ASX Announcement

Qualitas Limited (ASX: QAL)

18 August 2022

Qualitas Limited – Aggregated special purpose financial statements

Qualitas Limited (ASX: QAL) provides the attached aggregated special purpose financial statements for the year ending 30 June 2022.

Authorised for release by the Board of Directors of the Company.

For more information, please contact:

Investor Enquiries
Kathleen Yeung
Global Head of Corporate Development
Qualitas Limited
T: +61 3 9612 3939
E: kathleen.yeung@qualitas.com.au

Media Enquiries
Kate Stokes
Head of Marketing and Communications
M: +61 481 251 552
E: kate.stokes@qualitas.com.au

Investor Website:
https://investors.qualitas.com.au/

About Qualitas

Qualitas Limited (**Qualitas**) is an ASX-listed Australian alternative real estate investment manager, with committed funds under management of circa A$5 billion across debt and equity fund mandates, specialising in real estate private credit and real estate private equity sectors.

Founded in 2008, the firm has since inception invested in or financed assets valued at over A$15 billion. The firm invests in real estate private credit, opportunistic real estate private equity, income producing commercial real estate and build-to-rent residential. Qualitas manages discretionary funds on behalf of institutional, wholesale and retail clients in Australia, Asia, and Europe.

Qualitas' objective is to provide shareholders with attractive risk-adjusted returns through a combination of regular and growing dividend income and capital growth. Qualitas has more than 70 investment and fiduciary professionals, with a strong focus on risk mitigation and management through its robust risk management and governance frameworks, and its operating structure and procedures.

QUALITAS

Aggregated Financial Report

FOR THE YEAR ENDED 30 JUNE 2022

Aggregated financial report

For the year ended 30 June 2022

Contents

This financial report covers the entities that make up the Qualitas aggregated group ("**Qualitas Group** or the **Group**") for the financial year ended 30 June 2022.

The Qualitas Group's registered office is:
Level 18, 530 Collins Street
Melbourne, VIC 3000

The Qualitas Group's principal place of business is:
Level 38, 120 Collins Street
Melbourne, VIC 3000

Management report

Management of the aggregated Group present their report together with the aggregated special purpose annual financial statements of the aggregated Group for the year ended 30 June 2022 and the auditor's review report thereon.

Directors

The following persons were Directors of the aggregated Group during the year and up to the date of this report unless otherwise stated:

Andrew Fairley AM	Appointed 4 November 2021[1]
Andrew Schwartz	Appointed 4 November 2021[1]
Mary Ploughman	Appointed 4 November 2021
Michael Schoenfeld	Appointed 4 November 2021[1]
JoAnne Stephenson	Appointed 4 November 2021
Brian Delaney	Appointed 4 November 2021[1]

Qualification and experience for the Directors

Andrew Fairley AM

Independent Non Executive Chairman

Andrew is the Independent Chair of the Qualitas Board effective 4 November 2021. Prior to this, he has been an independent Director of the Board of Qualitas Securities Pty Ltd, the trustee for the Qualitas Funds since July 2017. He has more than 40 years' experience as an equity and commercial lawyer, including in superannuation, trusts, estate and succession planning. He founded Australia's first specialist superannuation law firm, IFS Fairley, in 1993, having built a reputation as a leading practitioner in superannuation law and practice since 1980. He has been named by the Australian Financial Review as one of Australia's best superannuation lawyers each year from 2013. He has specialised as a legal advisor to trustees of industry, corporate and public sector superannuation funds. Andrew founded and then Chaired the Law Council of Australia's Superannuation Committee for 10 years and maintains a close interest in the development of superannuation law and policy. He retired in June 2021, after more than 12 years as the Chair of Equip Super, a $30 billion industry superannuation fund. He is an Industry Director of the Australian Financial Complaints Authority. Previous roles have included Chair of Parks, Zoos Victoria and Deputy Chair of Tourism Australia. In addition, he is involved in the philanthropic sector as Chair of the Sir Andrew Fairley Foundation and is Deputy Chair of the Mornington Peninsula Foundation. Andrew completed his law degree at Melbourne University and holds an Honorary Doctorate from Deakin University. He practises as a Consultant to Hall & Wilcox Lawyers in Melbourne.

Andrew Schwartz

Group Managing Director Co-founder, and Chief Investment Officer

Andrew is the Group Managing Director Co-founder, and Chief Investment Officer of Qualitas. He has over 36 years' experience in financial services with an extensive track record across real estate investments, pioneering the alternative credit market in Australia in the late 1990s with a focus initially on mezzanine debt. He is responsible for overseeing the firm's activities, setting the strategic direction of the business as well as building and enhancing relationships with clients and investors. Andrew is the Chief Investment Officer for the firm's debt and equity funds. Andrew is currently a director of a number of Qualitas Group Members. Prior to Qualitas, Andrew was a Head of Asia Pacific Real Estate at Babcock & Brown, the Director of Risk at AIDC and a Senior Manager at Bank of America. Andrew earned a Bachelor of Economics (Accounting) from Monash University. He is a Member of Chartered Accountants Australia and New Zealand and CPA Australia.

1 Andrew Schwartz was also a director of various companies in the Group during the year. Andrew Fairley AM, Brian Delaney and Michael Schoenfeld were members of an advisory board of the Group prior to the incorporation of the Company on 4 November 2021. Andrew Fairley AM was a director of Qualitas Securities Pty Ltd and certain other companies in the Group during the period up until 1 November 2021

Management report

Qualification and experience for the Directors continued

Mary Ploughman

Independent Non Executive Director

Mary has more than 30 years' experience in leadership, financial services, structured finance, securitisation, capital markets, governance and risk management across a range of financial services institution, infrastructure and not for profit boards. Mary has served as a Non Executive Director of Sydney Motorway Corporation, the NSW Government state owned corporation responsible for the construction and management of Westconnex and was also Deputy Chair of the Australian Securitisation Forum. Mary is the former Joint CEO of Resimac Group Ltd. Prior to Resimac Mary worked in Structured Finance in Price Waterhouse Coopers and Macquarie Bank. Mary is currently the Chair of Plenti Group Ltd (appointed July 2020), a fintech in consumer finance, a Non Executive Director of Prospa Group Limited (appointed March 2021), a fintech in SME finance, Chair of Pitcher Partners and a senior advisor with Gresham Partners. Mary was awarded the Kanga News Market Achievement Award in 2016 and was made a Fellow of the Australian Securitisation Forum. Mary holds a Bachelor of Economics from the University of Sydney, is an Associate of the Securities Institute of Australia and a Graduate of the Australian Institute of Company Directors.

Michael Schoenfeld

Independent Non Executive Director

Michael has over 45 years' experience specialising in accounting, taxation and audit of public and private companies. Michael is a Member and Fellow of Chartered Accountants Australia and New Zealand, a Registered Company Auditor and a Registered Tax Agent. Michael established his own accountancy practice in 2005, and since then has specialised in advising clients on organisational and business management, taxation, risk and governance matters. Michael has extensive experience with property investors, developers and financiers and in assisting high net worth clients in estate and succession planning. He chairs and is a member of a number of high-net-worth client family boards, advisory boards and not-for-profit boards.

JoAnne Stephenson

Independent Non Executive Director

JoAnne has extensive experience spanning over 25 years across a range of industries. JoAnne was previously a senior client partner in the Advisory division at KPMG and has key strengths in finance, accounting, risk management and governance. JoAnne is currently the Chair of Myer Holdings Ltd (appointed a Non-Executive Director in November 2016, acting Chairman from 29 October 2010 to 15 September 2021 and Chairman on 16 September 2021), and a Non-Executive Director of Challenger Limited (appointed 2012). She is also Chair of the Major Transport Infrastructure Board (Victoria). JoAnne was previously a Non-Executive Director of Asaleo Care Limited and Japara Healthcare Limited. JoAnne holds a Bachelor of Commerce and Bachelor of Laws (Honours) from the University of Queensland and is a Member of Chartered Accountants Australia and New Zealand and the Australian Institute of Company Directors.

Brian Delaney

Non-Independent Non Executive Director (non independent)

Brian has had over 35 years' experience in the funds management industry holding senior roles globally. Brian is the Chair of Fund Executives Association Limited (FEAL) and has previously held roles at QIC as Executive Director of Strategy, Clients & Global Markets, and as U.S. Senior Managing Director, leading QIC's efforts to foster client relationships and business development opportunities across four offices in New York City, San Francisco, Cleveland and Los Angeles. Brian has also held roles at AMP Capital Investors as Director of the Client, Product & Marketing division where he was responsible for all institutional, retail and self-managed super fund strategies, and serving as a member of the Global Executive Team. Brian is a graduate from the Harvard Business School Executive Education Program and holds an Advanced Diploma in Financial Planning and Post Graduate Certificate in Management from Macquarie University. Brian is a life member of the Association of Superannuation Funds (ASFA), a Fellow of ASFA and the Australian Institute of Company Directors and is a Director of Auctus Investment Group and the Trawalla Group. Past directorships include the boards of Lonsec Financial Group, Basketball Australia, ASFA and Investment Management & Consultants Association (IMCA).

Company Secretary

The Company Secretary of the aggregated Group is Terrie Morgan (LLB; B.AgSc; GDLP) and was appointed by the Board on 8 June 2022. Terrie is a corporate lawyer and has over 15 years' experience in commercial, executive and legal counsel roles, with experience as an ASX listed company secretary and advisor.

The Company Secretary for the period 4 November 2021 – 8 June 2022 was Daniel Mote (LLB; BCom). Daniel is the Head of Legal for Qualitas, and is a commercial lawyer with over 15 years' experience across finance, funds management and general corporate and commercial expertise.

Management report

Directors’ meetings

The number of directors’ meeting (including meetings of committees of directors) and number of meetings attended by each of the directors of Qualitas Limited during the period are:

Meetings of Qualitas Limited (Company) 4 November 2021 to 30 June 2022

	Board meetings		Audit, Risk & Complaince Committee Meetings		Nomination, Remuneration and Governance Committee Meetings		Investment Committee Meetings	
	A	B	A	B	A	B	A	B
Andrew Fairley AM	12	12	5	5	4	4	5	5
Mary Ploughman	12	12	–	–	4	4	–	–
Andrew Schwartz [1]	12	12	4	4	2	2	5	5
Michael Schoenfeld	12	12	5	5	–	–	5	5
JoAnne Stephenson	11	12	5	5	–	–	4	5
Brian Delaney	11	12	–	–	4	4	–	–

1 Andrew Schwartz is not a member of the Audit, Risk and Compliance Committee or the Nomination, Remuneration and Governance Committee, therefore number of meetings attended is noted in column A and column B.

Meetings of Qualitas Property Partners Pty Ltd 1 July 2021 to 30 June 2022

	Board meetings	
Director	A	B
Alan Schwartz	3	3
Andrew Schwartz	3	3

A – Number of meetings attended

B – Number of meeting held during the time the director held office during the period

Operating and financial review

The net profit after tax of the aggregated Group for the year amounted to $18,881,706 (2021: $12,117,061).

Shareholder returns

	2022 $
Profit attributable to the owners of the Group	18,881,706
Basic EPS	6.42 cents
Dividends paid	–
Dividends per share	–
Change in share price	(0.94)
Return on capital employed	5.33%

Review of operations

A review of the Group’s operations during the year, and the results of those operations, are as follows:

The Group is one of the Australia’s pre-eminent alternative real estate investment manager with extensive operating experience. The firm invests in real estate private credit, opportunistic real estate private equity, income producing commercial real estate and build-to-rent residential. Qualitas manages discretionary funds on behalf of institutional, wholesale and retail clients in Australia, Asia, and Europe. Qualitas’ objective is to provide Shareholders with attractive risk-adjusted returns through a combination of regular and growing dividend income and capital growth.

Real Estate Private Credit

Funds managed by Qualitas invest in commercial real estate credit on behalf of Fund investors, including:

» senior and mezzanine loans secured by stabilised investment properties, construction projects, completed high-density residential dwellings and pre-development land; and

» lending into growing real estate sectors benefitting from strong structural growth, including build to rent (**BTR**) assets.

Qualitas’ direct lending segment, Arch Finance and Peer Estate, provide commercial real estate debt to smaller borrowers and, in the case of Peer Estate, peer-to-peer platform for individual wholesale investors to provide debt financing.

Management report

Real Estate Private Equity

Funds [1] managed by Qualitas invest in real estate assets on behalf of Fund investors with two key investment strategies across its core equity and opportunistic equity funds. Core equity funds comprise income-based Funds focused on 'needs' sectors, such as BTR, food logistics and manufacturing assets, non-discretionary consumer staples, logistics and convenience retail assets, that display defensive income characteristics. They include attractive rental escalations and resilient cashflows, to provide compelling risk-adjusted returns for Fund investors.

Opportunistic equity funds comprise total return Funds focused on situational and opportunistic real estate investing, including development joint ventures, recapitalisations, distressed situations and structured or preferred equity investments.

As part of Qualitas' investment management business, Qualitas utilises its balance sheet capital in support of its Funds, in order to grow its funds under management (**FUM**) and Management Fees by:

- co-investing into Funds alongside Fund investors; and
- warehousing, underwriting or bridging assets or loans for a Fund prior to the completion of a capital raising for a Fund or the launch of a new Fund following which the Fund will take out or refinance the warehousing, underwriting or bridging arrangement (including by repayment or acquiring or directly pursuing the investment opportunity).

