INTERIM FINANCIAL REPORT

HALF-YEAR ENDED DECEMBER 2019

BLACKWALL

CONTENTS

Directors' Report

BlackWall will be paying a dividend of 2c per share on 20 March 2020. NTA is 35c per share for BlackWall's ongoing operations.

What we do

BlackWall generates management, performance and transaction fees from real estate investment structures – the largest of these is our ASX listed REIT, BlackWall Property Trust (ASX Code: BWR). The BlackWall Portfolio under management is comprised of 15 properties with a total value of just under $400 million.

Overview of operations

In our view, commercial property yields are unsustainably low and as a result the cash reserves in BWR created by the sale of the Bakehouse Quarter in April 2019 have been deployed to repay debt rather than acquire assets. This has resulted in a temporary reduction in our management fee income while we are awaiting new opportunities. As detailed in the BWR half-year report we need to be patient and disciplined. In the meantime, we are investing back into the portfolio which is producing "organic" growth with the value of the properties that we manage growing during the half-year by $35 million without completing any acquisitions. A number of the properties still have value add potential that we are exploring with expectations that we will be able to achieve a continued positive uplift on the value of the portfolio. This, in turn, will positively impact BWF returns.

As previously reported over our 25 year history we have a strong track record of finding and executing turnaround projects. For example, some may have seen the recent BWR half-year result highlighting the uplift in the value of 55 Pyrmont Bridge Road from an $80 million property in late 2014 to a now $153 million property. BlackWall has helped facilitate the repositioning of the asset both financially and physically. This along with the Bakehouse Quarter at North Strathfield and The Woods in Villawood demonstrate what we think is our skill set.

You will also note that we have taken over the WOTSO sites at our Neutral Bay head office and a small operation in Mosman, Sydney. WOTSO is the Franchisor and a new BWF subsidiary is the Franchisee. The franchises sit in properties owned by private syndicates, managed by BlackWall. Neutral Bay is a mature WOTSO business that has grown to provide earnings of just over $100k to BlackWall for the half-year, Mosman is in its infancy and we will continue to grow its revenue.

Management

We have had a busy end to 2019 with the spin off of WOTSO and the restructure of management in both BlackWall and WOTSO. Stuart Brown who was a member of the BlackWall family for the last 20 years has resigned from BlackWall and WOTSO. Stuart has been an integral part of the business and has been responsible for the implementation for many of the group's strategies and transactions. Stuart's contribution to the growth of the business has been significant and we wish him well going forward.

The balance of the BlackWall board remains the same and our focus is, as it has always been, to continue to maximise the returns from our existing portfolio and to look for assets that have a problem that we think we understand and can fix.

Dividend

BlackWall will be paying a 2c per share fully franked interim dividend on 20 March 2020. This reflects the ongoing strengths of our underlying operations.

Fortitude Valley, Queensland

Translating the Accounting Standards

You will see in these financial statements a number of changes to how items are accounted for. This has made them a little more difficult to read and understand. The major adjustments are:

1. WOTSO displayed as a demerging asset and liability which is called a discontinued operation under the accounting standards.
2. The adoption of the new leasing accounting standard - AASB 16.

Discontinued operations

We have stripped out WOTSO's contribution to the group so BlackWall's continuing operations performance can be shown clearly. There are some comparative items that remain in the balance sheet under the accounting standards. At June 2020 the balance sheet items of WOTSO will no longer appear, however an investment will be shown in WOTSO at whatever the fair value is deemed to be at that time. The profit or loss will show the 6 month performance of WOTSO, up to the time it is demerged.

New leasing standard

The new leasing standard has a material effect on the presentation of the accounts in particular for WOTSO. From a balance sheet perspective where businesses hold leases (in our case property leases) they are now required to;

1. Take up the whole liability for the term of the lease and a corresponding right to use asset, resulting, in the case of WOTSO, for these balances to be very large.
2. Show an extra depreciation charge and a finance or interest charge taken up in the profit or loss instead of rent expense. This results in the often used EBIT or EBITDA metric becoming misleading in that it excludes what used to be rent expense.
3. Not show rental payments in the operating cashflow, these are now required to appear in the financing section of the cashflow.

The BlackWall continuing operations only hold two leases so the effect on its balance sheet is small, adding a $1.7 million asset and $1.7 million liability to it. The movement in EBIT for BlackWall's continuing operations from the new standard is an additional loss of $13k.

The effect on WOTSO is much greater as detailed below:

WOTSO Balance Sheet	Normalised Pre-AASB 16	AASB 16 Impact	Per Financial Statements
Current assets	1,165	-	1,165
Non-current assets	13,748	49,519	63,267
Total assets	**14,913**	**49,519**	**64,432**
Current Liabilities	(2,792)	(4,321)	(7,113)
Non-current liabilities	(943)	(46,963)	(47,906)
Total liabilities	**(3,735)**	**(51,284)**	**(55,019)**
NET ASSETS	**11,178**	**(1,765)**	**9,413**
Intercompany adjustment	226	-	226
CONSOLIDATED NET ASSETS	**11,404**	**(1,765)**	**9,639**

WOTSO Profit or Loss	Normalised Pre-AASB 16	AASB 16 Impact	Per Financial Statements
Revenue	4,070	-	4,070
Rent Expense	(2,147)	2,147	-
Other Operating Expenses	(2,626)	-	(2,626)
EBITDA	**(703)**	**2,147**	**1,444**
Impairment of Goodwill	(162)	-	(162)
Fit-Out Depreciation	(421)	-	(421)
Right of Use Asset Depreciation	-	(3,602)	(3,602)
EBIT	**(1,286)**	**(1,455)**	**(2,741)**
Interest on Lease Right of Use Liabilities	-	(972)	(972)
Profit before tax	**(1,286)**	**(2,427)**	**(3,713)**
Income Tax Benefit	-	745	745
PROFIT AFTER INCOME TAX	**(1,286)**	**(1,682)**	**(2,968)**
Intercompany adjustment	225	-	225
CONSOLIDATED PROFIT AFTER INCOME TAX	**(1,061)**	**(1,682)**	**(2,743)**

As shown above, the rent expense as invoiced is no longer recognised as an operating expense; instead expenses are recognised on the depreciation of the leased right of use asset and interest on the leased right of use liability. This also creates a deferred tax asset due to the timing difference between the accounting profit and tax profit.

