing such Subco Shares to Amalco, Sereno shall be entitled to receive a share certificate representing the number of Amalco Shares to which it is entitled as set forth in Section 13 hereof;
 - (c) share certificates evidencing Delavaco Shares and certificates representing the other Original Securities shall cease to represent any claim upon or interest in Delavaco or Amalco other than the right of the holder to receive, pursuant to the terms hereof and the Amalgamation, the applicable Replacement Securities in accordance with Section 13 hereof;
 - (d) upon the delivery and surrender by a Delavaco Securityholder to Sereno of certificates representing all of the Original Securities owned by such Delavaco Securityholder which have been exchanged for Replacement Securities, as the case may be and in accordance with the provisions of Sections 13(b), (e), (f) and (g) hereof, Sereno shall on the later of: (i) the second Business Day following the Qualifying Transaction Date; and (ii) the date of receipt by Sereno of the certificates referred to above, issue to each such Delavaco Securityholder certificates representing the number of Replacement Securities, as the case may be, to which such holder is entitled; and
 - (e) Upon delivery and surrender by a holder of Sereno Options to Sereno of certificates representing all of the Sereno Options owned by such holder, Sereno shall on the later of: (i) the second Business Day following the Qualifying Transaction Date; and (ii) the date of receipt by Sereno of the certificates referred to above, issue to such holder of Sereno Options certificates representing the number of Sereno Replacement Options, as the case may be, to which such holder is entitled.
16. **Lost Certificates.** In the event any certificate which immediately prior to the Effective Time represented one or more outstanding Original Securities that were exchanged pursuant to Section 13 shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the holder of such Original Security claiming such certificate to be lost, stolen or destroyed, Sereno will issue in exchange for such lost, stolen or destroyed certificate, one or more certificates representing the applicable Replacement Security pursuant to Section 13. The holder to whom certificates representing Replacement Securities are to be issued shall, as a condition precedent to the issuance thereof, give a bond satisfactory to Sereno in such sum as Sereno may direct or otherwise indemnify Sereno in a manner satisfactory to Sereno against any claim that may be made against Sereno with respect to the certificate alleged to have been lost, stolen or destroyed.
17. **Amalco Stated Capital.** The amount to be added to the stated capital account maintained in respect of the Amalco Shares in connection with the issue of Amalco Shares under Section 13 hereof on the Qualifying Transaction Date shall be the amount which is the sum of (i) the Paid-up Capital, determined immediately before the Effective Time, of all the issued and outstanding Delavaco Shares and (ii) the Paid-up Capital, determined immediately before the Effective Time, of the issued and outstanding Subco Shares converted into Amalco Shares.
18. **Sereno Stated Capital.** Sereno shall add an amount to the stated capital maintained in respect of the Sereno Shares an amount equal to the Paid-Up Capital of the Delavaco Shares, determined immediately prior to the Effective Time less the Paid-Up Capital of any Delavaco Shares held by Dissenting Shareholders who do not exchange their Delavaco Shares for Sereno Shares on the Amalgamation.
19. **Covenants of Delavaco.** Delavaco covenants and agrees with Subco and Sereno that it will:
- (a) use reasonable commercial efforts to obtain a resolution of the holders of Delavaco Shares approving the Amalgamation, this Agreement and the transactions contemplated hereby in accordance with the Act;
 - (b) use reasonable efforts to cause each of the conditions precedent set forth in Sections 26 and 27 hereof to be complied with; and
 - (c) subject to the approval of the shareholders of each of Delavaco and Subco being obtained for the completion of the Amalgamation and subject to all applicable regulatory approvals being obtained,

including that of the TSXV for the Qualifying Transaction, thereafter jointly with Subco file with the Ministry the Articles of Amalgamation and such other documents as may be required to give effect to the Amalgamation upon and subject to the terms and conditions of this Agreement.

20. **Covenants of Sereno.** Sereno covenants and agrees with Delavaco that it will:
 - (a) sign a resolution as sole shareholder of Subco in favour of the approval of the Amalgamation, this Agreement and the transactions contemplated hereby in accordance with the Act;
 - (b) use reasonable efforts to cause each of the conditions precedent set forth in Sections 26 and 28 hereof to be complied with; and
 - (c) subject to the approval of the holders of Delavaco Shares being obtained for the completion of the Amalgamation, and the obtaining of all applicable regulatory approvals including that of the TSXV for the Qualifying Transaction and the issuance of the Certificate of Amalgamation, issue that number of Sereno Shares and Replacement Securities as required by Sections 13(b), (e), (f) and (g) hereof.
21. **Covenants of Subco.** Subco covenants and agrees with Delavaco and Sereno that it will not from the date of execution hereof to the Qualifying Transaction Date, except with the prior written consent of Delavaco and Sereno, conduct any business which would prevent Subco or Amalco from performing any of their respective obligations hereunder.
22. **Further Covenants of Subco.** Subco further covenants and agrees with Delavaco that it will:
 - (a) use its best efforts to cause each of the conditions precedent set forth in Section 26 hereof to be complied with; and
 - (b) subject to the approval of the holders of Delavaco Shares and the sole shareholder of Subco being obtained and subject to the obtaining of all applicable regulatory approvals, thereafter jointly with Delavaco file with the Ministry the Articles of Amalgamation and such other documents as may be required to give effect to the Amalgamation upon and subject to the terms and conditions of this Agreement.
23. **Representation and Warranty of Sereno.** Sereno hereby represents and warrants to and in favour of Delavaco and Subco and acknowledges that Delavaco and Subco are relying upon such representation and warranty, that Sereno is duly authorized to execute and deliver this Agreement and this Agreement is a valid and binding agreement, enforceable against Sereno in accordance with its terms.
24. **Representation and Warranty of Delavaco.** Delavaco hereby represents and warrants to and in favour of Sereno and Subco, and acknowledges that Sereno and Subco are relying upon such representation and warranty, that Delavaco is duly authorized to execute and deliver this Agreement and this Agreement is a valid and binding agreement, enforceable against Delavaco in accordance with its terms.
25. **Representation and Warranty of Subco.** Subco represents and warrants to and in favour of Delavaco and Sereno, and acknowledges that Delavaco and Sereno are relying upon such representations and warranty, that Subco is duly authorized to execute and deliver this Agreement and this Agreement is a valid and binding agreement, enforceable against Subco in accordance with its terms.
26. **General Conditions Precedent.** The respective obligations of the parties hereto to consummate the transactions contemplated hereby, and in particular the Amalgamation, are subject to the satisfaction, on or before the Qualifying Transaction Date, of the following conditions, any of which may be waived by the consent of each of the parties without prejudice to their rights to rely on any other or others of such conditions:
 - (a) this Agreement and the transactions contemplated hereby, including, in particular, the Amalgamation, shall be approved by the sole shareholder of Subco and by the holders of Delavaco Shares in accordance with the Act;

- (b) all the conditions required to close the Qualifying Transaction set out herein and in the Transaction Agreement being met or waived; and
- (c) there shall not be in force any order or decree restraining or enjoining the consummation of the transactions contemplated by this Agreement, including, without limitation, the Amalgamation.

27. **Conditions to Obligations of Sereno and Subco.** The obligations of Sereno and Subco to consummate the transactions contemplated hereby and in particular the issue of the Sereno Shares and Replacement Securities and the Amalgamation, as the case may be, are subject to the satisfaction, on or before the Qualifying Transaction Date, of the conditions for the benefit of Sereno set forth in the Transaction Agreement governing the terms and conditions of the Qualifying Transaction and of the following conditions:

- (a) the acts of Delavaco to be performed on or before the Qualifying Transaction Date pursuant to the terms of this Agreement shall have been duly performed by it and there shall have been no material adverse change in the financial condition or business of Delavaco, taken as a whole, from and after the date hereof; and
- (b) Sereno and Subco shall have received a certificate from a senior officer of Delavaco confirming that the conditions set forth in Sections 26 and 27(a) hereof have been satisfied.

The conditions described above are for the exclusive benefit of Sereno and Subco and may be asserted by Sereno and Subco regardless of the circumstances or may be waived by Sereno and Subco in their sole discretion, in whole or in part, at any time and from time to time without prejudice to any other rights which Sereno and Subco may have.

28. **Conditions to Obligations of Delavaco.** The obligations of Delavaco to consummate the transactions contemplated hereby and in particular the Amalgamation are subject to the satisfaction, on or before the Qualifying Transaction Date, of the conditions for the benefit of Delavaco set forth in the Transaction Agreement governing the terms and conditions of the Qualifying Transaction and of the following conditions:

- (a) each of the acts of Sereno and Subco to be performed on or before the Qualifying Transaction Date pursuant to the terms of this Agreement shall have been duly performed by them and there shall have been no material adverse change in the financial condition or business of Sereno and Subco, taken as a whole, from and after the date hereof; and
- (b) Delavaco shall have received a certificate from a senior officer of each of Sereno and Subco confirming that the conditions set forth in Sections 26 and 28(a) hereof have been satisfied.

The conditions described above are for the exclusive benefit of Delavaco and may be asserted by Delavaco regardless of the circumstances or may be waived by Delavaco in its sole discretion, in whole or in part, at any time and from time to time without prejudice to any other rights which Delavaco may have.

29. **Amendment.** This Agreement may at any time and from time to time be amended by written agreement of the parties hereto without, subject to applicable law, further notice to or authorization on the part of their respective shareholders and any such amendment may, without limitation:

- (a) change the time for performance of any of the obligations or acts of the parties hereto;
- (b) waive any inaccuracies or modify any representation or warranty contained herein or in any document delivered pursuant hereto;
- (c) waive compliance with or modify any of the covenants contained herein and waive or modify performance of any of the obligations of the parties hereto; or
- (d) waive compliance with or modify any other conditions precedent contained herein;

provided that no such amendment shall change the provisions hereof regarding the consideration to be received by Delavaco Securityholders in exchange for their Delavaco Shares, Delavaco Options or

Delavaco Warrants without approval by the Delavaco Securityholders given in the same manner as required for the approval of the Amalgamation.

30. **Termination.** This Agreement may, prior to the issuance of the Certificate of Amalgamation, be terminated by mutual agreement of the respective boards of directors of the parties hereto, without further action on the part of the shareholders of Delavaco or Subco. This Agreement shall also terminate without further notice or agreement if:
- (a) the Amalgamation is not approved by the shareholders of Delavaco entitled to vote in accordance with the Act; or
 - (b) the Transaction Agreement is terminated.
31. **Dissenting Delavaco Shareholders.** Notwithstanding anything in this Agreement to the contrary, Dissenting Delavaco Shares shall not be exchanged for Sereno Shares on the Qualifying Transaction Date as provided in Section 13 hereof. Each Dissenting Delavaco Shareholder shall cease to have any rights as a Delavaco Shareholder other than the right to be paid by Amalco the fair value of the Dissenting Delavaco Shares held by the Dissenting Delavaco Shareholder in accordance with Section 185 of the Act. However, in the event that a Dissenting Shareholder fails to perfect or effectively withdraws its claim under Section 185 of the Act or otherwise forfeits its right to make a claim under Section 185 of the Act, such Dissenting Shareholder shall thereupon be deemed to have been received as of the Qualifying Transaction Date the number of Sereno Shares on the basis set forth in Section 13 hereof.
32. **Binding Effect.** This Agreement shall be binding upon and enure to the benefit of the parties hereto and their successors and permitted assigns.
33. **Assignment.** No party to this Agreement may assign any of its rights or obligations under this Agreement without the prior written consent of each of the other parties.
34. **Further Assurances.** Each of the parties hereto agrees to execute and deliver such further instruments and to do such further reasonable acts and things as may be necessary or appropriate to carry out the intent of this Agreement.
35. **Notice.** Any notice which a party may desire to give or serve upon another party shall be in writing and may be delivered, mailed by prepaid registered mail, return receipt requested or sent by telecopy transmission to the following addresses:
- (a) Delavaco Properties Inc.
1 Richmond Street West, Suite 500
P.O. Box 17, Toronto, ON
M5H 3W4
Facsimile No.: (416) 362-2528
 - (b) Sereno Capital Corporation and 2388079 Ontario Inc.:
130 King Street West, Suite 2110
Toronto, ON
M5X 1B1
Facsimile No.: (416) 214-5954
- or to such other address as the party to or upon whom notice is to be given or served has communicated to the other parties by notice given or served in the manner provided for in this Section. In the case of delivery or telecopy transmission, notice shall be deemed to be given on the date of delivery and in the case of mailing, notice shall be deemed to be given on the third Business Day after such mailing.
36. **Time of Essence.** Time shall be of the essence of this Agreement.
37. **Governing Law.** This Agreement shall be governed by and construed in accordance with the Laws of the Province of Ontario and the federal Laws of Canada applicable therein.

IN WITNESS WHEREOF, this Agreement has been duly executed by the parties hereto as of the date first above written.

DELAVACO PROPERTIES INC.

Per: _____
Name:
Title:

2388079 ONTARIO INC.

Per: _____
Name:
Title:

SERENO CAPITAL CORPORATION

Per: _____
Name:
Title:

APPENDIX E
SECTION 185 OF THE OBCA

- 185.** (1) Subject to subsection (3) and to sections 186 and 248, if a corporation resolves to,
- (a) amend its articles under section 168 to add, remove or change restrictions on the issue, transfer or ownership of shares of a class or series of the shares of the corporation;
 - (b) amend its articles under section 168 to add, remove or change any restriction upon the business or businesses that the corporation may carry on or upon the powers that the corporation may exercise;
 - (c) amalgamate with another corporation under sections 175 and 176;
 - (d) be continued under the laws of another jurisdiction under section 181; or
 - (e) sell, lease or exchange all or substantially all its property under subsection 184 (3),
- a holder of shares of any class or series entitled to vote on the resolution may dissent. R.S.O. 1990, c. B.16, s. 185 (1).

Idem

- (2) If a corporation resolves to amend its articles in a manner referred to in subsection 170 (1), a holder of shares of any class or series entitled to vote on the amendment under section 168 or 170 may dissent, except in respect of an amendment referred to in,
- (a) clause 170 (1) (a), (b) or (c) where the articles provide that the holders of shares of such class or series are not entitled to dissent; or
 - (b) subsection 170 (5) or (6). R.S.O. 1990, c. B.16, s. 185 (2).

One class of shares

(2.1) The right to dissent described in subsection (2) applies even if there is only one class of shares. 2006, c. 34, Sched. B, s. 35.

Exception

- (3) A shareholder of a corporation incorporated before the 29th day of July, 1983 is not entitled to dissent under this section in respect of an amendment of the articles of the corporation to the extent that the amendment,
- (a) amends the express terms of any provision of the articles of the corporation to conform to the terms of the provision as deemed to be amended by section 277; or
 - (b) deletes from the articles of the corporation all of the objects of the corporation set out in its articles, provided that the deletion is made by the 29th day of July, 1986. R.S.O. 1990, c. B.16, s. 185 (3).

Shareholder's right to be paid fair value

(4) In addition to any other right the shareholder may have, but subject to subsection (30), a shareholder who complies with this section is entitled, when the action approved by the resolution from which the shareholder dissents becomes effective, to be paid by the corporation the fair value of the shares held by the shareholder in respect of which the shareholder dissents, determined as of the close of business on the day before the resolution was adopted. R.S.O. 1990, c. B.16, s. 185 (4).

No partial dissent

(5) A dissenting shareholder may only claim under this section with respect to all the shares of a class held by the dissenting shareholder on behalf of any one beneficial owner and registered in the name of the dissenting shareholder. R.S.O. 1990, c. B.16, s. 185 (5).

Objection

(6) A dissenting shareholder shall send to the corporation, at or before any meeting of shareholders at which a resolution referred to in subsection (1) or (2) is to be voted on, a written objection to the resolution, unless the corporation did not give notice to the shareholder of the purpose of the meeting or of the shareholder's right to dissent. R.S.O. 1990, c. B.16, s. 185 (6).

Idem

(7) The execution or exercise of a proxy does not constitute a written objection for purposes of subsection (6). R.S.O. 1990, c. B.16, s. 185 (7).

Notice of adoption of resolution

(8) The corporation shall, within ten days after the shareholders adopt the resolution, send to each shareholder who has filed the objection referred to in subsection (6) notice that the resolution has been adopted, but such notice is not required to be sent to any shareholder who voted for the resolution or who has withdrawn the objection. R.S.O. 1990, c. B.16, s. 185 (8).

Idem

(9) A notice sent under subsection (8) shall set out the rights of the dissenting shareholder and the procedures to be followed to exercise those rights. R.S.O. 1990, c. B.16, s. 185 (9).

Demand for payment of fair value

(10) A dissenting shareholder entitled to receive notice under subsection (8) shall, within twenty days after receiving such notice, or, if the shareholder does not receive such notice, within twenty days after learning that the resolution has been adopted, send to the corporation a written notice containing,

- (a) the shareholder's name and address;
- (b) the number and class of shares in respect of which the shareholder dissents; and
- (c) a demand for payment of the fair value of such shares. R.S.O. 1990, c. B.16, s. 185 (10).

Certificates to be sent in

(11) Not later than the thirtieth day after the sending of a notice under subsection (10), a dissenting shareholder shall send the certificates representing the shares in respect of which the shareholder dissents to the corporation or its transfer agent. R.S.O. 1990, c. B.16, s. 185 (11).

Idem

(12) A dissenting shareholder who fails to comply with subsections (6), (10) and (11) has no right to make a claim under this section. R.S.O. 1990, c. B.16, s. 185 (12).

Endorsement on certificate

(13) A corporation or its transfer agent shall endorse on any share certificate received under subsection (11) a notice that the holder is a dissenting shareholder under this section and shall return forthwith the share certificates to the dissenting shareholder. R.S.O. 1990, c. B.16, s. 185 (13).

Rights of dissenting shareholder

(14) On sending a notice under subsection (10), a dissenting shareholder ceases to have any rights as a shareholder other than the right to be paid the fair value of the shares as determined under this section except where,

- (a) the dissenting shareholder withdraws notice before the corporation makes an offer under subsection (15);
- (b) the corporation fails to make an offer in accordance with subsection (15) and the dissenting shareholder withdraws notice; or
- (c) the directors revoke a resolution to amend the articles under subsection 168 (3), terminate an amalgamation agreement under subsection 176 (5) or an application for continuance under subsection 181 (5), or abandon a sale, lease or exchange under subsection 184 (8),

in which case the dissenting shareholder's rights are reinstated as of the date the dissenting shareholder sent the notice referred to in subsection (10), and the dissenting shareholder is entitled, upon presentation and surrender to the corporation or its transfer agent of any certificate representing the shares that has been endorsed in accordance with subsection (13), to be issued a new certificate representing the same number of shares as the certificate so presented, without payment of any fee. R.S.O. 1990, c. B.16, s. 185 (14).

Offer to pay

(15) A corporation shall, not later than seven days after the later of the day on which the action approved by the resolution is effective or the day the corporation received the notice referred to in subsection (10), send to each dissenting shareholder who has sent such notice,

- (a) a written offer to pay for the dissenting shareholder's shares in an amount considered by the directors of the corporation to be the fair value thereof, accompanied by a statement showing how the fair value was determined; or
- (b) if subsection (30) applies, a notification that it is unable lawfully to pay dissenting shareholders for their shares. R.S.O. 1990, c. B.16, s. 185 (15).

Idem

(16) Every offer made under subsection (15) for shares of the same class or series shall be on the same terms. R.S.O. 1990, c. B.16, s. 185 (16).

Idem

(17) Subject to subsection (30), a corporation shall pay for the shares of a dissenting shareholder within ten days after an offer made under subsection (15) has been accepted, but any such offer lapses if the corporation does not receive an acceptance thereof within thirty days after the offer has been made. R.S.O. 1990, c. B.16, s. 185 (17).

Application to court to fix fair value

(18) Where a corporation fails to make an offer under subsection (15) or if a dissenting shareholder fails to accept an offer, the corporation may, within fifty days after the action approved by the resolution is effective or within such further period as the court may allow, apply to the court to fix a fair value for the shares of any dissenting shareholder. R.S.O. 1990, c. B.16, s. 185 (18).

Idem

(19) If a corporation fails to apply to the court under subsection (18), a dissenting shareholder may apply to the court for the same purpose within a further period of twenty days or within such further period as the court may allow. R.S.O. 1990, c. B.16, s. 185 (19).

Idem

(20) A dissenting shareholder is not required to give security for costs in an application made under subsection (18) or (19). R.S.O. 1990, c. B.16, s. 185 (20).

Costs

(21) If a corporation fails to comply with subsection (15), then the costs of a shareholder application under subsection (19) are to be borne by the corporation unless the court otherwise orders. R.S.O. 1990, c. B.16, s. 185 (21).

Notice to shareholders

(22) Before making application to the court under subsection (18) or not later than seven days after receiving notice of an application to the court under subsection (19), as the case may be, a corporation shall give notice to each dissenting shareholder who, at the date upon which the notice is given,

(a) has sent to the corporation the notice referred to in subsection (10); and

(b) has not accepted an offer made by the corporation under subsection (15), if such an offer was made,

of the date, place and consequences of the application and of the dissenting shareholder's right to appear and be heard in person or by counsel, and a similar notice shall be given to each dissenting shareholder who, after the date of such first mentioned notice and before termination of the proceedings commenced by the application, satisfies the conditions set out in clauses (a) and (b) within three days after the dissenting shareholder satisfies such conditions. R.S.O. 1990, c. B.16, s. 185 (22).

Parties joined

(23) All dissenting shareholders who satisfy the conditions set out in clauses (22)(a) and (b) shall be deemed to be joined as parties to an application under subsection (18) or (19) on the later of the date upon which the application is brought and the date upon which they satisfy the conditions, and shall be bound by the decision rendered by the court in the proceedings commenced by the application. R.S.O. 1990, c. B.16, s. 185 (23).

Idem

(24) Upon an application to the court under subsection (18) or (19), the court may determine whether any other person is a dissenting shareholder who should be joined as a party, and the court shall fix a fair value for the shares of all dissenting shareholders. R.S.O. 1990, c. B.16, s. 185 (24).

Appraisers

(25) The court may in its discretion appoint one or more appraisers to assist the court to fix a fair value for the shares of the dissenting shareholders. R.S.O. 1990, c. B.16, s. 185 (25).

Final order

(26) The final order of the court in the proceedings commenced by an application under subsection (18) or (19) shall be rendered against the corporation and in favour of each dissenting shareholder who, whether before or after the date of the order, complies with the conditions set out in clauses (22) (a) and (b). R.S.O. 1990, c. B.16, s. 185 (26).

Interest

(27) The court may in its discretion allow a reasonable rate of interest on the amount payable to each dissenting shareholder from the date the action approved by the resolution is effective until the date of payment. R.S.O. 1990, c. B.16, s. 185 (27).

Where corporation unable to pay

(28) Where subsection (30) applies, the corporation shall, within ten days after the pronouncement of an order under subsection (26), notify each dissenting shareholder that it is unable lawfully to pay dissenting shareholders for their shares. R.S.O. 1990, c. B.16, s. 185 (28).

Idem

(29) Where subsection (30) applies, a dissenting shareholder, by written notice sent to the corporation within thirty days after receiving a notice under subsection (28), may,

- (a) withdraw a notice of dissent, in which case the corporation is deemed to consent to the withdrawal and the shareholder's full rights are reinstated; or
- (b) retain a status as a claimant against the corporation, to be paid as soon as the corporation is lawfully able to do so or, in a liquidation, to be ranked subordinate to the rights of creditors of the corporation but in priority to its shareholders. R.S.O. 1990, c. B.16, s. 185 (29).

Idem

(30) A corporation shall not make a payment to a dissenting shareholder under this section if there are reasonable grounds for believing that,

- (a) the corporation is or, after the payment, would be unable to pay its liabilities as they become due; or
- (b) the realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities. R.S.O. 1990, c. B.16, s. 185 (30).

Court order

(31) Upon application by a corporation that proposes to take any of the actions referred to in subsection (1) or (2), the court may, if satisfied that the proposed action is not in all the circumstances one that should give rise to the rights arising under subsection (4), by order declare that those rights will not arise upon the taking of the proposed action, and the order may be subject to compliance upon such terms and conditions as the court thinks fit and, if the corporation is an offering corporation, notice of any such application and a copy of any order made by the court upon such application shall be served upon the Commission. 1994, c. 27, s. 71 (24).

Commission may appear

(32) The Commission may appoint counsel to assist the court upon the hearing of an application under subsection (31), if the corporation is an offering corporation. 1994, c. 27, s. 71 (24).

**APPENDIX F
NEW OPTION PLAN**

**DELAVACO RESIDENTIAL PROPERTIES INC.
INCENTIVE STOCK OPTION PLAN**

Section 1 General Provisions

1.1 Interpretation

For the purposes of this Plan, the following terms shall have the following meanings:

- (a) **“Applicable Withholdings and Deductions”** has the meaning given to that term in Section 1.10;
- (b) **“Associate”** has the meaning ascribed to that term such term in Policy 1.1 of the TSXV and any amendment thereto or replacement thereof;
- (c) **“Associated Companies”, “Affiliated Companies”, “Controlled Companies”** and **“Subsidiary Companies”** have the meanings ascribed to those terms under Section 1(1) of the *Securities Act* (Ontario);
- (d) **“Board”** has the meaning given to that term in Section 1.3(c);
- (e) **“Business Day”** means any day other than a Saturday, Sunday or a statutory or civic holiday in Ontario;
- (f) **“Cause”** means (i) if the Participant has a written employment agreement with the Corporation or a Subsidiary Company of the Corporation in which “cause” is defined, “cause” as defined therein; or otherwise (ii) (A) the inability of the Participant to perform his or her duties due to a legal impediment such as an injunction, restraining order or other type of judicial judgment, decree or order entered against the Participant; (B) the failure of the Participant to follow the Corporation’s reasonable instructions with respect to the performance of his or her duties; (C) any material breach by the Participant of his or her obligations under any code of ethics, any other code of business conduct or any lawful policies or procedures of the Corporation; (D) excessive absenteeism, flagrant neglect of duties, serious misconduct, or conviction of crime or fraud; and (E) any other act or omission of the Participant which would in law permit an employer to, without notice or payment in lieu of notice, terminate the employment of an employee;
- (g) **“Certificate”** has the meaning given to that term in Section 1.3(d);
- (h) **“Change of Control Event”** means:
 - (i) The sale by the Corporation of all or substantially all of its assets;
 - (ii) The acceptance by the Shareholders, representing in the aggregate fifty percent (50%) or more of all of the issued Common Shares, of any offer, whether by way of a takeover bid or otherwise, for all or any of the outstanding Common Shares; provided that no change of control event shall be deemed to have occurred if upon completion of any such transaction individuals who were members of the Board immediately prior to the effective date of such transaction constitute a majority of the board of directors of the resulting corporation following such effective date;
 - (iii) The acquisition, by whatever means, by a person (or two or more persons who, in such acquisition, have acted jointly or in concert or intend to exercise jointly or in concert any voting rights attaching to the Common Shares acquired), directly or indirectly, of beneficial ownership of such number of Common Shares or rights to Common Shares, which together with such person’s then-owned Common Shares and rights to Common Shares, if any, represent (assuming the full exercise of such rights) fifty percent (50%) or more of the combined voting rights attached to the then-outstanding Common Shares;

- (iv) The entering into of any agreement by the Corporation to merge, consolidate, restructure, amalgamate, initiate an arrangement or be absorbed by, into or with another corporation; provided that no change of control event shall be deemed to have occurred if upon completion of any such transaction individuals who were members of the Board immediately prior to the effective date of such transaction constitute a majority of the board of directors of the resulting corporation following such effective date;
- (v) The passing of a resolution by the Board or Shareholders to substantially liquidate the assets of the Corporation or wind up the Corporation's business or significantly rearrange its affairs in one or more transactions or series of transactions or the commencement of proceedings for such a liquidation, winding-up or re-arrangement (except where such re-arrangement is part of a bona fide reorganization of the Corporation in circumstances where the business of the Corporation is continued and the shareholdings remain substantially the same following the re-arrangement); or
- (vi) The circumstance in which individuals who were members of the Board immediately prior to a meeting of the Shareholders involving a contest for the election of directors no longer constitute a majority of the Board following such election;
- (i) **"Code"** has the meaning given to that term in Section 3.1;
- (j) **"Common Shares"** means the common shares in the capital of the Corporation;
- (k) **"Corporation"** means Delavaco Residential Properties Inc.;
- (l) **"Consultant"** has the meaning given to such term in Policy 4.4;
- (m) **"Consultant Company"** has the meaning given to such term in Policy 4.4;
- (n) **"Disinterested Shareholder Approval"** means the approval of a majority of shareholders of the Corporation voting at a duly called and held meeting of such shareholders, excluding votes of Insiders to whom options may be granted under the Plan;
- (o) **"Eligible Person"** means:
 - (i) any director, officer, employee or Consultant of the Corporation or any of its Subsidiary Companies; and
 - (ii) any Personal Holding Company;
- (p) **"Eligible U.S. Participants"** has the meaning given to that term in Section 3.1;
- (q) **"Exercise Price"** has the meaning given to that term in Section 2.2;
- (r) **"Expiry Date"** has the meaning given to that term in Section 2.3(b);
- (s) **"Good Reason"** means, in respect of an officer of the Corporation who has been granted Options under this Plan, solely one of the following events, without such officer's written consent:
 - (i) a material diminution in such officer's position, duties or authorities;
 - (ii) the assignment of any duties that are materially inconsistent with the officer's role as a senior executive; or
 - (iii) a material reduction in the officer's compensation, other than an across the board reduction of not more than 5% that is generally applicable to all executives.
- (t) **"Insider"** means:
 - (i) an insider as defined under Section 1(1) of the *Securities Act* (Ontario), other than a person who falls within that definition solely by virtue of being a director or senior officer of a Subsidiary Company of the Corporation, and

- (ii) an associate as defined under Section 1(1) of the *Securities Act* (Ontario) of any person who is an insider by virtue of (i) above;
- (u) “**Investor Relations Activities**” has the meaning given to such term in Policy 1.1 of the TSXV and any amendment thereto or replacement thereof;
- (v) “**Market Price**” means:
 - (i) prior to an initial public offering of the Common Shares, such price as is determined by the Board to constitute their fair market value, using such reasonable valuation mechanism as it selects; and
 - (ii) after an initial public offering of the Common Shares, the volume weighted average trading price of the Shares as reported on the TSXV for the five (5) trading days immediately preceding the day on which the Option is granted; provided, however, that the Exercise Price of an Option shall not be less than the minimum Exercise Price required by the applicable rules of the TSXV;
- (w) “**Option**” means an option to purchase Common Shares granted to an Eligible Person pursuant to the terms of the Plan;
- (x) “**Option Period**” has the meaning given to that term in Section 2.3(a);
- (y) “**Participant**” means an Eligible Person to whom Options have been granted;
- (z) “**Personal Holding Company**” means a personal holding corporation that is either wholly owned, or controlled by, the Participant, and the shares of which are held directly or indirectly by any of the Participant or the Participant’s spouse, minor children and/or minor grandchildren;
- (aa) “**Plan**” means this Incentive Stock Option Plan of the Corporation;
- (bb) “**Policy 4.4**” means Policy 4.4 of the TSXV and any amendment thereto or replacement thereof;
- (cc) “**Share Compensation Arrangement**” means any stock option, stock option plan, employee stock purchase plan or any other compensation or incentive mechanism of the Corporation involving the issuance or potential issuance of Common Shares, including a share purchase from treasury which is financially assisted by the Corporation by way of a loan, guarantee or otherwise;
- (dd) “**Shareholders**” means holders of Common Shares;
- (ee) “**Stock Exchange**” means the TSXV, and any other stock exchange on which the Common Shares are listed or traded;
- (ff) “**Termination Date**” means the date on which a Participant ceases to be an Eligible Person; and
- (gg) “**TSXV**” means the TSX Venture Exchange.

Words importing the singular number only shall include the plural and vice versa and words importing the masculine shall include the feminine.

This Plan and all matters to which reference is made herein shall be governed by and interpreted in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

1.2 Purpose

The purpose of the Plan is to:

- (a) replace the existing stock option plan of Delavaco Residential Properties Inc. (formerly named Sereno Capital Corporation) which was adopted by the Corporation in connection with its initial public offering and listing on the Exchange as a capital pool company on August 13, 2007; and
- (b) advance the interests of the Corporation by: (i) providing Eligible Persons with additional incentive; (ii) encouraging stock ownership by such Eligible Persons; (iii) increasing the proprietary interest of Eligible Persons in the success of the Corporation; (iv) encouraging Eligible Persons to remain with

the Corporation or its Subsidiary Companies; and (v) attracting new directors, employees and officers.

1.3 Administration

- (a) This Plan shall be administered by the Board.
- (b) Subject to the terms and conditions set forth herein, the Board is authorized to provide for the granting, exercise and method of exercise of Options (as hereinafter defined), all on such terms (which may vary between Options granted from time to time) as it shall determine. In addition, the Board shall have the authority to (i) construe and interpret this Plan and all agreements entered into hereunder; (ii) prescribe, amend and rescind rules and regulations relating to this Plan; and (iii) make all other determinations necessary or advisable for the administration of this Plan. All determinations and interpretations made by the Board shall be binding on all Participants (as hereinafter defined) and on their legal, personal representatives and beneficiaries.
- (c) The Board shall be permitted, through the establishment of appropriate procedures, to monitor the trading of Common Shares by persons who are performing Investor Relations Activities for the Corporation and who have been granted Options pursuant to this Plan.
- (d) Notwithstanding the foregoing or any other provision contained herein, the Board shall have the right to delegate the administration and operation of this Plan, in whole or in part, to a committee of the Board and/or to any member of the Board. Whenever used herein, the term “**Board**” means the board of directors of the Corporation, and shall be deemed to include any committee or director to which the Board has, fully or partially, delegated the administration and operation of this Plan pursuant to this Section 1.3.
- (e) An Option shall be evidenced by an incentive stock option agreement certificate (“**Certificate**”), signed on behalf of the Corporation, which Certificate shall be in such form as the Board shall approve from time to time.
- (f) No member of the Board shall be liable for any action or determination taken or made in good faith in the administration, interpretation, construction or application of the Plan or any Options granted under it.

1.4 Shares Reserved

- (a) Subject to Section 1.4(d), the securities that may be acquired by Participants under this Plan shall consist of authorized but unissued Common Shares.
- (b) The Corporation shall at all times during the term of this Plan ensure that the number of Common Shares it is authorized to issue shall be sufficient to satisfy the requirements of this Plan.
- (c) At such time as the Common Shares are listed on the TSXV, the aggregate number of Common Shares issuable under this Plan, and under all other Share Compensation Arrangements, shall not exceed 10% of the total number of Common Shares issued and outstanding from time to time. Any Common Shares subject to an Option which for any reason is cancelled or terminated without having been exercised shall again be available for grants under the Plan, and under all other Share Compensation Arrangements. Any Common Shares subject to an Option which has been exercised by a Participant, shall again be available for grants under the Plan, and under all other Share Compensation Arrangements. Fractional shares will not be issued and will be treated as specified in Section 1.11(d).
- (d) If there is a change in the outstanding Common Shares by reason of any stock dividend or split, recapitalization, amalgamation, consolidation, combination or exchange of shares, or other

corporate change, the Board shall make, subject where required to the prior approval of the Stock Exchange, appropriate substitution or adjustment in:

- (i) the number or kind of Common Shares or other securities reserved for issuance pursuant to the Plan, and
- (ii) the number and kind of Common Shares or other securities subject to unexercised Options theretofore granted and in the Exercise Price of such securities;

without any change in the total price applicable to the unexercised portion of the Option, but with a corresponding adjustment in the price for each Common Share covered by the Option; provided, however, that no substitution or adjustment shall obligate the Corporation to issue or sell fractional shares. If the Corporation is reorganized, amalgamated with another corporation or consolidated, the Board shall make such provisions for the protection of the rights of Participants as the Board in its discretion deems appropriate.

1.5 Limits with Respect to Certain Persons

- (a) The maximum number of Common Shares which may be issued to:
 - (i) any Consultant in any twelve (12) month period under this Plan may be no more than two percent (2%) of the outstanding Common Shares of the Corporation; and
 - (ii) all Persons conducting Investor Relations Activities for the Corporation in any twelve (12) month period may be, in aggregate, no more than two percent (2%) of the outstanding Common Shares of the Corporation,less the aggregate number of shares reserved for issuance or issuable under any other Share Compensation Arrangement of the Corporation.
- (b) Options granted to Consultants conducting Investor Relations Activities for the Corporation shall vest over a period of not less than twelve (12) months with no more than twenty-five percent (25%) of the options vesting in any three (3) month period.

1.6 Amendment and Termination

- (a) The Board may from time to time, suspend, terminate or discontinue the Plan at any time, or amend or revise the terms of the Plan or of any Option granted under the Plan and any Certificate relating thereto, provided that no such suspension, termination, amendment or revision will be made:
 - (i) except in compliance with applicable law and with the prior approval, if required, of the Stock Exchange or any other regulatory body having authority over the Corporation, the Plan or the Shareholders; and
 - (ii) in the case of an amendment or revision, if it materially adversely affects the rights of any Participant, without the consent of the Participant.
- (b) If the Plan is terminated, the provisions of the Plan and any administrative guidelines and other rules and regulations adopted by the Board and in force on the date of termination will continue in effect as long as any Option or any rights pursuant thereto remain outstanding and, notwithstanding the termination of the Plan, the Board will remain able to make such amendments to the Plan or the Options as they would have been entitled to make if the Plan were still in effect.
- (c) Subject to any applicable rules of the Stock Exchange, the Board may from time to time, in its absolute discretion and without the approval of Shareholders, make the following amendments to the Plan or any Option:
 - (i) amend the vesting provisions of the Plan and any Certificate;

- (ii) amend the Plan or an Option as necessary to comply with applicable law or the requirements of the Stock Exchange or any other regulatory body having authority over the Corporation, the Plan or the Shareholders;
 - (iii) any amendment of a “housekeeping” nature, including, without limitation, to clarify the meaning of an existing provision of the Plan, correct or supplement any provision of the Plan that is inconsistent with any other provision of the Plan, correct any grammatical or typographical errors or amend the definitions in the Plan regarding administration of the Plan; and
 - (iv) any amendment respecting the administration of the Plan.
- (d) Shareholder approval is required for the following amendments to the Plan:
- (i) any extension of the Expiry Date of an Option held by an Insider; and
 - (ii) any change that would materially modify the eligibility requirements for participation in the Plan.
- (e) Disinterested Shareholder Approval is required for the following amendments to the Plan:
- (i) any individual stock option grant that would result in any of the limitations set forth in Section 1.4(c) of this Plan being exceeded; and
 - (ii) any individual stock option grant that would result in the grant to Insiders (as a group), within a twelve (12) month period, of an aggregate number of Options exceeding ten percent (10%) of the issued Common Shares, calculated on the date an Option is granted to any Insider; and
 - (iii) any individual stock option grant that would result in the number of Common Shares issued to any individual in any twelve (12) month period under this Plan exceeding five percent (5%) of the issued Common Shares of the Corporation, less the aggregate number of shares reserved for issuance or issuable under any other Share Compensation Arrangement of the Corporation; and
 - (iv) any amendment to Options held by Insiders that would have the effect of decreasing the exercise price of the Options; and
 - (v) any individual stock option grant requiring Shareholder approval pursuant to section 3.9(e) of Policy 4.4.

For the purposes of the limitations set forth in items (ii) and (iv), Options held by an Insider at any point in time that were granted to such Participant prior to it becoming an Insider shall be considered Options granted to an Insider irrespective of the fact that the Participant was not an Insider at the time of grant.

1.7 Compliance with Legislation

- (a) The Plan (including an amendment to the Plan), the terms of the issue or grant of any Option under the Plan, the grant and exercise of Options hereunder, and the Corporation’s obligation to sell and deliver Common Shares upon the exercise of Options, shall be subject to all applicable federal, provincial and foreign laws, rules and regulations, the rules and regulations of the Stock Exchange and to such approvals by any regulatory or governmental agency as may, in the opinion of counsel to the Corporation, be required. The Corporation shall not be obliged by any provision of the Plan or the grant of any Option hereunder to issue or sell Common Shares in violation of such laws, rules and regulations or any condition of such approvals.
- (b) No Option shall be granted, and no Common Shares issued hereunder, where such grant, issue or sale would require registration of the Plan or of Common Shares under the securities laws of any foreign jurisdiction, and any purported grant of any Option or purported issue of Common Shares hereunder in violation of this provision shall be void.

- (c) The Corporation shall have no obligation to issue any Common Shares pursuant to the Plan unless such Common Shares shall have been duly listed, upon official notice of issuance, with the Stock Exchange. Common Shares issued and sold to Participants pursuant to the exercise of Options may be subject to limitations on sale or resale under applicable securities laws.
- (d) If Common Shares cannot be issued to a Participant upon the exercise of an Option due to legal or regulatory restrictions, the obligation of the Corporation to issue such Common Shares shall terminate and any funds paid to the Corporation in connection with the exercise of such Option will be returned to the applicable Participant as soon as practicable.

1.8 Effective Date

The Plan shall be effective upon the approval of the Plan by:

- (i) The Stock Exchange and any other exchange upon which the Common Shares of the Corporation may be posted or listed for trading, and shall comply with the requirements from time to time of the Stock Exchange; and
- (ii) the Shareholders, by written resolution signed by all Shareholders or given by the affirmative vote of a majority of the votes attached to the Common Shares entitled to vote and be represented and voted at an annual or special meeting of Shareholders held, among other things, to consider and approve the Plan.

1.9 Proceeds from Exercise of Options

The proceeds from any sale of Shares issued upon the exercise of Options shall be added to the general funds of the Corporation and shall thereafter be used from time to time for such corporate purposes as the Board may determine.

1.10 Tax Withholdings

Notwithstanding any other provision contained herein, in connection with the exercise of an Option by a Participant from time to time, as a condition to such exercise (i) the Corporation shall require such Participant to pay to the Corporation or the relevant Subsidiary Company an amount as necessary so as to ensure that the Corporation or such Subsidiary Company, as applicable, is in compliance with the applicable provisions of any federal, provincial or local law relating to the withholding of tax or other required deductions (the “**Applicable Withholdings and Deductions**”) relating to the exercise of such Options; or (ii) in the event a Participant does not pay the amount specified in (i), the Corporation shall be permitted to engage a broker or other agent, at the risk and expense of the Participant, to sell an amount of underlying Common Shares issuable on the exercise of such Option through the facilities of the Stock Exchange, and to apply the cash received on the sale of such underlying Common Shares as necessary so as to ensure that the Corporation or the relevant Subsidiary Company, as applicable, is in compliance with the Applicable Withholdings and Deductions relating to the exercise of such Options. In addition, the Corporation or the relevant Subsidiary Company, as applicable, shall be entitled to withhold from any amount payable to a Participant, either under this Plan or otherwise, such amount as may be necessary so as to ensure that the Corporation or the relevant Subsidiary Company is in compliance with Applicable Withholdings and Deductions relating to the exercise of such Options.

1.11 Miscellaneous

- (a) Nothing contained herein shall prevent the Board from adopting other or additional Share Compensation Arrangements or compensation arrangements, subject to any required approval.
- (b) The Corporation may only grant options pursuant to resolutions of the Board.
- (c) In determining options to be granted to Participants, the Board shall give due consideration to the value of each such Participant’s present and potential contribution to the success of the Corporation.
- (d) Nothing contained in the Plan nor in any Option granted thereunder shall be deemed to give any Participant any interest or title in or to any Common Shares or any rights as a Shareholder or any

other legal or equitable right against the Corporation or any of its Subsidiary Companies whatsoever other than as set forth in the Plan and pursuant to the exercise of any Option.

