

# Irish Residential Properties REIT plc

## Report and Financial Statements

For the period 2 July 2013 (date of incorporation) to 31 December 2014



## Growth and Opportunity



better living made simple

# Profile

**Irish Residential Properties REIT plc** (the “**Company**” or “**I-RES**”) is a growth-oriented Real Estate Investment Trust (“REIT”) that owns 1,474 apartment suites in Dublin, Ireland. As one of the largest non-governmental residential landlords in Ireland, the Company is focused on acquiring and professionally managing interests in multi-unit rental residential properties in Ireland. The Company’s shares are listed on the Irish Stock Exchange (ISE: IRES). For more information, please visit the Company’s website at [www.iresreit.ie](http://www.iresreit.ie).

*On the cover (from left to right):  
Lansdowne Gate, Charlestown, Beacon South Quarter,  
Camac Crescent.*



*Lansdowne Gate*

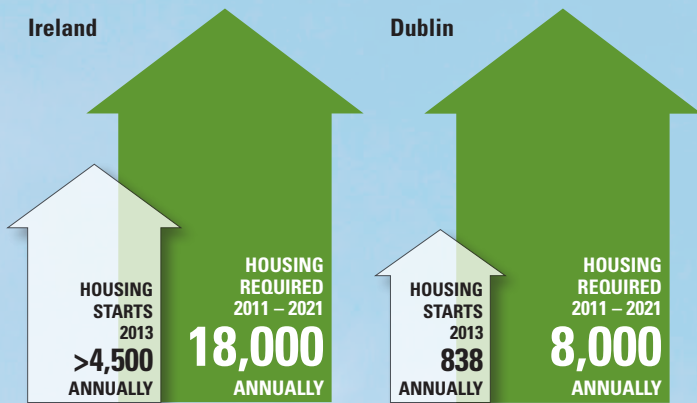
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# Financial and Operating Highlights

## Strong Market Demand

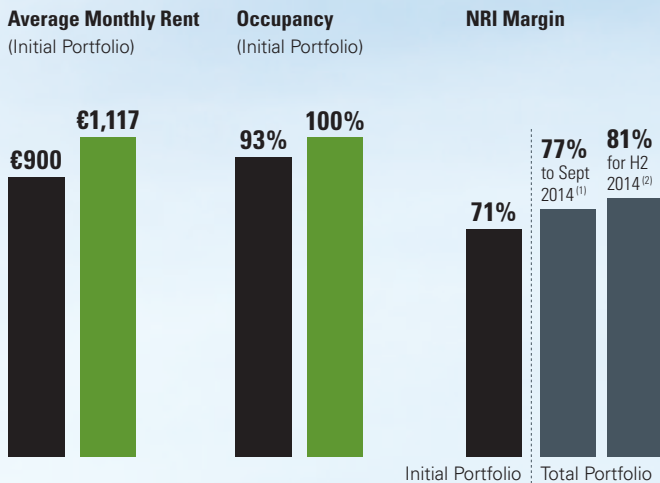
Continued shortage of housing supply helps support the rental market



## Solid Organic Growth

Operating performance since acquisition

- Initial Portfolio at acquisition in September 2013
- Initial Portfolio as at 31 December 2014
- Total Portfolio



(1) For the period 2 July 2013 to 30 September 2014

(2) For the six months to December 2014



## Highlights

to 31 December 2014

- Completed initial offering on 16 April 2014
- Deployed net proceeds from initial offering and borrowings under credit facility within six months
- High-quality portfolio of 1,204 residential suites valued at €323.6 million as at 31 December 2014
- Entered into a two-year €130 million credit facility on 15 August 2014
- 10% to 15% increase in average rental income on renewals and turnovers
- 81% net rental income margin for the six months ended 31 December 2014
- Maiden interim dividend of 0.48 cent per share paid on 31 March 2015
- Entered into pipeline agreement with CAPREIT LP

## Highlights

since 31 December 2014

- Issued 215,000,000 ordinary shares raising gross proceeds of €215 million
- Strategic acquisition of the Rockbrook Portfolio consisting of 270 residential suites
- Repaid €113 million of the credit facility

## Financial Highlights

For the period 2 July 2013 to 31 December 2014 <sup>(1)</sup>

Revenue	€	<b>9.7m</b>
Gross Initial Yield		<b>6.1%</b>
Net Initial Yield		<b>5.0%</b>
Net Profit	€	<b>7.9m</b>
Loan to Value		<b>37.6%</b>
EPRA NAV per share	€	<b>0.995</b>
Pro-forma NAV per share	€	<b>1.032</b>
Occupancy Rate		<b>99.7%</b>
Average Monthly Rent	€	<b>1,250</b>

*(1) Trading since September 2013*

## Well-located Properties

I-RES has built a property portfolio of 1,474 high-quality residential apartments/suites in Dublin

1 Kings Court

2 Grande Central

3 Priorsgate

4 Camac Crescent

5 The Laurels

6 The Marker

7 Beacon South Quarter

8 Charlestown

9 Bakers Yard

10 Lansdowne Gate

11 Rockbrook Portfolio

## PROPERTY PORTFOLIO

	Property	Location	Year Built	Building Class	Date Acquired	Number of Suites Owned
1	Kings Court	Smithfield	2006	Luxury	10 Sep 2013	83
2	Grande Central	Sandyford	2007	Luxury	10 Sep 2013	65
3	Priorsgate	Tallaght	2007	Luxury	10 Sep 2013	102
4	Camac Crescent	Inchicore	2008	Luxury	10 Sep 2013	90
5	The Laurels	Tallaght	2007	Mid-tier	27 Jun 2014	19
6	The Marker	Docklands	2012	Luxury	18 Jul 2014	84
7	Beacon South Quarter	Sandyford	2007/2008	Luxury	7 Oct 2014	217
8	Charlestown	Finglas	2007	Luxury	7 Oct 2014	235
9	Bakers Yard	Portland Street North	2007/2008	Mid-tier	7 Oct 2014	85
10	Lansdowne Gate	Drimnagh	2005	Luxury	7 Oct 2014	224
<b>Total owned portfolio as at 31 December 2014</b>						<b>1,204</b>
11	Rockbrook Portfolio	Sandyford	2007	Luxury	31 March 2015	270
<b>Total properties owned as at the date of this Report</b>						<b>1,474</b>

## Investment Proposition

- Experienced investment advisor and property manager with a track record of growth and value creation in the residential sector
- Market offering many growth opportunities from a variety of different sellers
- Proven acquisition acumen in the residential sector
- Strong leadership team specialising in residential real estate
- Dedicated local team of 20 experienced staff in the new Dublin office, supplemented by the CAPREIT platform
- Clearly defined four-pillar business strategy

# Chairman's Statement



**I AM PLEASED TO PRESENT** the Company's results for the period from incorporation on 2 July 2013 to 31 December 2014. The Company began trading in September 2013 when it completed its first acquisition, consisting of 338 suites across four multi-unit residential properties in Dublin.

In April 2014 the Company completed a successful €200 million initial offering through a listing on the Irish Stock Exchange as a REIT under the recently established Irish REIT legislation.

The Company appointed Gandon Alternative Fund Management Limited as its alternative investment fund manager (the **"AIFM"**) in accordance with the European Union (Alternative Investment Fund Managers) Regulations, 2013 (the **"AIFM Regulations"**), until such time as IRES Fund Management Limited (**"IRES Fund Management"**) becomes authorised by the Central Bank as an alternative investment fund manager under the AIFM Regulations.

The Company is externally managed by IRES Fund Management, an indirect wholly owned subsidiary of CAPREIT. CAPREIT is listed on the Toronto Stock Exchange and is one of the largest REITs in Canada with a portfolio of 41,688 residential suites, a gross asset value of C\$5.9 billion and a market capitalisation of C\$2.8 billion as at 31 December 2014.

The Company paid a maiden dividend in March 2015 as I-RES has grown its operating platform and effectively deployed the initial offering proceeds.

## Financial Results

The period since April 2014 has been a very active one for the Company. During this time I-RES has acquired a further 866 residential suites, bringing its total number of residential suites to 1,204 as at 31 December 2014, and is now one of the largest non-governmental residential landlords in Ireland. As at 31 December 2014, the Company had invested a total of approximately €317 million across 10 locations in the Dublin area, funded by the net proceeds from the initial offering together with €125 million of debt.

The Company has generated strong growth in all key performance metrics during the period with occupancy levels close to 100% and strong rental growth across the portfolio, with average rental increases of 10%–15% as at 31 December

2014, mirroring the strong market fundamentals in the residential rental sector in Ireland.

The Company's property portfolio was valued at €323.6 million as at 31 December 2014 with total net borrowings of €125 million. The Company's loan to value ratio was 37.6%, well within the 45%–50% limit currently considered prudent by the Company's board of directors (the **"Board"**).

The NAV and EPRA NAV were €201 million, with NAV and EPRA NAV per share of €0.995, as at 31 December 2014. This is a positive outcome in such a short period as the Company has substantially recovered the expenses incurred as part of the initial offering in April 2014 and the cost of acquisition of properties through fair value appreciation. As acquisition activity has been relatively significant over the six-month period to 31 December 2014, adjusting for these transaction costs, which amount to €0.037 NAV per share, the Company's pro-forma NAV per share for 31 December 2014 would have been €1.032, which demonstrates the value growth achieved over the period and the continued strength we are seeing in the underlying rental market.

Basic EPS and EPRA Basic EPS for the period were €0.083 and €0.016, respectively.

## Investment Advisor and Property Manager

The Board is pleased with the significant contribution that the Company's investment advisor and property manager, IRES Fund Management, as well as senior management and other staff of CAPREIT have made to the Company during the period. IRES Fund Management as well as senior management and other staff at CAPREIT have brought a wealth of professional experience in the management of multi-unit residential properties to the Company. We believe



*Beacon South Quarter*

that IRES Fund Management and CAPREIT's contributions will continue to generate further improvement in the Company's operating results.

### Pipeline Agreement

In addition to CAPREIT's investment in the Company, CAPREIT has also demonstrated its willingness to provide support for the development of I-RES through the entering into by CAPREIT Limited Partnership ("**CAPREIT LP**"), a wholly owned subsidiary of CAPREIT, of the pipeline agreement in November 2014, as amended on 9 February 2015 (the "**Pipeline Agreement**"). The Pipeline Agreement was amended to include an underwriting fee of 1% of the purchase price of each property investment acquired under the Pipeline Agreement as part of the acquisition price payable by the Company to CAPREIT LP for each such property investment under the Pipeline Agreement. Under the terms of the Pipeline Agreement, CAPREIT LP made available up to €150 million of funding, which it agreed to use to acquire and hold properties that fell within the Company's investment policy until such time as the Company raises sufficient equity

or debt financing to purchase those properties from CAPREIT LP. The Pipeline Agreement is considered to be a related party transaction under the listing rules of the Irish Stock Exchange (the "**Listing Rules**") and was therefore approved by shareholders at an extraordinary general meeting on 25 March 2015.

The €150 million facility commitment provided by CAPREIT LP to I-RES under the Pipeline Agreement terminated on 26 March 2015 on completion of the Capital Raise (as defined below). The facility commitment may be reauthorised by CAPREIT's board of trustees at a later date.

The Pipeline Agreement allowed the Company the opportunity to participate in certain auction processes at a time when it did not have the cash resources or debt capacity to do so otherwise.

### Events Since the End of the Period

On 28 January 2015, under the terms of the Pipeline Agreement, IRES Residential Properties Limited, an indirect wholly owned subsidiary of CAPREIT LP (the "**Rockbrook SPV**"), acquired a portfolio of 270 residential suites and approximately 50,000 square feet of mixed-use

“We also believe the positive outlook for Ireland and its property market will lead to increased demand in the residential rental sector and an increase in the value of our property portfolio.”

commercial space located in Dublin, Ireland (the **“Rockbrook Portfolio”**) for approximately €87.3 million (including VAT, but excluding other acquisition costs of approximately €2.5 million). The portfolio includes an approximate 2.8-acre development site with associated basement car parking.

On 26 March 2015, the Company issued 215,000,000 ordinary shares pursuant to a firm placing and placing and open offer for €1.00 each per share (the **“Capital Raise”**). In connection with the completion of the Company's Capital Raise, CAPREIT indirectly made a further investment of €23.5 million.

Pursuant to the terms of the Pipeline Agreement, the Company acquired the Rockbrook Portfolio via the acquisition of Rockbrook SPV on 31 March 2015 out of the net proceeds from the Capital Raise. The Rockbrook Portfolio represents a strategic acquisition consisting of 270 residential suites, some of which are in developments where the Company already has a number of residential suites.

Pursuant to the terms of the Company's credit agreement, on 27 March 2015 the Company repaid the entire borrowings of €70.0 million under the bridge facility out of the net proceeds from the Capital Raise and repaid €43.0 million of the €55.0 million of borrowings drawn down under the revolving facility.

### Outlook

Since the initial offering in April 2014 and ongoing, the Company has been in a rapid growth stage, with a significant level of investment activity taking place in the period between the initial offering and 31 December 2014, which it is contemplated will continue going forward. The trading results for the period to 31 December 2014 are therefore not representative of a full year's contribution from the Company's existing investments.

The Board is pleased with the Company's progress and performance and in particular the timely execution of its stated investment strategy.

We also believe the positive outlook for Ireland and its property market will lead to increased demand in the residential rental sector and an increase in the value of our property portfolio.

The Board believes that the Company is well positioned to become one of the leading consolidators of multi-unit residential rental properties in Ireland. As the Company's portfolio increases in size and scale, we are confident this external growth will be augmented by organic growth in cash flows through the implementation of IRES Fund Management's property and asset management programmes. We look forward to the year ahead as we build on our initial success.



**Colm Ó Nualláin**  
Chairman

# Chief Executive Officer's Statement



**IT HAS BEEN A BUSY PERIOD** since April 2014 when we completed the €200 million initial offering through a listing on the Irish Stock Exchange. Since then we have made significant progress with the acquisition of a further 866 residential suites which, together with the 338 residential suites acquired in September 2013, brought the total number of residential suites to 1,204 as at 31 December 2014. The acquisition of the Rockbrook Portfolio by the Company on 31 March 2015 brings the total number of residential suites to 1,474 as of the date of this Report.

As at 31 December 2014, our total property portfolio included approximately 7,699 square meters of commercial space. Upon the completion of the acquisition of the Rockbrook Portfolio by the Company, our total property portfolio includes approximately 12,364 square meters of commercial space as of the date of this Report.

As at 31 December 2014, our total property portfolio had a current asset value of approximately €323.6 million and the Rockbrook Portfolio had a current asset value of approximately €88.93 million.

Our total investment as at 31 December 2014 was approximately €317 million, which was funded through a combination of the net proceeds from the initial offering and €125 million of debt drawn from our €130 million credit facility.

Pursuant to the terms of the Company's credit agreement, on 27 March 2015 the Company repaid the entire borrowings of €70.0 million under the bridge facility out of the net

proceeds from the Capital Raise and repaid €43.0 million of the €55.0 million of borrowings drawn down under the revolving facility.

As at 31 December 2014, the Company's property portfolio had an annualised passing rent of €18.9 million, representing a net initial yield of approximately 5.0%. Occupancy was close to 100% as at 31 December 2014 and the net rental income margin for the past six months was approximately 81%.

The Company's investment advisor and property manager, IRES Fund Management, an indirect wholly owned subsidiary of CAPREIT, has already built a solid operating platform in Dublin with 20 property professionals as at the date of the Report, led by Charles Coyle as Vice President, Acquisitions and Daniel Mack as Associate Vice President, Operations, both of whom bring a significant level of industry expertise to the Company. The team is supported by a number of CAPREIT's Canadian staff who are also frequently in Ireland.



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## Chief Executive Officer's Statement (cont'd)

### Financial Results

The Company's results for the period ended 31 December 2014 clearly demonstrate that I-RES' growth strategy is working. We have invested the proceeds from our initial offering, as well as the majority of our available credit lines.

As the Company is currently in a rapid growth stage of its development cycle, and considering the significant level of investment activity that took place in the last six months of the period being reported on, the trading results are therefore not representative of a full year's contribution from the Company's existing investments.

The Company has generated strong growth in all key performance metrics during the period, with occupancy levels close to 100% and strong rental growth across the portfolio, with average rental growth of 10% to 15% as at 31 December 2014, mirroring the strong market fundamentals in the residential rental sector in Ireland.

The average monthly rent for the Company increased to €1,250 per suite as at 31 December 2014 from €1,070 per suite as at 30 June 2014, largely as a result of the acquisition of the Marker Residences and the Orange portfolio, where average monthly rents are higher compared to the other properties in the Company's property portfolio, and due to an increase in rental rates.

The NAV and EPRA NAV were €201 million, with NAV and EPRA NAV per share of €0.995, as at 31 December 2014. This is a positive outcome in such a short period as we have substantially recovered the expenses incurred as part of the initial offering in April 2014 and the cost of acquisition of properties through fair value appreciation. The increase in fair value reflects a combination of the increased rents achieved on the Company's property portfolio together with the continued increasing demand for high-quality rental accommodation in our chosen markets. For the six-month period 30 June 2014 to 31 December 2014, NAV per share grew by €0.013. This growth was impacted by certain one-off acquisition expenses incurred in relation to the Marker Residences and the Orange portfolio. As acquisition activity has been relatively significant over the six-month period to 31 December 2014, adjusting for these costs, which amount to €0.037 per share, our pro-forma NAV per share for 31 December 2014 would have been €1.032, which demonstrates the value growth achieved over the period and the continued strength we are seeing in the underlying rental market.

The Company's loan to value ratio was 37.6% as at 31 December 2014, well within the 45%–50% limit currently considered prudent by the Board. It remains the Board's intention to use debt financing to fund investments.

Basic EPS was €0.083 and EPRA Basic EPS was €0.016 for the period ended 31 December 2014.

“We are confident that through our attention to detail and our focus on tenant relations, we can continue to maintain high occupancy levels and achieve ongoing rental growth to generate strong cash flows and improved shareholder value over the long term.”



*Priorsgate*

## Property Management and Investment Strategy

The Company's goal is to become the residential landlord of choice in Ireland through the application of a four-pillar approach to property management:

- (i) professional property management,
- (ii) a rigorous focus on maintaining our properties,
- (iii) building and maintaining good relations with our residents, and
- (iv) responding quickly and efficiently to tenant needs.

We are bringing a dedicated professionalism to the rental residential sector that has not previously existed in the Irish market. The Company's property management programmes follow those which have been developed and successfully implemented in Canada by CAPREIT over the past 18 years.

We are confident that through our attention to detail, we can continue to maintain high occupancy levels and achieve ongoing rental growth which will generate strong cash flows and improve shareholder value in the future.

We have proven that we can source and complete accretive acquisitions and we will continue to build on this success going forward.

Ireland's economy is expected to grow in 2015, with consumer demand, trade and investment expected to increase during the year. Consumer confidence is recovering and is now at its highest level since the economic crisis began, boding well for the Irish real estate market as improvements in consumer confidence are likely to lead to increased demand for property in this market sector, leading to increases in residential property prices. A contributing factor to the increase in prices is the lack of supply of quality property coming onto the market, which is leading to competitive bidding taking place for such properties in Dublin.

## Chief Executive Officer's Statement (cont'd)



In addition to expected growth from existing properties, there are exciting acquisition opportunities on the horizon. In addition, the Company, with the acquisition of the Rockbrook Portfolio, has potential planning permissions for completion of a number of suites. With significant infrastructure, such as garages, in place, the Company intends to pursue the sale or joint venture development on an accretive basis of these development opportunities.

### Dividends

Under the Irish REIT regime, subject to having sufficient distributable reserves, the Company will be required to distribute to shareholders at least 85% of the property income of its property rental business for each accounting period. Accordingly, in February 2015, the directors of the Board (the "Directors") resolved to pay a maiden dividend of 0.48 cent per share in the form of an interim dividend, which was paid on 31 March 2015 to shareholders on record as at 20 February 2015.

### Market Overview

We continue to see strengthening fundamentals in the Irish and Dublin multi-unit rental residential business. Ireland's GNP is improving, unemployment is falling and the population is growing. Most importantly, the Company is benefitting from rising rental rates and high occupancy levels as demand continues to

significantly outpace supply in the Irish housing market, with new housing starts expected to remain well under forecasted requirements over the next few years. We are well positioned to capitalise on what we are confident will continue to be increasing demand for high-quality rental accommodation in our chosen markets.

### Outlook

It has been a very busy period since our initial offering in April 2014, but we believe we have just begun to grow and prosper. In a few short months, we have assembled an outstanding portfolio which will serve as our platform going forward. We believe we have built the right team and are well positioned in a strengthening market with very solid and improving fundamentals.

Looking ahead, we believe there are significant opportunities to continue building our business on an accretive basis and increasing long-term shareholder value.

We are excited about our future and look forward to keeping you apprised of our progress.

A handwritten signature in black ink, appearing to read 'David Ehrlich', written over a thin horizontal line.

**David Ehrlich**  
Chief Executive Officer

# IRES Fund Management, Investment Advisor and Property Manager's Statement



**WE ARE PLEASED WITH** our progress to date in growing I-RES' portfolio and enhancing its property operations. The strengthening fundamentals in the Irish multi-unit rental residential market are compelling, and we believe there are significant opportunities going forward to continue increasing the size and scale of the Company's property portfolio and generating solid organic growth across all of its properties.

On completion of the I-RES initial offering, CAPREIT, our indirect parent, acquired an indirect 20.8% beneficial interest in the Company, fully aligning CAPREIT's interest with that of all I-RES shareholders. In connection with the completion of the Company's Capital Raise on 26 March 2015, CAPREIT indirectly made a further investment of €23.5 million. Accordingly, as of the date of this Report, CAPREIT's beneficial interest in the Company is 15.7%.

As a further example of CAPREIT's commitment to the growth and success of I-RES, CAPREIT LP, a subsidiary of CAPREIT, entered into a €150 million Pipeline Agreement with I-RES whereby CAPREIT LP, at the request of I-RES, agreed to indirectly acquire certain targeted properties in Ireland that meet I-RES' criteria and investment policies.

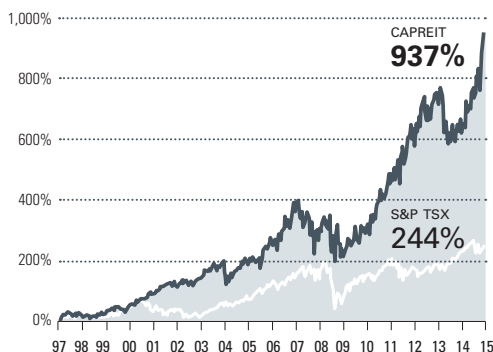
The €150 million facility commitment provided by CAPREIT LP to I-RES under the Pipeline Agreement terminated on 26 March 2015 on completion of the Capital Raise. The facility commitment may be reauthorised by CAPREIT's board of trustees at a later date.