WOTSO

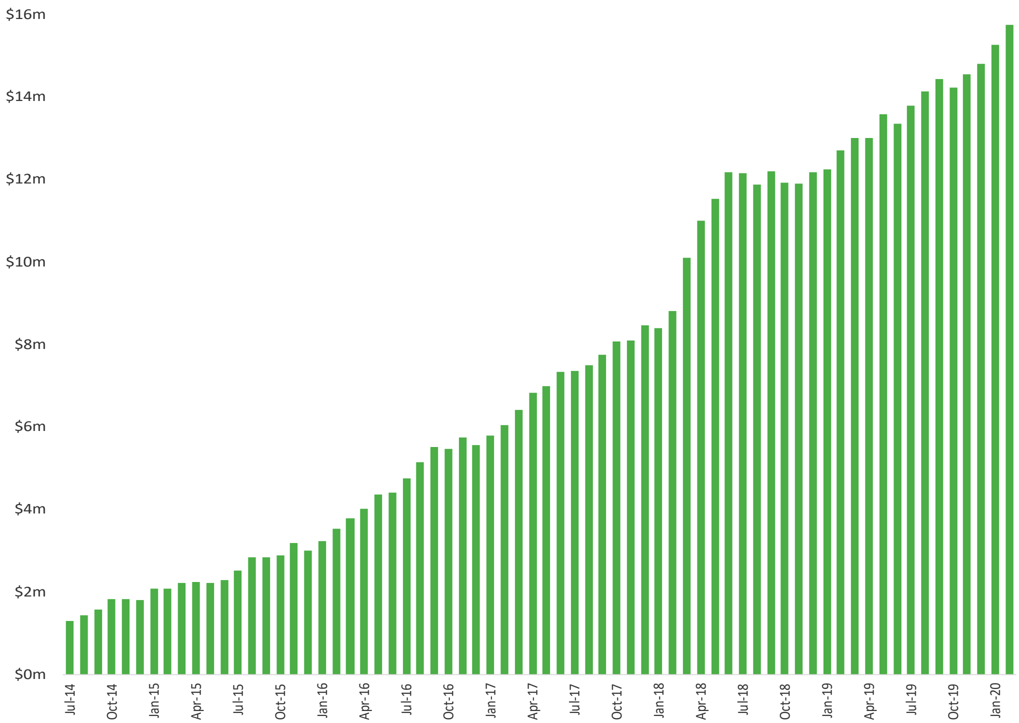
Completion of the WOTSO demerger

This is the last time we will report on WOTSO in detail in our BlackWall report. On 20 December 2019 BlackWall shareholders approved the demerger of WOTSO. The demerger was successfully completed on 8 January 2020. The demerger involved a capital reduction and a distribution of 86% of the shares in WOTSO Limited. BlackWall retained a 14% interest in WOTSO. Subsequent to the completion of the WOTSO demerger, WOTSO has raised additional capital by way of two private placements in late January 2020, which raised $3.5 million.

WOTSO's impact

WOTSO continues to be in a start up and growth phase and has generated a loss for the half-year. During its growth phase this is not unusual and we now expect a consolidation period for WOTSO and a return to profitability. We have been pleased with the pre-commitment and take up of our new sites at Woden, Zetland and Manly. These new sites along with the expansion of the North Strathfield sites have grown the WOTSO footprint by 38% to over 43,000sqm. WOTSO turnover continues to increase and is now sitting just below $16 million.

Annualised WOTSO turnover



WOTSO, North Strathfield

Financial Statements

Statement of Profit or Loss and Other Comprehensive Income for the half-year ended 31 December 2019

	Note	31 Dec 2019 $'000	Restated 31 Dec 2018 $'000
REVENUE			
BlackWall			
Management fees		2,510	3,227
Staff payroll recovery		442	994
Performance fees	5	486	-
Total BlackWall		**3,438**	**4,221**
Investments			
Unrealised gains	4	1,665	1,377
Interest income		22	2
Rental income		-	23
Distributions from Pyrmont Bridge Trust		-	220
Total Investments		**1,687**	**1,622**
WOTSO Franchise			
Franchise income	3	838	-
Total WOTSO Franchise		**838**	**-**
TOTAL REVENUE		**5,963**	**5,843**
EXPENSES			
Operating expenses	6	(2,510)	(3,444)
Depreciation	10	(457)	(61)
Finance costs	10	(367)	(51)
Franchise expenses	3	(301)	-
Demerger costs		(60)	-
Property outgoings		-	(82)
TOTAL EXPENSES		**(3,695)**	**(3,638)**
Profit before income tax		**2,268**	**2,205**
Income tax expense		(626)	(584)
Profit after tax from continuing operations		**1,642**	**1,621**
(Loss) / Profit after tax from WOTSO demerging operations	1	(2,743)	34
(Loss) / Profit for the period		**(1,101)**	**1,655**
Other comprehensive income		-	-
(Loss) / Profit and other comprehensive income		**(1,101)**	**1,655**
Profit and other comprehensive income attributable to:			
Owners of the Company		(1,101)	1,721
Non-controlling interests		-	(66)
		(1,101)	**1,655**
Earnings Per Share			
(Loss) / Profit attributable to the ordinary equity holders:			
Basic and diluted earnings per share	9	(1.7 cents)	2.8 cents
Basic and diluted earnings per share (continuing operations)	9	2.6 cents	2.8 cents