Key financial highlights and operating achievements for the year included:

- Total committed funds under management (**FUM**) of $4.3 billion as at 30 June 2022 up from $3.0 billion as at 30 June 2021, an increase of 43% year on year.
- Total head count increased by seven employees for the year ended 30 June 2022.
- Qualitas Real Estate Opportunity Fund II achieved an additional raise of $72.2 million in August 2021.
- Qualitas Real Estate Income Fund successfully completed an additional raise of $171 million in November 2021. The additional capital has allowed the Group (as Investment Manager) to further grow and diversify the Trust's portfolio. The raise resulted in capital raise costs totaling $5.2 million which have been expensed through the profit & loss.
- On 16 December 2021, Qualitas successfully listed on the Australian Securities Exchange with 134 million new shares on issue at a total raise of $335 million. Listing costs of $16.5 million were incurred with $11.8 million reflected through equity (net of tax effect) and the balance of $3.9 million expensed through the profit and loss statement.
- A new income credit mandate, Qualitas Senior Debt Investment Fund, was closed for $200m.
- Qualitas Diversified Real Estate Fund had a first close through the purchase of the Runaway Bay Convenience retail centre representing $360m of gross asset value.
- Qualitas entered into a Build to Rent Equity joint venture which deployed into 4 assets during the financial year amounting to $1.2b of gross asset value.
- Over the full year, Qualitas enjoyed record deployment amounting to $1.9 billion of total committed capital.
- Qualitas achieved certification of a carbon neutral footprint from Climate Active [2] for the year ended 30 June 2022.

A summary of the financial performance for the period ended 30 June 2022 is detailed below.

	2022 '000
Total Revenue	$73,865
Profit/(loss) from ordinary activities after tax attributable to members	$18,882
Funds from operations ("**FFO**")	$15,672
Weighted average securities on issue	294,000

The aggregated group recorded total revenue of $73,865,243 a statutory profit of $18,881,706 and funds from operations of $15,672,349. FFO represents the underlying earnings from its operations and is determined by adjusting the statutory profit after tax for items which are non-cash, unrealised or capital in nature.

A summary of the reconciliation between the statutory profit after tax and FFO is detailed below.

	2022 $'000
Statutory profit after tax	18,882
Income tax expense/(benefit)	4,628
Straight lining and amortization	1,579
Acquisition & transaction costs (IPO & QRI)	9,136
Performance fee revenue less staff incentives	(19,398)
Fair value movements	845
FFO	15,672

A summary of the financial position as at 30 June 2022 is detailed below.

	2022 $'000
Investments	32,134
Assets	812,764
Net assets	354,568
Net tangible assets	354,568
Adjustment net tangible assets	358,568
Number of securities on issue	294,000
Net tangible assets ($ per security)	1.21
Adjusted net tangible assets ($ per security)	1.21
Capital management	
Drawn debt	37,790
Cash	309,010
Gearing ratio (%)	10.7%
Weighted average cost of debt (%)	6.7%

1 Any unlisted and listed funds or other non-fund mandates currently being managed by Qualitas and any unlisted or listed funds of other non-fund mandates that may be established and managed by Qualitas in the future.

2 Climate Active is an Australian entity that drives voluntary climate action. Climate Active certification is awarded to businesses and organisations that have reached a state called carbon neutrality, in accordance with Climate Active's parameters.

Management report

Strategy and outlook

The Group acts as an investment manager with access to diversified investment opportunities across commercial real estate markets, capital structures, fund types and real estate sub-asset classes. The Group will continue to focus on funds growth and performance by taking advantage of real estate private equity and real estate private credit opportunities and its diverse investor base of wholesale and retail investors.

In an environment of rising interest rates and inflation, the Company is observing withdrawals of liquidity in the market and asset value recalibration. These conditions favour well capitalised alternative financiers, like Qualitas, with a track record of disciplined capital deployment. The investment returns on Qualitas' credit funds are anticipated to increase with the benefit of real asset security, while Qualitas' equity funds have the benefit of sourcing investments with recalibrated asset values, with premiums being paid for liquidity.

The Group's operations performed ahead of the expected performance as contained in the prospectus dated 9 November 2021.

Risks

The Group actively identifies, assesses and manages risks consistent with its risk management framework. The Group has a strong focus on risk mitigation and management through its robust risk management and governance frameworks, and its operating structure and procedures. The following list is not a comprehensive list but summarises some of the Groups' key risks and the way they are managed.

Failure to attract and / or retain Fund investor capital

The Group's business relies heavily on attracting new fund investor capital, and retaining fund investor capital, in order to generate fees from its funds. If clients do not continue to invest in Qualitas funds or if new investors do not choose to invest in Qualitas funds, the growth in the Group's revenue may be slower than expected or may even decline.

The Group manages this risk via business development and client servicing. The Group invests in people and marketing to support its business development and client servicing, and ensures the Group adheres to its risk management framework across the investment lifecycle. Regular reporting to senior management and the Board maintains accountability across the Group.

Changing regulatory environment

The provision of financial services is highly regulated. Financial services regulation is complex and is impacted by published ASIC guidance as well as ASIC's views, both of which may change from time to time.

All regulatory approvals for the continued operation of the Groups' business, including licences or exemptions from licensing for Qualitas and Qualitas Funds have been obtained and Qualitas is not aware of any circumstances which are likely to give rise to the cancellation or suspension of any of those regulatory approvals.

The Group manages this risk through its internal full time legal and compliance internal departments, supported by regular employee formal and informal training programs. The Group further supports its regulatory management through a panel of reputable legal, tax, accounting and insurance advisors along with internal and external audit controls. Appropriate policies and procedures are in place across the Group, with transparent reporting across the Group to senior management and the Board.

Economic risks

Changes in general economic conditions, both domestic and global, weakening or downturn in the financial services or funds management industries, introduction of tax reform, new legislation, employment rates, movements in interest, credit spreads, equity risk premiums, corporate failure rates, inflation rates, currency exchange rates and national and international political circumstances may have an adverse effect on the Group's activities, as well as on its ability to fund those activities.

The Group manages this risk through its management Investment Committee (in addition to the Board Investment Committee), that oversees investments of the group to ensure appropriate strategies are in place to address market risk. Ongoing reviews and market intelligence are undertaken with regular and transparent reporting to senior management and the Board, as relevant.

Climate-related and environmental risks

There are a number of climate-related factors that may affect the Group's business. Climate change or prolonged periods of adverse weather and climatic conditions (including rising sea levels, floods, hail, drought, water, scarcity, temperature extremes, frosts, earthquakes and pestilences) may have an adverse effect on Qualitas, or Fund investments.

The Group believes rising global carbon emissions and consequent global warming represents the greatest risk we are likely to experience this century to both investment markets and the physical well being of the global community. Accordingly, one of the Group's immediate goals is focussed on how, as a corporate citizen, it can achieve carbon neutrality, whilst at the same time influence partners and borrowers to invest in real assets with a strong sustainability focus.

Qualitas achieved Climate Action [1] certification in June 2022.

Qualitas is a signatory to the United Nations supported Principles for Responsible Investment (UNPRI). As a signatory, the Group is committed to implementing its principles which are consistent with the Group's core ESG beliefs.

The Group believes it has a significant role to play in supporting and encouraging sponsors and borrowers to invest in real assets with a strong sustainability focus. As an equity investor or joint venture partner Qualitas can exert more influence with respect to sustainability outcomes. As a lender, Qualitas' ability to influence is more limited and involves, for example, advocating for the financial and risk management benefits of sustainable development and in some cases may involve requirements around meeting minimum sustainability parameters. The Group believes that material progress in the transition to low carbon investment activities can only be made with a transparent and robust reporting system to inform investment policy.

Cyber risk and network integrity risk

The Group's information and technology systems, or those of its suppliers or other counterparties, may be vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorised persons and security breaches, usage errors, power outages and catastrophic events.

The Group manages this risk by ensuring appropriate IT protection software and detection systems are in place, along with back-up data retention. The Audit, Risk and Compliance Committee regularly receives and reviews reports on cyber risk and IT integrity.

1 Climate Active is an Australian entity that drives voluntary climate action. Climate Active certification is awarded to businesses and organisations that have reached a state called carbon neutrality, in accordance with Climate Active's parameters.

Management report

Significant changes in state of affairs

Other than set out below, in the opinion of the Directors, there were no other significant changes in the state of affairs of the Group that occurred during the financial year.

Previously the Qualitas business was controlled and operated through a private owned corporate structure consisting of a number of unit trusts and companies. The Group was restructured on 21 December 2021 so that Qualitas Limited is the listed ultimate holding company of the Qualitas historical group and related subsidiary entities comprising the two head operating entities of the Qualitas historical group, Qualitas Property Partners Pty Ltd and Qualitas Investments Unit Trust and their controlled entities.

Qualitas Limited listed on the Australian Securities Exchange ("**ASX**") on 16 December 2021 on a conditional and deferred basis and commenced normal trading on 22 December 2021. The ASX ticker is QAL.

Principal activities [1]

The Group is an Australian alternative real estate investment manager with committed FUM of approximately $4.3 billion as at 30 June 2022 across debt and equity Funds and other mandates. Qualitas Limited specialises in managing funds focused on the real estate private credit and real estate private equity sectors.

Qualitas Limited funds platform consists of 14 active funds, comprising 5 specialist commercial real estate (**CRE**) credit funds, and 9 specialist real estate private equity funds, which, together with other investor and non-fund mandates (**Funds**), manage a total $4.3 billion of FUM. Additionally, Qualitas holds interests in its Funds alongside wholesale and retail investors (**Fund Investors**), totaling $32.1 million (**Co-Investments**).

Arch Finance is a wholly owned entity of Qualitas. Arch Finance is a non-bank commercial real estate mortgage originator and lender. Arch Finance manages and originates these loans via the Arch Finance Warehouse Trust, which provides first mortgage loans secured against predominantly established income producing or owner-occupied commercial real estate.

Qualitas Limited was incorporated with the Australian Securities and Investments Commission on 4 November 2021, it listed on the Australian Securities Exchange ("**ASX**") on 16 December 2021 on a conditional and deferred basis and its shares commenced trading on the Australian Securities Exchange (**ASX: QAL**) on 22 December 2021.

After balance date events

Post 30 June 2022, Abu Dhabi Investment Authority (**ADIA**) agreed with Qualitas for a mandate to invest A$700m on their behalf into Australian CRE private credit opportunities. The mandate will be carried out through the newly created Qualitas Diversified Credit Investments (**QDCI**), which will have a wide investment scope with a focus on the growing Australian CRE private credit market and senior credit strategies. The term of the mandate is 7 years, plus a 1-year extension option, with a 5-year investment period. Qualitas is co-investing 5% (A$35m) in the QDCI which is consistent with the objectives of the capital raised in the IPO. The mandate increases total committed FUM to circa A$5 billion focused on CRE credit (74% of FUM) and equity (26% of FUM) opportunities. Additionally, Qualitas has granted options to ADIA under which ADIA may acquire up to 32,630,374 new ordinary shares in Qualitas, conditional on further investment mandates from ADIA of up to $1 billion in the next 2 years with the Group [2], representing up to 9.99% [3] of current issued equity on a fully diluted basis. The exercise price of each option is the VWAP [4] (per share) of shares issued since the IPO of Qualitas. This price is agreed to be A$2.50 subject to future issuances of Qualitas shares. The expiry date of the options is 1 August 2024, extendable by a further 6 months where the allocation of ADIA's capital under the mandate does not exceed A$560 million by the date that is 18 months after the issue date of the options.

There were no other matters or circumstances that have arisen since 30 June 2022 that has significantly affected, or may significantly affect:

i) the operations of the Group in future financial period, or
ii) the results of those operations in future financial period, or
iii) the state of affairs of the Group in future financial period.

Likely developments in the operations of the Group, and the expected results of those operations in future financial years, have not been

included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Group.

Environmental regulation

The operations of the Group are not subject to any particular or significant environmental regulations under Commonwealth, State or Territory law.

1 As at 30 June 2022.

2 This may be extended by a further 6 months where the allocation of ADIA's capital under the mandate does not exceed A$560 million by the date that is 18 months after the issue date.

3 On a fully diluted basis, excluding share rights under the Company's Employee Equity Plan.

4 Volume weighted average price.

Management report

Dividends

As disclosed in the prospectus of Qualitas Limited dated 29 November 2021, a pre-IPO distribution and dividend was paid of $20 million to previous shareholders of Qualitas Property Partners Pty Ltd and previous unitholders of Qualitas Investments Unit Trust from retained earnings. This $20 million comprised $17.6 million declared and paid on 21 December 2021 and $2.4 million relating to a prior year distribution declared at 30 June 2021. On August 18 2022, the Directors declared a fully franked distribution of 4 cents per share which amounted to $11,760,000 to be paid on September 8 2022 with a record date of 24 August 2022.

Indemnification and insurance for directors and officers

The Group has entered into insurance contracts, which indemnify directors and officers of the Group, and its controlled entities against liabilities. In accordance with normal commercial practices, under the terms of the insurance contracts, the nature of the liabilities insured against and the amount of premiums paid are confidential. An indemnity agreement has been entered into between the Group, officers and each of the Directors named earlier in this report. Under the agreement, the Group has agreed to indemnify the Directors and officers against any claim or for any expenses or costs, which may arise as a result of the performance of their duties as directors or officers to the extent allowed by law.

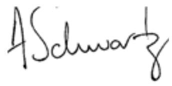
Non-audit services

During the year KPMG, the Group's auditor, has performed certain other services in addition to their statutory duties. Details of the audit fee and non-audit services are set out in note 34 to the financial report. The Board has considered the non-audit services provided during the year by the auditor and, in accordance with written advice provided by resolution of the Audit, Risk and Compliance Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the reason that all non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the Audit, Risk and Compliance Committee to ensure they do not impact the integrity and objectivity of the auditor.