- (e) The Plan does not give any Participant or any employee of the Corporation or any of its Associated Companies, Affiliated Companies, Subsidiary Companies or Controlled Companies the right or obligation to or to continue to serve as a Consultant, director, officer or employee, as the case may be, to or of the Corporation or any of its Associated Companies, Affiliated Companies, Subsidiary Companies or Controlled Companies. The awarding of Options to any Eligible Person is a matter to be determined solely in the discretion of the Board. The Plan shall not in any way fetter, limit, obligate, restrict or constrain the Board with regard to the allotment or issue of any Common Shares or any other securities in the capital of the Corporation other than as specifically provided for in the Plan. The grant of an Option to, or the exercise of an Option by, a Participant under the Plan does not create the right for such Participant to receive additional grants of Options hereunder.
- (f) No fractional Common Shares shall be issued upon the exercise of options granted under the Plan and, accordingly, if a Participant would become entitled to a fractional Common Share upon the exercise of an Option, or from an adjustment pursuant to Section 1.4(d) such Participant shall only have the right to purchase the next lowest whole number of Common Shares, and no payment or other adjustment will be made with respect to the fractional interest so disregarded.
- (g) The Corporation makes no representation or warranty as to the future market value of the Common Shares or with respect to any income tax matters affecting the Participant resulting from the grant or exercise of an Option and/or transactions in the Common Shares. Neither the Corporation, nor any of its directors, officers, employees, shareholders or agents shall be liable for anything done or omitted to be done by such person or any other person with respect to the price, time, quantity or other conditions and circumstances of the issuance of Common Shares hereunder, with respect to any fluctuations in the market price of Common Shares or in any other manner related to the Plan.
- (h) This Plan shall be construed in accordance with and be governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein.
- (i) If any provision of this Plan shall be determined by any court of competent jurisdiction to be illegal, invalid or unenforceable, that provision shall be severed from this Plan and the remaining provisions shall continue in full force and effect.
- (j) This Plan constitutes the entire stock option plan for the Corporation and its Participants and supersedes any prior stock option plans for such persons.

Section 2 Options

2.1 Grants

- (a) Subject to the provisions of the Plan, the Board shall have the authority to determine the limitations, restrictions and conditions, if any, in addition to those set forth in Section 1.3(b) and Section 2.3 hereof, applicable to the exercise of an Option. An Eligible Person may receive Options on more than one occasion under the Plan and may receive separate Options on any one occasion.
- (b) The Board may, in its discretion, select any directors, officers, employees or Consultants of or to the Corporation or Subsidiary Companies of the Corporation to participate in this Plan.
- (c) For Options granted to employees of the Company, Consultants or individuals employed by a company or individual providing management services to the Company, the Company and the Participant are responsible for ensuring and confirming that the Participant is a bona fide employee of the Company, Consultant or individual employed by a company or individual providing management services to the Company, as the case may be.
- (d) The Board may from time to time, in its discretion, grant Options to any Participant upon the terms, conditions and limitations set forth herein and such other terms, conditions and limitations permitted by and not inconsistent with this Plan as the Board may determine, provided that Options

granted to any Participant shall be approved by the Shareholders if the rules of the Stock Exchange require such approval.

2.2 Exercise Price

- (a) An Option may be exercised at a price (the “**Exercise Price**”) that shall be fixed by the Board at the time that the Option is granted, but in no event shall it be less than the Market Price. The Exercise Price shall be subject to adjustment in accordance with the provisions of Section 1.4(d) hereof.
- (b) if Options are granted within ninety (90) days of a distribution (the “**Distribution Period**”) by the Corporation by prospectus, the minimum exercise price per Common Share of those options will be the greater of the Market Price and the price per Common Share paid by the public investors for Common Shares acquired pursuant to such distribution. The Distribution Period shall begin:
 - (i) on the date the final receipt is issued for the final prospectus in respect of such distribution; and
 - (ii) in the case of a prospectus that qualifies special warrants, on the closing date of the private placement in respect of such special warrants.

2.3 Exercise of Options

- (a) The period during which an Option may be exercised (the “**Option Period**”) shall be determined by the Board at the time the Option is granted, subject to any vesting limitations that may be imposed by the Board in its sole and unfettered discretion at the time such Option is granted, provided that:
 - (i) no Option shall be exercisable for a period exceeding ten (10) years from the date the Option is granted;
 - (ii) the Option Period shall be automatically reduced in accordance with Section 2.3(f) below upon the occurrence of any of the events referred to therein; and
 - (iii) no Option in respect of which Shareholder approval is required under the rules of the Stock Exchange shall be exercisable until such time as such Option has been approved by the Shareholders.
- (b) Notwithstanding any other provision of the Plan, if the date that any vested Option ceases to be exercisable (the “**Expiry Date**”) falls on, or within nine (9) Business Days immediately following, a date upon which such Participant is prohibited from exercising such Option due to a black-out period or other trading restriction imposed by the Corporation, then the Expiry Date of such Option shall be automatically extended to the tenth (10th) Business Day following the date the relevant black-out period or other trading restriction imposed by the Corporation is lifted, terminated or removed.
- (c) Notwithstanding any other provision of this Plan, in the event of an actual or potential Change of Control Event, the Board may, in its discretion, without the necessity or requirement for the agreement of any Participant: (i) accelerate, conditionally or otherwise, on such terms as it sees fit, the vesting date of any Option; (ii) permit the conditional exercise of any Option, on such terms as it sees fit; (iii) otherwise amend or modify the terms of the Option, including for greater certainty permitting Participants to exercise any Option, to assist the Participants to tender the underlying Common Shares to, or participate in, the actual or potential Change of Control Event or to obtain the advantage of holding the underlying Common Shares during such Change of Control Event; and (iv) terminate, following the successful completion of such Change of Control Event, on such terms as it sees fit, the Options not exercised prior to the successful completion of such Change of Control Event. The determination of the Board in respect of any such Change of Control Event shall for the purposes of this Plan be final, conclusive and binding.

- (d) Notwithstanding any other provision of this Plan, in the event that:
- (i) an actual or potential Change of Control Event is not completed within the time specified therein; or
 - (ii) all of the Common Shares subject to an Option that were tendered by a Participant in connection with an actual or potential Change of Control Event are not taken up or paid for by the offeror in respect thereof,

then the Board may, in its discretion, without the necessity or requirement for the agreement of any Participant, permit the Common Shares received upon such exercise, or in the case of Subsection (ii) above the Common Shares that are not taken up and paid for, to be returned by the Participant to the Corporation and reinstated as authorized but unissued Common Shares and, with respect to such returned Common Shares, the related Options may be reinstated as if they had not been exercised and the terms for such Options becoming vested will be reinstated pursuant to this Section 2.3. If any Common Shares are returned to the Corporation under this Section 2.3, the Corporation will immediately refund the Exercise Price to the Participants for such Common Shares.

- (e) Options shall not be transferable or assignable by the Participant otherwise than by will or the laws of descent and distribution, and shall be exercisable during the lifetime of a Participant only by the Participant and after death only by the Participant's legal representative.
- (f) Provided that the Common Shares are listed on the TSXV, if the Participant is a company, including a Consultant Company, the company shall not be permitted to effect or permit any transfer of ownership or option of shares of the company nor to issue further shares of any class of the company to any individual or entity as long as the options remain outstanding, except where the written consent of the TSXV has been obtained.
- (g) Subject to Section 2.3(a) and except as otherwise determined by the Board:
 - (i) if a Participant who is a non-executive director of the Corporation ceases to be an Eligible Person as a result of his or her retirement from the Board other than for Cause, each unvested Option held by such Participant shall automatically vest on the date of his or her retirement from the Board, and thereafter each vested Option held by such Participant will cease to be exercisable on the earlier of the original Expiry Date of the Option and six (6) months after the date of his or her retirement from the Board;
 - (ii) if the Board service, consulting relationship, or employment of a Participant with the Corporation or a Subsidiary Company is terminated for Cause, each vested and unvested Option held by the Participant will automatically terminate and become void on the Termination Date;
 - (iii) if a Participant dies, the legal representative of the Participant may exercise the Participant's vested Options for a period until the earlier of the original Expiry Date of the Option and 12 months after the date of the Participant's death, but only to the extent the Options were by their terms exercisable on the date of death. For greater certainty, all unvested Options held by a Participant who dies shall terminate and become void on the date of death of such Participant;
 - (iv) if a Participant ceases to be an Eligible Person for any reason whatsoever other than in (i) to (iii) above, each vested Option held by the Participant will cease to be exercisable on the earlier of the original Expiry Date of the Option and six (6) months after the Termination Date; provided that all unvested Options held by such Participant shall automatically terminate and become void on the Termination Date of such Participant. Without limitation, and for greater certainty only, this provision will apply regardless of whether the Participant received compensation in respect of dismissal or was entitled to a period of notice of termination which would otherwise have permitted a greater portion of the Option to vest with the Participant; and

- (v) notwithstanding any provision in this Section 2.3(g) to the contrary, if a Participant who is an officer of the Corporation ceases to be an Eligible Person as a result of such officer's termination without Cause or resignation for Good Reason, any unvested Options as of the date of termination will be accelerated and become immediately fully vested as of such date. Such options will be exercisable by the officer for a period of up to one year following the date of termination.
- (h) The Exercise Price of each Common Share purchased under an Option shall be paid in full in cash or by bank draft or certified cheque at the time of such exercise, and upon receipt of payment in full, the number of Common Shares in respect of which the Option is exercised shall be duly issued as fully paid and non-assessable.
- (i) Upon the exercise of Options pursuant to this section, the Corporation shall forthwith deliver, or cause the registrar and transfer agent of the Common Shares to deliver, to the relevant Participant (or his or her legal or personal representative) or to the order thereof, a certificate representing the number of Common Shares with respect to which Options have been exercised.
- (j) Subject to the other provisions of this Plan and any vesting limitations imposed by the Board at the time of grant, Options may be exercised, in whole or in part, at any time or from time to time, by a Participant by written notice given to the Corporation as required by the Board from time to time.

2.4 Notice

Any notice required to be given by this Plan shall be in writing and shall be given by registered mail, postage prepaid, or delivered by courier or by facsimile transmission addressed, if to the Corporation, to the office of the Corporation in Toronto, Ontario, Attention: Andrew DeFrancesco, Chief Executive Officer; or if to a Participant, to such Participant at his address as it appears on the books of the Corporation or in the event of the address of any such Participant not so appearing, then to the last known address of such Participant; or if to any other person, to the last known address of such person.

2.5 Rights of Participants

No person entitled to exercise any Option granted under this Plan shall have any of the rights or privileges of a Shareholder in respect of any underlying Common Shares issuable upon exercise of such Option, including without limitation, the right to participate in any new issue of Common Shares to existing holders of Common Shares, until such Option has been exercised and such underlying Common Shares have been paid for in full and issued to such person.

2.6 Right to Issue Other Shares

The Corporation shall not by virtue of this Plan be in any way restricted from declaring and paying stock dividends, issuing further Common Shares, varying or amending its share capital or corporate structure.

2.7 Quotation of Common Shares

So long as the Common Shares are listed on the TSXV, the Corporation must apply to the TSXV for the listing or quotation of the Common Shares issued upon the exercise of all Options granted under the Plan, however, the Corporation cannot guarantee that such Common Shares will be listed or quoted on the TSXV.

Section 3 Special Rules for U.S. Eligible Persons

3.1 Section 409A Compliance

Notwithstanding any other provision of this Plan, the following special rules will apply to all Eligible Persons (“**Eligible U.S. Participants**”) who are subject to U.S. income tax with respect to Options issued under the Plan to them:

- (a) All Options granted under this Plan to Eligible U.S. Participants are intended to be exempt from Section 409A of the United States Internal Revenue Code of 1986, as amended (the “**Code**”) and

will be construed accordingly. However, the Corporation will not be liable to any Eligible U.S. Participant or beneficiary with respect to any adverse tax consequences arising under Section 409A or other provision of the Code; and

- (b) The Exercise Price for all Options granted to Eligible U.S. Participants shall in no event be less than the greater of (i) the Market Price; and (ii) the closing price of the Common Shares as reported on the TSX on the business day immediately preceding the day on which the Option is granted.

STOCK OPTION AGREEMENT

This Stock Option Agreement is dated this • day of • , 20 • between Delavaco Residential Properties Inc. (“**Delavaco**”) and [Name] (the “**Optionee**”).

WHEREAS the Optionee has been granted certain options (“**Options**”) to acquire common shares in the capital of Delavaco (“**Common Shares**”) under the Delavaco Incentive Stock Option Plan (the “**Option Plan**”), a copy of which has been provided to the Eligible Optionee;

AND WHEREAS capitalized terms used herein and not otherwise defined shall have the meanings given to them in the Option Plan;

NOW THEREFORE for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Delavaco confirms that the Optionee has been granted Options under the Option Plan on the following basis, subject to, the terms and conditions of the Option Plan:

DATE OF GRANT	NUMBER OF OPTIONS	EXERCISE PRICE (CDN\$)	VESTING SCHEDULE	EXPIRY DATE
•	•	•	•	•

2. Attached to this Agreement as Schedule “A” is a form of notice that the Optionee may use to exercise any of his or her Options in accordance with Section 2.3 of the Option Plan at any time and from time to time prior the Expiry Date of such Options.
3. By signing this Stock Option Agreement, the Optionee acknowledges that he or she has read and understands the Option Plan and agrees to the terms and conditions thereof and of this Stock Option Agreement.
4. This Agreement shall be governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein. Time shall be of the essence of this Agreement. This Agreement shall enure to the benefit of and shall be binding upon the parties and their heirs, attorneys, guardians, estate trustees, executors, trustees and administrators and the successors of Delavaco.

IN WITNESS WHEREOF the parties hereto have executed this Agreement.

DELAVACO RESIDENTIAL PROPERTIES INC.

Name of Optionee:

Authorized Signing Officer

Schedule "A"
ELECTION TO EXERCISE STOCK OPTIONS

TO: DELAVACO RESIDENTIAL PROPERTIES INC. ("DELAVACO")

The undersigned option holder hereby irrevocably elects to exercise options ("**Options**") granted by Delavaco to the undersigned pursuant to a Stock Option Agreement dated ● , 20 ● for the number of common shares in the capital of Delavaco ("**Common Shares**") as set forth below:

Number of Common Shares to be Acquired: _____

Option Exercise Price (per Common Share): \$_____

Aggregate Purchase Price: \$_____

Amount enclosed that is payable on account of withholding of tax or other required deductions relating to the exercise of the Options (contact Delavaco for details of such amount)(the "**Applicable Withholdings and Deductions**"): \$_____

☐ Or check here if alternative arrangements have been made with Delavaco with respect to the payment of Applicable Withholdings and Deductions;

and hereby tenders a certified cheque or bank draft for such Aggregate Purchase Price, and, if applicable, Applicable Withholdings and Deductions, and directs such Common Shares to be registered and a certificate therefore to be issued in the name of _____.

DATED this _____ day of _____, _____.

Signature

Name

APPENDIX G
MANAGEMENT'S DISCUSSION AND ANALYSIS OF SERENO

Sereno Capital Corporation
Management's Discussion and Analysis
For the Year Ended April 30, 2013
Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the accompanying Financial Statements of Sereno Capital Corporation (the "Corporation") and is intended to provide the reader with a review of the factors that affected the Corporation's performance during the year ended April 30, 2013 and those factors reasonably expected to have an impact on future operations and results. All capitalized terms used but not defined herein have the meaning assigned to such terms under the TSX Venture Exchange Inc. ("TSXV" or the "Exchange") Policy 2.4 — Capital Pool Companies ("CPC Policy").

Unless indicated otherwise, all financial data in this MD&A has been prepared in accordance with IFRS issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

Nature of Business

The Corporation was incorporated on March 19, 2007 under the Business Corporations Act (Ontario). The Corporation is a capital pool company created pursuant to the CPC Policy. The principal business of the Corporation is the identification and evaluation of assets or businesses with a view to completing a Qualifying Transaction. Any Qualifying Transaction must be approved by the Exchange, and in the case of a Non-Arm's-Length Qualifying Transaction, must also receive Majority of the Minority Approval in accordance with the CPC Policy. The Corporation has not commenced operations and has no assets other than a minimum amount of cash. Except as specifically contemplated in the CPC Policy, until the completion of the Qualifying Transaction, the Corporation will not carry on any business other than the identification and evaluation of assets or businesses with a view to completing a Qualifying Transaction.

Significant Events and Transactions

(a) CPC Formation and Initial Public Offering

The Corporation issued 1,300,000 common shares to its directors and seed investors on March 31, 2007 at a price of \$0.10 per share for gross proceeds of \$130,000. These shares were placed in escrow in accordance with the policies of the Exchange and an Escrow Agreement dated May 17, 2007. In addition, the Corporation issued 2,000,000 common shares pursuant to a private placement on April 18, 2007 at a price of \$0.20 per share for gross proceeds of \$400,000. On May 17, 2007 the Corporation issued 500,000 common shares pursuant to a private placement at a price of \$0.20 per share for gross proceeds of \$100,000.

The Corporation completed an initial public offering (the "Offering") of its common shares on August 8, 2007 pursuant to a prospectus dated October 11, 2007. The Offering consisted of 1,500,000 common shares at a price of \$0.20 per share for gross proceeds of \$300,000.

The Corporation appointed Canaccord Capital Corporation (the "Agent") as its agent to complete the Offering on a commercially reasonable efforts basis. In addition to a commission of 7.5% of the gross proceeds of the Offering, the Corporation granted to the Agent a non-transferable option, expiring twenty-four months after the date of the listing of the common shares on the Exchange, to purchase 150,000 of its common shares at \$0.20 per common share. The option granted to the Agent has expired. The Agent also was paid a corporate finance fee in the aggregate of \$10,000 plus GST and was reimbursed its legal and other expenses.

(b) Suspension, Migration to NEX and Cancellation of Seed Shares

The Corporation is a capital pool company and, in accordance with Policy 2.4 of the Exchange, was obliged to complete a qualifying transaction on or before August 13, 2009. The Corporation applied for and was granted an

extension of the date to complete a qualifying transaction to February 15, 2010 pursuant to the Exchange's bulletin titled Temporary Relief Measures. The Corporation failed to complete a qualifying transaction by this date which resulted in the suspension of trading of the Corporation's shares.

On October 30, 2009, the Corporation held an annual and special meeting at which time the shareholders of the Corporation passed a resolution approving the migration of the Corporation to NEX and the cancellation of one-half of the seed shares held by non arm's length parties in the event the Corporation did not complete its qualifying transaction within the time period prescribed by the policies of the Exchange. As a result of its inability to complete a qualifying transaction within the time periods, as extended, the Corporation cancelled 600,000 seed shares and transferred the listing of its shares to NEX.

Results of Operations

During the year ended April 30, 2013, the Corporation earned \$6,918 (2012 — \$6,042) in interest income. The expenses for the year totaled \$33,568 (2012 — \$85,367) and consisted of professional fees in the amount of \$17,394 (2012 — \$24,101), regulatory filing fees and administration in the amount of \$16,174 (2012 — \$12,362) and stock based compensation of nil (2012 — \$48,904). The resulting net loss was \$26,650 (2012 — \$79,325). The loss per share for the year ended April 30, 2013 was \$0.006 (2012 — \$0.017) on both basic and fully diluted basis. The Corporation has reduced its costs to a level where the only expenses relate to regulatory filings and professional fees.

Subsequent Events

On May 24, 2013, the Corporation entered into a letter of intent with Delavaco Properties Inc. ("Delavaco"), pursuant to which the Corporation will acquire all of the issued and outstanding shares of Delavaco by way of a court approved plan of arrangement. The proposed transaction if completed will constitute the Qualifying Transaction of the Corporation pursuant to the policies of the Exchange and the Corporation will cease to be a Capital Pool Company. The transaction is subject to regulatory and shareholder approval.

Liquidity

As at April 30, 2013 the Corporation had net working capital of \$566,876 including cash of \$572,485.

Capital Resources

The Corporation may seek to raise additional funds in order to finance a Qualifying Transaction. The timing and ability to fulfill this objective will depend on the liquidity of the financial markets as well as the willingness of investors to finance such transaction. Such future financing may be completed by the issuance of additional common shares in the capital of the Corporation.

Off-Balance Sheet Arrangement

As of the date of this filing, the Corporation does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Corporation.

Transactions with Related Parties

For the year ended April 30, 2013, the Corporation had not entered in to any transactions with related parties other than the reimbursement of expenses.

Risk Factors

The Corporation has not yet commenced operations other than the process of identifying potential acquisitions with a view of completing the Qualifying Transaction which involves a high degree of risks.

Changes in Accounting Policies

The financial statements of the Corporation, which are incorporated by reference, and can be found on the regulator's web site at www.sedar.com.

Capital Structure

The Corporation is authorized to issue an unlimited number of common shares. Each common share provides the holder with one vote. As of the date of this MD&A there are 4,700,000 common shares issued and outstanding.

On May 16, 2011, the Corporation granted 262,500 options to directors and officers. The options vested immediately and are exercisable at \$0.25 per share for five years from the date of the grant.

Other MD&A Requirements

The Corporation has evaluated its internal controls and financial reporting procedures and has found them to be effective with the objective of reporting the Corporation's financial transactions.

Forward-looking Statements

This MD&A contains certain forward-looking statements related to amongst other things, expected future events and the financial and operating results of the Corporation. A forward-looking statement may contain words such as "will continue to be", "will be", "expect to", "anticipate that", "to be", or "can im pact". Forward-looking statements are subject to inherent risks and uncertainties including but not limited to, market and general economic conditions, changes in regulatory environments affecting the Corporation's business and the availability and terms of financing. Consequently, actual results and events may differ materially from those included in, contemplated or implied by such forward-looking statements for a variety of reasons.

Dated: June 27, 2013

Sereno Capital Corporation
Management's Discussion and Analysis
For the Three Months Ended July 31, 2013
Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the accompanying Financial Statements of Sereno Capital Corporation (the

"Corporation") and is intended to provide the reader with a review of the factors that affected the Corporation's performance during the three months ended July 31, 2013 and those factors reasonably expected to have an impact on future operations and results. All capitalized terms used but not defined herein have the meaning assigned to such terms under the TSX Venture Exchange Inc. ("TSXV" or the "Exchange") Policy 2.4 — Capital Pool Companies ("CPC Policy").

Unless indicated otherwise, all financial data in this MD&A has been prepared in accordance with IFRS issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

Nature of Business

The Corporation was incorporated on March 19, 2007 under the Business Corporations Act (Ontario). The Corporation is a capital pool company created pursuant to the CPC Policy. The principal business of the Corporation is the identification and evaluation of assets or businesses with a view to completing a Qualifying Transaction. Any Qualifying Transaction must be approved by the Exchange, and in the case of a Non-Arm's-Length Qualifying Transaction, must also receive Majority of the Minority Approval in accordance with the CPC Policy. The Corporation has not commenced operations and has no assets other than a minimum amount of cash. Except as specifically contemplated in the CPC Policy, until the completion of the Qualifying Transaction, the Corporation will not carry on any business other than the identification and evaluation of assets or businesses with a view to completing a Qualifying Transaction.

Significant Events and Transactions

(a) CPC Formation and Initial Public Offering

The Corporation issued 1,300,000 common shares to its directors and seed investors on March 31, 2007 at a price of \$0.10 per share for gross proceeds of \$130,000. These shares were placed in escrow in accordance with the policies of the Exchange and an Escrow Agreement dated May 17, 2007. In addition, the Corporation issued 2,000,000 common shares pursuant to a private placement on April 18, 2007 at a price of \$0.20 per share for gross proceeds of \$400,000. On May 17, 2007 the Corporation issued 500,000 common shares pursuant to a private placement at a price of \$0.20 per share for gross proceeds of \$100,000.

The Corporation completed an initial public offering (the "Offering") of its common shares on August 8, 2007 pursuant to a prospectus dated October 11, 2007. The Offering consisted of 1,500,000 common shares at a price of \$0.20 per share for gross proceeds of \$300,000.

The Corporation appointed Canaccord Capital Corporation (the "Agent") as its agent to complete the Offering on a commercially reasonable efforts basis. In addition to a commission of 7.5% of the gross proceeds of the Offering, the Corporation granted to the Agent a non-transferable option, expiring twenty-four months after the date of the listing of the common shares on the Exchange, to purchase 150,000 of its common shares at \$0.20 per common share. The option granted to the Agent has expired. The Agent also was paid a corporate finance fee in the aggregate of \$10,000 plus GST and was reimbursed its legal and other expenses.

(b) Suspension, Migration to NEX and Cancellation of Seed Shares

The Corporation is a capital pool company and, in accordance with Policy 2.4 of the Exchange, was obliged to complete a qualifying transaction on or before August 13, 2009. The Corporation applied for and was granted an extension of the date to complete a qualifying transaction to February 15, 2010 pursuant to the Exchange's bulletin titled

Temporary Relief Measures. The Corporation failed to complete a qualifying transaction by this date which resulted in the suspension of trading of the Corporation's shares.

On October 30, 2009, the Corporation held an annual and special meeting at which time the shareholders of the Corporation passed a resolution approving the migration of the Corporation to NEX and the cancellation of one-half of the seed shares held by non arm's length parties in the event the Corporation did not complete its qualifying transaction within the time period prescribed by the policies of the Exchange. As a result of its inability to complete a qualifying transaction within the time periods, as extended, the Corporation cancelled 600,000 seed shares and transferred the listing of its shares to NEX.

Results of Operations

During the three months ended July 31, 2013, the Corporation earned \$675 (2012 — \$1,610) in interest income. The expenses for the period totaled \$44,083 (2012 — \$3,872) and consisted of professional fees in the amount of \$36,110 (2012 — \$1,200) and regulatory filing fees and administration in the amount of \$7,973 (2012 — \$2,672). The resulting net loss was \$43,408 (2012 — \$2,262). The loss per share for the three months ended July 31, 2013 was \$0.009 (2012 — \$0.000) on both basic and fully diluted basis. The increased costs incurred during the quarter related to costs associated with the qualifying transaction described below. Also, the company incurred costs associated with holding its annual general meeting during the quarter, while there were no such costs in the comparative period.

Subsequent Events

In September 2013, the Corporation entered into a definitive agreement with Delavaco Properties Inc. ("Delavaco"), pursuant to which the Corporation will acquire all of the issued and outstanding shares of Delavaco by way of a court approved plan of arrangement. Assuming completion of the transaction, it is expected that Sereno will satisfy the original listing requirements of the Exchange for a Tier 1 Real Estate or Investment Issuer and will combine its business under the new name "Delavaco Residential Properties Inc.". The transaction is subject to regulatory and shareholder approval.

Liquidity

As at July 31, 2013 the Corporation had net working capital of \$523,468 including cash of \$537,949.

Capital Resources

The Corporation may seek to raise additional funds in order to finance a Qualifying Transaction. The timing and ability to fulfill this objective will depend on the liquidity of the financial markets as well as the willingness of investors to finance such transaction. Such future financing may be completed by the issuance of additional common shares in the capital of the Corporation.

Off-Balance Sheet Arrangement

As of the date of this filing, the Corporation does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Corporation.

Transactions with Related Parties

For the period ended July 31, 2013, the Corporation had not entered in to any transactions with related parties other than the reimbursement of expenses.

Risk Factors

The Corporation has not yet commenced operations other than the process of identifying potential acquisitions with a view of completing the Qualifying Transaction which involves a high degree of risks.

Changes in Accounting Policies

The financial statements of the Corporation, which are incorporated by reference, and can be found on the regulator's web site at www.sedar.com.

Capital Structure

The Corporation is authorized to issue an unlimited number of common shares. Each common share provides the holder with one vote. As of the date of this MD&A there are 4,700,000 common shares issued and outstanding.

On May 16, 2011, the Corporation granted 262,500 options to directors and officers. The options vested immediately and are exercisable at \$0.25 per share for five years from the date of the grant.

Other MD&A Requirements

The Corporation has evaluated its internal controls and financial reporting procedures and has found them to be effective with the objective of reporting the Corporation's financial transactions.

Forward-looking Statements

This MD&A contains certain forward-looking statements related to amongst other things, expected future events and the financial and operating results of the Corporation. A forward-looking statement may contain words such as "will continue to be", "will be", "expect to", "anticipate that", "to be", or "can impact". Forward-looking statements are subject to inherent risks and uncertainties including but not limited to, market and general economic conditions, changes in regulatory environments affecting the Corporation's business and the availability and terms of financing. Consequently, actual results and events may differ materially from those included in, contemplated or implied by such forward-looking statements for a variety of reasons.

Dated: September 26, 2013

Sereno Capital Corporation

Financial Statements
April 30, 2013 and 2012



Koster, Spinks & Koster, LLP
Chartered Professional | Accountants



Koster, Spinks & Koster^{LLP}

Chartered Professional | Accountants

4 Glengrove Avenue West T: 416.489.8100
Toronto, Ontario F: 416.489.9194
M4R 1N4 www.ksk.ca

Independent Auditors' Report

To the Shareholders of
Sereno Capital Corporation

Report on the financial statements

We have audited the accompanying financial statements of Sereno Capital Corporation, which comprise the statement of financial position as at April 30, 2013 and 2012 and the statements of loss and comprehensive loss, changes in equity and cash flows for the years ended April 30, 2013 and 2012, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Sereno Capital Corporation as at April 30, 2013 and 2012, and the results of its operations and its cash flows for the years ended April 30, 2013 and 2012 in accordance with International Financial Reporting Standards.

Koster, Spinks & Koster^{LLP}

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
June 27, 2013

Paul Koster CPA, CA Jeffrey D. Spinks CPA, CA, CBV Michael Koster CPA, CA Gyan P. Sharma CPA, CA Graeme R. Duff CPA, CA
Blair D. Kennedy Professional Corporation Mark Humphrey Professional Corporation John P. Quilty Professional Corporation

Sereno Capital Corporation

Statement of Financial Position

	April 30, 2013	April 30, 2012
Assets		
Current		
Cash and cash equivalents (note 2)	\$ 572,485	\$ 583,542
HST recoverable	8,811	18,399
Prepaid expenses	-	833
	<u>\$ 581,296</u>	<u>\$ 602,774</u>
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities (note 3)	<u>\$ 14,420</u>	<u>\$ 9,248</u>
Shareholders' equity		
Share capital (note 4)	733,597	733,597
Contributed surplus	158,555	158,555
Deficit	<u>(325,276)</u>	<u>(298,626)</u>
	<u>566,876</u>	<u>593,526</u>
	<u>\$ 581,296</u>	<u>\$ 602,774</u>

Approved by the Board

_____(signed) "Barry Gordon" Director

_____(signed) "Brandon Gordon" Director



Koster, Spinks & Koster^{LLP}
Chartered Professional Accountants

Sereno Capital Corporation

Statement of Changes in Equity For The Years Ended April 30, 2013 and 2012

	Share capital	Contributed surplus	Deficit	Total
Balance at May 2, 2011	\$ 733,597	\$ 109,651	\$ (219,301)	\$ 623,947
Stock based compensation	-	48,904	-	48,904
Net loss for the year	-	-	(79,325)	(79,325)
Balance at April 30, 2012	733,597	158,555	(298,626)	593,526
Net loss for the year	-	-	(26,650)	(26,650)
Balance, end of year	<u>\$ 733,597</u>	<u>\$ 158,555</u>	<u>\$ (325,276)</u>	<u>\$ 566,876</u>



Koster, Spinks & Koster, LLC
Chartered Professional Accountants

Sereno Capital Corporation

Statements of Loss and Comprehensive Loss For The Years Ended April 30, 2013 and 2012

	2013	2012
Interest income	<u>\$ 6,918</u>	<u>\$ 6,042</u>
Expenses		
Stock based compensation expense	-	48,904
Professional fees	17,394	24,101
Regulatory filing fees and administration	16,174	12,362
	<u>33,568</u>	<u>85,367</u>
Net loss and comprehensive loss for the year	<u>\$ (26,650)</u>	<u>\$ (79,325)</u>
Loss per share (note 5)		
Basic	<u>\$ (0.006)</u>	<u>\$ (0.017)</u>
Diluted	<u>\$ (0.006)</u>	<u>\$ (0.017)</u>



Koster, Spinks & Koster_{LLP}
Chartered Professional | Accountants

Sereno Capital Corporation

Statements of Cash Flows For The Years Ended April 30, 2013 and 2012

	2013	2012
Cash provided by (used for):		
Operating activities		
Net loss for the year	\$ (26,650)	\$ (79,325)
Item not affecting cash:		
Stock based compensation expense	-	48,904
Net change in non-cash working capital	15,593	(6,293)
	<u>(11,057)</u>	<u>(36,714)</u>
Change in cash and cash equivalents during the year	(11,057)	(36,714)
Cash and cash equivalents, beginning of year	583,542	620,256
Cash and cash equivalents, end of year	<u>\$ 572,485</u>	<u>\$ 583,542</u>



Koster, Spinks & Koster, LLC
Chartered Professional Accountants

Sereno Capital Corporation

Notes to Financial Statements
April 30, 2013 and 2012

Nature of business

Sereno Capital Corporation (the "Corporation") is a company domiciled in Canada. The corporation was incorporated pursuant to the provisions of the Business Corporation Act (Ontario) on March 19, 2007 and is classified as a Capital Pool Corporation as defined in Policy 2.4 of the TSX Venture Exchange Inc. ("Exchange"). Its registered office is at 130 King Street West, Suite 2110, Toronto, Ontario, M5X 1B1. The Corporation has no assets other than cash and taxes receivable. The Corporation proposes to identify and evaluate potential acquisitions of businesses and once identified and evaluated, to negotiate an acquisition or participation subject to receipt of shareholder and regulatory approval.

The business of the Corporation involves a high degree of risk and there is no assurance that the Corporation will identify an appropriate business for acquisition or participation and even if so identified and warranted, it may not be able to finance such acquisition or participation. Additional funds may be required to enable the Corporation to pursue such an initiative and the Corporation may be unable to obtain such financing on terms which are satisfactory to it. Further, there is no assurance that any business or assets acquired will be profitable.

1. Summary of significant accounting policies

These financial statements of Sereno Capital Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These audited financial statements were authorized for issuance by the Board of Directors of Sereno Capital Corporation on June 26, 2013.

a) Basis of presentation

The financial statements of Sereno Capital Corporation have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value. The Corporation's presentation currency is the Canadian dollar. The functional currency is also the Canadian dollar.

b) Revenue recognition

The Corporation recognizes revenue when measurement and collectability are reasonably assured. Interest income is recognized on an accrual basis.



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Notes to Financial Statements
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c) Stock-based compensation

The Corporation accounts for stock-based compensation to directors, officers and employees and non-employees using the fair value based method. The fair value of options issued to directors, officers, employees and consultants to the Corporation is charged to earnings with the offsetting amount recorded to contributed surplus. The fair value of options issued to agents in conjunction with a public offering is charged to share issue costs with an offsetting amount recorded to contributed surplus. Fair value is measured using the Black-Scholes option-pricing model. Consideration paid on the exercise of stock options is recorded as share capital.

d) Use of estimates

The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions which affect the recognition, measurement and disclosure of amounts reported in the financial statements and accompanying notes. The reported amounts and note disclosures are determined using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. Actual results will differ from such estimates.

e) Income (loss) per share

Income (loss) per share is calculated on the weighted average number of shares outstanding during the period. The treasury stock method is used for the calculation of the dilutive effect of stock options.

f) Financial instruments

Financial assets are classified as fair value through profit or loss ("FVPL"), available-for-sale ("AFS") or loans and receivables. Financial liabilities are classified as FVPL or other.

Financial instruments are recognized initially at fair value. Transaction costs that are directly attributable to the acquisition or issue of a financial instrument classified as other than as FVPL are added to the carrying amount of the asset or liability. The fair value of financial instruments is generally determined by reference to quoted market bid prices where an active market exists. Where there is no active market, the fair value is determined using valuation techniques.

Financial instruments classified as FVPL are carried at fair value in the balance sheet and any gains or losses are recorded in net income in the period in which they arise. Financial instruments classified as FVPL include cash.



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Sereno Capital Corporation

Notes to Financial Statements April 30, 2013 and 2012

Financial assets classified as AFS are carried at fair value in the statement of financial position. Movements in the fair value are recorded in other comprehensive income (loss) until disposed, at which time the cumulative amount recorded in other comprehensive income (loss) is recognized in net income. Where there is objective evidence that an AFS asset is impaired, the cumulative impairment loss is reclassified from other comprehensive income (loss) to net income with subsequent movements also recognized in net income. There are no financial assets classified as AFS.

Loans and receivables and other financial liabilities are recognized at amortized cost using the effective interest rate method. Such accounts include accounts receivable, and accounts payable and accrued liabilities. All financial instruments recognized at fair value in the statement of financial position are classified into three fair value hierarchy levels as follows:

- Level 1 – valuation based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities.
- Level 2 – valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived from or corroborated by observable market data by correlation or other means.
- Level 3 – valuation techniques with significant unobservable market inputs.

2. Cash and cash equivalents

The proceeds raised from the issuance of share capital may only be used to identify and evaluate assets or businesses for future investment, with the exception that no more than the lesser of 30% of the gross proceeds or \$210,000 may be used to cover prescribed costs of issuing common shares, listing and filing fees or general and administrative expenses of the Corporation. These restrictions apply until completion of a Qualifying Transaction by the Corporation as defined under the policies of the Exchange.

3. Accounts payable and accrued liabilities

During the year the Corporation paid accounting fees of \$5,650 to an officer of the Corporation. This amount is included in accounts payable at year end. These fees are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.



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Sereno Capital Corporation

Notes to Financial Statements April 30, 2013 and 2012

4. Share capital

i) The share capital of the Corporation consists of the following:

	April 30, 2013	April 30, 2012
Authorized		
Unlimited common shares, with no par value		
Issued		
4,700,000 common shares	\$ 733,597	\$ 733,597

On March 31, 2007, the Corporation issued 1,300,000 common shares for gross proceeds of \$130,000. These shares are subject to escrow restrictions. On April 18, 2007, the Corporation completed a private placement raising gross proceeds of \$400,000, resulting from the issuance of 2,000,000 common shares at a price of \$0.20 per share, of which 500,000 common shares are subject to escrow restrictions. Share issue costs of \$3,000 were deducted from the gross proceeds received.

On May 17, 2007, the Corporation issued 500,000 common shares at \$0.20 per common share for gross proceeds of \$100,000.

On August 8, 2007, the Corporation issued 1,500,000 common shares through an initial public offering ("Offering") at \$0.20 per common share for gross proceeds of \$300,000 and incurred \$99,752 of share issuance costs including third party stock option costs of \$16,000. Share issuance costs have been deducted from share capital.

As a result of its inability to complete a qualifying transaction within the time periods, as extended, on June 15, 2010, the Corporation cancelled 600,000 seed common shares and the average per-share amount of \$0.156 per share for a total of \$93,651 has been deducted from share capital and added to contributed surplus.



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Notes to Financial Statements April 30, 2013 and 2012

ii) Stock options

The Corporation has an incentive stock option plan which provides for the issuance of incentive stock options to directors, management, employees and consultants to the Corporation. On May 16, 2011, the Corporation granted 262,500 options to directors and officers to purchase common shares. The options are exercisable at \$0.25 per share and expire on May 16, 2016. The options vested immediately. The fair value of each option granted has been estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: (i) risk-free interest rate of 1.34%; (ii) expected term of 5 years and (iii) expected volatility of 100%. The fair market value was determined to be \$48,904 and was charged to stock based compensation for the year. Incentive stock options are comprised of the following components:

	April 30, 2013		April 30, 2012	
	Number	Total Exercise Price	Number	Total Exercise Price
Directors and employees	262,500	\$ 65,625	262,500	\$ 65,625
Third parties	-	-	-	-
	262,500	\$ 65,625	262,500	\$ 65,625

A summary of changes in the incentive stock option plan for the years ended April 30, 2013 and 2012 are as follows:

	Number of Options		Weighted average exercise price	
	April 30, 2013	April 30, 2012	April 30, 2013	April 30, 2012
Opening balance	262,500	-	\$ 0.25	\$ -
Granted	-	262,500	-	0.25
Closing balance	262,500	262,500	\$ 0.25	\$ 0.25
Exercisable, end of period	262,500	262,500	\$ 0.25	\$ 0.25



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iii) Escrow Agreement

Pursuant to an Escrow Agreement dated May 17, 2007, all of the common shares issued prior to the Offering on August 8, 2007 at a price below the issue price under the prospectus that may be acquired by non arm's length parties of the Corporation either under the Offering or otherwise prior to completion of the Qualifying Transaction and all common shares acquired by members of the aggregate pro group prior to the Offering may not be traded, released, transferred or dealt with in any manner without the consent of the Exchange until issuance of the Final Exchange Bulletin that evidences the final Exchange acceptance of the Qualifying Transaction. Upon the Exchange issuing the Final Exchange Bulletin, 10% of the escrowed common shares will be releasable. An additional 15% of the escrowed common shares will qualify for release every six months thereafter.

5. Net loss per share

	2013	2012
Net loss	\$ (26,650)	\$ (79,325)
Weighted average number of common shares, basic and diluted	4,700,000	4,700,000
Effect of dilutive securities	-	-
	<u>4,700,000</u>	<u>4,700,000</u>
Net loss per share		
Basic	\$ (0.006)	\$ (0.017)
Diluted	\$ (0.006)	\$ (0.017)



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Notes to Financial Statements
April 30, 2013 and 2012

6. Income taxes

- a) The provision for income taxes in the statement of income reflects an income tax rate which differs from the Canadian statutory rate as follows:

	2013	2012
Income (loss) before income taxes	\$ (26,650)	\$ (79,325)
Combined federal and provincial rates	27.59%	27.59%
Income taxes (recovery) at basic federal and provincial rates	\$ (7,353)	\$ (21,886)
Stock option benefit added back for tax purposes	-	13,493
Other	-	(6,015)
Benefit of losses not recognized	7,353	14,408
Provision for (recovery of) income taxes	\$ -	\$ -

- b) The Corporation has non-capital loss carryforwards of \$283,929. Under the liability method, a future tax asset is recorded based upon tax losses carried forward. A valuation allowance is established to reduce the future income tax asset to the amount that is more likely than not to be realized. The valuation allowance will be reviewed and adjusted as appropriate for each reporting period. At April 30, 2013 and 2012, the Corporation established the valuation allowance at 100% of the future tax asset. The loss carryforwards expire as follows:

2027	\$ 2,300
2028	11,764
2029	46,267
2030	66,151
2031	74,368
2032	52,221
2033	30,858
	<u>\$ 283,929</u>

7. Financial instruments

- a) Fair value

Financial assets are classified into three categories, FVPL, loans and receivables and AFS. As at April 30, 2013, FVPL assets include cash carried at fair value and classified in the Level 1 fair value hierarchy of \$572,485 (April 30, 2012 – \$583,542).



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Notes to Financial Statements April 30, 2013 and 2012

Financial liabilities are classified into two categories, FVPL and other liabilities. Other liabilities include accounts payable and accrued liabilities of \$14,420 (April 30, 2012 – \$9,248). For all other financial assets and financial liabilities, the carrying value approximates fair value due to the short-term nature of these instruments.

b) Credit risk

Credit risk is the risk of a loss if a counterparty to a financial instrument fails to meet its contractual obligations. At April 30, 2013 and 2012, all the Corporation's cash was held at one financial institution and as a result the Corporation has concentration of credit risk. The carrying amount of cash represents the maximum credit exposure. The Corporation limits its exposure to credit risk by holding the cash in deposit with a high credit quality Canadian financial institution.

c) Liquidity risk

Liquidity risk is the risk that the Corporation will incur difficulties meeting its financial obligations as they are due. The Corporation's approach to managing liquidity risk is to ensure that it will have sufficient cash on hand to meet liabilities when due. The Corporation anticipates it will have adequate liquidity to fund its financial liabilities through existing working capital. As at April 30, 2013 and 2012, the Corporation's financial liabilities were comprised of accounts payable and accrued liabilities all of which have a maturity of less than one year and are subject to normal trade terms.

d) Market risk

Market risk is the risk of a financial loss resulting from adverse changes in underlying market factors, such as interest rates, foreign exchange rates and equity prices. A description of each component of market risk is described below:

- Interest rate risk of gain or loss due to the volatility of interest rates.
- Foreign exchange risk is the risk of gain or loss due to the volatility of foreign exchange rates.
- Equity risk is the risk of gain or loss due to the changes in the prices and the volatility of individual equity instruments and equity indexes.