Balance Sheet at 31 December 2019

	Note	31 Dec 2019 $'000	30 Jun 2019 $'000
ASSETS			
Current assets			
Cash and cash equivalents		3,240	11,493
Trade and other receivables		523	3,479
Performance fees receivable - Penrith	5	919	-
Other Receivable - Yuhu Group	7	1,125	-
Income tax installments		182	-
Total current assets		**5,989**	**14,972**
WOTSO demerger assets (current asset)	**1**	**64,525**	**-**
Non-current assets			
Investment - BlackWall Property Trust		16,542	15,509
Lease Right of use Asset	10	1,710	-
Performance fees receivable - Penrith	5	-	433
Property, plant and equipment - BlackWall		821	246
Loan to WOTSO Joint Ventures		-	802
Property, plant and equipment - WOTSO		-	5,232
Internally generated software - WOTSO		-	173
Total non-current assets		**19,073**	**22,395**
TOTAL ASSETS		**89,587**	**37,367**
LIABILITIES			
Current liabilities			
Trade and other payables		859	1,962
Interest rate hedge		836	724
Lease right of use liability	10	628	-
Provision for tax payable		-	778
Provision for employee benefits		327	469
Tenant deposits		20	150
Total current liabilities		**2,670**	**4,083**
WOTSO demerger liabilities (current liability)	**1**	**54,886**	**-**
Non-current liabilities			
Deferred tax liabilities		1,751	1,351
Lease right of use liability	10	1,095	-
Interest rate hedge		-	341
Provision for employee benefits		79	84
Total non-current liabilities		**2,925**	**1,776**
TOTAL LIABILITIES		**60,481**	**5,859**
NET ASSETS		**29,106**	**31,508**
EQUITY			
Share capital		17,579	17,555
Reserves		73	73
Retained earnings		11,454	13,880
TOTAL EQUITY		**29,106**	**31,508**

Statement of Cash Flows for the half-year ended 31 December 2019

	Note	31 Dec 2019 $'000	31 Dec 2018 $'000
Cash flows from operating activities (continuing)			
BlackWall Management receipts		2,968	4,793
Transaction fee receipts		2,424	-
WOTSO Franchise receipts		922	-
Payroll recovery receipts		442	994
Bank interest received		22	1
Investment Income receipts		-	220
Payments to suppliers and employees		(3,459)	(3,807)
Rent paid - Yuhu Group		(1,125)	-
Income tax paid		(913)	(2,903)
Interest paid		(334)	(51)
WOTSO Franchise expenses		(322)	-
Brisbane and Adelaide outgoings		-	(59)
Net cash flows from operating activities (continuing)		**625**	**(812)**
Cash flows from investing activities (continuing)			
Returns of capital from BWR and other investments		402	600
Proceeds from sale of Pyrmont Bridge Trust units		-	1,472
Loan advance / (repayment)		-	(393)
Investment in WOTSO		(6,852)	-
Payments for BlackWall property, plant and equipment		(641)	(34)
Net cash flows from investing activities (continuing)		**(7,091)**	**1,645**
Cash flows from financing activities (continuing)			
Dividend paid		(1,325)	(1,291)
Repayment of leases		(412)	-
Proceeds from exercise of options		-	246
Net cash flows from financing activities (continuing)		**(1,737)**	**(1,045)**
Net Increase / (Decrease) in Cash Held (continuing)		**(8,203)**	**(212)**
Cash Flow Information – WOTSO Demerger			
Net Cash Flows From / (Used in) Operating Activities		1,443	476
Net Cash Flows From / (Used in) Investing Activities		(5,771)	(628)
Net Cash Flows From / (Used in) Financing Activities		5,305	-
Net Increase / (Decrease) in Cash Held – WOTSO Demerger	**1(d)**	**977**	**(152)**

	Note	31 Dec 2019 $'000	31 Dec 2018 $'000
Reconciliation of cash balances (continuing):			
Cash and cash equivalents at the beginning of the year		11,493	923
Less WOTSO demerger cash balances		(50)	(138)
Beginning cash balances (continuing)		11,443	785
Net Increase / (Decrease) in Cash Held		(8,203)	(212)
Cash at End of the Period (continuing)		**3,240**	**573**
Reconciliation of cash balances (WOTSO demerger):			
Cash at the beginning of the year		50	138
Net Increase / (Decrease) in Cash Held		977	(152)
Cash at End of the Period (WOTSO demerger)	**1(c)**	**1,027**	**(14)**

Reconciliation of Operating Cash Flows

	31 Dec 2019 $'000	31 Dec 2018 $'000
Profit for the period (continuing)	1,642	1,621
Non-cash flows in profit:		
Depreciation on property, plant and equipment	65	61
Unrealised gain on BWR investment	(1,436)	(1,072)
Unrealised gain on investment properties	-	(306)
Unrealised gain on interest rate hedge	(229)	-
Depreciation on right of use asset	392	-
Interest expense on lease liability	33	-
Changes in operating assets and liabilities:		
Decrease / (increase) in trade and other receivables	1,000	495
Increase / (decrease) in deferred tax liabilities	377	337
Increase / (decrease) in trade and other payables	(491)	815
Increase / (decrease) in income taxes payable	(664)	(2,655)
Increase / (decrease) in provisions	(64)	(108)
Net cash flows from operating activities (continuing)	**625**	**(812)**