Rounding of amounts to the nearest thousand dollars

The Group is a Group of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission (**ASIC**) relating to the "rounding off" of amounts in the Directors' report. Amounts in the Directors' report have been rounded to the nearest thousand dollars in accordance with that ASIC Corporations Instrument, unless otherwise indicated.

This report is made in accordance with a resolution of the Directors of the Qualitas Limited.



Andrew Schwartz
Group Managing Director and
Chief Investment Officer

Melbourne, 18 August 2022

Statement of profit or loss and other comprehensive income

For the year ended 30 June 2022

	Note	2022 $'000	2021 $'000
Interest income	7	19,386	19,159
Interest expense	7	(12,640)	(13,199)
Net interest income		**6,746**	**5,960**
Performance fees	5a	27,536	18,026
Income from the provision of financial services	5b	38,269	30,694
Other income	6	2,159	2,630
Unrealised gains – fair value through profit & loss		(845)	(2,184)
Total income from the provision of financial services		**67,119**	**49,166**
Loan impairment (expense)/reversal	14	546	873
Operating expenses:			
Employee costs		(32,992)	(28,472)
Marketing and sales commission expenses		(313)	(374)
Consulting and professional fees		(1,813)	(1,201)
Travel expenses		(153)	(46)
Depreciation and amortization		(1,579)	(7,655)
Capital raising costs – QAL		(3,922)	–
Capital raising costs – Funds		(5,214)	–
Other operating expenses		(4,821)	(5,526)
Total operating expenses		**(50,807)**	**(43,274)**
Equity accounted projects result for the year	28	(94)	–
Profit before income tax		**23,510**	**12,725**
Total income tax expense	8	(4,628)	(608)
Profit for the year		**18,882**	**12,117**
Other comprehensive income		–	–
Total comprehensive income for the year		**18,882**	**12,117**
Total comprehensive income attributable to:			
Owners of the Qualitas Group		18,882	12,476
Non-controlling interests	26	–	(359)
		18,882	**12,117**

The *Aggregated statement of profit or loss and other comprehensive income* is to be read in conjunction with the Notes to the aggregated financial statements.

Aggregated statement of financial position

As at 30 June 2022

	Note	2022 $'000	2021 $'000
Assets			
Cash and cash equivalents	9	309,010	31,491
Trade and other receivables	10	15,452	13,202
Prepayments		960	637
Right-of-use assets	19	2,775	2,390
Office equipment	11	528	461
Deferred tax asset	8	9,490	2,814
Accrued performance fees		44,654	17,428
Inventories	12	24,114	23,711
Investments	13	32,134	28,881
Mortgage loans	14	369,368	408,182
Intangible asset- capitalised contract costs	15	4,279	4,947
		812,764	**534,144**
Liabilities			
Distribution payable		–	2,240
Trade and other payables	16	11,511	7,725
Deferred income	17	6,336	4,223
Employee benefits	18	23,812	14,533
Deferred tax liability	8	–	–
Lease liability	19	2,824	2,342
Loans and borrowings	20	413,713	454,882
Total liabilities		**458,196**	**485,945**
Net assets		**354,568**	**48,199**
Equity			
Issued capital	22	324,310	18,476
Retained earnings		29,807	29,723
Shared based payments reserve		451	–
Total equity		**354,568**	**48,199**
Non-controlling interests	26	–	–
Total equity		**354,568**	**48,199**

The *Aggregated statement of financial position* is to be read in conjunction with the Notes to the aggregated financial statements.

Aggregated statement of changes in equity

For the year ended 30 June 2022

	Issued capital $'000	Shared based payments reserve $'000	Retained earnings $'000	Total before non-controlling interests $'000	Non-controlling interests $'000	Total after non-controlling interests $'000
Balance at 1 July 2020	**20,976**	**–**	**19,364**	**40,340**	**3,454**	**43,794**
Total comprehensive income for the year						
Profit for the year	–	–	12,476	12,476	(359)	12,117
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income for the year	**–**	**–**	**12.476**	**12,476**	**(359)**	**12,117**
Transactions recorded directly in equity						
Contributions/(return) of capital	(2,500)	–	–	(2,500)	–	(2,500)
Change in non-controlling interest in subsidiary	–	–	3,095	3,095	(3,095)	–
Contributions by and distributions to owners of the Group						
Distributions to owners	–	–	(5,212)	(5,212)	–	(5,212)
Distributions to NCI – profits	–	–	–	–	–	–
Distributions to NCI – capital	–	–	–	–	–	–
Total transactions recorded directly in equity	**(2,500)**	**–**	**(2,117)**	**(4,617)**	**(3,095)**	**(7,712)**
Balance at 1 July 2021	**18,476**	**–**	**29,723**	**48,199**	**–**	**48,199**
Total comprehensive income						
Profit for the year	–	–	18,882	18,882	–	18,882
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income for the year	**–**	**–**	**18,882**	**18,882**	**–**	**18,882**
Transactions recorded directly in equity						
Contributions/(return) of capital	335,000	–	–	335,000	–	335,000
Pre- IPO return of capital	(17,307)	–	–	(17,307)	–	(17,307)
IPO costs reflected directly through equity (tax effected)	(11,859)	–	–	(11,859)	–	(11,859)
Equity settled share-based payments	–	451	–	451	–	451
Contributions by and distributions to owners of the Group						
Pre IPO Distributions to owners	–	–	(18,798)	(18,798)	–	(18,798)
Total transactions recorded directly in equity	**305,834**	**451**	**(18,798)**	**287,487**	**–**	**287,487**
Balance at 30 June 2022	**324,310**	**451**	**29,807**	**354,568**	**–**	**354,568**

The amounts recognised directly in equity are disclosed net of tax.

The *Aggregated statement of changes in equity* is to be read in conjunction with the Notes to the aggregated financial statements.

Aggregated statement of cash flows

For the year ended 30 June 2022

	Note	2022 $'000	2021 $'000
Cash flows from operating activities			
Interest received – Arch Finance		18,552	19,022
Interest paid – Arch Finance		(11,555)	(11,413)
Interest received – Qualitas Group		529	204
Interest paid – Qualitas Group		(1,084)	(1,789)
Receipts from provision of financial services and performance fees		41,618	35,091
Payments to suppliers, employees and others		(36,573)	(24,583)
Payment of IPO costs		(3,922)	–
Workings capital		(808)	–
Payments in relation to projects		(403)	(568)
Tax paid		(6,844)	(383)
Mortgage loans advanced		(90,313)	(70,721)
Mortgage loans repaid		129,675	101,219
Investments acquired / funds advanced		(7,731)	(7,294)
Investments disposed / funds repaid		3,632	6,358
Net cash provided by/(used in) operating activities	32	**34,773**	**45,143**
Cash flows from investing activities			
(Payments)/Receipts for fixed assets		(296)	(57)
Net cash provided by/(used in) investing activities		**(296)**	**(57)**
Cash flows from financing activities			
Payment of lease liabilities		(912)	(937)
Proceeds from loans and borrowings		41,365	41,456
Repayments of loans and borrowings		(82,207)	(65,522)
Other distributions to shareholders and unitholders		(1,038)	–
Payment of IPO costs		(11,859)	–
Repayment of Financier Loan (capital)		(17,307)	(5,603)
Distributions to shareholders of the parent – capital and profit		(20,000)	–
IPO proceeds received		335,000	–
Net cash provided by/(used in) financing activities		**243,042**	**(30,606)**
Net increase/(decrease) in cash and cash equivalents		**277,519**	**14,480**
Cash and cash equivalents at the beginning of the year		31,491	17,011
Cash and cash equivalents at the end of the year	9	**309,010**	**31,491**

The *Aggregated statement of cashflows* is to be read in conjunction with the Notes to the aggregated financial statements.

Notes to the aggregated financial statements

1 Reporting entity

The aggregated Qualitas Group of Qualitas Limited, Qualitas Property Partners Pty Ltd and Qualitas Investments Unit Trust (the "**Group**") is domiciled in Australia. The Group is 'for profit' and primarily involved in the provision of financial services and investment products to sophisticated investors.

In the opinion of management, the aggregated Group is not a reporting entity. Qualitas Limited is one of the aggregated entities in these aggregated financial statements. It is a reporting entity in its own right and subject to separate reporting requirements.

2 Basis of preparation

These aggregated special purpose financial statements are presented in Australian dollars and have been prepared in accordance with the recognition, measurement, classification and disclosure aspects of all applicable Australian Accounting Standards (**AASBs**) adopted by the Australian Accounting Standards Board (**AASB**), except for AASB 10, *Consolidated Financial Statements*. Instead, aggregated financial statements have been prepared that aggregate Qualitas Limited, Qualitas Property Partners Pty Ltd, Qualitas Investments Unit Trust and their controlled entities ("**Qualitas or the Group**").

The aggregated financial statements have been prepared for the purpose of presenting the results of the Qualitas business for the period 1 July 2021 to 30 June 2022 and relevant comparative information. Qualitas Limited was incorporated on 4th November 2021 and acquired Qualitas Property Partners Pty Ltd and Qualitas Investments Unit Trust on 21 December 2021. A consolidated financial report of Qualitas Limited would cover the period from 4 November 2021 to 30 June 2022 only.

In preparing these aggregated financial statements, the financial information of the legal entities of Qualitas have been extracted from the reporting records on a legal entity basis, which have been reported for Group consolidation purposes within Qualitas Limited. The accounting policies in the aggregated financial statements for Qualitas are consistent with those in the prior year aggregated financial statements of Qualitas Property Partners Pty Ltd and Qualitas Investments Unit Trust and their controlled entities. Accounting policies applied to Qualitas Limited from its date of incorporation (4 November 2021) are consistent with those previously applied to the aggregated Group.

a) Common control transaction

Qualitas Limited was incorporated on 4 November 2021. It commenced trading on 22 December 2021 following a restructure of Qualitas Property Partners Pty Ltd and Qualitas Investments Unit Trust with Qualitas Limited becoming the ultimate parent company of those entities and listing on the ASX, on 21 December 2021. Previously the Qualitas historical group of Qualitas Property Partners Pty Ltd and Qualitas Investments Unit Trust and related subsidiaries was controlled and operated through a private owned corporate structure consisting of a number of unit trusts and companies.

Completion of the restructure resulted in, among other things, Qualitas Limited owning all of the units in Qualitas Investments Unit Trust (and the shares in Qualitas Investments Pty Ltd, being the trustee of the Qualitas Investments Unit Trust) and the shares in Qualitas Property Partners Pty Ltd and its controlled entities.

All of these internal reorganisation transactions occurred between entities under common control and all assets and liabilities were transferred at their book values in the consolidated accounts of Qualitas Limited. In these aggregated financial statements, the three entities are aggregated and not consolidated and the effects of the common control transaction are eliminated resulting in no common control reserve being presented.

b) Statement of compliance

These aggregated special purpose financial statements are special purpose financial statements prepared in accordance with the following accounting standards:

» AASB 101 *Presentation of Financial Statements*

» AASB 107 *Statement of Cash Flows*

» AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*

» AASB 1048 *Interpretation and Application of Standards*

» AASB 1053 *Application of Tiers of Australian Accounting Standards*

» AASB 1054 *Australian Additional Disclosures*

This special purpose financial report has been prepared in accordance with the recognition, measurement and classification aspects of all applicable Australian Accounting Standards adopted by the Australian Accounting Standards Board ("**AASB**") except for AASB 10, *Consolidated Financial Statements*. Instead, aggregated financial statements have been prepared that aggregate Qualitas Limited, Qualitas Property Partners Pty Ltd, Qualitas Investments Unit Trust and their controlled entities ("**Qualitas or the Group**").

The Group is of a kind referred to in *ASIC Corporations Instrument 2016/191* and in accordance with the legislative instrument amounts in the aggregated financial statements have been rounded off to the nearest thousand dollars, unless otherwise stated.

These aggregated financial statements were authorised for issue by management on 18 August 2022.

c) Basis of measurement

The aggregated financial statements have been prepared on the historical cost basis except for derivative financial instruments which are measured at fair value in the statement of financial position.

d) Functional and presentation currency

The aggregated financial statements are presented in Australian dollars, which is the functional currency of the Parent and majority of operating entities.

e) Use of estimates and judgements

The preparation of financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Key judgements involve:

» Credit risk (refer to Note 21(b));

» Revenue recognition (refer to Note 3(j)(ii));

» Equity-accounted investees (Refer to note 3(a)(ii)); and

» Financial asset disclosures (Refer to note 21)

Key assumptions and estimation uncertainties:

» the use of key assumptions underlying the recoverability of capitalised project costs. This involves estimation of forecast costs, sales and net profit from relevant projects;

» Fair value (Refer to note 21(e));

» Recognition and measurement of deferred tax assets and liabilities (Refer to note 3(n));

» Credit risk relating to financial assets (Expected Credit Loss) (Refer to note 21(b)); and

» Revenue recognition (refer to Note 3(j)(ii))

Notes to the aggregated financial statements

3 Significant accounting policies

a) Basis of aggregation

i) Aggregated group

The legal entities of the Qualitas business were not held by a separate legal entity until Qualitas Limited acquired Qualitas Property Partners Pty Ltd and Qualitas Investments Unit Trust on 21 December 2021. As a result of there being no ultimate parent entity for the full iperiod, the financial statements have not been prepared on a consolidation basis. Instead the financial statements have been prepared by aggregating all relevant individual Qualitas entities, including Qualitas Limited from 4 November 2021, into a single set of aggregated financial statements.

The aggregated financial statements represent the assets, liabilities and results of Qualitas Limited, Qualitas Property Partners Pty Ltd and Qualitas Investments Unit Trust for the period 1 July 2021 to 30 June 2022 and the comparative period 1 July 2020 to 30 June 2021.