The Corporation is exposed to interest rate risk through the interest income earned on cash. The Corporation is not exposed to significant foreign exchange risk and equity risk.



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Notes to Financial Statements
April 30, 2013 and 2012

8. Capital management

The Corporation's objective in managing its capital are to safeguard the Corporation's ability to continue as a going concern and to ensure that it has adequate capital to complete a qualifying transaction. As the Corporation is a Capital Pool Company, its source of funds is from the issuance of common shares. The proceeds raised from the issuance of the share capital may only be used to identify and evaluate assets or business for future investments, with the exception that no more than the lesser of 30% of the gross proceeds or \$210,000 may be used to cover prescribed costs of issuing common shares, listing and filing fees or general and administrative expenses of the Corporation. These restrictions apply until completion of a Qualifying Transaction by the Corporation as defined under the policies of the Exchange.

The Corporation expects its current capital resources will be sufficient to conclude a Qualifying Transaction. Except as noted above, the Corporation is not subject to any externally imposed capital requirements.

The Corporation monitors its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the potential underlying assets. To maintain or adjust the capital structure, the Corporation may issue new equity is available on favourable terms.

9. Future accounting changes

The company is currently evaluating the impact the following new standards issued or amended by the IASB will have on its financial statements. The company has not yet determined whether to early adopt any of the new or amended standards.

International Accounting Standard Issue Date	Amendment date	Effective date (for fiscal years beginning on or after this date)
IAS 1 – Presentation of Financial Statements	June 16, 2011	July 1, 2012
IFRS 10 – Consolidated Financial Statements	May 12, 2011	January 1, 2013
IFRS 12 – Disclosures of Interests in Other Entities	May 12, 2011	January 1, 2013
IFRS 13 – Fair Value Measurement	May 12, 2011	January 1, 2013
IFRS 9 – Financial Instruments	November 12, 2009	January 1, 2015

IAS 1, Presentation of Financial Statements, was amended to require entities to group together items within other comprehensive income (loss) that may be reclassified to net income (loss).



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Notes to Financial Statements April 30, 2013 and 2012

IFRS 10, Consolidated Financial Statements ("IFRS 10"), replaces the consolidation requirements in SIC-12, Consolidation – Special Purpose Entities and IAS 27, Consolidated and Separate Financial Statements. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company.

IFRS 12, Disclosures of Interests in Other Entities, establishes disclosure requirements for interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interest in other entities.

IFRS 13, Fair Value Measurements, establishes the definition of fair value and sets out a single IFRS framework for measuring fair value and the required disclosures.

IFRS 9, Financial Instruments ("IFRS 9"), will replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules presently in IAS 39. 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.

10. Subsequent event

On May 24, 2013, the Corporation entered into a letter of intent with Delavaco Properties Inc. ("Delavaco"), pursuant to which the Corporation will acquire all of the issued and outstanding shares of Delavaco by way of a court approved plan of arrangement. The proposed transaction if completed will constitute the Qualifying Transaction of the Corporation pursuant to the policies of the Exchange and the Corporation will cease to be a Capital Pool Company. The transaction is subject to regulatory and shareholder approval.



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Chartered Professional Accountants

Sereno Capital Corporation

Financial Statements
April 30, 2012 and 2011

4 Glengrove Avenue West T: 416.489.8100
Toronto, Ontario F: 416.489.9194
M4R 1N4 www.ksk.ca

Independent Auditors' Report

To the Shareholders of
Sereno Capital Corporation

Report on the financial statements

We have audited the accompanying financial statements of Sereno Capital Corporation, which comprise the balance sheets as at April 30, 2012 and 2011 and May 1, 2010, and the statements of loss and comprehensive loss, changes in equity and cash flows for the years ended April 30, 2012 and 2011, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Sereno Capital Corporation as at April 30, 2012 and 2011 and May 1, 2010, and the results of its operations and its cash flows for the years ended April 30, 2012 and 2011 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Koster, Spinks & Koster _{LLP}

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
August 28, 2012

Paul Koster CA Jeffrey D. Spinks CA, CBV Michael Koster CA Gyan P. Sharma CA Graeme R. Duff CA
Blair D. Kennedy Professional Corporation Mark Humphrey Professional Corporation John P. Quilty Professional Corporation

Sereno Capital Corporation

Balance Sheets

	April 30, 2012	April 30, 2011	May 1, 2010
Assets			
Current			
Cash and cash equivalents	\$ 583,542	\$ 620,256	\$ 736,359
HST recoverable	18,399	13,486	6,369
Prepaid expenses	833	-	-
	<u>\$ 602,774</u>	<u>\$ 633,742</u>	<u>\$ 742,728</u>
Liabilities and Shareholders' Equity			
Current			
Accounts payable and accrued liabilities	\$ 9,248	\$ 9,795	\$ 50,145
Shareholders' equity			
Share capital (note 5)	733,597	733,597	827,248
Contributed surplus	158,555	109,651	16,000
Deficit	(298,626)	(219,301)	(150,665)
	<u>593,526</u>	<u>623,947</u>	<u>692,583</u>
	<u>\$ 602,774</u>	<u>\$ 633,742</u>	<u>\$ 742,728</u>

Approved by the Board

_____(signed) "Barry Gordon" Director

_____(signed) "Brandon Gordon" Director

Sereno Capital Corporation

Statement of Changes in Equity For The Years Ended April 30, 2012 and 2011

	Share capital	Contributed surplus	Deficit	Total
Balance at May 1, 2010	\$ 827,248	\$ 16,000	\$ (150,665)	\$ 692,583
Cancellation of common shares	(93,651)	93,651	-	-
Net loss for the year	-	-	(68,636)	(68,636)
Balance at April 30, 2011	733,597	109,651	(219,301)	623,947
Stock based compensation	-	48,904	-	48,904
Net loss for the year	-	-	(79,325)	(79,325)
Balance, end of year	<u>\$ 733,597</u>	<u>\$ 158,555</u>	<u>\$ (298,626)</u>	<u>\$ 593,526</u>

Sereno Capital Corporation

Statements of Loss and Comprehensive Loss For The Years Ended April 30, 2012 and 2011

	2012	2011
Interest income	\$ 6,042	\$ 4,196
Expenses		
Stock based compensation expense	48,904	-
Professional fees	24,101	53,040
Regulatory filing fees and administration	12,362	19,792
	<u>85,367</u>	<u>72,832</u>
Net loss and comprehensive loss for the year	<u>\$ (79,325)</u>	<u>\$ (68,636)</u>
Loss per share (note 6)		
Basic	<u>\$ (0.017)</u>	<u>\$ (0.014)</u>
Diluted	<u>\$ (0.017)</u>	<u>\$ (0.014)</u>

Sereno Capital Corporation

Statements of Cash Flows For The Years Ended April 30, 2012 and 2011

	2012	2011
Cash provided by (used for):		
Operating activities		
Net loss for the year	\$ (79,325)	\$ (68,636)
Item not affecting cash:		
Stock based compensation expense	48,904	-
Net change in non-cash working capital	(6,293)	(47,467)
	<u>(36,714)</u>	<u>(116,103)</u>
Change in cash and cash equivalents during the year	(36,714)	(116,103)
Cash and cash equivalents, beginning of year	<u>620,256</u>	<u>736,359</u>
Cash and cash equivalents, end of year	<u>\$ 583,542</u>	<u>\$ 620,256</u>

Sereno Capital Corporation

Notes to Financial Statements
April 30, 2012 and 2011

1. Nature of business

Sereno Capital Corporation (the "Corporation") was incorporated pursuant to the provisions of the Business Corporation Act (Ontario) on March 19, 2007 and is classified as a Capital Pool Corporation as defined in Policy 2.4 of the TSX Venture Exchange Inc. ("Exchange"). The Corporation has no assets other than cash and taxes receivable. The Corporation proposes to identify and evaluate potential acquisitions of businesses and once identified and evaluated, to negotiate an acquisition or participation subject to receipt of shareholder and regulatory approval.

The business of the Corporation involves a high degree of risk and there is no assurance that the Corporation will identify an appropriate business for acquisition or participation and even if so identified and warranted, it may not be able to finance such acquisition or participation. Additional funds may be required to enable the Corporation to pursue such an initiative and the Corporation may be unable to obtain such financing on terms which are satisfactory to it. Further, there is no assurance that any business or assets acquired will be profitable.

2. Summary of significant accounting policies

These financial statements represent the first annual financial statements of Sereno Capital Corporation prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The Corporation adopted IFRS in accordance with IFRS 1, *First-time Adoption of International Reporting Standards* ("IFRS 1") as discussed in note 3.

These audited financial statements were authorized for issuance by the Board of Directors of Sereno Capital Corporation on August 28, 2012.

a) Basis of presentation

The financial statements of Sereno Capital Corporation have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value. The Corporation's presentation currency is the Canadian dollar. The functional currency is also the Canadian dollar.

b) Revenue recognition

The Corporation recognizes revenue when measurement and collectability are reasonably assured. Interest income is recognized on an accrual basis.

Sereno Capital Corporation

Notes to Financial Statements
April 30, 2012 and 2011

c) Stock-based compensation

The Corporation accounts for stock-based compensation to directors, officers and employees and non-employees using the fair value based method. The fair value of options issued to directors, officers, employees and consultants to the Corporation is charged to earnings with the offsetting amount recorded to contributed surplus. The fair value of options issued to agents in conjunction with a public offering is charged to share issue costs with an offsetting amount recorded to contributed surplus. Fair value is measured using the Black-Scholes option-pricing model. Consideration paid on the exercise of stock options is recorded as share capital.

d) Use of estimates

The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions which affect the recognition, measurement and disclosure of amounts reported in the financial statements and accompanying notes. The reported amounts and note disclosures are determined using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. Actual results will differ from such estimates.

e) Income (loss) per share

Income (loss) per share is calculated on the weighted average number of shares outstanding during the period. The treasury stock method is used for the calculation of the dilutive effect of stock options.

f) Financial instruments

Financial assets are classified as fair value through profit or loss ("FVPL"), available-for-sale ("AFS") or loans and receivables. Financial liabilities are classified as FVPL or other.

Financial instruments are recognized initially at fair value. Transaction costs that are directly attributable to the acquisition or issue of a financial instrument classified as other than as FVPL are added to the carrying amount of the asset or liability. The fair value of financial instruments is generally determined by reference to quoted market bid prices where an active market exists. Where there is no active market, the fair value is determined using valuation techniques.

Financial instruments classified as FVPL are carried at fair value in the balance sheet and any gains or losses are recorded in net income in the period in which they arise. Financial instruments classified as FVPL include cash.

Sereno Capital Corporation

Notes to Financial Statements April 30, 2012 and 2011

Financial assets classified as AFS are carried at fair value in the statement of financial position. Movements in the fair value are recorded in other comprehensive income (loss) until disposed, at which time the cumulative amount recorded in other comprehensive income (loss) is recognized in net income. Where there is objective evidence that an AFS asset is impaired, the cumulative impairment loss is reclassified from other comprehensive income (loss) to net income with subsequent movements also recognized in net income. There are no financial assets classified as AFS.

Loans and receivables and other financial liabilities are recognized at amortized cost using the effective interest rate method. Such accounts include accounts receivable, and accounts payable and accrued liabilities. All financial instruments recognized at fair value in the statement of financial position are classified into three fair value hierarchy levels as follows:

- Level 1 – valuation based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities.
- Level 2 – valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived from or corroborated by observable market data by correlation or other means.
- Level 3 – valuation techniques with significant unobservable market inputs.

3. Transition to IFRS

The Corporation adopted IFRS effective May 1, 2011, with a transition date of May 1, 2010. Prior to the adoption of IFRS, the Corporation prepared its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). The Corporation's financial statements for the year ending April 30, 2012 is the first annual financial statements that comply with IFRS. The Corporation has prepared its opening balance sheet and financial statements for 2011 and 2012 by applying existing IFRS with an effective date of April 30, 2012 or prior.

a) Elected exemptions from full retrospective application

In preparing these financial statements in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards ["IFRS 1"], the Corporation has applied certain of the optional exemptions from full retrospective application of IFRS. The optional exemptions applied are described as follows:

Sereno Capital Corporation

Notes to Financial Statements
April 30, 2012 and 2011

(i) Business combinations

The Corporation has applied the business combinations exemption in IFRS 1 to not apply IFRS 3, Business Combinations, retrospectively to past business combinations. Accordingly, the Corporation has not restated business combinations that took place prior to the transition date.

b) Mandatory exemptions from full retrospective application

In preparing these financial statements in accordance with IFRS 1, the Corporation has applied certain mandatory exemptions from full retrospective application of IFRS. The mandatory exemptions applied from full retrospective application of IFRS are described as follows:

(i) Estimates

Hindsight was not used to create or revise estimates and accordingly, the estimates made by the Corporation under Canadian GAAP are consistent with their application under IFRS.

The adoption of IFRS had no impact on the previously reported assets, liabilities and equity of the Corporation, and accordingly, no transitional adjustments have been recorded in the comparative statement of financial position, income statement, statement of retained earnings and the cash flow statement. Certain of the Corporation's presentation and disclosures included in these financial statements reflect the new presentation and disclosure requirements of IFRS.

4. Cash and cash equivalents

The proceeds raised from the issuance of share capital may only be used to identify and evaluate assets or businesses for future investment, with the exception that no more than the lesser of 30% of the gross proceeds or \$210,000 may be used to cover prescribed costs of issuing common shares, listing and filing fees or general and administrative expenses of the Corporation. These restrictions apply until completion of a Qualifying Transaction by the Corporation as defined under the policies of the Exchange.

5. Share capital

i) The share capital of the Corporation consists of the following:

	April 30, 2012	April 30, 2011	May 1, 2010
Authorized			
Unlimited common shares			
Issued			
4,700,000 common shares (May 1, 2010:			
5,300,000)	\$ 733,597	\$ 733,597	\$ 827,248

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Sereno Capital Corporation

Notes to Financial Statements April 30, 2012 and 2011

On March 31, 2007, the Corporation issued 1,300,000 common shares for gross proceeds of \$130,000. These shares are subject to escrow restrictions. On April 18, 2007, the Corporation completed a private placement raising gross proceeds of \$400,000, resulting from the issuance of 2,000,000 common shares at a price of \$0.20 per share, of which 500,000 common shares are subject to escrow restrictions. Share issue costs of \$3,000 were deducted from the gross proceeds received.

On May 17, 2007, the Corporation issued 500,000 common shares at \$0.20 per common share for gross proceeds of \$100,000.

On August 8, 2007, the Corporation issued 1,500,000 common shares through an initial public offering ("Offering") at \$0.20 per common share for gross proceeds of \$300,000 and incurred \$99,752 of share issuance costs including third party stock option costs of \$16,000. Share issuance costs have been deducted from share capital.

As a result of its inability to complete a qualifying transaction within the time periods, as extended, on June 15, 2010, the Corporation cancelled 600,000 seed common shares and the average per-share amount of \$0.156 per share for a total of \$93,651 has been deducted from share capital and added to contributed surplus.

ii) Stock options

The Corporation has an incentive stock option plan which provides for the issuance of incentive stock options to directors, management, employees and consultants to the Corporation. On May 16, 2011, the Corporation granted 262,500 options to directors and officers to purchase common shares. The options are exercisable at \$0.25 per share and expire on May 16, 2016. The options vested immediately. The fair value of each option granted has been estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: (i) risk-free interest rate of 1.34%; (ii) expected term of 5 years and (iii) expected volatility of 100%. The fair market value was determined to be \$48,904 and was charged to stock based compensation for the year. Incentive stock options are comprised of the following components:

	April 30, 2012		April 30, 2011	
	Number	Total Exercise Price	Number	Total Exercise Price
Directors and employees	262,500	\$ 65,625	-	\$ -
Third parties	-	-	-	-
	262,500	\$ 65,625	-	\$ -

Sereno Capital Corporation

Notes to Financial Statements April 30, 2012 and 2011

A summary of changes in the incentive stock option plan for the years ended April 30, 2012 and 2011 are as follows:

	Number of Options		Weighted average exercise price	
	April 30, 2012	April 30, 2011	April 30, 2012	April 30, 2011
Opening balance	-	-	\$ -	\$ -
Granted	262,500	-	0.25	-
Closing balance	262,500	-	\$ 0.25	\$ -
Exercisable, end of period	262,500	-	\$ 0.25	\$ -

iii) Escrow Agreement

Pursuant to an Escrow Agreement dated May 17, 2007, all of the common shares issued prior to the Offering on August 8, 2007 at a price below the issue price under the prospectus that may be acquired by non arm's length parties of the Corporation either under the Offering or otherwise prior to completion of the Qualifying Transaction and all common shares acquired by members of the aggregate pro group prior to the Offering may not be traded, released, transferred or dealt with in any manner without the consent of the Exchange until issuance of the Final Exchange Bulletin that evidences the final Exchange acceptance of the Qualifying Transaction. Upon the Exchange issuing the Final Exchange Bulletin, 10% of the escrowed common shares will be releasable. An additional 15% of the escrowed common shares will qualify for release every six months thereafter.

6. Net loss per share

	2012	2011
Net loss	\$ (79,325)	\$ (68,636)
Weighted average number of common shares	4,700,000	4,775,616
Effect of dilutive securities	-	-
	4,700,000	4,775,616
Net loss per share		
Basic	\$ (0.017)	\$ (0.014)
Diluted	\$ (0.017)	\$ (0.014)

Sereno Capital Corporation

Notes to Financial Statements
April 30, 2012 and 2011

7. Income taxes

- a) The provision for income taxes in the statement of income reflects an income tax rate which differs from the Canadian statutory rate as follows:

	2012	2011
Income (loss) before income taxes	\$ (79,325)	\$ (68,636)
Combined federal and provincial rates	27.59%	29.84%
Income taxes (recovery) at basic federal and provincial rates	\$ (21,886)	\$ (20,481)
Stock option benefit added back for tax purposes	13,493	-
Other	(6,015)	(5,335)
Benefit of losses not recognized	14,408	25,816
Provision for (recovery of) income taxes	\$ -	\$ -

- b) The Corporation has non-capital loss carryforwards of \$253,071. Under the liability method, a future tax asset is recorded based upon tax losses carried forward. A valuation allowance is established to reduce the future income tax asset to the amount that is more likely than not to be realized. The valuation allowance will be reviewed and adjusted as appropriate for each reporting period. At April 30, 2012 and 2011, the Corporation established the valuation allowance at 100% of the future tax asset. The loss carryforwards expire as follows:

2027	\$ 2,300
2028	11,764
2029	46,267
2030	66,151
2031	74,368
2032	52,221
	<u>\$ 253,071</u>

Sereno Capital Corporation

Notes to Financial Statements April 30, 2012 and 2011

8. Financial instruments

a) Fair value

Financial assets are classified into three categories, FVPL, loans and receivables and AFS. As at April 30, 2012, FVPL assets include cash carried at fair value and classified in the Level 1 fair value hierarchy of \$583,542 (April 30, 2011 – \$620,256 and May 1, 2010 – \$736,359).

Financial liabilities are classified into two categories, FVPL and other liabilities. Other liabilities include accounts payable and accrued liabilities of \$9,248 (April 30, 2011 – \$9,795 and May 1, 2010 – \$50,145). For all other financial assets and financial liabilities, the carrying value approximates fair value due to the short-term nature of these instruments.

b) Credit risk

Credit risk is the risk of a loss if a counterparty to a financial instrument fails to meet its contractual obligations. At April 30, 2012 and 2011, all the Corporation's cash was held at one financial institution and as a result the Corporation has concentration of credit risk. The carrying amount of cash represents the maximum credit exposure. The Corporation limits its exposure to credit risk by holding the cash in deposit with a high credit quality Canadian financial institution.

c) Liquidity risk

Liquidity risk is the risk that the Corporation will incur difficulties meeting its financial obligations as they are due. The Corporation's approach to managing liquidity risk is to ensure that it will have sufficient cash on hand to meet liabilities when due. The Corporation anticipates it will have adequate liquidity to fund its financial liabilities through existing working capital. As at April 30, 2012 and 2011, the Corporation's financial liabilities were comprised of accounts payable and accrued liabilities all of which have a maturity of less than one year and are subject to normal trade terms.

d) Market risk

Market risk is the risk of a financial loss resulting from adverse changes in underlying market factors, such as interest rates, foreign exchange rates and equity prices. A description of each component of market risk is described below:

- Interest rate risk of gain or loss due to the volatility of interest rates.
- Foreign exchange risk is the risk of gain or loss due to the volatility of foreign exchange rates.
- Equity risk is the risk of gain or loss due to the changes in the prices and the volatility of individual equity instruments and equity indexes.

The Corporation is exposed to interest rate risk through the interest income earned on cash. The Corporation is not exposed to significant foreign exchange risk and equity risk.

Sereno Capital Corporation

Notes to Financial Statements
April 30, 2012 and 2011

9. Capital management

The Corporation's objective in managing its capital are to safeguard the Corporation's ability to continue as a going concern and to ensure that it has adequate capital to complete a qualifying transaction. As the Corporation is a Capital Pool Company, its source of funds is from the issuance of common shares. The proceeds raised from the issuance of the share capital may only be used to identify and evaluate assets or business for future investments, with the exception that no more than the lesser of 30% of the gross proceeds or \$210,000 may be used to cover prescribed costs of issuing common shares, listing and filing fees or general and administrative expenses of the Corporation. These restrictions apply until completion of a Qualifying Transaction by the Corporation as defined under the policies of the Exchange.

The Corporation expects its current capital resources will be sufficient to conclude a Qualifying Transaction. Except as noted above, the Corporation is not subject to any externally imposed capital requirements.

The Corporation monitors its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the potential underlying assets. To maintain or adjust the capital structure, the Corporation may issue new equity is available on favourable terms.

10. Future accounting changes

The Corporation is currently evaluating the impact the following new standards issued or amended by the IASB will have on its financial statements. The Corporation has not yet determined whether to early adopt any of the new or amended standards.

International Accounting Standard Issue Date	Amendment date	Effective date
IAS 1 – Presentation of Financial Statements	June 16, 2011	July 1, 2012
IFRS 10 – Consolidated Financial Statements	May 12, 2011	January 1, 2013
IFRS 12 – Disclosures of Interests in Other Entities	May 12, 2011	January 1, 2013
IFRS 13 – Fair Value Measurement	May 12, 2011	January 1, 2013
IFRS 9 – Financial Instruments	November 12, 2009	January 1, 2015

IAS 1, Presentation of Financial Statements, was amended to require entities to group together items within other comprehensive income (loss) that may be reclassified to net income (loss).

IFRS 10, Consolidated Financial Statements ("IFRS 10"), replaces the consolidation requirements in SIC-12, Consolidation – Special Purpose Entities and IAS 27, Consolidated and Separate Financial Statements. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company.

Sereno Capital Corporation

Notes to Financial Statements
April 30, 2012 and 2011

IFRS 12, Disclosures of Interests in Other Entities, establishes disclosure requirements for interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interest in other entities.

IFRS 13, Fair Value Measurements, establishes the definition of fair value and sets out a single IFRS framework for measuring fair value and the required disclosures.

IFRS 9, Financial Instruments ("IFRS 9"), will replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules presently in IAS 39. 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.

Sereno Capital Corporation
Unaudited Interim Financial Statements
Three Months Ended July 31, 2013 and 2012

SERENO CAPITAL CORPORATION
INTERIM STATEMENTS OF FINANCIAL POSITION

	<u>July 31, 2013</u>	<u>April 30, 2013</u>
	(unaudited)	(audited)
ASSETS		
Current		
Cash and cash equivalents (note 2)	\$ 537,949	\$ 572,485
HST recoverable	12,780	8,811
	<u>\$ 550,729</u>	<u>\$ 581,296</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 27,261	\$ 14,420
 Shareholders' equity		
Share capital (note 3)	733,597	733,597
Contributed surplus	158,555	158,555
Deficit	(368,684)	(325,276)
	<u>523,468</u>	<u>566,876</u>
	<u>\$ 550,729</u>	<u>\$ 581,296</u>

Approved by the Board

(Signed) "Barry Gordon"	Director
(Signed) "Brandon Gordon"	Director

SERENO CAPITAL CORPORATION
UNAUDITED INTERIM STATEMENT OF CHANGES IN EQUITY
For The Three Months Ended July 31, 2013 and 2012

	<u>Share capital</u>	<u>Contributed surplus</u>	<u>Deficit</u>	<u>Total</u>
Balance, May 1, 2012	\$733,597	\$158,555	\$(298,626)	\$593,526
Net loss for the period	<u>—</u>	<u>—</u>	<u>(2,262)</u>	<u>(2,262)</u>
Balance, July 31, 2012	<u>\$733,597</u>	<u>\$158,555</u>	<u>\$(300,888)</u>	<u>\$591,264</u>
Balance, May 1, 2013	\$733,597	\$158,555	\$(325,276)	\$566,876
Net loss for the period	<u>—</u>	<u>—</u>	<u>(43,408)</u>	<u>(43,408)</u>
Balance, July 31, 2013	<u><u>\$733,597</u></u>	<u><u>\$158,555</u></u>	<u><u>\$(368,684)</u></u>	<u><u>\$523,468</u></u>

SERENO CAPITAL CORPORATION
UNAUDITED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
For The Three Months Ended July 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Interest income	\$ 675	\$ 1,610
Expenses		
Professional fees	36,110	1,200
Regulatory filing fees and administration	<u>7,973</u>	<u>2,672</u>
	44,083	3,872
Net loss and comprehensive loss for the period	<u>\$(43,408)</u>	<u>\$(2,262)</u>
Loss per share		
Basic	<u>\$ (0.009)</u>	<u>\$(0.000)</u>
Diluted	<u>\$ (0.009)</u>	<u>\$(0.000)</u>

SERENO CAPITAL CORPORATION
UNAUDITED INTERIM STATEMENTS OF CASH FLOWS
For The Three Months Ended July 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash provided by (used for):		
Operating activities		
Net loss for the period	\$(43,408)	\$ (2,262)
Net change in non-cash working capital	<u>8,872</u>	<u>15,231</u>
	(34,536)	12,969
Change in cash and cash equivalents during the period	(34,536)	12,969
Cash and cash equivalents, beginning of period	<u>572,485</u>	<u>583,542</u>
Cash and cash equivalents, end of period	<u><u>\$537,949</u></u>	<u><u>\$596,511</u></u>

SERENO CAPITAL CORPORATION
NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
July 31, 2013

Nature of business

Sereno Capital Corporation (the “Corporation”) is a corporation domiciled in Canada. The corporation was incorporated pursuant to the provisions of the Business Corporation Act (Ontario) on March 19, 2007 and is classified as a Capital Pool Corporation as defined in Policy 2.4 of the TSX Venture Exchange Inc. (“Exchange”). Its registered office is at 130 King Street West, Suite 2110, Toronto, Ontario, M5X 1B1. The Corporation has no assets other than cash and taxes receivable. The Corporation proposes to identify and evaluate potential acquisitions of businesses and once identified and evaluated, to negotiate an acquisition or participation subject to receipt of shareholder and regulatory approval.

The business of the Corporation involves a high degree of risk and there is no assurance that the Corporation will identify an appropriate business for acquisition or participation and even if so identified and warranted, it may not be able to finance such acquisition or participation. Additional funds may be required to enable the Corporation to pursue such an initiative and the Corporation may be unable to obtain such financing on terms which are satisfactory to it. Further, there is no assurance that any business or assets acquired will be profitable.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with IAS 34, “Interim Financial Reporting” as issued by the International Accounting Standards Board (“IASB”) and using the accounting policies the Corporation adopted in its annual financial statements for the year ending April 30, 2013. The unaudited interim financial statements do not include all of the information required for full annual financial statements. These financial statements should be read in conjunction with the Corporation’s annual financial statements for the year ended April 30, 2013.

These unaudited interim financial statements were authorized for issuance by the Board of Directors of Sereno Capital Corporation on September 26, 2013.

a) Basis of presentation

The financial statements of the Corporation have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value. The Corporation’s presentation and functional currency is the Canadian dollar.

b) Stock-based compensation

The Corporation accounts for stock-based compensation to directors, officers and employees and non-employees using the fair value based method. The fair value of options issued to directors, officers, employees and consultants to the Corporation is charged to earnings with the offsetting amount recorded to contributed surplus. The fair value of options issued to agents in conjunction with a public offering is charged to share issue costs with an offsetting amount recorded to contributed surplus. Fair value is measured using the Black-Scholes option-pricing model. Consideration paid on the exercise of stock options is recorded as share capital.

c) Use of estimates

The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions which affect the recognition, measurement and disclosure of amounts reported in the financial statements and accompanying notes. The reported amounts and note disclosures are determined using management’s best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. Actual results will differ from such estimates.

d) Changes in accounting policies

The Corporation has adopted, as required, the following new and revised accounting standards effective January 1, 2013.

IFRS 10, Consolidated Financial Statements (“IFRS 10”) is a new standard that has replaced the consolidation requirements in SIC-12, Consolidation — Special Purpose Entities and IAS 27, Consolidated and Separate Financial Statements. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The adoption of IFRS 10 did not result in any changes as the Corporation does not have any subsidiaries.

IFRS 12, Disclosures of Interests in Other Entities, establishes disclosure requirements for interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with,

SERENO CAPITAL CORPORATION
NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS (Continued)
July 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

an entity's interest in other entities. As the Corporation does not have any joint ventures, joint arrangements and subsidiaries the adoption of this standard did not result in any changes to the disclosures.

IFRS 13, Fair Value Measurements, establishes the definition of fair value and sets out a single IFRS framework for measuring fair value and the required disclosures. The adoption of this standard did not require any adjustments to the valuation techniques used by the Corporation to measure fair value and did not result in any measurement adjustments as at May 1, 2013.

e) New standards and interpretations not yet adopted

There were no new or amended standards issued during the three months ended July 31, 2013 that are applicable to the Corporation in future periods. A description of standards and interpretations that will be adopted by the Corporation in future periods can be found in the notes to the audited financial statements for the year ended April 30, 2013.

2. CASH AND CASH EQUIVALENTS

The proceeds raised from the issuance of share capital may only be used to identify and evaluate assets or businesses for future investment, with the exception that no more than the lesser of 30% of the gross proceeds or \$210,000 may be used to cover prescribed costs of issuing common shares, listing and filing fees or general and administrative expenses of the Corporation. These restrictions apply until completion of a Qualifying Transaction by the Corporation as defined under the policies of the Exchange.

3. SHARE CAPITAL

i) The share capital of the Corporation consists of the following:

		<u>July 31, 2013</u>	<u>April 30, 2013</u>
Authorized	Unlimited common shares, with no par value		
Issued	4,700,000 common shares	\$733,597	\$733,597

On March 31, 2007, the Corporation issued 1,300,000 common shares for gross proceeds of \$130,000. These shares are subject to escrow restrictions. On April 18, 2007, the Corporation completed a private placement raising gross proceeds of \$400,000, resulting from the issuance of 2,000,000 common shares at a price of \$0.20 per share, of which 500,000 common shares are subject to escrow restrictions. Share issue costs of \$3,000 were deducted from the gross proceeds received.

On May 17, 2007, the Corporation issued 500,000 common shares at \$0.20 per common share for gross proceeds of \$100,000.

On August 8, 2007, the Corporation issued 1,500,000 common shares through an initial public offering ("Offering") at \$0.20 per common share for gross proceeds of \$300,000 and incurred \$99,752 of share issuance costs including third party stock option costs of \$16,000. Share issuance costs have been deducted from share capital.

As a result of its inability to complete a qualifying transaction within the time periods, as extended, on June 15, 2010, the Corporation cancelled 600,000 seed common shares and the average per-share amount of \$0.156 per share for a total of \$93,651 has been deducted from share capital and added to contributed surplus.

ii) Stock options

The Corporation has an incentive stock option plan which provides for the issuance of incentive stock options to directors, management, employees and consultants to the Corporation. On May 16, 2011, the Corporation granted 262,500 options to directors and officers to purchase common shares. The options are exercisable at \$0.25 per share and expire on May 16, 2016. The options vested immediately. No options have been granted during the period. At July 31, 2013 there are 262,500 (April 30, 2013 — 262,500) options outstanding and exercisable at an exercise price of \$0.25 per option.

iii) Escrow Agreement

Pursuant to an Escrow Agreement dated May 17, 2007, all of the common shares issued prior to the Offering on August 8, 2007 at a price below the issue price under the prospectus that may be acquired by non arm's length parties of the Corporation either under the Offering or otherwise prior to completion of the Qualifying Transaction and all common shares acquired by members of the

SERENO CAPITAL CORPORATION
NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS (Continued)
July 31, 2013

3. SHARE CAPITAL (Continued)

aggregate pro group prior to the Offering may not be traded, released, transferred or dealt with in any manner without the consent of the Exchange until issuance of the Final Exchange Bulletin that evidences the final Exchange acceptance of the Qualifying Transaction. Upon the Exchange issuing the Final Exchange Bulletin, 10% of the escrowed common shares will be releasable. An additional 15% of the escrowed common shares will qualify for release every six months thereafter.

4. FINANCIAL INSTRUMENTS, FAIR VALUE

Fair value

Financial assets are classified into three categories, FVPL, loans and receivables and AFS. As at July 31, 2013, FVPL assets include cash and cash equivalents carried at fair value and classified in the Level 1 fair value hierarchy of \$537,949 (April 30, 2013 — \$572,485).

Financial liabilities are classified into two categories, FVPL and other liabilities. Other liabilities include accounts payable and accrued liabilities of \$27,261 (April 30, 2013 — \$14,420). For all other financial assets and financial liabilities, the carrying value approximates fair value due to the short-term nature of the instruments.

5. SUBSEQUENT EVENT

In September 2013, the Corporation entered into a definitive agreement with Delavaco Properties Inc. (“Delavaco”), pursuant to which the Corporation will acquire all of the issued and outstanding shares of Delavaco by way of a court approved plan of arrangement. Assuming completion of the transaction, it is expected that the Corporation will satisfy the original listing requirements of the Exchange for a Tier 1 Real Estate or Investment Issuer and will combine its business under the new name “Delavaco Residential Properties Inc.”. The transaction is subject to regulatory and shareholder approval.

APPENDIX H FINANCIAL STATEMENTS

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Consolidated financial statements of

Delavaco Properties Inc.

Year ended December 31, 2012, and from the date of incorporation
January 27, 2011 to December 31, 2011
(In US Dollars)



Deloitte LLP
Brookfield Place
181 Bay Street
Suite 1400
Toronto ON M5J 2V1
Canada

Tel: 416-601-6150
Fax: 416-601-6151
www.deloitte.ca

Independent Auditor's Report

To the Shareholders of
Delavaco Properties Inc.

We have audited the accompanying consolidated financial statements of Delavaco Properties Inc., which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the year ended December 31, 2012 and for the period from the date of incorporation January 27, 2011 to December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Delavaco Properties Inc. as at December 31, 2012 and December 31, 2011, and its financial performance and its cash flows for the year ended December 31, 2012 and for the period from the date of incorporation January 27, 2011 to December 31, 2011 in accordance with International Financial Reporting Standards.

A handwritten signature in cursive script that reads "Deloitte LLP".

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
April 30, 2013

DELAVACO PROPERTIES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in US Dollars)

	December 31, 2012	December 31, 2011
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	8,379,360	220,523
Investments (Note 4)	100,000	—
Accounts receivable, net (Note 5)	162,490	12,846
Other assets (Note 6)	1,082,600	137,832
Prepaid expenses	360,356	58,089
Assets held for sale (Note 21)	2,465,333	—
Total current assets	12,550,139	429,290
Non-current assets		
Investment properties, net (Note 7)	33,940,819	8,851,396
Property and equipment, net (Note 8)	273,694	135,197
Total non-current assets	34,214,513	8,986,593
Total assets	<u>46,764,652</u>	<u>9,415,883</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,310,648	594,372
Loan payable (Note 9)	—	462,144
Convertible debentures payable (Note 11)	7,555,998	—
Derivative financial instruments (Note 11)	1,594,799	—
Liabilities associated with assets held for sale (Note 21)	15,327	—
Total current liabilities	10,476,772	1,056,516
Non-current liabilities		
Notes payable (Note 10)	22,235,059	3,428,761
Total liabilities	<u>32,711,831</u>	<u>4,485,277</u>
Shareholders' Equity		
Share capital (Note 12)	19,445,529	6,405,545
Warrants (Note 14)	1,369,182	208,900
Contributed surplus	737,090	355,785
Accumulated foreign currency translation reserve	3,445	(188,934)
Deficit	(7,502,425)	(1,850,690)
Total shareholders' equity	14,052,821	4,930,606
Total liabilities and shareholders' equity	<u>46,764,652</u>	<u>9,415,883</u>

Commitments and contingencies (Note 22)

Approved by the Board

“Steven Ridgeway”

Director (Signed)

“Andrew DeFrancesco”

Director (Signed)

See accompanying notes to the consolidated financial statements

DELAVACO PROPERTIES INC.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

Year ended December 31, 2012, and from date of incorporation January 27, 2011, to December 31, 2011

(Expressed in US Dollars)

	December 31, 2012	December 31, 2011
	\$	\$
Revenue		
Rental	3,108,834	929,660
Operating expenses		
Operating costs	1,111,158	531,874
Utilities	311,654	122,496
Property taxes	235,933	180,939
General and administrative	2,934,787	1,002,633
Professional fees	712,376	480,659
Depreciation and amortization (Notes 7, 8)	899,953	185,492
Loss from operations before other income and expenses	(3,097,027)	(1,574,433)
Other income and expenses		
Foreign exchange loss (gain)	236,340	(304,099)
Gain on disposition of investment properties	(17,364)	—
Loss on early extinguishment of debt (Note 10)	195,509	—
Finance costs (Notes 10 & 11)	1,758,918	224,571
Share-based compensation (Note 13)	381,305	355,785
Net loss before income taxes	(5,651,735)	(1,850,690)
Income tax expense (Note 18)	—	—
Net loss for the period	(5,651,735)	(1,850,690)
Other comprehensive income		
Foreign currency translation	192,379	(188,934)
Comprehensive loss for the period	(5,459,356)	(2,039,624)
Basic and diluted loss per share (Note 15)	(0.27)	(0.23)

See accompanying notes to the consolidated financial statements

DELAVACO PROPERTIES INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Year ended December 31, 2012, and from date of incorporation January 27, 2011, to December 31, 2011

(Expressed in US Dollars)

	Share capital	Warrants	Contributed surplus	Accumulated foreign currency translation reserve	Deficit	Total
	\$	\$	\$	\$	\$	\$
Balance at January 27, 2011	—	—	—	—	—	—
Issuance of common shares, net of issuance costs (Note 11)	6,405,545	—	—	—	—	6,405,545
Issuance of warrants, net of issuance costs (Note 13)	—	208,900	—	—	—	208,900
Share-based compensation (Note 12)	—	—	355,785	—	—	355,785
Other comprehensive income for the year	—	—	—	(188,934)	—	(188,934)
Net loss for the period	—	—	—	—	(1,850,690)	(1,850,690)
Balance at December 31, 2011	6,405,545	208,900	355,785	(188,934)	(1,850,690)	4,930,606
Issuance of common shares, net of issuance costs (Note 11)	13,039,984	—	—	—	—	13,039,984
Issuance of warrants, net of issuance costs (Note 13)	—	1,160,282	—	—	—	1,160,282
Share-based compensation (Note 12)	—	—	381,305	—	—	381,305
Other comprehensive income for the year	—	—	—	192,379	—	192,379
Net loss for the year	—	—	—	—	(5,651,735)	(5,651,735)
Balance at December 31, 2012	<u>19,445,529</u>	<u>1,369,182</u>	<u>737,090</u>	<u>3,445</u>	<u>(7,502,425)</u>	<u>14,052,821</u>

See accompanying notes to the consolidated financial statements

DELAVACO PROPERTIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31, 2012, and from date of incorporation January 27, 2011, to December 31, 2011
(Expressed in US Dollars)

	December 31, 2012 \$	December 31, 2011 \$
Operating activities		
Net Loss for the period	(5,651,735)	(1,850,690)
Add (Deduct):		
Depreciation and amortization	899,953	185,492
Share-based compensation	381,305	355,679
Finance costs	1,758,918	224,571
Interest paid	(1,221,870)	(164,107)
Loss on early extinguishment of debt	195,509	—
Unrealized foreign exchange loss	(191,802)	98,077
Gain on disposition of investment properties	(17,364)	—
Changes in non-cash operating working capital:		
Accounts receivable, net	(149,644)	(12,846)
Other assets	(225,437)	(137,832)
Prepaid expenses	(302,267)	(58,089)
Accounts payable and accrued liabilities	709,000	594,372
	<u>(3,815,434)</u>	<u>(765,373)</u>
Investing activities		
Purchase of investments	(100,000)	—
Acquisition of investment properties	(28,668,448)	(8,269,027)
Acquisition of property and equipment	(232,545)	(145,783)
Deposits on investment properties	(337,110)	—
Proceeds from disposition of investment properties	325,151	—
	<u>(29,012,952)</u>	<u>(8,414,810)</u>
Financing activities		
Proceeds from common share issuances, net of issuance costs	11,594,358	5,399,645
Proceeds from issuance of notes with warrants, net of issuance costs	23,226,500	3,673,636
Proceeds from issuance of convertible debentures, net of issuance costs	9,040,810	—
Proceeds from loan with warrants	—	924,288
Payments for deferred transaction costs	(382,221)	—
Notes repayments	(2,831,638)	—
Loan repayments	(14,398)	(462,144)
	<u>40,633,411</u>	<u>9,535,425</u>
Increase in cash and cash equivalents	7,805,025	355,242
Cash and cash equivalents, beginning of period	220,523	—
Effects of exchange rate changes on the balance of cash held in foreign currency	353,812	(134,719)
Cash and cash equivalents, end of period	<u><u>8,379,360</u></u>	<u><u>220,523</u></u>

See accompanying notes to the consolidated financial statements

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars unless otherwise noted)

1. NATURE OF OPERATIONS

Delavaco Properties Inc. (the “Company”) was incorporated under the Canada Business Corporations Act. All of the Company’s assets are in, and the revenues are derived from, the ownership, management and rental of residential real estate properties in the United States of America, principally in southern United States of America. The registered office of the Company is 1 Richmond Street West, Suite 500, Toronto, Ontario, Canada.

The consolidated financial statements were authorized for issue by the Board of Directors on April 30, 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of presentation

The consolidated 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. A summary of the significant accounting policies are set out below.

Basis of measurement

The consolidated financial statements have been prepared on the cost basis including investment properties except as otherwise noted.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Dalland Properties Limited Partnership (“Dalland”), Las Olas Bay Properties Peachtree, LP (“Peachtree”) and W&D Properties LLC (“W&D”), which is the general partner of Dalland and Peachtree, over which the Company has the power, directly or indirectly, to govern the financial and operating policies of the entities so as to obtain benefit from their activities.

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing these consolidated financial statements.

Foreign currencies

The Company’s functional currency is Canadian Dollars (“CAD”). To convert to the presentation currency, assets and liabilities of the Company are translated at the rate of exchange prevailing at the reporting date, and revenues and expenses at the average rate during the period. The resulting foreign currency translation adjustments are recognized in other comprehensive income (“OCI”).

Items included in the consolidated financial statements of the Company and its subsidiaries are measured using the currency of the primary economic environment in which each entity operates. Each of the Company’s subsidiaries determines its own functional currency. Dalland, Peachtree and W&D each have the US Dollar (“USD”) as their functional currency.

Transactions in foreign currencies are translated into the respective functional currencies of the Company and its subsidiaries at exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the period end exchange rate. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in the statement of loss and comprehensive loss.

During the year ended December 31, 2012 the Company changed its reporting currency from the Canadian dollar to the US dollar reporting currency. The policy choice is to better reflect the Company’s business activities and operations which are predominantly located in the United States of America. Accordingly, the comparative figures as at and for the period ended December 31, 2011 have been restated from Canadian dollars to US dollars in accordance with IAS 21, “*The Effects of Changes in Foreign Exchange Rates*”.