The first transaction completed under this innovative Pipeline Agreement was the purchase by I-RES on 31 March 2015 of the Rockbrook Portfolio from CAPREIT LP via the acquisition of the Rockbrook SPV, comprising 270 residential suites, 4,665 square meters of commercial space and 1.13 hectares of development land centrally located in Dublin, strategically located in the same development as other currently held I-RES suites.

We look forward to working with the Board and I-RES' management team to further grow and enhance the Company's property portfolio while generating industry-leading operating performance.

**Thomas Schwartz**  
President and CEO  
Canadian Apartment Properties REIT

**CAPREIT Total Unitholder Return Since IPO**



## Remarkable Unitholder Returns

Unitholders who invested in CAPREIT's IPO in November 1997 have received a total return of 937% to 31 January 2015, compared to 244% for the overall TSX index.

# Portfolio Overview

The following table provides an overview of the Company's property portfolio as at 31 December 2014.

Property	Acquisition Date	Total Suites Owned by the Company	Total Suites in Development	Commercial Space Owned by the Company in the Development		Average Monthly Rent <sup>(1),(3)</sup>	Occupancy of Suites Owned by the Company <sup>(1),(3)</sup>	Construction Date of Development
				sq. ft.	sq. m.			
<b>Initial Properties</b>								
Kings Court	10-Sep-13	83	83	6,093	566	1,161	100.0%	2006
Grande Central	10-Sep-13	65 <sup>(2)</sup>	195	n/a	n/a	1,366	100.0%	2007
Priorsgate	10-Sep-13	102	198	27,316	2,538	932	100.0%	2007
Camac Crescent	10-Sep-13	90	110	n/a	n/a	1,104	100.0%	2008
Subtotal/Weighted Average		340	586	33,409	3,104	1,117	100.0%	
<b>Property Acquisitions since Initial Offering</b>								
The Laurels	27-Jun-14	19	19	2,045	190	1,011	100.0%	2007
The Marker Residences	18-Jul-14	84	105	13,111	1,218	2,228	98.8%	2012
<b>The Orange Portfolio</b>								
Beacon South Quarter	7-Oct-14	217	850	25,777	2,395	1,375	100.0%	2007/2008
Charlestown	7-Oct-14	235	285	n/a	n/a	1,093	98.7%	2007
Bakers Yard	7-Oct-14	85	132	8,525	792	1,154	100.0%	2007/2008
Lansdowne Gate	7-Oct-14	224	280	n/a	n/a	1,187	100.0%	2005
Subtotal/Weighted Average		864	1,671	49,458	4,595	1,303	99.5%	
<b>Total/Weighted Average</b>		<b>1,204</b>	<b>2,257</b>	<b>82,867</b>	<b>7,699</b>	<b>1,250</b>	<b>99.7%</b>	

Note 1: As at 31 December 2014

Note 2: This includes two additional suites purchased in August and October 2014, respectively.

Note 3: Based on residential suites

## Initial Properties

The Company acquired the initial properties in September 2013 for a cash consideration of approximately €42.4 million (including VAT of €3.7 million but excluding other acquisition costs of €1.8 million). The initial properties consist of 338 residential suites and approximately 3,104 sq. m. (33,409 sq. ft.) of commercial space across four separate locations in the greater Dublin area in proximity to major roads and/or urban transportation infrastructure.



from left to right: Kings Court; Grande Central; Priorsgate

### **Kings Court**

*83 residential suites  
Smithfield, Dublin 7*

Kings Court was constructed in 2006 and is a residential development located at 45-48 North King Street, Dublin 7. The development consists of 83 residential suites dispersed over four blocks and 566 sq. m. (6,093 sq. ft.) of commercial space, all of which is owned by the Company. The entire development is constructed over a common basement with 65 car park spaces.

The Company's 83 residential suites consist of 25 one-bedroom, 54 two-bedroom and four three-bedroom residential suites. At 31 December 2014 the property was valued at €16.3 million and the annualised rent roll at that time for both residential and commercial was €1.2 million, giving a gross yield of 7.4% (gross yield of 10% based on the original purchase price including VAT but excluding other acquisition costs) and occupancy for residential suites was at approximately 100%.

### **Grande Central**

*65 residential suites  
Sandyford, Dublin 18*

Grande Central was constructed in 2007 and is a residential development located within the suburb of Sandyford, Dublin 18, approximately 8 km south of Dublin City Centre. The development is on a 0.5-hectare site and consists of a purpose-built apartment block with 195 residential suites, of which 65 are owned by the Company (which includes two additional residential suites that were acquired in August and October, 2014). The entire development is constructed over a common basement with a single car park space per residential suite.

The Company's 65 residential suites consist of 10 one-bedroom, 34 two-bedroom and 21 three-bedroom residential suites. At 31 December 2014 the property was valued at €18.6 million and the annualised rent roll at that time was €1.1 million, giving a gross yield of 5.7% (gross yield of 10% based on the original purchase price including VAT but excluding other acquisition costs) and occupancy was at approximately 100%.

### **Priorsgate**

*102 residential suites  
Tallaght, Dublin 24*

Priorsgate was constructed in 2007 and is a residential development on a 2.6-acre site located in Tallaght, Dublin 24 approximately 10 km southwest of Dublin City Centre. The development consists of 198 residential suites dispersed over three blocks, of which 102 are owned by the Company. The Company also owns eight adjacent commercial units with a total of 2,538 sq. m. (27,316 sq. ft.). The entire development is constructed over a common basement with a single car park space per residential suite. Included with the property is an adjoining detached building on a site of 0.18 hectare (0.44 acre) known as Bruce House Site.

The Company's 102 residential suites, which are dispersed over the three blocks, consist of 49 one-bedroom, 47 two-bedroom, five three-bedroom and one four-bedroom residential suites. At 31 December 2014 the property was valued at €17.0 million. The annualised rent roll at that time for both residential and commercial was €1.3 million, giving a gross yield of 7.6% (gross yield of 14% based on the original purchase price including VAT but excluding other acquisition costs) and occupancy for residential suites was at approximately 100%.

## Portfolio Overview (cont'd)



*Camac Crescent*

### **Camac Crescent**

*90 residential suites  
Inchicore, Dublin 8*

Camac Crescent was constructed in 2008 and is a residential development on a 0.56-hectare site located in Inchicore, Dublin 8, approximately 3 km west of Dublin City Centre. The development consists of 110 residential suites dispersed over six blocks, of which 90 are owned by the Company. The entire development is constructed over a common basement with a single car park space per residential suite.

The Company's 90 residential suites consist of 21 one-bedroom, 49 two-bedroom and 20 three-bedroom residential suites. At 31 December 2014 the property was valued at €16.1 million. The annualised rent roll at that time was €1.2 million, giving a gross yield of 7.4% (gross yield of 12% based on the original purchase price including VAT but excluding other acquisition costs) and occupancy was at approximately 100%.

### **Property acquisitions from the Company's initial offering to 31 December 2014**

During the period from the Company's initial offering in April 2014 to 31 December 2014, the Company has acquired an additional 866 residential suites (in aggregate), as well as potential future development sites at certain properties plus ancillary commercial space, being the Laurels, the Marker Residences, the Orange portfolio and two additional residential suites at Grande Central, for an aggregate purchase price of approximately €263.9 million (including VAT of €16.9 million but excluding other costs of acquisition of approximately €7.6 million).

As at 31 December 2014, the Company's property portfolio was comprised of 1,204 residential suites and ancillary commercial units, generating a current annualised residential rental income (net of vacancies) of approximately €18.1 million, and annualised commercial income (net of vacancies) of €0.8 million, making it one of the largest non-governmental residential landlords in Ireland. In addition, the Company has potential future development sites at certain properties.

The Company continues to generate increases in rental income arising from renewals and turnovers of residential suites within its overall property portfolio of on average 10% to 15% as at 31 December 2014. The total property portfolio occupancy was 99.7% and average monthly rent was €1,250 per suite as at 31 December 2014.

The increased rental income together with the effectiveness of the professional cost management programmes of IRES Fund Management are reflected in the Company's current net operating margin of approximately 81% (year to date approximately 79%) as at 31 December 2014.



*The Laurels*

### **The Laurels**

*19 residential suites  
Tallaght, Dublin 24*

The Company acquired the Laurels, located in Tallaght, Dublin 24, in June 2014. The development was constructed in 2007 and consists of 19 residential suites, all of which are owned by the Company. The Company also owns 190 sq. m. (2,045 sq. ft.) of commercial space in the form of one large unit which could be split into two units. The purchase price of €2.1 million (including VAT of €0.2 million but excluding other acquisition costs of €0.1 million) was funded by the Company's cash on hand. The property is situated in close proximity to Priorsgate, a property included in the Initial Portfolio.

The Laurels consists of four one-bedroom, 13 two-bedroom and two three-bedroom residential suites. At 31 December 2014 the property was valued at €2.7 million. The annualised rent roll at that time for both residential and commercial was €0.2 million, giving a gross yield of 8.6% (gross yield of 11% based on the original purchase price including VAT but excluding other acquisition costs) and occupancy for the residential suites was at approximately 100%.



*The Marker Residences*

### **The Marker Residences**

*84 residential suites  
Grand Canal Dock, Dublin*

The Company acquired the Marker Residences, located in the Grand Canal Dock area of Dublin 2, in July 2014. The development consists of 102 luxury residential suites, of which 84 were acquired by the Company, and approximately 1,218 sq. m. (13,111 sq. ft.) of commercial space, all of which was acquired by the Company. The purchase price of approximately €50.1 million (VAT not applicable and excluding other acquisition costs of €1.7 million) was funded by the Company's cash on hand.

The Company's 84 residential suites are all two-bedroom residential suites. At 31 December 2014 the property was valued at approximately €54.8 million. The annualised rent roll at that time for both residential and commercial was €2.5 million, giving a gross yield of 4.6% (gross yield of 5% based on the original purchase price including VAT but excluding other acquisition costs) and occupancy for the residential suites was at approximately 98.8%.



*Beacon South Quarter*

### **The Orange Portfolio**

The Company acquired the Orange Portfolio, the first residential portfolio brought to market by National Asset Management Agency ("**NAMA**") in October 2014. The development consists of 1,547 residential suites, of which the Company acquired 761 residential suites, in four properties located in the greater Dublin area neighbourhoods of Charlestown, Lansdowne Gate, Beacon South Quarter and Bakers Yard, as well as a total of approximately 3,187 sq. m. (34,302 sq. ft.) of commercial space located at two of the properties and development lands at two locations. The purchase price of approximately €211.3 million (including VAT of €16.7 million but excluding other acquisition costs of €5.8 million) was funded by the Company's cash on hand and by drawing down €125 million under the New Credit Facility.

### **Beacon South Quarter**

*217 residential suites  
Sandyford, Dublin 18*

Beacon South Quarter was constructed in 2007/2008 and is a landmark mixed-use development on 13 acres located in Sandyford, Dublin 18. A number of major employers are located in the immediate neighbourhood, including Vodafone, Merrill Lynch and Microsoft, and the development is adjacent to the LUAS light rail line to the city centre. The Beacon South Quarter development includes many high-end occupiers including private medical care, leisure and a selection of food and lifestyle shops. The

*(continued on page 18)*



Charlestown

*(continued from page 17)*

development consists of 850 luxury residential suites, of which 217 are owned by the Company. The Company also owns approximately 2,395 sq. m. (25,777 sq. ft.) of ancillary commercial space within the development. In addition, the Company owns three adjacent development sites with planning consent for 132 residential suites and 6,847 sq. m. (73,701 sq. ft.) of commercial space.

The Company's 217 residential suites consist of 26 one-bedroom, 165 two-bedroom and 26 three-bedroom residential suites. At 31 December 2014 the property was valued at €76.2 million. The annualised rent roll at that time for both residential and commercial was €3.9 million, giving a gross yield of 5.1% (gross yield of 5% based on the original purchase price including VAT but excluding other acquisition costs) and occupancy for the residential suites was at approximately 100%.

### **Charlestown**

*235 residential suites  
Finglas, Dublin 11*

Charlestown was constructed in 2007 and is a mixed-use development set on 40 acres in Finglas, Dublin 11. The property consists of 285 residential suites, of which 235 are owned by the Company. The overall development comprises facilities for tenants including a shopping centre, a medical centre and a variety of leisure and restaurant operators. The property is located approximately 9.5 km from Dublin City Centre and 8 km from Dublin airport and is adjacent to the main M50 and M2 transportation corridors.

The Company's 235 residential suites consist of 36 one-bedroom, 164 two-bedroom and 35 three-bedroom residential suites. At 31 December 2014 the property was valued at approximately €47.8 million. The annualised rent roll at that time was €3.1 million, giving a gross yield of 6.5% (gross yield of 6% based on the original purchase price including VAT but excluding other acquisition costs) and occupancy was at approximately 98.7%.

## Portfolio Overview (cont'd)



Bakers Yard

### **Bakers Yard**

*85 residential suites  
Portland Street North, Dublin 1*

Bakers Yard was constructed in 2007/2008 and is a multi-unit development on 1.4 acres adjacent to Dublin City Centre in Dublin 1. It is within walking distance of many large government and private sector employers, as well as local and national public transport infrastructure. The development consists of 132 residential suites, of which 85 are owned by the Company. The Company also owns approximately 792 sq. m. (8,525 sq. ft.) of ancillary commercial space within the development. In addition, the Company owns an adjoining 0.45-acre site with planning consent for a further 55 residential suites and three ground floor commercial units.

The Company's 85 residential suites consist of 13 one-bedroom, 60 two-bedroom and 12 three-bedroom residential suites. At 31 December 2014 the property was valued at approximately €19.3 million. The annualised rent roll at that time for both residential and commercial was €1.2 million, giving a gross yield of 6.5% (gross yield of 7% based on the original purchase price including VAT but excluding other acquisition costs) and occupancy for the residential suites was at approximately 100%.



*Lansdowne Gate*

### **Lansdowne Gate**

*224 residential suites  
Drimnagh, Dublin 12*

Lansdowne Gate was constructed in 2005 and is a superior quality development on 5.5 acres in Drimnagh, Dublin 12. The property is located adjacent to the LUAS light rail system, 5 km from the city centre and within walking distance of numerous larger employers, as well as shopping and leisure facilities. The development consists of 280 residential suites, of which 224 are owned by the Company, set in 11 blocks over semi-basement car parking, with the benefit of a centralised district heating system, landscaped gardens and a children's playground.

The Company's 224 residential suites consist of 23 one-bedroom, 146 two-bedroom and 55 three-bedroom residential suites. At 31 December 2014 the property was valued at €54.8 million. The annualised rent roll at that time was €3.2 million, giving a gross yield of 5.8% (gross yield of 5% based on the original purchase price including VAT but excluding other acquisition costs) and occupancy was at approximately 100%.



*Rockbrook*

### **Properties acquired since 31 December 2014**

#### **The Rockbrook Portfolio**

The Rockbrook Portfolio was acquired on 28 January 2015 by Rockbrook SPV from a receiver on behalf of NAMA and Allied Irish Banks p.l.c. ("**AIB**") (as security trustee for AIB and KBC Bank Ireland plc) for a purchase price of approximately €87.3 million (including VAT but excluding other acquisition costs of €2.5 million). The acquisition of the Rockbrook Portfolio was the first transaction under the Pipeline Agreement. The Rockbrook Portfolio consists of 270 residential suites and mixed-use commercial space of approximately 4,665 sq. m. (50,214 sq. ft.) generating rental income. The portfolio also includes a development site of approximately 1.13 hectares (2.8 acres) and associated basement car parking.

Based on the rent roll information available on the acquisition date of the Rockbrook Portfolio, being 28 January 2015, the properties acquired by Rockbrook SPV were 95% occupied and had gross passing residential rents of approximately €4.4 million and commercial rents of €0.3 million (total €4.7 million). At 31 December 2014 the property was valued at €88.93 million, giving a gross yield of 5.3% (gross yield of 5.4% based on the original purchase price including VAT but excluding other acquisition costs). The rents in the Rockbrook Portfolio are considered to be below market and on acquisition by the Rockbrook SPV on 28 January 2015 it was 95% occupied, compared to the Company's suites in the same development which were 98.9% occupied as at 31 January 2015.

The Rockbrook Portfolio was acquired by the Company on 31 March 2015 via the acquisition of the Rockbrook SPV.

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# Investment Policy and Strategy

## Business model

IRES Fund Management applies the following professional business model to the growing I-RES property portfolio:

- (i) make strategic and accretive acquisitions to diversify and expand the size and scale of the Company's property portfolio.
- (ii) apply proven property operating programmes to increase cash flows.
- (iii) reduce operating costs through efficient energy management initiatives and sophisticated purchasing programmes.
- (iv) employ a "hands-on" approach to managing properties to maximise occupancies, with steady increases in monthly rents.

## Investment Policy

The Company's aim is to assemble a portfolio within its focus activity of acquiring, holding and managing investments primarily focused on multi-unit residential real estate located in Ireland and ancillary and/or strategically located commercial property, for third party rental, in Ireland principally within the greater Dublin area and other major urban centres in Ireland (the "**Focus Activity**"). The vast majority of such properties acquired will form the Company's property investment portfolio for third party rental. The Company may also acquire properties and portfolios which include other assets, subject always to a maximum limit of 20% of the overall gross value of property assets, provided there is a disposal plan in place in connection with such assets which have been deemed non-strategic and do not meet the Company's investment objectives or which could otherwise have an adverse effect on the Company's status as an Irish REIT.

The Board intends to focus on creating both sustainable income and strong capital returns. Based on the assumption, which the Directors and senior management team believe to be reasonable in the circumstances, that the current growth in rents that the Company is achieving will continue in the near term, the Company targets a total shareholder return of 10% to 15% per annum (pre-taxation) once the net proceeds of the Capital Raise completed in March 2015 are fully invested and gearing is at or near the maximum permitted level (being 50% LTV) for a period of at least 12 months. This is a target return only and not a profit forecast. There can be no assurance that this target can or will be met and it should not be seen as an indication of the Company's expected or actual results or returns. Accordingly, investors should decide for themselves whether or not the target return is reasonable or achievable and should not place any reliance on this target return in deciding whether to invest in the shares, or assume that the Company will make any distributions at all.

The Company may also acquire indebtedness secured by properties (including in respect of buy-to-let properties) within its Focus Activity where it intends to gain title to and control over the underlying property. There is no limit on the proportion of the Company's portfolio that consists of indebtedness secured by properties.

The Board intends to focus on properties which require active management and which are expected to benefit from the expertise of its management team, which includes employees of CAPREIT (the “**Management Team**”).

The Company will also have the ability to enter into a variety of investment structures, including joint ventures, acquisitions of controlling interests, acquisitions of minority interests or other structures including, but not limited to, for revenue producing purposes in the ordinary course of business, within the parameters stipulated in the Irish REIT regime. There is no limit imposed on the proportion of the Company’s portfolio that may be held through such structures.

The Company will not invest more than 20% of its gross assets, directly or indirectly, in a single underlying asset, or in one or more collective investment undertakings or be more than 20% exposed to the creditworthiness or solvency of any one counterparty.

#### **Investment Criteria and Portfolio Characteristics**

The Board intends that the portfolio of real estate assets already acquired (and to be acquired) by the Company already have (and will normally have) a majority of the following characteristics:

- (a) Multi-unit residential properties across the affordable, mid-tier and luxury accommodation sectors and ancillary and/or strategically located commercial property located in the greater Dublin area and other urban centres in Ireland;
- (b) Scope for short- and medium-term value enhancement through active asset management;
- (c) Opportunities to enhance the quality of the property;
- (d) Opportunities to create tangible value by undertaking initiatives to develop a sense of community amongst tenants consistent with the Management Team’s Canadian practices and expertise;
- (e) Properties at capitalisation rates that the Company believes are attractive considering all factors including growth potential, location, building quality, market and economic conditions and other relevant considerations, having regard to the Target Shareholder Return;

- (f) Properties which can be acquired close to (and ideally below) replacement cost;
- (g) Properties which have strong prospects of generating income in the short to medium term in order to support the Company’s dividend policy;
- (h) Properties providing value enhancement opportunities through intensification, redevelopment or project completion, such properties to be held for the purposes of the Company’s property rental business, where the AIFM and IRES Fund Management believe that this can be effected on a basis that will add value to the Company’s portfolio, subject always to the aggregate costs to be incurred in respect of assets under development at any time not exceeding 15% of the Company’s most recently published net asset value; and
- (i) Properties in markets where there is strong and/or improving demand for multi-unit residential rental accommodation and ancillary and/or strategically located commercial property.

#### **Investment Sourcing**

Many members of the Management Team have track records in acquiring multi-unit residential real estate investments which they have demonstrated in Canada, where they have grown CAPREIT’s property holdings from 2,900 residential suites located primarily in Ontario and Nova Scotia to 41,688 residential suites from coast to coast in Canada as at 31 December 2014. The Directors believe that the Company is well placed to secure properties which meet its investment criteria due to the Management Team’s acquisition experience, established relationships and availability of equity capital and debt financing. The Board is currently evaluating a number of potential property investments in line with the Investment Policy.

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## Investment Policy and Strategy (cont'd)

### **Banking Institutions/Receivers/Borrowers**

The excessive use of gearing in the development of Irish residential real estate, particularly in the middle part of the last decade, and the subsequent severe re-pricing in values has resulted in banking institutions that provided credit for such developments having significant legacy exposure, both directly and indirectly, to Irish residential real estate assets. The Board believes that, based on the Central Bank of Ireland's quarterly resolution targets for mortgage arrears, the banks operating in the Irish banking sector will have developed various strategies including divestment of properties with respect to their legacy real estate exposures and multi-unit residential real estate assets that have not been transferred to NAMA.

The Board also believes that assets may become available directly from Irish banks and the Irish operations of non-Irish banks, from receivers appointed over the assets, from borrowers who are selling under the guidance of the banks or receivers and from private owners. In addition, legislation was enacted in February 2013 providing for the winding-up of Irish Bank Resolution Corporation Limited (formerly Anglo Irish Bank). The Board believes that property sales by any or all of these entities could result in opportunities for the Company to acquire Irish multi-unit residential real estate assets at attractive price levels.

### **National Asset Management Agency ("NAMA")**

NAMA was established in December 2009 as one of a number of initiatives taken by Ireland to address the liquidity problems which arose in Ireland's banking sector as the result of excessive property lending, to acquire loan assets from participating Irish financial institutions.