All intragroup (between the aggregating entities) balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the aggregated financial statements.

ii) Investments in associates and jointly controlled entities (equity accounted investees)

The Group's interests in equity-accounted investees comprise equity or receivables interests in associates and joint ventures.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint venture are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the aggregated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence or joint control ceases.

iii) Joint operations – proportionate consolidation

The Group applies proportionate consolidation to jointly controlled entities, where the statement of financial position of the Group includes its share of the assets that are controlled jointly and its share of the liabilities for which it is jointly responsible. The statement of comprehensive income of the Group also includes its share of the income and expenses of the joint arrangement.

iv) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the aggregated financial statements from the date on which control commences until the date on which control ceases.

v) Transactions eliminated on aggregation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions and other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash.

c) Non-derivative financial instruments

i) Recognition and initial measurement

The Group initially recognises trade and other receivables on the date that they are originated. All other financial assets and financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

ii) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified and measured at amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model

Amortised cost

A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notes to the aggregated financial statements

3 Significant accounting policies continued

c) Non-derivative financial instruments continued

FVTPL ("Fair value through profit or loss")

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

» the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;

» how the performance of the portfolio is evaluated and reported to the Group's management;

» the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

» how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

» the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

» contingent events that would change the amount or timing of cash flows;

» terms that may adjust the contractual coupon rate, including variable-rate features;

» prepayment and extension features; and

» terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

Financial assets – Subsequent measurement and gains and losses
Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit and loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss

iii) Derecognition

Financial assets

The group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial assets.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

v) Issued Capital

Ordinary shares and Trust units

Ordinary shares and Trust units are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and Trust units are recognised as a deduction from equity, net of any tax effects.

On 21 December 2021, ordinary shares in Qualitas Property Partners Pty Ltd and Trust units in Qualitas Investments Unit Trust exchanged for ordinary shares in Qualitas Limited. Additional shares in Qualitas Limited were also issued and listed on the Australian Securities Exchange (**ASX**). Costs directly attributable to the issue of new shares in Qualitas Limited have been recorded in equity. Costs related to conversion and listing of existing shares have been recorded in the aggregated statement of comprehensive income.

Dividends and Trust distributions

Dividends and Trust distributions are recognised as a liability in the period in which they are declared.

Notes to the aggregated financial statements

3 Significant accounting policies continued

d) Office equipment

i) Recognition and measurement

Items of office equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of office equipment have different useful lives, they are accounted for as separate items (major components) of office equipment.

Gains and losses on disposal of an item of office equipment are determined by comparing the proceeds from disposal with the carrying amount of office equipment and are recognised net within "other income" in profit or loss.

ii) Subsequent costs

The cost of replacing a part of an item of office equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of office equipment is recognised in profit or loss as incurred.

iii) Depreciation

Depreciation is based on the cost of an asset less its residual value.

Depreciation is recognised in profit or loss on a straight-line and/or diminishing basis over the estimated useful lives of each part of an item of office equipment.

The estimated useful lives for the current and comparative periods are as follows:

	2022	2021
Furniture, fixtures and fittings	2-8 years	2-8 years
Computer equipment	2-4 years	2-4 years
Computer software	2-4 years	2-4 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

e) Capitalised contract costs

Capitalised contract costs comprising of revenue contract acquisition costs are initially recognised at cost and subsequently measured at cost less accumulated amortisation. The useful life of capitalised contract costs is treated as the period over which economic benefits are received by the Group, which is considered to be the term of the investment management agreement.

Capitalised contract costs currently recognised by the Group have a useful life of 10 years, which is the term of the investment management contract the costs relate to.

Incremental costs incurred by the Group are capitalised when the costs are incremental to winning a new contract with a customer and considered to be recoverable. All other costs are expensed when incurred.

Capitalised contract costs are impaired when their carrying amount exceeds the remaining amount of consideration that the Group expects to receive, less costs that relate directly to providing those services and that have not been recognised as expenses. All impairment losses are included in the carrying value of capitalised contract costs at each reporting period.

f) Impairment

i) Non-derivative financial assets

Financial assets which are measured at amortised cost are assessed at each reporting date to determine whether there is an impairment.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

Specific provisions relate to loans that are currently known to be impaired, based on objective evidence as a result of one or more events that have occurred after the initial recognition of the asset, otherwise known as a loss event. For loans where a loss event has occurred, the provisioning process involves review and analysis of individual loans which are assessed for impairment based on security value, loan balance outstanding and other factors deemed relevant to collectability by the Group.

Provisions are raised where objective evidence of impairment exists and the negative impact on estimated future cash flows of the asset can be reliably estimated.

An expected credit loss ("**ECL**") applies to all financial assets, except for those measured at fair value through profit or loss, which are not subject to impairment assessment.

The Group measures an expected credit loss allowance at an amount equal to lifetime expected credit loss for non-loan financial assets.

For mortgage loans measured at amortised cost, expected credit loss allowances are measured on either of the following bases:

Stage 1: 12 Month ECL – Not Significantly Increased Credit Risk are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

Stage 2: Lifetime ECL – Significant Increase in Credit Risk (**SICR**) are the ECLs that result from all possible default events over the expected life of a financial instrument.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both probability weighted quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information. Considerations include underlying security quality and whether the secured property is under construction, macro-economic business cycle factors and whether there is any loan subordination.

The credit risk of a financial asset is considered to have increased significantly since initial recognition if it becomes greater than 30 days overdue.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Notes to the aggregated financial statements

3 Significant accounting policies continued

f) Impairment continued

Presentation of allowance for ECL in the aggregated financial statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

For credit impaired loans (stage 3) the gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. This assessment is carried out at the individual asset basis.

ii) Non- financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

g) Inventories

Development projects

The asset includes the costs of acquisition, development, borrowings and all other costs directly related to specific projects, held for the purpose of resale. Borrowing and holding costs such as rates and taxes incurred after the completion of development and construction are expensed. The Group currently holds an investment in a land development recognised under AASB 2 that meets the definition of inventory and has been recorded at the lower of cost and net realisable value.

h) Employee benefits

i) Short-term benefits

Short-term employee benefit obligations are expensed as the related service is provided. Short-term benefits include salary and wages, annual leave and personal leave and are expected to be settled within 12 months of the reporting date.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

ii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus; that benefit is discounted to determine its present value. The discount rate is the yield at the reporting date on Corporate bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

iii) Share-based payments

The grant date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true up for differences between expected and actual outcomes.

Short Term Incentive Plan

The Board has determined that Qualitas' current remuneration policy for senior management and other selected employees of Qualitas will include a new STI plan (**STI Plan**).

Under the STI Plan, participants will have an opportunity to receive an incentive payment calculated as a percentage of their fixed annual remuneration each year, conditional upon performance against a scorecard of financial and non financial measures. The performance measures against which each participant's STI is assessed and their relative weightings are set by the Board each year.

In addition, the Board will have discretion to reduce any STI due to poor behaviour.

Under the STI, it is intended that the first $100,000 of any STI award will be paid in cash, as well as 50% of the remaining award. The other 50% of the remaining award will be paid in equity, which will be deferred for 2 further years. The equity will be granted subject to the terms of the Qualitas Employee Equity Plan (**QEEP**). The QEEP provides flexibility for the Group to grant options to acquire Shares, rights to acquire Shares and/or Shares as incentives (Awards), subject to the terms of individual offers.

Legacy Employee Equity Plan (Intergen)

Under a legacy employee equity plan (Legacy Employee Equity Plan), employees (and their controlled entities) were able to acquire a beneficial interest in non-ordinary shares in QPP and non-ordinary units in the Qualitas Investments Unit Trust via a limited recourse loan.

These shares and units were converted into Shares shortly prior to Completion, in accordance with the Restructure Deed, and will vest in two tranches; 50% on the third anniversary of the Listing Date, and the remaining 50% on the fifth anniversary of the Listing Date, subject to the continued tenure of the participants.

i) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Notes to the aggregated financial statements

3 Significant accounting policies continued

j) Revenue

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer.

i) Income from the provision of financial services

Management fees

Management fees are based on net assets under management in Qualitas funds at the end of the month. Management fee income is recognised over time as the performance obligations are satisfied by the Group. Management fees are comprised of base management fees calculated either as percentage of committed Funds under management (FUM) or percentage of invested FUM and transaction fees. In some instances, often single asset equity Funds, the Group may earn a management fee as a percentage of the gross asset value (GAV) of the underlying asset, rather than on invested FUM.

Arrangement, establishment, mandate fees

Revenue from services rendered also consists of fees for transaction structuring, advisory services, commitment fees, arranger fees and mandate fees on the provision of loans. Revenue from services is recognised in profit or loss when the services are provided or on completion of the underlying transaction.

Distribution from fund co-investments

Distribution income from fund co-investments is recognised when the entitlement arises.

Portfolio and Ancillary fees

Revenue from portfolio and ancillary fees relate to early repayment and discharge related fees, which are recognised on discharge of the relevant loans. Consent and loan variation fees are also included, which are recognised when the relevant loan act occurs.

Other income

Other income other income consists principally of income earned on underwrites provided and other adhoc fees.

ii) Performance fees

The Group is contractually entitled to performance fees for certain Funds where the rate of return to investors in a Fund exceeds a hurdle over the life of the investment. Performance fees generally relate to the Groups' close ended Funds.

Performance fee testing against the relevant hurdle is performed annually and performance fees are only accrued when actual fund performance is well in excess of the Hurdle return fund life to date.

Accrued performance fees are subsequently paid by Funds at the point when the underlying Fund is realised/closed.

iii) Development income

Revenue from the sale of residences and apartments is recognised on settlement date. This represents the point when the performance obligation relating to the sale of property has been satisfied and when significant risks, rewards of ownership and effective control have been transferred to the buyer.

iv) Distributions

The Group earns non fund management revenue in the form of distributions and changes in valuation from its direct investments, co investment activities and management of Private SMA. The Groups' investment into listed and/or unlisted fund structures earns a distribution yield and is recognised when received.

k) Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and lease liability at the lease commencement date. The right- of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurements of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

Notes to the aggregated financial statements

3 Significant accounting policies continued

k) Leases continued

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or it is recorded in profit or loss if the carrying amount of the right-of- use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short-term leases and leases of low value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

l) Loans and borrowings

Loans and borrowings are recognised at cost.

m) Interest income and interest expense

Interest income relates to interest income on mortgage assets, investment loans, term deposits and bank balances. Interest income is recognised as it accrues, using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset and allocating the interest income included in the effective yield over the relevant period by using an effective interest rate which reflects a constant periodic return on the carrying amount of the asset.

Prepaid interest income is recognised in the aggregated statement of financial position as deferred income. Interest expense comprises interest on borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest rate method.

n) Income tax

Income tax expense comprises current and deferred tax. Current and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity, in which case it is recognised in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Additional income tax expenses that arise from the distribution of cash dividends are recognised at the same time that the liability to pay the related dividend is recognised.

Tax consolidation

Qualitas Limited and its wholly owned Australian resident subsidiaries are a tax consolidated group under Australian taxation law. As a consequence of being a tax-consolidated group, all members of this group are taxed as a single entity. The head entity in the tax consolidated group is Qualitas Limited. The members of the tax consolidated group are identified at note 25.

o) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (**GST**), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

p) New and revised standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 July 2022 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these financial statements.

The new standards are not expected to have a significant impact on the Group's financial statements.

q) New Australian Accounting Standards and amendment standards that are effective in the current period

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("**AASB**") that are mandatory for the current reporting period, except for those related to AASB 10 *Consolidated Financial Statements* on the basis that these are aggregated financial statements. The adoption of these Accounting Standards and Interpretations did not have any significant impact for the financial year ended 30 June 2022. Any new, revised or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

r) Changes in significant accounting policies and comparatives

The accounting policies have been consistently applied to all reporting periods presented.

Re-classifications of comparative amounts have been made to ensure consistency with current year classifications.

Notes to the aggregated financial statements

4 Segment information

a) Description of segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenue and incur expenses, whose operating results are reviewed regularly by the Group's Managing Director who is the Group's Chief Operating Decision Maker in assessing performance and in determining the allocation of resources.

The Group has identified two operating segments being Funds Management and Direct Lending.

The Funds Management segment includes all of Qualitas' core funds management activities and includes funds management fees, performance fees and other fee income. It also includes dividends and distributions from Qualitas' Co-Investment and Direct Lending activities.

The Direct Lending segment relates to the interest income and expense relating to activities undertaken by Qualitas' wholly owned subsidiaries Arch Finance and Peer Estate and includes costs directly attributable to Arch Finance and Peer Estate.

Corporate activities are not viewed as a separate segment for financial reporting purposes, however, central overhead costs are shown as a separate item in the table below.