Investment properties

The Company accounts for its investment properties in accordance with International Accounting Standard (“IAS”) 40 — Investment Properties (“IAS 40”). Investment property is property held to earn rentals, capital appreciation, or both. The Company categorizes its investment properties as income-producing properties and investment properties are accounted for using the cost model wherein the

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

cost of an income-producing property is allocated to its significant components and is amortized over the useful life of each component as described below. Directly attributable costs incurred to acquire an investment property are capitalized to the specified property.

In order to allocate the values on acquisition of investment properties, the Company:

- estimates the value of land based upon comparable market information;
- estimates the value of significant building components on an amortized replacement cost basis;
- estimates the value of the in-place leases based on the present value of rental income lost during the hypothetical expected lease-up period required to replace the existing leases at the date of purchase; and
- estimates above-market and below-market leases for acquired properties based on the present value of the differences between contractual base rentals under the lease and fair market lease rates for similar in-place leases.

These components are amortized over their respective useful lives. Generally, the significant components of an investment property and related useful lives are:

<u>Significant components</u>	<u>Useful life (years)</u>
Building structure	27.5 to 40 years
Land	Not applicable
Appliances	2 to 5
In-place and above/below market leases	Over the remaining life of the lease
HVAC	New HVAC units — 20 years / Existing HVAC units — 10 years

The building structure includes, but is not limited to, the following items: windows; electrical and plumbing; and roofing, wall and floor construction. These items principally have the same useful lives as the overall building structures, and hence have not been separated as significant components.

Additions to investment properties:

Extending and improving the productive capacity of existing income-producing properties owned by the Company requires significant on-going capital expenditures. The Company considers its productive capacity maintenance costs to be the following:

- Major maintenance costs: Maintenance and repair costs are expensed against operations, while major maintenance costs are capitalized to income-producing properties. Each item is amortized over the useful life of the significant component to which it relates.

As a component of an income-producing property is replaced, the remaining net book value of such component being replaced is expensed in full, within depreciation and amortization.

Impairment of investment properties

At each balance sheet date, the Company assesses whether there are any indicators that the investment properties are impaired. If indicators of impairment exist, the recoverable amount of the cash-generating unit is estimated. The Company considers both the individual single-family homes and the individual multi-family homes to be cash-generating units. The recoverable amount of the cash-generating unit is the higher of value in use and fair value less costs to sell. Value in use is the present value of the future cash flows expected to be derived from the asset or cash generating unit. Fair value less costs to sell is determined to be the amount for which the cash generating unit can be sold in an arm's length transaction less the costs of disposal. If the carrying value of the cash-generating unit exceeds the recoverable amount, the cash-generating unit is written down to the recoverable amount, and an impairment loss is recognized and charged to income in the period. Impairment losses may be reversed when there has been a subsequent increase in the recoverable amount as a result of the reversal of the conditions causing the impairment. In this event, the carrying value of the cash-generating unit is increased to its revised recoverable amount limited to the original carrying value less amortization as if no impairment had been recognized for prior periods. Impairment reversals are recognized in income in the period of reversal.

Property and equipment

All property and equipment is stated at historical cost less accumulated depreciation. Historical cost includes the purchase price and any expenditures that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Company.

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cost includes the cost of replacing part of an existing item of property and equipment at the time that cost is incurred if the recognition criteria are met, and excludes the cost of day-to-day servicing.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will follow to the asset grouping and the cost of the item can be measured reliably. The carrying amounts of those parts that are replaced are derecognized. All other repairs and maintenance are charged to the statement of comprehensive loss during the financial period in which they are incurred.

Depreciation, based on a component approach, is calculated using the straight-line method to allocate the cost over the assets' estimated useful lives, as follows:

<u>Asset</u>	<u>Useful life</u>
Leasehold improvements	Remaining lease term
Furniture and equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at least at each financial year-end.

At each period end date, the Company assesses whether there are any indicators that an asset may be impaired. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

Gains or losses on disposals are determined by comparing proceeds with carrying amount and are included in the consolidated statement of loss and comprehensive loss.

Assets held for sale and discontinued operations

Non-current assets and groups of assets and liabilities which comprise disposal groups are presented as assets held for sale where the asset or disposal group is available for sale in its present condition, and the sale is highly probable. For this purpose, a sale is highly probable if management is committed to a plan to achieve the sale; there is an active program to find a buyer; the non-current asset or disposal group is being actively marketed at a reasonable price; the sale is anticipated to be completed within one year from the date of classification, and it is unlikely there will be changes to the plan. Where an asset or disposal group is acquired with a view to resale, it is classified as a non-current asset held for sale if the disposal is expected to take place within one year of the acquisition. Non-current assets held for sale and disposal groups are carried at the lesser of carrying amount and the fair value less costs to sell.

When a component of an entity has been disposed of, or is classified as held for sale, and it represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale, the related results of operations and gain or loss on reclassification or disposition are presented in discontinued operations. The profit or loss arising on disposition of assets or disposal groups that do not represent discontinued operations are presented in gains (losses) on disposition of investment properties.

Financial instruments

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity investments, available-for-sale financial assets and loans and receivables. The classification depends on the nature and

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

purpose of the financial asset and is determined at the time of initial recognition. Financial assets are classified as at FVTPL when the financial asset either is held for trading or is designated as at FVTPL. Financial assets categories are defined and measured as follow:

<u>Classification</u>	<u>Definition</u>	<u>Measurement</u>
FVTPL	Classified as FVTPL when the financial asset is either held for trading or it is designated as at FVTPL as discussed below: Classified as held for trading if: It has been acquired principally for the purpose of selling it in the near term; or on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit taking; or it is a derivative that is not designated and effective as a hedging instrument. Classified as FVTPL upon initial recognition if: Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or the financial asset forms part of a group which is managed and its performance is evaluated on a fair value basis;	Stated at fair value, with gains or losses arising on measurement recognized in profit or loss. Stated at fair value, with gains or losses arising on measurement recognized in profit or loss.
Held-to-maturity investments	Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity.	Measured at amortized cost using the effective interest method less any impairment. ⁽¹⁾
Available-for-sale	Non-derivative financial assets that either are designated as available- for-sale or are not classified as (a) loans and receivables, (b) held-to- maturity investments or (c) financial assets at FVTPL.	Measured at fair value through other comprehensive income
Loans and receivables	Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.	Measured at amortized cost using the effective interest method less any impairment. ⁽²⁾

- (1) The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument or where appropriate, a shorter period, to the net carrying amount on initial recognition.
- (2) Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Generally, the carrying amount of the financial asset is reduced by the impairment loss.

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company's financial assets are classified and measured as follows:

<u>Financial assets</u>	<u>Classification</u>	<u>Measurement</u>
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts and other receivables	Loans and receivables	Amortized cost
Investments	Held-to-maturity investment	Amortized cost

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Impairment of financial assets

Financial assets that are measured at amortized cost are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the assets have been affected.

The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity

Debt and equity issued are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

<u>Classification</u>	<u>Definition</u>	<u>Measurement</u>
FVTPL	Classified as FVTPL when the financial liability is either held for trading or it is designated as at FVTPL as discussed below: Classified as held for trading if: It has been acquired principally for the purpose of repurchasing it in the near term; or on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit taking; or it is a derivative that is not designated and effective as a hedging instrument. Classified as FVTPL upon initial recognition if: Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or the financial liability forms part of a group which is managed and its performance is evaluated on a fair value basis; or it forms part of a contract containing one or more embedded derivatives.	Stated at fair value, with gains or losses arising on measurement recognized in profit or loss.
Other financial liabilities	All other liabilities	Measured at amortized cost using the effective interest method. ⁽¹⁾

The Company's financial liabilities are as follows:

The Company derecognizes a financial liability when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments

Derivative financial instruments, which are comprised of the forced conversion feature related to the convertible debentures payable, are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value with a resulting gain or loss reflected in net income (loss).

Cash and cash equivalents

Cash and cash equivalents includes cash on hand to fund acquisition and other operating requirements. Cash and cash equivalents consists of cash on deposit and liquid money market funds, which are held at major Canadian and American banking institutions.

Accounts and other receivables

Trade receivables are amounts due from tenants from providing services in the ordinary course of business. Trade receivables are classified as current assets if payment is due within one year or less. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost, less impairment.

The Company maintains an allowance for doubtful accounts to provide for impairment of trade receivables. The expense relating to doubtful accounts is included within "Operating costs" in the consolidated statement of loss and comprehensive loss.

Other receivables are amounts due from various sources in the ordinary course of business. Other receivables are classified as current assets if the payment is due within one year or less. Other receivables are recognized initially at fair value and subsequently measured at amortized cost, less impairment.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Revenue recognition

The Company has retained substantially all of the risks and benefits of ownership of its investment properties and therefore accounts for leases with its tenants as operating leases. Revenue recognition under a lease commences when the tenant has a right to use the leased asset.

Rental revenue from investment properties includes rents. All residential leases are for one year terms or less and revenue is recognized on a straight-line basis over the term of the lease, when collectability is reasonably assured.

Rental revenue includes payments received pursuant to Section 8 of the United States Housing Act of 1937, as amended, which authorizes the payment of rental housing assistance to private landlords on behalf of low-income households, and certain other government subsidies. These payments are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Finance costs

Finance costs comprise interest expense on borrowings and impairment losses, if any, recognized on financial assets.

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income (loss) except for items recognized directly in equity or in other comprehensive loss.

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax basis, except for taxable temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in net income (loss) in the year of change.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Warrants

The Company's warrants, which were issued in connection with its loan and notes payable, are initially recognized at fair value when issued and are subsequently measured at cost within shareholders' equity.

Share-based compensation

The fair value of options awarded to employees, directors, and lenders is measured using the Black-Scholes option pricing model and recognized in the consolidated statement of comprehensive loss, with corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Upon exercise of the option, consideration received, together with the amount previously recognized in contributed surplus, is reclassified as an increase to share capital.

Income (loss) per share

Basic income (loss) per share is computed by dividing the net income (loss) applicable to common shares of the Company by the weighted average number of common shares outstanding for the period. Diluted income per share is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted. When there is a loss, no potential shares are included in the computation of the denominator as they are anti-dilutive.

Statement of cash flows

The Company prepares its statement of cash flows using the indirect method. The Company classifies interest received and paid as part of operating activities in the statement of cash flows.

Critical accounting assumptions and key sources of estimation uncertainty

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting estimates and assumptions

The preparation of these consolidated financial statements requires management to make certain estimates and assumptions that will affect the recorded amounts of assets and liabilities, disclosures in the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The critical areas of estimation include the following:

Allowance for doubtful accounts receivable and impairment of receivables

Assessment is made of the collectability of accounts receivable based on several factors including the credit risk of the counterparty and the age of the receivable. The allowance is assessed annually against the actual experience of unrecoverable accounts and assumptions are adjusted, if appropriate.

Useful lives of investment properties and property and equipment

Estimates of the useful lives of investment properties and property and equipment are used for the purposes of determining depreciation expense, and includes judgments with regards to such factors as the age and condition of the assets.

Impairment of investment property and property and equipment

The process to assess whether investment property and property and equipment are impaired is detailed in Note 2 under “Investment properties” and “Property and equipment”. When a review for impairment is conducted, the recoverable amount is determined based on value-in-use calculations, which are subject to management’s assumptions and estimates regarding future cash flows, discount rates and other inputs.

Fair value of investment properties

The Company is required to disclose the fair value of its investment properties in accordance with IAS 40. The Company determines the fair value of its investment properties based upon either recent comparable market transactions, or based upon discounted cash flows considering rental income from current leases and assumptions about rental income from future leases reflecting market conditions at the applicable balance sheet dates, less future cash outflows in respect of such investment properties. If based upon the discounted cash flow model, fair values are primarily determined by discounting the expected future cash flows, generally over a term of 5 years including a terminal value based on the application of a capitalization rate.

Convertible debentures and valuation of derivative financial instruments

The Company has issued convertible debentures which have an embedded derivative feature relating to the forced conversion upon the Company completing a going public transaction while meeting certain financing requirements. The derivative financial instrument is valued at the estimated additional equity value to be received above the par value of the convertible debentures upon conversion. The Company was required to estimate the period of time until the convertible debentures will be converted as well as the value of the forced conversion option.

Share-based compensation

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based compensation transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including expected life of the share-based payment, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based compensation are disclosed in Note 12.

Critical judgments in applying accounting policies:

The following are critical judgments that have been made in applying the Company’s accounting policies and that have the most significant effect on the amounts in the consolidated financial statements:

Deferred income taxes

Tax interpretations and regulations in the jurisdictions of operations are subject to change, and as such, income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable income. Judgment is required in determining the manner in which the carrying amounts will be recovered.

DELAVACO PROPERTIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) (Expressed in US Dollars unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties componentization

The Company's accounting policies relating to investment property componentization are described above. In applying this policy, judgment is made in determining the degree of componentization for each property, and in allocating costs to significant components. When items of investment property have different useful lives, they are accounted for as separate items (significant components) and depreciated separately.

Asset versus business acquisition

When the Company acquires new investment properties, the Company reviews each acquisition in accordance with IFRS 3 to determine if it qualifies as an asset or business acquisition. It reviews to determine if inputs, processes and outputs have been acquired to ensure each acquisition is accounted for appropriately.

3. FUTURE ACCOUNTING POLICY CHANGES

The following accounting standards, amendments and interpretations have been issued but are not yet effective for the Company. Management is currently assessing the impact of the new standards on the Company's accounting policies and consolidated financial statement presentation.

- IFRS 9 — Financial Instruments ("IFRS 9") was issued by the IASB in October 2010 and will replace IAS 39 — Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. 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. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. 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, 2015.
- IFRS 10 — Consolidated Financial Statements ("IFRS 10") was issued by the IASB in May 2011. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC-12 — Consolidation — Special Purpose Entities and IAS 27 — Consolidated and Separate Financial Statements and is effective for annual periods beginning on or after January 1, 2013. The Company assessed that there is no material affect from the implementation of this new standard.
- IFRS 12 — Disclosure of Interests in Other Entities ("IFRS 12") was issued by the IASB in May 2011. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. The Company assessed that there is no material affect from the implementation of this new standard.
- IFRS 13 — Fair Value Measurement ("IFRS 13") was issued by the IASB in May 2011. IFRS 13 establishes new guidance on fair value measurement and disclosure requirements for IFRSs and United States generally accepted accounting principles ("US GAAP"). The guidance, set out in IFRS 13 and an update to Topic 820 in the FASB's Accounting Standards Codification (formerly referred to as SFAS 157), completes a major project of the IASB and FASB to improve IFRSs and US GAAP and to bring about their convergence. The standard is effective for annual periods beginning on or after January 1, 2013. The Company assessed that there is no material affect from the implementation of this new standard.
- IAS 1 — Presentation of Financial Statements ("IAS 1") was amended by the IASB in June 2011 in order to align the presentation of items in other comprehensive income with US GAAP standards. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. The Company assessed that there is no material affect from the implementation of this new standard.

4. INVESTMENTS

Investments consist of a certificate of deposit in the amount of \$100,000 (2011 — \$nil) bearing interest at a rate of 0.2% per annum maturing on June 6, 2013.

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

5. ACCOUNTS RECEIVABLE, NET

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

<u>As at</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
	\$	\$
Trade receivables		
Rent receivable	424,383	101,311
Less: allowance for doubtful accounts	(104,220)	(3,025)
Less: impairment of trade receivables	(157,673)	(85,440)
	<u>162,490</u>	<u>12,846</u>

6. OTHER ASSETS

The other assets balance consists of the following:

<u>As at</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
	\$	\$
Note receivable	—	51,662
HST receivable	307,447	70,179
Utility deposits	55,822	15,991
Investment properties deposits in escrow	337,110	—
Deferred transaction costs	382,221	—
	<u>1,082,600</u>	<u>137,832</u>

The note receivable was issued to a company that is a shareholder of the Company and was repaid on February 1, 2012. The note was non-interest bearing and repayable on demand. The investment properties deposits in escrow represent pre-payments made for pending acquisitions of investment properties. The deferred transaction costs relate to costs incurred directly related to an upcoming share issuance tied to a going public transaction.

7. INVESTMENT PROPERTIES, NET

The carrying amounts by significant component of investment properties, net, at December 31, 2012, and December 31, 2011, is as follows:

	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value December 31, 2012</u>	<u>Net book value December 31, 2011</u>
	\$	\$	\$	\$
Building Structure	29,178,243	(600,245)	28,577,998	7,738,604
Land	4,414,302	—	4,414,302	869,190
HVAC	682,745	(25,782)	656,963	169,145
In-place leases	309,291	(172,392)	136,899	—
Appliances	208,612	(53,955)	154,657	74,457
Total	<u>34,793,193</u>	<u>(852,374)</u>	<u>33,940,819</u>	<u>8,851,396</u>

DELAVACO PROPERTIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) **(Expressed in US Dollars unless otherwise noted)**

7. INVESTMENT PROPERTIES, NET (Continued)

A continuity of the investment properties, net balance is as follows:

	As at December 31, 2011	Additions	Depreciation	Dispositions	Reclassified to assets held for sale	December 31, 2012
	\$	\$	\$	\$	\$	\$
Building Structure	7,738,604	23,776,605	(544,059)	(256,952)	(2,136,200)	28,577,998
Land	869,190	3,832,032	—	(32,010)	(254,910)	4,414,302
HVAC	169,145	589,730	(33,437)	(14,625)	(53,850)	656,963
In-place leases	—	309,291	(172,392)	—	—	136,899
Appliances	74,457	160,790	(56,017)	(4,200)	(20,373)	154,657
Total	<u>8,851,396</u>	<u>28,668,448</u>	<u>(805,905)</u>	<u>(307,787)</u>	<u>(2,465,333)</u>	<u>33,940,819</u>

The Company did not obtain external appraisals in assessing the fair value of its investment properties as at December 31, 2012, and December 31, 2011.

The fair value of investment properties at December 31, 2012, determined in its entirety by the Company's internal valuation process, is estimated to be approximately \$37.4 million (December 31, 2011 — approximately \$11.8 million). As described in Note 2, fair values were primarily determined by discounting the investment properties' expected future cash flows, over a term of five years including a terminal value based on the application of a capitalization rate to the estimated year six cash flows. The significant assumptions used in determining the fair values of the Company's investment properties as at December 31, 2012, are the discount rate of 10.75% (December 31, 2011 — 8%) and terminal capitalization rate of 9.75% (December 31, 2011 — 7.5%).

8. PROPERTY AND EQUIPMENT, NET

The carrying amounts of the property and equipment at December 31, 2012, and December 31, 2011, is as follows:

	Cost	Accumulated depreciation	Net book value December 31, 2012	Net book value December 31, 2011
	\$	\$	\$	\$
Leasehold Improvements	148,611	(75,503)	73,108	100,795
Furniture and equipment	225,837	(25,251)	200,586	34,402
Total	<u>374,448</u>	<u>(100,754)</u>	<u>273,694</u>	<u>135,197</u>

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

	As at December 31, 2011	Additions	Depreciation	Dispositions	December 31, 2012
	\$	\$	\$	\$	\$
Leasehold Improvements	100,795	44,456	(72,143)	—	73,108
Furniture and equipment	34,402	188,089	(21,905)	—	200,586
Total	<u>135,197</u>	<u>232,545</u>	<u>(94,048)</u>	<u>—</u>	<u>273,694</u>

9. LOAN PAYABLE

On June 13, 2011, the Company signed a promissory note (the "loan"), for amounts received from two lenders in the amount of \$940,000. In December 2011, the Company repaid \$470,000 of the loan along with all accrued interest outstanding. On January 13, 2012, the Company and the lender agreed that in lieu of repayment of the remaining \$470,000, the lender receive \$15,000 cash and 455,000 common shares (see Note 11).

Total finance costs for the year ended December 31, 2012 was \$1,970 (December 31, 2011 — \$73,484) comprised of interest paid of \$1,970 (December 31, 2011 — \$64,346) and accretion expense of \$Nil (December 31, 2011 — \$9,138).

DELAVACO PROPERTIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) **(Expressed in US Dollars unless otherwise noted)**

10. NOTES PAYABLE

On July 27 2011, the Company signed an agreement to obtain debt financing of up to CAD\$5,000,000 and as at December 31, 2011, \$3,687,315 (CAD\$3,750,000) was issued. During 2012, the Company issued an additional two notes totaling \$200,000 (CAD\$200,000), including issuing 32,000 warrants valued at \$10,557 in conjunction with the two notes, and no further issuance costs were incurred. The Company issued a total of CAD\$3,950,000 in notes under this agreement.

On February 23, 2012, \$1,001,500 (CAD\$1,000,000) of the notes were repaid through an issuance of 1,000,000 common shares. The remaining \$2,885,815 (CAD\$2,950,000) was repaid in cash on June 4, 2012. The early extinguishment of the notes resulted in the Company recording a loss of \$195,509.

Total finance costs for the year ended December 31, 2012, was \$191,748 (December 31, 2011 — \$154,473) comprised of interest paid of \$142,040 (December 31, 2011 — \$116,375) and accretion expense of \$49,708 (December 31, 2011 — \$38,098).

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. The warrants are exercisable at CAD\$1.30 and expire on June 3, 2017. If certain liquidity conditions are not met by December 31, 2012, such as an initial public offering by the Company, the exercise price of the warrants becomes CAD\$1.18. The Company has obtained waivers from the investors and accordingly, the Company has extended the liquidity deadline to March 31, 2013, but the warrants have subsequently had the warrant exercise price adjusted (Note 23).

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 costs for the period ended December 31, 2012, was \$1,433,302 (December 31, 2011 — \$nil) comprised of interest of \$1,078,767 (December 31, 2011 — \$nil) and accretion expense of \$354,535 (December 31, 2011 — \$nil).

11. CONVERTIBLE DEBENTURES PAYABLE

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 contain a forced conversion (the “Conversion Feature”) such that the Company may force full conversion to common shares if the Company completes a liquidity event where the Company lists on the TSX, or provides 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. If the Company does not complete a Liquidity Event by June 20, 2013, the interest rate increases to 9.0% per annum, and the holders of the convertible debentures hold 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 is considered a derivative financial instrument under IAS 39 and is measured at its fair value which is 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.

Total finance costs for the period ended December 31, 2012, was \$132,225 (December 31, 2011 — \$nil) comprised of interest accrued of \$22,603 (December 31, 2011 — \$nil) and accretion expense of \$109,622 (December 31, 2011 — \$nil).

12. 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.

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

12. SHARE CAPITAL (Continued)

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

	Number of shares	Value \$
Balance at incorporation January 27, 2011 ⁽¹⁾	—	—
Issuance of common shares, net of issuance costs ^{(a),(b)}	9,545,000	6,405,545
Balance at December 31, 2011	9,545,000	6,405,545
Issuance of common shares, for repayment of loans ^(d)	455,000	444,126
Issuance of common shares, for repayment of notes ^(e)	1,000,000	1,001,500
Issuance of common shares, net of issuance costs ^(f)	12,250,000	11,594,358
Balance at December 31, 2012	<u>23,250,000</u>	<u>19,445,529</u>

(1) one common share issued for \$1 at incorporation was subsequently cancelled

- (a) On January 27, 2011, the Company issued 5,000,000 Class A common shares for aggregate proceeds of \$2,011,801 (CAD\$2,000,000) comprised of cash of \$1,005,901 (CAD\$1,000,000) and a \$1,005,900 (CAD\$1,000,000) promissory note. This promissory note was settled during the year. The Company incurred share issuance costs of \$75,443 associated with the issuance.
- (b) In June 2011, the Company announced a private placement program for a total of 5,000,000 Class A common shares. The closing is on a rolling basis and may be determined by the Company. As at December 31, 2011, the Company issued 4,545,000 Class A common shares under the private placement program for proceeds of \$4,665,571 (CAD\$4,545,000), net of share issuance costs of \$196,385.
- (c) As part of this issuance, the Company was subject to a penalty equal to 10% of the gross proceeds of the issuance, payable in shares, if the Company did not complete an initial public offering by December 31, 2011. The Company has obtained waivers from the investors and accordingly, the Company has extended the deadline for the initial public offering to March 31, 2013. Subsequent to year end, the Company issued the penalty shares (Note 23).
- (d) On January 13, 2012, the Company repaid the outstanding \$444,126 (CAD\$455,000) loan by issuing 455,000 Class A common shares (see Note 9).
- (e) 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 (see Note 10).
- (f) 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. If an initial public offering of the common shares of the Company does not occur prior to December 31, 2012, the Company will be subject to a penalty equal to 10% of the gross proceeds, payable in shares, to the holders of the Class B shares. The Company has obtained waivers from the investors and accordingly, the Company extended the deadline for the initial public offering to March 31, 2013, but subsequently issued the penalty shares (Note 23).

13. SHARE-BASED COMPENSATION

The Company does not currently have an incentive stock option plan. All stock options currently issued and outstanding are based upon written agreement between the Company and the parties involved.

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

13. SHARE-BASED COMPENSATION (Continued)

No options were granted, exercised or forfeited during the year ended December 31, 2012. During the period ended December 31, 2011, no options were exercised or forfeited. The Company has the following stock options outstanding at December 31, 2012 and December 31, 2011:

<u>Grant date</u>	<u>Number of options</u>	<u>Number of non-exercisable options</u>	<u>Number of exercisable options</u>	<u>Weighted average exercise price</u>	<u>Expiry date</u>
				\$	
January 27, 2011	2,500,000	2,500,000	—	CAD0.10	January 27, 2021
January 28, 2011	500,000	500,000	—	CAD0.40	January 28, 2021
	<u>3,000,000</u>	<u>3,000,000</u>	<u>—</u>	<u>CAD0.15</u>	

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. The fair value of the share-based compensation recorded to contributed surplus within the consolidated statement of changes in shareholders' equity relating to the stock options for the year ended December 31, 2012, was \$381,305 (December 31, 2011 — \$355,785). The fair value of all the Company's stock options issued during the period ended December 31, 2011, was estimated using the Black-Scholes option pricing model using the following assumptions:

	<u>December 31, 2011</u>
Volatility	60%
Risk-free interest rate	3.27%
Expected life (years)	10
Dividend yield	Nil
Forfeiture rate	0%
Underlying share price	CAD\$0.40

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.

14. WARRANTS

	<u>Number of warrants</u>	<u>Amount</u>	<u>Weighted average exercise price</u>
		\$	\$
Balance at date of incorporation, January 27, 2011	—	—	—
Warrants issued	800,000	208,900	CAD1.19
December 31, 2011	800,000	208,900	
Warrants issued (note 10)	3,882,000	1,160,282	CAD1.30
Balance at December 31, 2012	<u>4,682,000</u>	<u>1,369,182</u>	<u>CAD1.28</u>

All warrants are convertible into class A common shares.

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

14. WARRANTS (Continued)

The Company had the following share purchase warrants outstanding and exercisable at December 31, 2012 and December 31, 2011:

<u>Issuance Date</u>	<u>Number of Warrants</u>	<u>Weighted average exercise price</u>	<u>Expiry Date</u>
		\$	
June 13, 2011	200,000	CAD1.00	March 13, 2013
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	CAD1.30	June 3, 2017
Total	<u>4,682,000</u>	<u>CAD1.28</u>	

15. LOSS PER SHARE

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
	\$	\$
Numerator		
Net loss for the period	(5,651,735)	(1,850,690)
Denominator		
Weighted average number of common shares outstanding	<u>21,078,101</u>	<u>7,921,124</u>
Basic and diluted loss per share	<u>(0.27)</u>	<u>(0.23)</u>

During the year ended December 31, 2012 and period ended December 31, 2011, 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.

16. 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.

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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 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:

	<u>CAD</u>
	\$
Cash and cash equivalents	4,054,331
Other assets	307,447
Accounts payable and accrued liabilities	(603,206)
Total	<u>3,758,572</u>
Effect of +/- 10% change in exchange rate	<u>375,857</u>

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 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 Company considers this risk to be immaterial.

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 60% 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. For the period ended December 31, 2012, all revenues are derived from investment properties held in the Florida region.

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.

The Company monitors its risk of shortage of funds by monitoring the maturity dates of existing accounts and other payables. As at December 31, 2012, the Company has trade and other payables of \$1,351,103 due within 12 months, notes payable is due in 2016 and convertible debentures payable due in 2014 (Note 11).

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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, accounts payable and accrued liabilities, and loan payable are estimated by management to approximate their carrying values due to their short-term nature.

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 statement of financial position and categorized by level of significance of the inputs used in making the measurements:

<u>Asset (Liability)</u>	December 31, 2012		
	Level 1	Level 2	Level 3
	\$	\$	\$
Cash and cash equivalents	8,379,360	—	—
Investments	100,000	—	—
Convertible debentures payable	—	7,555,998	—
Derivative financial instruments	—	—	1,594,799
Notes payable	—	22,235,059	—

17. CAPITAL RISK MANAGEMENT

The capital of the Company includes equity, which is comprised of issued share capital, contributed surplus, 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.

18. INCOME TAXES

(a) Income tax expense

The following table reconciles income taxes calculated at combined Canadian federal and provincial tax rates with the income tax expense in the consolidated financial statements:

	December 31, 2012	December 31, 2011
	\$	\$
Loss before income taxes	(5,651,735)	(1,850,690)
Statutory rate	26.50%	28.25%
Expected income tax recovery	(1,497,710)	(522,820)
Amounts not deductible for tax and other	97,050	1,930
Deferred tax assets not recognized	2,031,792	693,503
Difference in tax rates from operating on other jurisdictions	(631,132)	(172,613)
	<u>—</u>	<u>—</u>

The statutory income tax rate for the year ended December 31, 2012, declined from the prior financial year due to reductions in statutory income tax rates.

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

18. INCOME TAXES (Continued)

(b) *Movement in deferred tax assets and liabilities during the period*

	December 31, 2011	Recognized in profit or loss	December 31, 2012
	\$	\$	\$
Amounts related to tax loss and credit carryforwards	114,114	(114,114)	—
Loan payable	(114,114)	114,114	—
	<u>—</u>	<u>—</u>	<u>—</u>

(c) *Deferred income taxes*

The temporary differences that give rise to deferred income tax assets and deferred income tax liabilities are presented below:

	December 31, 2012	December 31, 2011
	\$	\$
Amounts related to tax loss and credit carryforwards	2,176,064	375,174
Other deductible temporary differences	549,231	318,329
Net deferred tax asset	2,725,295	693,503
Deferred tax asset not recognized	(2,725,295)	(693,503)
	<u>—</u>	<u>—</u>

The Company has non-capital losses of approximately \$ 5.8 million available to apply against future taxable income. If not utilized, the non-capital losses start to expire in 2031.

The potential tax benefit relating to these losses has not been reflected in these consolidated financial statements.

19. RELATED PARTY TRANSACTIONS

Transactions with related parties are incurred in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and approved by the related parties. During the periods ended December 31, 2012, and December 31, 2011, the Company entered into the following transactions with related parties:

- (i) During 2011, the Company obtained a \$294,985 note (the “note”) from an entity in which a senior officer and director of the Company having a controlling interest and which is a significant shareholder of the Company. At December 31, 2012, \$Nil (December 31, 2011 — \$51,662) remains outstanding on the note receivable (Note 5).
- (ii) During 2011, the Company received an interest-free, unsecured loan of \$50,000 from a director and significant shareholder of the Company to fund working capital requirements. The balance of the loan remained in accounts payable and accrued liabilities as at December 31, 2011, but was repaid in 2012.
- (iii) During 2011, the Company acquired investment properties from an entity in which a senior officer and a director of the Company have a controlling interest. The Company issued a promissory note of CAD\$1,000,000 as consideration for the investment properties acquired, which was ultimately used to settle the CAD\$1,000,000 promissory note due to the Company in respect of the January 27, 2011, common share issuance disclosed in Note 10. There was \$nil outstanding as at December 31, 2011.
- (iv) As part of its investment property acquisitions in 2011, the Company acquired several multi-family units and a single family home from companies in which a senior officer of the Company has a controlling interest. The Company paid \$754,054 and \$87,000, respectively, as consideration for the properties acquired. \$Nil was outstanding as at December 31, 2011 in respect of these transactions.
- (v) During the year ended December 31, 2012, the Company incurred \$38,639 (December 31, 2011 — \$41,541) in rent expense and \$40,964 (December 31, 2011 — \$2,572) in accounting fees to a company controlled by a senior officer and director of the Company.
- (vi) During the year ended December 31, 2012, the Company incurred \$24,943 (December 31, 2011 — \$nil) in consulting fees to a corporation controlled by a director of the Company.

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

19. RELATED PARTY TRANSACTIONS (Continued)

- (vii) 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 \$316,800 for the year ended December 31, 2012 (December 31, 2011 — \$nil). The term of the agreement is ten years subject to termination by either party upon ninety days prior written notice to the other party. On January 31, 2013, this agreement was terminated.
- (viii) During 2012, the Company paid share issuance costs in the amount of \$219,993 to a Company controlled by a director (see Note 12(e)).

20. KEY MANAGEMENT COMPENSATION

Key management personnel are comprised of the Company's directors and executive officers. Key management personnel compensation is as follows:

	December 31, 2012	December 31, 2011
	\$	\$
Salaries, incentives and short-term benefits	957,492	346,097
Share-based payments	—	1,034,320
	<u>957,492</u>	<u>1,380,417</u>

Share-based payments represent the fair value of options granted to key management personnel on the date the options were granted. Of this amount, during the year ended December 31, 2012, \$381,305 (December 31, 2011 — \$355,785) was expensed as share-based compensation in the consolidated statement of loss and comprehensive loss.

21. ASSETS HELD FOR SALE

As of December 31, 2012, the multi-unit properties 999 W. Prospect Road and 1007 W. Prospect Road, Oakland Park, FL, and 333 NW 2nd Avenue, Hallandale Beach, FL, are classified as assets held for sale as the Company is actively marketing and intends to sell these properties within one year.

	December 31, 2012	December 31, 2011
	\$	\$
Assets		
Investment properties, net	2,465,333	—
Assets held for sale	<u>2,465,333</u>	<u>—</u>
Liabilities		
Accounts payable and other liabilities	15,327	—
Liabilities related to assets held for sale	<u>15,327</u>	<u>—</u>

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

22. COMMITMENTS AND CONTINGENCIES

Leases

The future annual lease payments for the rented offices of the Company for the next five years and thereafter are as follows:

	\$
2013	146,530
2014	57,880
2015	25,334
2016	—
Thereafter	—
	<u>229,744</u>

23. SUBSEQUENT EVENTS

Sale of Assets Held for Sale

On January 22, 2013, the Company completed the sale of the multi-unit investment property located at 333 NW 2nd Avenue, Hallandale Beach, FL, which was classified as held for sale as at December 31, 2012, for proceeds of \$360,000 less closing costs and adjustments.

On March 18, 2013, the Company completed the sale of the multi-unit investment properties located at 999 W. Prospect Road and 1007 W. Prospect Road, Oakland Park, FL, which were classified as held for sale as at December 31, 2012, for proceeds of \$2,700,000.

Issuance of Penalty Shares

Subsequent to year end, on April 1, 2013, as the Company had not completed a going public transaction, the Company issued 1,825,000 common shares with regards to the 10% penalty. In addition to this, 3,882,000 warrants with an exercise price of CAD\$1.30 had the exercise price adjusted to CAD\$1.18.

Acquisitions

Subsequent to year end, the Company acquired additional single family units for an aggregate purchase price of \$3,417,758.

Subsequent to year end, the Company signed a letter of intent with a Company controlled by a director of the Company to acquire a limited partnership that owns a multi-unit residential property located at 3200 NW 84th Avenue, Sunrise, Florida. The Company paid a refundable deposit of \$525,000 with regards to the signing of the letter of intent.

Subsequent to year end, the Company signed a letter of intent with a Company controlled by a director of the Company to acquire a limited partnership that owns a multi-unit residential property located at 1005 West Stassney Land, Austin, Texas. The Company paid a refundable deposit of \$35,000, and owes an additional \$200,000 deposit on or before May 10, 2013, with regards to the signing of the letter of intent.

Subsequent to year end, the Company signed a letter of intent with a Company controlled by a director of the Company to acquire a limited partnership that owns a multi-unit residential property located at 126 West Alpine Road, Austin, Texas. The Company paid a refundable deposit of \$315,000 with regards to the signing of the letter of intent.

Subsequent to year end, the Company signed a letter of intent with a director of the Company to acquire a limited partnership that owns a multi-unit residential property located at 812 South Park Road, Hollywood, Florida. The Company paid no deposit with regards to the signing of the letter of intent.

The initial aggregate purchase price for all four letters of intent which amounts to \$78,690,000 remains subject to due diligence and the signing of a long form purchase agreement which may contain purchase price adjustments. The purchase price will be paid through a combination of cash, issuance of common shares of the Company as well as assumption of mortgages, debt and other liabilities. All of the deposits are fully refundable.

Consolidated financial statements of

Delavaco Properties Inc.

Six month period ended June 30, 2013, and the year ended December 31, 2012
(In US Dollars)

Independent Auditor's Report

To the Shareholders of
Delavaco Properties Inc.

We have audited the accompanying consolidated financial statements of Delavaco Properties Inc., which comprise the consolidated statements of financial position as at June 30, 2013 and December 31, 2012, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the six month period ended June 30, 2013 and for the year ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Delavaco Properties Inc. as at June 30, 2013 and December 31, 2012, and its financial performance and its cash flows for the six month period ended June 30, 2013 and for the year ended December 31, 2012 in accordance with the International Financial Reporting Standards.

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
November 27, 2013

DELAVACO PROPERTIES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in US Dollars)

	June 30, 2013	December 31, 2012
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	1,614,658	8,379,360
Investment (note 4)	—	100,000
Accounts receivable, net (note 5)	110,741	162,490
Other assets (note 6)	2,038,559	1,082,600
Prepaid expenses	405,056	360,356
Assets held for sale (note 18)	—	2,465,333
Total current assets	4,169,014	12,550,139
Non-current assets		
Investment properties, net (note 7)	38,815,884	33,940,819
Property and equipment, net (note 8)	270,225	273,694
Total non-current assets	39,086,109	34,214,513
Total assets	<u>43,255,123</u>	<u>46,764,652</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,930,373	1,310,648
Convertible debentures payable (note 10)	9,017,426	7,555,998
Derivative financial instruments (note 10)	1,594,799	1,594,799
Liabilities associated with assets held for sale (note 18)	—	15,327
Total current liabilities	12,542,598	10,476,772
Non-current liabilities		
Notes payable (note 9)	22,564,583	22,235,059
Total liabilities	<u>35,107,181</u>	<u>32,711,831</u>
Shareholders' Equity		
Share capital (note 11)	19,445,529	19,445,529
Warrants (note 13)	1,369,182	1,369,182
Contributed surplus	836,299	737,090
Accumulated foreign currency translation reserve	1,576,020	3,445
Deficit	<u>(15,079,088)</u>	<u>(7,502,425)</u>
Total shareholders' equity	8,147,942	14,052,821
Total liabilities and shareholders' equity	<u>43,255,123</u>	<u>46,764,652</u>

Approved by the Board

“Steven Ridgeway”

Director (Signed)

“Andrew DeFrancesco”

Director (Signed)

See accompanying notes to the consolidated financial statements

DELAVACO PROPERTIES INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
Six month period ended June 30, 2013, and the year ended December 31, 2012
(Expressed in US Dollars)

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
	\$	\$
Revenue		
Rental	2,719,047	3,108,834
Operating expenses		
Operating costs	1,008,387	1,111,158
Utilities	157,525	311,654
Property taxes	235,978	235,933
General and administrative	1,779,655	2,934,787
Professional fees	290,496	712,376
Transaction costs	1,554,856	—
Depreciation and amortization (notes 7, 8)	<u>820,527</u>	<u>899,953</u>
Loss from operations before other income and expenses	(3,128,377)	(3,097,027)
Other income and expenses		
Foreign exchange loss	1,574,121	236,340
Gain on disposition of investment properties	(329,661)	(17,364)
Loss on early extinguishment of debt (note 9)	—	195,509
Finance costs	3,104,617	1,758,918
Share-based compensation (note 12)	<u>99,209</u>	<u>381,305</u>
Net loss before income taxes	(7,576,663)	(5,651,735)
Income tax expense (note 20)	—	—
Net loss for the period	<u>(7,576,663)</u>	<u>(5,651,735)</u>
Other comprehensive income		
Foreign currency translation	<u>1,572,575</u>	<u>192,379</u>
Comprehensive loss for the period	<u>(6,004,088)</u>	<u>(5,459,356)</u>
Basic and diluted loss per share	<u>(0.31)</u>	<u>(0.27)</u>

See accompanying notes to the consolidated financial statements

DELAVACO PROPERTIES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Six month period ended June 30, 2013, and the year ended December 31, 2012
(Expressed in US Dollars)

	Share capital	Warrants	Contributed surplus	Accumulated foreign currency translation reserve	Deficit	Total
	\$	\$	\$	\$	\$	\$
Balance at January 1, 2012	6,405,545	208,900	355,785	(188,934)	(1,850,690)	4,930,606
Issuance of common shares, net of issuance costs (Note 11) . .	13,039,984	—	—	—	—	13,039,984
Issuance of warrants, net of issuance costs (Note 13)	—	1,160,282	—	—	—	1,160,282
Share-based compensation (Note 12)	—	—	381,305	—	—	381,305
Other comprehensive income for the period	—	—	—	192,379	—	192,379
Net loss for the period	—	—	—	—	(5,651,735)	(5,651,735)
Balance at December 31, 2012 .	19,445,529	1,369,182	737,090	3,445	(7,502,425)	14,052,821
Share-based compensation (Note 12)	—	—	99,209	—	—	99,209
Other comprehensive income for the period	—	—	—	1,572,575	—	1,572,575
Net loss for the period	—	—	—	—	(7,576,663)	(7,576,663)
Balance at June 30, 2013	<u>19,445,529</u>	<u>1,369,182</u>	<u>836,299</u>	<u>1,576,020</u>	<u>(15,079,088)</u>	<u>8,147,942</u>

See accompanying notes to the consolidated financial statements

DELAVACO PROPERTIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Six month period ended June 30, 2013, and the year ended December 31, 2012
(Expressed in US Dollars)

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
	\$	\$
Operating activities		
Net Loss for the period	(7,576,663)	(5,651,735)
Add (Deduct):		
Depreciation and amortization	820,527	899,953
Share-based compensation	99,209	381,305
Finance costs	3,104,617	1,758,918
Interest paid	(1,301,713)	(1,221,870)
Loss on early extinguishment of debt	—	195,509
Unrealized foreign exchange loss	1,551,489	(191,802)
Gain on disposition of investment properties	(329,661)	(17,364)
Changes in non-cash operating working capital:		
Accounts receivable, net	51,749	(149,644)
Other assets	(43,005)	(225,437)
Prepaid expenses	(44,700)	(302,267)
Accounts payable and accrued liabilities	619,725	709,000
	<u>(3,048,426)</u>	<u>(3,815,434)</u>
Investing activities		
Disposition (purchase) of investment	100,000	(100,000)
Acquisition of investment properties (note 7)	(5,728,018)	(28,668,448)
Acquisition of property and equipment (note 8)	(56,217)	(232,545)
Investment properties deposits in escrow	(912,954)	(337,110)
Proceeds from disposition of investment properties	2,835,719	325,151
	<u>(3,761,470)</u>	<u>(29,012,952)</u>
Financing activities		
Proceeds from common share issuances, net of issuance costs	—	11,594,358
Proceeds from issuance of notes with warrants, net of issuance costs	—	23,226,500
Proceeds from issuance of convertible debentures, net of issuance costs	—	9,040,810
Deferred transaction costs	—	(382,221)
Notes repayments	—	(2,831,638)
Loan repayments	—	(14,398)
	<u>—</u>	<u>40,633,411</u>
(Decrease) Increase in cash and cash equivalents	(6,809,896)	7,805,025
Cash and cash equivalents, beginning of period	8,379,360	220,523
Effects of exchange rate changes on the balance of cash held in foreign currency	45,194	353,812
Cash and cash equivalents, end of period	<u><u>1,614,658</u></u>	<u><u>8,379,360</u></u>

See accompanying notes to the consolidated financial statements

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in US Dollars unless otherwise noted)

1. NATURE OF OPERATIONS

Delavaco Properties Inc. (the “Company”) was incorporated under the Canada Business Corporations Act. All of the Company’s assets are in, and the revenues are derived from, the ownership, management and rental of residential real estate properties in the United States of America, principally in the southern United States of America. The registered office of the Company is The Exchange Tower, 130 King Street West, Suite 2210, Toronto, ON, M5X 1A9.