The Directors believe that NAMA's current activities are focused on asset management, on management of debtors and on maximising the proceeds to be realised from asset portfolio sales. NAMA is understood to be assessing a number of strategies, including the phased and orderly disposal of certain of its assets, which it has implemented over the last few months, including the sale of the Orange Portfolio, and which it is continuing. According to the NAMA Annual Statement, it has reviewed business plans for all debtor connections and has agreed upon schedules for asset sales by debtors (Source: NAMA Annual Statement 2014). In 2014 NAMA oversaw asset sales which generated proceeds of €7.8 billion, a figure equivalent to 42% of NAMA's total asset sales since its inception. NAMA has committed to ensuring that a strong flow of

asset and loan portfolios will be offered to the market in 2015 (Source: NAMA End of Year review for 2014). The Company expects NAMA's orderly disposal of certain of its real estate asset-backed loan portfolios to create further liquidity within the Irish property investment market. Purchasers of such portfolios may also seek to dispose of some or all of the underlying real estate assets acquired. Moreover, the Directors believe that the disposal of real estate assets held by debtors or NAMA and receivers acting on behalf of debtors or NAMA will also be a source of opportunities for the Company.

### **Private Equity Investors**

A number of institutions, including Lloyds Banking Group, Allied Irish Bank and NAMA, have sold Irish real estate and asset-backed loan portfolios in the past 24 months to international private equity firms and to the Company. The Board believes that further Irish real estate asset-backed loan portfolios will be sold and they anticipate some of these portfolios will be acquired by private equity firms due to significant market interest from such investors for loan portfolios. The Company expects that such private equity firms will seek to dispose of some or all of the underlying real estate assets which should provide a source of investment opportunities for the Company to acquire assets that meet its investment criteria.

### **Gearing**

The Company seeks to use gearing to enhance shareholder returns over the long term. The level of gearing is monitored carefully by the Board in light of the cost of borrowing and the Company may seek to use hedging where considered appropriate to mitigate interest rate risk.

The Board intends that gearing, represented by the Company's aggregate borrowings as a percentage of the market value of the Company's total assets, will not exceed the 50% maximum permitted under the Irish REIT regime. The Board reviews the Company's gearing policy (including the level of gearing) from time to time in light of then-current economic conditions, relative costs of debt and equity capital, fair value of the Company's assets, growth and acquisition opportunities and other factors the Board may deem appropriate, with the result that the Company's level of gearing may be lower than 50%. Given the stability of the multi-unit residential sector, a range of 45% to 50% gearing is currently considered prudent by the Board.

### Restrictions

Pursuant to the Irish REIT regime, the Company is required, among other things, to conduct a property rental business consisting of at least three properties, with the market value of any one property being no more than 40% of the total market value of the properties in the Company's property rental business. The Company has a three-year grace period from the date of becoming an Irish REIT to comply with these requirements. The Company complies with these requirements as at the date of this Report as it already owns multi-unit residential properties in 10 separate locations, none of which currently accounts for more than 40% of the aggregate market value of those existing properties.

Further, under the Irish REIT regime at least 75% of the Company's annual aggregate income must be derived from its property rental business and at least 75% of the market value of its assets, including uninvested cash, must relate to its property rental business.

### Warehousing and Pipeline Arrangements

If the Company is unable to participate in sales processes for property investments because it has insufficient funds and/or debt financing available to it, including where its gearing is at or close to the maximum permitted level under the Irish REIT regime, the Company is permitted to acquire property investments that meet the criteria specified in its Investment Policy (including the acquisition of shares in property holding companies) from time to time in accordance with the terms of warehousing or pipeline arrangements (including the Pipeline Agreement) entered into or to be entered into by it with third parties, in each case, without shareholder approval and for a price calculated on a basis that has been approved in advance by the Directors of the Company.

### Key Performance Indicators

To assist investors in monitoring and evaluating the Company's achievement of its objectives, the Company has defined a number of key operating and performance indicators to measure the success of its operating and financial strategies:

Key Operating and Performance Indicators	As at 31 December 2014	
<b>Occupancy</b>	<b>99.7%</b>	Through a focused, hands-on approach to the business, IRES Fund Management strives to achieve occupancies that are in line with, or higher than, market conditions while enhancing the overall qualitative profile of the Company's resident base.
<b>Average Monthly Rents</b>	<b>€1,250</b>	Through active property management strategies, the lease administration system and proactive capital investment programs, IRES Fund Management strives to achieve average monthly rents in accordance with local market conditions.
<b>Net Rental Income</b>	<b>79%</b>	By applying proven property operating programmes, IRES Fund Management strives to achieve an annual net operating income margin that is approximately 80% of operating revenues.
<b>EPRA NAV per Share</b>	<b>€0.995</b>	Focus on growing asset value and maximising shareholder value through active and efficient asset and property management.

## I-RES Board of Directors



**Colm Ó Nualláin**

*Independent Non-Executive Chairman*

**APPOINTED:** 31 March 2014

**NATIONALITY:** Irish

**COMMITTEE MEMBERSHIP:**

Audit, Remuneration (Chair) and Nomination

Colm Ó Nualláin recently retired after more than 20 years as Finance Director of Grafton Group plc, a leading builders merchant group quoted on the London Stock Exchange. Mr Ó Nualláin is a qualified Chartered Accountant with international experience and has previously held senior financial positions in a number of public and semi-state companies.



**Declan Moylan**

*Independent Non-Executive Director*

**APPOINTED:** 31 March 2014

**NATIONALITY:** Irish

**COMMITTEE MEMBERSHIP:**

Audit, Remuneration and Nomination (Chair)

Declan Moylan is a solicitor admitted in Ireland, with over 40 years' experience in business law practice, and in practice management. From 1999 until 2008, Mr Moylan served as managing partner of Mason Hayes & Curran, and subsequently as chairman of Mason Hayes & Curran from 2008 until his retirement from that position in 2013. Mr Moylan is currently of counsel to Mason Hayes & Curran. Mr Moylan is a member of the Law Society of Ireland, the Law Society of England and Wales, the International Bar Association and the Irish Centre for European Law. Mr Moylan is a director of several Irish companies and is a member of the Board of Trustees of Dublin City University Educational Trust.



**Aidan O'Hogan**

*Independent Non-Executive Director*

**APPOINTED:** 31 March 2014

**NATIONALITY:** Irish

**COMMITTEE MEMBERSHIP:**

Audit (Chair), Remuneration and Nomination

Aidan O'Hogan is a fellow of the Society of Chartered Surveyors Ireland and past president of the Irish Association of Valuers Institute. In 2009, Mr O'Hogan retired as chairman of Savills Ireland after 40 years as a real estate professional. Mr O'Hogan is currently chairman of Property Industry Ireland. Mr O'Hogan was previously managing director and chairman of Hamilton Osborne King for almost 20 years.



**Thomas Schwartz**

*Non-Executive Director*

*(Nominee of IRES Fund Management)*

**APPOINTED:** 31 March 2014

**NATIONALITY:** Canadian

**COMMITTEE MEMBERSHIP:**  
Small Transactions

Thomas Schwartz, with over 35 years of real estate experience, is a director of IRES Fund Management. Mr Schwartz qualified as a Chartered Accountant in 1975 and went on to pursue a career in real estate development. Mr Schwartz founded Intraurban Projects to specialise in the development of new housing projects in mature communities. Intraurban has built and developed over 2,500 housing units serving all market segments and through York Heritage Properties has participated in the development, construction and management of over 600,000 sq. ft. of commercial space. In 1997, Mr Schwartz founded CAPREIT, Canada's first apartment real estate investment trust. Mr Schwartz is currently President and Chief Executive Officer of CAPREIT and has supervised CAPREIT's growth from 2,900 residential units to 41,688, with an

estimated total asset value of approximately C\$5.9 billion as at 31 December 2014. Mr Schwartz is active in industry and government affairs and is currently on the Board of Trustees of CAPREIT; the Board of Directors of Chartwell Seniors Housing REIT; the Board of Directors of REALpac; and the Board of Directors of the Mount Sinai Hospital Foundation. Mr Schwartz is also a member of the Schulich School of Business Advisory Council – Program in Real Estate and Infrastructure.



**David Ehrlich**

*Executive Director*

**APPOINTED:** 31 March 2014

**NATIONALITY:** Canadian

**COMMITTEE MEMBERSHIP:**  
Small Transactions

David Ehrlich is Chief Executive Officer of I-RES. Mr Ehrlich graduated from Dalhousie Law School in 1977 and has been a member of the Nova Scotia Barristers Society since 1979 (and a continuing member of the Law Society of Upper Canada since 1986). For over 10 years, until 31 December 2013, Mr Ehrlich was a senior partner at Stikeman Elliott LLP, a leading Canadian business law firm with offices in the principal cities of Canada

as well as New York, London and Sydney. During his years practising as a lawyer Mr Ehrlich acted for a number of Canada's leading real estate investment trusts, investment banks, life insurance companies, banks, pension funds, developers, property owners, asset managers and governmental agencies. Since 1986, he has focused his practice on the public real estate markets and was involved in creating the real estate investment trust industry in Canada from its inception, including the formation of CAPREIT. Mr Ehrlich has been involved in all significant aspects of CAPREIT's acquisition, financing and capital market activities and has worked closely with all of its senior management. Mr Ehrlich is also a Trustee of CAPREIT.

# CAPREIT and IRES Fund Management Senior Management



**Thomas Schwartz**  
*President and Chief Executive  
Officer of CAPREIT*

See Board of Directors' profiles for further details.



**Mark Kenney**  
*Chief Operating Officer  
of CAPREIT*

With over 24 years of experience in the multi-unit residential rental property sector and as Chief Operating Officer of CAPREIT, Mark Kenney is actively involved in creating and implementing company policy, directing the property management team, overseeing marketing, procurement and energy initiatives, and performing operational due diligence on potential acquisitions. Prior to joining CAPREIT in 1998, Mr Kenney held a senior position at Realstar Management Partnership, overseeing portfolios in Western Canada and Northern Ontario, as well as leadership roles at Greenwin Property Management and Tridel, where he managed various property portfolios in the Greater Toronto Area. Mr Kenney is the vice-chairman of the Federation of Rental-Housing Providers of Ontario and was a founding director of the Greater Toronto Apartment Association from 1998 to 2009. Mr Kenney holds a bachelor of economics degree from Carleton University.



**Scott Cryer**  
*Chief Financial Officer  
of CAPREIT*

Scott Cryer joined CAPREIT in 2009 and is currently Chief Financial Officer. Mr Cryer most recently held the position of Vice President, Financial Reporting. Prior to joining CAPREIT, Mr Cryer had an 11-year career with increasing responsibility in the Real Estate Assurance and Advisory practice of Deloitte & Touche LLP. Mr Cryer received his Chartered Accountant designation in 2000 and holds a bachelor of economics degree from the University of Western Ontario.



**Corinne Pruzanski**  
*General Counsel and Corporate  
Secretary of CAPREIT*

Corinne Pruzanski joined CAPREIT as General Counsel and Corporate Secretary in 2011, with responsibility for all legal and governance matters relating to CAPREIT, including CAPREIT's acquisitions, dispositions, financing arrangements and compliance with laws. Prior to joining CAPREIT, Ms Pruzanski was a partner at the law firm Stikeman Elliott LLP, which she joined as an associate in 2004 after working as a lawyer in New York for seven years. Ms Pruzanski was admitted to the Bar in Ontario in 1996 and

in New York in 1997, and holds a bachelor of law degree from the University of British Columbia and a bachelor of arts degree from York University.



**Charles Coyle**  
*Vice President, Acquisitions*

IRES Fund Management has appointed Charles Coyle as Vice President, Acquisitions. Prior to his appointment, Mr Coyle was employed in a senior position with NAMA. Prior to that, Mr Coyle worked with Goodbody Stockbrokers sourcing, structuring, financing and managing property transactions on behalf of private clients. Over the past two decades, Mr Coyle has been involved in property transactions valued at in excess of €2 billion.

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# Corporate Governance Statement

## Introduction

The Board is committed to developing and maintaining a high standard of corporate governance. This is the first period of operation for the Company and accordingly the Company has worked during the period to ensure that all relevant procedures are in place. From the date of admission on the Irish Stock Exchange on 16 April 2014 (the **"Initial Admission"**), the Company has sought to achieve compliance with the relevant requirements and procedures as set out by the Irish Corporate Governance Annex to the UK Corporate Governance Code (**"Irish Annex"**) (found at [www.ise.ie/Products-Services/Sponsors-and-Advisors/Irish-Corporate-Governance-Annex.pdf](http://www.ise.ie/Products-Services/Sponsors-and-Advisors/Irish-Corporate-Governance-Annex.pdf)), UK Corporate Governance Code 2012 (**"UK Code"**) (found at [www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-September-2012.aspx](http://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-September-2012.aspx)) and the Association of Investment Companies Code of Corporate Governance (**"AIC Code"**) (found at [www.theaic.co.uk/sites/default/files/uploads/files/AICCodeofCorporateGovernanceFeb15.pdf](http://www.theaic.co.uk/sites/default/files/uploads/files/AICCodeofCorporateGovernanceFeb15.pdf)), except as outlined below. To this end, the Board has established an Audit Committee, a Remuneration Committee and a Nomination Committee, each as described in the Report, composed of independent non-executive directors.

Certain requirements of the codes have not been fully implemented to date due to the short period since Initial Admission. However, the Board has established procedures to ensure that all the relevant requirements are complied with on an ongoing basis.

This Report, including the Corporate Governance Statement, can be accessed electronically on our website at [www.iresreit.ie](http://www.iresreit.ie).

## The Board of Directors

The Board is responsible for providing governance and stewardship to the Company and its business. This includes establishing goals for management and monitoring the achievement of these goals. The Company has entered into an AIFM agreement between the Company and the AIFM dated 1 April 2014, as amended and restated with effect from 1 November 2014 (the **"AIFM Agreement"**), to provide the Company with portfolio management, risk management and other services in relation to assets or

properties which may be acquired or held or disposed of by the Company (**"Investments"**) and to act with day-to-day authority, power and responsibility for the Investments. The AIFM has also entered into a delegation agreement with IRES Fund Management dated 1 April 2014, as amended and restated with effect from 1 November 2014 (the **"Delegation Agreement"**), to provide the AIFM with certain asset and property management services for which the AIFM has responsibility under the AIFM Agreement.

The Board oversees the performance of the AIFM and the Company's activities. The AIFM has discretionary authority to enter into transactions for and on behalf of the Company, save for certain matters which require the consent of the Board. The Board is at all times free to offer ideas to the AIFM and IRES Fund Management relating to the structure of a transaction so as to provide the Company the greatest value.

Directors are expected to participate in all scheduled Board meetings as well as each annual general meeting.

All Directors are furnished with information necessary to assist them in the performance of their duties. The Board meets at least four times each calendar year and, prior to such meetings taking place, an agenda and board papers are circulated to the Directors so that they are adequately prepared for the meetings. The Company Secretary is responsible for the procedural aspects of the Board meetings. Directors are, where appropriate, entitled to have access to independent professional advice at the expense of the Company.

Any director appointed to the Board by the Directors will be subject to election by the shareholders of the Company at the first annual general meeting after his or her appointment. Furthermore, under the Articles of Association, all Directors must retire each year and may seek re-election.

Details of the remuneration of Directors are set out in the Directors' remuneration report on page 36.

The Articles of Association of the Company provide that the number of directors that may be appointed cannot be more than nine (9) nor less than two (2) and that two Directors present at a directors' meeting shall be a quorum. The size and composition of the Board is reviewed regularly to ensure that the Board has an appropriate mix of expertise and experience.

## Corporate Governance Statement (cont'd)

On appointment, new directors are provided with induction training. In addition, Directors are invited to tour part of the Company's property portfolio with the Chief Executive Officer or a senior representative of IRES Fund Management in order to familiarise themselves with the Company's operations, property management and a segment of the property portfolio. This meeting also provides Directors with an opportunity to ask any questions they may have on the nature and operations of the business, and on the implementation of the Company's business strategy. The Board also intends to arrange for presentations from IRES Fund Management and the Company's external valuers, legal and other advisors on matters relevant to the Company's business. The Board intends to assess the training needs of the Directors on an annual basis.

The Board plans to carry out an evaluation of its performance on an annual basis. The first such evaluation, which was internally managed, took place in the first quarter of 2015. The evaluation reviewed the balance of skills, experience, independence and knowledge of the Board and the effectiveness of the Board and its committees in its workings. Directors were also evaluated individually to assess their contribution and effectiveness. The evaluation was facilitated using a questionnaire-based approach and the Chair of the Nomination Committee reported on the results of the evaluation at the quarterly board meeting in March. The Board considers that the use of individual questionnaires and follow-up meetings, if deemed necessary, ensures the most robust and objective approach possible. The senior independent non-executive director (the "**Senior Independent Director**") also met with the non-executive Directors (other than the Chairman) to appraise the Chairman's performance.

As at the date of this Report, there are five (5) Directors on the Board. The Chief Executive Officer, David Ehrlich, is an Executive Director. Colm Ó Nualláin, Aidan O'Hogan, Declan Moylan and Thomas Schwartz are Non-Executive Directors. The biographies of all the Directors appear in this Report on pages 24 to 25.

Colm Ó Nualláin (the Chairman), Aidan O'Hogan and Declan Moylan are each considered independent for the purposes of the Listing Rules. The Directors have determined that, notwithstanding that Declan Moylan was a partner in Mason Hayes & Curran and remains of counsel to that firm, which has had a material business relationship with the Company, he may be considered to be independent as he has retired from the partnership of Mason Hayes & Curran and the Directors are satisfied that his prior membership of the partnership of that firm and current role as of counsel to that firm will not adversely affect the independence of his views and contribution as a Director. Declan Moylan is the Senior Independent Director within the meaning of the Listing Rules.

Thomas Schwartz is not considered to be independent due to his connection with CAPREIT LP, which is a significant shareholder of the Company. Thomas Schwartz is a trustee and the chief executive officer and president of CAPREIT and a director of IRES Fund Management. Pursuant to the terms of the investment management agreement between the Company and IRES Fund Management dated 11 April 2014 and amended and restated with effect from 1 November 2014 (the "**Investment Management Agreement**") (the Investment Management Agreement is conditional upon and will take effect 30 days after IRES Fund Management is authorised by the Central Bank of Ireland as an alternative investment fund manager under the AIFM Regulations or at such later date as may be agreed to in writing between the Company and IRES Fund Management), IRES Fund Management is entitled to nominate and require the Company to appoint one person as a non-executive director. Thomas Schwartz has been deemed to be IRES Fund Management's nominee.

The number of directors is currently considered by the Company to be sufficiently small to allow efficient management of the Company while being large enough to ensure an appropriate mix of skills and experience. The Board has a strong focus on property investment management to allow it access to a good knowledge base. As highlighted in the biographies of the Directors on pages 24 to 25, each of the Directors brings a different set of skills and experience to the Board and all have a good knowledge of the real estate sector. The Directors' diverse skill sets facilitate the consideration of issues at meetings of the Board from a range of perspectives.

The division of responsibilities between the Chairman and the Chief Executive Officer has been clearly established, set out in writing and agreed to by the Board.

### **Senior Independent Director**

The Company has appointed Declan Moylan as the Senior Independent Director. The role of the Senior Independent Director is mainly to:

- provide a sounding board for the Chairman and to serve as an intermediary for the other Directors when necessary;
- respond to shareholders where contact through the normal channels of Chairman, the AIFM or IRES Fund Management has failed to resolve any concerns, or for which such contact is inappropriate;
- hold a meeting with non-executive Directors at least annually (and on such other occasions as are deemed appropriate) to appraise the Chairman's performance, taking into account the view of the executive Directors (if any); and
- attend sufficient meetings with a range of major shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders.

### **Committees of the Board**

As recommended by the UK Code, the Board has established the following three committees: the Audit Committee, the Remuneration Committee and the Nomination Committee. The duties and responsibilities of each of these committees are set out clearly in written terms of reference, which have been approved by the Board. The Board fulfils the responsibilities typically undertaken by a management engagement committee. On this basis, the constitution of a separate management engagement committee of the Board as proposed by the AIC Code has not been considered necessary. These duties and responsibilities include the regular review of the performance of, and contractual arrangements with, the AIFM and IRES Fund Management. In the case of IRES Fund Management, only the independent non-executive directors are involved in undertaking such review. Other committees have been and may be established from time to time in accordance with the Company's Memorandum and Articles of Association, including the Small Transactions Committee.

### **Audit Committee**

Membership: Colm Ó Nualláin, Declan Moylan and Aidan O'Hogan (Chair)

The main roles of the Audit Committee are set out in the Report of the Audit Committee on pages 33 to 34.

### **Remuneration Committee**

Membership: Colm Ó Nualláin (Chair), Declan Moylan and Aidan O'Hogan

The main roles of the Remuneration Committee are set out in the Report of the Remuneration Committee on pages 35 to 37.

### **Nomination Committee**

Membership: Colm Ó Nualláin, Declan Moylan (Chair) and Aidan O'Hogan

The main roles of the Nomination Committee are set out in the Report of the Nomination Committee on page 38.

### **Small Transactions Committee**

Membership: David Ehrlich and Thomas Schwartz

The main roles of the Small Transactions Committee are to consider, negotiate and complete the purchase of one-off properties in residential developments in which the Company currently owns units up to a maximum value of €1 million.

### **Internal controls**

The Board acknowledges that it is responsible for maintaining the Company's system of internal control and risk management in order to safeguard the Company's assets. Such a system is designed to identify, manage and mitigate financial, operational and compliance risks inherent to the Company. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

## Corporate Governance Statement (cont'd)

The Board has adopted a comprehensive signing authority and delegation policy which governs the day-to-day operation of the Company. This policy sets out the respective authority levels and responsibilities of employees of the Company, the AIFM, IRES Fund Management and CAPREIT LP. It details the authorisations required to effect certain transactions to ensure that only appropriately authorised individuals in any of the Company, the AIFM, IRES Fund Management or CAPREIT LP can approve a transaction. The Board is also reliant on the AIFM and IRES Fund Management, which have detailed policies and procedures in place including those in relation to risk management, compliance, property valuations, internal and financial controls.

An annual operating budget will be reviewed and approved by the Board. This budget along with financial results will be presented to the Board each quarter for review. In addition, the semi-annual report and the annual report will be reviewed by the Audit Committee and approved by the Board.

The Board has reviewed the effectiveness of the Company's system of internal control. This review took account of the principal risks facing the Company, the controls in place to manage those risks and the procedures in place to monitor them. The Board is satisfied that the controls and procedures in place are effective at the end of the period covered by the Report.

### Accountability and relationship with the AIFM, IRES Fund Management and the Depository

The Statement of Directors' Responsibilities is set out on page 50.

The Board has contractually delegated to the AIFM and the Depository, respectively, portfolio and risk management of the investment portfolio and custodial services (which include the safeguarding of assets). Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of the services provided, including the control systems in operation in so far as they relate to the affairs of the Company. The AIFM has in turn delegated asset management, property management and day-to-day accounting and administration to IRES Fund Management.