The segment information for the reportable segments for the year ended 30 June 2022 and 30 June 2021 is set out on the following pages.

b) Segment overview

For the year ended 30 June 2022	Funds management	Direct lending	Total $'000
Interest income	606	18,780	19,386
Interest expense	(1,085)	(11,555)	(12,640)
Net interest income	**(479)**	**7,225**	**6,746**
Net revenue	65,185	1,840	67,025
Loan impairment expense	—	546	546
Total expenses	(44,373)	(6,434)	(50,807)
Segment profit	**20,333**	**3,177**	**23,510**

Segment financial position information

As at 30 June 2022	Funds management	Direct lending	Total $'000
Cash and cash equivalents	292,256	16,754	309,010
Mortgage loans	—	369,368	369,368
Investments	32,051	83	32,134
Other assets	98,423	3,829	102,252
Total assets reported by the aggregated Group	**422,730**	**390,034**	**812,764**
Loans and borrowings	36,672	379,864	416,536
Other liabilities	34,088	7,572	41,660
Total liabilities reported by the aggregated Group	**70,760**	**387,436**	**458,196**

For the year ended 30 June 2021	Funds management	Direct lending	Total $'000
Interest income	256	18,903	19,159
Interest expense	(1,228)	(11,971)	(13,199)
Net interest income	**(972)**	**6,932**	**5,960**
Net revenue	47,166	1,999	49,165
Loan impairment expense	—	873	873
Total expenses	(36,671)	(6,602)	(43,273)
Segment profit	**9,523**	**3,202**	**12,725**

Notes to the aggregated financial statements

4 Segment information continued

Segment financial position information

As at 30 June 2021	Funds management	Direct lending	Total $'000
Cash and cash equivalents	12,123	19,368	31,491
Mortgage loans	—	408,182	408,182
Investments	28,881	—	28,881
Other assets	63,104	2,486	65,590
Total assets reported by the aggregated Group	**104,108**	**430,036**	**534,144**
Loans and borrowings	31,908	422,974	454,882
Other liabilities	24,784	6,279	31,063
Total liabilities reported by the aggregated Group	**56,692**	**429,253**	**485,945**

5 Income from the provision of financial services and performance fees

a. Performance Fees

	2022 $'000	2021 $'000
Performance fees	27,536	18,026
	27,536	18,026

Performance fees are variable consideration and are recognised to the extent that it is highly improbable a significant reversal will subsequently occur (variable consideration is constrained in accordance with AASB 15 *Revenue*). The Group is entitled to performance fees in accordance with its fund investment management agreements. Performance fees are typically payable by the fund when the fund has crystalised its investments and terminates. Therefore the Group recognises performance fees in relation to a fund when the fund has recognised a performance fee expense and either the fund is nearing the final stages of its investment life cycle and termination or there is limited sensitivity to valuation changes. Performance fee income is generally constrained up to the point when the final amount to be paid out of the fund is known.

Performance fees for the year ended 30 June 2022 relate to Qualitas Real Estate Opportunity Fund I, Qualitas Construction Debt Fund, Qualitas Food Infrastructure Fund, Qualitas Mezzanine Debt Fund and other co-investment projects (2021: Qualitas Real Estate Opportunity Fund I, Qualitas Construction Debt Fund, Qualitas Real Estate Private Debt Fund – Series 7 (which terminated during the year) and other co-investment projects).

Of the $27,536,391 performance fees recognised during the year, $27,226,081 is not yet received and has been recorded on the aggregated statement of financial position as accrued performance fees.

b. Income from the provision of financial services

	2022 $'000	2021 $'000
Arrangement, establishment and mandate fees	9,897	6,945
Management fees	26,369	20,607
Exit fees	—	27
Distributions from funds and projects	1,149	1,840
Portfolio and ancillary fees	854	1,275
	38,269	30,694

Notes to the aggregated financial statements

6 Other income

	2 022 $'000	2021 $'000
Digital Harbour CEO fees	180	180
Rental income	431	439
Underwrite income	1,342	–
Joint Venture cost recovery	206	–
Success fee	–	1,000
Sundry income	–	539
GST refund	–	472
	2,159	**2,630**

7 Interest income and interest expense

	2022 $'000	2021 $'000
Interest income		
Interest income on project loans, mortgages, bank balances and term deposits:		
» Arch Finance – mortgage loans	18,772	18,888
» Qualitas Group	614	271
Total interest income	**19,386**	**19,159**
Interest expense		
Interest expense on interest bearing notes – bank & other financial institutions	(11,025)	(11,410)
Interest expense on financier loans	–	(285)
Interest expense on project funding loans	(809)	(823)
Lease interest expense	(81)	(99)
Interest expense on Qualitas Real Estate Income Fund manager loan	(725)	(546)
Other interest expense	–	(36)
Total interest expense	**(12,640)**	**(13,199)**
Net interest income recognised in profit or loss	**6,746**	**5,960**

Notes to the aggregated financial statements

8 Income tax

a) Reconciliation of income tax expense

	2022 $'000	2021 $'000
Profit before income tax expense	23,510	12,725
Income tax using the Group's domestic tax rate of 30% (2021: 30%)	7,053	3,818
Non-assessable income to group	(444)	(1,771)
Tax cost base remeasurement due to IPO and non-deductible expenses	(2,480)	12
Tax losses (utilised and temporary differences recognised not previously brought to account and other items)	499	(1,451)
Income tax expense	**4,628**	**608**

	2022 $'000	2021 $'000
Income tax expense comprises:		
Current tax	11,304	4,264
Deferred tax	(6,676)	(3,656)
Income tax expense	**4,628**	**608**
Effective tax rate	19.69%	4.78%

b) Movement of deferred tax

2022	Balance at 1 July $'000	Recognised in profit or loss $'000	Balance at 30 June $'000
Investments	794	(541)	253
Accrued performance fees	2,740	5,199	7,939
Capitalised contract costs	(683)	482	(201)
Employee benefits	1,527	(1,082)	445
IPO costs	—	659	659
Other items	(1,564)	1,959	395
	2,814	**6,676**	**9,490**

2021	Balance at 1 July $'000	Recognised in profit or loss $'000	Balance at 30 June $'000
Investments	(1,851)	2,645	794
Accrued performance fees	—	2,740	2,740
Capitalised contract costs	—	(683)	(683)
Employee benefits	463	1,064	1,527
Other items	546	(2,110)	(1,564)
	(842)	**3,655**	**2,814**

Notes to the aggregated financial statements

9 Cash and cash equivalents

	2022 $'000	2021 $'000
Cash on hand	1	1
Cash at bank	309,009	31,490
Cash and cash equivalents	**309,010**	**31,491**

10 Trade and other receivables

	2022 $'000	2021 $'000
Trade receivables	4,943	4,457
Accrued income – Arch Finance Warehouse Trust	1,587	1,359
Accrued income – Qualitas Group	2,340	1,333
Recoverable fund costs	808	3,501
Digital Harbor receivable	2,443	–
Underwrites receivable	1,361	760
Sundry receivables	1,970	1,792
	15,452	**13,202**

The above comprises a current balance of $12,617 and non-current balance of $2,835.

11 Office equipment

	Office equipment $'000
Cost	
Balance at 1 July 2020	**1,800**
Additions	57
Disposals	–
Balance at 30 June 2021	**1,857**
Balance at 1 July 2021	**1,857**
Additions	296
Disposals	–
Balance at 30 June 2022	**2,153**
Accumulated deprecation	
Balance at 1 July 2020	**1,145**
Depreciation charge for the year	251
Disposals	–
Balance at 30 June 2021	**1,396**
Balance at 1 July 2021	**1,396**
Depreciation charge for the year	229
Disposals	–
Balance at 30 June 2022	1,625
Carrying amount	
As at 1 July 2020	655
As at 30 June 2021	461
As at 30 June 2022	528

Notes to the aggregated financial statements

12 Inventories

	2022 $'000	2021 $'000
Development and capitalised project costs	24,144	23,711
	24,114	23,711

The above comprises a current balance of $nil and non-current balance of $24,114.

13 Investments

	2022 $'000	2021 $'000
Investments measured at amortised cost:		
Term deposits	403	399
Qualitas Construction Debt Fund	1,136	551
Co-Investments into loans held by Qualitas funds	241	798
Build to Rent Equity Joint Venture	1,501	
Investments measured at fair value through profit or loss:		
Digital Harbour Investments	3,602	5,494
Qualitas Real Estate Opportunity Fund I	3,421	5,117
Qualitas Real Estate Opportunity Fund II	6,802	4,275
Qualitas Food Infrastructure Fund	2,175	2,060
Qualitas Real Estate Income Fund	8,594	10,187
Qualitas Seniors Housing Fund	1,560	–
Qualitas US Office Fund	2,699	–
Total investments	**32,134**	**28,881**

The above comprises a current balance of $3,824 and non-current balance of $28,310.

14 Mortgage loans

	2022 $'000	2021 $'000
Gross mortgage loans – held directly	370,042	409,402
Allowance for expected credit losses	(674)	(1,220)
Total mortgage loans – net of allowance for expected credit losses	**369,368**	**408,182**
Maturity analysis:		
No longer than three months	67,165	66,449
Longer than three months but no longer than twelve months	65,824	114,206
Longer than one year but no longer than three years	236,379	227,527
Total mortgage loans	**369,368**	**408,182**
Allowance for expected credit losses – 1 July	(1,220)	(2,093)
Decrease/(Increase) in allowance during the year	546	873
Allowance for expected credit losses – 30 June	**(674)**	**(1,220)**

	12-month ECL applied $'000	Lifetime ECL applied $'000	Total $'000
As at 30 June 2022			
Gross mortgage loans			
Gross mortgage loans balance	361,797	8,245	370,042
Allowance for expected credit loss	(306)	(368)	(674)
Total	**361,491**	**7,877**	**369,368**

	12-month ECL applied $'000	Lifetime ECL applied $'000	Total $'000
As at 30 June 2021			
Gross mortgage loans			
Gross mortgage loans balance	406,384	3,018	409,402
Allowance for expected credit loss	(1,218)	(2)	(1,220)
Total	**405,166**	**3,016**	**408,182**

As at 30 June 2022, there are two Arch Finance loans with a combined value of $3,287,401 that are greater than 30 days in arrears (significant increased credit risk since initial recognition).

The first loan with a value of $2,758,000 and is less than 60 days past due and has an expected credit loss allowance of $103,080. The loan balance is considered recoverable to the extent of the expected credit loss recognised.

The second loan has a value of $487,401 and is more than 120 days past due with an expected credit loss allowance of $18,217. The loan balance is considered recoverable to the extent of the expected credit loss recognized.

Notes to the aggregated financial statements

15 Intangible asset – capitalised contract costs

	Capitalised contract costs $'000
Opening net book amount at 1 July 2020	**10,341**
Additions	–
Amortisation charge	(5,394)
Closing net book amount at 30 June 2021	**4,947**
Opening net book amount at 1 July 2021	**4,947**
Additions	–
Amortisation charge	(668)
Closing net book amount at 30 June 2022	**4,279**

The above comprises a current balance of $667 and non-current balance of $3,612.

16 Trade and other payables

	2022 $'000	2021 $'000
Trade payables	247	119
Interest payable on Notes – Arch Finance	1,241	1,047
Sundry payables	1,106	2,302
GST payable	697	499
Income tax payable	8,220	3,758
	11,511	**7,725**

The above comprises a current balance of $11,511 and non-current balance of $nil.

17 Deferred income

	2022 $'000	2021 $'000
Prepaid interest and interest reserve – Arch Finance	4,282	2,582
Prepaid management fees and arranger fees	2,054	1,641
	6,336	**4,223**

The above comprises a current balance of $2,146 and non-current balance of $4,190.

Notes to the aggregated financial statements

18 Employee benefits

	2022 $'000	2021 $'000
Salaries, wages and bonuses accrued	20,869	12,172
Liability for annual leave	1,762	1,273
	22,631	**13,445**
Liability for long-service leave	1,181	1,088
Total employee benefit liabilities	**23,812**	**14,533**

The above comprises a current balance of $17,145 and non-current balance of $6,667.

Accrued bonuses include amounts accrued in relation to performance fee bonuses payable to employees of the Group.

The present value of employee benefits not expected to be settled within twelve months of balance date have been calculated using the following inputs or assumptions at the reporting date:

	2022	2021
Assumed rate of increase in wages/salaries	3.85%	2.95%
Discount rate	3.38%	1.14%
Settlement term	7 years	7 years

19 Leases

The Group has entered into commercial property leases for its office accommodation. These leases have a remaining life of up to 4 years. The Group has no other capital or lease commitments.

	2022 $'000	2021 $'000
Right of Use Asset		
Balance at 1 July	2,390	3,074
Depreciation charge for the year	(684)	(904)
Additions to right-of-use assets	1,069	220
Balance at 30 June	**2,775**	**2,390**

The above comprises a current balance of $801 and non-current balance of $1,974.

	2022 $'000	2021 $'000
Lease Liability		
Balance at 1 July	2,342	3,068
Interest on lease liabilities during the year	81	99
Additions to lease liabilities	1,313	220
Rent payments	(912)	(1,045)
Balance at 30 June	**2,824**	**2,342**

The above comprises a current balance of $735 and non-current balance of $2,089.

	2022 $'000	2021 $'000
Amounts recognised in the profit or loss		
Depreciation charge for the year	684	904
Interest in lease liabilities	81	99
Expenses relating to short-term leases	**765**	**1,003**

	2022 $'000	2021 $'000
Amounts recognised in statement of cash flows		
Expenses relating to short-term leases	912	937

Notes to the aggregated financial statements

20 Loans and borrowings

	2022 $'000	2021 $'000
Interest bearing notes – bank & other financial institutions	375,923	418,522
Project funding loans	21,960	21,121
Qualitas Real Estate Income Fund manager loan	15,830	11,417
Financier loans	—	3,822
	413,713	454,882

The above comprises a current balance of $136,715 and non-current balance of $276,998.