The consolidated financial statements were authorized for issue by the Board of Directors on November 25, 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of presentation

The consolidated 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. A summary of the significant accounting policies are set out below.

Basis of measurement

The consolidated financial statements have been prepared on the cost basis including investment properties except as otherwise noted.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Dalland Properties Limited Partnership (“Dalland”), Las Olas Bay Properties Peachtree, LP (“Peachtree”) and W&D Properties LLC (“W&D”), which is the general partner of Dalland and Peachtree, over which the Company has control. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing these consolidated financial statements.

Foreign currencies

The Company’s functional currency is Canadian Dollars (“CAD”). To convert to the presentation currency, assets and liabilities of the Company are translated at the rate of exchange prevailing at the reporting date, and revenues and expenses at the average rate during the period. The resulting foreign currency translation adjustments are recognized in other comprehensive income (“OCI”).

Items included in the consolidated financial statements of the Company and its subsidiaries are measured using the currency of the primary economic environment in which each entity operates. Each of the Company’s subsidiaries determines its own functional currency. Dalland, Peachtree and W&D each have the US Dollar (“USD”) as their functional currency.

Transactions in foreign currencies are translated into the respective functional currencies of the Company and its subsidiaries at exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the period end exchange rate. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in the statement of loss and comprehensive loss.

During the year ended December 31, 2012 the Company changed its reporting currency from the Canadian dollar to the US dollar reporting currency. The policy choice is to better reflect the Company’s business activities and operations which are predominantly located in the United States of America.

Investment properties

The Company accounts for its investment properties in accordance with International Accounting Standard (“IAS”) 40 — Investment Properties (“IAS 40”). Investment property is property held to earn rental income, capital appreciation, or both. The Company categorizes its investment properties as income-producing properties and investment properties are accounted for using the cost model

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

wherein the cost of an income-producing property is allocated to its significant components and is amortized over the useful life of each component as described below. Directly attributable costs incurred to acquire an investment property are capitalized to the specified property.

In order to allocate the values on acquisition of investment properties, the Company:

- estimates the value of land based upon comparable market information;
- estimates the value of significant building components on an amortized replacement cost basis;
- estimates the value of the in-place leases based on the present value of rental income lost during the hypothetical expected lease-up period required to replace the existing leases at the date of purchase; and
- estimates above-market and below-market leases for acquired properties based on the present value of the differences between contractual base rentals under the lease and fair market lease rates for similar in-place leases.

These components are amortized over their respective useful lives. Generally, the significant components of an investment property and related useful lives are:

<u>Significant components</u>	<u>Useful life (years)</u>
Building structure	27.5 to 40
Land	Not applicable
Appliances	2 to 5
In-place and above/below market leases	Over the remaining life of the lease
HVAC	New HVAC units — 20 / Existing HVAC units — 10

The building structure includes, but is not limited to, the following items: windows; electrical and plumbing; and roofing, wall and floor construction. These items principally have the same useful lives as the overall building structures, and hence have not been separated as significant components.

Additions to investment properties:

Extending and improving the productive capacity of existing income-producing properties owned by the Company requires significant on-going capital expenditures. The Company considers its productive capacity maintenance costs to be the following:

- Major maintenance costs: Maintenance and repair costs are expensed against operations, while major maintenance costs are capitalized to income-producing properties. Each item is amortized over the useful life of the significant component to which it relates.

As a component of an income-producing property is replaced, the remaining net book value of such component being replaced is expensed in full, within depreciation and amortization.

Impairment of investment properties

At each balance sheet date, the Company assesses whether there are any indicators that the investment properties are impaired. If indicators of impairment exist, the recoverable amount of the cash-generating unit is estimated. The Company considers both the individual single-family homes and the individual multi-family homes to be cash-generating units. The recoverable amount of the cash-generating unit is the higher of value in use and fair value less costs to sell. Value in use is the present value of the future cash flows expected to be derived from the asset or cash generating unit. Fair value less costs to sell is determined to be the amount for which the cash generating unit can be sold in an arm's length transaction less the costs of disposal. If the carrying value of the cash-generating unit exceeds the recoverable amount, the cash-generating unit is written down to the recoverable amount, and an impairment loss is recognized and charged to income in the period. Impairment losses may be reversed when there has been a subsequent increase in the recoverable amount as a result of the reversal of the conditions causing the impairment. In this event, the carrying value of the cash-generating unit is increased to its revised recoverable amount limited to the original carrying value less amortization as if no impairment had been recognized for prior periods. Impairment reversals are recognized in income in the period of reversal.

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment

All property and equipment is stated at historical cost less accumulated depreciation. Historical cost includes the purchase price and any expenditures that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Company.

Cost includes the cost of replacing part of an existing item of property and equipment at the time that cost is incurred if the recognition criteria are met, and excludes the cost of day-to-day servicing.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will follow to the asset grouping and the cost of the item can be measured reliably. The carrying amounts of those parts that are replaced are derecognized. All other repairs and maintenance are charged to the statement of comprehensive loss during the financial period in which they are incurred.

Depreciation, based on a component approach, is calculated using the straight-line method to allocate the cost over the assets' estimated useful lives, as follows:

<u>Asset</u>	<u>Useful life</u>
Leasehold improvements	Remaining lease term
Furniture and equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at least at each financial year-end.

At each period end date, the Company assesses whether there are any indicators that an asset may be impaired. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

Gains or losses on disposals are determined by comparing proceeds with carrying amount and are included in the consolidated statement of loss and comprehensive loss.

Assets held for sale and discontinued operations

Non-current assets and groups of assets and liabilities which comprise disposal groups are presented as assets held for sale where the asset or disposal group is available for sale in its present condition, and the sale is highly probable. For this purpose, a sale is highly probable if management is committed to a plan to achieve the sale; there is an active program to find a buyer; the non-current asset or disposal group is being actively marketed at a reasonable price; the sale is anticipated to be completed within one year from the date of classification, and it is unlikely there will be changes to the plan. Where an asset or disposal group is acquired with a view to resale, it is classified as a non-current asset held for sale if the disposal is expected to take place within one year of the acquisition. Non-current assets held for sale and disposal groups are carried at the lesser of carrying amount and the fair value less costs to sell.

When a component of an entity has been disposed of, or is classified as held for sale, and it represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale, the related results of operations and gain or loss on reclassification or disposition are presented in discontinued operations. The profit or loss arising on disposition of assets or disposal groups that do not represent discontinued operations are presented in gains (losses) on disposition of investment properties.

Financial instruments

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity investments, available-for-sale financial assets and loans and receivables. The classification depends on the nature and

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

purpose of the financial asset and is determined at the time of initial recognition. Financial assets are classified as at FVTPL when the financial asset either is held for trading or is designated as at FVTPL. Financial assets categories are defined and measured as follow:

<u>Classification</u>	<u>Definition</u>	<u>Measurement</u>
FVTPL	Classified as FVTPL when the financial asset is either held for trading or it is designated as at FVTPL as discussed below: Classified as held for trading if: It has been acquired principally for the purpose of selling it in the near term; or on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit taking; or it is a derivative that is not designated and effective as a hedging instrument. Classified as FVTPL upon initial recognition if: Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or the financial asset forms part of a group which is managed and its performance is evaluated on a fair value basis;	Stated at fair value, with gains or losses arising on measurement recognized in profit or loss. Stated at fair value, with gains or losses arising on measurement recognized in profit or loss.
Held-to-maturity investments	Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity.	Measured at amortized cost using the effective interest method less any impairment. ⁽¹⁾
Available-for-sale	Non-derivative financial assets that either are designated as available- for-sale or are not classified as (a) loans and receivables, (b) held-to- maturity investments or (c) financial assets at FVTPL.	Measured at fair value through other comprehensive income
Loans and receivables	Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.	Measured at amortized cost using the effective interest method less any impairment. ⁽²⁾

- (1) The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument or where appropriate, a shorter period, to the net carrying amount on initial recognition.
- (2) Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. The carrying amount of the financial asset is reduced by the impairment loss.

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company's financial assets are classified and measured as follows:

<u>Financial assets</u>	<u>Classification</u>	<u>Measurement</u>
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts and other receivables	Loans and receivables	Amortized cost
Investments	Held-to-maturity investment	Amortized cost

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Impairment of financial assets

Financial assets that are measured at amortized cost are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the assets have been affected.

The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity

Debt and equity issued are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. Financial liabilities categories are defined and measured as follow:

<u>Classification</u>	<u>Definition</u>	<u>Measurement</u>
FVTPL	Classified as FVTPL when the financial liability is either held for trading or it is designated as at FVTPL as discussed below: Classified as held for trading if: It has been acquired principally for the purpose of repurchasing it in the near term; or on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit taking; or it is a derivative that is not designated and effective as a hedging instrument. Classified as FVTPL upon initial recognition if: Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or the financial liability forms part of a group which is managed and its performance is evaluated on a fair value basis; or it forms part of a contract containing one or more embedded derivatives.	Stated at fair value, with gains or losses arising on measurement recognized in profit or loss. Stated at fair value, with gains or losses arising on measurement recognized in profit or loss.
Other financial liabilities	All other liabilities	Measured at amortized cost using the effective interest method. ⁽¹⁾

(1) The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or where appropriate, a shorter period, to the net carrying amount on initial recognition.

The Company's financial liabilities are as follows:

<u>Financial liabilities</u>	<u>Classification</u>	<u>Measurement</u>
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Loan payable	Other financial liabilities	Amortized cost
Notes payable	Other financial liabilities	Amortized cost
Convertible debentures payable	Other financial liabilities	Amortized cost
Derivative financial instruments	FVTPL	Fair value

The Company derecognizes a financial liability when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments

Derivative financial instruments, which are comprised of the forced conversion feature related to the convertible debentures payable, are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value with a resulting gain or loss reflected in net income (loss).

Cash and cash equivalents

Cash and cash equivalents includes cash on hand to fund acquisition and other operating requirements. Cash and cash equivalents consists of cash on deposit and liquid money market funds, which are held at major Canadian and American banking institutions.

Accounts and other receivables

Trade receivables are amounts due from tenants from providing services in the ordinary course of business. Trade receivables are classified as current assets if payment is due within one year or less. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost, less impairment.

The Company maintains an allowance for doubtful accounts to provide for impairment of trade receivables. The expense relating to doubtful accounts is included within "Operating costs" in the consolidated statement of loss and comprehensive loss.

Other receivables are amounts due from various sources in the ordinary course of business. Other receivables are classified as current assets if the payment is due within one year or less. Other receivables are recognized initially at fair value and subsequently measured at amortized cost, less impairment.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Revenue recognition

The Company has retained substantially all of the risks and benefits of ownership of its investment properties and therefore accounts for leases with its tenants as operating leases. Revenue recognition under a lease commences when the tenant has a right to use the leased asset.

Rental revenue from investment properties includes rents. All residential leases are for one year terms or less and revenue is recognized on a straight-line basis over the term of the lease, when collectability is reasonably assured.

Rental revenue includes payments received pursuant to Section 8 of the United States Housing Act of 1937, as amended, which authorizes the payment of rental housing assistance to private landlords on behalf of low-income households, and certain other government subsidies. These payments are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Finance costs

Finance costs comprise interest expense on borrowings and impairment losses, if any, recognized on financial assets.

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income (loss) except for items recognized directly in equity or in other comprehensive loss.

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax basis, except for taxable temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in net income (loss) in the year of change.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Warrants

The Company's warrants, which were issued in connection with loans or notes payable, were initially recognized at fair value when issued and are subsequently measured at cost within shareholders' equity.

Share-based compensation

The fair value of options awarded to employees, directors, and lenders is measured using the Black-Scholes option pricing model and recognized in the consolidated statement of comprehensive loss, with corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Upon exercise of the option, consideration received, together with the amount previously recognized in contributed surplus, is reclassified as an increase to share capital.

Income (loss) per share

Basic income (loss) per share is computed by dividing the net income (loss) applicable to common shares of the Company by the weighted average number of common shares outstanding for the period. Diluted income per share is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted. When there is a loss, no potential shares are included in the computation of the denominator as they are anti-dilutive.

Statement of cash flows

The Company prepares its statement of cash flows using the indirect method. The Company classifies interest received and paid as part of operating activities in the statement of cash flows.

Critical accounting assumptions and key sources of estimation uncertainty

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting estimates and assumptions

The preparation of these consolidated financial statements requires management to make certain estimates and assumptions that will affect the recorded amounts of assets and liabilities, disclosures in the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The critical areas of estimation include the following:

Allowance for doubtful accounts receivable and impairment of receivables

Assessment is made of the collectability of accounts receivable based on several factors including the credit risk of the counterparty and the age of the receivable. The allowance is assessed annually against the actual experience of unrecoverable accounts and assumptions are adjusted, if appropriate.

Useful lives of investment properties and property and equipment

Estimates of the useful lives of investment properties and property and equipment are used for the purposes of determining depreciation expense, and includes judgments with regards to such factors as the age and condition of the assets.

Impairment of investment property and property and equipment

The process to assess whether investment property and property and equipment are impaired is detailed in Note 2 under “Investment properties” and “Property and equipment”. When a review for impairment is conducted, the recoverable amount is determined based on value-in-use calculations, which are subject to management’s assumptions and estimates regarding future cash flows, discount rates and other inputs.

Fair value of investment properties

The Company is required to disclose the fair value of its investment properties in accordance with IAS 40. The Company determines the fair value of its investment properties based upon either recent comparable market transactions, or based upon discounted cash flows considering rental income from current leases and assumptions about rental income from future leases reflecting market conditions at the applicable balance sheet dates, less future cash outflows in respect of such investment properties. If based upon the discounted cash flow model, fair values are primarily determined by discounting the expected future cash flows, generally over a term of 5 years including a terminal value based on the application of a capitalization rate.

Convertible debentures and valuation of derivative financial instruments

The Company has issued convertible debentures which have an embedded derivative feature relating to the forced conversion upon the Company completing a going public transaction while meeting certain financing requirements. The derivative financial instrument is valued at the estimated additional equity value to be received above the par value of the convertible debentures upon conversion. The Company was required to estimate the period of time until the convertible debentures will be converted as well as the value of the forced conversion option.

Share-based compensation

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based compensation transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including expected life of the share-based payment, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based compensation are disclosed in Note 12.

Critical judgments in applying accounting policies:

The following are critical judgments that have been made in applying the Company’s accounting policies and that have the most significant effect on the amounts in the consolidated financial statements:

Deferred income taxes

Tax interpretations and regulations in the jurisdictions of operations are subject to change, and as such, income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable income. Judgment is required in determining the manner in which the carrying amounts will be recovered.

DELAVACO PROPERTIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) (Expressed in US Dollars unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties componentization

The Company's accounting policies relating to investment property componentization are described above. In applying this policy, judgment is made in determining the degree of componentization for each property, and in allocating costs to significant components. When items of investment property have different useful lives, they are accounted for as separate items (significant components) and depreciated separately.

Asset versus business acquisition

When the Company acquires new investment properties, the Company reviews each acquisition in accordance with IFRS 3 to determine if it qualifies as an asset or business acquisition. It reviews to determine if inputs, processes and outputs have been acquired to ensure each acquisition is accounted for appropriately.

3. FUTURE AND NEWLY ADOPTED ACCOUNTING POLICY CHANGES

Future accounting policy changes:

The following accounting standards, amendments and interpretations have been issued but are not yet effective for the Company. Management is currently assessing the impact of the new standards on the Company's accounting policies and consolidated financial statement presentation.

- IFRS 9 — Financial Instruments ("IFRS 9") was issued by the IASB in October 2010 and will replace IAS 39 — Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. 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. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. 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, 2015.

Newly adopted accounting policies:

The following accounting standards, amendments and interpretations have been adopted by the Company.

- IFRS 10 — Consolidated Financial Statements ("IFRS 10") was issued by the IASB in May 2011. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC-12 — Consolidation — Special Purpose Entities and IAS 27 — Consolidated and Separate Financial Statements and is effective for annual periods beginning on or after January 1, 2013. The Company assessed that there is no material affect from the implementation of this new standard.
- IFRS 12 — Disclosure of Interests in Other Entities ("IFRS 12") was issued by the IASB in May 2011. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. The Company assessed that there is no material affect from the implementation of this new standard.
- IFRS 13 — Fair Value Measurement ("IFRS 13") was issued by the IASB in May 2011. IFRS 13 establishes new guidance on fair value measurement and disclosure requirements for IFRSs. The guidance, set out in IFRS 13 and an update to Topic 820 in the FASB's Accounting Standards Codification (formerly referred to as SFAS 157), completes a major project of the IASB and FASB to improve IFRSs and to bring about their convergence. The standard is effective for annual periods beginning on or after January 1, 2013. The Company assessed that there is no material affect from the implementation of this new standard.
- IAS 1 — Presentation of Financial Statements ("IAS 1") was amended by the IASB in June 2011 in order to align the presentation of items in other comprehensive income with US GAAP standards. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. The Company assessed that there is no material affect from the implementation of this new standard.

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

4. INVESTMENT

As at December 31, 2012, investment consisted of a certificate of deposit in the amount of \$100,000 bearing interest at a rate of 0.2% which matured on June 6, 2013.

5. ACCOUNTS RECEIVABLE, NET

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

	June 30, 2013	December 31, 2012
	\$	\$
Trade receivables		
Rent receivable	390,962	424,383
Less: allowance for doubtful accounts	(147,831)	(104,220)
Less: impairment of trade receivables	(132,390)	(157,673)
	<u>110,741</u>	<u>162,490</u>

6. OTHER ASSETS

The other assets balance consists of the following:

	June 30, 2013	December 31, 2012
	\$	\$
HST receivable	402,689	307,447
Utility deposits	38,096	55,822
Investment properties deposits in escrow	1,250,064	337,110
Deferred transaction costs	347,710	382,221
	<u>2,038,559</u>	<u>1,082,600</u>

During the six month period ended June 30, 2013, the Company signed four letters of intent, one with the CEO and Director of the Company, and three with a company controlled by the CEO and Director of the Company to purchase four limited partnerships each of which owns a multi-unit residential property. The initial aggregate purchase price for all four letters of intent which amounts to \$78,690,000, remains subject to due diligence and the signing of a long form purchase agreement which may contain purchase price adjustments. The purchase price will be paid through a combination of cash, issuance of common shares of the Company as well as assumption of mortgages, debt and other liabilities. All of the deposits, for total value of \$1,181,534, are contained within investment properties deposits in escrow are fully refundable.

7. INVESTMENT PROPERTIES, NET

The carrying amounts by significant component of investment properties, net, at June 30, 2013, and December 31, 2012, are as follows:

	Cost	Accumulated depreciation	Net book value June 30, 2013	Net book value December 31, 2012
	\$	\$	\$	\$
Building structure	33,871,081	(1,163,150)	32,707,931	28,577,998
Land	5,081,366	—	5,081,366	4,414,302
HVAC	849,191	(54,947)	794,244	656,963
In-place leases	339,226	(293,874)	45,352	136,899
Appliances	288,529	(101,538)	186,991	154,657
Total	<u>40,429,393</u>	<u>(1,613,509)</u>	<u>38,815,884</u>	<u>33,940,819</u>

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

7. INVESTMENT PROPERTIES, NET (Continued)

A continuity of the investment properties, net balance is as follows:

	<u>As at December 31, 2012</u>	<u>Additions</u>	<u>Depreciation</u>	<u>Dispositions</u>	<u>June 30, 2013</u>
	\$	\$	\$	\$	\$
Building structure	28,577,998	4,736,560	(563,402)	(43,225)	32,707,931
Land	4,414,302	667,064	—	—	5,081,366
HVAC	656,963	216,592	(30,424)	(48,887)	794,244
In-place leases	136,899	29,935	(121,482)	—	45,352
Appliances	154,657	77,867	(45,533)	—	186,991
Total	<u>33,940,819</u>	<u>5,728,018</u>	<u>(760,841)</u>	<u>(92,112)</u>	<u>38,815,884</u>

The Company did not obtain external appraisals in assessing the fair value of its investment properties as at June 30, 2013, and December 31, 2012.

The fair value of investment properties at June 30, 2013, determined in its entirety by the Company's internal valuation process, is estimated to be approximately \$47.7 million (December 31, 2012 — approximately \$37.4 million). As described in Note 2, fair values were primarily determined by discounting the investment properties' expected future cash flows, over a term of five years including a terminal value based on the application of a capitalization rate to the estimated year six cash flows. The significant assumptions used in determining the fair values of the Company's investment properties as at June 30, 2013, are the discount rate of 10.75% (December 31, 2012 — 10.75%) and terminal capitalization rate of 9.00% (December 31, 2012 — 9.75%).

8. PROPERTY AND EQUIPMENT, NET

The carrying amounts of the property and equipment at June 30, 2013, and December 31, 2012, are as follows:

	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value June 30, 2013</u>	<u>Net book value December 31, 2012</u>
	\$	\$	\$	\$
Leasehold improvements	155,387	(115,380)	40,007	73,108
Furniture and equipment	275,278	(45,060)	230,218	200,586
Total	<u>430,665</u>	<u>(160,440)</u>	<u>270,225</u>	<u>273,694</u>

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

	<u>As at December 31, 2012</u>	<u>Additions</u>	<u>Depreciation</u>	<u>Dispositions</u>	<u>June 30, 2013</u>
	\$	\$	\$	\$	\$
Leasehold improvements	73,108	6,776	(39,877)	—	40,007
Furniture and equipment	200,586	49,441	(19,809)	—	230,218
Total	<u>273,694</u>	<u>56,217</u>	<u>(59,686)</u>	<u>—</u>	<u>270,225</u>

9. NOTES PAYABLE

On July 27 2011, the Company signed an agreement to obtain debt financing of up to CAD\$5,000,000 and as at December 31, 2011, \$3,687,315 (CAD\$3,750,000) was issued. During 2012, the Company issued an additional two notes totaling \$200,000 (CAD\$200,000), including issuing 32,000 warrants valued at \$10,557 in conjunction with the two notes, and no further issuance costs were incurred. The Company issued a total of CAD\$3,950,000 in notes under this agreement.

On February 23, 2012, \$1,001,500 (CAD\$1,000,000) of the notes were repaid through an issuance of 1,000,000 common shares. The remaining \$2,885,815 (CAD\$2,950,000) was repaid in cash on June 4, 2012. The early extinguishment of the notes resulted in the Company recording a loss of \$195,509 for the year ended December 31, 2012.

DELAVACO PROPERTIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) **(Expressed in US Dollars unless otherwise noted)**

9. NOTES PAYABLE (Continued)

Total finance costs for the six months ended June 30, 2013, was \$Nil (December 31, 2012 — \$191,748) comprised of interest paid of \$Nil (December 31, 2012 — \$154,473) and accretion expense of \$Nil (December 31, 2012 — \$49,708).

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 costs for the six months ended June 30, 2013, was \$1,260,975 (December 31, 2012 — \$1,433,302) comprised of interest of \$929,795 (December 31, 2012 — \$1,078,767) and accretion expense of \$331,180 (December 31, 2012 — \$354,535).

10. CONVERTIBLE DEBENTURES PAYABLE

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 contain a forced conversion (the “Conversion Feature”) such that the Company may force full conversion to common shares if the Company completes a liquidity event where the Company lists on the TSX, or provides 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 hold 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 is considered a derivative financial instrument under IAS 39 and is measured at its fair value which is 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.

Total finance costs for the six months ended June 30, 2013, was \$1,843,642 (December 31, 2012 — \$132,225) comprised of interest of \$371,918 (December 31, 2012 — \$22,603) and accretion expense of \$1,471,724 (December 31, 2012 — \$109,622).

11. 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.

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

	<u>Number of shares</u>	<u>Value</u>
		\$
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)	<u>12,250,000</u>	<u>11,594,358</u>
Balance at December 31, 2012	23,250,000	19,445,529
Issuance of common shares from penalty clause (d)	<u>1,825,000</u>	—
Balance at June 30, 2013	<u><u>25,075,000</u></u>	<u><u>19,445,529</u></u>

DELAVACO PROPERTIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

11. SHARE CAPITAL (Continued)

- (a) On January 13, 2012, the Company repaid the outstanding \$444,126 (CAD\$455,000) loan by issuing 455,000 Class A common shares.
- (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 (see Note 9).
- (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 \$675,372. 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 that met specific liquidity conditions.

12. SHARE-BASED COMPENSATION

The Company does not currently have an incentive stock option plan. All stock options currently issued and outstanding are based upon written agreement between the Company and the parties involved.

No options were granted, exercised or forfeited during the six months ended June 30, 2013, or during the year ended December 31, 2012. The Company has the following stock options outstanding at June 30, 2013, and December 31, 2012:

<u>Grant date</u>	<u>Number of options</u>	<u>Number of non-exercisable options</u>	<u>Number of exercisable options</u>	<u>Weighted average exercise price</u>	<u>Expiry date</u>
				\$	
January 27, 2011	2,500,000	1,666,667	833,333	CAD0.10	January 27, 2021
January 28, 2011	500,000	333,333	166,667	CAD0.40	January 28, 2021
	<u>3,000,000</u>	<u>2,000,000</u>	<u>1,000,000</u>	<u>CAD0.15</u>	

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. The fair value of the share-based compensation recorded to contributed surplus within the consolidated statement of changes in shareholders' equity relating to the stock options for the six months ended June 30, 2013 was \$99,209 (December 31, 2012 — \$ 381,305). The fair value of all the Company's stock options issued and outstanding was estimated using the Black-Scholes option pricing model using the following assumptions:

	<u>December 31, 2011</u>
Volatility	60%
Risk-free interest rate	3.27%
Expected life (years)	10
Dividend yield	Nil
Forfeiture rate	0%
Underlying share price	<u>CAD\$0.40</u>

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.

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

13. WARRANTS

	<u>Number of warrants</u>	<u>Amount</u>	<u>Weighted average exercise price</u>
		\$	\$
Balance at date of incorporation, January 27, 2011	—	—	—
Warrants issued	800,000	208,900	CAD1.19
December 31, 2011	800,000	208,900	
Warrants issued (note 9)	3,882,000	1,160,282	CAD1.18
Balance at June 30, 2013 and December 31, 2012	<u>4,682,000</u>	<u>1,369,182</u>	<u>CAD1.18</u>

All warrants are convertible into class A common shares.

The Company had the following share purchase warrants outstanding and exercisable at June 30, 2013 and December 31, 2012:

<u>Issuance Date</u>	<u>Number of Warrants</u>	<u>Weighted average exercise price</u>	<u>Expiry Date</u>
		\$	
June 13, 2011 ⁽¹⁾	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	<u>4,682,000</u>	<u>CAD1.18</u>	

(1) Warrants originally had expiry date of March 13, 2013, but were subsequently extended.

The weighted average exercise price of the warrants issued on June 4, 2012, has decreased from \$1.30 as disclosed in the 2012 annual consolidated financial statements due to a penalty clause as the Company had not completed a going public transaction before a specified date.

14. LOSS PER SHARE

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
	\$	\$
Numerator		
Net loss for the period	(7,576,663)	(5,651,735)
Denominator		
Weighted average number of common shares outstanding	24,157,459	21,078,101
Basic and diluted loss per share	<u>(0.31)</u>	<u>(0.27)</u>

During the six months ended June 30, 2013 and year ended December 31, 2012, 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.

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

15. RELATED PARTY TRANSACTIONS

Transactions with related parties are incurred in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and approved by the related parties. During the six month period ended June 30, 2013, and year ended 2012, the Company entered into the following transactions with related parties:

- (i) During the six months ended June 30, 2013, the Company incurred \$32,674 (December 31, 2012 — \$38,639) in rent expense and \$12,010 (December 31, 2012 — \$40,964) in accounting fees to a company controlled by a senior officer and director of the Company.
- (ii) During the six months ended June 30, 2013, the Company incurred \$Nil (December 31, 2012 — \$24,943) in consulting fees to a corporation controlled by a director of the Company.
- (iii) During the six months ended June 30, 2013, the Company incurred \$42,770 (2012 — \$Nil) in administration fees to a corporation controlled by a director of the Company.
- (iv) During the year ended December 31, 2012, the Company paid share issuance costs in the amount of \$219,993 to a Company controlled by a director.
- (v) During the period ended June 30, 2013, the Company signed four letters of intent, one with a director, and three with a company controlled by a director of the Company to purchase four limited partnerships each of which owns a multi-unit residential property (note 6).
- (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 \$21,600 for the six months ended June 30, 2013, and \$316,800 for the year ended December 31, 2012. On January 31, 2013, this agreement was terminated.

Key Management Compensation

Key management personnel are comprised of the Company's directors and executive officers. Key management personnel compensation is as follows:

	June 30, 2013	December 31, 2012
	\$	\$
Salaries, incentives and short-term benefits	297,349	957,492
Share-based payments	—	—
	<u>297,349</u>	<u>957,492</u>

Share-based payments represent the fair value of options granted to key management personnel on the date the options were granted. No options were granted in the six month period ended June 30, 2013, or the year ended December 31, 2012. During the six months ended June 30, 2013, \$99,209 (December 31, 2012 — \$381,305) related to the options granted in 2011 was expensed as share-based compensation in the consolidated statement of loss and comprehensive loss.

16. 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.

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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 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:

	<u>CAD</u>
	\$
Cash and cash equivalents	129,591
Other assets	402,689
Accounts payable and accrued liabilities	<u>(704,344)</u>
Total	<u>(172,064)</u>
Effect of +/- 10% change in exchange rate	<u>(17,206)</u>

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 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 Company considers this risk to be immaterial.

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 60% 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. For the period ended June 30, 2013, all revenues are derived from investment properties held in the states of Florida and Georgia.

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.

The Company monitors its risk of shortage of funds by monitoring the maturity dates of existing accounts and other payables. As at June 30, 2013, the Company has trade and other payables of \$1,930,373 due within 12 months, notes payable is due in 2016 and convertible debentures payable due in 2014 (Note 11).

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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 assets, and accounts payable and accrued liabilities are estimated by management to approximate their carrying values due to their short-term nature.

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 statement of financial position and categorized by level of significance of the inputs used in making the measurements:

<u>Liabilities</u>	<u>June 30, 2013</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	\$	\$	\$
Convertible debentures payable	—	9,017,426	—
Derivative financial instruments	—	—	1,594,799
Notes payable	—	22,564,583	—
	<u>—</u>	<u>31,581,909</u>	<u>1,594,799</u>

There were no transfers between level 1 and 2 during the period ended June 30, 2013. There were no changes to level 3 during the period ended June 30, 2013.

The fair value of convertible debentures was calculated by valuing the conversion feature as a derivative financial instrument, and accreting over the expected time period to conversion.

The derivative financial instrument represents the conversion feature on the convertible debenture which convert at a fixed rate of 15% less than the going public price, and applying assumptions relating to the probability of liquidity event occurring and a relevant discount rate.

The notes payable are calculated using discounted cash flow methodology using a risk free rate.

17. CAPITAL RISK MANAGEMENT

The capital of the Company includes equity, which is comprised of issued share capital, contributed surplus, 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.

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

18. ASSETS HELD FOR SALE

As of December 31, 2012, the multi-unit properties 999 W. Prospect Road and 1007 W. Prospect Road, Oakland Park, FL, and 333 NW 2nd Avenue, Hallandale Beach, FL, were classified as assets held for sale as the Company was actively marketing and intended to sell these properties within one year.

	June 30, 2013	December 31, 2012
	\$	\$
Assets		
Investment properties, net	—	2,465,333
Assets held for sale	—	2,465,333
	<u>—</u>	<u>2,465,333</u>
Liabilities		
Accounts payable and other liabilities	—	15,327
Liabilities related to assets held for sale	—	15,327
	<u>—</u>	<u>15,327</u>

On January 22, 2013, the Company completed the sale of the multi-unit investment property located at 333 NW 2nd Avenue, Hallandale Beach, FL, 2012, for proceeds of \$360,000 less closing costs and adjustments.

On March 18, 2013, the Company completed the sale of the multi-unit investment properties located at 999 W. Prospect Road and 1007 W. Prospect Road, Oakland Park, FL, for proceeds of \$2,700,000 less closing costs and adjustments.

19. SEGMENTED INFORMATION

The Company defines its reportable segments based on strategic business units observed by the chief operating decision maker, which is based on geographical locations. The corporate segment has been provided to reconcile the reportable segments to the consolidated results.

	Florida	Georgia	Corporate	Total
	\$	\$	\$	\$
Six months ended June 30, 2013				
Rental revenue	(2,177,242)	(541,805)	—	(2,719,047)
Operating costs	791,363	217,024	—	1,008,387
Utilities	156,046	1,479	—	157,525
Property taxes	206,691	29,287	—	235,978
Depreciation and amortization	684,698	135,829	—	820,527
General and administrative	—	—	1,779,655	1,779,655
Professional fees	—	—	290,496	290,496
Transaction costs	—	—	1,554,856	1,554,856
Segment (profit) loss from operations	(338,444)	(158,186)	3,625,007	3,128,377
Foreign exchange loss	—	—	1,574,121	1,574,121
Gain on disposition of investment properties	(329,661)	—	—	(329,661)
Finance costs	—	—	3,104,617	3,104,617
Share-based compensation	—	—	99,209	99,209
Net (income) loss	<u>(668,105)</u>	<u>(158,186)</u>	<u>8,402,954</u>	<u>7,576,663</u>
As at June 30, 2013				
Total current assets	2,857,613	394,605	916,796	4,169,014
Total non-current assets	30,179,396	8,906,713	—	39,086,109
Total liabilities	<u>(1,100,561)</u>	<u>(125,103)</u>	<u>(33,881,517)</u>	<u>(35,107,181)</u>

During the year ended December 31, 2012, and as at December 31, 2012, the Company operated in only one segment, hence no comparative information has been presented.

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

20. INCOME TAXES

(a) Income tax expense

The following table reconciles income taxes calculated at combined Canadian federal and provincial tax rates with the income tax expense in the consolidated financial statements:

	June 30, 2013	December 31, 2012
Loss before income taxes	(7,576,663)	(5,651,735)
Statutory rate	26.50%	26.50%
Expected income tax recovery	(2,007,816)	(1,497,710)
Amounts not deductible for tax and other	440,189	97,050
Deferred tax assets not recognized	2,223,979	2,031,792
Difference in tax rates from operating in other jurisdictions	(656,352)	(631,132)
	<u>—</u>	<u>—</u>

(b) Deferred income taxes

The temporary differences that give rise to deferred income tax assets and deferred income tax liabilities are presented below:

	June 30, 2013	December 31, 2012
Amounts related to tax loss and credit carryforwards	4,052,677	2,176,064
Other deductible temporary differences	896,597	549,231
Net deferred tax asset	4,949,274	2,725,295
Deferred tax assets not recognized	(4,949,274)	(2,725,295)
	<u>—</u>	<u>—</u>

The Company has non-capital losses of approximately \$11.1 million available to apply against future taxable income. If not utilized, the non-capital losses start to expire in 2032.

The potential tax benefit relating to these losses has not been reflected in these consolidated financial statements.

21. COMMITMENTS AND CONTINGENCIES

Leases

The future annual lease payments for the rented offices of the Company for the next five years and thereafter are as follows:

	\$
2013	39,196
2014	7,950
2015	—
2016	—
2017	—
Thereafter	—
	<u>47,146</u>

22. SUBSEQUENT EVENTS

Subsequent to June 30, 2013, the Company initiated a private placement financing of approximately \$15,000,000 of unsecured subordinated convertible debentures (the “Debentures”). The Debentures bear interest at 7% per annum, payable quarterly and mature five years from the closing date. The Debentures also hold a conversion feature which allows the holder to convert at any time

DELAVACO PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Expressed in US Dollars unless otherwise noted)

22. SUBSEQUENT EVENTS (Continued)

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 has closed on a number of tranches of the private placement for a total of \$18,500,000.

Subsequent to period end, on July 20, 2013, one of the members of the board of directors resigned, and his option agreement for 500,000 options priced at \$0.40 per option was terminated.

On May 24, 2013, Sereno Capital Corporation (“Sereno”) and Delavaco entered into a letter of intent setting out the basic terms of a proposed business combination. On September 18, 2013, Sereno and Delavaco entered into a definitive transaction agreement to complete a qualifying transaction, providing for the terms of the Business Combination. The terms of the business combination are the result of arm’s length negotiations conducted between Sereno and Delavaco and their respective legal advisors.

In connection with the business combination, Sereno will form a new subsidiary (“Subco”), and Subco will amalgamate with Delavaco to form (“Amalco”). All of the property and assets of Subco and Delavaco will be the property of Amalco, as well as Amalco being liable for all liabilities and obligations. Each shareholder of Delavaco will receive 7.36 shares of Sereno for each Delavaco share held. Subsequent to the amalgamation, the shares of Sereno will be consolidated on the basis of 7.36 pre-consolidation shares for one post consolidation shares.

Upon completion of the business combination, Sereno will change its name to Delavaco Residential Properties Inc., and the Company will be listed on the TSXV.

3200 NW 84th Avenue

Carve-Out Financial Statements
(In US Dollars)
June 30, 2013

Independent Auditor's Report

To the Directors of
Delavaco Properties Inc.

Report on the Carve-out Financial Statements

We have audited the accompanying carve-out financial statements of 3200 NW 84th Avenue, which comprise the carve-out statements of financial position as at December 31, 2012, 2011 and 2010, and the carve-out statements of comprehensive income, changes in divisional equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these carve-out financial statements in accordance with subsection 3.11(6) of National Instrument 52-107 Acceptable Accounting Principles and Auditing Standards for carve-out financial statements, and for such internal control as management determines is necessary to enable the preparation of carve-out financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these carve-out financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the carve-out financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the carve-out financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the carve-out financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the carve-out financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the carve-out financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the carve-out financial statements present fairly, in all material respects, the financial position of 3200 NW 84th Avenue as at December 31, 2012, 2011 and 2010, and its financial performance and its cash flows for the years then ended in accordance with the financial reporting framework specified in subsection 3.11(6) of National Instrument 52-107 Acceptable Accounting Principles and Auditing Standards for carve-out financial statements.

(signed) MNP LLP
Toronto, Ontario
November 29, 2013

**Chartered Professional Accountants
Licensed Public Accountants**



ACCOUNTING > CONSULTING > TAX

701 EVANS AVENUE, 8TH FLOOR, TORONTO ON, M9C 1A3

P: 416.626.6000 F: 416.626.8650 **MNP.ca**

3200 NW 84TH AVENUE
CARVE-OUT STATEMENTS OF FINANCIAL POSITION
As at June 30 and December 31

	June 30, 2013 (Unaudited) \$	December 31, 2012 \$	December 31, 2011 \$	December 31, 2010 \$
Assets				
Current assets				
Cash and cash equivalents	80,173	751,328	231,433	95,173
Accounts receivable	6,112	2,286	108,069	3,707
Prepaid expenses	48,512	99,113	40,160	35,700
Deposits	295,912	328,411	86,471	192,793
	<u>430,709</u>	<u>1,181,138</u>	<u>466,133</u>	<u>327,373</u>
Non-current assets				
Investment properties	16,800,332	14,130,610	13,169,983	12,634,137
	<u>16,800,332</u>	<u>14,130,610</u>	<u>13,169,983</u>	<u>12,634,137</u>
Total assets	<u>17,231,041</u>	<u>15,311,748</u>	<u>13,636,116</u>	<u>12,961,510</u>
Liabilities				
Current liabilities				
Accounts payable	189,231	316,494	60,725	75,650
Current portion of mortgages payable	—	—	5,658,126	5,735,467
Other current liabilities	76,348	70,101	71,929	90,791
	<u>265,579</u>	<u>386,595</u>	<u>5,790,780</u>	<u>5,901,908</u>
Non-current liabilities				
Mortgage payable	7,900,000	7,900,000	—	—
Total liabilities	<u>8,165,579</u>	<u>8,286,595</u>	<u>5,790,780</u>	<u>5,901,908</u>
Divisional Equity	<u>9,065,462</u>	<u>7,025,153</u>	<u>7,845,336</u>	<u>7,059,602</u>
Total liabilities and divisional equity	<u>17,231,041</u>	<u>15,311,748</u>	<u>13,636,116</u>	<u>12,961,510</u>

The accompanying notes are an integral part of these financial statements.

3200 NW 84TH AVENUE

CARVE-OUT STATEMENTS OF COMPREHENSIVE INCOME

**For the six month periods ended June 30, 2013 and June 30, 2012, and the years ended
December 31, 2012, December 31, 2011 and December 31, 2010**

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
	(Unaudited)	(Unaudited)			
	\$	\$	\$	\$	\$
Revenue					
Rental revenue	878,940	870,804	1,755,067	1,680,353	1,731,775
Miscellaneous revenue	47,230	6,399	49,601	49,359	70,320
Expenses					
Operating expenses	201,224	312,898	538,892	650,834	608,016
Insurance	51,054	34,496	129,695	63,352	61,067
Utilities	84,212	95,325	189,442	200,380	208,912
Property taxes	85,670	57,113	192,441	166,820	188,238
Finance costs	150,934	108,865	264,740	366,614	370,976
Fair value gain on investment property . .	(2,584,281)	(1,171,591)	(854,277)	(504,022)	(6,123,065)
Net and comprehensive income	<u>2,937,357</u>	<u>1,440,097</u>	<u>1,343,735</u>	<u>785,734</u>	<u>6,487,951</u>

3200 NW 84TH AVENUE

CARVE-OUT STATEMENTS OF CHANGES IN DIVISIONAL EQUITY

**For the six month periods ended June 30, 2013 and June 30, 2012, and the years ended
December 31, 2012, December 31, 2011 and December 31, 2010**

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
	(Unaudited)	(Unaudited)			
	\$	\$	\$	\$	\$
Divisional equity, beginning of period	7,025,153	7,845,336	7,845,336	7,059,602	—
Net and comprehensive income	2,937,357	1,440,097	1,343,735	785,734	6,487,951
Net contributions from (distributions to) owners	(897,048)	—	(2,163,918)	—	571,651
Divisional equity, end of period	<u>9,065,462</u>	<u>9,285,433</u>	<u>7,025,153</u>	<u>7,845,336</u>	<u>7,059,602</u>

The accompanying notes are an integral part of these financial statements.

3200 NW 84TH AVENUE

CARVE-OUT STATEMENTS OF CASH FLOWS

For the six month periods ended June 30, 2013 and June 30, 2012, and the years ended
December 31, 2012, December 31, 2011 and December 31, 2010

	June 30, 2013 (Unaudited) \$	June 30, 2012 (Unaudited) \$	December 31, 2012 \$	December 31, 2011 \$	December 31, 2010 \$
Operating activities					
Net and comprehensive income for the period	2,937,357	1,440,097	1,343,735	785,734	6,487,951
Fair value gain on investment property . .	(2,584,281)	(1,171,591)	(854,277)	(504,022)	(6,123,065)
Changes in non-cash operating working capital:					
Accounts receivable	(3,826)	73,567	105,783	(104,362)	(3,707)
Prepaid expenses	50,601	3,766	(58,953)	(4,460)	(35,700)
Deposits	32,499	(42,638)	(241,940)	106,322	(192,793)
Accounts payable	(127,263)	98,170	255,769	(14,925)	75,650
Other current liabilities	6,247	36,604	(1,828)	(18,862)	90,791
	<u>311,334</u>	<u>437,975</u>	<u>548,289</u>	<u>245,425</u>	<u>299,127</u>
Investing activities					
Acquisition of investment properties . . .	<u>(85,441)</u>	<u>—</u>	<u>(106,350)</u>	<u>(31,824)</u>	<u>(649,885)</u>
Financing activities					
Mortgages issued (repaid)	—	(2,926)	2,241,874	(77,341)	(125,720)
Contributions from (distributions to) owners	<u>(897,048)</u>	<u>—</u>	<u>(2,163,918)</u>	<u>—</u>	<u>571,651</u>
	<u>(897,048)</u>	<u>(2,926)</u>	<u>77,956</u>	<u>(77,341)</u>	<u>445,931</u>
(Decrease) increase in cash and cash equivalents	(671,155)	435,049	519,895	136,260	95,173
Cash and cash equivalents, beginning of period	<u>751,328</u>	<u>231,433</u>	<u>231,433</u>	<u>95,173</u>	<u>—</u>
Cash and cash equivalents, end of period .	<u><u>80,173</u></u>	<u><u>666,482</u></u>	<u><u>751,328</u></u>	<u><u>231,433</u></u>	<u><u>95,173</u></u>

The accompanying notes are an integral part of these financial statements.