Statement of Changes in Equity for the half-year ended 31 December 2019

	No. of Shares On Issue	Issued Capital $'000	Retained Earnings $'000	Reserves $'000	Attributable to Owners of the Parent $'000	Non-controlling Interests $'000	Total $'000
Balance at 1 July 2019	**63,115,445**	**17,555**	**13,880**	**73**	**31,508**	**-**	**31,508**
(Loss) for the period	-	-	(1,101)	-	(1,101)	-	(1,101)
Dividend paid	-	-	(1,325)	-	(1,325)	-	(1,325)
Issue of shares	26,000	24	-	-	24	-	24
Balance at 31 December 2019	**63,141,445**	**17,579**	**11,454**	**73**	**29,106**	**-**	**29,106**
Balance at 1 July 2018	**61,040,445**	**16,318**	**13,277**	**85**	**29,680**	**(148)**	**29,532**
Profit for the period	-	-	1,721	-	1,721	(66)	1,655
Dividend paid	-	-	(1,291)	-	(1,291)	-	(1,291)
Foreign currency reserve	-	-	-	(1)	(1)	-	(1)
Issue of shares	415,000	247	-	-	247	-	247
Deconsolidation of subsidiary	-	-	(66)	(11)	(77)	214	137
Balance at 31 December 2018	**61,455,445**	**16,565**	**13,641**	**73**	**30,279**	**-**	**30,279**

Notes

1. WOTSO Demerger

(a) Description

On 20 December 2019 BlackWall shareholders approved the demerger of its WOTSO co-working business. The completion of the demerger was subject to the discretion of the board until 2 January 2020 and was successfully completed on 8 January 2020. The demerger was detailed in the Explanatory Statement released to the ASX on 19 November 2019. The demerger involved a capital reduction and distribution satisfied by an in-specie distribution of 86% of the shares in WOTSO Limited. BlackWall retained a 14% interest in WOTSO.

As required by AASB 5 the activities of WOTSO have been reflected separately as a discontinued operation as it was highly probable to be demerged within 12 months of the reporting period. This has been referenced as Demerger operations in the Statement of Profit or Loss (comparatives restated), and WOTSO balances disclosed separately as demerger assets and demerger liabilities in the Balance Sheet at December 2019.

(b) Profit or Loss Information – WOTSO Demerger

	31 Dec 2019 $'000	31 Dec 2018 $'000
Revenue		
Revenue from members	3,767	4,828
Franchise fees	303	-
Total Revenue	**4,070**	**4,828**
Expenses		
Staff costs	(1,362)	(743)
Rent expenses	-	(2,086)
Operating expenses	(1,264)	(1,358)
Total Operating Expenses	**(2,626)**	**(4,187)**
Operating Profit	**1,444**	**641**
Other Expenses		
Depreciation on fit-out	(421)	(318)
Depreciation on lease right of use assets	(3,602)	-
Interest on lease right of use liabilities	(972)	-
Impairment of goodwill – Bondi	(162)	-
Equity accounting and discontinued operations	-	(230)
Total Other Expenses	**(5,157)**	**(548)**
(Loss) / Profit before income tax	**(3,713)**	**93**
Income tax	745	(59)
(Loss) / Profit from demerger operations	**(2,968)**	**34**
Intercompany eliminations (franchise fees and income tax)	225	-
Consolidated (Loss) / Profit	**(2,743)**	**34**

(c) Assets and Liabilities Information – WOTSO Demerger

The following assets and liabilities are separately classified in relation to the WOTSO demerger as at 31 December 2019:

	31 Dec 2019 $'000
Assets	
Cash and cash equivalents	1,027
Receivables and other assets	138
Loan to JV (Malaysia)	371
Rental Deposits for Leased Sites	528
Deferred tax asset	768
Property, plant and equipment	12,750
Lease Right of use asset	48,850
WOTSO demerger assets	**64,432**
Intercompany Eliminations	93
WOTSO Consolidated Assets	**64,525**
Liabilities	
Payables and other liabilities	2,925
Provisions for employee benefits	210
Loan from BWR	600
Lease Right of use liability	51,284
WOTSO demerger liabilities	**55,019**
Intercompany Eliminations	(133)
WOTSO Consolidated Liabilities	**54,886**
WOTSO Demerger Net Assets	**9,413**
WOTSO Consolidated Net Assets	**9,639**

(d) Cash Flow Information – WOTSO Demerger

The cash flows from the WOTSO demerger contained in the Group cash flow statement are as follows:

	31 Dec 2019 $'000
Cash flows from operating activities	
Tenant receipts	3,976
Franchise fees	333
Operating expenses	(2,866)
Net cash inflow / (outflow) from operating activities	**1,443**
Cash flows from investing activities	
Purchase of property, plant and equipment	(5,722)
Cash acquired on consolidation of Bondi	17
Loan to JV (Malaysia)	(66)
Net cash inflow / (outflow) from investing activities	**(5,771)**
Cash flows from financing activities	
Borrowings from BWR	600
Proceeds from issue of shares to BlackWall (BWF)	6,852
Repayment of leases	(2,147)
Net cash inflow / (outflow) from financing activities	**5,305**
Net cash inflow / (outflow)	**977**

(e) Impact of Leases – WOTSO Limited

WOTSO Limited adopted AASB 16 using the same methodology as BlackWall (BWF). Please refer to Note 10 of the Financial Statements for detailed adoption methodology used by the group.