Interest bearing notes – bank & other financial institutions

At 30 June 2022, the Interest bearing notes collectively have an effective limit available for drawing of $400,000,000 (2021: $480,851,063) and are issued as agreed by the Class A Subscriber, Class B Subscribers, Class C Subscribers and the Arch Finance Warehouse Trust. The proceeds of Class A, B and C notes issued are advanced as mortgage loans with a term not exceeding three years and are secured by registered first mortgages over real property. Interest is charged at BBSY plus a margin. The Classes A and B notes are repayable on the repayment of the mortgage loans which have a maximum term of three years. The availability period for the Class A, Class B and Class C notes was extended on 30 June 2022 until 30 September 2023.The rate of interest applicable to the noteholders as at 30 June 2022 are as follows:

Class A	– BBSY plus a margin of 1.65% per annum	(2021: 1.53%)
Class B-1b	– BBSY plus a margin of 4.2% per annum	(2021: 4%)
Class B-TPT	– BBSY plus a margin of 4.2% per annum	(2021: 4%)
Class C-1	– BBSY plus a margin of 6.3% per annum	(2021: 6.3%)
Class C-1b	– BBSY plus a margin of 9.7% per annum	(2021: 9.7%)
Class C-2	– BBSY plus a margin of 11.75% per annum	(2021: 11.75%)

The Classes A and B notes are repayable on the repayment of the mortgage loans which have a maximum term of three years. The availability period for the Class A, Class B and Class C notes was extended on 30 June 2022 until 30 September 2023. The residual income unitholder is entitled to any residual profits generated from the operations of the Trust. The borrowing notes have prescribed lending criteria which includes geographical diversity and maximum LVR requirements.

The Qualitas Real Estate Income Fund manager loan is amortised over 10 years from the date of the most recent raise. Interest on the loan is 5%.

The loan with an external loan provider in relation to the development property held through Inventories has a facility limit of $11.7m and LTV covenant of 65%. Repayment date of the loan is 15 March 2023 but will be extended for a further two years. This loan is valued at $10.5m as at 30 June 2022.

21 Financial risk management

a) Overview

The Group's activities expose it to a variety of financial risks. The Group has in place a framework to identify and manage the financial risks in accordance with its investment objectives and strategy. This includes an investment due diligence process and on-going monitoring of the investments and transactions of the Group. Specific processes and controls the Group applies to manage the financial risks are detailed under each risk specified below.

Financial risk management as it relates to balance sheet investments made by the Group would fall under the realm of the Qualitas Investment Committee. In terms of other risks relating to the Group, these are captured in the Risk Register which is part of the Group's risk appetite statement which is overseen by the Audit, Risk & Compliance Committee

b) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts when they fall due and arises principally from the Group's mortgage assets.

Investments

The Group is exposed to credit risk through its investments, projects and other Qualitas funds. There is also credit risk exposure in the Group's other investments held at amortised cost, however these are not significant.

Other Assets

The Group's exposure to credit risk for cash and cash equivalents and term deposits is low as all counterparties have a rating of A- (as determined by public ratings agencies such as Standard & Poor's, Moody's or Fitch) or higher.

Credit risk on trade and other receivables is managed through the Group's investment management activities as the significant portion of receivables relates to receivables from Qualitas funds.

Notes to the aggregated financial statements

21 Financial risk management continued

Mortgage Loans

The Group is exposed to credit risk primarily on loans secured by first mortgage through its Arch Finance business.

As part of its lending policies and processes, the Group identifies and manages credit risk of mortgage loans by undertaking a detailed due diligence process prior to entering into transactions with counterparties and frequent monitoring of the credit exposures.

The Group applies a selective investment filtering and due diligence process for each loan which encompasses the:

» credit worthiness, financial standing and track record of the borrower and other transaction parties;

» quality and performance of the underlying real property security;

» macroeconomic and microeconomic market conditions;

» legal due diligence of the transaction structure;

» consideration of downside risks;

» ESG considerations

The Group identifies and monitors key risks of the loans to manage risk and preserve investor returns.

The portfolio construction adopted by the Group is implemented with the expectation of seeking to reduce the Group's exposure to both credit and market risks. The Group adheres to the portfolio investment parameters set out in the relevant funding agreements and additional internal guidelines to ensure sufficient diversification of the loan portfolio by borrower / counterparties, security ranking, loan maturity, loan to value ratio, and property sector and geography of security.

The terms of the interest-bearing notes used to fund the mortgage loans held by Arch Finance Warehouse Trust include loan eligibility criteria. This includes maximum loan-to-value ratios of 75%, geographical diversification guidelines and limits, and guidelines and limits on the type of property secured against the loans.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset held at amortised cost in the Aggregated Statement of Financial Position as outlined below:

	2022 $'000	2021 $'000
Cash and cash equivalents	309,010	31,491
Trade and other receivables	15,452	13,202
Mortgage loans	369,368	408,182
Investments measured at amortised cost:		
Term deposits	403	399
Qualitas Construction Debt Fund	1,136	551
Qualitas Build to Rent Debt Fund	76	—
Prepayment	960	637
Other	165	776
	696,570	**455,238**

The ageing of trade receivables and mortgage loans at reporting date is outlined below:

	2022		2021	
	Gross amount $'000	Allowance for ECL $'000	Gross amount $'000	Allowance for ECL $'000
Ageing of trade and other receivables				
Not past due	15,452	—	13,202	—
Ageing of Arch Finance mortgage loans				
Not past due (12-month ECL)	361,797	306	406,384	1,218
0-30 days past due (12-month ECL)	4,999	247	—	—
More than 30 days past due (lifetime ECL)[1]	3,246	121	3,018	2

1 $2,800,000 of the balance is less than 60 days past due with the remaining balance more than 120 days past due.

Notes to the aggregated financial statements

21 Financial risk management continued

c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to the changes in market variables such as interest rates, foreign exchange rates and equity prices.

i) Price risk

Price risk is the risk that the fair value of investments will change as a result of changes in market prices, whether those changes are caused by factors specific to the individual security or factors affecting all instruments in the market.

The Group is exposed to price risk through its co-investments in Qualitas funds and other equity investments.

Prices are monitored by the Group through its investment management processes of the relevant Qualitas funds. For other equity investments, prices are monitored through regular reporting from the equity project manager.

Sensitivity analysis – price risk

At 30 June 2022, it is estimated that a 10% decrease in equity prices would decrease the Group's profit before income tax by approximately $2,885,236 (2021: $2,713,447 decrease to profit) and would decrease equity by approximately $2,019,665 (2021: $1,899,413 decrease to equity). A 10% increase in equity prices would have an equal but opposite effect.

ii) Currency risk

Currency risk arises as the income and value of monetary securities denominated in other currencies will fluctuate due to changes in exchange rates. As at 30 June 2022, the Group did not hold any significant assets or liabilities denominated in currencies other than the Australian Dollar and therefore was not exposed to any significant foreign exchange risk.

iii) Interest rate risk

Interest rate risk is the risk that a financial asset's value will fluctuate as a result of changes in market interest rates. The Group invests and borrows at both floating and fixed rates. Floating rate loans means that income will be impacted by the underlying base rate rises and falls and therefore the relative

attractiveness to other instruments may change. There is a strong correlation between the RBA Cash Rate and the base rates upon which floating rate loans are priced. Absolute returns on floating rate loans therefore rise and fall largely in correlation with the RBA Cash Rate.

The table below summarises the Group's exposure to interest rates risks as at 30 June 2022 and 30 June 2021, including the Group's assets and liabilities at fair values.

	Average effective interest rate %	Carrying amount $'000
2022		
Fixed rate instruments		
Qualitas Real Estate Income Fund manager loan	5.00	(15,830)
Financier loans	10.00	–
Variable rate instruments		
Cash and cash equivalents	0.92	183,824
Mortgage loans	4.83	369,368
Interest bearing notes	2.91	(375,923)
Project funding loans	3.75	(21,960)

	Average effective interest rate %	Carrying amount $'000
2021		
Fixed rate instruments		
Qualitas Real Estate Income Fund manager loan	5.00	(11,417)
Financier loans	10.00	(3,822)
Variable rate instruments		
Mortgage loans	4.47	408,182
Interest bearing notes	2.66	(418,522)
Project funding loans	3.96	(21,121)

Notes to the aggregated financial statements

21 Financial risk management continued

c) Market risk continued

iii) Sensitivity analysis – interest rate risk

At 30 June 2022, it is estimated that a general increase of one-percentage point in interest rates on variable rate instruments would increase the Group's profit before income tax by approximately $1,553,091 (2021: $314,605 decrease to profit) and would increase equity by approximately $1,087,163 (2021: $220,224 decrease to equity).

A general decrease of one-percentage point in interest rates on variable rate instruments would have an equal but opposite effect.

d) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group monitors its cash flow requirements and undertakes cash flow forecasts. The Group's objective when managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Cash flow reconciliations are undertaken monthly to ensure all income and expenses are managed in accordance with contracted obligations.

Maturity analysis for financial liabilities

The following table shows the contractual maturities of financial liabilities as at 30 June 2022 and 30 June 2021:

	Carrying amount $'000	Contractual cashflow $'000	Less than 3 months $'000	3 to 12 month $'000	1 to 3 years $'000	3 to 5 years $'000
As at 30 June 2022						
Financial liabilities						
Trade and other payables	11,511	11,511	944	10,567	–	–
Loans and borrowings	413,713	438,122	69,354	69,994	287,688	11,086
	425,224	**449,633**	**70,298**	**80,561**	**287,688**	**11,086**
As at 30 June 2021						
Financial liabilities						
Distributions payable	2,240	2,240	2,240	–	–	–
Trade and other payables	7,725	7,725	3,967	3,758	–	–
Loans and borrowings	454,882	482,437	73,150	144,064	259,255	5,968
	464,847	**492,402**	**79,357**	**147,822**	**259,255**	**5,968**

Notes to the aggregated financial statements

21 Financial risk management continued

e) Fair value measurement

The Group discloses fair value measurements by level using the following fair value 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)

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

i) Fair value in an active market (Level 1)

The fair value of financial assets and liabilities traded in active markets is based on last traded prices at the end of the reporting period without any deduction for estimated future selling costs. For the majority of financial assets and liabilities, information provided by the quoted market independent pricing services is relied upon for valuation.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. An active market is a market in which transactions for the financial asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

ii) Fair value in an inactive or unquoted market (Level 2 and Level 3)

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on the Manager's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions. For other pricing models, inputs are based on market data at the end of the reporting period.

Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Trust holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including liquidity risk and counterparty risk.

As at 30 June 2022, the Group holds investments in Qualitas funds which are recognised as Level 2 and an investment in an unlisted entity recognised as Level 3. The fair value of Qualitas funds is estimated based on the net asset value (NAV) of the fund at reporting date. The NAV is assessed to be the best estimate of fair value for the funds given this is the transaction price that unitholders would transact upon. Where the fund is a closed-ended fund, liquidity factors are considered in estimating the fair value of the fund.

For the Level 3 investment in an unlisted entity, the Group uses a combination of management accounts, recently audited financial report and property valuations to estimate the fair value, on the basis that the value of the investment is mainly driven by the property assets held within the unlisted entity. The key input assumption in this valuation is therefore market capital rates. A 10% shift in market capital rates would have a +/- $360k shift in the valuation of the asset. There were no transfers into or out of Level 3.

The fair value of financial assets and liabilities that are not traded in an active market is determined using various valuation techniques. If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire assessment.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Notes to the aggregated financial statements

21 Financial risk management continued

e) Fair value measurement continued

Recognised fair value measurements

The table below sets out the Group's financial assets and liabilities according to the fair value hierarchy at 30 June 2022 and 30 June 2021.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
As at 30 June 2022				
Financial assets at fair value through profit or loss				
Digital Harbor Investments	–	–	3,602	3,602
Qualitas Real Estate Opportunity Fund I	–	3,420	–	3,420
Qualitas Real Estate Opportunity Fund II	–	6,802	–	6,802
Qualitas Food Infrastructure Fund	–	2,175	–	2,175
Qualitas Seniors Housing Fund	–	1,560	–	1,560
Qualitas US Office Fund	–	2,699	–	2,699
Qualitas Real Estate Income Fund	8,594	–	–	8,594
Financial assets not measured at fair value				
Mortgage loans	–	–	369,368	369,368
Qualitas Construction Debt Fund	–	–	1,136	1,136
Qualitas Build to Rent Debt Fund	–	–	76	76
Other	–	–	165	165
Term deposits	–	–	403	403
Total financial assets	**8,594**	**16,656**	**374,750**	**400,000**

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
As at 30 June 2021				
Financial assets at fair value through profit or loss				
Digital Harbor Investments	–	–	5,494	5,494
Qualitas Real Estate Opportunity Fund I	–	5,117	–	5,117
Qualitas Real Estate Opportunity Fund II	–	4,276	–	4,276
Qualitas Food Infrastructure Fund	–	2,060	–	2,060
Qualitas Real Estate Income Fund	10,187	–	–	10,187
Financial assets not measured at fair value				
Mortgage loans	–	–	408,182	408,182
Qualitas Construction Debt Fund	–	–	551	551
Other	–	–	776	776
Term deposits	–	–	399	399
Total financial assets	**10,187**	**11,453**	**415.402**	**437,042**

The carrying value of other financial assets and financial liabilities approximates fair value.

Notes to the aggregated financial statements

21 Financial risk management continued

e) Fair value measurement continued

Transfers between levels

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. There were no transfers between the levels in the fair value hierarchy during the reporting period.

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values:

	$'000
Balance at 1 July 2021	**5,494**
Loss included in 'finance costs'	
Additional net investment during the period	451
Net change in fair value (unrealised)	100
Capital returned during the period	(2,443)
Balance at 30 June 2022	**3,602**

	$'000
Balance at 1 July 2020	**8,444**
Loss included in 'finance costs'	
Net change in fair value (unrealised)	(2,950)
Balance at 30 June 2021	**5,494**

Level 3 financial assets

The Group holds one investment (Digital Harbor Investments) classified as level 3 in the fair value measurement hierarchy. The investment is an equity investment in an unlisted entity. The inputs used by the Group to estimate fair value include the net asset value of the underlying entities which are largely driven by property valuations.