3200 NW 84TH AVENUE
NOTES TO CARVE-OUT FINANCIAL STATEMENTS
June 30, 2013
(Expressed in US dollars unless otherwise noted)

1. BUSINESS OF THE PROPERTY

3200 NW 84th Avenue (Sunrise, FL 3335) (the “Property”) as presented in these carve-out financial statements is not a legal entity. The Property and its related assets and liabilities are currently owned by Las Olas Bay Properties 3200 84th Ave, LP (the “Partnership”), a limited partnership governed by the laws of Delaware, USA.

These carve-out financial statements have been prepared on a carve-out basis and present the financial position, financial performance and cash flows of the Property had the Property been accounted for on a stand-alone basis, and include the Property’s share of assets, liabilities, revenue and expenses.

The Property is located at 3200 NW 84th Avenue, Sunrise, Florida.

These carve-out financial statements were authorized for issuance by the Directors of the Property on November 29, 2013.

Because the property was part of a limited partnership, these carve-out financial statements depict the divisional equity in net assets, representing the amount associated specifically with this property.

These carve-out financial statements are not necessarily indicative of the results that would have been attained if the Property had been operated as a separate legal entity during the period presented and, therefore, are not necessarily indicative of future operating results.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The carve-out financial statements are prepared in accordance with a financial reporting framework specified in subsection 3.11(6) of National Instrument 52-107, Acceptable Accounting Principles and Auditing Standards (“subsection 3.11(6)”), for carve-out financial statements. Subsection 3.11(6) requires the Property to select from a specified list of financial reporting frameworks.

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and using accounting policies described herein.

Investment property

The Property selected the fair value method to account for real estate classified as investment property. A property is determined to be an investment property when it is principally held to earn rental income or for capital appreciation, or both. Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are carried at fair value. Gains or losses arising from changes in fair value are recognized in profit and loss during the period in which they arise. Fair values are primarily determined by using the capitalized net operating income method which applies a capitalization rate to the future stabilized cash flows of the property. The capitalization rate applied is reflective of the characteristics, location and market of the property. The stabilized cash flows of the Property are based upon rental income from current leases and assumptions about occupancy rates and market rent from future leases reflecting current conditions, less future cash outflows relating to such current and future leases. The Property determines fair value internally utilizing internal financial information, external data and capitalization rates provided by industry experts. External valuations are performed as of the reporting date by professional valuers who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.

Subsequent capital expenditures are charged to investment property only when it is probable that future economic benefits of the expenditure will flow to the Property and the cost can be measured reliably.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted cash and short-term investments which management has allocated to the operations of the Property. Short-term investments, comprising money market instruments, have an initial maturity of 90 days or less at their date of purchase and are stated at cost, which approximates fair value. As at December 31, 2011, there were no cash equivalents.

Revenue recognition

The Property has retained substantially all of the risks and benefits of ownership of its investment property and, therefore, accounts for its leases with tenants as operating leases.

3200 NW 84TH AVENUE
NOTES TO CARVE-OUT FINANCIAL STATEMENTS (Continued)
June 30, 2013
(Expressed in US dollars unless otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from investment property includes all rental income earned from the property, including residential tenant rental income and all other miscellaneous income paid by the tenant under the terms of their existing lease. Revenue recognition under a lease commences when a tenant has a right to use the leased asset, and revenue is recognized pursuant to the terms of the lease agreement.

Income taxes

Provision has not been made for income taxes as the Property is not a legal entity.

Financial instruments

Financial instruments are classified as one of the following: (i) fair value through profit and loss ("FVTPL"), (ii) loans and receivables, (iii) held-to-maturity, (iv) available-for-sale or (v) other liabilities. Financial instruments are recognized initially at fair value. Financial assets and liabilities classified at FVTPL are subsequently measured at fair value with gains and losses recognized in profit and loss. Financial instruments classified as held-to-maturity, loans and receivables or other liabilities are subsequently measured at amortized cost. Available-for-sale financial instruments are subsequently measured at fair value and any unrealized gains and losses are recognized through other comprehensive income and presented in the fair value reserve in divisional equity. The Property derecognizes a financial asset when the contractual rights to the cash flows from the asset expire.

The Property's amounts receivable, deposits and cash have been designated as financial assets at fair value through profit and loss; mortgage payable and accounts payable and accrued liabilities have been designated as other liabilities. The Property has neither available-for-sale nor held-to-maturity instruments.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities, other than financial assets and liabilities measured at FVTPL, are accounted for as part of the carrying amount of the respective asset or liability at inception.

Transaction costs on financial assets and liabilities measured at FVTPL are expensed in the period incurred.

Transaction costs related to financial instruments measured at amortized cost are amortized using the effective interest rate over the anticipated life of the related instrument.

Financial assets are derecognized when the contractual rights to the cash flows from financial assets expire or have been transferred.

Critical judgments and estimates

The preparation of carve-out financial statements requires management to make critical judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the carve-out financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates and judgments have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties that management believes will materially affect the methodology or assumptions utilized in making those estimates and judgments in these carve-out financial statements. The estimates and judgments used in determining the recorded amount for assets and liabilities in the carve-out financial statements include the following:

(i) Investment property

The critical assumptions and estimates used when determining the fair value of investment property are capitalization rates and future cash flows. Further information on investment property estimates is provided in note 3.

(ii) Other

Critical judgments and estimates are also made in the determination of fair value of financial instruments and include assumptions and estimates regarding future interest rates; the relative creditworthiness of the Property to its counterparties; the credit risk of the Property's counterparties relative to the Property; and the estimated future cash flows.

3200 NW 84TH AVENUE
NOTES TO CARVE-OUT FINANCIAL STATEMENTS (Continued)
June 30, 2013
(Expressed in US dollars unless otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future changes in accounting policies

The Property has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. In the current circumstances, it does not expect any of these to have a material impact on the carve-out financial statements.

3. INVESTMENT PROPERTY

	<u>June 30, 2013</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
	(Unaudited)			
	\$	\$	\$	\$
Balance, beginning of period	14,130,611	13,169,984	12,634,138	—
Additions	85,441	106,350	31,824	6,511,073
Fair value adjustment	2,584,281	854,277	504,022	6,123,065
Balance, end of period	<u>16,800,333</u>	<u>14,130,611</u>	<u>13,169,984</u>	<u>12,634,138</u>

The key valuation assumptions for the Property are set out in the following table:

	<u>June 30, 2013</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
	(Unaudited)			
	\$	\$	\$	\$
Capitalization rate	5.95%	5.50%	5.55%	6.00%
Occupancy rate	95.00%	95.00%	95.00%	95.00%
Market rental rates — average per square foot	\$ 11.54	\$ 11.62	\$ 11.97	\$ 11.84

4. MORTGAGE PAYABLE

Mortgage payable	\$7,900,000
Less: current portion	—
	<u>\$7,900,000</u>

As at June 30, 2013 the mortgage payable balance of US\$7,900,000 (including the current portion) bears interest at a rate of 3.8% per annum, is secured by the Property, is amortized over 360 months and matures on October 1, 2022.

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

2013	\$ 152,602
2014	304,369
2015	304,369
2016	305,203
2017	338,084
Thereafter	9,279,818

As at January 1, 2010, the Property had a first mortgage balance of \$4,067,048, at an interest rate of 6.36% per year. The mortgage matured on December 1, 2011.

As at January 1, 2010, the Property had a second mortgage balance of \$1,812,133, at an interest rate of 5.42% per year. The mortgage matured on December 1, 2011.

On December 14, 2010, the Property obtained a mortgage of \$ 6,000,000, at an interest rate calculated as the maximum of 4% and daily LIBOR plus 2.5%, per year. The mortgage was settled on September 28, 2012.

3200 NW 84TH AVENUE
NOTES TO CARVE-OUT FINANCIAL STATEMENTS (Continued)
June 30, 2013
(Expressed in US dollars unless otherwise noted)

5. CAPITAL MANAGEMENT

The Property defines its capital as the aggregate of mortgages payable and divisional equity. The Property's primary objectives when managing capital are to meet its repayment obligations under its mortgage facility and to ensure there are sufficient funds available to finance operations and to meet capital commitment. Any financial covenants in respect to the mortgage (see note 4) are the responsibility of the Company.

6. RISK MANAGEMENT AND FAIR VALUE

(a) Risk management

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

(i) Interest rate risk:

The Property is subject to the risks associated with debt financing, including the risk that the interest rate on a floating debt may rise before long-term fixed rate debt is arranged and that the mortgage will not be able to be refinanced on terms similar to those of the existing indebtedness. The Property'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 the Property.

(ii) Credit risk:

Credit risk is the risk of financial loss to the Property associated with the failure of a tenant or other party to meet its contractual obligations related to lease agreements, including future lease payments.

At June 30, 2013, the Property's exposure to credit risk is comprised of its accounts receivable in the amount of \$6,112.

(iii) Liquidity risk:

Liquidity risk is the risk that the Property may encounter difficulty in meeting its financial obligations when they come due. Management's strategy in managing liquidity risk is to ensure, to the extent possible, that it always has sufficient financial assets to meet its financial liabilities when they come due, by forecasting cash flows from operations and anticipated investing and financing activities.

(iv) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, will affect the Property's financial instruments. The Property is a rental property located in the United States. The Property's operations are denominated in United States dollars, resulting in no direct foreign exchange risk.

(b) Fair values:

The fair values of the Property's financial assets, which include cash and amounts receivable, as well as financial liabilities, which include accounts payable and accrued liabilities, approximate their recorded fair values due to their short-term nature. The fair value of the mortgage payable is also fairly reflected by its book value as it has been financed at interest rates which are similar to current market interest rates.

126 W. Alpine Road

Carve-Out Financial Statements
(In US Dollars)
June 30, 2013

Independent Auditor's Report

To the Partners of
Delavaco Properties Inc.

Report on the Carve-out Financial Statements

We have audited the accompanying carve-out financial statements of 126 W. Alpine Road, which comprise the carve-out statements of financial position as at December 31, 2012, 2011 and 2010, and the carve-out statements of comprehensive income, changes in divisional equity, and cash flows for the years ended December 31, 2012 and 2011 and the for the period from June 15, 2010 to December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these carve-out financial statements in accordance with subsection 3.11(6) of National Instrument 52-107 Acceptable Accounting Principles and Auditing Standards for carve-out financial statements, and for such internal control as management determines is necessary to enable the preparation of carve-out financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these carve-out financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the carve-out financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the carve-out financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the carve-out financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the carve-out financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the carve-out financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the carve-out financial statements present fairly, in all material respects, the financial position of 126 W. Alpine Road as at December 31, 2012, 2011 and 2010, and its financial performance and its cash flows for years ended December 31, 2012 and 2011 and the for the period from June 15, 2010 to December 31, 2010, in accordance with the financial reporting framework specified in subsection 3.11(6) of National Instrument 52-107 Acceptable Accounting Principles and Auditing Standards for carve-out financial statements.

(signed) MNP LLP
Toronto, Ontario
November 29, 2013

**Chartered Professional Accountants
Licensed Public Accountants**



ACCOUNTING > CONSULTING > TAX

701 EVANS AVENUE, 8TH FLOOR, TORONTO ON, M9C 1A3

P: 416.626.6000 F: 416.626.8650 **MNP.ca**

126 W. ALPINE ROAD
CARVE-OUT STATEMENTS OF FINANCIAL POSITION
As at June 30 and December 31

	June 30, 2013 (Unaudited) \$	December 31, 2012 \$	December 31, 2011 \$	December 31, 2010 \$
Assets				
Current assets				
Cash and cash equivalents	17,312	—	—	30,026
Accounts receivable	3,790	950	5,054	9,334
Prepaid expenses	5,052	12,630	—	1,713
Deposits	4,236	4,236	—	—
	<u>30,390</u>	<u>17,816</u>	<u>5,054</u>	<u>41,073</u>
Non-current assets				
Other assets	—	—	—	—
Investment properties	6,823,040	5,397,264	3,013,800	3,169,349
	<u>6,823,040</u>	<u>5,397,264</u>	<u>3,013,800</u>	<u>3,169,349</u>
Total assets	<u>6,853,430</u>	<u>5,415,080</u>	<u>3,018,854</u>	<u>3,210,422</u>
Liabilities				
Current liabilities				
Accounts payable	41,840	9,265	6,022	123,143
Current portion of mortgages payable	50,164	—	1,692,752	39,497
Note payable	—	—	—	—
Other current liabilities	27,365	31,229	31,009	20,577
	<u>119,369</u>	<u>40,494</u>	<u>1,729,783</u>	<u>183,217</u>
Non-current liabilities				
Mortgage payable	2,959,836	—	—	1,692,752
Total liabilities	<u>3,079,205</u>	<u>40,494</u>	<u>1,729,783</u>	<u>1,875,969</u>
Divisional Equity	<u>3,774,225</u>	<u>5,374,586</u>	<u>1,289,071</u>	<u>1,334,453</u>
Total liabilities and divisional equity	<u>6,853,430</u>	<u>5,415,080</u>	<u>3,018,854</u>	<u>3,210,422</u>

The accompanying notes are an integral part of these financial statements.

126 W. ALPINE ROAD

CARVE-OUT STATEMENTS OF COMPREHENSIVE INCOME

For the six month periods ended June 30, 2013 and June 30, 2012, and the years ended December 31, 2012, December 31, 2011 and period between June 15 to December 31, 2010

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
	(Unaudited)	(Unaudited)			
	\$	\$	\$	\$	\$
Revenue					
Rental revenue	280,421	252,591	523,180	440,209	161,258
Miscellaneous revenue	34,194	30,993	60,197	37,088	9,776
Expenses					
Operating costs	81,405	91,135	173,835	212,172	94,792
Insurance	7,578	5,964	13,680	15,888	6,321
Utilities	17,899	20,097	30,050	35,869	23,568
Property taxes	21,840	21,000	45,769	44,316	22,884
Finance costs	10,334	35,685	59,475	60,004	43,399
Fair value loss (gain) on investment property	(1,397,722)	(2,029,429)	(2,345,610)	287,274	—
Net and comprehensive income (loss)	<u>1,573,281</u>	<u>2,139,132</u>	<u>2,606,178</u>	<u>(178,226)</u>	<u>(19,930)</u>

CARVE-OUT STATEMENTS OF CHANGES IN DIVISIONAL EQUITY

For the six months ended June 30, 2013 and June 30, 2012, and the years ended December 31, 2012, December 31, 2011 and period between June 15 to December 31, 2010

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
	(Unaudited)	(Unaudited)			
	\$	\$	\$	\$	\$
Divisional equity, beginning of period	5,374,586	1,289,071	1,289,071	1,334,453	—
Net and comprehensive income (loss)	1,573,281	2,139,132	2,606,178	(178,226)	(19,930)
Net contributions from owners	(3,173,642)	(94,524)	1,479,337	132,844	1,354,383
Divisional equity, end of period	<u>3,774,225</u>	<u>3,333,679</u>	<u>5,374,586</u>	<u>1,289,071</u>	<u>1,334,453</u>

The accompanying notes are an integral part of these financial statements.

126 W. ALPINE ROAD

CARVE-OUT STATEMENTS OF CASH FLOWS

**For the six months ended June 30, 2013 and June 30, 2012, and the years ended
December 31, 2012, December 31, 2011 and period between June 15 to December 31, 2010**

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
	(Unaudited) \$	(Unaudited) \$	\$	\$	\$
Operating activities					
Net and comprehensive income (loss)					
for the period	1,573,281	2,139,132	2,606,178	(178,226)	(19,930)
Fair value loss (gain) on investment					
property	(1,397,722)	(2,029,429)	(2,345,610)	287,274	—
Changes in non-cash operating working					
capital:					
Accounts receivable	(2,840)	194	4,104	4,280	(9,334)
Prepaid expenses	7,578	(3,554)	(12,630)	1,713	(1,713)
Deposits	—	—	(4,236)	—	—
Accounts payable	32,575	23,478	3,243	(117,121)	123,143
Other current liabilities	(3,864)	765	220	10,432	20,577
	<u>209,008</u>	<u>130,586</u>	<u>251,269</u>	<u>8,352</u>	<u>112,743</u>
Investing activities					
Acquisition of investment properties . . .	<u>(28,054)</u>	<u>(18,004)</u>	<u>(37,854)</u>	<u>(131,725)</u>	<u>(1,412,516)</u>
Financing activities					
Mortgage financing (repayments)	3,010,000	(18,058)	(1,692,752)	(39,497)	(24,584)
Contributions from (distributions to)					
owners	<u>(3,173,642)</u>	<u>(94,524)</u>	<u>1,479,337</u>	<u>132,844</u>	<u>1,354,383</u>
	<u>(163,642)</u>	<u>(112,582)</u>	<u>(213,415)</u>	<u>93,347</u>	<u>1,329,799</u>
Increase (decrease) in cash and cash					
equivalents	17,312	—	—	(30,026)	30,026
Cash and cash equivalents, beginning of					
period	<u>—</u>	<u>—</u>	<u>—</u>	<u>30,026</u>	<u>—</u>
Cash and cash equivalents, end of period .	<u><u>17,312</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>30,026</u></u>

The accompanying notes are an integral part of these financial statements.

126 W. ALPINE ROAD
NOTES TO CARVE-OUT FINANCIAL STATEMENTS
June 30, 2013
(Expressed in US dollars unless otherwise noted)

1. BUSINESS OF THE PROPERTY

126 W. Alpine Road (Austin, TX 78704) (the “Property”) as presented in these carve-out financial statements is not a legal entity. The Property and its related assets and liabilities are currently owned by Las Olas Bay Properties Commons, LP (the “Partnership”), a limited partnership governed by the laws of Delaware, USA.

These carve-out financial statements have been prepared on a carve-out basis and present the financial position, financial performance and cash flows of the Property had the Property been accounted for on a stand-alone basis, and include the Property’s share of assets, liabilities, revenue and expenses.

The Property is located at 126 W. Alpine Road, Austin, Texas.

These carve-out financial statements were authorized for issuance by the Directors of the Property on November 29, 2013.

Because the property was held by a limited partnership, these carve-out financial statements depict the divisional equity in net assets, representing the amount associated specifically with this property.

These carve-out financial statements are not necessarily indicative of the results that would have been attained if the Property had been operated as a separate legal entity during the period presented and, therefore, are not necessarily indicative of future operating results.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The carve-out financial statements are prepared in accordance with a financial reporting framework specified in subsection 3.11(6) of National Instrument 52-107, Acceptable Accounting Principles and Auditing Standards (“subsection 3.11(6)”), for carve-out financial statements. Subsection 3.11(6) requires the Property to select from a specified list of financial reporting frameworks.

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and using accounting policies described herein.

Investment property

The Property selected the fair value method to account for real estate classified as investment property. A property is determined to be an investment property when it is principally held to earn rental income or for capital appreciation, or both. Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are carried at fair value. Gains or losses arising from changes in fair value are recognized in profit and loss during the period in which they arise. Fair values are primarily determined by using the capitalized net operating income method which applies a capitalization rate to the future stabilized cash flows of the property. The capitalization rate applied is reflective of the characteristics, location and market of the property. The stabilized cash flows of the Property are based upon rental income from current leases and assumptions about occupancy rates and market rent from future leases reflecting current conditions, less future cash outflows relating to such current and future leases. The Property determines fair value internally utilizing internal financial information, external data and capitalization rates provided by industry experts. External valuations are performed as of the reporting date by professional valuers who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.

Subsequent capital expenditures are charged to investment property only when it is probable that future economic benefits of the expenditure will flow to the Property and the cost can be measured reliably.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted cash and short-term investments which management has allocated to the operations of the Property. Short-term investments, comprising money market instruments, have an initial maturity of 90 days or less at their date of purchase and are stated at cost, which approximates fair value. As at December 31, 2011, there were no cash equivalents.

Revenue recognition

The Property has retained substantially all of the risks and benefits of ownership of its investment property and, therefore, accounts for its leases with tenants as operating leases.

126 W. ALPINE ROAD
NOTES TO CARVE-OUT FINANCIAL STATEMENTS (Continued)
June 30, 2013
(Expressed in US dollars unless otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from investment property includes all rental income earned from the property, including residential tenant rental income and all other miscellaneous income paid by the tenant under the terms of their existing lease. Revenue recognition under a lease commences when a tenant has a right to use the leased asset, and revenue is recognized pursuant to the terms of the lease agreement.

Income taxes

Provision has not been made for income taxes as the Property is not a legal entity.

Financial instruments

Financial instruments are classified as one of the following: (i) fair value through profit and loss ("FVTPL"), (ii) loans and receivables, (iii) held-to-maturity, (iv) available-for-sale or (v) other liabilities. Financial instruments are recognized initially at fair value. Financial assets and liabilities classified at FVTPL are subsequently measured at fair value with gains and losses recognized in profit and loss. Financial instruments classified as held-to-maturity, loans and receivables or other liabilities are subsequently measured at amortized cost. Available-for-sale financial instruments are subsequently measured at fair value and any unrealized gains and losses are recognized through other comprehensive income and presented in the fair value reserve in divisional equity. The Property derecognizes a financial asset when the contractual rights to the cash flows from the asset expire.

The Property's amounts receivable, deposits and cash have been designated as financial assets at fair value through profit and loss; mortgage payable and accounts payable and accrued liabilities have been designated as other liabilities. The Property has neither available-for-sale nor held-to-maturity instruments.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities, other than financial assets and liabilities measured at FVTPL, are accounted for as part of the carrying amount of the respective asset or liability at inception.

Transaction costs on financial assets and liabilities measured at FVTPL are expensed in the period incurred.

Transaction costs related to financial instruments measured at amortized cost are amortized using the effective interest rate over the anticipated life of the related instrument.

Financial assets are derecognized when the contractual rights to the cash flows from financial assets expire or have been transferred.

Critical judgments and estimates

The preparation of carve-out financial statements requires management to make critical judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the carve-out financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates and judgments have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties that management believes will materially affect the methodology or assumptions utilized in making those estimates and judgments in these carve-out financial statements. The estimates and judgments used in determining the recorded amount for assets and liabilities in the carve-out financial statements include the following:

(i) Investment property

The critical assumptions and estimates used when determining the fair value of investment property are capitalization rates and future cash flows. Further information on investment property estimates is provided in note 3.

(ii) Other

Critical judgments and estimates are also made in the determination of fair value of financial instruments and include assumptions and estimates regarding future interest rates; the relative creditworthiness of the Property to its counterparties; the credit risk of the Property's counterparties relative to the Property; and the estimated future cash flows.

126 W. ALPINE ROAD
NOTES TO CARVE-OUT FINANCIAL STATEMENTS (Continued)
June 30, 2013
(Expressed in US dollars unless otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future changes in accounting policies

The Property has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. In the current circumstances, it does not expect any of these to have a material impact on the carve-out financial statements.

3. INVESTMENT PROPERTY

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
	(Unaudited)	(Unaudited)		
	\$	\$	\$	\$
Balance, beginning of the period	5,397,264	3,013,800	3,013,800	3,169,349
Additions	28,054	18,004	37,854	131,725
Fair value adjustment	1,397,722	2,029,429	2,345,610	(287,274)
Balance, end of period	<u>6,823,040</u>	<u>5,061,233</u>	<u>5,397,264</u>	<u>3,013,800</u>

The key valuation assumptions for the Property are set out in the following table:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
	(Unaudited)	(Unaudited)		
Capitalization rate	5.80%	5.49%	5.75%	5.85%
Occupancy rate	95.00%	95.00%	95.00%	95.00%
Market rental rates — average per square foot	\$ 18.02	\$ 15.47	\$ 16.01	\$ 13.72

4. MORTGAGE PAYABLE

Mortgage payable	\$3,010,000
Less: current portion	<u>50,164</u>
	<u>\$2,959,836</u>

As at June 30, 2013 the mortgage payable balance of US \$3,010,000 (including the current portion) bears interest at a rate of 4.12% per annum, is secured by the Property, is amortized over 360 months and matures in June 2023.

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

2013	87,475
2014	174,951
2015	174,951
2016	174,951
2017	174,951
Thereafter	3,363,489

As at December 31, 2010, the Property had a first mortgage balance of \$1,732,249, at a variable interest rate based on the 6-month LIBOR. The mortgage was settled on October 31, 2012.

5. CAPITAL MANAGEMENT

The Property defines its capital as the aggregate of mortgages payable and divisional equity. The Property's primary objectives when managing capital are to meet its repayment obligations under its mortgage facility and to ensure there are sufficient funds available to finance operations and to meet capital commitment. Any financial covenants in respect to the mortgage (see note 4) are the responsibility of the Company.

126 W. ALPINE ROAD
NOTES TO CARVE-OUT FINANCIAL STATEMENTS (Continued)
June 30, 2013
(Expressed in US dollars unless otherwise noted)

6. RISK MANAGEMENT AND FAIR VALUE

(a) Risk management

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

(i) Interest rate risk:

The Property is subject to the risks associated with debt financing, including the risk that the interest rate on a floating debt may rise before long-term fixed rate debt is arranged and that the mortgage will not be able to be refinanced on terms similar to those of the existing indebtedness. The Property'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 the Property.

(ii) Credit risk:

Credit risk is the risk of financial loss to the Property associated with the failure of a tenant or other party to meet its contractual obligations related to lease agreements, including future lease payments.

At June 30, 2013, the Property's exposure to credit risk is comprised of its accounts receivable in the amount of \$3,790.

(iii) Liquidity risk:

Liquidity risk is the risk that the Property may encounter difficulty in meeting its financial obligations when they come due. Management's strategy in managing liquidity risk is to ensure, to the extent possible, that it always has sufficient financial assets to meet its financial liabilities when they come due, by forecasting cash flows from operations and anticipated investing and financing activities.

(iv) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, will affect the Property's financial instruments. The Property is a rental property located in the United States. The Property's operations are denominated in United States dollars, resulting in no direct foreign exchange risk.

(b) Fair values:

The fair values of the Property's financial assets, which include cash and amounts receivable, as well as financial liabilities, which include accounts payable and accrued liabilities, approximate their recorded fair values due to their short-term nature. The fair value of the mortgage payable is also fairly reflected by its book value as it has been financed at interest rates which are similar to current market interest rates.

812 S. Park Road

Carve-Out Financial Statements
(In US Dollars)
June 30, 2013

Independent Auditor's Report

To the Directors of
Delavaco Properties Inc.

Report on the Carve-out Financial Statements

We have audited the accompanying carve-out financial statements of 812 S. Park Road, which comprise the carve-out statements of financial position as at December 31, 2012, 2011 and 2010, and the carve-out statements of comprehensive income, changes in divisional equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these carve-out financial statements in accordance with subsection 3.11(6) of National Instrument 52-107 Acceptable Accounting Principles and Auditing Standards for carve-out financial statements, and for such internal control as management determines is necessary to enable the preparation of carve-out financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these carve-out financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the carve-out financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the carve-out financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the carve-out financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the carve-out financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the carve-out financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the carve-out financial statements present fairly, in all material respects, the financial position of 812 S. Park Road as at December 31, 2012, 2011 and 2010, and its financial performance and its cash flows for the years then ended in accordance with the financial reporting framework specified in subsection 3.11(6) of National Instrument 52-107 Acceptable Accounting Principles and Auditing Standards for carve-out financial statements.

(signed) MNP LLP
Toronto, Ontario
November 29, 2013

Chartered Professional Accountants
Licensed Public Accountants



ACCOUNTING > CONSULTING > TAX

701 EVANS AVENUE, 8TH FLOOR, TORONTO ON, M9C 1A3

P: 416.626.6000 F: 416.626.8650 **MNP.ca**

812 S. PARK ROAD
CARVE-OUT STATEMENTS OF FINANCIAL POSITION
As at June 30 and December 31

	June 30, 2013 (Unaudited) \$	December 31, 2012 \$	December 31, 2011 \$	December 31, 2010 \$
Assets				
Current assets				
Cash and cash equivalents	63,235	668,244	233,714	132,317
Accounts receivable	12,579	7,193	10,589	7,899
Prepaid expenses	715,063	187,121	179,655	292,185
Deposits	54,938	4,678	4,678	4,678
	<u>845,815</u>	<u>867,236</u>	<u>428,636</u>	<u>437,079</u>
Non-current assets				
Investment properties, at fair value	50,328,070	49,134,817	40,850,176	36,121,039
	<u>50,328,070</u>	<u>49,134,817</u>	<u>40,850,176</u>	<u>36,121,039</u>
Total assets	<u>51,173,885</u>	<u>50,002,053</u>	<u>41,278,812</u>	<u>36,558,118</u>
Liabilities				
Current liabilities				
Accounts payable	596,543	185,405	39,927	112,347
Current portion of mortgages payable	—	21,903,428	438,522	459,471
Other current liabilities	55,103	122,776	66,279	69,373
	<u>651,646</u>	<u>22,211,609</u>	<u>544,728</u>	<u>641,191</u>
Non-current liabilities				
Deferred revenues	17,373	36,138	41,668	47,198
Mortgage payable	31,794,000	—	21,903,428	22,341,950
Total liabilities	<u>32,463,019</u>	<u>22,247,747</u>	<u>22,489,824</u>	<u>23,030,339</u>
Divisional Equity	<u>18,710,866</u>	<u>27,754,306</u>	<u>18,788,988</u>	<u>13,527,779</u>
Total liabilities and divisional equity	<u>51,173,885</u>	<u>50,002,053</u>	<u>41,278,812</u>	<u>36,558,118</u>

The accompanying notes are an integral part of these financial statements.

812 S. PARK ROAD

CARVE-OUT STATEMENTS OF COMPREHENSIVE INCOME

**For the six month periods ended June 30, 2013 and June 30, 2012, and the years ended December 31, 2012,
December 31, 2011 and December 31, 2010**

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
	(Unaudited)	(Unaudited)			
	\$	\$	\$	\$	\$
Revenue					
Rental revenue	2,089,178	2,003,289	4,047,722	3,849,739	3,811,407
Miscellaneous revenue	216,815	145,303	299,370	245,945	239,306
Expenses					
Operating costs	519,631	437,748	995,696	902,207	876,553
Insurance	104,353	111,378	228,202	219,239	244,050
Utilities	59,844	47,132	119,794	104,383	103,219
Property taxes	354,585	340,159	642,765	668,259	620,276
Finance costs	712,913	557,793	1,115,233	1,136,931	1,160,458
Fair value loss (gain) on investment property	(1,120,936)	(7,258,418)	(7,719,916)	(4,196,544)	1,914,422
Net and comprehensive income (loss)	<u>1,675,603</u>	<u>7,912,800</u>	<u>8,965,318</u>	<u>5,261,209</u>	<u>(868,265)</u>

CARVE-OUT STATEMENTS OF CHANGES IN DIVISIONAL EQUITY

**For the six month periods ended June 30, 2013 and June 30, 2012, and the years ended
December 31, 2012, December 31, 2011 and December 31, 2010**

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
	(Unaudited)	(Unaudited)			
	\$	\$	\$	\$	\$
Divisional equity, beginning of period . . .	27,754,306	18,788,988	18,788,988	13,527,779	—
Net and comprehensive income (loss) . . .	1,675,603	7,912,800	8,965,318	5,261,209	(868,265)
Net contributions from (distributions to) owners	(10,719,043)	—	—	—	14,396,044
Divisional equity, end of period	<u>18,710,866</u>	<u>26,701,788</u>	<u>27,754,306</u>	<u>18,788,988</u>	<u>13,527,779</u>

The accompanying notes are an integral part of these financial statements.

812 S. PARK ROAD

CARVE-OUT STATEMENTS OF CASH FLOWS

For the six month periods ended June 30, 2013 and June 30, 2012, and the years ended
December 31, 2012, December 31, 2011 and December 31, 2010

	June 30, 2013 (Unaudited) \$	June 30, 2012 (Unaudited) \$	December 31, 2012 \$	December 31, 2011 \$	December 31, 2010 \$
Operating activities					
Net and comprehensive income (loss) for the period	1,675,603	7,912,800	8,965,318	5,261,209	(868,265)
Fair value loss (gain) on investment property	(1,120,936)	(7,258,418)	(7,719,916)	(4,196,544)	1,914,422
Changes in non-cash operating working capital:					
Accounts receivable	(5,386)	2,061	3,396	(2,690)	(7,899)
Prepaid expenses	(527,942)	(354,542)	(7,466)	112,530	(292,185)
Deposits	(50,260)	—	—	—	(4,678)
Accounts payable	411,138	376,001	145,478	(72,420)	112,347
Other current liabilities	(67,673)	229	56,497	(3,094)	69,373
Deferred revenues	(18,765)	(2,765)	(5,530)	(5,530)	47,198
	<u>295,779</u>	<u>675,366</u>	<u>1,437,777</u>	<u>1,093,461</u>	<u>970,313</u>
Investing activities					
Acquisition of investment properties . .	<u>(72,317)</u>	<u>(328,573)</u>	<u>(564,725)</u>	<u>(532,593)</u>	<u>(14,765,036)</u>
Financing activities					
Mortgages (repayments) issued	9,890,572	(240,250)	(438,522)	(459,471)	(469,004)
Contributions from owners	<u>(10,719,043)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>14,396,044</u>
	<u>(828,471)</u>	<u>(240,250)</u>	<u>(438,522)</u>	<u>(459,471)</u>	<u>13,927,040</u>
(Decrease) increase in cash and cash equivalents	(605,009)	106,543	434,530	101,397	132,317
Cash and cash equivalents, beginning of period	<u>668,244</u>	<u>233,714</u>	<u>233,714</u>	<u>132,317</u>	<u>—</u>
Cash and cash equivalents, end of period	<u><u>63,235</u></u>	<u><u>340,257</u></u>	<u><u>668,244</u></u>	<u><u>233,714</u></u>	<u><u>132,317</u></u>

The accompanying notes are an integral part of these financial statements.

812 S. PARK ROAD
NOTES TO CARVE-OUT FINANCIAL STATEMENTS
June 30, 2013
(Expressed in US dollars unless otherwise noted)

1. BUSINESS OF THE PROPERTY

812 S. Park Road (the “Property”) as presented in these carve-out financial statements is not a legal entity. The Property and its related assets and liabilities are currently owned by Park Colony, LLC (the “Company”), a corporation governed by the laws of Delaware, USA.

These carve-out financial statements have been prepared on a carve-out basis and present the financial position, financial performance and cash flows of the Property had the Property been accounted for on a stand-alone basis, and include the Property’s share of assets, liabilities, revenue and expenses.

The Property is located at 812 S. Park Road, Sunrise, Florida.

These carve-out financial statements were authorized for issuance by the Directors of the Property on November 29, 2013.

Because the property was held under a corporate group, these carve-out financial statements depict the divisional equity in net assets, representing the amount associated specifically with this property.

These carve-out financial statements are not necessarily indicative of the results that would have been attained if the Property had been operated as a separate legal entity during the period presented and, therefore, are not necessarily indicative of future operating results.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The carve-out financial statements are prepared in accordance with a financial reporting framework specified in subsection 3.11(6) of National Instrument 52-107, Acceptable Accounting Principles and Auditing Standards (“subsection 3.11(6)”), for carve-out financial statements. Subsection 3.11(6) requires the Property to select from a specified list of financial reporting frameworks.

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and using accounting policies described herein.

Investment property

The Property selected the fair value method to account for real estate classified as investment property. A property is determined to be an investment property when it is principally held to earn rental income or for capital appreciation, or both. Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are carried at fair value. Gains or losses arising from changes in fair value are recognized in profit and loss during the period in which they arise. Fair values are primarily determined by using the capitalized net operating income method which applies a capitalization rate to the future stabilized cash flows of the property. The capitalization rate applied is reflective of the characteristics, location and market of the property. The stabilized cash flows of the Property are based upon rental income from current leases and assumptions about occupancy rates and market rent from future leases reflecting current conditions, less future cash outflows relating to such current and future leases. The Property determines fair value internally utilizing internal financial information, external data and capitalization rates provided by industry experts. External valuations are performed as of the reporting date by professional valuers who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.

Subsequent capital expenditures are charged to investment property only when it is probable that future economic benefits of the expenditure will flow to the Property and the cost can be measured reliably.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted cash and short-term investments which management has allocated to the operations of the Property. Short-term investments, comprising money market instruments, have an initial maturity of 90 days or less at their date of purchase and are stated at cost, which approximates fair value. As at December 31, 2011, there were no cash equivalents.

Revenue recognition

The Property has retained substantially all of the risks and benefits of ownership of its investment property and, therefore, accounts for its leases with tenants as operating leases.

Revenue from investment property includes all rental income earned from the property, including residential tenant rental income and all other miscellaneous income paid by the tenant under the terms of their existing lease. Revenue recognition under a lease commences when a tenant has a right to use the leased asset, and revenue is recognized pursuant to the terms of the lease agreement.

812 S. PARK ROAD
NOTES TO CARVE-OUT FINANCIAL STATEMENTS (Continued)
June 30, 2013
(Expressed in US dollars unless otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes

Provision has not been made for income taxes as the Property is not a legal entity.

Financial instruments

Financial instruments are classified as one of the following: (i) fair value through profit and loss ("FVTPL"), (ii) loans and receivables, (iii) held-to-maturity, (iv) available-for-sale or (v) other liabilities. Financial instruments are recognized initially at fair value. Financial assets and liabilities classified at FVTPL are subsequently measured at fair value with gains and losses recognized in profit and loss. Financial instruments classified as held-to-maturity, loans and receivables or other liabilities are subsequently measured at amortized cost. Available-for-sale financial instruments are subsequently measured at fair value and any unrealized gains and losses are recognized through other comprehensive income and presented in the fair value reserve in divisional equity. The Property derecognizes a financial asset when the contractual rights to the cash flows from the asset expire.

The Property's amounts receivable, deposits and cash have been designated as financial assets at fair value through profit and loss; mortgage payable and accounts payable and accrued liabilities and have been designated as other liabilities. The Property has neither available-for-sale nor held-to-maturity instruments.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities, other than financial assets and liabilities measured at FVTPL, are accounted for as part of the carrying amount of the respective asset or liability at inception.

Transaction costs on financial assets and liabilities measured at FVTPL are expensed in the period incurred.

Transaction costs related to financial instruments measured at amortized cost are amortized using the effective interest rate over the anticipated life of the related instrument.

Financial assets are derecognized when the contractual rights to the cash flows from financial assets expire or have been transferred.

Critical judgments and estimates

The preparation of carve-out financial statements requires management to make critical judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the carve-out financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates and judgments have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties that management believes will materially affect the methodology or assumptions utilized in making those estimates and judgments in these carve-out financial statements. The estimates and judgments used in determining the recorded amount for assets and liabilities in the carve-out financial statements include the following:

(i) Investment property

The critical assumptions and estimates used when determining the fair value of investment property are capitalization rates and future cash flows. Further information on investment property estimates is provided in note 3.

(ii) Other

Critical judgments and estimates are also made in the determination of fair value of financial instruments and include assumptions and estimates regarding future interest rates; the relative creditworthiness of the Property to its counterparties; the credit risk of the Property's counterparties relative to the Property; and the estimated future cash flows.

Future changes in accounting policies

The Property has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. In the current circumstances, it does not expect any of these to have a material impact on the carve-out financial statements.

812 S. PARK ROAD
NOTES TO CARVE-OUT FINANCIAL STATEMENTS (Continued)
June 30, 2013
(Expressed in US dollars unless otherwise noted)

3. INVESTMENT PROPERTY

	<u>June 30, 2013</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
	(Unaudited)	(Unaudited)		
	\$	\$	\$	\$
Balance, beginning of period	49,134,817	40,850,176	36,121,039	—
Additions	72,317	564,725	532,593	38,035,461
Fair value adjustment	1,120,936	7,719,916	4,196,544	(1,914,422)
Balance, end of period	<u>50,328,070</u>	<u>49,134,817</u>	<u>40,850,176</u>	<u>36,121,039</u>

The key valuation assumptions for the Property are set out in the following table:

	<u>June 30, 2013</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
	(Unaudited)	(Unaudited)		
Capitalization rate	5.31%	5.31%	5.74%	6.00%
Occupancy rate	95.00%	95.00%	95.00%	95.00%
Market rental rates — average per square foot	\$ 15.30	\$ 16.56	\$ 15.43	\$ 14.62

4. MORTGAGE PAYABLE

Mortgage payable	\$31,794,000
Less: current portion	—
	<u>\$31,794,000</u>

As at June 30, 2013 the mortgage payable balance of US \$31,794,000 (including the current portion) bears interest at a rate of 4.16% per annum, is secured by the Property, is amortized over 360 months and matures on March 1, 2023.

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

2013	\$ 672,337
2014	1,341,000
2015	1,723,288
2016	1,856,841
2017	1,856,841
Thereafter	36,654,968

As at January 1, 2010, the Property had a first mortgage balance of \$21,420,677, at an interest rate of 4.76% per year. The mortgage was settled on February 12, 2013.

As at January 1, 2010, the Property had a second mortgage balance of \$1,945,508, at an interest rate of 5.26% per year. The mortgage was settled on February 12, 2013.

5. CAPITAL MANAGEMENT

The Property defines its capital as the aggregate of mortgages payable and divisional equity. The Property's primary objectives when managing capital are to meet its repayment obligations under its mortgage facility and to ensure there are sufficient funds available to finance operations and to meet capital commitment. Any financial covenants in respect to the mortgage (see note 4) are the responsibility of the Company.

812 S. PARK ROAD
NOTES TO CARVE-OUT FINANCIAL STATEMENTS (Continued)
June 30, 2013
(Expressed in US dollars unless otherwise noted)

6. RISK MANAGEMENT AND FAIR VALUE

(a) Risk management

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

(i) Interest rate risk:

The Property is subject to the risks associated with debt financing, including the risk that the interest rate on a floating debt may rise before long-term fixed rate debt is arranged and that the mortgage will not be able to be refinanced on terms similar to those of the existing indebtedness. The Property'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 the Property.

(ii) Credit risk:

Credit risk is the risk of financial loss to the Property associated with the failure of a tenant or other party to meet its contractual obligations related to lease agreements, including future lease payments.

At June 30, 2013, the Property's exposure to credit risk is comprised of its accounts receivable in the amount of \$12,579.

(iii) Liquidity risk:

Liquidity risk is the risk that the Property may encounter difficulty in meeting its financial obligations when they come due. Management's strategy in managing liquidity risk is to ensure, to the extent possible, that it always has sufficient financial assets to meet its financial liabilities when they come due, by forecasting cash flows from operations and anticipated investing and financing activities.

(iv) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, will affect the Property's financial instruments. The Property is a rental property located in the United States. The Property's operations are denominated in United States dollars, resulting in no direct foreign exchange risk.

(b) Fair values:

The fair values of the Property's financial assets, which include cash and amounts receivable, as well as financial liabilities, which include accounts payable and accrued liabilities, approximate their recorded fair values due to their short-term nature. The fair value of the mortgage payable is also fairly reflected by its book value as it has been financed at interest rates which are similar to current market interest rates.