The AIFM has been appointed to provide portfolio and risk management services to the Company. With respect to portfolio management, the AIFM has appointed IRES Fund Management to research and evaluate opportunities for possible investments by the Company, negotiate suitable terms for the acquisition and disposal of investments, carry out due diligence on behalf of the Company and to provide or procure the provision of various accounting, administrative, reporting, record keeping, regulatory and other services to the Company.

The AIFM has discretionary authority to enter into transactions for and on behalf of the Company subject to the following reserved matters listed below that require the consent of the Directors:

- (i) any acquisition/disposal of a property investment or entry into any agreement to acquire/dispose of a property investment;
- (ii) any new financing or refinancing, including associated hedging arrangements, entered into in respect of a property investment;
- (iii) any capital expenditure on a property investment in excess of an approved budget;
- (iv) any proposed lease event where the rent referable to the relevant lease is greater than 7.5% of the aggregate rental income of the Company;
- (v) any acquisition or entry into any agreement to acquire any property investment through a joint venture or co-investment structure;
- (vi) any hedging or use of derivatives, including related to debt facilities, interest or property investments (which may only be used to the extent (if any) permitted by any regulatory requirements applicable to the Company and/or the AIFM);
- (vii) the entry by the Company into any transaction for the purchase of assets from, or provision of services of a material nature by, any AIFM affiliate, or for the sale of assets or provision of services of a material nature to any AIFM affiliate;
- (viii) any disposal of any right, title or interest in any of the Company's properties at less than its acquisition costs; and
- (ix) in relation to the valuation of the Company's properties, any variation from the RICS Red Book.

The AIFM, together with IRES Fund Management, ensures that all Directors receive, in a timely manner, all relevant management, regulatory and financial information. Representatives of the AIFM and IRES Fund Management also attend Board meetings as required by the Board, further enabling the Directors to prove any matters of concern.

## Risk management

The Board has overall responsibility for maintaining the Company's risk management function and considers risk management to be a very important matter. The Board, together with the AIFM, deals with risk management on behalf of the Company as part of its regular monitoring of the business.

The AIFM has put policies and procedures in place which were designed to identify, measure, manage and monitor appropriately all risks relevant to the investment strategy and to which the Company is or may be exposed. These procedures are carried out as part of the duties of the AIFM under the AIFM Agreement and are kept under review by the Board. The Board has also adopted a comprehensive signing authority and delegation policy which details authority and signatory levels, dealings with suppliers and the operation of bank accounts.

The AIFM has established a permanent risk management function and has appointed a Chief Risk Officer ("**CRO**") who is independent from those persons involved in the operations of the Company. The CRO is responsible for developing a risk management programme and for implementing appropriate risk management controls to ensure that risks relating to the Company's activities, processes and systems are managed and monitored on an ongoing basis.

A risk register is maintained in which risks are identified and assessed and any gaps are considered for mitigation. The risk register is updated and reviewed by the Board at least annually or more frequently if specifically required. The CRO is also responsible for monitoring:

- the adequacy and effectiveness of risk management policies and procedures;
- the level of compliance with the risk management framework; and
- the adequacy and effectiveness of measures taken to address any deficiencies in such a risk management framework or procedures, including failures to comply with the risk management framework or to follow such procedures.

On an annual basis the CRO reviews the risk management policies and procedures of the AIFM and makes recommendations to the AIFM and the Board for any improvements. The CRO will independently escalate specific matters to the Board if required. No specific matters have been escalated to the Board as of this date.

The Board receives presentations and reviews reports from the AIFM and IRES Fund Management. The Board also has an annual process to ensure that appropriate measures are taken to consider and address any shortcomings identified or measures recommended by the independent auditors.

The Company is satisfied that the risk management function has the necessary authority, resources, expertise and access to relevant information to fulfil its role. Further information on the principal risks is given on pages 41 to 44.

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## Corporate Governance Statement (cont'd)

### Internal audit

The Company has reviewed the business model under which it operates in the context of its activities and, in particular, the external management model it has put in place to manage its business operations. Having undertaken such a review, and in light of the nature, scale, complexity and range of operations of the Company, the Company does not intend to establish an internal audit function and instead will rely on internal audit functions of key service providers, on external audit reports and on its own and the AIFM's and IRES Fund Management's internal monitoring procedures. As an internal audit function has not been established, the Audit Committee will consider annually (in accordance with the UK Code) whether there is a need for an internal audit function and make a recommendation to the Board.

### Model Code on Share dealing

The Company must comply with the Model Code on Directors' dealing in securities set out in the Listing Rules ("**Model Code**"), which imposes restrictions on share dealings for the purposes of preventing the abuse, or suspicion of abuse, of inside information by Directors and other persons discharging managerial responsibilities within the Company. The Board is responsible for taking all proper and reasonable steps to ensure compliance with the Model Code by the Directors and others to whom the Model Code is applicable.

The Company has in place a share dealing code which gives guidance to the Directors, the AIFM, IRES Fund Management, CAPREIT LP, any persons discharging managerial responsibilities as defined in regulation 12(8) of the Market Abuse Regulations and persons identified by the Board to fulfil this role, and anyone listed on the Company's insider list on the pre-clearance notification procedures to be followed when dealing in the shares of any class of the Company or any other type of securities issued by or related to the Company.

### Communications with shareholders

The Company recognises the importance of communications with shareholders. Presentations are made to both existing and prospective institutional shareholders, principally after the release of the interim and annual results. The Company issues an interim management statement twice yearly. Major acquisitions are also announced to the market and the Company's website ([www.iresreit.ie](http://www.iresreit.ie)) provides the full text of all press releases. The website also contains annual and interim reports and incorporates audio and slide show investor presentations. The Board is kept informed of the views of shareholders by the Chief Executive Officer and IRES Fund Management both formally and informally. Furthermore, relevant feedback from investor meetings is provided to the Board on a regular basis. In addition, the Chairman has met with certain shareholders and communicated the views of the shareholders to the Board.

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# Report of the Audit Committee

## **Members:**

Colm Ó Nualláin, Declan Moylan and Aidan O'Hogan (Chair)

The Audit Committee is chaired by Aidan O'Hogan, who is also an independent non-executive director. Aidan O'Hogan and Colm Ó Nualláin are considered by the Board to have recent and relevant financial experience. All members of the Audit Committee are independent non-executive directors, appointed by the Board for a period of up to three (3) years and extendable by no more than two additional three-year periods so long as members continue to meet the criteria for membership in the committee. The Audit Committee is constituted in compliance with the UK Code, the AIC Code, the Irish Annex and the Articles of Association regarding the composition of the Audit Committee. The Chief Executive Officer also attends the Audit Committee as required.

The Audit Committee intends to meet at least four times per year and as otherwise required.

The Audit Committee met twice with the external auditors during the period from Initial Admission to 31 December 2014.

The terms of reference established for the Audit Committee were approved and adopted by the Board on 31 March 2014 and amended on 2 April 2015. Prior to the adoption of the Audit Committee, the Board was responsible for all matters delegated to the Audit Committee. The roles and responsibilities delegated to the Audit Committee can be accessed electronically at <http://investorrelations.iresreit.ie/corporate-governance.aspx>.

## **The Audit Committee's principal duties include:**

- (a) to monitor and keep under review the scope and effectiveness of the Company's financial reporting and internal control policies and procedures for the identification, assessment and reporting of risks and shall ensure that it receives regular reports on such matters from the Company's investment manager, internal auditor (if any) and management;
- (b) to monitor the integrity of the financial statements of the Company, including its annual and half-yearly financial reports and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature;
- (c) to keep under review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management, whether these are carried out by an internal audit function or by another service provider, such as the Company's AIFM;
- (d) to oversee the Company's relations with the external auditors and to consider and make recommendations on the appointment, reappointment and removal of the external auditors;
- (e) to ensure the independence and objectivity of the external auditors annually;
- (f) to ensure that the provision of non-audit services by the external auditors does not impair the external auditors' independence or objectivity; and
- (g) to review with the external auditors the findings of their work, including any major issues that arose during the course of the audit and have subsequently been resolved and those issues that have been left unresolved.

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## Report of the Audit Committee (cont'd)

The independence and objectivity of the auditors was addressed by the Audit Committee in conjunction with the level of fees for non-audit services in the reporting period. Following discussion with the auditors, the Audit Committee determined that while the fees for non-audit services are significantly higher than the audit fees for the period to 31 December 2014, there are mitigating factors which reduce the potential threat to independence and objectivity. These factors include the following:

- The quantum of the non-audit fees are deemed non-substantial relative to the overall size of PricewaterhouseCoopers' firm-wide fee income.
- The non-audit services do not involve a significant amount of judgement nor are they likely to have a material effect on the Report and Financial Statements.
- The professionals involved in the non-audit services were different from those involved in the audit.
- Given that this is the first period of operation, and included work associated with the initial offering, the imbalance between non-audit and audit fees is likely to be less significant in future periods.

The Audit Committee concluded that the independence and objectivity of the external auditors has not been compromised.

The level of non-audit services provided will be reviewed on an annual basis and, in conjunction with the external auditors, the impact on independence and objectivity will be assessed.

PricewaterhouseCoopers have expressed their willingness to continue in office and are eligible for reappointment as the Company's auditors. They will continue in office in accordance with Section 160(2) of the Companies Act 1963 and are deemed to be reappointed as the Company's auditors in the absence of a resolution for their removal. A resolution to authorise the Directors to determine the auditors' remuneration will be proposed at the 2015 Annual General Meeting.

Initially, the Audit Committee reviewed the audit plan, and noted the focus of the audit, the principal risks and issues for the first financial period and the terms of engagement of the auditors. The main focus of the audit was on the Company's valuation of investment properties and transactions with related parties. At the conclusion of the audit fieldwork and prior to release of the preliminary results of the Financial Statements, the Audit Committee reviewed the audit summary report with the external auditors. In addition, the Audit Committee met again with the auditors at the conclusion of the audit in conjunction with the Report and Financial Statements. This was part of the Audit Committee's assessment of the effectiveness of the external audit process.

The Audit Committee has considered the Report and Financial Statements and has concluded that taken as a whole, it is fair, balanced and understandable and that it provides the necessary information for shareholders to assess the Company's performance, business model and strategy. The Report and Financial Statements were approved by the Audit Committee on 2 April 2015 and recommended to the Board for signing.

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# Report of the Remuneration Committee

## Members:

Colm Ó Nualláin (Chair), Declan Moylan and Aidan O'Hogan

The Remuneration Committee is chaired by Colm Ó Nualláin, who is also the independent non-executive Chairman. All members of the Remuneration Committee are independent non-executive directors, appointed by the Board for a period of up to three (3) years and extendable by no more than two additional three-year periods so long as members continue to meet the criteria for membership in the committee. The Remuneration Committee is constituted in compliance with the UK Code, the Irish Annex, the AIC Code and the Articles of Association regarding the composition of the Remuneration Committee.

The Remuneration Committee meets at least once per year and as otherwise directed.

The Remuneration Committee met two times during the period from Initial Admission to 31 December 2014.

The terms of reference for the Remuneration Committee were approved and adopted by the Board on 31 March 2014. Prior to the establishment of the Remuneration Committee, the Board was responsible for all matters delegated to the Remuneration Committee. The roles and responsibilities delegated to the Remuneration Committee can be accessed electronically at <http://investorrelations.iresreit.ie/corporate-governance.aspx>.

## The Remuneration Committee's principal duties include:

- (a) to determine and agree to with the Board the framework or broad policy for the remuneration of all executive directors and the chairman, including pension rights and any compensation payments, and to recommend and monitor the level and structure of remuneration for senior management;
- (b) to take into account all factors which it deems necessary in determining any such remuneration policy;
- (c) to liaise with the Nomination Committee to ensure that the remuneration of newly-appointed executives is within the Company's overall policy;
- (d) to determine the policy for and scope of pension arrangements, service agreements, termination payments and compensation commitments for the executive directors;
- (e) to approve the design of, and determine targets for, any performance-related pay schemes operated by the Company, approving the total annual payments made under such schemes and asking the Board, when appropriate, to seek shareholder approval for any long-term incentive arrangements; and

- (f) to review the design of all share incentive plans for approval by the Board and shareholders, and for any such plans, to determine each year whether awards will be made and, if so, the overall amounts of such awards, the individual awards to eligible individuals as it so determines and the performance targets to be used.

No Director shall be involved in any decisions in respect of his or her own remuneration.

## Statement on Remuneration Policy

### Executive Compensation

The Company's policy is to ensure that executive compensation includes a mix of base salary and short-term and long-term incentive awards. The mix of executive compensation should be designed to reflect the relative impact of the executive's role on the Company's performance and should consider how the compensation mix aligns with long-term shareholder value creation.

In determining the target mix of compensation, the Remuneration Committee considers market compensation data available for comparator real estate investment trusts, which shall include real estate investment trusts in jurisdictions inside and outside of Ireland (including countries where executives are employed and paid by the real estate investment trust), to ensure that the compensation mix is competitive with comparator real estate investment trusts and appropriate in light of the Company's business strategy.

### Non-Executive Director Fees

The remuneration of the non-executive directors shall be determined by the Board as a whole. No director shall be involved in any decisions in respect of his or her own remuneration.

Levels of remuneration for non-executive directors reflect the time commitment and responsibilities of the role. The fees paid to non-executive directors should therefore be set at a level which aims to attract individuals with the necessary experience and ability to make a significant contribution to the Company and to compensate them appropriately for their role. The Board will review its performance on an annual basis and will review the remuneration level of the directors during the term of their respective appointments.

## Report of the Remuneration Committee (cont'd)

### Remuneration Policy of the AIFM

The AIFM has established a remuneration policy which it applies in accordance with the requirements of the Directive 2011/61/EU of the European Parliament and of the Council on 8 June 2011 on Alternative Investment Fund Managers ("AIFMD") and the guidelines on sound remuneration policies under AIFMD as issued by the European Securities and Markets Authority from time to time.

In the implementation of its remuneration policy, the AIFM aims to ensure good corporate governance and promote sound and effective risk management. It will not encourage any risk taking which would be considered inconsistent with the risk profile of the Company. The AIFM will ensure that any decisions are consistent with the overall business strategy, objectives, values and interests of the AIFM and will try to avoid any conflicts of interest which may arise.

The AIFM ensures that the remuneration policy is reviewed internally and independently annually.

### Directors' remuneration report

This is the first financial reporting period for the Company and the Company has one executive director. The only significant decision made on remuneration during the period was the determination of appropriate fees for the non-executive directors, remuneration for the Chief Executive Officer, including annual bonus, and the grant of options to the Chief Executive Officer and employees, senior executives and trustees of CAPREIT and its affiliates under the Company's long-term incentive plan (the "LTIP") in connection with the initial offering in April 2014 and the Capital Raise completed on 26 March 2015.

For further details on the LTIP, refer to note 9 and note 20 of the Financial Statements on pages 68 and 77, respectively, which have been reviewed by the auditors.

### Directors' Remuneration

Name	Fees	
	Annual Fee €'000	Period to 31 December 2014 €'000
Colm Ó Nualláin	100	75
Declan Moylan	50	38
Aidan O'Hogan	50	38
Thomas Schwartz <sup>(1)</sup>	0	0
David Ehrlich (Salary) <sup>(1) (2)</sup>	0	244
David Ehrlich (Bonus) <sup>(1) (2)</sup>	0	245
David Ehrlich (Other) <sup>(3)</sup>	0	153
Totals	200	793

(1) Neither David Ehrlich nor Thomas Schwartz received remuneration for their role as a Director.

(2) David Ehrlich is the only permanent employee of I-RES, and his total remuneration as the Chief Executive Officer for the period 2 July 2013 to 31 December 2014 was €489,000 (which included base salary of €244,000 and bonus of €245,000).

(3) Prior to his appointment as Chief Executive Officer, €153,000 was paid to David Ehrlich for professional services provided to I-RES in connection with the initial offering. Such costs have been included in the issuance costs.

### Outstanding Awards of Options over Shares to Directors

Options over shares were awarded in April 2014 and in March 2015 in accordance with, and as governed by, the LTIP. The options granted under the LTIP have a maximum life of seven years less a day and vest over three years from the date of grant on the basis of one third per completed year the recipient of the option completes in respect of the relevant service which has qualified him or her for an option grant, which is less than the period recommended in Schedule A of the UK Code.

The LTIP provides that any award to executive Directors, participants in the LTIP who report directly to the Chief Executive Officer and such other participants as the Remuneration Committee shall determine will include a provision for clawback if the financial results of the Company for a relevant period have been misstated to a material extent.

Under the terms of his contract of employment with the Company, David Ehrlich is entitled to be awarded options over shares equivalent to 3% of the total number of shares allotted in any capital raise by way of allotment of ordinary shares. The exercise price for such options is the greater of the issue price in the capital raise and the closing price of ordinary shares on the date of admission of such shares to listing.

The table below sets out details of outstanding awards of options over shares held by Directors under the LTIP.

Director	Grant Date	Exercise Price (€)	No. of Options 1-Jan-14	Options Granted during the Period	Options Vested during the Period	Options Exercised during the Period	No. of Options 31-Dec-14	Face Value at 31-Dec-14 per Option (cents)	Vesting Date(s)	Latest Date for Exercise
David Ehrlich	16-Apr-2014	1.04	0	6,060,000	0	0	6,060,000	8.0	One third in each year from 16-Apr-2015	15-Apr-2021
Thomas Schwartz	16-Apr-2014	1.04	0	2,020,000	0	0	2,020,000	8.0	One third in each year from 16-Apr-2015	15-Apr-2021

Subsequent to 31 December 2014, pursuant to the Capital Raise on 26 March 2015, David Ehrlich and Thomas Schwartz were granted 6,450,000 and 1,075,000 options, respectively, with the latest exercise date of 25 March 2022 and an exercise price of €1.005. The options will vest over three years from the date of grant.

The options granted to the non-executive director were granted in relation to his role with the Company's Investment Advisor and Property Manager and were considered by the Board in the best interest of the Company and its business.

The Directors did not receive any additional remuneration for duties beyond those normally expected as part of each Director's appointment.

#### Interests of Directors and Secretary in Share Capital

The Directors and the Secretary had no interests in the share capital at their date of appointment.

Name	Ordinary Shares at 31 December 2014	% of Company at 31 December 2014	Outstanding Option Awards at 31 December 2014
Colm Ó Nualláin	200,000	0.10%	0
Declan Moylan	0	–	0
Aidan O'Hogan	0	–	0
Thomas Schwartz	1,000,000	0.50%	2,020,000
David Ehrlich	500,000	0.25%	6,060,000
Elise Lenser	0	0.00%	0
Totals	1,700,000	0.85%	8,080,000

The interests disclosed above include both direct and indirect interests in shares.

Between 31 December 2014 and the date of this Report, in connection with the Capital Raise, the Board made awards of options over 6,450,000 shares to David Ehrlich, options over 1,075,000 shares to Thomas Schwartz and options over 250,000 shares to Elise Lenser, and Colm Ó Nualláin took up his entire open offer entitlement (133,333 shares) under the Capital Raise, the results of which are reflected in the following table:

Name	Ordinary Shares at the Date of this Report	% of Company at the Date of this Report	Outstanding Option Awards at the Date of this Report
Colm Ó Nualláin	333,333	0.0799%	0
Declan Moylan	0	–	0
Aidan O'Hogan	0	–	0
Thomas Schwartz	1,000,000	0.2398%	3,095,000
David Ehrlich	500,000	0.1199%	12,510,000
Elise Lenser	0	0%	250,000
Totals	1,833,333	0.4396%	15,855,000

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# Report of the Nomination Committee

## Members:

Colm Ó Nualláin, Declan Moylan (Chair) and Aidan O'Hogan

The Nomination Committee is chaired by Declan Moylan, who is also the Senior Independent Director. All members of the Nomination Committee are independent non-executive directors, appointed by the Board for a period of up to three (3) years and extendable by no more than two additional three-year periods so long as members continue to meet the criteria for membership in the committee. The Nomination Committee is constituted in compliance with the UK Code, the Irish Stock Exchange Annex, the AIC Code and the Articles of Association regarding the composition of the Nomination Committee.

The Nomination Committee meets at least once per year and as otherwise required. The Nomination Committee did not meet during the period from Initial Admission to 31 December 2014 given that the Directors were all appointed on 31 March 2014 and no vacancies arose.

The Nomination Committee leads the process for considering appointments to the Board. The Nomination Committee may not be chaired by the Chairman when it is dealing with the matter of succession to the chairmanship of the Company. The terms of reference for the Nomination Committee were approved and adopted by the Board on 31 March 2014. The roles and responsibilities delegated to the Nomination Committee can be accessed electronically at <http://investorrelations.iresreit.ie/corporate-governance.aspx>.

Prior to the establishment of the Nomination Committee the Board was responsible for all matters delegated to the Nomination Committee.

## The Nomination Committee's principal duties include:

- (a) to regularly review the structure, size and composition of the Board and the Board committees, evaluate the balance of skills, knowledge and experience on the Board and the Board committees and make recommendations to the Board with regard to any adjustments that are deemed necessary;
- (b) to be responsible for identifying and nominating for the approval of the Board candidates to fill board vacancies as and when they arise, ensuring that the procedures followed are formal, rigorous and transparent; and
- (c) to satisfy itself with regard to succession planning that processes and plans are in place with regard to both Board and senior appointments.

No external recruitment consultants were used in the recruitment of the current Board, all the members of which were appointed while the Company was still a private limited company and prior to the establishment of the Nomination Committee and the listing of the Company. No vacancies have arisen during the period since the Company became a public limited company and therefore no selection process has been undertaken. Appropriate procedures are, however, in place for the future process for recruiting new Board members.

Before any appointment is made by the Board, the Nomination Committee will evaluate the balance of skills, knowledge and experience and diversity of the Board. The Board is committed to supporting diversity on the Board. During the selection process for new non-executive directors, the Nomination Committee will ensure that diversity is considered when developing a candidate pool. In considering diversity, all potential considerations will be taken into account, including diversity of background and experience as well as gender. The Board will continue to monitor whether it is taking diversity into account when appointing new Board members and the Board evaluation process will address diversity. Given the size of the Board and the development stage of the Company, the Board does not consider it appropriate at this time to set gender quotas for Board representation but will monitor developments in best practices.

In its work in the area of Board renewal, the Nomination Committee looks at a range of issues:

- skills, knowledge and expertise in areas relevant to the operation of the Board;
- diversity; and
- the need for an appropriately sized Board.

The Board considers the current number of four (4) non-executive directors and one (1) executive director to be sufficient for the purposes of the Company at this time. Each non-executive director participates fully in Board discussions and attends all possible Board and/or committee meetings in order to do so; in addition, each non-executive director brings a distinct range of abilities and experience that complements those brought by the other non-executive directors. Non-executive directors are typically expected to serve two three-year terms but may be invited by the Board to serve for an additional period.

Following the evaluation conducted by the Board, it has been confirmed that each director continues to be effective and to demonstrate commitment to the role and should be put forth for re-election at the Company's annual general meeting to be held on 26 May 2015.

