

**SREO 2 Designated Activity Company
Annual Report and Audited Financial Statements
For the financial year ended 31 December 2020**

Registered number 633654

**SREO 2 Designated Activity Company
Annual Report and Audited Financial Statements
For the financial year ended 31 December 2020**

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**SREO 2 Designated Activity Company
Annual Report and Audited Financial Statements
For the financial year ended 31 December 2020**

Directors and other information

Directors: Denis Kissane
Amanda Donohue (appointed 4 September 2020)
Vicki Gorman-Meade (appointed 4 September 2020)
Lina Chi McGrath (resigned 4 September 2020)
Yusni Md Isa (resigned 4 September 2020)

Registered office: 1st Floor
118 Baggot Street Lower
Dublin 2, Ireland

Investment Manager: NorthWall Capital LLP
2 St. James's Street
London, SW1A 1EF, United Kingdom

Statutory Audit Firm: PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
One Spencer Dock
North Wall Quay
Dublin 1, Ireland

Legal Advisors: Maples and Calder (Ireland) LLP
75 St. Stephen's Green
Dublin 2, Ireland

Administrator: Alter Domus Ireland Limited
1st Floor
118 Baggot Street Lower
Dublin 2, Ireland

Bankers: Barclays Bank PLC
Le Marchant House
Le Truchot
St. Peter Port
Guernsey, United Kingdom

Coutts & Co
440 Strand
Charing Cross
London, WC2R 0QS, United Kingdom

Alpha FX Group
Brunel Building
2 Canalside Walk
London, W2 1DG, United Kingdom

Company Secretary: Alter Domus Secretarial (Ireland) Limited
1st Floor
118 Baggot Street Lower
Dublin 2, Ireland

Sponsoring Broker: Carey Olsen
47 Esplanade
St Helier
Jersey, United Kingdom

**SREO 2 Designated Activity Company
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Directors' report

The directors of SREO 2 Designated Activity Company (the "Company"), a designated activity company registered in Ireland, present the annual report and audited financial statements of the Company for the financial year ended 31 December 2020.

Principal activities, review of the business and future developments

The Company was incorporated in Ireland on 16 November 2018 with the Companies Registration Office, registration number 633654.

The principal activities of the Company are to invest in debt instruments in Spanish entities that acquire Spanish real estate and may also invest in investment opportunities that are in line with the Company's objective and expectations. The Company had investments of €41,179,098, in debt instruments in Spanish entities that acquired Spanish real estate as at the financial year end.

On 21 December 2018, the Company issued a Profit Participating Note (the "PPN") of €150,000,000 due to mature in 2025 to SREO 2 LP (the "Noteholders"). As at 31 December 2020, the Company had drawn down €44,039,823 to fund investments and has repaid €5,945,000. The PPN is listed on The International Stock Exchange (TISE), headquartered in Guernsey.

During the financial year, the Company generated a net profit of €750.

Key performance indicators

	For the financial year ended 31 December 2020
	€
Net (loss) on financial assets at fair value through profit or loss	(81,065)
Net gain on profit participating note at fair value through profit or loss	580,277

The net gain on financial assets at fair value through profit or loss consists only of the fair value movement. The gain recognised during the financial year is a reflection of the market condition of the underlying real estate assets invested indirectly by the Company.

As a result of the net gain on the fair value movement on the financial assets, the company recognised a net loss on the PPN at fair value through profit or loss in accordance with the calculation as outlined in Note 12.

The Company will continue to implement its strategy as outlined above.

Principal risks and uncertainties

The Company, through its investments in Spanish real estate, is subject to a variety of risks. The key financial risks facing the Company are market risk, credit risk and liquidity risk. The Company, in consultation with NorthWall Capital LLP (the "Investment Manager"), has implemented risk management policies and certain procedures are applied to address these risks. Further information on risk management is disclosed in Note 5 of these audited financial statements.

The Company's strategy is to invest in Spanish real estate and any relevant investment opportunities. The Directors recognise that there is a risk that investments of suitable quality and returns which fit the Company's objectives may be difficult to source.

The Company may continue to acquire new portfolios through to Summer 2021 and may continue to look at new portfolios as they come onto the market. The main risks remain unchanged namely legal property rights in Spain, Spanish property valuations and the timely completion of sales of underlying properties. There have been a number of changes in Spain to make it quicker to recover occupied units by the legal owner. These changes were to laws which potentially gave occupiers the right to remain in the property paying low rents and have been overturned by the Spanish central courts. With regards to property prices and the market generally, they seem to be holding up despite the Covid pandemic. Of the units reserved so far in 2021, the overall discount to business plan prices has been 4.5% and this has been largely driven by selling units that have been vandalised rather than general market conditions. Therefore the risk of significant changes in property prices is deemed low as a result of the current pandemic as discussed further below.

The COVID-19 Pandemic has caused an increase in volatility in financial markets as well as causing severe impacts on certain sectors of the economy. The Company was initially impacted by government restrictions on the market.

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Directors' report (continued)

Principal risks and uncertainties (continued)

However, following the initial lockdown in March 2020, restrictions were lifted on 21 June 2020 allowing sales to continue. Therefore there has not been any pandemic related write downs or impairments to any assets.

There are many risks and uncertainties associated with the pandemic as government policy restrictions ease. These include the timing with respect to sales being realised of the underlying properties which have been pushed out, a rise in personal and corporate insolvencies, slow or depressed economic growth and an increase in inflation. The Directors with the assistance of the Investment Manager will continue to monitor the portfolio in identifying and managing this risk where possible.

Going concern

The directors consider the Company to be a going concern as explained in Note 2 to the financial statements.

Results and distributions

During the financial year, the Company generated a net profit of €750.

Capital Structure

The Company has issued 1 share, of the total authorised share capital of €1,000,000, divided into 1,000,000 shares of €1 each. The issued share capital is held by Acorn Investments Limited on behalf of a charitable trust. Each share carries the right to full vote at general meetings of the Company. The PPN holds seniority over the share capital.

Accounting records

The measures taken by the directors to secure compliance with the Company's obligation to keep adequate accounting records in accordance with Section 281 to 285 of the Companies Act 2014, are the use of appropriate systems and procedures and employment of competent persons. The accounting records are kept at the registered office of the Company, 1st Floor, 118 Baggot Street Lower, Dublin 2.

Political donations

The Electoral Act, 1997, (as amended in 2012) requires companies to disclose all political donations over €200 in aggregate made during a financial year. The directors, on enquiry, have satisfied themselves that no such donations in excess of this amount have been made by the Company during the financial year.

Post balance sheet events

Subsequent events have been evaluated up to the date on which the financial statements were approved and authorised for issue and there are no material events to be disclosed or adjusted for in these financial statements.

There are many risks and uncertainties associated with the pandemic as government policy restrictions ease. This includes a rise in personal and corporate insolvencies, slow or depressed economic growth and an increase in inflation. The directors with the assistance of the Investment Manager will continue to monitor the portfolio in identifying and managing this risk where possible.

Directors

The names of the persons who served as directors during the financial year and to the date of signing of the financial statements are:

Denis Kissane
Amanda Donohue (appointed 4 September 2020)
Vicki Gorman-Meade (appointed 4 September 2020)
Lina Chi McGrath (resigned 4 September 2020)
Yusni Md Isa (resigned 4 September 2020)

Director's and secretary's interests

None of the directors or secretary had any interest or any material control or arrangement with the at 31 December 2020. The director's fees are detailed in Note 15.