1005 W. Stassney Lane

Carve-Out Financial Statements
(In US Dollars)
June 30, 2013

To the Directors of
Delavaco Properties Inc.

Report on the Carve-out Financial Statements

We have audited the accompanying carve-out financial statements of 1005 W. Stassney Lane, which comprise the carve-out statements of financial position as at December 31, 2012, 2011 and 2010, and the carve-out statements of comprehensive income, changes in divisional equity, and cash flows for the years ended December 31, 2012 and 2011 and for the period from May 1, 2010 to December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these carve-out financial statements in accordance with subsection 3.11(6) of National Instrument 52-107 Acceptable Accounting Principles and Auditing Standards for carve-out financial statements, and for such internal control as management determines is necessary to enable the preparation of carve-out financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these carve-out financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the carve-out financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the carve-out financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the carve-out financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the carve-out financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the carve-out financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the carve-out financial statements present fairly, in all material respects, the financial position of 1005 W. Stassney Lane as at December 31, 2012, 2011 and 2010, and its financial performance and its cash flows for the years ended December 31, 2012 and 2011 and for the period from May 1, 2010 to December 31, 2010 in accordance with the financial reporting framework specified in subsection 3.11(6) of National Instrument 52-107 Acceptable Accounting Principles and Auditing Standards for carve-out financial statements.

(signed) MNP LLP
Toronto, Ontario
November 29, 2013

**Chartered Professional Accountants
Licensed Public Accountants**



ACCOUNTING > CONSULTING > TAX

701 EVANS AVENUE, 8TH FLOOR, TORONTO ON, M9C 1A3

P: 416.626.6000 F: 416.626.8650 **MNP.ca**

1005 W. STASSNEY LANE
CARVE-OUT STATEMENTS OF FINANCIAL POSITION
As at June 30 and December 31

	<u>June 30, 2013</u> (Unaudited) \$	<u>December 31, 2012</u> \$	<u>December 31, 2011</u> \$	<u>December 31, 2010</u> \$
Assets				
Current assets				
Cash and cash equivalents	31,947	—	—	13,606
Accounts receivable	4,101	18,166	1,409	13,463
Prepaid expenses	94,212	1,272	972	59,416
Deposits	—	8,770	—	—
	<u>130,260</u>	<u>28,208</u>	<u>2,381</u>	<u>86,485</u>
Non-current assets				
Investment properties	7,654,912	6,154,017	3,959,849	2,713,764
	<u>7,654,912</u>	<u>6,154,017</u>	<u>3,959,849</u>	<u>2,713,764</u>
Total assets	<u>7,785,172</u>	<u>6,182,225</u>	<u>3,962,230</u>	<u>2,800,249</u>
Liabilities				
Current liabilities				
Accounts payable	55,481	4,403	6,574	34,292
Current portion of mortgages payable	—	1,882,026	47,009	350,965
Other current liabilities	20,669	347,519	22,731	25,221
	<u>76,150</u>	<u>2,233,948</u>	<u>76,314</u>	<u>410,478</u>
Non-current liabilities				
Mortgage payable	4,340,000	—	1,882,026	1,929,035
Total liabilities	<u>4,416,150</u>	<u>2,233,948</u>	<u>1,958,340</u>	<u>2,339,513</u>
Divisional Equity	<u>3,369,022</u>	<u>3,948,277</u>	<u>2,003,890</u>	<u>460,736</u>
Total liabilities and divisional equity	<u>7,785,172</u>	<u>6,182,225</u>	<u>3,962,230</u>	<u>2,800,249</u>

The accompanying notes are an integral part of these financial statements.

1005 W. STASSNEY LANE

CARVE-OUT STATEMENTS OF COMPREHENSIVE INCOME

**For the six month periods ended June 30, 2013 and June 30, 2012, and the years ended
December 31, 2012, December 31, 2011 and period between May 1 to December 31, 2010**

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
	(Unaudited)	(Unaudited)			
	\$	\$	\$	\$	\$
Revenue					
Rental revenue	398,975	246,686	597,087	529,289	329,573
Miscellaneous revenue	31,516	18,384	57,812	49,635	27,001
Expenses					
Operating costs	134,165	110,827	280,571	232,770	135,213
Insurance	11,433	6,757	11,319	10,936	11,486
Utilities	29,191	21,725	60,369	69,815	48,613
Property taxes	32,007	29,000	57,460	52,667	28,966
Finance costs	69,416	51,012	121,305	212,988	121,602
Fair value loss (gain) on investment property	(1,409,412)	(1,583,070)	(1,614,330)	(1,190,612)	176,928
Net and comprehensive income (loss)	<u>1,563,691</u>	<u>1,628,819</u>	<u>1,738,205</u>	<u>1,190,360</u>	<u>(166,234)</u>

CARVE-OUT STATEMENTS OF CHANGES IN DIVISIONAL EQUITY

**For the six month periods ended June 30, 2013 and June 30, 2012, and the years ended
December 31, 2012, December 31, 2011 and period between May 1 to December 31, 2010**

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
	(Unaudited)	(Unaudited)			
	\$	\$	\$	\$	\$
Divisional equity, beginning of period	3,948,277	2,003,890	2,003,890	460,736	—
Net and comprehensive income (loss)	1,563,691	1,628,819	1,738,205	1,190,360	(166,234)
Net contributions from (distributions to) owners	(2,142,946)	168,593	206,182	352,794	626,970
Divisional equity, end of period	<u>3,369,022</u>	<u>3,801,302</u>	<u>3,948,277</u>	<u>2,003,890</u>	<u>460,736</u>

The accompanying notes are an integral part of these financial statements.

1005 W. STASSNEY LANE

CARVE-OUT STATEMENTS OF CASH FLOWS

**For the six month periods ended June 30, 2013 and June 30, 2012, and the years ended
December 31, 2012, December 31, 2011 and period between May 1 to December 31, 2010**

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
	(Unaudited) \$	(Unaudited) \$	\$	\$	\$
Operating activities					
Net and comprehensive income (loss)					
for the period	1,563,691	1,628,819	1,738,205	1,190,360	(166,234)
Fair value loss (gain) on investment property					
Changes in non-cash operating working capital:	(1,409,412)	(1,583,070)	(1,614,330)	(1,190,612)	176,928
Accounts receivable	14,065	(23,141)	(16,757)	12,054	(13,463)
Prepaid expenses	(92,940)	(342)	(300)	58,444	(59,416)
Deposits	8,770	(8,770)	(8,770)	—	—
Accounts payable	51,078	159,914	(2,171)	(27,718)	34,292
Other current liabilities	(326,850)	98,661	324,788	(2,490)	25,221
	<u>(191,598)</u>	<u>272,071</u>	<u>420,665</u>	<u>40,038</u>	<u>(2,672)</u>
Investing activities					
Acquisition of investment properties . . .	(91,483)	(414,348)	(579,838)	(55,473)	(610,692)
Financing activities					
Mortgage issued (repayments)	2,457,974	(26,316)	(47,009)	(350,965)	—
Contributions from (distributions to) owners	(2,142,946)	168,593	206,182	352,794	626,970
	<u>315,028</u>	<u>142,277</u>	<u>159,173</u>	<u>1,829</u>	<u>626,970</u>
Increase in cash and cash equivalents	31,947	—	—	(13,606)	13,606
Cash and cash equivalents, beginning of period	<u>—</u>	<u>—</u>	<u>—</u>	<u>13,606</u>	<u>—</u>
Cash and cash equivalents, end of period .	<u><u>31,947</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>13,606</u></u>

The accompanying notes are an integral part of these financial statements.

1005 W. STASSNEY LANE
NOTES TO CARVE-OUT FINANCIAL STATEMENTS
June 30, 2013
(Expressed in US dollars unless otherwise noted)

1. BUSINESS OF THE PROPERTY

1005 W. Stassney Lane (the “Property”) as presented in these carve-out financial statements is not a legal entity. The Property and its related assets and liabilities are currently owned by Las Olas Bay Properties Enclave, LP, a limited partnership governed by the laws of Delaware, USA.

These carve-out financial statements have been prepared on a carve-out basis and present the financial position, financial performance and cash flows of the Property had the Property been accounted for on a stand-alone basis, and include the Property’s share of assets, liabilities, revenue and expenses.

The Property is located at 1005 W. Stassney Lane, Austin, Texas.

These carve-out financial statements were authorized for issuance by the Directors of the Property on November 29, 2013.

Because the property was held under a limited partnership, these carve-out financial statements depict the divisional equity in net assets, representing the amount associated specifically with this property. These financial statements are not necessarily indicative of the results that would have been attained if the Property had been operated as a separate legal entity during the period presented and, therefore, are not necessarily indicative of future operating results.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The carve-out financial statements are prepared in accordance with a financial reporting framework specified in subsection 3.11(6) of National Instrument 52-107, Acceptable Accounting Principles and Auditing Standards (“subsection 3.11(6)”), for carve-out financial statements. Subsection 3.11(6) requires the Property to select from a specified list of financial reporting frameworks.

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and using accounting policies described herein.

Investment property

The Property selected the fair value method to account for real estate classified as investment property. A property is determined to be an investment property when it is principally held to earn rental income or for capital appreciation, or both. Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are carried at fair value. Gains or losses arising from changes in fair value are recognized in profit and loss during the period in which they arise. Fair values are primarily determined by using the capitalized net operating income method which applies a capitalization rate to the future stabilized cash flows of the property. The capitalization rate applied is reflective of the characteristics, location and market of the property. The stabilized cash flows of the Property are based upon rental income from current leases and assumptions about occupancy rates and market rent from future leases reflecting current conditions, less future cash outflows relating to such current and future leases. The Property determines fair value internally utilizing internal financial information, external data and capitalization rates provided by industry experts. External valuations are performed as of the reporting date by professional valuers who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.

Subsequent capital expenditures are charged to investment property only when it is probable that future economic benefits of the expenditure will flow to the Property and the cost can be measured reliably.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted cash and short-term investments which management has allocated to the operations of the Property. Short-term investments, comprising money market instruments, have an initial maturity of 90 days or less at their date of purchase and are stated at cost, which approximates fair value. As at December 31, 2011, there were no cash equivalents.

Revenue recognition

The Property has retained substantially all of the risks and benefits of ownership of its investment property and, therefore, accounts for its leases with tenants as operating leases.

Revenue from investment property includes all rental income earned from the property, including residential tenant rental income and all other miscellaneous income paid by the tenant under the terms of their existing lease. Revenue recognition under a lease commences when a tenant has a right to use the leased asset, and revenue is recognized pursuant to the terms of the lease agreement.

1005 W. STASSNEY LANE
NOTES TO CARVE-OUT FINANCIAL STATEMENTS (Continued)
June 30, 2013
(Expressed in US dollars unless otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes

Provision has not been made for income taxes as the Property is not a legal entity.

Financial instruments

Financial instruments are classified as one of the following: (i) fair value through profit and loss ("FVTPL"), (ii) loans and receivables, (iii) held-to-maturity, (iv) available-for-sale or (v) other liabilities. Financial instruments are recognized initially at fair value. Financial assets and liabilities classified at FVTPL are subsequently measured at fair value with gains and losses recognized in profit and loss. Financial instruments classified as held-to-maturity, loans and receivables or other liabilities are subsequently measured at amortized cost. Available-for-sale financial instruments are subsequently measured at fair value and any unrealized gains and losses are recognized through other comprehensive income and presented in the fair value reserve in divisional equity. The Property derecognizes a financial asset when the contractual rights to the cash flows from the asset expire.

The Property's amounts receivable, deposits and cash have been designated as financial assets at fair value through profit and loss; mortgage payable and accounts payable and accrued liabilities and have been designated as other liabilities. The Property has neither available-for-sale nor held-to-maturity instruments.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities, other than financial assets and liabilities measured at FVTPL, are accounted for as part of the carrying amount of the respective asset or liability at inception.

Transaction costs on financial assets and liabilities measured at FVTPL are expensed in the period incurred.

Transaction costs related to financial instruments measured at amortized cost are amortized using the effective interest rate over the anticipated life of the related instrument.

Financial assets are derecognized when the contractual rights to the cash flows from financial assets expire or have been transferred.

Critical judgments and estimates

The preparation of carve-out financial statements requires management to make critical judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the carve-out financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates and judgments have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties that management believes will materially affect the methodology or assumptions utilized in making those estimates and judgments in these carve-out financial statements. The estimates and judgments used in determining the recorded amount for assets and liabilities in the carve-out financial statements include the following:

(i) Investment property

The critical assumptions and estimates used when determining the fair value of investment property are capitalization rates and future cash flows. Further information on investment property estimates is provided in note 3.

(ii) Other

Critical judgments and estimates are also made in the determination of fair value of financial instruments and include assumptions and estimates regarding future interest rates; the relative creditworthiness of the Property to its counterparties; the credit risk of the Property's counterparties relative to the Property; and the estimated future cash flows.

Future changes in accounting policies

The Property has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. In the current circumstances, it does not expect any of these to have a material impact on the carve-out financial statements.

1005 W. STASSNEY LANE
NOTES TO CARVE-OUT FINANCIAL STATEMENTS (Continued)
June 30, 2013
(Expressed in US dollars unless otherwise noted)

3. INVESTMENT PROPERTY

	<u>June 30, 2013</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
	(Unaudited)			
	\$	\$	\$	\$
Balance, beginning of period	6,154,017	3,959,849	2,713,764	—
Additions	91,483	579,838	55,473	2,890,692
Fair value adjustment	1,409,412	1,614,330	1,190,612	(176,928)
Balance, end of period	<u>7,654,912</u>	<u>6,154,017</u>	<u>3,959,849</u>	<u>2,713,764</u>

The key valuation assumptions for the Property are set out in the following table:

	<u>June 30, 2013</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
	(Unaudited)			
Capitalization rate	5.71%	5.41%	5.85%	6.50%
Occupancy rate	95.00%	95.00%	95.00%	95.00%
Market rental rates — average per square foot	\$ 13.34	\$ 13.68	\$ 11.72	\$ 12.13

4. MORTGAGE PAYABLE

Mortgage payable	\$4,340,000
Less: current portion	—
	<u>\$4,340,000</u>

As at June 30, 2013 the mortgage payable balance of US \$4,340,000 (including the current portion) bears interest at a rate of 4.22% per annum, is secured by the Property, is amortized over 360 months and matures on June 1, 2023.

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

2013	\$ 93,100
2014	220,236
2015	255,288
2016	255,288
2017	255,288
Thereafter	4,982,952

As at May 1, 2010, the Property had a mortgage balance of \$ 2,280,000, at an interest rate of 8.0% per year. The mortgage was settled on December 13, 2011.

On December 14, 2011, the Property obtained a mortgage of \$1,929,035, at an interest rate of 5.85% per year. The mortgage was settled on May 14, 2013.

5. CAPITAL MANAGEMENT

The Property defines its capital as the aggregate of mortgages payable and divisional equity. The Property's primary objectives when managing capital are to meet its repayment obligations under its mortgage facility and to ensure there are sufficient funds available to finance operations and to meet capital commitment. Any financial covenants in respect to the mortgage (see note 4) are the responsibility of the Company.

1005 W. STASSNEY LANE
NOTES TO CARVE-OUT FINANCIAL STATEMENTS (Continued)
June 30, 2013
(Expressed in US dollars unless otherwise noted)

6. RISK MANAGEMENT AND FAIR VALUE

(a) Risk management

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

(i) Interest rate risk:

The Property is subject to the risks associated with debt financing, including the risk that the interest rate on a floating debt may rise before long-term fixed rate debt is arranged and that the mortgage will not be able to be refinanced on terms similar to those of the existing indebtedness. The Property'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 the Property.

(ii) Credit risk:

Credit risk is the risk of financial loss to the Property associated with the failure of a tenant or other party to meet its contractual obligations related to lease agreements, including future lease payments.

At June 30, 2013, the Property's exposure to credit risk is comprised of its accounts receivable in the amount of \$4,101.

(iii) Liquidity risk:

Liquidity risk is the risk that the Property may encounter difficulty in meeting its financial obligations when they come due. Management's strategy in managing liquidity risk is to ensure, to the extent possible, that it always has sufficient financial assets to meet its financial liabilities when they come due, by forecasting cash flows from operations and anticipated investing and financing activities.

(iv) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, will affect the Property's financial instruments. The Property is a rental property located in the United States. The Property's operations are denominated in United States dollars, resulting in no direct foreign exchange risk.

(b) Fair values:

The fair values of the Property's financial assets, which include cash and amounts receivable, as well as financial liabilities, which include accounts payable and accrued liabilities, approximate their recorded fair values due to their short-term nature. The fair value of the mortgage payable is also fairly reflected by its book value as it has been financed at interest rates which are similar to current market interest rates.

126 W. Alpine Road, 3200 NW 84th Avenue, and 1005 W. Stassney Lane

Unaudited Combined Carve-Out Statements of Financial Position
(In US Dollars)
June 30, 2013

126 W. ALPINE ROAD, 3200 NW 84TH AVENUE, AND 1005 W. STASSNEY LANE
UNAUDITED CARVE-OUT COMBINED STATEMENTS OF FINANCIAL POSITION
As at June 30, 2013 and December 31, 2012

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	129,432	751,328
Accounts receivable, net	14,003	3,236
Other assets	300,148	111,743
Prepaid expenses	<u>147,776</u>	<u>332,647</u>
Total current assets	591,359	1,198,954
Non-current assets		
Investment properties, net	<u>31,278,284</u>	<u>19,527,874</u>
Total assets	<u><u>31,869,643</u></u>	<u><u>20,726,828</u></u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	286,552	325,759
Current portion of mortgages payable	50,164	—
Other current liabilities	<u>124,382</u>	<u>101,330</u>
	461,098	427,089
Non-current liabilities		
Mortgages payable	<u>15,199,836</u>	<u>7,900,000</u>
Total liabilities	<u>15,660,934</u>	<u>8,327,089</u>
Divisional Equity	<u>16,208,709</u>	<u>12,399,739</u>
Total liabilities and divisional equity	<u><u>31,869,643</u></u>	<u><u>20,726,828</u></u>

The accompanying notes are an integral part of these statements of financial position.

126 W. ALPINE ROAD, 3200 NW 84TH AVENUE, AND 1005 W. STASSNEY LANE
NOTES TO UNAUDITED CARVE-OUT COMBINED STATEMENTS
OF FINANCIAL POSITION
(Expressed in US dollars unless otherwise noted)

1. BUSINESS OF THE PROPERTIES

126 W. Alpine Road, 3200 NW 84th Avenue, and 1005 W. Stassney Lane (the “Properties”) as presented in these carve-out combined statements of financial position is not a legal entity. The Properties and their related assets and liabilities are currently controlled by the same individual, Andrew DeFrancesco (“AD”).

The Properties are located at and were acquired by AD on:

- 126 W. Alpine Road, Austin, Texas (“SCC”), acquired on October 31, 2012;
- 3200 NW 84th Avenue, Sunrise, Florida (“Summerfield”), acquired on September 28, 2012; and
- 1005 W. Stassney Lane, Austin, Texas (“Enclave”) acquired on May 15, 2013.

These carve-out statements of financial position were authorized for issuance by AD of the Properties on November 29, 2013.

Because the properties were each held by a limited partnership or limited liability corporation, these combined carve-out statements of financial positions depict the divisional equity in net assets, representing the amount associated specifically with the Properties on a combined basis.

These statements of financial position are not necessarily indicative of the results that would have been attained if the Properties had been operated as a separate legal entity during the period presented and, therefore, are not necessarily indicative of future operating results.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The unaudited carve-out statements of financial position are prepared in accordance with a financial reporting framework specified in subsection 3.11(6) of National Instrument 52-107, Acceptable Accounting Principles and Auditing Standards (“subsection 3.11(6)”), for carve-out statements of financial position. Subsection 3.11(6) requires the Properties to select from a specified list of financial reporting frameworks.

These statements of financial position have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and using accounting policies described herein.

As these are combined statements of financial position, the properties have been presented based on the period each of the Properties was acquired, and presented for the entire carve-out periods as follows:

June 30, 2013, which is a combination of:

- SCC, which should be read in conjunction with the carve-out financial statements of 126 W. Alpine Road as at June 30, 2013;
- Summerfield, which should be read in conjunction with the carve-out financial statements of 3200 NW 84th Avenue as at June 30, 2013;
- Enclave, which should be read in conjunction with the carve-out financial statements of 1005 W. Stassney Lane as at June 30, 2013.

December 31, 2012, which is a combination of:

- SCC, which should be read in conjunction with the carve-out financial statements of 126 W. Alpine Road as at December 31, 2012; and
- Summerfield, which should be read in conjunction with the carve-out financial statements of 3200 NW 84th Avenue as at December 31, 2012.

Investment properties

The Properties selected the fair value method to account for real estate classified as investment properties. A property is determined to be an investment property when it is principally held to earn rental income or for capital appreciation, or both. Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are carried at fair value. Gains or losses arising from changes in fair value are recognized in profit and loss during the period in which they arise. Fair values are primarily determined by using the capitalized net operating income method which applies a capitalization rate to the future

126 W. ALPINE ROAD, 3200 NW 84TH AVENUE, AND 1005 W. STASSNEY LANE

**NOTES TO UNAUDITED CARVE-OUT COMBINED STATEMENTS
OF FINANCIAL POSITION (Continued)
(Expressed in US dollars unless otherwise noted)**

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

stabilized cash flows of the property. The capitalization rate applied is reflective of the characteristics, location and market of the property. The stabilized cash flows of the Properties are based upon rental income from current leases and assumptions about occupancy rates and market rent from future leases reflecting current conditions, less future cash outflows relating to such current and future leases. The Properties determines fair value internally utilizing internal financial information, external data and capitalization rates provided by industry experts. External valuations are performed as of the reporting date by professional valuers who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.

Subsequent capital expenditures are charged to investment properties only when it is probable that future economic benefits of the expenditure will flow to the Properties and the cost can be measured reliably.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted cash and short-term investments which management has allocated to the operations of the Properties. Short-term investments, comprising money market instruments, have an initial maturity of 90 days or less at their date of purchase and are stated at cost, which approximates fair value.

Income taxes

Provision has not been made for income taxes as the Properties are not a legal entity.

Financial instruments

Financial instruments are classified as one of the following: (i) fair value through profit and loss ("FVTPL"), (ii) loans and receivables, (iii) held-to-maturity, (iv) available-for-sale or (v) other liabilities. Financial instruments are recognized initially at fair value. Financial assets and liabilities classified at FVTPL are subsequently measured at fair value with gains and losses recognized in profit and loss. Financial instruments classified as held-to-maturity, loans and receivables or other liabilities are subsequently measured at amortized cost. Available-for-sale financial instruments are subsequently measured at fair value and any unrealized gains and losses are recognized through other comprehensive income and presented in the fair value reserve in divisional equity. The Properties derecognize a financial asset when the contractual rights to the cash flows from the asset expire.

The Properties' amounts receivable, deposits and cash have been designated as financial assets at fair value through profit and loss; mortgage payable and accounts payable and accrued liabilities have been designated as other liabilities. The properties have neither available-for-sale nor held-to-maturity instruments.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities, other than financial assets and liabilities measured at FVTPL, are accounted for as part of the carrying amount of the respective asset or liability at inception.

Transaction costs on financial assets and liabilities measured at FVTPL are expensed in the period incurred.

Transaction costs related to financial instruments measured at amortized cost are amortized using the effective interest rate over the anticipated life of the related instrument.

Financial assets are derecognized when the contractual rights to the cash flows from financial assets expire or have been transferred.

Critical judgments and estimates

The preparation of carve-out statements of financial position requires management to make critical judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the carve-out statements of financial position and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates and judgments have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties that management believes will materially affect the methodology or assumptions utilized in making those estimates and judgments in these carve-out statements of financial position. The

126 W. ALPINE ROAD, 3200 NW 84TH AVENUE, AND 1005 W. STASSNEY LANE
NOTES TO UNAUDITED CARVE-OUT COMBINED STATEMENTS
OF FINANCIAL POSITION (Continued)
(Expressed in US dollars unless otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

estimates and judgments used in determining the recorded amount for assets and liabilities in the carve-out statements of financial position include the following:

(i) Investment properties

The critical assumptions and estimates used when determining the fair value of investment properties are capitalization rates and future cash flows. Further information on investment properties estimates is provided in note 3.

(ii) Other

Critical judgments and estimates are also made in the determination of fair value of financial instruments and include assumptions and estimates regarding future interest rates; the relative creditworthiness of the Properties to its counterparties; the credit risk of the Properties counterparties relative to the Properties; and the estimated future cash flows.

Future changes in accounting policies

The Properties have reviewed new and revised accounting pronouncements that have been issued but are not yet effective. In the current circumstances, it does not expect any of these to have a material impact on the carve-out combined statements of financial position.

3. INVESTMENT PROPERTIES

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
	\$	\$
Balance, beginning of the period	19,527,874	16,183,784
Additions (disposals)	6,358,995	144,203
Fair value adjustment	5,391,415	3,199,887
Balance, ending of period	31,278,284	19,527,874

The key valuation assumptions for the Properties are set out in the following table:

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
	\$	\$
Capitalization rate	5.71% to 5.95%	5.50% to 5.75%
Occupancy rate	95.00%	95.00%
Market rental rates — average per square foot	\$11.54 to \$18.02	\$11.62 to \$16.01

4. MORTGAGES PAYABLE

Mortgages payable	\$15,250,000
Less: current portion	50,164
	<u>\$15,199,836</u>

As at June 30, 2013 the mortgages payable balance of \$15,250,000 (including the current portion) bears interest at rates ranging from 3.80% to 4.22% per annum, are secured by the Properties, are amortized over 360 months and hold maturity dates between October, 2022 and June, 2023.

126 W. ALPINE ROAD, 3200 NW 84TH AVENUE, AND 1005 W. STASSNEY LANE
NOTES TO UNAUDITED CARVE-OUT COMBINED STATEMENTS
OF FINANCIAL POSITION (Continued)
(Expressed in US dollars unless otherwise noted)

4. MORTGAGES PAYABLE (Continued)

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

Future payments	
2013	333,177
2014	699,556
2015	734,608
2016	735,442
2017	768,323
Thereafter	17,626,259

As at December 31, 2011, SCC had a first mortgage balance of \$1,732,249, at a variable interest rate based on the 6-month LIBOR. The mortgage was settled on October 31, 2012.

On December 14, 2011, Enclave obtained a mortgage of \$1,929,035, at an interest rate of 5.85% per year. The mortgage was settled on May 14, 2013.

On December 14, 2010, Summerfield obtained a mortgage of \$6,000,000, at an interest rate calculated as the maximum of 4% and daily LIBOR plus 2.5%, per year. The mortgage was settled on September 28, 2012.

5. CAPITAL MANAGEMENT

The Properties defines their capital as the aggregate of mortgages payable and divisional equity. The Properties' primary objectives when managing capital are to meet their repayment obligations under its mortgage facility and to ensure there are sufficient funds available to finance operations and to meet capital commitment. Any financial covenants in respect to the mortgage (see note 4) are the responsibility of the Company.

6. RISK MANAGEMENT AND FAIR VALUE

(a) Risk management

In the normal course of business, the Properties are exposed to a number of risks that can affect its operating performance. These risks and the actions taken to manage them are as follows:

(i) Interest rate risk:

The Properties are subject to the risks associated with debt financing, including the risk that the interest rate on a floating debt may rise before long-term fixed rate debt is arranged and that the mortgage will not be able to be refinanced on terms similar to those of the existing indebtedness. The Properties' 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 the Properties.

(ii) Credit risk:

Credit risk is the risk of financial loss to the Properties associated with the failure of a tenant or other party to meet its contractual obligations related to lease agreements, including future lease payments.

At June 30, 2013, the Properties' exposure to credit risk is comprised of its accounts receivable in the amount of \$14,003.

(iii) Liquidity risk:

Liquidity risk is the risk that the Properties may encounter difficulty in meeting their financial obligations when they come due. Management's strategy in managing liquidity risk is to ensure, to the extent possible, that it always has sufficient financial assets to meet its financial liabilities when they come due, by forecasting cash flows from operations and anticipated investing and financing activities.

126 W. ALPINE ROAD, 3200 NW 84TH AVENUE, AND 1005 W. STASSNEY LANE
NOTES TO UNAUDITED CARVE-OUT COMBINED STATEMENTS
OF FINANCIAL POSITION (Continued)
(Expressed in US dollars unless otherwise noted)

6. RISK MANAGEMENT AND FAIR VALUE (Continued)

(iv) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, will affect the Properties' financial instruments. The Properties are rental properties located in the United States. The Properties' operations are denominated in United States dollars, resulting in no direct foreign exchange risk.

(b) Fair values:

The fair values of the Properties' financial assets, which include cash and amounts receivable, as well as financial liabilities, which include accounts payable and accrued liabilities, approximate their recorded fair values due to their short-term nature. The fair value of the mortgage payable is also fairly reflected by its book value as it has been financed at interest rates which are similar to current market interest rates.

**126 W. Alpine Road, 3200 NW 84th Avenue, 812 S. Park Road, and
1005 W. Stassney Lane**

Unaudited Combined Carve-Out Statements of Financial Position
(In US Dollars)
June 30, 2013

126 W. ALPINE ROAD, 3200 NW 84TH AVENUE, 812 S. PARK ROAD, AND 1005 W. STASSNEY LANE
UNAUDITED CARVE-OUT COMBINED STATEMENTS OF FINANCIAL POSITION
As at June 30, 2013 and December 31, 2012

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	192,667	751,328
Accounts receivable, net	26,582	3,236
Other assets	355,086	111,743
Prepaid expenses	862,839	332,647
Total current assets	<u>1,437,174</u>	<u>1,198,954</u>
Non-current assets		
Investment properties, net	81,606,354	19,527,874
Total assets	<u><u>83,043,528</u></u>	<u><u>20,726,828</u></u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	883,095	325,759
Current portion of mortgages payable	50,164	—
Other current liabilities	179,485	101,330
	<u>1,112,744</u>	<u>427,089</u>
Non-current liabilities		
Mortgages payable	46,993,836	7,900,000
Deferred revenue	17,373	—
Total liabilities	<u>48,123,953</u>	<u>8,327,089</u>
Divisional Equity	34,919,575	12,399,739
Total liabilities and divisional equity	<u><u>83,043,528</u></u>	<u><u>20,726,828</u></u>

The accompanying notes are an integral part of these statements of financial position.

126 W. ALPINE ROAD, 3200 NW 84TH AVENUE, 812 S. PARK ROAD, AND 1005 W. STASSNEY LANE
NOTES TO UNAUDITED CARVE-OUT COMBINED STATEMENTS OF FINANCIAL POSITION
(Expressed in US dollars unless otherwise noted)

1. BUSINESS OF THE PROPERTIES

126 W. Alpine Road, 3200 NW 84th Avenue, 812 S. Park Road, and 1005 W. Stassney Lane (the “Properties”) as presented in these carve-out combined statements of financial position is not a legal entity. The Properties and their related assets and liabilities are currently controlled by the same individual, Andrew DeFrancesco (“AD”).

The Properties are located at and were acquired by AD on:

- 126 W. Alpine Road, Austin, Texas (“SCC”), acquired on October 31, 2012;
- 3200 NW 84th Avenue, Sunrise, Florida (“Summerfield”), acquired on September 28, 2012;
- 812 S. Park Road, Hollywood, Florida (“Park Colony”) acquired on February 7, 2013; and
- 1005 W. Stassney Lane, Austin, Texas (“Enclave”) acquired on May 15, 2013.

These carve-out statements of financial position were authorized for issuance by AD of the Properties on November 29, 2013.

Because the properties were each held by a limited partnership or limited liability corporation, these combined carve-out statements of financial positions depict the divisional equity in net assets, representing the amount associated specifically with the Properties on a combined basis.

These statements of financial position are not necessarily indicative of the results that would have been attained if the Properties had been operated as a separate legal entity during the period presented and, therefore, are not necessarily indicative of future operating results.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The unaudited carve-out statements of financial position are prepared in accordance with a financial reporting framework specified in subsection 3.11(6) of National Instrument 52-107, Acceptable Accounting Principles and Auditing Standards (“subsection 3.11(6)”), for carve-out statements of financial position. Subsection 3.11(6) requires the Properties to select from a specified list of financial reporting frameworks.

These statements of financial position have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and using accounting policies described herein.

As these are combined statements of financial position, the properties have been presented based on the period each of the Properties was acquired, and presented for the entire carve-out periods as follows:

June 30, 2013, which is a combination of:

- SCC, which should be read in conjunction with the carve-out financial statements of 126 W. Alpine Road as at June 30, 2013;
- Summerfield, which should be read in conjunction with the carve-out financial statements of 3200 NW 84th Avenue as at June 30, 2013;
- Park Colony, which should be read in conjunction with the carve-out financial statements of 812 S. Park Road as at June 30, 2013; and
- Enclave, which should be read in conjunction with the carve-out financial statements of 1005 W. Stassney Lane as at June 30, 2013.

December 31, 2012, which is a combination of:

- SCC, which should be read in conjunction with the carve-out financial statements of 126 W. Alpine Road as at December 31, 2012; and
- Summerfield, which should be read in conjunction with the carve-out financial statements of 3200 NW 84th Avenue as at December 31, 2012.

Investment properties

The Properties selected the fair value method to account for real estate classified as investment properties. A property is determined to be an investment property when it is principally held to earn rental income or for capital appreciation, or both. Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are carried at fair

126 W. ALPINE ROAD, 3200 NW 84TH AVENUE, 812 S. PARK ROAD, AND 1005 W. STASSNEY LANE
NOTES TO UNAUDITED CARVE-OUT COMBINED STATEMENTS OF FINANCIAL POSITION (Continued)
(Expressed in US dollars unless otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

value. Gains or losses arising from changes in fair value are recognized in profit and loss during the period in which they arise. Fair values are primarily determined by using the capitalized net operating income method which applies a capitalization rate to the future stabilized cash flows of the property. The capitalization rate applied is reflective of the characteristics, location and market of the property. The stabilized cash flows of the Properties are based upon rental income from current leases and assumptions about occupancy rates and market rent from future leases reflecting current conditions, less future cash outflows relating to such current and future leases. The Properties determines fair value internally utilizing internal financial information, external data and capitalization rates provided by industry experts. External valuations are performed as of the reporting date by professional valuers who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.

Subsequent capital expenditures are charged to investment properties only when it is probable that future economic benefits of the expenditure will flow to the Properties and the cost can be measured reliably.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted cash and short-term investments which management has allocated to the operations of the Properties. Short-term investments, comprising money market instruments, have an initial maturity of 90 days or less at their date of purchase and are stated at cost, which approximates fair value.

Income taxes

Provision has not been made for income taxes as the Properties are not a legal entity.

Financial instruments

Financial instruments are classified as one of the following: (i) fair value through profit and loss ("FVTPL"), (ii) loans and receivables, (iii) held-to-maturity, (iv) available-for-sale or (v) other liabilities. Financial instruments are recognized initially at fair value. Financial assets and liabilities classified at FVTPL are subsequently measured at fair value with gains and losses recognized in profit and loss. Financial instruments classified as held-to-maturity, loans and receivables or other liabilities are subsequently measured at amortized cost. Available-for-sale financial instruments are subsequently measured at fair value and any unrealized gains and losses are recognized through other comprehensive income and presented in the fair value reserve in divisional equity. The Properties derecognize a financial asset when the contractual rights to the cash flows from the asset expire.

The Properties' amounts receivable, deposits and cash have been designated as financial assets at fair value through profit and loss; mortgage payable and accounts payable and accrued liabilities have been designated as other liabilities. The properties have neither available-for-sale nor held-to-maturity instruments.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities, other than financial assets and liabilities measured at FVTPL, are accounted for as part of the carrying amount of the respective asset or liability at inception.

Transaction costs on financial assets and liabilities measured at FVTPL are expensed in the period incurred.

Transaction costs related to financial instruments measured at amortized cost are amortized using the effective interest rate over the anticipated life of the related instrument.

Financial assets are derecognized when the contractual rights to the cash flows from financial assets expire or have been transferred.

Critical judgments and estimates

The preparation of carve-out statements of financial position requires management to make critical judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the carve-out statements of financial position and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates and judgments have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties that management believes will materially affect the methodology or assumptions utilized in making those estimates and judgments in these carve-out statements of financial position. The

126 W. ALPINE ROAD, 3200 NW 84TH AVENUE, 812 S. PARK ROAD, AND 1005 W. STASSNEY LANE
NOTES TO UNAUDITED CARVE-OUT COMBINED STATEMENTS OF FINANCIAL POSITION (Continued)
(Expressed in US dollars unless otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

estimates and judgments used in determining the recorded amount for assets and liabilities in the carve-out statements of financial position include the following:

(i) Investment properties

The critical assumptions and estimates used when determining the fair value of investment properties are capitalization rates and future cash flows. Further information on investment properties estimates is provided in note 3.

(ii) Other

Critical judgments and estimates are also made in the determination of fair value of financial instruments and include assumptions and estimates regarding future interest rates; the relative creditworthiness of the Properties to its counterparties; the credit risk of the Properties counterparties relative to the Properties; and the estimated future cash flows.

Future changes in accounting policies

The Properties have reviewed new and revised accounting pronouncements that have been issued but are not yet effective. In the current circumstances, it does not expect any of these to have a material impact on the carve-out combined statements of financial position.

3. INVESTMENT PROPERTIES

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
	\$	\$
Balance, beginning of the period	19,527,874	16,183,784
Additions (disposals)	55,566,129	144,203
Fair value adjustment	6,512,351	3,199,887
Balance, ending of period	81,606,354	19,527,874

The key valuation assumptions for the Properties are set out in the following table:

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
Capitalization rate	5.31% to 5.95%	5.50% to 5.75%
Occupancy rate	95.00%	95.00%
Market rental rates — average per square foot	\$11.54 to \$18.02	\$11.62 to \$16.01

4. MORTGAGES PAYABLE

Mortgages payable	\$47,044,000
Less: current portion	50,164
	<u>\$46,993,836</u>

As at June 30, 2013 the mortgages payable balance of \$46,993,836 (including the current portion) bears interest at rates ranging from 3.80% to 4.22% per annum, are secured by the Properties, are amortized over 360 months and hold maturity dates 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 mortgage:

2013	1,005,514
2014	2,040,556
2015	2,457,896
2016	2,592,283
2017	2,625,164
Thereafter	54,281,227

126 W. ALPINE ROAD, 3200 NW 84TH AVENUE, 812 S. PARK ROAD, AND 1005 W. STASSNEY LANE
NOTES TO UNAUDITED CARVE-OUT COMBINED STATEMENTS OF FINANCIAL POSITION (Continued)
(Expressed in US dollars unless otherwise noted)

4. MORTGAGES PAYABLE (Continued)

As at December 31, 2011, SCC had a first mortgage balance of \$1,732,249, at a variable interest rate based on the 6-month LIBOR. The mortgage was settled on October 31, 2012.

On December 14, 2011, Enclave obtained a mortgage of \$1,929,035, at an interest rate of 5.85% per year. The mortgage was settled on May 14, 2013.

On December 14, 2010, Summerfield obtained a mortgage of \$6,000,000, at an interest rate calculated as the maximum of 4% and daily LIBOR plus 2.5%, per year. The mortgage was settled on September 28, 2012.

As at January 1, 2010, Park Colony had a first mortgage balance of \$21,420,677, at an interest rate of 4.76% per year. The mortgage was settled on February 12, 2013.

As at January 1, 2010, Park Colony had a second mortgage balance of \$1,945,508, at an interest rate of 5.26% per year. The mortgage was settled on February 12, 2013.

5. CAPITAL MANAGEMENT

The Properties defines their capital as the aggregate of mortgages payable and divisional equity. The Properties' primary objectives when managing capital are to meet their repayment obligations under its mortgage facility and to ensure there are sufficient funds available to finance operations and to meet capital commitment. Any financial covenants in respect to the mortgage (see note 4) are the responsibility of the Company.

6. RISK MANAGEMENT AND FAIR VALUE

(a) Risk management

In the normal course of business, the Properties are exposed to a number of risks that can affect its operating performance. These risks and the actions taken to manage them are as follows:

(i) Interest rate risk:

The Properties are subject to the risks associated with debt financing, including the risk that the interest rate on a floating debt may rise before long-term fixed rate debt is arranged and that the mortgage will not be able to be refinanced on terms similar to those of the existing indebtedness. The Properties' 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 the Properties.

(ii) Credit risk:

Credit risk is the risk of financial loss to the Properties associated with the failure of a tenant or other party to meet its contractual obligations related to lease agreements, including future lease payments.

At June 30, 2013, the Properties' exposure to credit risk is comprised of its accounts receivable in the amount of \$26,582.

(iii) Liquidity risk:

Liquidity risk is the risk that the Properties may encounter difficulty in meeting their financial obligations when they come due. Management's strategy in managing liquidity risk is to ensure, to the extent possible, that it always has sufficient financial assets to meet its financial liabilities when they come due, by forecasting cash flows from operations and anticipated investing and financing activities.

(iv) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, will affect the Properties' financial instruments. The Properties are rental properties located in the United States. The Properties' operations are denominated in United States dollars, resulting in no direct foreign exchange risk.

(c) Fair values:

The fair values of the Properties' financial assets, which include cash and amounts receivable, as well as financial liabilities, which include accounts payable and accrued liabilities, approximate their recorded fair values due to their short-term nature. The fair value of the mortgage payable is also fairly reflected by its book value as it has been financed at interest rates which are similar to current market interest rates.