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# Report of the Directors

The Directors of the Company present their report and the audited Financial Statements for the financial period from 2 July 2013 (date of incorporation) to 31 December 2014.

## Principal activity and business review

The Company was incorporated in Ireland on 2 July 2013 as Shoreglade Limited (formerly known as CAPREIT Ireland Limited, Irish Residential Apartments REIT Limited and Irish Residential Properties REIT Limited). On 16 April 2014, I-RES obtained admission of its ordinary shares to the primary listing segment of the Official List of the Irish Stock Exchange for trading on the regulated market for listed securities of the Irish Stock Exchange. Its registered office is Kings Court, Unit 5, 48-59 North King Street, Smithfield, Dublin 7, Ireland. Ordinary shares of I-RES are listed on the Irish Stock Exchange under the symbol "IRES". The Company owns interests in multi-unit residential rental apartment properties located in and near major urban centres in Dublin, Ireland. I-RES' net assets and operating results are derived from real estate located in Ireland, where it is also domiciled. The Company purchased its first investment interests in investment properties on 10 September 2013. Refer to note 4 of the Financial Statements on page 65 (which lists all the investment property acquisitions since 10 September 2013 which have contributed to the operating results effective from the acquisition date of those properties).

The Corporate Governance Statement on pages 27 to 32, the Report of the Audit Committee on pages 33 to 34, the Report of the Remuneration Committee on pages 35 to 37, the Report of the Nomination Committee on page 38 and the Review on pages 2 to 23 are deemed to be included in this Report for the purposes of the Irish Companies Acts.

This report and the documents referred to herein are deemed to be the management report as required by the Transparency (Directive 2004/109/EC) Regulations 2007 (the "**Transparency Regulations**").

## Results for the Financial Period

Revenue for the financial period amounted to €9.68 million. The profit for the year attributable to shareholders amounted to €7.93 million. Adjusted earnings per share amounted to 8.3 cents.

## REIT status

The Company elected for REIT status on 31 March 2014 under section 705 E of the Finance Act 2013. As a result, the Company does not pay Irish corporation tax on the profits and gains from qualifying rental business in Ireland from that date provided it meets the conditions.

As an Irish REIT, the Company is required to distribute to its shareholders (by way of dividend), on or before the filing date for its tax return for the accounting period in question, at least 85% of the property income of the property rental business arising in each accounting period (provided it has sufficient distributable reserves). Failure to meet this requirement will result in an Irish REIT incurring a tax charge calculated by reference to the extent of the shortfall in the dividend paid.

The Company is in compliance with all the above REIT requirements for the period since 31 March 2014, when the Company elected to become a REIT, to 31 December 2014 (the Company's first accounting period as a REIT).

## Dividends

Under the Irish REIT regime, subject to having sufficient distributable reserves, the Company will be required to distribute to shareholders at least 85% of the property income of its property rental business for each accounting period. Accordingly, the Directors resolved to pay a maiden dividend of 0.48 cent per share in the form of an interim dividend, which was paid on 31 March 2015 to shareholders on record as at 20 February 2015.

## Share Capital

The authorised share capital of the Company is 1,000,000,000 ordinary shares of €0.10 each, of which 202,000,000 shares were in issue at 31 December 2014 and 417,000,000 shares were in issue at the date of this Report. All of these shares are of the same class. They all carry equal voting rights and rank equally for dividends. Other than dividends declared, no shares in the Company were acquired or redeemed by the Company during the financial period ended 31 December 2014, or made subject to charge or lien. There are no securities holding special rights with regard to control of the Company. Particulars of the authorised and issued share capital

## Report of the Directors (cont'd)

of the Company as at 31 December 2014 are set out in note 10 and note 20 of the Financial Statements on pages 68 and 76, respectively.

There are no restrictions on the transfer of shares in the Company and no requirements to obtain approval of the Company, or of other holders of securities in the Company, for a transfer of shares in the Company, save that the Directors may decline to register any transfer of a share:

- to or by a minor or a person with a mental disorder (as defined by the Mental Health Act 2001);
- in certain circumstances where the Directors have given notice to a shareholder under the Articles of Association requiring such shareholder to notify the Company of his/her interest in any shares in the Company and is in default for a prescribed period in supplying such information to the Company;
- if the transfer is in favour of any person, as determined by the Directors, to whom a sale or transfer of shares, or whose direct, indirect or beneficial ownership of shares, would or might cause a specific regulatory burden to be imposed on the Company, such as under the US Securities Exchange Act of 1934;
- in certificated form where the following documents have not been produced: the original share certificate and the usual form of stock transfer duly executed by the holder of the shares and stamped with the requisite stamp duty; and
- in uncertificated form only in such circumstances as may be permitted or required by the CREST Regulations.

### Lock-up Arrangements

Other than as disclosed below, the Company is not aware of any arrangements between its shareholders which may result in restrictions on the transfer of securities or voting rights. CAPREIT LP has agreed to a lock-in arrangement pursuant to which, subject to certain customary exceptions, none of the shares in which CAPREIT LP held a beneficial interest on or before the initial offering (including thereafter any shares derived therefrom, which includes the shares subscribed for

by CAPREIT LP pursuant to the open offer in the Capital Raise) may be sold for two years from Initial Admission on 16 April 2014, so long as the Investment Management Agreement has not been terminated. CAPREIT LP has in addition agreed to a further lock-in arrangement under the terms of which it agreed not to dispose of the shares held by it as at the date of the credit agreement (15 August 2014) until the earlier of: (i) 15 August 2016; (ii) the date on which the Company's credit agreement is terminated in accordance with its terms; and (iii) the date the lenders under the credit agreement irrevocably and unconditionally waive the relevant provision of the credit agreement.

### Powers of the Board

The Directors are responsible for the management of the business of the Company and may exercise all the power of the Company subject to the provisions of the Company's Memorandum and Articles of Association.

The Directors' powers to allot, issue, repurchase and reissue ordinary shares are dependent on the terms of the resolutions from time to time in force so empowering the Directors.

### Review of Activities and Events since the Year End

The Chairman's Statement on pages 6 to 8, the Chief Executive Officer's Statement on pages 9 to 12 and the IRES Fund Management, Investment Advisor and Property Manager's Statement on page 13 contain a review of the development and performance of the business during the year, the state of affairs of the business at 31 December 2014, recent events and likely future developments. Information in respect of events since the year end as required by the Companies (Amendment) Act, 1986 is included in these sections and in note 20 of the Financial Statements on pages 76 to 77.

## Principal Risks and Uncertainties

The Directors have considered the principal risks and uncertainties that the Company is exposed to and that may impact performance in the coming financial year. The Company proactively monitors and manages these risks using the services of its AIFM and the combined expertise of its Board. The principal risks and uncertainties are summarised as follows:

RISKS	POTENTIAL EXPOSURE	MITIGATION MEASURES
<b>Investment Strategy</b>	The Company could significantly underperform due to inappropriate or poor execution of the Company's investment strategy. This could impact the valuation of the properties and a resultant reduction in return to shareholders may occur.	<p>IRES Fund Management is made up of a well-regarded multi-disciplinary team of property and finance professionals experienced in the selection, financing and management of property investments.</p> <p>The AIFM and the Board carry out a detailed evaluation of every investment opportunity presented by IRES Fund Management to determine its fit with the Company's stated investment policy and to ensure that it enhances the firm's risk return goals as articulated in the investment strategy. The AIFM and the Board undertake a rigorous review of all investment propositions to ensure that each one approved is a good strategic fit.</p>
<b>Competition</b>	The Company faces competition from other property investors for suitable properties, which could impact its ability to purchase suitable properties for renting at satisfactory rates and to successfully deploy the funds from future equity offerings.	<p>IRES Fund Management has made a concerted effort to develop relationships and contacts in Ireland to seek out suitable properties for its portfolio.</p> <p>IRES Fund Management has appointed Charles Coyle as Vice President of Acquisitions. Mr Coyle, who has 12 years' experience operating in the Irish real estate sector and five years' experience operating in the United Kingdom real estate sector, is responsible for on-the-ground investment sourcing, whether it be finding and participating in auctions, identifying opportunities or evaluating and making recommendations on opportunities.</p>

## Report of the Directors (cont'd)

RISKS	POTENTIAL EXPOSURE	MITIGATION MEASURES
<p><b>Development Risk</b></p>	<p>The Company undertakes routine capital works and will in the short to medium term be redeveloping and/or refurbishing a number of its properties in order to optimise the return to shareholders.</p> <p>Property development comes with planning risk, construction risk, additional cost exposure and overrun risk, engineering risk and, given that it takes some time to complete developments, it may not be completed on a timely basis to take advantage of a positive letting cycle.</p>	<p>IRES Fund Management is very experienced in property development. In addition, it undertakes detailed planning and cost review and budgeting exercises around all capital expenditure.</p> <p>IRES Fund Management uses competitive tendering procedures and fixed price contracts negotiated with reputable and experienced building contractors to minimise delivery risks. Board approval is required for all projects for capital expenditure in excess of budgeted amounts.</p> <p>In addition, only a small proportion of the Company's portfolio is in development land.</p>
<p><b>Occupier Demand and Income Sustainability</b></p>	<p>Occupancy levels are currently very strong; however, there is a risk that due to a lack of occupier demand resulting from possible weakness in the macro economy, this could fall, thereby impacting the Company's income and capital performance.</p>	<p>The Company's strategy is to acquire prime and good secondary residential property with a Dublin focus, which is where all of its units are located.</p> <p>IRES Fund Management monitors its exposure to the letting market and deals with any lease expiries well in advance of their expiry dates to ensure that the income from the portfolio is managed proactively to minimise any interruptions.</p>
<p><b>Tenant Default</b></p>	<p>Tenant default may adversely impact the Company's income and the capital performance of the portfolio. This may result in a reduction of rental income.</p>	<p>IRES Fund Management closely monitors the rental payments of occupiers to identify any weaknesses in their ability to meet their ongoing obligations to the Company.</p>
<p><b>Investment Advisor and Property Manager's Performance</b></p>	<p>The Company is reliant on IRES Fund Management and CAPREIT LP for its property investment, asset management and development expertise, in particular, which drives the financial performance of the Company.</p> <p>The Company is reliant on the skills and the ability of IRES Fund Management and CAPREIT LP to retain the management team and key staff. It may be difficult to find replacements with the same expertise, resulting in financial or business reputation loss to the Company.</p>	<p>The AIFM and the Board oversee the work of IRES Fund Management and there is a close working relationship between the Board, the AIFM, IRES Fund Management and CAPREIT LP.</p> <p>Key management of IRES Fund Management, CAPREIT LP and its affiliates are financially incentivised through the LTIP.</p>

RISKS	POTENTIAL EXPOSURE	MITIGATION MEASURES
<p><b>Regulatory Risk</b></p>	<p>The Company operates in a very challenging and increasingly complex corporate governance environment with significantly more compliance rules, for which any failure to meet or to adhere to could result in a financial and reputation loss to the Company.</p> <p>The AIFM was authorised as an alternative investment fund manager in March 2014 by the Central Bank of Ireland under recently adopted EU regulations. Should the AIFM cease to be authorised, the Company would then be required to appoint a replacement AIFM and could suffer losses arising from the transition from its current AIFM to another.</p> <p>IRES Fund Management has submitted an application to the Central Bank of Ireland for authorisation as an AIFM and there is no guarantee that it will achieve this.</p> <p>The Company is also classed as an unregulated Alternative Investment Fund.</p>	<p>The Board, the AIFM and IRES Fund Management monitor compliance by the Company with the regulations so that should any issues arise the Company is forewarned and can deal with any potential disruption that might result.</p> <p>The AIFM has been regulated by the Central Bank of Ireland for almost five years and has firmly embedded policies and operating procedures in place.</p> <p>The current AIFM agreement has seven months remaining, giving sufficient time for renegotiation should IRES Fund Management not be successful in its application.</p> <p>The Company has appointed a Depository, BNP Paribas Securities Services. The Depository has a number of roles relating to the oversight of certain activities of the Company including, but not limited to, overseeing the safekeeping of the assets owned by the Company (including cash), verification duties regarding the assets of the Company and the depositing of cash not yet invested by the Company. In addition, the Depository also has custody duties in respect of any assets acquired by the Company and monitoring duties regarding the Company's cash flows.</p>
<p><b>Tax Risks – Failure to Abide by REIT Rules</b></p>	<p>The Company operates under the Irish REIT regime which amongst other benefits means that the Company does not pay corporation tax or capital gains tax so long as the Company is in compliance with these rules. Failure to comply with the rules may result in the Company losing its REIT status, which could result in the Company having to pay corporation tax and capital gains tax. This in turn could result in a financial loss to the Company.</p>	<p>IRES Fund Management monitors and tests the Company's compliance with the REIT rules and regularly reviews and considers how the Company's planned operations will ensure compliance with these rules. IRES Fund Management has received independent legal advice in relation to the issues it needs to monitor and manage and therefore is alert and vigilant in regard to these matters.</p>

## Report of the Directors (cont'd)

RISKS	POTENTIAL EXPOSURE	MITIGATION MEASURES
<p><b>General Economic Conditions</b></p>	<p>The Company's investments are concentrated in Ireland. Although there are clear signs of a general economic recovery in Ireland, this recovery is nascent and there can be no assurance that current growth levels will be sustained. Poor economic conditions could impact the Company's income and capital performance.</p>	<p>The Company deployed the capital raised from shareholders in an efficient manner against a backdrop of strong competition.</p> <p>In addition, the Company's focus is on Dublin, which has been more resilient economically than other areas of Ireland in the past.</p>
<p><b>Availability of Bank Financing</b></p>	<p>There is a limited number of banks providing financing against property in Ireland, which could thereby impact the Company's future growth through acquisitions.</p>	<p>IRES Fund Management has made a concerted effort to develop relationships with lenders both in Ireland and abroad. The quality of the Company's property portfolio and the conservative total gearing target of 45% on total assets are attractive credit characteristics for potential lenders, which to date have facilitated the raising of financing.</p>
<p><b>Interest Rate and Credit Risk</b></p>	<p>The Company is exposed to risks associated with movements in interest rates on its floating rate bank debt and on the cash that it holds.</p>	<p>The Company's current debt has been secured from Barclays and TD Securities at a rate of EURIBOR +2.5%; €113 million of the €125 million of debt outstanding was repaid on 27 March 2015. The €60 million revolving facility will be available for drawdown if required until August 2016.</p> <p>With regard to floating rate bank debt which the Company intends to raise, IRES Fund Management consults on a regular basis with TD Securities with regard to interest rate exposure and whether hedging should be put in place, which would be approved by the AIFM and the Board. The Company does not have a substantial amount of cash on deposit.</p>

## Directors

The names of the Directors for the financial period ended 31 December 2014 and a short biographical note on each Director appear on pages 24 to 25.

The Company has adopted a requirement in its Articles of Association that all Directors will submit to re-election at each annual general meeting. In accordance with paragraph B.7.1 of the UK Code, which applied to the Company for the financial year ended 31 December 2014, and the Company's Articles of Association, all Directors of the Board will retire and, being eligible, will offer themselves for re-election at the 2015 annual general meeting to be held on 26 May 2015.

The Directors do not have service contracts but do have letters of appointment which reflect their responsibilities and commitments. Each Director has the same general legal responsibilities to the Company as any other Director and the

Board as a whole is collectively responsible for the overall success of the Company.

The Directors were appointed for an initial term of three years, and their dates of appointment are set out on pages 24 to 25. The Company may lawfully terminate a Director's appointment with immediate effect in certain circumstances, including where a Director has breached the terms of his letter of appointment, and no compensation would be payable to such Director in such an event. In addition to their general legal responsibilities, the Directors have responsibility for the Company's strategy, performance, financial and risk control and personnel.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment, whether through resignation, purported redundancy or otherwise, that occurs because of a bid for the Company, except under the terms of the LTIP.

## Meetings and Attendance

Directors' attendance records at board and committee meetings from 16 April 2014 (the date of Initial Admission) until 31 December 2014 (the end of the period) are set out in the table below. For board and committee meetings, attendance is expressed as the number of meetings attended out of the number that each Director was eligible to attend.

	<b>Board</b>	<b>Audit Committee</b>	<b>Remuneration Committee</b>	<b>Nomination Committee</b>	<b>Small Transactions Committee</b>
Colm Ó Nualláin	10 of 10	2 of 2	2 of 2	N/A	N/A
Aidan O'Hogan	9 of 10	2 of 2	1 of 2	N/A	N/A
Declan Moylan	10 of 10	2 of 2	2 of 2	N/A	N/A
David Ehrlich	10 of 10	N/A	N/A	N/A	2 of 2
Thomas Schwartz	10 of 10	N/A	N/A	N/A	2 of 2

Details of the Directors' and Secretary's interests in the share capital of the Company are set out in the Interests of Directors and Secretary in share capital on page 37.

## Report of the Directors (cont'd)

### Key Management Personnel

The Company is managed by the Directors, who have delegated investment management and administration functions, including accounting and risk management, to the AIFM without abrogating their overall responsibility. The Company is externally managed through the AIFM and IRES Fund Management under the supervision of the Board. In this regard, the Board has delegated certain portfolio and risk management and other functions to the AIFM. The Company has engaged the services of the AIFM (which is authorised as an alternative investment fund manager by the Central Bank of Ireland under the AIFM Regulations) to act as the Company's alternative investment fund manager under the AIFM Regulations and provide certain portfolio and risk management services to the Company, pursuant to the AIFM Agreement. The AIFM has in turn delegated certain asset and property management responsibilities to IRES Fund Management pursuant to the Delegation Agreement.

The Company has entered into an Investment Management Agreement with IRES Fund Management under which it will become the Company's alternative investment fund manager, conditional on IRES Fund Management being approved by the Central Bank of Ireland as an alternative investment fund manager under the AIFM Regulations. In this regard, IRES Fund Management (an entity wholly owned and controlled by CAPREIT LP) has submitted an application to the Central Bank of Ireland seeking authorisation as an alternative investment fund manager under the AIFM Regulations.

IRES Fund Management has access to the expertise and resources provided by CAPREIT LP, pursuant to the services agreement among the Company, CAPREIT LP and IRES Fund Management dated 11 April 2014, as amended and restated with effect from 1 November 2014 (the **"Services Agreement"**), which also covers property and asset management services during the term of both the AIFM Agreement and the Investment Management Agreement.

### Conflicts of Interest – Directors

Section 194 of the 1963 Act requires each Director who is in any way, either directly or indirectly, interested in a contract or proposed contract with the Company to declare the nature of his interest at a meeting of the Directors. The Company keeps a record of all such declarations, which may be inspected by any Director, secretary, auditor or member of the Company at the registered office of the Company.

Subject to certain exceptions, the Articles of Association generally prohibit Directors from voting at Board meetings or meetings of committees of the Board on any resolution concerning a matter in which they have a direct or indirect interest which is material to, or a duty which conflicts or may conflict with the interests of, the Company. Directors may not be counted in the quorum in relation to resolutions on which they are not entitled to vote.

Pursuant to the Investment Management Agreement, IRES Fund Management is entitled to nominate and require the Company to appoint one person as a non-executive director. Thomas Schwartz is a director of IRES Fund Management and has been deemed to be IRES Fund Management's nominee. Thomas Schwartz is also a trustee and the chief executive officer and president of CAPREIT and David Ehrlich is a trustee of CAPREIT. CAPREIT is the parent company of CAPREIT LP and IRES Fund Management is wholly owned and controlled by CAPREIT LP. The Articles of Association prohibit Directors who are officers of IRES Fund Management or trustees of CAPREIT or any CAPREIT affiliate from participating in deliberations of the Board concerning the appointment or engagement by the Company of IRES Fund Management or of any CAPREIT affiliate. David Ehrlich and Thomas Schwartz accordingly will not be permitted to vote on any matter at Board level relating to CAPREIT or IRES Fund Management.

### Conflicts of Interest – IRES Fund Management and Services Agreement

Each of the Investment Management Agreement and Services Agreement include non-compete provisions in favour of the Company, subject to certain exceptions.

## Corporate Governance

The Company has complied, from 16 April 2014 (date of Initial Admission) to 31 December 2014, with the provisions set out in the UK Code (issued in September 2012) and in the Irish Annex (issued in December 2010), which applied to the Company for the financial period ended 31 December 2014 except as discussed in this Report.

The Corporate Governance Statement on pages 27 to 32 sets out the Company's application of the principles and compliance with the provisions of the UK Code and the Irish Annex, the Company's system of risk management and internal control.

## Going Concern Statement

The Company meets its day-to-day working capital requirements through its cash and deposit balances. The Company's plans indicate that it should have adequate resources to continue in operating for the foreseeable future. Accordingly, the Directors consider it appropriate that the Company adopts the going concern basis in the preparation of the financial statements.

## Substantial shareholdings

As at 31 December 2014, the Company has been notified of the following substantial interests in the Company's shares:

Holder	31 December 2014	
	Holdings	%
CAPREIT Limited Partnership	42,000,000	20.79
Franklin Templeton		
Institutional, LLC	35,000,000	17.33
Fir Tree Partners	30,000,000	14.85
Irish Life Assurance Company plc	24,240,000	12.00
Starwood Real Estate		
Securities, LLC	14,890,450	7.37
Setanta Asset Management Limited	12,397,350	6.14

As at 1 April 2015, the Company has been notified of the following substantial interests in the Company's shares:

Holder	1 April 2015	
	Holdings	%
CAPREIT Limited Partnership	65,500,000	15.71
Franklin Templeton Institutional, LLC	50,393,952	12.08
Setanta Asset Management Limited	47,246,811	11.33
Irish Life Assurance Company plc	24,872,228	5.96
INVESCO Limited	16,670,130	3.99
APG Asset Management N.V.	15,000,000	3.60
GLG Partners LP	13,207,986	3.17
Schroder Investment Management	13,200,000	3.17
Prudential Financial, Inc	12,528,785	3.00

## Subsidiaries and Joint Ventures

Details of the Company's subsidiaries as at 31 December 2014, which are the owner management companies in which the Company holds a majority of the voting rights, are set out in note 15 of the Financial Statements on pages 73 to 74. In addition, on 31 March 2015 IRES Residential Properties Limited and Rockbrook Grande Central Management Company Limited became subsidiaries of the Company in connection with the acquisition of the Rockbrook Portfolio under the terms of the Pipeline Agreement. IRES Residential Properties Limited holds the Rockbrook Portfolio and Rockbrook Grande Central Management Company Limited is the owner management company for Grande Central. All of the Company's subsidiaries are incorporated in Ireland.

## Financial instruments

Financial instruments are set out in note 11 of the Financial Statements on pages 69 to 71.

## Financial risk management

The financial risks include market risk, liquidity risk, credit risk and capital management risk. The financial risk management objectives and policies of the Company are set out in note 11 of the Financial Statements on pages 69 to 71.