The amount recognised in profit or loss in relation to unrealised gains and losses on this investment for the year ended 30 June 2022 was $100,121 loss (2021: $2,950,322 loss).

There were a sale of a portion of the of level 3 financial assets during the year amounting to $2,443,241 (2021: nil).

Notes to the aggregated financial statements

22 Capital, reserves and distributions

a) Capital

	2022 $'000	2021 $'000
Issued capital		
Opening balance	18,476	20,976
Return of Capital	(17,307)	(2,500)
Contributions of capital	335,000	–
IPO costs reflected through equity (tax effected)	(11,859)	–
Closing at 30 June	**324,310**	**18,476**

Issued capital of the aggregated Group is represented by the following:

Number of shares/units	As at 30 June 2022 No. of shares/units	As at 30 June 2021 No. of shares/units
Opening Ordinary shares in Qualitas Property Partners Pty Ltd	1,629,700	1,629,700
Opening units in Qualitas Investments Unit Trust	3,989,958	3,989,958
Opening Ordinary shares in Qualitas Limited	–	–
Movement in shares/units	**(5,619,658)**	**–**
Existing shares/units converted to shares in Qualitas Limited	160,000,000	–
New shares issued in Qualitas Limited	134,000,000	–
Closing Ordinary shares in Qualitas Property Partners Pty Ltd	**–**	**1,629,700**
Closing units in Qualitas Investments Unit Trust	**–**	**3,989,958**
Closing Ordinary shares in Qualitas Limited	**294,000,000**	**–**

The holders of ordinary shares in Qualitas Property Partners Pty Ltd (the Company) and units in Qualitas Investments Unit Trust (the Trust) are the same entities. Refer to Note 28 Related Party Transactions for further information.

The holders of ordinary shares in Qualitas Property Partners Pty Ltd are entitled to receive dividends as declared from time to time by the Company and are entitled to a net residual interest in the net assets of the Company. The holders of units in Qualitas Investments Unit Trust are entitled to receive distributions as declared from time to time by the Trust and are entitled to a net residual interest in the net assets of the Trust.

The Group's policy is to maintain a strong capital base to support the future development of the business. Capital consists of the issued capital on shares and units, retained earnings and distribution reserve. When considered appropriate by the directors, capital is returned.

b) Reserves

Retained earnings

Retained earnings represents accumulated retained earnings of the Group. Distributions are accounted for in the distribution reserve and are not directly accounted for in retained earnings.

Share based payments reserve

The share based payments reserve arises on the grant of options, performance rights and deferred share rights to select employees under the Company's equity-based remuneration plans

c) Distributions

Distributions are made to unitholders of Qualitas Investments Unit Trust and the ACS and AJS Real Estate Financier Unit Trust. Distributions recognised in the current year by the Group are:

	2022 $'000	2021 $'000
Distributions	–	5,212

Notes to the aggregated financial statements

23 Commitments

a) Non-cancellable operating leases

Commitments for minimum lease payments in relation to noncancellable operating leases are payable as follows:

	2022 $'000	2021 $'000
Within one year	735	840
Later than one year but no later than five years	2,809	1,633
Later than five years	—	—
Commitments for minimum lease payments in relation to noncancellable operating leases	2,824	2,473

The Group leases operational sites under noncancellable operating leases within one year to later than five years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

b) Other commitments

	2022 $'000	2021 $'000
Uncalled amounts on partly paid units in Qualitas Funds	11,502	11,671
Committed credit	15	296
Other commitments	11,517	11,967

24 Contingent liabilities and contingent assets

The Group is subject to a number of obligations which, if not discharged, may give rise to potential claims or other costs. Where some loss from an actual or alleged non-performance of an obligation is more likely than not and can be reliably estimated, provisions have been made. The Group considers that the outcome of any specific enquiry which is underway as at 30 June 2022, and has not been provided for, is not expected to affect its financial position in any material way, either individually or in aggregate.

Notes to the aggregated financial statements

25 Group entities

At the reporting date, the Qualitas Group includes the following entities:

	2022	2021
Qualitas Investments Pty Ltd atf Qualitas Investment Unit trust	✓	✓
Treasury Finance Pty Ltd atf Treasury Finance Unit Trust	✓	✓
Arch Finance Pty Ltd atf Arch Finance Unit Trust	✓	✓
Arch Finance Warehouse Trust	✓	✓
Arch Finance Holdings Pty Ltd	✓	✓
QEP DHH Investor B Pty Ltd atf QEP DHH Investor B Unit Trust	✓	✓
QFM Hold Co Pty Ltd	✓	✓
Qualitas Funds Management Pty Ltd	✓	✓
Qualitas REO Fund Manager Pty Ltd	✓	✓
QREO Fund Manager II Pty Ltd	✓	✓
QREO Nominee Pty Ltd	✓	✓
QREO Fixed Pty Ltd	✓	✓
QREO Fixed A Pty Ltd	✓	✓
QREO Growth Pty Ltd	✓	✓
QREO Growth A Pty Ltd	✓	✓
QREO Growth A II Pty Ltd	✓	✓
QREO Fixed A II Pty Ltd	✓	✓
Peer Estate Administrators Pty Ltd	✓	✓
Peer Estate Pty Ltd	✓	✓
Peer Estate Investor Pty Ltd	✓	✓
Peer Estate IP Pty Ltd	✓	✓
Peer Estate Finance Pty Ltd	✓	✓
Peer Estate Mortgages Pty Ltd	✓	✓
Peer Estate Pool Pty Ltd	✓	✓
QCD Fund Manager Pty Ltd	✓	✓
QCD Fund Pty Ltd	✓	✓
QSD Fund Feeders Pty Ltd	✓	✓
QCRF Runaway Bay Pty Ltd (previously QSD Fund Manager Pty Ltd)	✓	✓
QSD Fund Pty Ltd	✓	✓
Qualitas Discretionary Funds Management Pty Ltd	✓	✓
QFI Fund Manager Pty Ltd	✓	✓
QFI Fund Pty Ltd	✓	✓
QFI Property Fund Pty Ltd	✓	✓
QUMF No.1 Pty Ltd	✓	✓
QRI Manager Pty Ltd	✓	✓
QRI Fund Services Pty Ltd	✓	✓
QUMF Fund Manager Pty Ltd	✓	✓
QMD Fund Manager Pty Ltd	✓	✓
QLDF Manager Pty Ltd	✓	✓
QSH No.1 Manager Pty Ltd	✓	✓
Qualitas BTR Impact Fund Pty Ltd	✓	✓
QMD Fund Pty Ltd	✓	✓

	2022	2021
QUMF Property No. 1 Pty Ltd	✓	✓
Qualitas Administrators (NZ) Pty Ltd	✓	✓
Qualitas Property Partners Pty Ltd		
3 Carrington Road Pty Ltd	✓	✓
3 Carrington Road Unit Trust	✓	✓
Hollywood Apartments Pty Ltd	✓	✓
QEP Bondi Junction Investor Pty Ltd	✓	✓
QEP Bondi Junction Investor Unit Trust	✓	✓
QEP Bondi Junction Manager Pty Ltd	✓	✓
QEP Bondi Junction Pty Ltd	✓	✓
QEP Bondi Junction Unit Trust [1]	✓	✓
QEP Bondi Junction Unit Trust No. 2 [1]	✓	✓
QEP DHH Pty Ltd	✓	✓
QEP DHH Unit Trust	✓	✓
QEP First Mortgage Enhancement Pty Ltd	✓	✓
QEP First Mortgage Enhancement Unit Trust	✓	✓
QEP Marrickville No.2 Pty Ltd	✓	✓
QEP Marrickville Pty Ltd	✓	✓
QEP Marrickville Unit Trust	✓	✓
QEP Marrickville Unit Trust No. 2	✓	✓
QEP Spire Apartments Financier Pty Ltd	✓	✓
QEP Spire Apartments Investor Pty Ltd	✓	✓
QEP Spire Apartments Investor Unit Trust	✓	✓
QEP Spire Apartments Manager Pty Ltd	✓	✓
QEP Spire Apartments Pty Ltd	✓	✓
QEP Spire Apartments Unit Trust [1]	✓	✓
QPP Pagewood Pty Ltd	✓	✓
QREF Senior Debt No.17 Pty Ltd	✓	✓
QREF Senior Debt No.19 Pty Ltd	✓	✓
QREF Mezzanine Debt No.20 Pty Ltd	✓	✓
QREF Senior Debt No.23 Pty Ltd	✓	✓
QREF Senior Debt No.25 Pty Ltd	✓	✓
QREF Mezzanine Debt No.26 Pty Ltd	✓	✓
QREF Senior Debt No.27 Pty Ltd	✓	✓
QREF Debt No. 28 Pty Ltd (QLA Manager Pty Ltd repurposed)	✓	✓
QREF Senior Debt No.29 Pty Ltd	✓	✓
QREF Senior Debt No.30 Pty Ltd	✓	✓
QREF Senior Debt No.31 Pty Ltd	✓	✓
Qualitas Administrators Pty Ltd	✓	✓
Qualitas Advisory Pty Ltd	✓	✓
Qualitas CDF investor Pty Ltd	✓	✓
Qualitas Equity Partners Pty Ltd	✓	✓
Qualitas Equity Partners Unit Trust	✓	✓
Qualitas Management Services Pty Ltd	✓	✓

1 These entities were wound up during the year.

Notes to the aggregated financial statements

25 Group entities continued

	2022	2021
Qualitas Property Partners Pty Ltd	✓	✓
Qualitas Real Estate Finance Pty Ltd	✓	✓
Qualitas Real Estate Finance Trust	✓	✓
Qualitas REIT Partners Pty Ltd	✓	✓
Qualitas REIT Partners Unit Trust	✓	✓
Qualitas Securities Pty Ltd	✓	✓
QPP Pagewood Finance Pty Ltd	✓	✓
QUSOF Investor Pty Ltd	✓	✓
QUSOF Investor II Pty Ltd	✓	✓
QUSOF Bridge Pty Ltd	✓	✓
Qualitas Bridge Pty Ltd (repurposed from QREOF II Bridge Pty Ltd)	✓	✓
QCRF III Runaway Bay Pty Ltd (repurposed from QREOF II Investor Pty Ltd)	✓	✓
Qualitas Fund Holdings Pty Ltd	✓	✓
Qualitas Seniors Housing No.1 Pty Ltd	✓	✓
Qualitas Seniors Housing Property No.1 Pty Ltd	✓	✓
QREO Australian Feeder Pty Ltd	✓	✓
QAMF Wellington Pty Ltd	✓	✓
QCAB Overflow Pty Ltd	✓	✓
QCD Fund No.2 Pty Ltd	✓	✓

	2022	2021
QEP Development Services (Bondi) Pty Ltd	✓	✓
QSH No.1 Burniside Pty Ltd	✓	✓
QSH NO.1 Keilor Pty Ltd	✓	✓
QSH NO.1 Taylors Hill Pty Ltd	✓	✓
Qualitas Australia Multifamily Property Fund Pty Ltd	✓	✓
QUMF Borrower Pty Ltd	✓	✓
QUMF Bridge Pty Ltd	✓	✓
QPagewood Pty Ltd	✓	✓
QPagewood Finance Pty Ltd	✓	✓
QLDF Pty Ltd	✓	✓
QREO Holding II Pty Ltd	✓	✓
QREO II Financier Pty Ltd	✓	✓
Q Queens Parade Pty Ltd	✓	
Q City Road Pty Ltd	✓	
Q Beach House Developer Pty Ltd	✓	
Q Beach House Nominee Pty Ltd	✓	
Q Hassall Street Developer Pty Ltd	✓	
Q Hassall Street Nominee Pty Ltd	✓	
Q City Road Developer Pty Ltd	✓	
Q Queens Parade Developer Pty Ltd	✓	
Qualitas Co-Investments Pty Ltd	✓	

1 These entities were wound up during the year.

Notes to the aggregated financial statements

26 Non-controlling interests

Non-controlling interests represents amounts recognised in the Qualitas Group financial statements that are attributable to external parties. Non-controlling interests arise upon consolidation of 100% of the controlled entities' net assets and net profit or loss for the reporting period, but where the Qualitas Group does not hold a 100% interest in the underlying entities.

There were no non-controlling interests in the Group as at 30 June 2022.

Net Profit/(Loss) for the year ended 30 June 2021	**Net Profit/(Loss) Attributable to controlling interest (Qualitas Group)**	**Net Profit/(Loss) Attributable to non-controlling interest (external parties)**	**Total Net Profit/(Loss) recognised in the Statement of Profit or Loss**
QEP Bondi Junction Unit Trust	(5)	(17)	(22)
QEP Bondi Junction Unit Trust No.2	(20)	(66)	(86)
QEP Spire Apartments Unit Trust	(67)	(271)	(338)
Total prior to consolidation adjustments	**(92)**	**(354)**	**(446)**
Adjustments:			
» Consolidation adjustments	–	(6)	(6)
Total after consolidation adjustments	**(92)**	**(360)**	**(452)**

27 Structured Entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, and the relevant activities are directed by means of contractual arrangement.

The Group considers its co-investments into unconsolidated Qualitas funds to be investments into structured entities.

The exposure to investments in Qualitas funds at fair value that the Group does not consolidate but in which it holds an interest is disclosed in the following table:

	2022 $'000	**2021 $'000**
Qualitas Real Estate Opportunity Fund I	3,420	5,117
Qualitas Real Estate Opportunity Fund II	6,802	4,276
Qualitas Food Infrastructure Fund	2,175	2,060
Qualitas Real Estate Income Fund	8,594	10,188
Qualitas US Office Fund	2,699	–
Qualitas Seniors Housing Fund	1,560	–
	25,250	**21,641**

The fair value of the investment into Qualitas funds is included in the investments line in the aggregated statement of financial position and is held at fair value through profit or loss.