DELAVACO RESIDENTIAL PROPERTIES
(formerly Sereno Capital Corporation)
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at June 30, 2013
(Expressed in US Dollars)

	Sereno Capital Corp. (USD)	Delavaco Properties Inc.	Multi-Family Portfolio	Note 5	Adjustments	Total
	\$	\$				\$
Assets						
Current assets						
Cash and cash equivalents	511,751	1,614,658	192,667	(g) (h) (k) (n)	(3,900,000) 17,295,000 (1,000,000) 43,700	14,757,776
Accounts receivable, net	12,158	110,741	26,582		—	149,481
Other assets	—	2,038,559	355,086	(g)	(1,181,534)	1,212,111
Prepaid expenses	—	405,056	862,839		—	1,267,895
Total current assets	523,909	4,169,014	1,437,174		11,257,166	17,387,263
Non-current assets						
Investment properties	—	38,815,884	81,606,354	(f) (g)	8,884,116 (2,831,954)	126,474,400
Property and equipment, net	—	270,225	—		—	270,225
Total assets	523,909	43,255,123	83,043,528		17,309,328	144,131,888
Liabilities						
Current liabilities						
Accounts payable and accrued liabilities	25,934	1,930,373	883,095			2,839,402
Current portion of mortgage payable	—	—	50,164			50,164
Convertible debentures payable	—	9,017,426	—	(g) (i) (j)	15,250,000 (9,017,426) (15,250,000)	—
Derivative financial instruments	—	1,594,799	—	(g) (i) (j)	1,326,087 (1,594,799) (1,326,087)	—
Other current liabilities	—	—	179,485		—	179,485
Total current liabilities	25,934	12,542,598	1,112,744		(10,612,225)	3,069,051
Non-current liabilities						
Notes payable	—	22,564,583	46,993,836	(h)	17,295,000	86,853,419
Deferred revenue	—	—	17,373		—	17,373
Total liabilities	25,934	35,107,181	48,123,953		6,682,775	89,939,843
Shareholders' Equity						
Share capital	697,871	19,445,529	—	(a) (d) (g) (i) (j) (l) (m) (n)	(697,871) 734,374 10,430,000 11,594,799 16,576,087 115,000 775,253 43,700	59,714,742
Warrants	—	1,369,182	—		—	1,369,182
Contributed surplus	150,833	836,299	—	(c) (e) (m) (m)	(150,833) 8,104 189,248 (775,253)	258,398
Accumulated foreign currency translation reserve	—	1,576,020	—		—	1,576,020
Divisional equity	—	—	34,919,575	(g)	(34,919,575)	—
Deficit	(350,729)	(15,079,088)	—	(b) (d) (f) (i) (k) (l) (m)	350,729 (244,503) 8,884,116 (982,574) (1,000,000) (115,000) (189,248)	(8,726,297)
Total shareholders' equity	497,975	8,147,942	34,919,575		10,626,553	54,192,045
Total liabilities and shareholders' equity	523,909	43,255,123	83,043,528		17,309,328	144,131,888

See accompanying notes to the unaudited pro forma financial statements

DELAVACO RESIDENTIAL PROPERTIES
(formerly Sereno Capital Corporation)
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME
For the six months ended June 30, 2013
(Expressed in US dollars)

	Three Months									
	Sereno Capital Corp. (CAD)	Sereno Capital Corp. (USD)	Delavaco Properties Inc.	1005 W. Stassney Lane	812 S. Park Road	126 W. Alpine Road	3200 NW 84th Avenue	Pro Forma Adjustments	Note 5	Pro Forma Consolidated
		\$	\$					\$		\$
Revenue										
Rental	—	—	2,719,047	430,491	2,305,993	314,615	926,170	—		6,696,316
Operating expenses										
Operating costs	—	—	1,008,387	145,598	623,984	88,983	252,278	—		2,119,230
Utilities	—	—	157,525	29,191	59,844	17,899	84,212	—		348,671
Property taxes	—	—	235,978	32,007	354,585	21,840	85,670	—		730,080
General and administrative	7,973	7,585	1,779,655	—	—	—	—	115,000	(l)	1,902,240
Professional fees	36,110	34,351	290,496	—	—	—	—	—		324,847
Transaction costs	—	—	1,554,856	—	—	—	—	244,503	(d)	
								1,000,000	(k)	2,799,359
Depreciation and amortization	—	—	820,527	—	—	—	—	(760,841)	(f)	59,686
Loss from operations before other income and expenses	(44,083)	(41,936)	(3,128,377)	223,695	1,267,580	185,893	504,010	(598,662)		(1,587,797)
Other income and expenses										
Foreign exchange loss	—	—	1,574,121	—	—	—	—	—		1,574,121
Gain on disposition of investment properties . . .	—	—	(329,661)	—	—	—	—	329,661	(f)	—
Loss on early extinguishment of debt	—	—	—	—	—	—	—	982,574	(i)	982,574
Finance costs	(675)	(675)	3,104,617	69,416	712,913	10,334	150,934	—		4,047,539
Share-based compensation	—	—	99,209	—	—	—	—	189,248	(m)	288,457
Fair value gain on investment property	—	—	—	(1,409,412)	(1,120,935)	(1,397,722)	(2,584,281)	(5,011,119)	(f)	(11,523,470)
Net income before income taxes	(43,408)	(41,261)	(7,576,663)	1,563,691	1,675,602	1,573,281	2,937,357	2,910,974		3,042,982
Income tax expense	—	—	—	—	—	—	—	—		—
Net income for the period	(43,408)	(41,261)	(7,576,663)	1,563,691	1,675,602	1,573,281	2,937,357	2,910,974		3,042,982
Other comprehensive income										
Foreign currency translation	—	—	1,572,575	—	—	—	—	—		1,572,575
Comprehensive income for the period	(43,408)	(41,261)	(6,004,088)	1,563,691	1,675,602	1,573,281	2,937,357	2,910,974		4,615,557
Basic earnings per share										0.08
Diluted earnings per share										0.08

See accompanying notes to the unaudited pro forma financial statements

DELAVACO RESIDENTIAL PROPERTIES
(formerly Sereno Capital Corporation)
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME
For the year ended December 31, 2012
(Expressed in US dollars)

	Sereno Capital Corp. (USD)	Delavaco Properties Inc.	1005 W. Stassney Lane	812 S. Park Road	126 W. Alpine Road	3200 NW 84th Avenue	Pro Forma Adjustments	Note 5	Pro Forma Consolidated
	\$	\$					\$		\$
Revenue									
Rental	—	3,108,834	654,899	4,347,092	583,377	1,804,668	—		10,498,870
Operating expenses									
Operating costs	—	1,111,158	291,890	1,223,898	187,515	668,587	—		3,483,048
Utilities	—	311,654	60,369	119,794	30,050	189,442	—		711,309
Property taxes	—	235,933	57,460	642,765	45,769	192,441	—		1,174,368
General and administrative	27,121	2,934,787	—	—	—	—	115,000	(l)	3,076,908
Professional fees	—	712,376	—	—	—	—	—		712,376
Transaction costs	—	—	—	—	—	—	244,503	(d)	
							1,000,000	(k)	1,244,503
Depreciation and amortization	—	899,953	—	—	—	—	(805,905)	(f)	94,048
Loss from operations before other income and expenses	(27,121)	(3,097,027)	245,180	2,360,635	320,043	754,198	(553,598)		2,310
Other income and expenses									
Foreign exchange loss	—	236,340	—	—	—	—	—		236,340
Gain on disposition of investment properties	—	(17,364)	—	—	—	—	17,364	(f)	—
Loss on early extinguishment of debt	—	195,509	—	—	—	—	982,574	(i)	1,178,083
Finance costs	(6,773)	1,758,918	121,305	1,115,233	89,572	264,740	—		3,342,995
Share-based compensation	4,963	381,305	—	—	—	—	189,248	(m)	575,516
Fair value gain on investment property	—	—	(1,232,445)	(7,719,916)	(2,161,682)	(854,277)	(2,653,276)	(f)	(14,621,597)
Net income before income taxes	(25,311)	(5,651,735)	1,356,320	8,965,318	2,392,153	1,343,735	910,492		9,290,973
Income tax expense	—	—	—	—	—	—	—		—
Net income for the year	(25,311)	(5,651,735)	1,356,320	8,965,318	2,392,153	1,343,735	910,492		9,290,973
Other comprehensive income									
Foreign currency translation	—	192,379	—	—	—	—	—		192,379
Comprehensive income for the year	(25,311)	(5,459,356)	1,356,320	8,965,318	2,392,153	1,343,735	910,492		9,483,352
Basic earnings per share									0.17
Diluted earnings per share									0.17

See accompanying notes to the unaudited pro forma financial statements

DELAVACO RESIDENTIAL PROPERTIES
(formerly Sereno Capital Corporation)
NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013

1. BASIS OF PRESENTATION

The unaudited pro forma consolidated statement of financial position of Delavaco Residential Properties (formerly Sereno Capital Corporation) (the “Company”) as at June 30, 2013, and the statements of income and comprehensive income for the six month period ended June 30, 2013, and year ended December 31, 2012 (the “Pro Forma Financial Statements”), has been prepared by management based on historical financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), for illustrative purposes only, after giving effect to the proposed transaction between the Company and Delavaco Properties Inc. (“Delavaco”) on the basis of the assumptions and adjustments described in note 2, 3, 4 and 5.

The unaudited pro forma consolidated statement of financial position has been derived from:

- (a) the unaudited statement of financial position of the Company as at July 31, 2013;
- (b) the audited statement of financial position of Delavaco as at June 30, 2013; and
- (c) unless otherwise noted, the unaudited pro forma consolidated statements of financial position and its accompanying notes are presented in United States Dollars.

The unaudited pro forma consolidated statement of comprehensive loss for the year ended December 31, 2012 has been derived from:

- (a) the unaudited statement of loss and comprehensive loss for the Company for the twelve month period from February 1, 2012 to January 31, 2013;
- (b) the audited consolidated statement of loss and comprehensive loss of Delavaco for the year ended December 31, 2012; and
- (c) the audited carve-out statements of income and loss for each of 126 W. Alpine Road, 3200 NW 84th Avenue, 812 S. Park Road, and 1005 W. Stassney Lane for the year ended December 31, 2012 (“Multi-Family Acquisitions”).

The unaudited pro forma consolidated statement of comprehensive loss for the six month period ended June 30, 2013 has been derived from:

- (a) the unaudited statement of loss and comprehensive loss for the Company for the three month period from May 1, 2013 to July 31, 2013;
- (b) the audited consolidated statement of loss and comprehensive loss of Delavaco for the six months ended June 30, 2013; and
- (c) the unaudited carve-out statements of income and loss for each of 126 W. Alpine Road, 3200 NW 84th Avenue, 812 S. Park Road, and 1005 W. Stassney Lane for the six month period ended June 30, 2013.

It is management’s opinion that the unaudited Pro Forma Financial Statements, include all adjustments necessary for the fair presentation, in all material respects, of the transactions described in Notes 3 and 4 in accordance with IFRS, applied on a basis consistent with Delavaco’s accounting policies, except as otherwise noted. The unaudited Pro Forma Financial Statements are not necessarily indicative of the financial position that would have resulted if the combination had actually occurred on June 30, 2013.

The unaudited Pro Forma Financial Statements should be read in conjunction with the historical financial statements and notes thereto of the Company, Delavaco, and the Multi-Family Acquisitions, included elsewhere in this Information Circular.

2. SIGNIFICANT ACCOUNTING POLICIES

The unaudited Pro Forma Financial Statements has been compiled using the significant accounting policies, as set out in the audited consolidated financial statements of Delavaco as at and for the six month period ended, June 30, 2013. Management has determined that no material pro forma adjustments are necessary to conform the Company’s accounting policies to the accounting policies used by Delavaco in the preparation of its audited financial statements, with the exception of investment properties.

Delavaco applies International Accounting Standard 40 — Investment Property, and for the purpose of the Pro Forma Financial Statements, has elected the fair value versus the cost method of presenting its investment properties in the unaudited pro forma consolidated statement of financial position as at June 30, 2013.

Investment property is measured initially at cost including transaction costs. Transaction costs include expenses such as 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. Subsequent to initial recognition, investment property is carried at fair value, based on available market evidence at the balance sheet date. Related fair value gains or losses arising are included in the consolidated statement of income and comprehensive income during the period in which they arise.

DELAVACO RESIDENTIAL PROPERTIES
(formerly Sereno Capital Corporation)

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2013

3. THE TRANSACTION

- a) Delavaco will acquire all of the issued and outstanding units of three limited partnerships and one LLC (the “LP’s and LLC”), from the CEO of Delavaco. The LP’s and LLC hold 4 multi-family residential properties (the “Multi-Family Portfolio”) located in Texas and Florida.
- b) The Company and Delavaco entered into an agreement (the “Transaction”), whereby the Company will consolidate its shares on a 1 for 7.36 basis and acquire all of the issued and outstanding common shares, stock options and warrants of Delavaco in exchange for common shares, stock options and warrants of the Company.
- c) Upon completion of the Transaction, the former shareholders of Delavaco will become the controlling shareholders of the Company. This type of share exchange, referred to as a reverse acquisition (“RTO”), deems Delavaco to be the acquirer for accounting purposes.

The acquisition is subject, but not limited, to regulatory and shareholder approvals.

4. ACCOUNTING FOR RTO

The Transaction has been accounted for in accordance with IFRS 2, which results in the following:

- Delavaco is deemed to be the acquirer and the Company the acquiree for accounting purposes and the Company is deemed the acquired company;
- accordingly, Delavaco’s balances are accounted for at cost and the Company is accounted for at fair value;
- since the Company’s operations do not constitute a business, the Transaction has been accounted for as a reverse acquisition that is not a business combination;
- therefore, the Company’s share capital, deficit and contributed surplus will be eliminated, the consideration transferred by the Company will be allocated to share capital and transaction costs will be expensed;
- the Company’s financial statements have translated to United States Dollars at the spot rate on June 30, 2013;
- the capital structure recognized in the consolidated financial statements will be that of the Company, but the dollar amount of the issued share capital in the unaudited pro forma consolidated statement of financial position immediately prior to acquisition will be that of Delavaco, plus the value of shares issued by the Company to acquire Delavaco, plus any shares issued by the Company prior to or as part of the transaction.

5. PRO FORMA ASSUMPTIONS AND ADJUSTMENTS

The unaudited pro forma consolidated statement of financial position reflects the following assumptions and adjustments:

- (a) A reduction in share capital of \$697,871 to eliminate the Company’s historical share capital.
- (b) An adjustment of \$350,729 to eliminate the Company’s historical deficit.
- (c) An adjustment of \$150,833 to eliminate the Company’s historical contributed surplus.
- (d) Since the Company’s operations do not constitute a business, the consideration transferred by the Company will be allocated to share capital and transaction costs will be expensed. An increase in share capital of \$734,374 and an increase in deficit of \$244,503 has been allocated based on the following:

Consideration transferred (638,586 shares at a price of \$1.15 per share)	\$734,374
Stock options issued	8,104
	<u>\$742,478</u>
Cash and cash equivalents	\$511,751
Accounts receivable, net	12,158
Accounts payable and accrued liabilities	(25,934)
Transaction costs	244,503
	<u>\$742,478</u>

DELAVACO RESIDENTIAL PROPERTIES
(formerly Sereno Capital Corporation)

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2013

5. PRO FORMA ASSUMPTIONS AND ADJUSTMENTS (Continued)

- (e) An increase in the purchase price of the Company of \$8,104 as included in note 5(d), to represent the stock options obtained from Delavaco in exchange for the Company's stock options. These options were valued using the Black-Scholes Option Pricing Model using a volatility of 60%, risk free rate of 1.36, expected life of 2.64 years and dividend yield of 0%.
- (f) An increase in investment properties and a corresponding increase in fair value gain on investment property of \$8,884,116 reflecting the adjustment to investment properties of Delavaco to fair value as per the policy change discussed in note 2 of these pro-forma financial statements. The increase in face value is based upon management estimates as disclosed in note 7 of the Delavaco financial statements as at June 30, 2013. As part of the change in policy, all depreciation in the amount of \$1,566,746 and gain on dispositions of \$347,025 associated with investment properties have been eliminated.
- (g) As part of the Transaction, the Company will acquire the LP's and LLC which hold the Multi-Family Portfolio. This acquisition has been accounted for in accordance with IFRS 3 "Business Combinations", since the LP's and LLC operations each constitute a business. The allocation of the purchase price has been prepared on a preliminary basis as the final purchase price allocation report had not been completed as of the date of these pro-forma financial statements. The identified assets and liabilities below are a result of management's best estimates and assumptions after taking into account all relevant information available. The final purchase price allocation may result in adjustments to the preliminary estimate of the purchase date fair values disclosed in the table below.

Purchase Price:

Cash deposit	\$ 1,181,534
Cash payment and advances	3,900,000
Derivative financial instruments	1,326,087
Convertible debentures payable	15,250,000
Common shares (9,069,565 at \$1.15 per share)	10,430,000
Total purchase price	\$ 32,087,621

Fair value of net assets acquired:

Cash and cash equivalents	\$ 192,667
Accounts receivable, net	26,582
Other assets	355,086
Prepaid expenses	862,839
Investment properties, net	78,774,400
Accounts payable and accrued liabilities	(883,095)
Other current liabilities	(179,485)
Current portion of notes payable	(50,164)
Notes payable	(46,993,836)
Deferred revenue	(17,373)
	\$ 32,087,621

As the consolidated statement of financial position for the Multi-Family Portfolio is already included, the only adjustments required are for the payment of the purchase price, elimination of the divisional equity in the amount of \$34,919,575, and a reduction of the investment properties of \$2,823,850 as the properties were acquired at a slight discount.

- (h) An increase in cash and cash equivalents and corresponding increase in notes payable of \$18,500,000 less transaction costs of \$1,205,000 (including 5% agents fees) from issuance of 7.00% unsecured debentures, maturing July 31, 2018, on a private placement basis.
- (i) An increase in share capital of \$11,594,799 and corresponding decreases in convertible debentures payable of \$9,017,426, derivative financial liabilities of \$1,594,799, an increase in loss on early extinguishment of debt of \$982,574 representing the conversion of the unsecured convertible debentures to common shares at a price of \$0.9775 resulting in the issuance of 10,230,179 common shares.
- (j) An increase in share capital of \$16,576,087 and corresponding decreases in convertible debentures payable of \$15,250,000 and derivative financial instruments of \$1,326,087 representing the conversion of the convertible notes acquired as part of the acquisition of the LP's and LLC at a price of \$1.058 per share for the issuance of 14,413,989 common shares.

DELAVACO RESIDENTIAL PROPERTIES
(formerly Sereno Capital Corporation)

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2013

5. PRO FORMA ASSUMPTIONS AND ADJUSTMENTS (Continued)

- (k) A decrease in cash and a corresponding increase in transaction costs in the amount of \$1,000,000 representing costs incurred related to the RTO, including the costs of transferring the mortgages associated with the LP's and LLC.
- (l) An increase in share capital, and a corresponding increase in general and administrative costs in the amount of \$115,000 representing compensation paid to certain officers of the Company for services provided to date.
- (m) An increase in contributed surplus and a corresponding increase in share-based compensation in the amount \$189,248 representing the accelerated vesting of 1,666,667 stock options. An increase in share capital of \$775,253, and a corresponding decrease in contributed surplus in the amount of \$775,253 representing the cashless exercise of 2,200,000 stock options. The remaining 300,000 stock options exercisable at \$0.10 were cancelled unexercised in return for the cashless exercise.
- (n) An increase in share capital and a corresponding increase in cash in the amount of \$43,700 representing the minimum private placement offering of 38,000 common shares. The maximum private placement offering allowed for is \$250,000 representing the issuance of an additional 179,391 common shares above the minimum private placement.

6. PRO FORMA SHARE CAPITAL

	<u>Number</u>	<u>Amount</u>
The Company's common shares outstanding — June 30, 2013	4,700,000	\$ 697,871
1 for 7.36 consolidation of the Company's shares	(4,061,414)	—
Common shares issued to Delavaco's shareholders	25,075,000	19,445,529
RTO adjustment — the Company's common shares (note 5(a))	—	(697,871)
Consideration transferred to shareholders of the Company (note 5(d))	—	734,374
Shares issued as part of the acquisition of the LP's and LLC in note 5(g)	9,069,565	10,430,000
Shares issued upon the conversion of the convertible debentures payable in note 5(i)	10,230,179	11,594,799
Shares issued upon the conversion of the convertible debentures payable in note 5(j)	14,413,988	16,576,087
Shares issued as employee compensation as described in note 5(l)	100,000	115,000
Shares issued upon execution of stock options in note 5(m)	2,200,000	775,253
Minimum private placement offering note 5(n)	38,000	43,700
Pro forma share capital — June 30, 2013	<u>61,765,318</u>	<u>\$59,714,742</u>
Additional shares issued if maximum private placement note 5(n)	179,391	206,300
Share capital if maximum private placement occurs	<u>61,944,709</u>	<u>59,921,042</u>

7. PRO FORMA CONTRIBUTED SURPLUS

	<u>Amount</u>
The Company's contributed surplus	\$ 150,833
Delavaco's contributed surplus	836,299
Elimination of the Company's contributed surplus (note 5(c))	(150,833)
Issuance of replacement stock options to the Company's option holders as described in note 5(e)	8,104
Accelerated vesting of 1,666,667 stock options in note 5(m)	189,248
Exercise of stock options in note 5(m)	(775,253)
Pro forma contributed surplus — June 30, 2013	<u>\$ 258,398</u>

8. PRO FORMA WARRANTS

	<u>Number</u>	<u>Amount</u>
Delavaco's warrants	4,682,000	\$1,369,182
Pro forma warrants — June 30, 2013	<u>4,682,000</u>	<u>\$1,369,182</u>

DELAVACO RESIDENTIAL PROPERTIES
(formerly Sereno Capital Corporation)

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2013

9. PRO FORMA STOCK OPTIONS

	<u>Expiry date</u>	<u>Number outstanding</u>	<u>Number vested</u>	<u>Exercise price</u>
The Company's options		262,500	262,500	\$0.25
1 for 7.36 consolidation		<u>(226,834)</u>	<u>(226,834)</u>	<u>1.84</u>
	May 16, 2016	35,666	35,666	1.84
Delavaco's stock options ⁽¹⁾	January 27, 2021	2,500,000	833,333	0.10
Cancellation and exercise of options in note 5(m)		<u>(2,500,000)</u>	<u>(833,333)</u>	<u>0.10</u>
Pro forma stock options — June 30, 2013		<u>35,666</u>	<u>35,666</u>	<u>\$1.84</u>

(1) Reflects the cancellation of 500,000 stock options at \$0.40 per option on July 20, 2013.

10. PRO FORMA DEFICIT

	<u>Amount</u>
The Company's deficit	\$ 350,729
Delavaco's deficit	15,079,088
Elimination of the Company's deficit (note 5(b))	(350,729)
Additional transaction costs in note 5(d)	244,503
Fair value gain on investment property and elimination of depreciation and gains on disposition	(8,884,116)
To record the loss on early extinguishment of debt in note 5(i)	982,574
To record additional transaction costs in note 5(k)	1,000,000
To record additional compensation expense in note 5(l)	115,000
To record acceleration of option vesting periods in note 5(m)	<u>189,248</u>
Pro forma deficit — June 30, 2013	<u>\$ 8,726,297</u>

DELAVACO RESIDENTIAL PROPERTIES
(formerly Sereno Capital Corporation)
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at June 30, 2013 assuming Park Colony is not acquired
(Expressed in US Dollars)

	Sereno Capital Corp. (USD)	Delavaco Properties Inc.	Multi-Family Portfolio	Note 5	Adjustments	Total
	\$	\$				\$
Assets						
Current assets						
Cash and cash equivalents	511,751	1,614,658	129,432	(g) (h) (k) (n)	(3,900,000) 17,295,000 (1,000,000) 43,700	14,694,541
Accounts receivable, net	12,158	110,741	14,003		—	136,902
Other assets	—	2,038,559	300,148	(g)	(1,181,534)	1,157,173
Prepaid expenses	—	405,056	147,776		—	552,832
Total current assets	523,909	4,169,014	591,359		11,257,166	16,541,448
Non-current assets						
Investment properties	—	38,815,884	31,278,284	(f) (g)	8,884,116 1,145,664	80,123,948
Property and equipment, net	—	270,225	—		—	270,225
Note receivable	—	—	—	(g)	4,303,248	4,303,248
Total assets	523,909	43,255,123	31,869,643		25,590,194	101,238,869
Liabilities						
Current liabilities						
Accounts payable and accrued liabilities	25,934	1,930,373	286,552			2,242,859
Current portion of mortgage payable	—	—	50,164			50,164
Convertible debentures payable	—	9,017,426	—	(g) (i) (j)	15,250,000 (9,017,426) (15,250,000)	—
Derivative financial instruments	—	1,594,799	—	(g) (i) (j)	1,326,087 (1,594,799) (1,326,087)	—
Other current liabilities	—	—	124,382		—	124,382
Total current liabilities	25,934	12,542,598	461,098		(10,612,225)	2,417,405
Non-current liabilities						
Notes payable	—	22,564,583	15,199,836	(h)	17,295,000	55,059,419
Deferred revenue	—	—	—		—	—
Total liabilities	25,934	35,107,181	15,660,934		6,682,775	57,476,824
Shareholders' Equity						
Share capital	697,871	19,445,529	—	(a) (d) (i) (j) (l) (m) (n)	(697,871) 734,374 11,594,799 16,576,087 115,000 775,253 43,700	49,284,742
Warrants	—	1,369,182	—		—	1,369,182
Contributed surplus	150,833	836,299	—	(c) (e) (m) (m)	(150,833) 8,104 189,248 (775,253)	—
Accumulated foreign currency translation reserve	—	1,576,020	—		—	258,398
Accumulated other comprehensive income	—	—	—		—	—
Divisional equity	—	—	16,208,709	(g) (b) (d) (f) (i) (k) (l) (m)	(16,208,709) 350,729 (244,503) 8,884,116 (982,574) (1,000,000) (115,000) (189,248)	—
Deficit	(350,729)	(15,079,088)	—		—	(8,726,297)
Total shareholders' equity	497,975	8,147,942	16,208,709		18,907,419	43,762,045
Total liabilities and shareholders' equity	523,909	43,255,123	31,869,643		25,590,194	101,238,869

See accompanying notes to the unaudited pro forma financial statements

DELAVACO RESIDENTIAL PROPERTIES
(formerly Sereno Capital Corporation)

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME
For the six months ended June 30, 2013 assuming Park Colony is not acquired
(Expressed in US dollars)

	Three Months								
	Sereno Capital Corp. (CAD)	Sereno Capital Corp. (USD)	Delavaco Properties Inc.	1005 W. Stassney Lane	126 W. Alpine Road	3200 NW 84th Avenue	Pro Forma Adjustments	Note 5	Pro Forma Consolidated
	\$	\$					\$		\$
Revenue									
Rental	—	—	2,719,047	430,491	314,615	926,170	—		4,390,323
Operating expenses									
Operating costs	—	—	1,008,387	145,598	88,983	252,278	—		1,495,246
Utilities	—	—	157,525	29,191	17,899	84,212	—		288,827
Property taxes	—	—	235,978	32,007	21,840	85,670	—		375,495
General and administrative	7,973	7,585	1,779,655	—	—	—	115,000	(l)	1,902,240
Professional fees	36,110	34,351	290,496	—	—	—	—		324,847
Transaction costs	—	—	1,554,856	—	—	—	244,503	(d)	
							1,000,000	(k)	2,799,359
Depreciation and amortization	—	—	820,527	—	—	—	(760,841)	(f)	59,686
Loss from operations before other income and expenses . . .	(44,083)	(41,936)	(3,128,377)	223,695	185,893	504,010	(598,662)		(2,855,377)
Other income and expenses									
Foreign exchange loss	—	—	1,574,121	—	—	—	—		1,574,121
Gain on disposition of investment properties	—	—	(329,661)	—	—	—	329,661	(f)	—
Loss on early extinguishment of debt	—	—	—	—	—	—	982,574	(i)	982,574
Finance costs	(675)	(675)	3,104,617	69,416	10,334	150,934	—		3,334,626
Share-based compensation	—	—	99,209	—	—	—	189,248	(m)	288,457
Fair value gain on investment property	—	—	—	(1,409,412)	(1,397,722)	(2,584,281)	(5,011,119)	(f)	(10,402,534)
Net income before income taxes	(43,408)	(41,261)	(7,576,663)	1,563,691	1,573,281	2,937,357	2,910,974		1,367,379
Income tax expense	—	—	—	—	—	—	—		—
Net income for the period	(43,408)	(41,261)	(7,576,663)	1,563,691	1,573,281	2,937,357	2,910,974		1,367,379
Other comprehensive income									
Foreign currency translation	—	—	1,572,575	—	—	—	—		1,572,575
Comprehensive income for the period	<u>(43,408)</u>	<u>(41,261)</u>	<u>(6,004,088)</u>	<u>1,563,691</u>	<u>1,573,281</u>	<u>2,937,357</u>	<u>2,910,974</u>		<u>2,939,954</u>
Basic earnings per share									0.05
Diluted earnings per share									0.05

See accompanying notes to the unaudited pro forma financial statements

DELAVACO RESIDENTIAL PROPERTIES
(formerly Sereno Capital Corporation)
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF INCOME
AND COMPREHENSIVE INCOME

For the year ended December 31, 2012 assuming Park Colony is not acquired
(Expressed in US dollars)

	Sereno Capital Corp. (USD)	Delavaco Properties Inc.	1005 W. Stassney Lane	126 W. Alpine Road	3200 NW 84th Avenue	Pro Forma Adjustments	Note 5	Pro Forma Consolidated
	\$	\$				\$		\$
Revenue								
Rental	—	3,108,834	654,899	583,377	1,804,668	—		6,151,778
Operating expenses								
Operating costs	—	1,111,158	291,890	187,515	668,587	—		2,259,150
Utilities	—	311,654	60,369	30,050	189,442	—		591,515
Property taxes	—	235,933	57,460	45,769	192,441	—		531,603
General and administrative	27,121	2,934,787	—	—	—	115,000	(l)	3,076,908
Professional fees	—	712,376	—	—	—	—		712,376
Transaction costs	—	—	—	—	—	244,503	(d)	
						1,000,000	(k)	1,244,503
Depreciation and amortization	—	899,953	—	—	—	(805,905)	(f)	94,048
Loss from operations before other income and expenses	(27,121)	(3,097,027)	245,180	320,043	754,198	(553,598)		(2,358,325)
Other income and expenses								
Foreign exchange loss	—	236,340	—	—	—	—		236,340
Gain on disposition of investment properties	—	(17,364)	—	—	—	17,364	(f)	—
Loss on early extinguishment of debt	—	195,509	—	—	—	982,574	(i)	1,178,083
Finance costs	(6,773)	1,758,918	121,305	89,572	264,740	—		2,227,762
Share-based compensation	4,963	381,305	—	—	—	189,248	(m)	575,516
Fair value gain on investment property	—	—	(1,232,445)	(2,161,682)	(854,277)	(2,653,276)	(f)	(6,901,680)
Net income before income taxes	(25,311)	(5,651,735)	1,356,320	2,392,153	1,343,735	910,492		325,654
Income tax expense	—	—	—	—	—	—		—
Net income for the year	(25,311)	(5,651,735)	1,356,320	2,392,153	1,343,735	910,492		325,654
Other comprehensive income								
Foreign currency translation	—	192,379	—	—	—	—		192,379
Comprehensive income for the year	<u>(25,311)</u>	<u>(5,459,356)</u>	<u>1,356,320</u>	<u>2,392,153</u>	<u>1,343,735</u>	<u>910,492</u>		<u>518,033</u>
Basic earnings per share								0.01
Diluted earnings per share								0.01

See accompanying notes to the unaudited pro forma financial statements

DELAVACO RESIDENTIAL PROPERTIES
(formerly Sereno Capital Corporation)
NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
Assuming Park Colony is not acquired
June 30, 2013

1. BASIS OF PRESENTATION

The unaudited pro forma consolidated statement of financial position of Delavaco Residential Properties (formerly Sereno Capital Corporation) (the “Company”) as at June 30, 2013, and the statements of income and comprehensive income for the six month period ended June 30, 2013, and year ended December 31, 2012 (the “Pro Forma Financial Statements”), has been prepared by management based on historical financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), for illustrative purposes only, after giving effect to the proposed transaction between the Company and Delavaco Properties Inc. (“Delavaco”) on the basis of the assumptions and adjustments described in note 2, 3, 4 and 5.

The unaudited pro forma consolidated statement of financial position has been derived from:

- (a) the unaudited statement of financial position of the Company as at July 31, 2013;
- (b) the audited statement of financial position of Delavaco as at June 30, 2013; and
- (c) unless otherwise noted, the unaudited pro forma consolidated statements of financial position and its accompanying notes are presented in United States Dollars.

The unaudited pro forma consolidated statement of comprehensive loss for the year ended December 31, 2012 has been derived from:

- (a) the unaudited statement of loss and comprehensive loss for the Company for the twelve month period from February 1, 2012 to January 31, 2013;
- (b) the audited consolidated statement of loss and comprehensive loss of Delavaco for the year ended December 31, 2012; and
- (c) the audited carve-out statements of income and loss for each of 126 W. Alpine Road, 3200 NW 84th Avenue, and 1005 W. Stassney Lane for the year ended December 31, 2012 (“Multi-Family Acquisitions”).

The unaudited pro forma consolidated statement of comprehensive loss for the six month period ended June 30, 2013 has been derived from:

- (a) the unaudited statement of loss and comprehensive loss for the Company for the three month period from May 1, 2013 to July 31, 2013;
- (b) the audited consolidated statement of loss and comprehensive loss of Delavaco for the six months ended June 30, 2013; and
- (c) the unaudited carve-out statements of income and loss for each of 126 W. Alpine Road, 3200 NW 84th Avenue, and 1005 W. Stassney Lane for the six month period ended June 30, 2013.

It is management’s opinion that the unaudited Pro Forma Financial Statements, include all adjustments necessary for the fair presentation, in all material respects, of the transactions described in Notes 3 and 4 in accordance with IFRS, applied on a basis consistent with Delavaco’s accounting policies, except as otherwise noted. The unaudited Pro Forma Financial Statements are not necessarily indicative of the financial position that would have resulted if the combination had actually occurred on June 30, 2013.

The unaudited Pro Forma Financial Statements should be read in conjunction with the historical financial statements and notes thereto of the Company, Delavaco, and the Multi-Family Acquisitions, included elsewhere in this Information Circular.

2. SIGNIFICANT ACCOUNTING POLICIES

The unaudited Pro Forma Financial Statements has been compiled using the significant accounting policies, as set out in the audited consolidated financial statements of Delavaco as at and for the six month period ended, June 30, 2013. Management has determined that no material pro forma adjustments are necessary to conform the Company’s accounting policies to the accounting policies used by Delavaco in the preparation of its audited financial statements, with the exception of investment properties.

Delavaco applies International Accounting Standard 40 — Investment Property, and for the purpose of the Pro Forma Financial Statements, has elected the fair value versus the cost method of presenting its investment properties in the unaudited pro forma consolidated statement of financial position as at June 30, 2013.

Investment property is measured initially at cost including transaction costs. Transaction costs include expenses such as 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. Subsequent to initial recognition, investment property is carried at fair value, based on available market evidence at the

DELAVACO RESIDENTIAL PROPERTIES
(formerly Sereno Capital Corporation)
NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Assuming Park Colony is not acquired
June 30, 2013

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

balance sheet date. Related fair value gains or losses arising are included in the consolidated statement of income and comprehensive income during the period in which they arise.

3. THE TRANSACTION

- a) Delavaco will acquire all of the issued and outstanding units of three limited partnerships (the “LP’s”), from the CEO of Delavaco. The LP’s hold 3 multi-family residential properties (the “Multi-Family Portfolio”) located in Texas and Florida.
- b) The Company and Delavaco entered into an agreement (the “Transaction”), whereby the Company will consolidate its shares on a 1 for 7.36 basis and acquire all of the issued and outstanding common shares, stock options and warrants of Delavaco in exchange for common shares, stock options and warrants of the Company.
- c) Upon completion of the Transaction, the former shareholders of Delavaco will become the controlling shareholders of the Company. This type of share exchange, referred to as a reverse acquisition (“RTO”), deems Delavaco to be the acquirer for accounting purposes.

The acquisition is subject, but not limited, to regulatory and shareholder approvals.

4. ACCOUNTING FOR RTO

The Transaction has been accounted for in accordance with IFRS 2, which results in the following:

- Delavaco is deemed to be the acquirer and the Company the acquiree for accounting purposes and the Company is deemed the acquired company;
- accordingly, Delavaco’s balances are accounted for at cost and the Company is accounted for at fair value;
- since the Company’s operations do not constitute a business, the Transaction has been accounted for as a reverse acquisition that is not a business combination;
- therefore, the Company’s share capital, deficit and contributed surplus will be eliminated, the consideration transferred by the Company will be allocated to share capital and transaction costs will be expensed;
- the Company’s financial statements have translated to United States Dollars at the spot rate on June 30, 2013;
- the capital structure recognized in the consolidated financial statements will be that of the Company, but the dollar amount of the issued share capital in the unaudited pro forma consolidated statement of financial position immediately prior to acquisition will be that of Delavaco, plus the value of shares issued by the Company to acquire Delavaco, plus any shares issued by the Company prior to or as part of the transaction.

5. PRO FORMA ASSUMPTIONS AND ADJUSTMENTS

The unaudited pro forma consolidated statement of financial position reflects the following assumptions and adjustments:

- (a) A reduction in share capital of \$697,871 to eliminate the Company’s historical share capital.
- (b) An adjustment of \$350,729 to eliminate the Company’s historical deficit.
- (c) An adjustment of \$150,833 to eliminate the Company’s historical contributed surplus.

DELAVACO RESIDENTIAL PROPERTIES
(formerly Sereno Capital Corporation)

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Assuming Park Colony is not acquired
June 30, 2013

5. PRO FORMA ASSUMPTIONS AND ADJUSTMENTS (Continued)

- (d) Since the Company's operations do not constitute a business, the consideration transferred by the Company will be allocated to share capital and transaction costs will be expensed. An increase in share capital of \$734,374 and an increase in deficit of \$244,503 has been allocated based on the following:

Consideration transferred (638,586 shares at a price of \$1.15 per share)	\$734,374
Stock options issued (see note 5(e))	8,104
	<u>\$742,478</u>
Cash and cash equivalents	\$511,751
Accounts receivable, net	12,158
Accounts payable and accrued liabilities	(25,934)
Transaction costs	244,503
	<u>\$742,478</u>

- (e) An increase in the purchase price of the Company of \$8,104 as included in note 5(d), to represent the stock options obtained from Delavaco in exchange for the Company's stock options. These options were valued using the Black-Scholes Option Pricing Model using a volatility of 60%, risk free rate of 1.36, expected life of 2.64 years and dividend yield of 0%.
- (f) An increase in investment properties and a corresponding increase in fair value gain on investment property of \$8,884,116 reflecting the adjustment to investment properties of Delavaco to fair value as per the policy change discussed in note 2 of these pro-forma financial statements. The increase in face value is based upon management estimates as disclosed in note 7 of the Delavaco financial statements as at June 30, 2013. As part of the change in policy, all depreciation in the amount of \$1,566,746 and gain on dispositions of \$347,025 associated with investment properties have been eliminated.
- (g) As part of the Transaction, the Company will acquire the LP's which hold the Multi-Family Portfolio. This acquisition has been accounted for in accordance with IFRS 3 "Business Combinations", since the LP's operations each constitute a business. The allocation of the purchase price has been prepared on a preliminary basis as the final purchase price allocation report had not been completed as of the date of these pro-forma financial statements. The identified assets and liabilities below are a result of management's best estimates and assumptions after taking into account all relevant information available. The final purchase price allocation may result in adjustments to the preliminary estimate of the purchase date fair values disclosed in the table below.

Purchase Price:

Cash deposit	\$ 1,181,534
Cash payment and advances	3,900,000
Derivative financial instruments	1,326,087
Convertible debentures payable	15,250,000
Total purchase price	<u>\$ 21,657,621</u>

Fair value of net assets acquired:

Cash and cash equivalents	\$ 129,432
Accounts receivable, net	14,003
Other assets	300,148
Prepaid expenses	147,776
Investment properties, net	32,423,948
Accounts payable and accrued liabilities	(286,552)
Other current liabilities	(124,382)
Current portion of notes payable	(50,164)
Notes payable	(15,199,836)
Note receivable	4,303,248
	<u>\$ 21,657,621</u>

DELAVACO RESIDENTIAL PROPERTIES
(formerly Sereno Capital Corporation)

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Assuming Park Colony is not acquired
June 30, 2013

5. PRO FORMA ASSUMPTIONS AND ADJUSTMENTS (Continued)

As the consolidated statement of financial position for the Multi-Family Portfolio is already included, the only adjustments required are for the payment of the purchase price, elimination of the divisional equity in the amount of \$34,919,575, and a reduction of the investment properties of \$2,823,850 as the properties were acquired at a slight discount.

- (h) An increase in cash and cash equivalents and corresponding increase in notes payable of \$18,500,000 less transaction costs of \$1,205,000 (including 5% agents fees) from issuance of 7.00% unsecured debentures, maturing July 31, 2018, on a private placement basis.
- (i) An increase in share capital of \$11,594,799 and corresponding decreases in convertible debentures payable of \$9,017,426, derivative financial liabilities of \$1,594,799, an increase in loss on early extinguishment of debt of \$982,574 representing the conversion of the unsecured convertible debentures to common shares at a price of \$0.9775 resulting in the issuance of 10,230,179 common shares.
- (j) An increase in share capital of \$16,576,087 and corresponding decreases in convertible debentures payable of \$15,250,000 and derivative financial instruments of \$1,326,087 representing the conversion of the convertible notes acquired as part of the acquisition of the LP's at a price of \$1.058 per share for the issuance of 14,413,989 common shares.
- (k) A decrease in cash and a corresponding increase in transaction costs in the amount of \$1,000,000 representing costs incurred related to the RTO, including the costs of transferring the mortgages associated with the LP's.
- (l) An increase in share capital, and a corresponding increase in general and administrative costs in the amount of \$115,000 representing compensation paid to certain officers of the Company for services provided to date.
- (m) An increase in contributed surplus and a corresponding increase in share-based compensation in the amount of \$189,248 representing the accelerated vesting of 1,666,667 stock options. An increase in share capital of \$775,253, and a corresponding decrease in contributed surplus in the amount of \$775,253 representing the cashless exercise of 2,200,000 stock options. The remaining 300,000 stock options exercisable at \$0.10 were cancelled unexercised in return for the cashless exercise.
- (n) An increase in share capital and a corresponding increase in cash in the amount of \$43,700 representing the minimum private placement offering of 38,000 common shares. The maximum private placement offering allowed for is \$250,000 representing the issuance of an additional 179,391 common shares above the minimum private placement.

6. PRO FORMA SHARE CAPITAL

	<u>Number</u>	<u>Amount</u>
The Company's common shares outstanding — June 30, 2013	4,700,000	\$ 697,871
1 for 7.36 consolidation of the Company's shares	(4,061,414)	—
Common shares issued to Delavaco's shareholders	25,075,000	19,445,529
RTO adjustment — the Company's common shares (note 5(a))	—	(697,871)
Consideration transferred to shareholders of the Company (note 5(d))	—	734,374
Shares issued upon the conversion of the convertible debentures payable in note 5(i)	10,230,179	11,594,799
Shares issued upon the conversion of the convertible debentures payable in note 5(j)	14,413,988	16,576,087
Shares issued as employee compensation as described in note 5(l)	100,000	115,000
Shares issued upon execution of stock options in note 5(m)	2,200,000	775,253
Minimum private placement offering note 5(n)	38,000	43,700
Pro forma share capital — June 30, 2013	<u>52,695,753</u>	<u>\$49,284,742</u>
Additional shares issued if maximum private placement note 5(n)	179,391	206,300
Share capital if maximum private placement occurs	<u>52,875,144</u>	<u>49,491,042</u>

DELAVACO RESIDENTIAL PROPERTIES
(formerly Sereno Capital Corporation)

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Assuming Park Colony is not acquired
June 30, 2013

7. PRO FORMA CONTRIBUTED SURPLUS

	<u>Amount</u>
The Company's contributed surplus	\$ 150,833
Delavaco's contributed surplus	836,299
Elimination of the Company's contributed surplus (note 5(c))	(150,833)
Issuance of replacement stock options to the Company's option holders as described in note 5(e)	8,104
Accelerated vesting of 1,666,667 stock options in note 5(m)	189,248
Exercise of stock options in note 5(m)	(775,253)
Pro forma contributed surplus — June 30, 2013	<u>\$ 258,398</u>

8. PRO FORMA WARRANTS

	<u>Number</u>	<u>Amount</u>
Delavaco's warrants	4,682,000	\$1,369,182
Pro forma warrants — June 30, 2013	<u>4,682,000</u>	<u>\$1,369,182</u>

9. PRO FORMA STOCK OPTIONS

	<u>Expiry date</u>	<u>Number outstanding</u>	<u>Number vested</u>	<u>Exercise price</u>
The Company's options		262,500	262,500	\$0.25
1 for 7.36 consolidation		(226,834)	(226,834)	1.84
	May 16, 2016	35,666	35,666	1.84
Delavaco's stock options ⁽¹⁾	January 27, 2021	2,500,000	833,333	0.10
Cancellation and exercise of options in note 5(m)		(2,500,000)	(833,333)	0.10
Pro forma stock options — June 30, 2013		<u>35,666</u>	<u>35,666</u>	<u>\$1.84</u>

(1) reflects the cancellation of 500,000 stock options at \$0.40 per option on July 20, 2013.

10. PRO FORMA DEFICIT

	<u>Amount</u>
The Company's deficit	\$ 350,729
Delavaco's deficit	15,079,088
Elimination of the Company's deficit (note 5(b))	(350,729)
Additional transaction costs in note 5(d)	244,503
Fair value gain on investment property and elimination of depreciation and gains on disposition	(8,884,116)
To record the loss on early extinguishment of debt in note 5(i)	982,574
To record additional transaction costs in note 5(k)	1,000,000
To record additional compensation expense in note 5(l)	115,000
To record acceleration of option vesting periods in note 5(m)	189,248
Pro forma deficit — June 30, 2013	<u>\$ 8,726,297</u>