## Report of the Directors (cont'd)

### Credit facility agreement

Details of the Company's credit facility agreement are set out in note 8 of the Financial Statements on page 68. The financial covenants under the credit facility agreement provide that for so long as any amount is outstanding under the credit agreement:

- (i) adjusted EBITDA in respect of the relevant period being tested expressed as a percentage of the interest rate payable at that time ("**Interest Cover**") must, at all times, be at least 250%;
- (ii) Interest Cover for the Company and its group (other than the excluded subsidiaries) must at all times be at least 250%;
- (iii) the aggregate amount of all obligations of the Company for or in respect of its total financial indebtedness ("**Total Debt**") must not at any time be greater than 50% of the aggregate value of all interests in real property held by the Company and members of its group as determined from their most recent financial statements;
- (iv) Total Debt must not at any time be greater than 50% of the most recent valuation of the Company's property portfolio; and
- (v) the Company's net assets (less intangible assets) must not be less than €130 million.

There are a number of repayment events under the credit agreement, which include:

- (i) a disposal by CAPREIT LP of any of the shares beneficially held by it as at the date of the credit agreement, in which case all outstanding loans under the Credit Facility may be demanded and the commitments may be cancelled; and
- (ii) an issue of shares by the Company, in which case the proceeds of such issue must be applied in repayment of the bridge facility.

In connection with (i) above, the Company and CAPREIT LP have entered into the lock-in side letter. In connection with (ii) above, upon completion of the Capital Raise, the Company repaid the entire €70.0 million of borrowings under the bridge facility out of the net proceeds of the Capital Raise. The Company repaid €43.0 million of the €55.0 million of borrowings drawn down under the revolving facility. The revolving facility will remain available, to the extent any amounts are undrawn or repaid, for borrowing under the credit agreement, with a termination date of 15 August 2016.

The Company will be deemed to be in default under the credit agreement if any one of a number of events occurs. Such events of default include, but are not limited to, non-payment, breach of financial covenants, cross default in respect of any other financial indebtedness of the Company, insolvency, loss of REIT status or the occurrence of any event or circumstance which, in the opinion of the majority lenders, has or is reasonably likely to have a material adverse effect on the Company. The occurrence of an event of default will entitle the agent, if directed by the majority lenders, to accelerate the facilities, cancel the commitments, exercise the security or require that the facilities are immediately repayable on demand.

### Political Contributions

There were no political contributions which are required to be disclosed under the Electoral Act, 1997.

### Accounting Records

The Directors are responsible for ensuring that proper books and accounting records, as outlined in Section 202 of the Companies Act, 1990, are kept by the Company. The Directors believe that they have complied with this requirement by providing adequate resources to maintain proper books and accounting records through the delegation of these functions to the AIFM, including by ensuring that it has adequate numbers of appropriately trained and experienced staff to perform such functions with an appropriate standard of care.

### Takeover Regulations

The Company has certain banking facilities which may require repayment and cancellation of the commitments thereunder in the event that a change of control occurs with respect to the Company. In addition, the LTIP contains change of control provisions which allow for the acceleration of the exercisability of share options or awards in the event that a change of control occurs with respect to the Company.

There are no other significant agreements to which the Company is a party that take effect, alter or terminate upon a change of control of the Company following a bid.

The information on Directors on pages 24 to 25 and the disclosures on Directors' Remuneration on page 36 of this Report cover the information required for the purposes of Regulation 21 of the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006.

## Auditors

PricewaterhouseCoopers will continue in office in accordance with the provisions of Section 160(2) of the Companies Act, 1963. A resolution authorising the Directors to set their remuneration will be proposed at the 2015 annual general meeting.

## General Meetings

The Company holds a general meeting each year as its annual general meeting in addition to any other meeting in that year. Not more than 15 months shall elapse between the date of one annual general meeting and that of the next. The Directors are responsible for the convening of general meetings. Information is distributed to shareholders at least 20 working days prior to the annual general meeting.

No business other than the appointment of a chairman shall be transacted at any general meeting unless a quorum of members is present at the time when the meeting proceeds to business. Except as provided in relation to an adjourned meeting, three (3) persons entitled to vote upon the business to be transacted, each being a member or proxy for a member or a duly authorised representative of a corporate member, shall be a quorum.

Votes may be given either personally or by proxy or a duly authorised representative of a corporate member. Subject to rights or restrictions for the time being attached to any class or classes of shares, on a show of hands, every member present in person and every proxy or duly authorised representative of a corporate body shall have one vote. No individual shall have more than one vote, and on a poll, every member present in person or by proxy or a duly authorised representative of a corporate body shall have one vote for every share carrying voting rights of which the individual is the holder.

Resolutions are categorised as either ordinary or special resolutions. A bare majority of more than 50% of the votes cast by members voting on the relevant resolution is required for the passing of an ordinary resolution, whereas a qualified majority of more than 75% of the votes cast by members voting on the relevant resolution is required in order to pass a special resolution. Matters requiring a special resolution include, for example: altering the objects of the Company; altering the Articles of Association of the Company; and approving a change of the Company's name.

## Memorandum and Articles of Association

The Company's Memorandum and Articles of Association set out the objects and powers of the Company. The Articles of Association detail the rights attaching to shares, the method by which the Company's shares can be purchased or re-issued, the provisions which apply to the holding and voting at general meetings and the rules relating to Directors, including their appointment, retirement, re-election, duties and powers. The Articles of Association may be amended by special resolution of the shareholders, being a resolution proposed on not less than 21 days' notice as a special resolution and passed by more than 75% majority of those voting on the resolution.

Directors  
2 April 2015



**Colm Ó Nualláin**  
Chairman



**David Ehrlich**  
Executive Director

# Statement of Directors' Responsibilities

The Directors are responsible for preparing the Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial period. Under such law the Directors have prepared the Company's financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and in accordance with the provisions of the Companies Acts 1963 to 2013.

The financial statements are required by law and IFRS to present a true and fair view of the financial position and performance of the Company.

In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- comply with IFRS as adopted by the European Union; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper books and accounting records which disclose with reasonable accuracy at any time the financial position of the Company and ensuring that the financial statements are prepared in accordance with IFRS as adopted by the European Union and in accordance with the provisions of the Companies Acts 1963 to 2013.

The Directors are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In accordance with applicable law and the Listing Rules issued by the Irish Stock Exchange, the Directors are also required to prepare a Directors' Report and reports relating to Directors' remuneration and corporate governance. The Directors are also required by the Transparency Regulations to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Company.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Ireland governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

The Directors have contracted with the AIFM in order to ensure that those requirements are met. The books and accounting records of the Company are maintained at its registered office located at Kings Court, 48-59 North King Street, Unit 5, Smithfield, Dublin 7. The Directors have delegated investment management and administration functions, including risk management, to the AIFM without abrogating their overall responsibility. The Directors have in place mechanisms for monitoring the exercise of such delegated functions, which are always subject to the supervision and direction of the Board. These delegations of functions and the appointment of regulated third party entities are set out in the Corporate Governance Statement on pages 27 to 32.

Each of the Directors, whose names and functions are listed on pages 24 to 25, confirms that, to the best of each person's knowledge and belief:

- the financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities and financial position for the Company as at 31 December 2014 and of the results for the period 2 July 2013 (date of incorporation) to 31 December 2014;
- the Report of the Directors, the Chairman's Statement, the Chief Executive Officer's Statement and the IRES Fund Management, Investment Advisor and Property Manager's Statement include a fair review of the development and performance of the Company's business and the state of affairs of the Company as at 31 December 2014; and
- the Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the performance, strategy and business model of the Company.



**Colm Ó Nualláin**  
Chairman



**David Ehrlich**  
Executive Director

# Independent auditors' report to the members of Irish Residential Properties REIT plc

for the period from 2 July 2013 to 31 December 2014

## Report on the financial statements

### Our opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union, of the state of the company's affairs as at 31 December 2014 and of its profit and cash flows for the period then ended; and
- have been properly prepared in accordance with the requirements of the Companies Acts 1963 to 2013.

### What we have audited

Irish Residential Properties REIT plc's financial statements comprise:

- the Statement of Financial Position as at 31 December 2014;
- the Statement of Profit or Loss and other Comprehensive Income for the period then ended;
- the Statement of Cash Flows for the period then ended;
- the Statement of Changes in Shareholders' Equity for the period then ended; and
- the Notes to the Financial Statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is Irish law and IFRSs as adopted by the European Union.



## Our audit approach

### Overview

#### Materiality

- Overall materiality: €2 million which represents 1% of net assets.

#### Audit scope

- We conducted audit work in one location, Dublin.
- The location and functions where we performed our audit work accounted for 100% of revenues and 100% of profit before tax.

#### Areas of focus

- Valuation of investment properties
- Transactions with related parties

#### The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that may represent a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below together with an explanation of how we tailored our audit to address these specific areas. This is not a complete list of all risks identified by our audit.



## Independent auditors' report (cont'd)

<b>Area of focus</b>	<b>How our audit addressed the area of focus</b>
<p><b>Valuation of investment properties</b></p> <p>Investment properties represent substantially all of the assets of the company.</p> <p>We focused on this area because the valuation of investment properties involves significant judgement in selecting the appropriate capitalisation rate to be applied to annual rents for each multi-unit residential property.</p> <p>As set out in note 5 to the financial statements, the capitalisation rate to be applied to annual rents for each multi-unit residential property is dependent on the actual location, size and quality of the property taking into account any available market data at the valuation dates.</p>	<p>We obtained and considered the valuation report prepared by management's independent expert at 31 December 2014.</p> <p>We also obtained and considered a separate valuation report prepared by an unconnected independent expert at 30 September 2014 which was also commissioned by management. We compared the valuations at the two dates paying particular attention to the properties acquired earlier in the period. We focussed on these properties as they represented the largest part of the gain in the period.</p> <p>We compared valuations for properties acquired close to period end with the prices paid for those properties.</p> <p>We assessed the overall capitalisation rates in light of general market movements.</p> <p>We considered the reputation and standing of the independent experts appointed by management.</p>
<p><b>Transactions with related parties</b></p> <p>CAPREIT is a significant related party of the company as it owns 20.8% of the company at the balance sheet date and provides a range of services to the company.</p> <p>Related party transactions are set out in note 15 to the financial statements.</p> <p>We focused on this area as the disclosure of related party transactions where a significant related party relationship exists is relevant to the users of the financial statements in their assessment of the company and its performance.</p>	<p>We read Board Minutes and Agreements with related parties.</p> <p>We considered the disclosures included in the financial statements for consistency with the agreements in place and transactions during the year.</p> <p>We confirmed the balance between CAPREIT and the company at the balance sheet date.</p>



### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the accounting processes and controls and the industry in which the company operates.

The company comprises one legal entity in Ireland. All of the audit work was performed in Ireland by the Irish engagement team. In establishing the overall approach to the audit, we determined the type of work that needed to be performed on the individual financial statement line items, depending on risk assessment and materiality.

### Materiality

The scope of our audit is influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Overall materiality</b>	€2 million
<b>How we determined it</b>	1% of net assets of €200 million
<b>Rationale for benchmark applied</b>	We determined materiality using net assets for the following reasons: <ul style="list-style-type: none"><li>• As a property company the primary 'value' of the company is in its net assets.</li><li>• Typically market investors will invest in a property company in expectation of net asset growth. Market commentators will often quote a share price as a premium or discount in net assets rather than as a multiple of earnings.</li></ul>

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €100,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### Going concern

Under the Listing Rules of the Irish Stock Exchange we are required to review the directors' statement, set out on page 47, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the company has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial

statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the company's ability to continue as a going concern.

## Independent auditors' report (cont'd)

### Other required reporting

#### Consistency of other information

##### *Companies Acts 1963 to 2013 opinions*

In our opinion the information in the Report of the Directors is consistent with the financial statements.

#### **ISAs (UK & Ireland) reporting**

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- |   |   |
|---|---|
| <ul style="list-style-type: none"><li>information in the Report is:<ul style="list-style-type: none"><li>materially inconsistent with the information in the audited financial statements; or</li><li>apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or</li><li>is otherwise misleading.</li></ul></li></ul>   | We have no exceptions to report arising from this responsibility. |
| <ul style="list-style-type: none"><li>the statement given by the directors on page 50, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the company's performance, business model and strategy is materially inconsistent with our knowledge of the company acquired in the course of performing our audit.</li></ul> | We have no exceptions to report arising from this responsibility. |
| <ul style="list-style-type: none"><li>the section of the Report on pages 33 to 34, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.</li></ul>   | We have no exceptions to report arising from this responsibility. |

#### **Directors' remuneration**

Under the Companies Acts 1963 to 2013 we are required to report to you if, in our opinion, the disclosure of directors' remuneration and transactions specified by law have not been made, and under the Listing Rules of the Irish Stock Exchange we are required to review the six specified elements of disclosures in the report to shareholders by the Board on directors' remuneration. We have no exceptions to report arising from these responsibilities.

#### **Corporate governance statement**

Under the Listing Rules of the Irish Stock Exchange we are required to review the part of the Corporate Governance Statement relating to the company's compliance with nine provisions of the UK Corporate Governance Code and the two provisions of the Irish Corporate Governance Annex specified for our review. We have nothing to report having performed our review.



### **Other matters on which we are required to report by the Companies Acts 1963 to 2013**

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion proper books of account have been kept by the company.
- The financial statements are in agreement with the books of account.
- The net assets of the company, as stated in the Statement of Financial Position, are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2014 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the company.

### **Responsibilities for the financial statements and the audit**

#### **Our responsibilities and those of the directors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 50, the directors are responsible for the preparation of the financial statements giving a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Section 193 of the Companies Act, 1990 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

#### **What an audit of financial statements involves**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



**Paul Hennessy**

for and on behalf of PricewaterhouseCoopers  
Chartered Accountants and Statutory Audit Firm  
Dublin

2 April 2015

# Statement of Financial Position

as at 31 December 2014

	Note	€'000
<b>Assets</b>		
<b>Non-Current Assets</b>		
Investment properties	5	323,580
Other non-current assets	6	618
		<b>324,198</b>
<b>Current Assets</b>		
Other current assets	6	2,004
Cash and cash equivalents		6,146
		<b>8,150</b>
<b>Total Assets</b>		<b>332,348</b>
<b>Liabilities</b>		
<b>Non-Current Liabilities</b>		
Bank indebtedness	8	125,000
		<b>125,000</b>
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities		4,911
Security deposits		1,519
		<b>6,430</b>
<b>Total Liabilities</b>		<b>131,430</b>
<b>Shareholders' Equity</b>		
Share capital	10	20,200
Share premium	10	172,374
Other reserve		574
Retained earnings		7,770
<b>Total Shareholders' Equity</b>		<b>200,918</b>
<b>Total Shareholders' Equity and Liabilities</b>		<b>332,348</b>

The accompanying notes form an integral part of these financial statements.



**Colm Ó Nualláin**  
Chairman



**David Ehrlich**  
Executive Director

# Statement of Profit or Loss and Other Comprehensive Income

For the Period 2 July 2013 (date of incorporation) to 31 December 2014

	Note	€'000
<b>Operating Revenues</b>		
Revenue from investment properties		9,675
<b>Operating Expenses</b>		
Property taxes		(199)
Property operating costs		(1,850)
		(2,049)
<b>Net Rental Income</b>		
		7,626
General and administrative expenses		(2,941)
Share-based compensation expense	9	(574)
Fair value on investment properties	5	7,364
Depreciation of property, plant and equipment		(11)
<b>Operating Income</b>		
		11,464
Financing costs on credit facility	8	(1,147)
Interest on intercompany loan	7	(1,464)
Investment income received		23
<b>Profit Before Taxes</b>		
		8,876
Current income tax expense	12	(946)
<b>Profit for the Period</b>		
		7,930
Other comprehensive income		-
<b>Total Comprehensive Income for the Period</b>		
<b>Attributable to Shareholders</b>		<b>7,930</b>
<b>Basic Earnings per Share</b> (cents)		
	17	8.3
<b>Diluted Earnings per Share</b> (cents)		
	17	8.3

All of the profit for the period arises from continuing operations.

*The accompanying notes form an integral part of these financial statements.*



**Colm Ó Nualláin**  
Chairman



**David Ehrlich**  
Executive Director

# Statement of Changes in Shareholders' Equity

For the Period 2 July 2013 (date of incorporation) to 31 December 2014

	Note	Share Capital €'000	Share Premium €'000	Retained Earnings €'000	Other €'000	Total €'000
<b>Shareholders' Equity</b>						
<b>at 2 July 2013</b>						
<b>(date of incorporation)</b>						
		-	-	-	-	-
Share Capital						
New Shares issued for cash	10	20,040	172,374	-	-	192,414
Capitalisation of Bonus Shares <sup>(1)</sup>	10	160	-	(160)	-	-
Long-Term Incentive Plan	9	-	-	-	574	574
		20,200	172,374	(160)	574	192,988
Retained Earnings						
Profit for the period		-	-	7,930	-	7,930
		-	-	7,930	-	7,930
<b>Shareholders' Equity</b>						
<b>at 31 December 2014</b>						
		<b>20,200</b>	<b>172,374</b>	<b>7,770</b>	<b>574</b>	<b>200,918</b>

(1) €1.6 million of the retained profits as at 31 December 2014 arose prior to the Company registering as an Irish REIT with effect from 31 March 2014. €160,000 was transferred to ordinary share capital, being the total par value of the bonus issue of 1,600,000 Ordinary Shares on 11 April 2014 (see note 10). The remainder has been designated an undistributable reserve within the meaning of the 1983 Act. Of the total reserves at 31 December 2014, €1.14 million represented distributable profits within the meaning of the 1983 Act.

The accompanying notes form an integral part of these financial statements.

# Statement of Cash Flows

For the Period 2 July 2013 (date of incorporation) to 31 December 2014

	Note	€'000
<b>Cash Flows from Operating Activities:</b>		
<b>Operating Activities</b>		
Profit before taxes		8,876
Items related to operating activities not affecting cash:		
Fair value adjustment – investment properties		(7,364)
Depreciation of property, plant and equipment		11
Amortisation of other financing costs		173
Share-based compensation expense		574
Straight-line rent adjustment		(73)
Taxes paid		(946)
		<b>1,251</b>
Operating income items related to financing and investing activities		2,415
Changes in non-cash operating assets and liabilities	14	4,426
<b>Net Cash Generated from Operating Activities</b>		<b>8,092</b>
<b>Cash Flows from Investing Activities</b>		
Acquisition of investment properties		(315,684)
Investment property enhancement expenditure		(459)
Purchase of property, plant and equipment		(58)
Investment income received		23
<b>Net Cash Used in Investing Activities</b>		<b>(316,178)</b>
<b>Cash Flows from Financing Activities</b>		
Intercompany loan advanced		45,000
Mortgages repaid on maturity		(45,000)
Arrangement fee on credit facility	8	(744)
Interest paid on bank indebtedness		(974)
Credit Facility Advanced		125,000
Interest paid on intercompany loan		(1,464)
Net proceeds on issuance of shares		192,414
<b>Net Cash Generated from Financing Activities</b>		<b>314,232</b>
<b>Changes in Cash and Cash Equivalents during the Period</b>		<b>6,146</b>
<b>Cash and Cash Equivalents, Beginning of the Period</b>		<b>–</b>
<b>Cash and Cash Equivalents, End of the Period</b>		<b>6,146</b>

The accompanying notes form an integral part of these financial statements.

# Notes to Financial Statements

## 1. General Information

Irish Residential Properties REIT plc ("I-RES") was incorporated in Ireland on 2 July 2013 as Shoreglade Limited (formerly known as CAPREIT Ireland Limited, Irish Residential Apartments REIT Limited and Irish Residential Properties REIT Limited). On 16 April 2014, I-RES obtained admission of its ordinary shares to the primary listing segment of the Official List of the Irish Stock Exchange for trading on the regulated market for listed securities of the Irish Stock Exchange. Its registered office is Kings Court, Unit 5, 48-59 North King Street, Smithfield, Dublin 7, Ireland. Ordinary shares of I-RES are listed on the Irish Stock Exchange under the symbol "IRES".

I-RES owns interests in multi-unit residential rental apartment properties located in and near major urban centres in Dublin, Ireland. I-RES' net assets and operating results are derived from real estate located in Ireland where it is also domiciled. On 10 September 2013, I-RES purchased its first investment interests in investment properties (see note 4 for details).

I-RES was previously a wholly owned subsidiary of Canadian Apartment Properties Real Estate Investment Trust ("CAPREIT LP"), a real estate investment trust owning interests in multi-unit residential rental apartment properties located across Canada. On 16 April 2014, CAPREIT LP's interest in I-RES was diluted to 20.792% through the issuance of ordinary shares on the Irish Stock Exchange.

## 2. Significant Accounting Policies

### a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), IFRS Interpretations Committee ("IFRIC") interpretations and those parts of the Irish Companies Acts 1963 to 2013, applicable to companies reporting under IFRS. The financial statements are prepared on a going concern basis and under the historical cost convention, as modified by the revaluation of investment properties at fair value through profit or loss. The financial statements have been presented in euros, which is I-RES' functional currency.

The financial statements cover the period from incorporation on 2 July 2013 to 31 December 2014.

I-RES has not early adopted any forthcoming IASB standards. Note 2(r) sets out details of such upcoming standards.

### Going concern

I-RES meets its day-to-day working capital requirements through its cash and deposit balances. I-RES' plans indicate that it should have adequate resources to continue operating for the foreseeable future. Accordingly, the Directors consider it appropriate that I-RES adopts the going concern basis in the preparation of the financial statements.

### b) Investment properties

I-RES considers its income properties to be investment properties under IAS 40, Investment Property ("IAS 40"), and has chosen the fair value model to account for its investment properties in the financial statements. Fair value represents the amount at which the properties could be exchanged between a knowledgeable and willing buyer and a knowledgeable and willing seller in an arm's-length transaction at the date of valuation.

Investment properties comprise investment interests held in land and buildings (including integral equipment) held for the purpose of producing rental income, capital appreciation, or both. I-RES' investment properties have been valued on a highest and best-use basis, but do not include any portfolio premium that may be associated with the economies of scale of owning a large portfolio of properties.

All investment properties are initially recorded at cost at their respective acquisition dates and are subsequently stated at fair value at each statement of financial position date, with any gain or loss arising from a change in fair value recognised within operating income in the statement of income and comprehensive income for the period.

The fair value of investment properties is determined by a qualified external appraiser. Management undertakes a review of its investment property valuations between external appraisal dates to assess the continuing validity of the underlying assumptions, such as cash flows and capitalisation rates. These assumptions may be modified based on market information obtained from the external appraiser. Where increases or decreases are warranted, the carrying values of I-RES' investment properties are adjusted. See notes 3 and 5 for a detailed discussion of the significant assumptions, estimates and valuation methods used.