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Directors' report (continued)

Audit committee

The Company is not a large company as defined by Section 167 of the Companies Act 2014 and is therefore not required to establish an audit committee.

Directors' compliance statement

The company qualifies as an investment company under Section 225 of the Companies Act and is therefore not required to prepare a directors' compliance statement.

Statement on relevant audit information

The directors confirm that:

- So far as the directors are aware, there is no relevant audit information of which the Company's statutory auditors are unaware; and
- The directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the Companies Act 2014, Section 330.

Independent auditors

The auditor, PricewaterhouseCoopers, Statutory Audit Firm, have expressed their willingness to continue in office in accordance with Section 383(2) of the Companies Act 2014.

Statement of directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with Irish law.

Irish law requires the directors to prepare financial statements for each financial year giving a true and fair view of the Company's assets, liabilities and financial position at the end of the financial year and the profit or loss of the Company for the financial year. Under that law the directors have prepared the financial statements in accordance with Irish Generally Accepted Accounting Practice (accounting standards issued by the UK Financial Reporting Council, including Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland and Irish law).

Under Irish law, the directors shall not approve the financial statements unless they are satisfied that they give a true and fair view of the Company's assets, liabilities and financial position as at the end of the financial year and the profit or loss of the Company for the financial year.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with applicable accounting standards and identify the standards in question, subject to any material departures from those standards being disclosed and explained in the notes to the financial statements; 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 adequate accounting records that are sufficient to:

- correctly record and explain the transactions of the Company;
- enable, at any time, the assets, liabilities, financial position and profit or loss of the Company to be determined with reasonable accuracy; and
- enable the directors to ensure that the financial statements comply with the Companies Act 2014 and enable those financial statements to be audited.

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

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Directors' report (continued)

The financial statements were approved by the Board on 17 May 2021 and signed on its behalf by:

Vicki Gorman-Meade

Vicki Gorman-Meade

Amanda Donohue

Amanda Donohue



Independent auditors' report to the members of SREO 2 Designated Activity Company

Report on the audit of the financial statements

Opinion

In our opinion, SREO 2 Designated Activity Company's financial statements:

- give a true and fair view of the company's assets, liabilities and financial position as at 31 December 2020 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Irish law); and
- have been properly prepared in accordance with the requirements of the Companies Act 2014.

We have audited the financial statements, included within the Annual Report and Audited Financial Statements, which comprise:

- the Statement of Financial Position as at 31 December 2020;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Cash Flows for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Our responsibilities under ISAs (Ireland) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, which includes IAASA's Ethical Standard as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.



Independent auditors' report to the members of SREO 2 Designated Activity Company - continued

Our audit approach

Overview



Materiality

- €419,095 (2019: €432,754)
- Based on 1% of Total Assets.

Audit scope

- The company is an entity incorporated under the laws of Ireland as a designated activity company limited by shares. The company entered into an investment management agreement with NorthWall Capital LLP who serves as investment manager (the "Investment Manager"). The purpose of the company is to provide loans to Spanish Special Purpose Vehicles which invest in portfolios of Spanish Real-Estate ("Real Estate entities"). We tailored the scope of our audit taking into account the types of investments held by the company, the accounting processes and controls, and the industry in which the company operates.

Key audit matters

- Valuation and existence of investments in Real Estate entities.

The scope of our audit

As part of designing our audit, we determined materiality and assessed 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 represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.



Independent auditors’ report to the members of SREO 2 Designated Activity Company - continued

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p><i>Valuation and existence of investments in Real Estate entities</i></p> <p>Please refer to Note 3(d) - Summary of significant accounting policies - Financial instruments at fair value through profit or loss, Note 5 - Financial Risk Management, Note 8 - Financial assets at fair value through profit or loss and Note 16 - Subsequent events.</p> <p>The principal activity of the Company is to invest in debt instruments (the “Investments”) in Spanish special purpose vehicles which invest in Spanish Real Estate. Investments are valued at €41,179,098 and represent 98% of total assets.</p> <p>Market values for the investments are determined by the Investment Manager, who obtains and confirms valuation analyses from the Manager of the Real Estate Entities.</p> <p>Investments are fair valued using discounted cash flow models.</p> <p>This valuation technique requires the Investment Manager to make a number of estimates such as the selection of an appropriate risk adjusted discount rate which is applied to projected cash flows which are dependent on the specific attributes of each investment.</p> <p>We focused on valuation and existence of investments as they represent the principal element of the Statement of Financial Position.</p>	<p>Our audit procedures included obtaining an understanding of the business processes and methodology applied by the Investment Manager for accounting for, and valuing, the Investments.</p> <p>We performed the following procedures on Investments held at 31 December 2020:</p> <p>We agreed the existence of the debt financing classified as Investments at 31 December 2020 to Joint Account Arrangements with the underlying Real Estate Entity and confirmed the existence of the agreement in place between the Company and the Manager of the Real Estate Entities. We also tested investment transactions on a sample basis.</p> <p>For investments held at 31 December 2020, the Investment Manager prepared the valuations using a discounted cash flow model. We agreed the price for all investments held at 31 December 2020 to their workings.</p> <p>We performed substantive testing on the key inputs in the discounted cash flow models used by the Investment Manager by comparing them to supporting information. These inputs included the discount rate, the acquisition price of property portfolios, recent property sales of the real estate entities, and classification of preparedness for sale. We tested the mathematical accuracy of each model.</p> <p>No material matters were noted as a result of performing these procedures.</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 structure of the company, the accounting processes and controls, and the industry in which it operates.



Independent auditors' report to the members of SREO 2 Designated Activity Company - continued

The company is a designated activity company incorporated in Ireland. The principal activity of the company is to generate attractive current income and total return by investing on a leveraged basis in a diversified portfolio of real estate related debt. We tailored the scope of our audit taking into account the types of investments held by the company, the accounting processes and controls, and the industry in which the company operates.

Materiality

The scope of our audit was 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 on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

<i>Overall materiality</i>	€419,095 (2019: €432,754).
<i>How we determined it</i>	1% of Total Assets.
<i>Rationale for benchmark applied</i>	The Company is an asset-based investment entity.

We agreed with the Board that we would report to them misstatements identified during our audit above €20,955 (2019: €53,347) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

The principal activity of the company is to generate attractive current income and total return by investing on a leveraged basis in a diversified portfolio of real estate related assets. The company issued unsecured Profit Participating Notes ("PPNs") which have limited recourse.

The Directors assessment of going concern outlined in note 2, considered quantitative and qualitative information, including other relevant conditions and events known and reasonably knowable at the date that the financial statements are issued. The considerations include: 1) Management's intent with regard to the structure, 2) the net assets (excluding PPNs), 3) Cashflow obligations and sources, including undrawn PPN amounts which have been committed, 4) the liquidity of the underlying investments held.

We considered the appropriateness of the going concern assessment of the Company by:

- Understanding the financial commitments of the Company for the next 12 months;
- Understanding the remaining life and the measures available to extend the life of the Company and agreeing same to the legal documents of the Company;
- Assessing the liquidity position of the Company including verifying cash held; and
- Noting that additional funds may be drawn from the PPN holders in order to fund discretionary follow-on investments.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.