On initial adoption of AASB 16 (1 July 2019) WOTSO recognised Lease Right of Use Assets and Lease Right of Use Liabilities of $52.2 million relating to property leases. The lease liability was recognised as the present value of all remaining lease payments, discounted using the lessee's incremental borrowing rate of 3.75%. There were no prepaid or accrued lease payments at this date that required an adjustment to the associated right of use assets. The reconciliation between the commitments note reported at 30 June 2019 and the right of use lease liability recognised at 1 July 2019 is shown below:

	$'000
Reported in Commitments Note	47,664
Discounted at Incremental Borrowing Rate (3.75%)	38,609
Impact of new or renegotiated leases	13,843
Total Lease Liabilities recognised on adoption of AASB 16 at 1 July 2019	**52,452**

During the 6 months to 31 December 2019:

- Depreciation of $3.6 million was recognised on right of use assets;
- Interest of $1.0 million was recognised on lease liabilities;
- Rental payments of $1.9 million were made to lessors, with an additional $0.2m accrued at this date;
- Deferred tax asset of $0.7 million was recognised to reflect the timing difference between tax and accounting profit.

Therefore, the application of AASB 16 contributed a $2.4 million loss to the Profit or Loss before tax in the half-year. This has been summarised below:

	$'000
WOTSO Statutory Loss before income tax	(3,713)
Add back right of use asset depreciation	3,602
Add back Interest on right of use lease liability	972
Deduct rental expense as recognised under AASB 117	(2,147)
WOTSO Loss adjusted for impact of new accounting standards	**(1,286)**

There is no cash impact of the new leases standard, however the presentation of lease payments within the cashflow has changed. In prior years, under AASB 117, the cash outflow from WOTSO's operating lease repayments were recognised as an operating cash flow. However, under AASB 16, these are disclosed as a financing cash flow.

(f) WOTSO Events Subsequent to the Reporting Period

The BWR Franchise Arrangement, which was in place between BWR Franchise Unit Trust and WOTSO Operations Pty Ltd (a wholly owned subsidiary of WOTSO Limited) during the reporting period has been revised. Instead of a franchise model, WOTSO will lease these assets directly from BWR and run these operations independently from BWR Franchise Pty Ltd. WOTSO received Franchise Fees of $228k from BWR Franchise in the first half of FY20.

Stuart Brown, the Managing Director of WOTSO, resigned on 24 January 2020. Tim Brown and Jessie Glew (the joint Managing Directors of BWF) have been appointed as interim Managing Directors of WOTSO Limited.

Subsequent to the completion of the WOTSO demerger, WOTSO raised additional capital by way of two private placements in late January 2020, which raised $3.5 million.

2. Segment Information ($'000)

The segment information for the Group is as follows. For information on segment reporting, refer to the Statement of Significant Accounting Policies for more details.

Profit or Loss December 2019	Income	Gains	Total Revenue	Expenses	EBITDA	Interest and Depn	Pre-tax
BlackWall	3,438	-	3,438	(1,973)	1,465	(299)	1,166
Investments	22	1,665	1,687	(285)	1,402	(110)	1,292
WOTSO Franchise	838	-	838	(301)	537	(415)	122
Corporate	-	-	-	(312)	(312)	-	(312)
Continuing operation	**4,298**	**1,665**	**5,963**	**(2,871)**	**3,092**	**(824)**	**2,268**
WOTSO demerging	4,070	-	4,070	(2,626)	1,444	(5,157)	(3,713)
TOTAL operations	**8,368**	**1,665**	**10,033**	**(5,497)**	**4,536**	**(5,981)**	**(1,445)**

Profit or Loss December 2018	Income	Gains	Total Revenue	Expenses	EBITDA	Interest and Depn	Pre-tax
BlackWall	4,221	-	4,221	(2,383)	1,838	(95)	1,743
Investments	245	1,377	1,622	(703)	919	(17)	902
Corporate	-	-	-	(440)	(440)	-	(440)
Continuing operation	**4,466**	**1,377**	**5,843**	**(3,526)**	**2,317**	**(112)**	**2,205**
WOTSO demerging	4,828	-	4,828	(4,187)	641	(318)	323
TOTAL operations	**9,294**	**1,377**	**10,671**	**(7,713)**	**2,958**	**(430)**	**2,528**

	December 2019			June 2019		
Balance Sheet	**Assets**	**Liabilities**	**Net Assets**	**Assets**	**Liabilities**	**Net Assets**
BlackWall	1,688	(1,264)	424	1,663	(296)	1,367
Investments	20,883	(2,646)	18,237	29,036	(3,707)	25,329
WOTSO Franchise	2,309	(1,685)	624	-	-	-
Corporate	182	-	182	-	(778)	(778)
	25,062	**(5,595)**	**19,467**	**30,699**	**(4,781)**	**25,918**
WOTSO demerging	64,525	(54,886)	9,639	6,668	(1,078)	5,590
Consolidated	**89,587**	**(60,481)**	**29,106**	**37,367**	**(5,859)**	**31,508**

3. WOTSO Franchise

BlackWall has taken over the WOTSO sites at its Neutral Bay head office and a small operation in Mosman, Sydney under a Franchise arrangement. WOTSO is the Franchisor, and a new BWF subsidiary (BWF Franchise Pty Ltd) is the Franchisee.