**c) Property asset acquisition**

Identifiable assets acquired and liabilities assumed in an asset acquisition are measured initially at their acquisition cost at the acquisition date. Acquisition-related transaction costs are capitalised to the property.

**d) Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation and mainly comprise of head office fixtures and fittings and information technology hard-

ware. These items are depreciated on a straight-line basis over their estimated useful lives ranging from three to five years.

**e) Tenant inducements**

Incentives such as cash, rent-free periods and move-in allowances may be provided to lessees to enter into a lease. The incentives are written off on a straight-line basis over the term of the lease as a reduction of rental revenue.

**f) Financial instruments**

*Financial assets and financial liabilities*

Financial assets and financial liabilities are initially recognised at fair value and are subsequently accounted for based on their classification, as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and I-RES' designation of such instruments.

*Classification of financial instruments*

The following summarises the classification and measurement I-RES has elected to apply to each of its significant categories of financial instruments:

<b>Type</b>	<b>Classification</b>	<b>Measurement</b>
<b>Financial assets</b>		
Cash and cash equivalents	Cash and cash equivalents	Amortised cost
Other receivables	Loans and receivables	Amortised cost
<b>Financial liabilities</b>		
Bank indebtedness	Other liabilities	Amortised cost
Accounts payable and accrued liabilities	Other liabilities	Amortised cost

*Fair value through profit or loss ("FVTPL")*

Financial instruments in this category are recognised initially and subsequently at fair value. Gains and losses arising from changes in fair value are presented within net income in the statement of income and comprehensive income in the period in which they arise. Financial assets and liabilities at FVTPL are classified as current, except for the portion expected to be realised or paid beyond 12 months of the statement of financial position date, which is classified as non-current. Derivatives are also categorised as FVTPL unless designated as hedges.

## Notes to Financial Statements (cont'd)

### ***Cash and cash equivalents***

Cash and cash equivalents include cash and short-term investments with an original maturity of three months or less, and are accounted for at amortised cost. Interest earned or accrued on these financial assets is included in other income.

### ***Loans and receivables***

Such receivables arise when I-RES provides services to a third party, such as a tenant, and are included in current assets, except for those with maturities more than 12 months after the statement of financial position date, which are classified as non-current assets. Loans and receivables are included in other assets in the statement of financial position and are accounted for at amortised cost.

### ***Other liabilities***

Such financial liabilities are recorded at amortised cost and include all liabilities other than derivatives or liabilities, which are designated to be accounted for at fair value.

### ***Transaction costs***

Transaction costs related to financial assets classified as FVTPL are expensed as incurred. Transaction costs related to loans and receivables and other liabilities are included in the initial fair value of such financial assets and liabilities. Transaction costs relating to available-for-sale financial assets are included in the cost of the asset on initial recognition.

### ***Determination of fair value***

The fair value of a financial instrument on initial recognition is generally the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair value of financial instruments is remeasured based on relevant market data. I-RES classifies the fair value for each class of financial instrument based on the fair value hierarchy in accordance with IFRS 13, Fair Value Measurement ("IFRS 13"). The fair value hierarchy distinguishes between market value data obtained from independent sources and I-RES' own assumptions about market value. See note 11 for a detailed discussion of valuation methods used for financial instruments with prices quoted in an active market and instruments valued using observable data.

### **g) Intercompany loan**

An intercompany loan was recognised at amortised cost using the effective interest rate method. Under the effective interest rate method, any transaction fees, costs and discounts directly related to the intercompany loan were recognised within interest and other financing costs in the statement of income and comprehensive income over the expected term of the intercompany loan. The intercompany loan was repaid in full on 16 April 2014.

### **h) Revenue recognition**

I-RES recognises rental revenue using the straight-line method, whereby the total amount of rental revenue to be received from all leases is accounted for on a straight-line basis over the term of the related leases. The difference between the rental revenue recognised and the amounts contractually due under the lease agreements is accrued as rent receivable.

### **i) Interest on intercompany loan**

This amount includes interest and other financing costs payable on the intercompany loan, which is expensed at the stated interest rate specified by the terms of the intercompany loan agreement between I-RES and CAPREIT LP. The intercompany loan agreement terminated when I-RES repaid the intercompany loan in full on 16 April 2014.

### **j) Bank indebtedness, borrowing costs and interest on credit facility**

Bank indebtedness is recognised at amortised cost. Interest and other financing costs includes interest on credit facility, which is expensed at the effective interest rate, and transaction costs incurred in connection with the revolving credit facilities, which are capitalised and presented as other non-current assets and amortised over the term of the facility to which they relate.

### **k) Operating segments**

I-RES operates and is managed as one business segment, namely property investment, with all investment properties located in Ireland. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, which has been identified as the I-RES Board of Directors.

#### **l) Foreign currency transactions**

Transactions in foreign currencies are translated into I-RES' functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate at that date.

#### **m) Statement of cash flows**

Cash and cash equivalents consist of cash on hand, balances with banks and investments in money market instruments with an original term to maturity of 90 days or less at acquisition. Investing and financing activities that do not require the use of cash or cash equivalents are excluded from the statement of cash flows and are disclosed separately in the notes to the financial statements.

#### **n) Income taxes**

##### *Current tax*

Irish Residential Properties REIT plc elected for REIT status on 31 March 2014. As a result, from this date I-RES does not pay Irish corporation tax on the profits and gains from its qualifying rental business in Ireland provided it meets certain conditions.

For the period 2 July 2013 to 31 March 2014, I-RES is liable for corporation tax on any profits and gains which would have arisen prior to and upon election to REIT status.

Going forward, corporation tax is still payable in the normal way in respect of income and gains from any residual business (generally including any property trading business) not included in the property rental business. I-RES would also be liable to pay other taxes such as VAT, stamp duty land tax, stamp duty, local property tax and payroll taxes in the normal way.

##### *Deferred tax*

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse using tax rates enacted or substantively enacted at the reporting date.

#### **o) Equity and share issue costs**

The equity of I-RES consists of ordinary shares issued. Shares issued are recorded at the date of issuance. Direct issue costs in respect of the issue of shares are accounted for as a deduction from equity. Direct issue costs include the costs of preparing the prospectus, accounting, tax and legal expenses, underwriting fees, and valuation fees in respect of the shares and other assets.

#### **p) Net asset value ("NAV")**

The NAV is calculated as the value of I-RES' assets less the value of its liabilities measured in accordance with IFRS as adopted in the EU, and in particular will include I-RES' property assets at their most recent independently assessed market values and also I-RES' debt and hedging instruments at their most recent independent valuations. EPRA NAV is calculated in accordance with the European Public Real Estate Association ("EPRA") Best Practice Recommendations, September 2011 and its additional guidance issued in January 2014.

#### **q) Share-based payments**

I-RES has determined that the options issued to senior executives qualify as an "equity settled share-based payment transaction" as per IFRS 2. In addition, any options issued to the trustees have also been based on the "equity settled share-based payment transaction". This implies the fair value of the options measured on the grant date will be expensed over the vesting term with a corresponding increase in equity. The fair value has been measured using the Black-Scholes model.

## Notes to Financial Statements (cont'd)

### **r) Future accounting changes**

The following new or amended standards and interpretations have been issued by the International Accounting Standards Board ("IASB") and are expected to apply to I-RES for annual reporting periods beginning after 31 December 2014:

#### ***IFRS 9, Financial Instruments ("IFRS 9")***

The complete version of IFRS 9 replaces most of the guidance in IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit loss model that replaces the incurred loss impairment model used in IAS 39 for financial liabilities.

For financial liabilities there were no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the hedged ratio to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

#### ***IFRS 7, Financial Instruments – Disclosure***

Amended to require additional disclosures on transition from IAS 39 to IFRS 9. Effective on adoption of IFRS 9.

#### ***IFRS 10 and IAS 28, Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture***

The amendment clarifies an inconsistency between the two standards, and establishes that a gain or loss on the sale or contribution of assets between an investor and its associate or joint venture is fully recognised when the transaction involves a business, and a partial gain or loss is recognised when the transaction involves assets that do not constitute a business. This amendment is effective 1 January 2016.

#### ***IAS 27 and IFRS 1, Equity Method in Separate Financial Statements***

Amended to restore the option to apply the equity method when accounting for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. This amendment is effective 1 January 2016.

#### ***IAS 16 and IAS 38, Clarification of Acceptable Methods of Depreciation and Amortisation***

The amendment clarifies, in both standards, that the use of a revenue-based depreciation and amortisation method is not appropriate. This amendment is effective 1 January 2016.

#### ***IFRS 11, Accounting for Acquisitions of Interests in Joint Operations***

Amends to provide specific guidance for the acquisition of an interest in a joint operation that is a business. This amendment is effective 1 January 2016.

#### ***IFRS 15, Revenue from Contracts with Customers***

New standard on revenue recognition, superseding IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations. This standard is effective 1 January 2017.

I-RES is currently assessing the impact of the above standards and amendments but does not expect to be significantly affected on adoption in its current form.

### 3. Critical Accounting Estimates, Assumptions and Judgements

The preparation of the financial statements in accordance with IFRS requires the use of estimates, assumptions and judgements that in some cases relate to matters that are inherently uncertain, and which affect the amounts reported in the financial statements and accompanying notes. Areas of such estimation include, but are not limited to: valuation of investment properties, remeasurement at fair value of financial instruments, valuation of accounts receivable, capitalisation of costs, accounting accruals, the amortisation of certain assets, and valuation of options. Changes to estimates and assumptions may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could also differ from those estimates under different assumptions and conditions.

The valuation estimate of investment properties is deemed to be more significant, due to subjectivity and the potential risk of causing a material adjustment within the next financial year to the carrying amounts of assets and liabilities. See note 5 for a detailed discussion of valuation methods and the significant assumptions and estimates used.

### 4. Recent Investment Property Acquisitions

I-RES has completed the following investment property acquisitions since 2 July 2013, which have contributed to the operating results effective from the acquisition date:

#### **For the Period 2 July 2013 (date of incorporation) to 31 December 2014**

	<b>Suite Count</b>	<b>Region</b>	<b>Total Acquisition Costs €'000</b>	<b>Funding €'000</b>	<b>Interest Rate</b>	<b>Term to Maturity (Years)</b>
10 September 2013	338	Dublin, Ireland	44,173	— <sup>(1)</sup>	— <sup>(1)</sup>	— <sup>(1)</sup>
27 June 2014	19	Dublin, Ireland	2,172	— <sup>(2)</sup>	— <sup>(2)</sup>	— <sup>(2)</sup>
18 July 2014	84	Dublin, Ireland	51,945	— <sup>(2)</sup>	— <sup>(2)</sup>	— <sup>(2)</sup>
7 October 2014 <sup>(3)</sup>	763	Dublin, Ireland	217,394	— <sup>(4)</sup>	— <sup>(4)</sup>	— <sup>(4)</sup>
	1,204		315,684	—		

(1) The acquisition was funded from an intercompany loan payable to CAPREIT LP at a stated interest rate of 5.3% per annum. The loan was repayable on demand, but in any event, no later than 29 August 2014 with interest on such amount at the stated interest rate. The loan was repaid on 16 April 2014.

(2) The acquisition was funded from equity proceeds raised on 16 April 2014.

(3) Included are two residential suites purchased in August and October 2014 relating to the initial portfolio aggregating to €424,000 which was funded from cash on hand.

(4) The 761 residential suite acquisition was funded from equity proceeds raised on 16 April 2014 and from the Credit Facility.

## Notes to Financial Statements (cont'd)

### 5. Investment Properties

#### Valuation basis

Investment properties are carried at fair value, which is the amount at which the individual properties could be sold in an orderly transaction between market participants, based on current prices in an active market for similar properties in the same location, considering the highest and best use of the asset, with any gain or loss arising from a change in fair value recognised in the statement of income and comprehensive income for the period. Valuations do not take into account any potential portfolio premium or transaction costs generally necessary to complete such transactions.

The fair values of all of I-RES' investment properties are determined by a qualified external appraiser. The qualified external appraiser holds a recognised relevant professional qualification and has recent experience in the location and category of the respective property. Capitalisation rates employed by the appraiser are based on recently closed transactions for similar properties. To the extent that the stabilised forecasted cash flows of an investment property change significantly semi-annually, the fair value of the investment property would be re-assessed by the external appraiser and the fair value adjusted accordingly. Valuations are prepared on a bi-annual basis at each interim reporting date.

Fair values for investment properties are classified as Level 3 in the fair value hierarchy, as disclosed in note 11. I-RES verifies all major inputs (as detailed above) to the valuation and reviews the results with the external appraiser for all independent valuations.

Discussion of the valuation process, the valuation methodology (as mentioned below), key inputs and results is held between I-RES and the qualified external appraiser.

Changes in Level 3 fair values are analysed at each reporting date. To determine fair value, I-RES first considers whether it can use current prices in an active market for a similar property in the same location and condition. I-RES has concluded there is insufficient market evidence on which to base investment property valuation using this approach, and has therefore determined that using the Direct Income Capitalisation ("DC") method is more appropriate.

I-RES utilises the DC method. Under this method, capitalisation rates are applied to a stabilised net rental income ("NRI") representing market-based NRI assumptions (property revenue less property operating expenses adjusted for market based assumptions such as long-term vacancy rates, management fees, repairs and maintenance and general and administration costs). The most significant assumption is the capitalisation rate for each specific property. The capitalisation rate is based on the actual location, size and quality of the property, taking into account any available market data at the valuation date. Generally, an increase in stabilised NRI will result in an increase to the fair value of an investment property. An increase in the capitalisation rate will result in a decrease to the fair value of an investment property. The capitalisation rate magnifies the effect of a change in stabilised NRI, with a lower capitalisation rate resulting in a greater effect on the fair value of investment properties than a higher capitalisation rate.

A decrease in the estimated annual rent will decrease the fair value. Similarly, an increase in the capitalisation rates will decrease the fair value. Across the entire portfolio of investment properties, a 1% increase in equivalent yield would have the impact of a €53.3 million reduction in fair value whilst a 1% decrease in yield would result in a fair value increase of €79.9 million.

A summary of the market assumption, ranges and fair value as at 31 December 2014 is presented below:

**As at 31 December 2014**

Type of Interest	Fair Value €'000	Rate Type	Max.	Min.	Weighted Average
Investment properties	323,580	Capitalisation rate	6.95%	4.56%	5.11%

*Reconciliation of carrying amounts of investment properties*

For the Period	2 July 2013 (date of incorporation) to 31 December 2014 €'000
<b>Balance at inception</b>	-
Additions:	
Acquisitions	315,684
Property capital investments	459
Capitalised leasing costs <sup>(1)</sup>	73
Unrealised fair value adjustments	7,364
<b>Balance at the end of the period</b>	<b>323,580</b>

(1) Comprised of straight-line rent.

The carrying value of €323.6 million for the investment properties at 31 December 2014 was based on an external valuation carried out as at that date. The valuations were prepared in accordance with the RICS Valuation – Professional Standards January 2014 (Red Book).

## 6. Other Assets

As at	31 December 2014 €'000
<b>Other Non-Current Assets</b>	
Property, plant and equipment: <sup>(1)</sup>	
At cost	58
Accumulated amortisation	(11)
Net property, plant and equipment	47
Deferred loan costs, net <sup>(2)</sup>	571
<b>Total</b>	<b>618</b>
<b>Other Current Assets</b>	
Prepaid expenses	288
Other receivables	654
Deposits	1,062
<b>Total</b>	<b>2,004</b>

(1) Consists of head office fixtures and fittings and information technology hardware.

(2) Represents deferred loan costs related to the credit facility net of accumulated amortisation of €173,000.

The carrying value of all other receivables approximates their fair value.

## 7. Intercompany Loan

On 16 April 2014, I-RES repaid an intercompany loan payable to CAPREIT LP, a related party, aggregating to €45.0 million with a stated interest rate of 5.3% per annum. The intercompany loan was repayable on demand, but in any event, no later than 29 August 2014, with interest on such amount at the stated interest rate.

## Notes to Financial Statements (cont'd)

### 8. Credit Facility

I-RES signed a credit facility agreement on 15 August 2014 with Barclays Bank Ireland PLC and TD Bank, which provides for a credit facility of up to €130.0 million comprising a revolving facility of €60.0 million and a bridge facility of €70.0 million. The debt is secured over the properties of I-RES. The revolving facility is a two-year term from the date of the agreement, and the bridge facility expires on 15 May 2015; however, this date can be extended, at the option of the Company and subject to the payment of a pre-agreed arrangement fee of €560,000 to the revolving facility expiry date if an equity offering has not been completed by I-RES by 15 May 2015. If the revolving facility is repaid before its expiry date, it will remain available on a revolving basis until 14 August 2016. The interest on the facility is at an annual rate of 2.5%, plus the one-month or three-month EURIBOR rate (at the option of I-RES). There was a one-time arrangement fee of €740,000 relating to the credit facility.

### 9. Share-based Compensation

Options are issuable pursuant to I-RES' share-based compensation plan, namely, the Long-Term Incentive Plan ("LTIP"). Options were granted on 16 April 2014 by I-RES to senior executives and trustees of CAPREIT LP and its affiliates and David Ehrlich, CEO of I-RES. The LTIP will have a maximum life of seven years less a day and will vest over three years from the date of grant. The LTIP limit cannot exceed 10% of I-RES' issued ordinary share capital (adjusted for share issuance and cancellation) during the 10-year period prior to that date. As at 31 December 2014, the maximum number of options issuable under the LTIP is 20,200,000. The maximum number of shares available for future issuance under all Unit incentive plans as at 31 December 2014 is 3,120,000.

The fair value of options has been determined as at the grant date using the Black-Scholes model. The assumptions utilised to arrive at the estimated fair value for the outstanding grants at the respective periods is shown below.

The expected volatility is based on historic market volatility over the past four years. The risk free rate is based on Irish Government bonds with a term consistent with the assumed option life.

### LTIP

#### As at 31 December 2014

Number of shares	<b>17,080,000</b>
Share price on date of grant (€)	<b>1.04</b>
Award grant price (€)	<b>1.04</b>
Risk free rate (%)	<b>1.2</b>
Distribution yield (%)	<b>5.0</b>
Expected years	<b>7.0</b>
Volatility (%)	<b>20.3</b>
Award option value (€)	<b>0.08</b>

### 10. Shareholders' Equity

On 13 March 2014, I-RES had an authorised share capital of €100.0 million divided into 1,000,000,000 ordinary shares of €0.10 each. On 20 March 2014, I-RES was converted to a public limited company. On 16 April 2014, I-RES issued 200,000,000 ordinary shares pursuant to the Initial Offering ("Initial Offering") for €1.00 each including a share premium of €0.90 per share. CAPREIT LP's initial investment in I-RES' share capital (prior to the dilution of its beneficial interest) was €40,000 at a par value of €0.10 per share, resulting in 400,000 ordinary shares.

On 11 April 2014, prior to the Initial Offering, I-RES issued 1,600,000 ordinary shares to CAPREIT LP by way of a capitalised issue. All equity shares outstanding are fully paid and are voting shares. Equity shares represent a shareholder's proportionate undivided beneficial interest in I-RES. No equity share has any preference or priority over another. No shareholder has or is deemed to have any right of ownership in any of the assets of I-RES. Each share confers the right to cast one vote at any meeting of shareholders and to participate pro rata in any distributions by I-RES and, in the event of termination of I-RES, in the net assets of I-RES remaining after satisfaction of all liabilities. Shares will be issued in registered form and are transferable.

The funds raised from all the ordinary shares issued during the period were used for the purchase of investment properties.

The number of issued and outstanding ordinary shares is as follows:

**For the Period 2 July 2013 to 31 December 2014**

Issued or granted during the period in connection with the following:

CAPREIT LP's initial ownership	<b>400,000</b>
Shares issued to CAPREIT LP prior to Initial Offering	<b>1,600,000</b>
Initial Offering	<b>200,000,000</b> (a)
<b>Shares outstanding, end of the period</b>	<b>202,000,000</b>

The shares issued to CAPREIT LP prior to the Initial Offering were issued at par.

**a) New Shares issued on Initial Offering**

	<b>Shares Issued (number)</b>	<b>Price Per Share</b>	<b>Gross Proceeds €'000</b>	<b>Transaction Costs €'000</b>	<b>Net Proceeds €'000</b>
16 April 2014	200,000,000	€ 1.00	200,000	7,626	192,374
<b>Total</b>	<b>200,000,000</b>		<b>200,000</b>	<b>7,626</b>	<b>192,374</b>

## 11. Financial Instruments, Investment Properties and Risk Management

**a) Fair value of financial instruments and investment properties**

I-RES classifies and discloses the fair value for each class of financial instrument based on the fair value hierarchy in accordance with IFRS 13. The fair value hierarchy distinguishes between market value data obtained from independent sources and I-RES' own assumptions about market value. The hierarchy levels are defined below:

**Level 1** – Inputs based on quoted prices in active markets for identical assets or liabilities;

**Level 2** – Inputs based on factors other than quoted prices included in Level 1 and may include quoted prices for similar assets and liabilities in active markets, as well as inputs that

are observable for the asset or liability (other than quoted prices), such as interest rates and yield curves that are observable at commonly quoted intervals; and

**Level 3** – Inputs which are unobservable for the asset or liability, and are typically based on I-RES' own assumptions, as there is little, if any, related market activity.

I-RES' assessment of the significance of a particular input to the fair value measurement in its entirety requires judgement, and considers factors specific to the asset or liability.

The following table presents I-RES' estimates of the fair value on a recurring basis based on information available as at 31 December 2014, and aggregated by the level in the fair value hierarchy within which those measurements fall. These estimates are not necessarily indicative of the amounts I-RES could ultimately realise.

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	Quoted prices in active markets for identical assets and liabilities <b>€'000</b>	Significant other observable inputs <b>€'000</b>	Significant unobservable inputs <b>€'000</b>	<b>€'000</b>
<b>Recurring Measurements</b>				
<b>Assets</b>				
Investment Properties	–	–	323,580 <sup>(1)</sup>	323,580

(1) Fair values for investment properties are calculated using the direct income capitalisation method, which results in these measurements being classified as Level 3 in the fair value hierarchy. See note 5 for detailed information on the valuation methodologies and fair value reconciliation.

## Notes to Financial Statements (cont'd)

### b) Risk management

The main risks arising from I-RES' financial instruments are market risk, interest rate risk, liquidity and credit risks. I-RES' approach to managing these risks is summarised as follows:

#### Market risk

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks.

I-RES' financial assets currently comprise short-term bank deposits and trade receivables.

The short-term bank deposits are used to invest cash while awaiting suitable investment properties for investment. These are denominated in euros. Therefore, exposure to market risk in relation to these is limited to interest rate risk. I-RES' exposure to interest rates is limited to the exposure of €6.1 million as at 31 December 2014 of earnings from uninvested funds at the period end.