Independent auditors' report to the members of SREO 2 Designated Activity Company - continued

Reporting on other information

The other information comprises all of the information in the Annual Report and Audited Financial Statements other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' report, we also considered whether the disclosures required by the Companies Act 2014 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (Ireland) and the Companies Act 2014 require us to also report certain opinions and matters as described below:

- In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.
- Based on our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.



Independent auditors' report to the members of SREO 2 Designated Activity Company - continued

A further description of our responsibilities for the audit of the financial statements is located on the IAASA website at:

https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf

This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with section 391 of the Companies Act 2014 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.

Other required reporting

Companies Act 2014 opinions on other matters

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the company were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are in agreement with the accounting records.

Other exception reporting

Directors' remuneration and transactions

Under the Companies Act 2014 we are required to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by sections 305 to 312 of that Act have not been made. We have no exceptions to report arising from this responsibility.

A handwritten signature in black ink, appearing to read 'Fiona de Búrca', written in a cursive style.

Fíona de Búrca
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin
18 May 2021

SREO 2 Designated Activity Company
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Statement of Comprehensive Income

	Notes	For the financial year ended 31 December 2020 €	For the financial period from 16 November 2018 to 31 December 2019 €
Income			
Net (loss)/gain on financial assets at fair value through profit or loss	8	(81,065)	4,437,432
Net gain/(loss) on profit participating note at fair value through profit or loss	12	580,277	(4,283,590)
Total income		499,212	153,842
Expenses			
Operating expenses	7	(498,191)	(152,810)
Foreign Exchange (loss)		(21)	(32)
Total expenses		(498,212)	(152,842)
Profit for the financial year/period before tax		1,000	1,000
Taxation	6	(250)	(250)
Profit for the financial year/period after tax		750	750
Other comprehensive income		-	-
Total comprehensive income for the financial year/period		750	750

Gains and losses arise solely from continuing activities.

The accompanying notes on pages 17 to 31 are an integral part of the financial statements.

**SREO 2 Designated Activity Company
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Statement of Financial Position

		As at 31 December 2020 €	As at 31 December 2019 €
	Notes		
Non-current assets			
Financial assets at fair value through profit or loss	8	<u>20,758,383</u>	<u>36,827,432</u>
Current assets			
Financial assets at fair value through profit or loss	8	20,420,715	-
Cash and cash equivalents	9	730,091	6,307,411
Trade and other receivables	10	<u>358</u>	<u>140,601</u>
		21,151,164	6,448,012
Creditors: amounts falling due within one year			
Creditors and accruals	11	<u>(109,909)</u>	<u>(26,080)</u>
Net current assets		21,041,255	6,421,932
Total assets less current liabilities		41,799,638	43,249,364
Creditors: amounts falling due after more than one year			
Profit participating note	12	<u>(41,798,137)</u>	<u>(43,248,613)</u>
Net assets		<u>1,501</u>	<u>751</u>
Capital and Reserves			
Share capital	13	1	1
Retained earnings		<u>1,500</u>	<u>750</u>
Total equity		<u>1,501</u>	<u>751</u>

The financial statements of SREO 2 Designated Activity Company (Registered number: 633654) were approved by the Board on 17 May 2021 and signed on its behalf by:

Vicki Gorman-Meade

Amanda Donohue

Vicki Gorman-Meade

Amanda Donohue

The accompanying notes on pages 17 to 31 are an integral part of the financial statements.

SREO 2 Designated Activity Company
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Statement of Changes in Equity

	Share Capital	Retained Earnings	Total
	€	€	€
As at 1 January 2020	1	750	751
Authorised and issued share capital	-	-	-
Comprehensive income for the financial year/period	-	750	750
As at 31 December 2020	1	1,500	1,501

	Share Capital	Retained Earnings	Total
	€	€	€
As at 16 November 2018	-	-	-
Authorised and issued share capital	1	-	1
Comprehensive income for the financial year/period	-	750	750
As at 31 December 2019	1	750	751

The accompanying notes on pages 17 to 31 are an integral part of the financial statements

SREO 2 Designated Activity Company
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Statement of Cash Flows

		For the financial year ended 31 December 2020	For the financial period from 16 November 2018 to 31 December 2019
	Notes	€	€
Cash flows from operating activities			
Investment in financial assets	8	(7,773,059)	(38,692,026)
Repayment of financial assets	8	3,340,328	6,302,026
Operating expense paid		(414,611)	(126,980)
Decrease/(increase) in trade and other receivables		140,243	(140,600)
Net cash outflow from operating activities		(4,707,099)	(32,657,580)
Cash flows from financing activities			
Receipt from profit participating note	12	4,454,800	39,585,023
Repayment of profit participating note	12	(5,325,000)	(620,000)
Net cash outflow/inflow from financing activities		(870,200)	38,965,023
Net decrease/increase in cash and cash equivalents		(5,577,299)	6,307,443
Foreign exchange (loss)		(21)	(32)
Cash and cash equivalents at beginning of financial year/period		6,307,411	-
Cash and cash equivalents at end of financial year/period		730,091	6,307,411

The accompanying notes on pages 17 to 31 are an integral part of the financial statements.

**SREO 2 Designated Activity Company
Annual Report and Audited Financial Statements
For the financial year ended 31 December 2020**

Notes to the Financial Statements

1. Background

The Company was registered as a designated activity company in Ireland on 16 November 2018, registration number 633654. The principal activities of the Company is to invest in debt instruments in Spanish special purpose vehicles (“SPV’s”) which invest in the Spanish Real Estate and may also invest in investment opportunities that are in line with the Company’s objective and expectations. The debt instruments are funded from the proceeds of the Profit Participating Notes (the “PPN”) issued by the company to the investors (the “Noteholders”). The Company invests in these SPV’s via joint account agreements.

The Company’s registered office is at 1st Floor, 118 Lower Baggot Street, Dublin 2.

The Company is a qualifying company under Section 110 of the Taxes Consolidation Act 1997.

2. Going concern

These financial statements have been prepared on a going concern basis.

The Company meets its working capital requirements through drawdowns from the PPN issued. At 31 December 2020, the Company was in a net profit position. See liquidity risk in Note 5 below.

The Company may continue to acquire new portfolios through to Summer 2021 and may continue to look at new portfolios as they come onto the market. The main risks remain unchanged, namely legal property rights in Spain, Spanish property valuations and the timely completion of sales of underlying properties. There have been a number of changes in Spain to make it quicker to recover occupied units by the legal owner. The COVID-19 pandemic has caused an increase in volatility in financial markets as well as causing severe impacts on certain sectors of the economy. The company makes investments in Spanish real estate and was initially impacted by government restrictions on the market. However, following the initial lockdown in March 2020, restrictions were lifted on 21 June 2020 allowing sales to continue. Therefore there has not been any pandemic related write downs or impairments to any assets.

There are many risks and uncertainties associated with the pandemic as government policy restrictions ease. These include the timing with respect to sales being realised of the underlying properties which have been pushed out, a rise in personal and corporate insolvencies, slow or depressed economic growth and an increase in inflation. The Directors with the assistance of the Investment Manager will continue to monitor the portfolio in identifying and managing this risk where possible.

The Directors in their assessment of going concern considered quantitative and qualitative information, including other relevant conditions and events known and reasonably knowable at the date that the financial statements are issued. The considerations include: 1) Management’s intent with regard to the structure, 2) the net assets (excluding PPNs), 3) Cashflow obligations and sources, including undrawn PPN amounts which have been committed of €111,905,177, and 4) the liquidity of the underlying investments held.