BlackWall pays a franchise fee to WOTSO - currently set at eight percent of gross rental income. The franchise fee paid to WOTSO allows for the Franchisee to access branding, website, management systems, marketing, financial analysis, fitout specifications, and staff training provided or facilitated by WOTSO. BlackWall records the site revenue, and operating and payroll costs in its own financial records as disclosed on the face of the Profit or Loss and the franchise is now disclosed as a separate segment in the segment report.

4. Unrealised Gains ($'000)

	31 Dec 2019	31 Dec 2018
Unrealised gain - BlackWall Property Trust	1,436	1,080
Unrealised gain - Interest rate swap	229	-
Unrealised (loss) - Bakehouse Quarter	-	(8)
Unrealised gain - Brisbane investment property	-	305
Unrealised total	**1,665**	**1,377**

5. Performance Fees

BlackWall (as manager of BlackWall Penrith Fund No.3) is entitled to a fee equating to 30% of the property value in excess of $16.5 million (the property value when the fund was established). The Penrith property was independently valued in December 2019 at $22.8 million with a resulting fee of $1,890,000 due to be paid to BlackWall when the fund terminates in December 2020. An amount of $433k was accrued in previous years, and in the current period a further accrual of $486k has been taken up, meaning a total of $919k has been accrued to date. The remainder will be accrued in future reporting periods depending on valuation outcomes.

6. Operating Expenses ($'000)

	31 Dec 2019	31 Dec 2018
BlackWall rent expense	-	73
BlackWall employee & consultants expense	1,802	2,073
Bakehouse staff termination expense	-	500
BlackWall operating expense	708	798
BlackWall expenses	**2,510**	**3,444**

Rent expense is now included under lease right of use asset depreciation and interest charges as detailed in Note 10 - Adoption of AASB 16 Leases.

7. Other Receivable – Yuhu Group

As part of the Bakehouse Quarter sale completed in April 2019, and reported on in the June 2019 Annual Report, a tripartite agreement to lease was entered into between Yuhu Group (purchaser of Bakehouse), Kirela (seller of Bakehouse and now wholly owned subsidiary of BlackWall Ltd), and WOTSO (a tenant at the Bakehouse).

The contract requires rent to be paid by WOTSO for just over 4,500sqm of commercial space at the Bakehouse Quarter (Expansion Space) commencing in July 2019, as well as the completion of substantial works, to create the Expansion Space, be carried out by Kirela. Yuhu Group is required to pay $5 million (Yuhu Payment) to Kirela on the completion of agreed milestones in relation to the Expansion Space development. The majority of the works have been carried out with the remainder anticipated to be completed by the end of March 2020 at which stage the Yuhu Payment becomes due and payable in total.

Kirela has also agreed to pay a rent inducement to WOTSO of 2 years of rent over the Expansion Space commencing July 2019 in monthly instalments. This will total just under $5 million. The contract contains a default clause whereby the Yuhu Payment can be recovered by “off-setting” this amount against the rent payable to Yuhu Group if Yuhu were not to pay the amount owing.

Due to the contingent nature of the contract arrangements (milestones still to be completed and whether the Yuhu Payment will be received directly or be recovered via off-set), it is considered appropriate at the current reporting date to record the rent amounts paid as a receivable to be recovered against Yuhu Payment due.

8. Dividends ($’000)

Fully franked dividends paid to members during the period ended 31 December were as follows:

	31 Dec 2019	31 Dec 2018
2019 final dividend of 2.1 cents paid on 09 October 2019 (2018 final: 2.1 cents)	1,325	1,291
Total	**1,325**	**1,291**

In addition, the Board has declared an interim fully franked dividend of 2.0 cents per share to be paid on 20 March 2020.

9. Earnings Per Share

	31 Dec 2019	31 Dec 2018
Basic and diluted earnings per share	(1.7 cents)	2.8 cents
Basic and diluted earnings per share (continuing)	2.6 cents	2.8 cents
Calculated as follows:		
(Loss) / Profit attributable to the owners of the Group	($1,101,000)	$1,721,000
Profit attributable to the owners of the Group (continuing)	$1,642,000	$1,791,000
Weighted average number of shares for basic EPS	63,118,002	61,258,150
Weighted average number of shares for diluted EPS	63,118,002	61,847,182

10. Adoption of AASB 16 “Leases”

The consolidated entity has adopted AASB 16 “Leases” from 1 July 2019 using the modified retrospective approach. BWF Franchise Pty Ltd (a fully owned subsidiary of BWF) leases the four story office building located at 50 Yeo Street, Neutral Bay under a five year lease term. WOTSO also has leases on its leased properties, which have been disclosed in Note 1. WOTSO has adopted the same application of AASB 16 as the consolidated entity.

On adoption of AASB 16, the group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of AASB 117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 July 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 3.75%.

Right of use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019. There were no onerous lease contracts that would have required an adjustment to the right of use assets at the date of initial application.

Practical expedients applied

In applying AASB 16 for the first time, the group has used the following practical expedients permitted by the standard:

- reliance on previous assessments on whether leases are onerous
- the exclusion of initial direct costs for the measurement of the right of use asset at the date of initial application

The group’s leasing activities and how these are accounted for

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Right of use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- make-good costs as prescribed in the relevant lease.

The following changes have been made to the financial statements for BlackWall continuing operations:

On initial adoption of AASB 16, on 1 July 2019, BlackWall recognised Lease Right of Use Assets and Lease Liabilities of $2,102,000 relating to property leases. The lease liability was recognised as the present value of all remaining lease payments, discounted using the lessee’s incremental borrowing rate of 3.75%. There were no prepaid or accrued lease payments at this date that required an adjustment to the associated right of use assets.