#### Interest rate risk

As part of the purchase of the Orange portfolio, I-RES drew down on its credit facility for €125 million. Interest on this credit facility was paid at a rate of 2.5% per annum plus the one-month or three-month EURIBOR rate (at the option of I-RES). An increase or decrease in the interest rate by 100 basis points will result in an increase/decrease of interest payable of €1.3 million and €20,000, respectively, on debt of €125 million, on an annualised basis.

#### Liquidity risk

Liquidity risk is the risk that I-RES may encounter difficulties in accessing capital markets and refinancing its financial obligations as they come due.

I-RES' approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to I-RES' reputation. I-RES monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables and capital commitments.

	2014 €'000	2015–2016 €'000	2017–2018 €'000	2019 onward €'000
Bank indebtedness	–	125,000	–	–
Bank indebtedness interest <sup>(1)</sup>	–	5,109	–	–
Other liabilities	4,911	–	–	–
Security deposits	1,519	–	–	–
	6,430	130,109	–	–

(1) Based on current in-place interest rate for the remaining term to maturity.

The carrying value of bank indebtedness and trade and other payables (other liabilities) is approximate to their fair value.

#### Credit risk

Credit risk is the risk that: (i) counterparties to contractual financial obligations will default; and (ii) the possibility that I-RES' tenants may experience financial difficulty and be unable to meet their rental obligations.

I-RES monitors its risk exposure regarding obligations with counterparties through the regular assessment of counterparties' credit positions and will not be exposed to the creditworthiness or solvency of any one counterparty.

I-RES mitigates the risk of credit loss with respect to tenants by evaluating the creditworthiness of new tenants, obtaining security deposits wherever permitted by legislation, and geographically diversifying its portfolio.

I-RES monitors its collection experience on a monthly basis and ensures that a stringent policy is adopted to provide for all past due amounts. All residential accounts receivable balances exceeding 30 days are written off to bad debt expense and recognised in the statement of income and comprehensive income. Subsequent recoveries of amounts previously written off are credited in the statement of income and comprehensive income.

Cash and cash equivalents are held with major Irish and European institutions. The Board has established a cash management policy for these funds, which it monitors regularly. This policy has investment thresholds, with a maximum limit of 20% of the overall gross assets, with individual institutions to avoid concentration of risk with any one counterparty. I-RES has also engaged the services of a depository to ensure the security of the cash assets.

#### ***Capital management***

I-RES' objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, I-RES may issue new shares or consider the sale of assets to reduce debt. I-RES, through the Irish REIT regime, is restricted in its use of capital to making investments in real property in Ireland. I-RES intends to make distributions if results of operations and cash flows permit in the future.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. At 31 December 2014, capital consists of equity and debt, with the loan to value of 37.6%. I-RES seeks to use gearing to enhance shareholder returns over the long term. The level of gearing is monitored carefully by the Board in light of the cost of borrowing and I-RES may seek to use hedging where considered appropriate to mitigate interest rate risk. Given the stability of the multi-unit residential sector, a range of 45% to 50% gearing is currently considered prudent by the Board.

The Board monitors the return on capital as well as the level of dividends to ordinary shareholders. Subject to distributable reserves, it is the policy of I-RES to distribute at least 85% of the property income of its property rental business for each accounting period.

## **12. Taxation**

I-RES was incorporated on 2 July 2013 and was liable for corporate taxes up to 31 March 2014, following which it elected for REIT status. For the period 2 July 2013 to 31 March 2014, I-RES paid corporate taxes of €922,000. As at 31 December 2014, there is a remaining outstanding tax obligation accrued of €24,000 relating to the period 2 July 2013 to 31 March 2014.

I-RES elected for REIT status on 31 March 2014. As a result, from this date I-RES is exempt from paying Irish corporation tax on the profits and gains from qualifying rental business in Ireland provided it meets certain conditions.

Instead, distributions to shareholders in respect of the property rental business are treated for Irish tax purposes as income in the hands of shareholders. Corporation tax is still payable in the normal way in respect of income and gains from any residual business (generally including any property trading business) not included in the property rental business. I-RES is also liable to pay other taxes such as VAT, stamp duty land tax, stamp duty, local property tax and payroll taxes in the normal way.

Within the Irish REIT regime, for corporation tax purposes the property rental business is treated as a separate business from the residual business. A loss incurred by the property rental business cannot be set off against profits of the residual business.

## Notes to Financial Statements (cont'd)

An Irish REIT is required, subject to having sufficient distributable reserve, to distribute to its shareholders (by way of dividend), on or before the filing date for its tax return for the accounting period in question, at least 85% of the property income of the property rental business arising in each accounting period. Failure to meet this requirement will result in a tax charge calculated by reference to the extent of the shortfall in the dividend paid. A dividend paid by an Irish REIT from its property rental business is referred to as a property income distribution. Any normal dividend paid from the residual business by the Irish REIT is referred to as a non property income distribution dividend.

The Directors confirm that I-RES has remained in compliance with the Irish REIT regime up to and including the date of this report.

### 13. Dividends

Under the Irish REIT regime, subject to having sufficient distributable reserves, I-RES will be required to distribute to shareholders at least 85% of the property income of its property rental business for each accounting period, with the first dividend, provided it has sufficient distributable reserves, being payable in 2015. Accordingly, the Directors have resolved to pay a maiden dividend of 0.48 cent per share in the form of an interim dividend to be paid on 31 March 2015 to shareholders on record as at 20 February 2015.

### 14. Supplemental Cash Flow Information

#### Changes in non-cash and other operating assets and liabilities

For the Period	2 July 2013 (date of incorporation) to 31 December 2014 €'000
Prepaid expenses	(288)
Other receivables	(654)
Deposits and other assets	(1,062)
Accounts payable and other liabilities	4,911
Security deposits	1,519
	<b>4,426</b>

#### Issuance of Shares

For the Period	1 April 2014 to 31 December 2014 €'000
Issuance of shares	200,040
Issuance costs	(7,626)
Net proceeds	<b>192,414</b>

## 15. Related Party Transactions

CAPREIT LP has an indirect 15.7% beneficial interest in I-RES as of the date of this Report and has determined that it has significant influence over I-RES. The beneficial interest is held through a qualified alternative investment fund, Irish Residential Properties Fund, CAPREIT LP's wholly owned subsidiary. In addition, effective 11 April 2014, CAPREIT LP's wholly owned subsidiary, IRES Fund Management, entered into an agreement to perform certain property and asset management services for I-RES. Included in general and administrative expenses is €723,000 from asset management fees while €269,000 of property management fees is recorded under operating expenses. The amount payable to CAPREIT LP (including IRES Fund Management) totalling €1.7 million as at 31 December 2014 relates to the asset management fees, property management fees and other costs incurred by CAPREIT LP on behalf of I-RES. As per the agreement, I-RES pays 3.0% per annum of its gross rental income as property management fees and 0.5% per annum of its net asset value as asset management fees net of fixed fees paid to the third-party regulated fund manager for I-RES.

David Ehrlich is the CEO and a Director of I-RES' board. He is also a trustee of CAPREIT. Thomas Schwartz is a Director (non-executive) of I-RES' Board. He is also a trustee of CAPREIT and a trustee or director of each of CAPREIT's subsidiaries, including IRES Fund Management. He is also the President and CEO of CAPREIT and each of its Canadian subsidiaries. Officers and key management of CAPREIT LP and its affiliates were granted options of I-RES at the Initial Offering. In addition, Mr Ehrlich will be entitled to participate in the LTIP and under his employment contract, he is entitled to be granted options in respect of 3% of all equity raised by I-RES. Mr Ehrlich and Mr Schwartz were granted 6,060,000 and 2,020,000 options, respectively, pursuant to I-RES' LTIP.

The only executive member of key management of the Board is David Ehrlich, CEO, who was appointed as the CEO of I-RES on 16 April 2014; all other members are non-executive directors. Mr Ehrlich's total remuneration for the period from 2 July 2013 to 31 December 2014 was €642,000, of which C\$233,000 was paid for professional services provided to I-RES in connection with the Initial Offering prior to his appointment as CEO and such costs have been included in the Issuance Costs.

Total expenses, which is comprised of remuneration of the Directors, is €151,000 for the period, excluding David Ehrlich, CEO and Director. The Directors were appointed to I-RES on 11 April 2014. No loans or quasi loans were made to the Directors in the period.

### ***Owner management companies not consolidated***

I-RES currently holds all of its assets directly. As a result of the acquisition by I-RES of units in certain multi-unit residential properties, I-RES holds voting rights in the relevant owner management companies associated with those developments. Where I-RES holds the majority of those voting rights, this entitles it, inter alia, to control the composition of such owner management companies' boards of directors. All shares held in owner management companies are ordinary shares. However, as each of those owner management companies is incorporated as a company limited by guarantee not having a share capital solely for the purpose of owning the common areas in those multi-unit developments, they are not intended to trade for gain. For these reasons, I-RES does not consider these owner management companies to be material for consolidation, either individually or collectively. I-RES has also considered the latest available financial statements of these owner management companies in making this assessment.

## Notes to Financial Statements (cont'd)

Details of the owner management companies in which I-RES had an interest during the period ended 31 December 2014, along with the relevant service fees paid by I-RES to them, is as follows:

Owner Management Entity	Registered official address	Development managed	Suites held (% of total)	Service fees incurred in the period €'000	Profit/ (loss) for the period <sup>(1)</sup> €'000	Shareholders' funds <sup>(2)</sup> €'000
<b>Majority voting rights held</b>						
Priorsgate Estate Management Company Limited	Ulysses House Foley Street, Dublin 1	Priorsgate	51.5%	196	17	102
GC Square (Residential) Management Company Limited	Kings Court 48 – 59 North King Street, Unit 4 Smithfield, Dublin 7	Marker Residences	82.4%	89	15	–
Lansdowne Valley Management Limited	Kings Court 48 – 59 North King Street, Unit 4 Smithfield, Dublin 7	Lansdowne	80.0%	336	46	4
Charlestown Apartments Management Company Limited	27 Dublin Road Swords, Co. Dublin	Charlestown	82.5%	168	–	84
Bakers Yard Management Company Limited	Ulysses House Foley Street, Dublin 1	Bakers Yard	64.4%	30	25	35
<b>Total</b>					<b>103</b>	<b>225</b>
<b>Other</b>						
Rockbrook Grande Central Management Company Limited	New Cork Road Bandon, Co. Cork	Grande Central	33.3%	200	17	
BSQ Management Company Limited	5th Floor, St Stephen's Green House, Earlsfort Terrace, Dublin 2	Beacon South Quarter	25.5%	148	319	

(1) Based on the most recent information available. For the year ended 31 December 2013, except Lansdowne Valley Management Company, Charlestown Apartments Management Limited, and Rockbrook Grande Central Management Company Limited, which is for the year ended 31 May 2014, 31 January 2014, and 31 December 2012 respectively.

(2) As at 31 December 2013, except GC Square (Residential) Management Company Limited, which is as at 30 September 2013. Excludes any restricted sinking fund balances.

All of these owner management companies are incorporated in Ireland and are property management companies. No amounts were owing to or from I-RES to any of the owner management companies at 31 December 2014.

CAPREIT LP has entered into an agreement (the "Pipeline Agreement") dated 21 November 2014 (as amended on 9 February 2015 with effect from 21 November 2014) with I-RES to make available up to €150.0 million for a period of up to one year to acquire properties in Ireland, and to subsequently permit I-RES to acquire such properties from CAPREIT LP, subject amongst other things, to shareholder approval, once I-RES has sourced additional funding to do so. CAPREIT LP's obligation to make available up to €150.0 million will terminate

on the earlier of: (i) the completion of a capital raise by I-RES and (ii) one year from the date of the Pipeline Agreement (or such later date as may be agreed in writing by the parties). The Pipeline Agreement is subject to shareholder approval.

The Pipeline Agreement was amended on 9 February 2015, with effect from 21 November 2014, to remove the proposed 2.5-year extension to be made to the Investment Management Agreement and related Services Agreement and to include an underwriting fee of 1% of the purchase price of each property investment acquired under the Pipeline Agreement as part of the purchase price payable by I-RES to CAPREIT LP for each such property investment under the Pipeline Agreement.

## 16. Contingencies

I-RES is contingently liable with respect to litigation and claims that arise in the ordinary course of business. Matters relating to litigation and claims are generally covered by insurance, or have been provided for in general and administrative expenses where appropriate.

## 17. Earnings per Share

Earnings per Share amounts are calculated by dividing profit for the reporting period attributable to ordinary shareholders of I-RES by the weighted average number of ordinary shares outstanding during the reporting period.

<b>For the Period</b>	<b>2 July 2013 (date of incorporation) to 31 December 2014</b>
<b>Profit attributable to shareholders of I-RES (€'000)</b>	<b>7,930</b>
Basic weighted average number of shares	<b>95,510,684</b>
Diluted weighted average number of shares	<b>95,590,610</b>
<b>Basic Earnings per Share (cents)</b>	<b>8.3</b>
<b>Diluted Earnings per Share (cents)</b>	<b>8.3</b>

EPRA issued Best Practices Recommendations most recently in August 2011 and additional guidance in January 2014, which gives guidelines for performance matters.

EPRA Earnings represents the earnings from the core operational activities (recurring items for I-RES). It is intended to provide an indicator of the underlying performance of the property portfolio and therefore excludes all components not relevant to the underlying and recurring performance of the portfolio, including any revaluation results and results from the sale of properties. EPRA Earnings per Share amounts are calculated by dividing EPRA Earnings for the reporting period attributable to shareholders of I-RES by the weighted average number of ordinary shares outstanding during the reporting period.

<b>For the Period</b>	<b>2 July 2013 (date of incorporation) to 31 December 2014</b>
<b>Earnings per IFRS income statement (€'000)</b>	<b>7,930</b>
Adjustments to calculate EPRA Earnings, exclude:	
Changes in fair value on investment properties (€'000)	<b>(7,364)</b>
Tax on profits or losses on disposals (€'000)	<b>946</b>
<b>EPRA Earnings (€'000)</b>	<b>1,512</b>
Basic weighted average number of shares	<b>95,510,684</b>
Diluted weighted average number of shares	<b>95,590,610</b>
<b>EPRA Basic Earnings per Share (cents)</b>	<b>1.6</b>
<b>EPRA Dilutive Earnings per Share (cents)</b>	<b>1.6</b>

The diluted weighted average number of shares includes the options granted in April 2014.

## 18. Net Asset Value per Share

EPRA issued Best Practices Recommendations most recently in August 2011 and additional guidance in January 2014, which gives guidelines for performance matters.

The EPRA NAV measures the fair value of net assets on an on-going, long-term basis in accordance with guidelines issued by EPRA. The EPRA NAV excludes the net marked-to-market to the value of financial instruments used for hedging purposes and where a company has the intention to keep the hedge position until the end of the contractual duration, and deferred tax in respect of any difference between the fair value and the book value of the investment properties.

<b>As at</b>	<b>31 December 2014</b>
<b>Net assets (€'000)</b>	<b>200,918</b>
<b>EPRA net assets (€'000)</b>	<b>200,918</b>
Number of shares outstanding	<b>202,000,000</b>
Diluted number of shares outstanding	<b>202,169,109</b>
<b>Basic NAV</b>	
Net Asset Value per Share (cents)	<b>99.5</b>
EPRA Net Asset Value per Share (cents)	<b>99.5</b>
<b>Diluted NAV</b>	
Net Asset Value per Share (cents)	<b>99.4</b>
EPRA Net Asset Value per Share (cents)	<b>99.4</b>

## Notes to Financial Statements (cont'd)

### 19. Directors' Remuneration, Employee Costs and Auditor Remuneration

We regard the Board as the centre of decision making for I-RES.

For the Period	2 July 2013 to 31 December 2014 €'000
<b>Directors' Remuneration</b>	
<b>Emoluments</b>	
Fees for services as Directors	151
Fees for other services	642
<b>Pensions</b>	
Fees for services as Directors	–
Fees for other services	–
<b>Total</b>	<b>793</b>

For the Period	2 July 2013 to 31 December 2014 €'000
<b>Employment costs <sup>(1)</sup></b>	
Salaries and bonus	489
Social insurance costs	18
Pension costs	–
Other	153
<b>Total</b>	<b>660</b>

(1) David Ehrlich is the only employee of I-RES.

For the Period	2 July 2013 to 31 December 2014 €'000
<b>Auditor remuneration (including accruals)</b>	
Audit of individual accounts	80
Other assurance services	49
Tax advisory services	421
Other non-audit services <sup>(2)</sup>	243
<b>Total</b>	<b>793</b>

(2) Included in other non-audit services is services provided in relation to the share issuance at the Initial Offering. This amount has been charged to the share premium account as part of the cost of share issuances.

### 20. Subsequent Events

#### Dividends

Under the Irish REIT regime, subject to having sufficient distributable reserves, I-RES will be required to distribute to shareholders at least 85% of the property income of its property rental business for each accounting period. Accordingly, the Directors have resolved to pay a maiden dividend of 0.48 cent per share in the form of an interim dividend paid on 31 March 2015 to shareholders on record as at 20 February 2015.

#### Capital Raise on 26 March 2015

On 26 March 2015, I-RES issued 215,000,000 ordinary shares pursuant to a firm placing and placing an open offer for €1.00 each per share (the "Capital Raise"). All equity shares outstanding are fully paid and are voting shares. Equity shares represent a shareholder's proportionate undivided beneficial interest in I-RES. No equity share has any preference or priority over another. No shareholder has or is deemed to have any right of ownership in any of the assets of I-RES. Each share confers the right to cast one vote at any meeting of shareholders and to participate pro rata in any distributions by I-RES and, in the event of termination of I-RES, in the net assets of I-RES remaining after satisfaction of all liabilities. Shares will be issued in registered form and are transferable.

### Events following the Capital Raise

(i) **Pipeline Agreement facility commitment terminated:**

The €150 million facility commitment provided by CAPREIT LP to I-RES under the Pipeline Agreement terminated on 26 March 2015 on completion of the Capital Raise. The facility commitment may be reauthorised by CAPREIT's board of trustees at a later date.

(ii) **Rockbrook Portfolio purchased:** On 28 January 2015, CAPREIT LP, through IRES Residential Properties Limited ("Rockbrook SPV"), a wholly owned Irish subsidiary, completed the acquisition of the Rockbrook Portfolio under the Pipeline Agreement for approximately €87.3 million (including VAT but excluding other acquisition costs). The acquisition of the Rockbrook Portfolio is the first acquisition by CAPREIT LP under the Pipeline Agreement. The acquisition was funded via an intercompany loan between CAPREIT LP and Rockbrook SPV. Pursuant to the terms of the Pipeline Agreement, the Company acquired the Rockbrook Portfolio via the acquisition of Rockbrook SPV on 31 March 2015 out of the net proceeds from the Capital Raise for €87,032 and repaid the loan on 31 March 2015 to CAPREIT LP for approximately €89.7 million. The Rockbrook Portfolio added another 270 residential suites, 4,665 square meters of commercial space and 1.13 hectare of development land to the I-RES property portfolio.

(iii) **Credit facility repayment:** Pursuant to the terms of the credit facility, on 27 March 2015 I-RES repaid the entire €70.0 million of borrowings under the bridge facility out of the net proceeds from the Capital Raise. I-RES repaid €43.0 million of the €55.0 million of borrowings under the revolving facility. The revolving facility will remain available, to the extent any amounts are undrawn or repaid, for borrowing under the credit agreement with a termination date of 15 August 2016.

(iv) **Options granted:** Pursuant to the Capital Raise, 11,900,000 options were granted on 26 March 2015 by I-RES to employees, senior executives and trustees of CAPREIT and its affiliates and to David Ehrlich, Chief Executive Officer of I-RES. As at the date of this Report, the maximum number of shares available for future issuance under all share incentive plans is 12,720,000.

## 21. Approval of Financial Statements

These audited Financial Statements were approved by the Board on 2 April 2015.

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## Glossary of Terms

The following explanations are not intended as technical definitions, but rather are intended to assist the reader in understanding terms used in this Report.

### **Basic Earnings per share (Basic EPS)**

Calculated by dividing profit for the reporting period attributable to ordinary shareholders of the Company in accordance with IFRS. Based on the weighted average number of shares of 95,510,684 over the period 2 July 2013 to 31 December 2014.

**EPRA:** The European Public Real Estate Association

**EPRA Basic EPS:** Calculated by dividing EPRA Earnings for the reporting period attributable to shareholders of the Company by the weighted average number of ordinary shares outstanding during the reporting period. EPRA Earnings represents the earnings from the core operational activities (recurring items for the Company). It is intended to provide an indicator of the underlying performance of the property portfolio and therefore excludes all components not relevant to the underlying and recurring performance of the portfolio, including any revaluation results and results from the sale of properties.

**EPRA NAV:** Measures the fair value of net assets on an ongoing, long-term basis in accordance with guidelines issued by the EPRA. The EPRA NAV excludes the net marked-to-market to the value of financial instruments used for hedging purposes and where a company has the intention to keep the hedge position until the end of the contractual duration, and deferred tax in respect of any difference between the fair value and the book value of the investment properties.

**Gross Yield:** Calculated as the annualised rents passing as at the stated date, divided by the aggregate purchase price of the total portfolio (including VAT but excluding other acquisition costs) as at the date of acquisition or divided by the fair market value as at the reporting date.

**Irish Companies Acts:** The Companies Act 1963 to 2013

**Net Asset Value or NAV:** Calculated as the value of the Company's assets less the value of its liabilities measured in accordance with IFRS.

**Net Initial Yield:** Calculated as the annualised rents passing as at the stated date, multiplied by the net rental income margin of 81 % for the last six months ended as at 31 December 2014, divided by the aggregate purchase price of the total portfolio (including VAT but excluding other acquisition costs).

**Pro-forma NAV per share:** Calculated as NAV excluding one-off acquisition expenses incurred in relation to the Marker Residences and the Orange portfolio.

**Sq. ft.:** Square feet

**Sq. m.:** Square meters

**Targeted Shareholder Return:** Total shareholder return of 10% to 15% per annum (pre-taxation) once the net proceeds of the Capital Raise are fully invested and gearing is at or near the maximum permitted level (being 50% loan to value) for a period of at least 12 months.

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## Forward-Looking Statements

This Report may contain forward-looking statements, which are subject to risks and uncertainties because they relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company or the industry in which it operates to be materially different from

any future results, performance or achievements expressed or implied by such forward-looking statements. The forward-looking statements referred to in this paragraph speak only as at the date of this Report. The Company does not undertake any obligation to release publicly any revision or updates to these forward-looking statements to reflect future events, circumstances, unanticipated events, new information or otherwise except as required by law or by any appropriate regulatory authority.

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**Officers**

David Ehrlich  
*Chief Executive Officer*

Colm Ó Nualláin  
*Chairman*

**Investor Information**

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**Stock Exchange Listing**

Shares of I-RES are listed on the Irish Stock Exchange under the trading symbol "IRES."





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