In light of these circumstances, the Directors believe that there is a reasonable expectation that the Company is well placed to manage its business risks and has adequate resources to continue in operational existence for the foreseeable future. Thus, it will continue to adopt the going concern basis of accounting in the preparation of the financial statements.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the financial year presented, unless otherwise stated.

a) Basis of preparation

The financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with applicable accounting standards issued by the Financial Reporting Council, including Financial Reporting Standard (“FRS”) 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (“FRS 102”) and the Companies Act 2014.

The preparation of financial statements in conformity with FRS 102 requires the use of accounting estimates and for management to exercise judgement while applying the Company’s accounting policies. These estimates are based on the management’s best knowledge of events, which existed at the reporting date, however, the actual results may differ from these estimates. The area involving a higher degree of judgement or complexity and which involves significant assumptions is the valuation of financial assets, which are held at fair value through profit or loss.

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For the financial year ended 31 December 2020**

Notes to the Financial Statements (continued)

3. Summary of significant accounting policies (continued)

b) Functional and presentation currency

Items included in the financial statements of the Company are measured in the currency of the primary economic environment in which the Company operates. The financial statements of the Company are presented in Euro denoted by the symbol “€”, which is the Company’s functional and presentation currency.

Transactions in currencies other than Euro are recorded at the rates of exchange prevailing on the dates of the transactions. At each year-end date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the Statement of Financial Position date. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised and included in the Statement of Comprehensive Income.

c) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, deposits held on call with banks and other short term, highly liquid investments with original maturities of three months or less. Bank overdrafts, when applicable, are shown within borrowings in current liabilities. Cash and cash equivalents are initially measured at transaction prices and subsequently at amortised cost.

d) Financial instruments at fair value through profit or loss

The Company measures its financial instruments in accordance with the recognition and measurement provisions of FRS 102. Financial assets at fair value through profit or loss represents the fair value of the Company’s investment in unconsolidated structured entities at the financial reporting date.

The Company is exposed to the variability of returns from the performance of the underlying SPV’s by virtue of holding debt instruments in these entities.

Investments are, in the opinion of the Company, made to generate attractive risk adjusted returns by making private equity investments in Spanish Real Estate. They are held as part of an investment portfolio as their value to the Company is through their marketable value as part of a basket of investments, rather than as a medium through which the Company carries out its business.

Classification

The Company classifies its investments based on both the Company’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Company is primarily focused on fair value information and uses that information to assess the assets’ performance and to make decisions. The Company’s policy requires the Investment Manager and the directors to evaluate the information about these financial assets on a fair value basis together with other related financial information. Financial assets at fair value through the profit or loss are classified as current assets when they are expected to be realised within 12 months of the Statement of Financial Position date.

Recognition and measurement

The Company initially recognises financial instruments at transaction prices. The Company’s financial assets and PPN are subsequently measured at fair value through profit or loss (“FVTPL”).

Regular draw down and repayment of investments are recognised on the trade date, being the date on which the Company commits to invest or reduce the investment.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of ownership of the financial asset are transferred to another party or (c) control of the financial asset has been transferred to another party who has the practical ability to unilaterally sell the financial asset to an unrelated third party without imposing additional restrictions.

Financial liabilities are derecognised when the obligations to pay cash flows to the investments have expired.

Gains and losses arising from changes in the fair value of the financial assets and the PPN at fair value through profit or loss categories are presented in the Statement of Comprehensive Income as net changes in fair value of financial assets and net changes in fair value of the PPN through profit or loss in the year in which they arise. Income earned from financial assets and the PPN valued at fair value through profit or loss and expenses incurred in relation to the Company’s operations are reported through the Statement of Comprehensive Income.

**SREO 2 Designated Activity Company
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Notes to the Financial Statements (continued)

3. Summary of significant accounting policies (continued)

d) Financial instruments at fair value through profit or loss (continued)

Fair value estimation

FRS 102 establishes a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level I inputs) and the lowest priority to unobservable inputs (Level III inputs). Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Financial assets with readily available active quoted prices, either for the identical instrument or similar instruments, generally will have a higher degree of market price observability and a lesser degree of judgement used in measuring fair value.

Financial assets and liabilities measured and reported at fair value are classified and disclosed utilising inputs from one or more of the following categories:

- Level I - quoted (bid) price for an identical asset in an active market;
- Level II - price of a recent transaction for an identical asset. If necessary, the price is adjusted to reflect updated economic conditions or if evidence suggests that a recent transaction was not at fair value; and
- Level III - if there is no market and no suitable recent transactions then a valuation technique is used to determine the arm's length price for the asset. If a reliable, commonly used valuation method exists in that market, then that technique is used.

The fair value is the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters or derived from such price or parameters. Where observable prices or inputs are not available, valuation techniques are applied. These valuation techniques involve varying levels of management estimation and judgement, the degree of which is dependent on a variety of factors. Hierarchical levels, as defined by FRS 102, directly related to the amount of subjectivity associated with the inputs to the valuation of these investments.

Market values for the financial assets and liabilities at fair value through profit or loss of the Company are determined by the Investment Manager on a quarterly basis. The Investment Manager applies various inputs in preparing the valuation cash flow forecast on the Spanish real estate assets, using references to the business model and performing a review of investment rationale. Subsequent to the Investment Manager's valuation, a third party is engaged by the Company to review the valuation of the Company's interests in the Spanish real estate assets and assess the benchmark underlying assumptions and operating indicators applied by the Investment Manager to confirm and communicate to the Board that the valuation provided by the Investment Manager is reasonable.

The directors have concluded that the Company's investments at fair value through profit or loss should be classified as Level III.

The fair value of the PPN is measured based on the investment market valuation of the financial assets held taking into account operating expenses of the Company as detailed in Note 12.

e) Trade and other receivables

Trade and other receivables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method, less provision for impairment. These assets are presented as current assets except for those expected to be realised later than 12 months after the Statement of Financial Position date which are presented as non-current assets.

f) Expenses

All expenses are accounted for on an accruals basis.

g) Foreign exchange gains and losses

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at the reporting date.

Non-monetary assets and liabilities held at historic cost, that are denominated in foreign currencies are translated at the spot rate prevailing on the transaction date with no revaluation taking place at the reporting date.

**SREO 2 Designated Activity Company
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Notes to the Financial Statements (continued)

3. Summary of significant accounting policies (continued)

h) Taxation

The Company is a qualifying company within the meaning of Section 110 of the Taxes Consolidation Act, 1997. As such, the profits are chargeable to corporate income tax under Case III of Schedule D of the Taxes Consolidation Act, at the rate of 25%, but are computed in accordance with the provisions applicable to Case I of Schedule D.

Current taxation represents the amount expected to be paid or recovered in respect of taxable profits for the financial year and is calculated using taxation rates and laws that have been enacted or substantively enacted at the reporting date.

i) Share capital

Ordinary shares are not redeemable and are classified as equity as per the Company's constitution.

j) Consolidation

The Company has availed of the exemption under the FRS 102 paragraph 9.9B, whereby an investment in a structured entity is excluded from consolidation on the grounds that the structured entity is held as part of an investment portfolio and is measured at fair value with changes in fair value recognised in profit or loss.