During the 6 months to 31 December 2019:

- Depreciation of $392,000 was recognised on lease right of use assets;
- Interest of $33,000 was recognised on lease liabilities;
- Rental payments of $412,000 were made to lessors.

Therefore, the application of AASB 16 contributed an extra $13,000 loss to the BlackWall Profit or Loss in the half-year.

11. Contingencies and Impairment

The Group had no contingent assets or liabilities at 31 December 2019 (December 2018: $nil).

12. Subsequent Events

Apart from the execution of the WOTSO demerger detailed in the next paragraph below, to the best of the Directors' knowledge, since the end of the financial year there have been no other matters or circumstances that have materially affected the Group's operations or may materially affect its operations, state of affairs or the results of operations in future financial years.

Completion of WOTSO demerger

The Directors announced the completion of the demerger to the ASX on 14 January 2020. The effective date of the demerger was 8 January 2020 and was at the discretion of the board until 2 January 2020. The effect of the demerger is therefore not reflected in these financial statements, however the treatment expected to be shown in the full year accounts is explained below.

BWF distributed approximately 86% of the shares in WOTSO to BWF shareholders, with the remaining 14% retained by BWF. WOTSO was previously treated as a separate reportable segment and will be accounted for as an investment in associate using the equity method. The remaining 86% interest in WOTSO represents a demerger distribution.

Due to the timing of the distribution (immediately following the half-year), BWF has made a provisional assessment of the fair value of WOTSO based on the ATO's suggested assessment of its fair value, which will be disclosed in the ATO's Class Ruling on the WOTSO demerger. Further market evidence of the fair value may become available over the coming months. As this market data comes to hand, BWF will have a better understanding of the fair value of WOTSO and may revise the valuation of its investment in WOTSO and the demerger on this basis at 30 June 2020.

For the purposes of disclosure as a subsequent event, the fair value of the distribution of WOTSO shares was calculated using the method that the ATO has suggested will be used in its class ruling to be issued on the WOTSO demerger. This used the 10 day pre- and post- demerger Volume Weighted Average Price (VWAP) of BlackWall shares on the ASX – with the decrease in BlackWall's market capitalisation being the market value of WOTSO. This resulted in an 80/20 split between BWF and the distributed portion of WOTSO (i.e. 86%).

This distribution was apportioned between a capital distribution (through share capital) and a demerger dividend (through retained earnings). The reduction of share capital is calculated as 20% of the BWF Share Capital (the proportion of BWF Share Capital attributable to the WOTSO distribution). The remaining value of the distribution is apportioned to retained earnings.

The amounts are as follows:

Estimated Fair Value of WOTSO at Demerger	Treatment in Financial Statements	$'000
Capital distribution	Reduction in Share Capital	3,498
Demerger dividend	Reduction in Retained Earnings	8,172
Retained investment in WOTSO (14%)	Financial asset (Investment)	1,900
Estimated Total Fair Value of WOTSO Distribution		**13,570**
Estimated Gain on Demerger		
Fair value of WOTSO at demerger		13,570
Less: Carrying amount of net assets (book value)		(9,639)
Transaction costs (estimated)		(250)
Estimated Net Gain on Demerger	**Recognised in BWF**	**3,681**

Note: The January 2020 transactions shown above represent an event subsequent to the current reporting date of 31 December 2019, and will appear in the June 2020 financial statements.

13. Financial Risk Management

(a) Fair value measurements

(i) Fair value hierarchy

AASB 13 Fair Value Measurement requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of financial assets traded in active markets is subsequently based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market price used for financial assets held by the Group is the current bid price.

The following table presents the Group's financial assets measured at fair value as at 30 June. Refer to the Critical Accounting Estimates and Judgment note for further details of assumptions used and how fair values are measured.

	Level 1	Level 2	Level 3	Total
At 31 December 2019 ($'000)				
Financial assets	16,542	-	-	16,542
At 30 June 2019 ($'000)				
Financial assets	15,509	-	802	16,311

(ii) Valuation techniques used to derive Level 3 fair values

The fair value of the unlisted securities is determined by reference to the net assets of the underlying entities. All these instruments are included in Level 3.

(iii) Fair value measurements using significant observable inputs (Level 3)

The following table is a reconciliation of the movements in financial assets classified as Level 3 for the year ended 30 June:

	$'000
At 31 December 2019	
Balance at the beginning of the year	802
Bondi consolidated into the group	(500)
UEM loan reclassified as demerger asset	(302)
Balance at the end of the period	**-**
At 30 June 2019	
Balance at the beginning of the year	11,949
Sale of Pyrmont units	(10,360)
Sale of Kirela units	(871)
Sale of Pelathon Management Group (now Waratah) units	(100)
Return of capital	(43)
Repayment by WOTSO Bondi	(45)
Advance to UEM Sunrise	272
Balance at the end of the year	**802**

There were no transfers between Level 1, 2 and 3 financial instruments during the period.

14. Critical Accounting Estimates and Judgments

The Directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Key estimates – impairment

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets.

Key estimates – financial assets

All financial assets at FVTPL have been classified as financial assets, with gains or losses recognised as profit or loss. The fair value of the unlisted securities is determined by reference to the net assets of the underlying entities. The fair value of the listed securities is based on the closing price from the Australian Securities Exchange as at the reporting date.

15. Statement of Significant Accounting Policies

BlackWall Limited is a publicly listed company, incorporated and domiciled in Australia. The financial statements for the Group were authorised for issue in accordance with a resolution of the Directors on the date they were issued.