4. Judgements and key sources of estimation and uncertainty

The preparation of financial statements requires the directors to make estimates and assumptions that affect the reported amounts of assets and liabilities including the disclosure of contingent assets and liabilities at the date of the financial statements. This also includes the reported amounts of increases and decreases in net assets from operations during the reporting year. Actual results could differ from those estimates and such differences could be material, especially under volatile economic conditions. The specific judgements and estimates made in preparing the Company's financial statements were in relation to the fair value of financial assets at fair value through profit or loss. Disclosures required under FRS 102 are disclosed in Notes 5 and 8 and those in relation to preparing the Company's financial statements under the going concern assumption are detailed in Note 2 above.

The Company, with the assistance of the Investment Manager, has made estimates and assumptions based on historical experience and expectation of future events. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the financial year in which the estimate is revised and any future financial years affected.

Judgement is exercised when impairing trade and receivables. Trade and other receivables are tested for impairment in line with the policy described in Note 3(d) to these financial statements. When assessing the impairment of an asset, management considers factors including the credit rating and long-term growth rate of the counterparties, the ageing profile of the receivables and historical experience.

5. Financial risk management

Risk arising from financial instruments

The Company is potentially exposed to credit risk, liquidity risk and market risk arising from the financial instruments held. The following analysis, detailed in this note, highlights the nature and extent of these risks arising from the financial instruments held by the Company at 31 December 2020.

The Company's overall risk management program is focused on ensuring compliance with the Company's investment guidelines and seeks to minimise potential adverse effects on the financial performance of the Company.

Financial risk management is monitored by the Investment Manager, who is responsible for providing or procuring portfolio management and risk management services to the Company, including sourcing, analysing, structuring and discussing with the Company investment and divestment opportunities for the Company and for evaluating, monitoring and advising in respect of voting rights in respect of the Company's assets.

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Notes to the Financial Statements (continued)

5. Financial risk management (continued)

Further details regarding these policies are set out below:

1) Credit risk

Default/credit risk is the risk that one party to a financial instrument will fail to discharge an obligation under the contract or arrangement and cause the other party to incur a financial loss.

The Investment Manager monitors credit risk.

Cash at bank is held at the following banking institutions and the banking institutions hold the following Fitch's credit ratings:

	As at 31 December 2020	As at 31 December 2019
Barclays Bank PLC	A	A
Coutts & Co*	-	A
Alpha FX	A	-

* The accounts with Coutts & Co were closed as at 31 December 2020

Financial assets exposed to credit risk include investments, debtors and cash balances. It is the opinion of the directors that the carrying amounts of these financial assets represent the Company's maximum credit exposure at the year end. The credit risk of the investments is assessed periodically by comparing the expected future cash flows of the assets to the amount contributed to the PPN.

The directors believe that there remains an inherent degree of uncertainty on the impact of the COVID-19 virus on Spain and the broader global economy. This could result in adverse impacts on currency and financial markets, such as increased volatility and illiquidity, and potentially lower economic growth in markets in Spain, Europe and globally. Such adverse events may increase the Company's exposure to credit risk in the short to medium term. The directors alongside the Investment Manager will continue to monitor the portfolio and manage this risk.

2) Liquidity risk

Liquidity risk is the risk that the Company may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to its position.

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to settle investment transactions as they fall due.

The Company aims to maintain flexibility in funding by keeping adequate cash balances and ensuring variable funding notes are available. The Company can elect that the Noteholders be required to pay to the Company, an amount up to the total of the undrawn commitments at any time. The undrawn commitments as at 31 December 2020 were €111,905,177 (2019: €110,417,977), unless purchased and cancelled or previously redeemed, the funding notes will be redeemed in full on 31 December 2025.

The following table illustrates the expected liquidity of assets held and undrawn commitments:

As at 31 December 2020	Less than 1 year	Between 1-5 years	More than 5 years
PPN	-	-	41,798,137
Creditors and accruals	109,909	-	-
	109,909	-	41,798,137
<hr/>			
As at 31 December 2019	Less than 1 year	Between 1-5 years	More than 5 years
PPN	-	-	43,248,613
Creditors and accruals	26,080	-	-
	26,080	-	43,248,613

**SREO 2 Designated Activity Company
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Notes to the Financial Statements (continued)

5. Financial risk management (continued)

2) Liquidity risk (continued)

The liabilities of the Company comprise of amounts drawn on the PPN and short-term creditors as at 31 December 2020 and 31 December 2019. The portfolio of investments is regularly reviewed for liquidity risk and market developments relevant to the Company's investments are continually monitored to explore, evaluate and maximise all realisation opportunities and repaying the PPN (see Note 12). Liquidity risk on the short-term trade payables is considered low.

The balance of €41,798,137 (2019: €43,248,613) for long term creditors as at 31 December 2020, relates to the unsecured PPN issued by the Company to investors (see Note 12). The PPNs have a variable principal amount and will be advanced to the Company from time to time when the Company draws down the commitment from the investors. The terms of the PPNs provide the Company sole and absolute discretion to make principal payments prior to the final redemption date of 2025. The Noteholder shall have recourse only to the assets of the issuer.

3) Market risk

(i) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The PPN interest is based on the amount of profit available at the interest payment date. Please see Note 12 for further detail. Other than from the PPN, the Company has no material financial assets or other financial liabilities that are interest bearing during the financial year.

A movement of 100 basis points in the interest rate for the cash at bank, with other variables held consistent, would result in an insignificant movement in the net asset value of the Company. For all other assets & liabilities, there is no significant impact of interest rate risk.

(ii) Foreign Exchange Risk

The Company is not exposed to significant foreign currency risk through its cash and cash equivalents and investments as they are held in Euro. No hedging arrangements are employed with respect to the foreign exchange risk arising from GBP expenses and cash held. Due to insignificant exposure, a sensitivity analysis is not provided.

(iii) Price Risk

Price risk is the risk that the value of financial assets will vary with the movements in market prices. The company is exposed to the market risk through its investment in Spanish real estate.

The investments are susceptible to market price risk arising from uncertainties about future values of the investments. These are exposed to property price fluctuations in Spain. The Investment Manager advises the Company on the investments that have prospects to appreciate in value in the medium and long term period, with respect to valuation, which will be reviewed and approved by the Board.

The performance of investments held by the Company is monitored by the directors and reviewed on an ongoing basis.

A 5% increase in the discount rate used in the valuation, with other variables held constant would reduce the valuation by €575,629 (2019: €1,000,367) in financial assets of the Company. A 5% decrease would increase the valuation by €589,123 (2019: €1,098,990).

Capital risk management

Working capital requirements are managed and met primarily through the appropriate retention of cash and realisation proceeds at any given point in time to continue as a going concern. The Company has no material capital requirements other than to ensure it has a minimum level of authorised and issued share capital of €1. The investment activities are financed through the PPN. As at 31 December 2020, the principal amount outstanding relating to the PPN is €111,905,177 (2019: €111,043,977). The capital and working capital requirements are reviewed on a monthly basis to ensure the Company has sufficient resources to continue as a going concern in the future, see Liquidity Risk note above.

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Notes to the Financial Statements (continued)

5. Financial risk management (continued)

Concentration risk

Concentration risk can arise from the type of investments held in the portfolio, the maturity of assets, the concentration of sources of funding, concentration of counterparties or geographical locations. The Company is exposed to this risk as the Company has its entire loan investment located in Spain. Concentration of financial assets is disclosed in Note 8.

6. Taxation

	For the financial year ended 31 December 2020	For the financial period from 16 November 2018 to 31 December 2019
	€	€
<i>Current tax</i>		
Irish corporation tax on ordinary activities	250	250
Total current tax charge for the financial year/period	<u>250</u>	<u>250</u>

The Company is a qualifying company within the meaning of Section 110 of the Taxes Consolidation Act, 1997. As such, the profits are chargeable to corporate income tax under Case III of Schedule D of the Taxes Consolidation Act, at the rate of 25%, but are computed in accordance with the provisions applicable to Case I of Schedule D.

A reconciliation of the current tax charge for the financial year to the current charge that would result from applying the standard rate of Irish corporation tax to profit on ordinary activities is shown on the table below:

	For the financial year ended 31 December 2020	For the financial period from 16 November 2018 to 31 December 2019
	€	€
Profit for the financial year/period before tax	1,000	1,000
Profit for the period multiplied by the standard rate of Irish corporation tax of 12.5%	(125)	(125)
Effects of:		
Effect of 25% rate applicable to Section 110 companies	(125)	(125)
Non-deductible expenses	-	-
Utilisation of tax losses	-	-
Taxation charge	<u>(250)</u>	<u>(250)</u>

The Company has no losses to carry forward at 31 December 2020 (2019: None).

7. Operating expenses

	For the financial year ended 31 December 2020	For the financial period from 16 November 2018 to 31 December 2019
	€	€
Legal and professional fees	405,805	103,007
Auditors' remuneration	48,303	18,450
Administration fees	36,553	23,750
Bank charges	3,930	4,003
Other expenses	3,600	3,600
Total	<u>498,191</u>	<u>152,810</u>

Section 322 of Companies Act, 2014 require disclosure in the financial statements of auditor's remunerations. Auditor's remuneration paid/payable to auditors comprise the following:

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Notes to the Financial Statements (continued)

7. Operating expenses (continued)

	Financial year ended 31 December 2020	For the financial period from 16 November 2018 to 31 December 2019
	€	€
Statutory auditor's remuneration	48,303	18,450
Total	48,303	18,450

There are no other assurance, non-audit services or out of pocket expenses provided by the independent auditors (2019: Nil).

8. Financial assets at fair value through profit or loss

The Company's investment objective and investment strategy is to seek to achieve superior risk-adjusted returns by investing in underlying portfolios of real estate units in Spain.

Investments are carried at fair value through profit or loss in accordance with the Company's accounting policies.

The Company shall participate, as a non-managing participant and silent partner, sharing with the shareholder of the Real Estate entities, the profits/losses of the Real Estate entities,; Trova Capital S.L, Coronas Capital S.L, Magicos Capital S.L, Regalias Capital S.L, Epicure Capital S.L, Piramides Real Estate S.L, Genios Capital S.L, Cosacos Capital S.L, Tesoros Capital S.L and Robusto Capital S.L following the acquisition and management and subsequent marketing and sale of a portfolio of real estate residential assets requiring remediation held by each real estate entity.

Under the Joint Account Agreement the investment amount is to be repaid to the investor from the real estate entities according to the business plan, and no later than the earlier of the date all properties have been disposed of and the date falling thirty six months from the first day of the availability period (the "Maturity Date"). Should all the Properties not have been disposed of prior to ninety calendar days before the Maturity Date the Manager may request from the Noteholders (i) an extension of the Maturity Date for six additional calendar months, and/or (ii) consent to proceed with the sale of any unsold Properties in a competitive auction process, or a combination of (i) and (ii).

The following table shows a reconciliation from the opening balance to the closing balance for financial assets at fair value through profit or loss:

For the financial year ended 31 December 2020	Opening Balance	Drawdowns	Return of Capital	Fair Value Adjustment	Closing Balance
	€	€	€	€	€
Trova Capital, S.L	7,019,660	676,658	(283,000)	(1,342,136)	6,071,182
Coronas Capital, S.L	6,027,219	3,347,776	(897,928)	(1,096,794)	7,380,273
Magicos Capital, S.L	5,000,000	2,424,187	(102,000)	1,011,429	8,333,616
Regalias Capital, S.L	4,500,050	129,000	(150,000)	289,065	4,768,115
Epicure Capital, S.L	3,806,679	103,544	(800,000)	(279,432)	2,830,791
Piramides Real Estate, S.L	3,717,905	-	(750,000)	72,445	3,040,350
Genios Capital, S.L	2,410,000	52,700	-	653,227	3,115,927
Cosacos Capital, S.L	2,000,050	43,400	(17,400)	225,020	2,251,070
Tesoros Capital, S.L	1,253,995	341,389	(310,000)	268,530	1,553,914
Robusto Capital, S.L	1,091,874	654,405	(30,000)	117,581	1,833,860
Total	36,827,432	7,773,059	(3,340,328)	(81,065)	41,179,098

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Notes to the Financial Statements (continued)

8. Financial assets at fair value through profit or loss (continued)

For the financial period ended 31 December 2019	Opening Balance	Drawdowns	Return of Capital	Fair Value Adjustment	Closing Balance
	€	€	€	€	€
Trova Capital, S.L	-	7,770,000	(2,000,000)	1,249,660	7,019,660
Coronas Capital, S.L	-	5,730,876	(624,712)	921,055	6,027,219
Magicos Capital, S.L	-	5,000,000	-	-	5,000,000
Regalias Capital, S.L	-	4,500,050	-	-	4,500,050
Epicure Capital, S.L	-	2,898,988	-	907,691	3,806,679
Piramides Real Estate, S.L	-	5,476,599	(3,152,322)	1,393,628	3,717,905
Genios Capital, S.L	-	2,410,000	-	-	2,410,000
Cosacos Capital, S.L	-	2,000,050	-	-	2,000,050
Tesoros Capital, S.L	-	1,920,758	(524,992)	(141,771)	1,253,995
Robusto Capital, S.L	-	984,705	-	107,169	1,091,874
Total	-	38,692,026	(6,302,026)	4,437,432	36,827,432

The following tables show a reconciliation of the financial assets detailed by cost and fair value:

	31 December 2020	31 December 2020	31 December 2019	31 December 2019
	Cost	Fair Value	Cost	Fair Value
	€	€	€	€
Trova Capital, S.L	6,163,658	6,071,182	5,770,000	7,019,660
Coronas Capital, S.L	7,556,012	7,380,273	5,106,164	6,027,219
Magicos Capital, S.L	7,322,187	8,333,616	5,000,000	5,000,000
Regalias Capital, S.L	4,479,050	4,768,115	4,500,050	4,500,050
Epicure Capital, S.L	2,202,532	2,830,791	2,898,988	3,806,679
Piramides Real Estate, S.L	1,574,277	3,040,350	2,324,277	3,717,905
Genios Capital, S.L	2,462,700	3,115,927	2,410,000	2,410,000
Cosacos Capital, S.L	2,026,050	2,251,070	2,000,050	2,000,050
Tesoros Capital, S.L	1,427,155	1,553,914	1,395,766	1,253,995
Robusto Capital, S.L	1,609,110	1,833,860	984,705	1,091,874
Total	36,822,731	41,179,098	32,390,000	36,827,432