Statement of compliance

The financial statements are general purpose financial reports which have been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standard AASB 134 Interim Financial Reporting.

The financial statements do not include notes of the type normally included in annual financial statements. It is recommended that the financial statements be read in conjunction with the annual financial statements for the year ended 30 June 2019 and any public announcements made by the Group during the half-year in accordance with the continuous disclosure obligations of the ASX listing rules.

Basis of preparation

The financial statements have been prepared on an accrual basis and are based on historical costs modified by the revaluation of selected non-current assets, financial assets (property joint ventures) and financial liabilities for which the fair value basis of accounting has been applied.

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial period. Any change of presentation has been made in order to make the financial statements more relevant and useful to the user.

The accounting policies adopted are consistent with those of the previous financial year ended 30 June 2019.

The financial statements are presented in Australian dollars.

Rounding of amounts

The Group is a group of the kind referred to in ASIC Class Order 2016/191 and, in accordance with that Class Order, amounts in the Directors' Report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Going concern

The financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The demerging entity, WOTSO, does have an operating loss for the period. Many of the WOTSO sites are in build up phase and profitability is expected to improve. The business has sufficient cash balances following the demerger and forecasts for the next 12 months display enough liquidity for it to be appropriate for WOTSO to continue as a going concern.

Segment reporting

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The Group's primary format for segment reporting is based on business segments. The business segments are determined based on the Group management and internal reporting structure. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group has adopted four reporting segments: BlackWall, Investments, Franchise and Corporate.

The BlackWall segment engages in funds and asset management as well as property services that include property management, leasing and general property consultancy. Income earned by the segment includes recurring income from fund and asset management mandates and transaction-based income related to those mandates. Management treats these operations as one "fee earning" operating segment. The assets assigned to the segment are those it is required to hold to comply with its AFSL capital adequacy requirements.

The Investments segment includes interests in property related investments such as units in related party listed and unlisted unit trusts, loans and cash. It generates income from dividends, distributions and interest.

The WOTSO Franchise segment relates to the operation of the newly acquired WOTSO franchises in Neutral Bay and Mosman, NSW. BlackWall has taken over the WOTSO sites at its Neutral Bay head office and a small operation in Mosman, Sydney under a Franchise arrangement. WOTSO is the Franchisor, and a new BWF subsidiary (BWF Franchise Pty Ltd) is the Franchisee.

BlackWall pays a franchise fee to WOTSO - currently set at eight percent of gross rental income. The franchise fee paid to WOTSO allows for the Franchisee to access branding, website, management systems, marketing, financial analysis, fitout specifications, and staff training provided or facilitated by WOTSO. BlackWall records the site revenue, and operating and payroll costs in its own financial records as disclosed on the face of the Profit or Loss and is now disclosed as a separate segment in the segment report.

New Accounting Standards and Interpretations

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The impact of adopting new standards and interpretations is set out below.

IFRS 16 Leases (effective for annual reporting periods beginning on or after 1 January 2019).

The new standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

Blackwall has applied the new standard for the first time in the current reporting period. Refer to Note 10.

Directors' Report Continued

Information on Officeholders

The names of the Officeholders during or since the end of the period are set out below, exept as noted.

Joseph (Seph) Glew (Non-Executive Director and Chairman)
Timothy Brown (Joint Managing Director and Chief Financial Officer)
Jessica (Jessie) Glew (Joint Managing Director and Chief Operating Officer)
Stuart Brown (Non-Executive Director) - Resigned 24 January 2020
Richard Hill (Non-Executive Director)
Robin Tedder (Non-Executive Director)
Sophie Gowland (Company Secretary)

Auditor

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out in these financial statements. ESV continues in office in accordance with section 327 of the Corporations Act 2001.

Signed in accordance with a resolution of the Board of Directors.

Tim Brown
Director
Sydney, 26 February 2020

Jessie Glew
Director
Sydney, 26 February 2020

Directors' Declaration

In the Directors' opinion:

(a) the financial statements and notes are in accordance with the Corporations Act 2001, including:

(i) complying with Accounting Standards AASB 134 Interim Financial Reporting, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and

(b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Statement of Significant Accounting Policies confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Board of Directors.

Tim Brown
Director
Sydney, 26 February 2020

Jessie Glew
Director
Sydney, 26 February 2020

Auditors Independence Declaration and Review Report

Business advice
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E S V

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF BLACKWALL LIMITED AND CONTROLLED ENTITIES

In accordance with the requirements of section 307C of the Corporations Act, as auditor for the review of BlackWall Limited and its Controlled Entities as at 31 December 2019, I declare that, to the best of my knowledge and belief, there have been:

(i) no contraventions of the auditor's independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

Dated at Sydney the 25th of February 2020

ESV

ESV Business advice and accounting

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Partner

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Business advice
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E S V

INDEPENDENT REVIEW REPORT TO THE MEMBERS OF BLACKWALL LIMITED AND CONTROLLED ENTITIES

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Blackwall Limited and Controlled Entities ("the Group"), which comprises the consolidated balance sheet as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information on pages 9 to 15, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The Directors of the Group are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements *ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB *134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Blackwall Limited and Controlled Entities, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of the Group, would be in the same terms if given to the Directors as at the time of this auditor's report.

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INDEPENDENT REVIEW REPORT TO THE MEMBERS OF BLACKWALL LIMITED AND CONTROLLED ENTITIES

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Blackwall Limited and Controlled Entities is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Dated at Sydney the 26th of February 2020

ESV Business advice and accounting

David Robinson
Partner

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