Financial Year Ended 31 December 2020

	Opening Cost	Drawdown	Return of Capital	Closing Cost
	€	€	€	€
Trova Capital, S.L	5,770,000	676,658	(283,000)	6,163,658
Coronas Capital, S.L	5,106,164	3,347,776	(897,928)	7,556,012
Magicos Capital, S.L	5,000,000	2,424,187	(102,000)	7,322,187
Regalias Capital, S.L	4,500,050	129,000	(150,000)	4,479,050
Epicure Capital, S.L	2,898,988	103,544	(800,000)	2,202,532
Piramides Real Estate, S.L	2,324,277	-	(750,000)	1,574,277
Genios Capital, S.L	2,410,000	52,700	-	2,462,700
Cosacos Capital, S.L	2,000,050	43,400	(17,400)	2,026,050
Tesoros Capital, S.L	1,395,766	341,389	(310,000)	1,427,155
Robusto Capital, S.L	984,705	654,405	(30,000)	1,609,110
Total	32,390,000	7,773,059	(3,340,328)	36,822,731

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Notes to the Financial Statements (continued)

8. Financial assets at fair value through profit or loss (continued)

Financial Period Ended 31 December 2019				
	Opening Cost	Drawdown	Return of Capital	Closing Cost
	€	€	€	€
Trova Capital, S.L	-	7,770,000	(2,000,000)	5,770,000
Coronas Capital, S.L	-	5,730,876	(624,712)	5,106,164
Magicos Capital, S.L	-	5,000,000	-	5,000,000
Regalias Capital, S.L	-	4,500,050	-	4,500,050
Epicure Capital, S.L	-	2,898,988	-	2,898,988
Piramides Real Estate, S.L	-	5,476,599	(3,152,322)	2,324,277
Genios Capital, S.L	-	2,410,000	-	2,410,000
Cosacos Capital, S.L	-	2,000,050	-	2,000,050
Tesoros Capital, S.L	-	1,920,758	(524,992)	1,395,766
Robusto Capital, S.L	-	984,705	-	984,705
Total	-	38,692,026	(6,302,026)	32,390,000

Valuation methodology

The valuation methodology used by the Company including the fair value hierarchy has been disclosed in Note 3(d). The table below provides an analysis of the basis of measurement used by the Company to fair value its financial instruments into the aforementioned categories:

As at 31 December 2020	Level I	Level II	Level III	Total
	€	€	€	€
Financial assets at fair value through profit or loss				
Investments at fair value through profit or loss	-	-	41,179,098	41,179,098
	-	-	41,179,098	41,179,098
Financial liabilities at fair value through profit or loss				
PPN at fair value through profit or loss	-	-	41,798,137	41,798,137
	-	-	41,798,137	41,798,137
As at 31 December 2019				
	Level I	Level II	Level III	Total
	€	€	€	€
Financial assets at fair value through profit or loss				
Investments at fair value through profit or loss	-	-	36,827,432	36,827,432
	-	-	36,827,432	36,827,432
Financial liabilities at fair value through profit or loss				
PPN at fair value through profit or loss	-	-	43,248,613	43,248,613
	-	-	43,248,613	43,248,613

The table overleaf summarises the principal quantitative inputs and assumptions used for item categorised in Level III in the fair value hierarchy:

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Notes to the Financial Statements (continued)

8. Financial assets at fair value through profit or loss (continued)

Name of investment	Fair value at 31 December 2020 €	Valuation technique	Time period of discounted cash flows	Unobservable input	Input values
Trova Capital, S.L	6,071,182	Discounted cash flow	36 months	Discount rate and time period	20.00%
Coronas Capital, S.L	7,380,273	Discounted cash flow	33 months	Discount rate and time period	20.00%
Magicos Capital, S.L	8,333,616	Discounted cash flow	36 months	Discount rate and time period	20.00%
Regalias Capital, S.L	4,768,115	Discounted cash flow	39 months	Discount rate and time period	17.49%
Epicure Capital, S.L	2,830,791	Discounted cash flow	33 months	Discount rate and time period	20.00%
Piramides Real Estate, S.L	3,040,350	Discounted cash flow	30 months	Discount rate and time period	17.43%
Genios Capital, S.L	3,115,927	Discounted cash flow	30 months	Discount rate and time period	19.88%
Cosacos Capital, S.L	2,251,070	Discounted cash flow	30 months	Discount rate and time period	20.00%
Tesoros Capital, S.L	1,553,914	Discounted cash flow	24 months	Discount rate and time period	16.29%
Robusto Capital, S.L	1,833,860	Discounted cash flow	30 months	Discount rate and time period	19.96%

Name of investment	Fair value at 31 December 2019 €	Valuation technique	Time period of discounted cash flows	Unobservable input	Input values
Coronas Real Estate, S.L	6,027,219	Discounted cash flows	39 months	Discount rate and time period	29.63%
Tesoros Capital, S.L	1,253,995	Discounted cash flows	21 months	Discount rate and time period	30.67%
Robusto Capital, S.L	1,091,874	Discounted cash flows	23 months	Discount rate and time period	40.30%
Trova Capital, S.L	7,019,660	Discounted cash flows	26 months	Discount rate and time period	22.70%
Magicos Capital, S.L	5,000,000	Valued at Cost*	*	Discount rate and time period	22.48%
Regalias Capital, S.L	4,500,050	Valued at Cost*	*	Discount rate and time period	22.10%
Epicure Capital, S.L	3,806,679	Discounted cash flows	24 months	Discount rate and time period	31.30%
Piramides Real Estate, S.L	3,717,905	Discounted cash flows	23 months	Discount rate and time period	31.51%
Genios Capital, S.L	2,410,000	Valued at Cost*	*	Discount rate and time period	35.10%
Cosacos Capital, S.L	2,000,050	Valued at Cost*	*	Discount rate and time period	21.90%

* The fair value of these investments were determined to approximate the contribution made due to the timing of the transactions being close to the 31 December 2019.

There is no movement between levels during the period for the Investments and the PPN (2019: None).

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Notes to the Financial Statements (continued)

9. Cash and cash equivalents

	As at 31 December	As at 31 December
	2020	2019
	€	€
Barclays EUR Account	730,091	6,182,283
Coutts EUR Account*	-	125,100
Coutts GBP*	-	28
Alpha FX**	-	-
Total	730,091	6,307,411

* The Coutts GBP and EUR accounts were closed on 30 November 2020

** The Alpha FX account was opened on 22 December 2020

10. Trade and other receivables

	As at 31 December	As at 31 December
	2020	2019
	€	€
Share capital receivable	1	1
Return of capital in transit	-	140,600
Prepaid expenses	357	-
Total	358	140,601

11. Creditors and accruals

	As at 31 December	As at 31 December
	2020	2019
	€	€
Accruals	50,270	25,830
Payables	59,389	-
Tax Charge	250	250
Total	109,909	26,080

12. Profit Participating Note

The Company issued a PPN of €150,000,000 which is listed on The International Stock Exchange (TISE), headquartered in Guernsey. The PPN was listed on 8 April 2019 and has a maturity date of 31 December 2025. SREO 2 LP, the Noteholders have subscribed for the entire amount of the PPN. Under the terms of the PPN, the Company may draw down the PPN by issuing a payment notice to the Noteholders. As at 31 December 2020 €44,039,823 (2019: €39,585,023) has been drawn down.

The following table shows a reconciliation of PPN activity for the financial year/period:

	For the financial year	For the financial period
	ended 31 December	from 16 November 2018
	2020	to 31 December 2019
	€	€
Opening balance	43,248,613	-
Drawdown of PPN	4,454,800	39,585,023
Repayment of PPN	(5,325,000)	(620,000)
Net (loss)/gain on profit participating note at fair value through profit or loss	(580,277)	4,283,590
Closing balance	41,798,137	43,248,613

The Noteholders are entitled to receive interest on the PPN. Interest will be regarded as accruing throughout the annual accounting period of the Company or from and including the last day of the immediately preceding accrual period to (but excluding) such date during such accounting period as the Company may determine from time to time (each an "Accrual Period"), provided that the first Accrual Period shall commence on the issue of the PPN and the last Accrual Period.

The amount of interest accrued in respect of any Accrual Period shall be a) an amount equal to (i) all income and gains earned by the Company from or in respect of the assets and liabilities or related arrangements of the Company

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Notes to the Financial Statements (continued)

12. Profit Participating Note (continued)

less any losses suffered by the Company for the Accrual Period, (ii) the sum of all operating expenses and costs (other than the accrual of the interest) of the Company accrued in that Accrual Period and any Carry Forward Losses and (b) to the extent not included in the foregoing, the taxable profits (before Interest) of the Company relevant to that Accrual Period for Irish tax purposes but excluding €1,000 (the "Available Amount"). The relevant amount of Interest (if any) on the PPN for an Accrual Period shall be payable by the Company on any date that the Company may from time to time in its absolute discretion determine that it has sufficient unencumbered cash to do so (each an "Interest Payment Date"), any redemption date and to the extent not otherwise paid, on the maturity date. On each Interest Payment Date, the interest payable shall be first set off against any prepayments made during the relevant Accrual Period that are determined to be prepayments of interest and such set-off shall satisfy the Company's obligation to pay the amount set off. Following such set-off, to the extent that Interest remains unpaid, all unencumbered cash available on such Interest Payment Date shall be applied to pay such unpaid Interest and to the extent that the Company does not have sufficient unencumbered cash available to pay such unpaid Interest in full, on such subsequent date or dates as the Company may determine, to the extent that the Company has unencumbered cash available to pay all or part of such remaining unpaid interest.

13. Share capital

	2020	2019
Authorised share capital		
1,000,000 Ordinary Shares of €1 each	<u>1,000,000</u>	<u>1,000,000</u>
Allotted and Called		
1 Ordinary Shares of €1 each	<u>1</u>	<u>1</u>

The Company has issued 1 share, of the total authorised share capital of €1,000,000, divided into 1,000,000 shares of €1 each. The issued share capital is held by Acorn Investments Limited on behalf of a charitable trust.

The Company's share capital is denominated in Euro. At any general meeting of the Company each ordinary share carries one vote. The ordinary share also carries the right to receive all income of the Company attributable to the ordinary shares, and to participate in any distribution of such income made by the Company.

14. Capital commitments and contingent liabilities

As at 31 December 2020 and 2019, the Company had no contingent liabilities outstanding. The table below outlines the outstanding commitments as at 31 December 2020 and 2019.

<i>As at 31 December 2020</i>	Commitment	Drawdowns	Undrawn Amounts
Entity	€	€	€
Coronas Real Estate, S.L	10,545,000	9,078,652	1,466,348
Tesoros Capital, S.L	5,000,000	2,262,147	2,737,853
Robusto Capital, S.L	4,000,000	1,639,110	2,360,890
Trova Capital, S.L	12,000,000	8,446,658	3,553,342
Magicos Capital, S.L	15,000,000	7,424,187	7,575,813
Regalias Capital, S.L	25,000,000	4,629,050	20,370,950
Epicure Capital, S.L	5,500,000	3,002,532	2,497,468
Piramides Real Estate, S.L	10,000,000	5,476,599	4,523,401
Genios Properties, S.L	6,000,000	2,462,700	3,537,300
Cosacos Capital, S.L	3,000,000	2,043,450	956,550
Total	96,045,000	46,465,085	49,579,915

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Notes to the Financial Statements (continued)

14. Capital commitments and contingent liabilities (continued)

<i>As at 31 December 2019</i>	Commitment	Drawdowns	Undrawn Amounts
Entity	€	€	€
Coronas Real Estate, S.L	10,545,000	5,730,876	4,814,124
Tesoros Capital, S.L	5,000,000	1,920,758	3,079,242
Robusto Capital, S.L	4,000,000	984,705	3,015,295
Trova Capital, S.L	12,000,000	7,770,000	4,230,000
Magicos Capital, S.L	15,000,000	5,000,000	10,000,000
Regalias Capital, S.L	25,000,000	4,500,050	20,499,950
Epicure Capital, S.L	5,500,000	2,898,988	2,601,012
Piramides Real Estate, S.L	10,000,000	5,476,599	4,523,401
Genios Properties, S.L	6,000,000	2,410,000	3,590,000
Cosacos Capital, S.L	3,000,000	2,000,050	999,950
Total	96,045,000	38,692,026	57,352,974

15. Related party transactions

The terms of the corporate services agreement in place between the Company and the Administrator provide for a single fee for the provision of corporate administration services (including the making available of individuals to act as directors of the Company). Lina Chi McGrath and Yusni Md Isa, were both appointed as directors of the Company on the 14 September 2018 and resigned on the 4 September 2020. Amanda Donohue and Vicki Gorman-Meade were both appointed as directors of the Company on the 4 September 2020. These individuals acting as directors do not (and will not), in their personal capacity or any other capacity, receive any fee for acting or having acted as directors of the Company. For the avoidance of doubt, notwithstanding that the directors of the Company are employees of the Administrator, they each do not receive any remuneration for acting as directors of the Company.

The fees received by the Administrator as outlined in Note 7, include €6,000 (2019: €6,000) as consideration for making available these individuals to act as directors of the Company, for the financial year ended to 31 December 2020.

SREO 4 Designated Activity Company is a related entity as it is also managed by NorthWall Capital LLP and invests in the Spanish SPV's, Coronas Real Estate, S.L, Tesoros Capital, S.L and Robusto Capital, S.L, in conjunction with SREO 2 Designated Activity Company.

Denis Kissane, an independent director of the Company also received a director's fee of €7,200 (2019: €7,500) during the financial year of which nil is outstanding as at 31 December 2020 (2019: Nil).

As stated in the Investment Management Agreement, in consideration for its services, the Company shall pay to the Investment Manager such amounts by way of fees at such times and in relation to such periods as the Company and Investment Manager may agree from time to time. The Investment Manager has waived all management fees to be paid by the Company and has agreed to charge the SREO 2 LP entity for operational efficiency.

16. Subsequent events

There are many risks and uncertainties associated with the pandemic as government policy restrictions ease. This includes a rise in personal and corporate insolvencies, slow or depressed economic growth and an increase in inflation. The directors with the assistance of the Investment Manager will continue to monitor the portfolio in identifying and managing this risk where possible.

Subsequent events have been evaluated up to the date on which the financial statements were approved and authorised for issue and there are no material events to be disclosed or adjusted for in these financial statements other than events discussed in Note 2.

17. Ultimate controlling party

The Company is an orphan structure and, as such, there is no ultimate controlling party.

18. Foreign exchange rate as at year end

The EUR/GBP exchange rate used as at 31 December 2020 was 0.89903 (2019: 0.8508).

Notes to the Financial Statements (continued)

19. Approval of financial statements

The financial statements were approved and authorised for issue by the Board on 17 May 2021.