The Group's maximum exposure to loss from its interest in Qualitas funds is equal to the fair value of its investments in Qualitas funds plus the committed amounts as outlined in Note 23(b). Once the Group has disposed of its units in the Qualitas funds, it ceases to be exposed to any risk from it.

During the year ended 30 June 2022, total unrealised losses related to fair value movements on investments in Qualitas funds amounted to ($945,185) (2021: $302,336 gain). The Group also earned distribution income of $953,222 (2021: $1,832,971) as a result of its interests in Qualitas funds.

During the year ended 30 June 2022, the Group did not provide financial support to structured entities.

Notes to the aggregated financial statements

28 Equity accounted investees

The Group entered into a joint venture arrangement during the current reporting period, with the joint venture obtaining control over four initial assets as at 30 June 2022. The Group has joint control and a 50% ownership interest. The joint venture is a strategic partnership to establish a build-to-rent platform, targeting $5 billion over the next 5-7 years.

	As at 30 June 2022 $'000	As at 30 June 2021 $'000
Interest in joint venture (50%)	1,501	–
	1,501	**–**

Joint venture

	As at 30 June 2022 $'000	As at 30 June 2021 $'000
Percentage ownership interest	**50%**	**–**
Non-current assets	3,458	–
Current assets (including cash and cash equivalents)	262	–
Non-current liabilities (Including non-current financial liabilities excluding Trade and other payables and provisions)	–	–
Current liabilities (including current financial liabilities excluding trade and other payables and provisions)	(718)	–
Net assets (100%)	**3,002**	**–**
Group's share of net assets (50%)	1,501	–
Goodwill	–	–
Carrying amount of interest in joint venture	**1,501**	**–**
Revenue	940	–
Depreciation and amortisation	(35)	–
Interest expense	–	–
Income tax expense	–	–
Other expenses	(1,094)	–
Profit and other comprehensive income (100%)	(189)	–
Profit and other comprehensive income (50%)	(94)	–
Group's share of total comprehensive income	**(94)**	**–**
Dividends received by the Group	**–**	**–**

Notes to the aggregated financial statements

29 Related party transactions

a) Key management personnel compensation

The following were key management personnel of the Group at any time during the reporting period:

Andrew Fairley AM	Non-Executive Chairman	Appointed 4 November 2021
Brian Delaney	Non-Executive Director	Appointed 4 November 2021
JoAnne Stephenson	Non-Executive Director	Appointed 4 November 2021
Mary Ploughman	Non-Executive Director	Appointed 4 November 2021
Michael Schoenfeld	Non-Executive Director	Appointed 4 November 2021
Andrew Schwartz	Group Managing Director and Chief Investment Officer	
Philip Dowman	Chief Financial Officer	
Mark Fischer	Global Head of Real Estate	
Alan Schwartz	Non-Executive Director – QPP	Retired 4 November 2021

The key management personnel compensation comprised:

	2022 $'000	2021 [1] $'000
Short-term employee benefits	2,963	1,846
Other long-term benefits	3,918	2,031
Post-employment benefits	109	76
	6,990	**3,953**

1 Prior year comparative has been updated.

b) Loans to key management personnel and their related parties

Details regarding loans outstanding at the reporting date to key management personnel and their related parties at any time in the reporting period, are as follows:

	2022 $'000	2021 $'000
Total for key management personnel at 1 July	422	403
Interest paid/payable during the year	19	19
Total for key management personnel at 30 June	**441**	**422**

The loan to key management personnel relates to a Qualitas employee share scheme whereby participants were issued shares under an employee loan share plan. The loans are full recourse and are not within the scope of AASB 2 *Share-based payments*. Interest is payable on the loans at market interest rates. No amounts have been written down or have an allowance for expected credit loss as the balance is considered fully recoverable. The highest balance during the year was $440,352 (2021: $422,252).

c) Other key management personnel transactions

There are no other transactions with key management persons or their related parties other than those that have been disclosed in this report.

d) Ultimate parent

The aggregated Group has no single ultimate parent entity. There are common ultimate shareholders and unitholders of Qualitas Property Partners Pty Ltd and Qualitas Investments Unit Trust.

e) Subsidiaries and aggregated entities

Aggregated entities and the subsidiaries of the aggregated Group are listed in Note 25.

f) Loans to/from related parties

The loans owing by Qualitas Property Partners Pty Ltd to its related parties ACS Qualitas Management Pty Ltd ATF ACS Qualitas Management Trust and Davtom Finance Pty Ltd (2021: amount owing of $3,634,038) and ACS Qualitas Management Pty Ltd ATF ACS Qualitas Management Trust and Davtom Finance Pty Ltd (2021: amount owing of $129,885) were repaid on 22 December 2022.

The Group has a loan from Qualitas Real Estate Income Fund, in which a wholly owned subsidiary of the Group is the fund manager and the Group has an investment in the fund. The loan is interest bearing at a rate of 5% p.a and has a balance of $15,830,108 as at 30 June 2022 (2021: $11,417,481). Interest expense on the loan during the year was $725,144 (2021: $545,952). The Group will repay the loan (including any payment of interest on the loan) over a period of 10 years from the first draw of each new tranche.

g) Transactions with other related parties

Except for the matters noted above, there are no other transactions with other related parties.

Notes to the aggregated financial statements

30 Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital, as well as the level of dividends to ordinary shareholders.

The Group's net debt to adjusted equity ratio at 30 June 2022 and 30 June 2021 was as follows:

	As at 30 June 2022 $'000
Total liabilities	458,196
Less: cash and cash equivalents	(309,010)
Net debt	**149,186**
Total equity	354,568
Less: Share based payments reserve	(451)
Adjusted equity	**354,117**
Net debt to adjusted equity ratio	**0.42**

	As at 30 June 2021 $'000
Total liabilities	485,945
Less: cash and cash equivalents	(31,491)
Net debt	**454,454**
Total equity	48,199
Less: Share based payments reserve	–
Adjusted equity	**48,199**
Net debt to adjusted equity ratio	**0.11**

31 Share based payments

a) Description of share-based payment arrangement

At 30 June 2022, the Group had the following share-based payment arrangements:

i) Short term incentive plan ("STI")

The Board has determined that the current remuneration policy for senior management and other selected employees of the Group will include a new STI. Under the STI, participants will have an opportunity to receive an incentive payment calculated as a percentage of their Fixed annual remuneration each year, conditional upon performance against a scorecard of financial and non-financial measures. The performance measures against which each participant's STI is assessed and their relative weightings are set by the Board each year. In addition, the Board will have discretion to reduce any FY22 STI (by up to 100%) due to poor behaviour.

Under the STI, it is intended that the first $100,000 of any STI award will be paid in cash, as well as 50% of the remaining award. The other 50% of the remaining award will be paid in equity, which will be deferred for 2 further years. The equity will be granted subject to the terms of the Qualitas Employee Equity Plan ("**QEEP**").

The terms and conditions related to the grants under these programs are as follows, all options are to be settled by the physical delivery of shares:

Grant date/employees entitled	Number of awards[1]	Vesting conditions	Contractual life of awards
Key Management Personnel – 30 June 2022	229,147	Per above	2 years
All other employees – 30 June 2022	375,340	Per above	2 years

1 No awards were forfeited during the year

31 Share based payments continued

ii) Employee Equity Award

Select employees were granted Share rights at Listing which will vest in two tranches; 50% on the third anniversary of the Listing Date, and the remaining 50% on the fifth anniversary of the Listing Date, subject to the continued tenure of the participants (Employee Equity Award). The total face value of all grants made under the Employee Equity Plan was $2,000,000 of which $200,000 was forfeited during the year. The number of Share rights granted to participants was calculated by dividing the face value of the individual grant by the Offer Price. The Employee Equity Award will be granted under the terms of the Qualitas Employee Equity Plan (**QEEP**).

Grant date/employees entitled	Number of awards[1]	Vesting conditions	Contractual life of awards
Key Management Personnel – 16 December 2022	50,000	Per above	3 & 5 years
All other employees – 16 December 2022	670,000	Per above	3 & 5 years

1 800,000 awards were granted during the period with 80,000 awards forfeited during the period, resulting in a closing balance of 720,000

iii) Legacy Employee Equity Plan ("Intergen")

Under Intergen, employees (and their controlled entities) were able to acquire a beneficial interest in non-ordinary shares in Qualitas Property Partners Pty Ltd and non-ordinary units in the Qualitas Investments Unit Trust via a limited recourse loan. These shares and units were converted into 3,011,352 shares (of which 829,580 was forfeited during the year) shortly prior to completion, in accordance with the Restructure Deed, and will vest in two tranches; 50% on the third anniversary of the Listing Date, and the remaining 50% on the fifth anniversary of the Listing Date, subject to the continued tenure of the participants. Andrew Schwartz, Mark Fischer and Philip Dowman do not participate in the Legacy Employee Equity Plan

Grant date/employees entitled	Number of awards[2]	Vesting conditions	Contractual life of awards
Key Management Personnel – 24 September 2021[1]	–	–	–
All other employees– 24 September 2021[1]	2,181,772	Per above	3 & 5 years

1 Legacy award

2 3,011,352 shares were granted during the period with 829,580 shares forfeited during the period and transferred to a share trust account. The resulting closing balance is 2,181,772.

iv) Non-Executive Director Share rights compensation

Non-Executive Directors were granted 170,000 rights as payment as compensation for contribution to the Group prior to listing. These rights were exercised during the period ending 30 June 2022 and as such the balance of rights held at the end of the period is nil.

b) Measurement of fair value

i) Equity-settled share-based payment arrangements

The Fair value of the employee share purchase plan has been measured using the Black-Scholes formula. Service and non-market performance conditions attached to the arrangements were not taken into account in measuring fair value.

The requirement that the employee has to save in order to purchase shares under the share purchase plan has been incorporated into the fair value at grant date by applying a discount to the valuation obtained. The discount has been determined by estimating the probability that the employee will stop saving based on historical behaviour

The inputs used in the measurement of the fair values at grant date of the equity-settled share-based payment plans were as follows.

	Short Term Incentive		Employee Equity Plan		Intergen	
	Key Management Personnel	All other employees including senior management	Key Management Personnel	All other employees including senior management	Key Management Personnel	All other employees including senior management
Fair Value at grant date	$1.56	$1.56	$2.28 & $2.15[1]	$2.28 & $2.15[1]	n/a	$0.013 & $0.017[1]
Security price at grant date	$1.56	$1.56	2.60	2.60	n/a	$0.07
Exercise price	n/a	n/a	n/a	n/a	n/a	–
Expected volatility (Weighted average volatility)	n/a	n/a	37.50%	37.50%	n/a	37.50%
Option life (expected weighted average life)	n/a	n/a	4 years	4 years	n/a	4 years
Expected dividends	n/a	n/a	3%	3%	n/a	3%
Risk-free interest rate	n/a	n/a	0.12%	0.12%	n/a	0.12%

1 Reflects fair value for 3 & 5 year service periods

Expected volatility has been based on an evaluation of the historical volatility of the Company's share price, particularly over the historical period commensurate with the expected term. The expected term of the instruments has been based on historical experience and general option holder behaviour.

ii) Expense recognised in the profit or loss

The share based payment expense incurred in the period was $450,916.

Notes to the aggregated financial statements

32 Cash flow information

	2022 $'000	2021 $'000
Reconciliation of cash flows from operating activities with Profit after income tax		
Net profit	18,882	12,117
Adjustments for:		
Non-operating depreciation and amortization	911	1,146
Net (gains)/losses on financial instruments at FVTPL	845	–
Employee share based payments	451	–
Operating profit before changes in working capital and provisions	**21,089**	**13,263**
Net decrease/ (increase) in trade and other receivables	(29,476)	(16,276)
Net decrease/ (increase) in inventories	(403)	(568)
Net decrease/ (increase) in capitalised contract costs	668	5,394
Net decrease/ (increase) in prepayments	(322)	(30)
Net (decrease)/increase in trade and other payables	(677)	610
Net (increase)/decrease in deferred tax asset	(6,676)	(3,655)
Net (decrease)/increase in deferred income	2,112	(379)
Net increase in provisions and employee benefits	9,279	11,566
Net increase in tax payable	4,462	3,881
Net decrease/(increase) in investment loans – classified as operating	34,717	31,337
Net cash provided by operating activities	**34,773**	**45,143**

33 Auditor's remuneration

	2022 $'000	2021 $'000
Audit services		
KPMG Australia:		
Audit of financial statements – Qualitas Group	368	112
	368	**112**
Other regulatory services	**55**	**35**
Other services		
KPMG Australia:		
Compilation of financial statements	–	28
Taxation services	96	170
Other services	1,399	184
	1,495	**382**
	1,918	**529**

Notes to the aggregated financial statements

34 Matters subsequent to the end of the financial year

Post 30 June 2022, Abu Dhabi Investment Authority (**ADIA**) has chosen Qualitas for a mandate to invest A$700m on their behalf into Australian commercial real estate (**CRE**) private credit opportunities. The mandate will be carried out through the newly created Qualitas Diversified Credit Investments (**QDCI**), which will have a wide investment scope with a focus on the growing Australian CRE private credit market and senior credit strategies. The term of the mandate is 7 years, plus a 1-year extension option, with a 5-year investment period. Qualitas is co-investing 5% (A$35m) in the QDCI which is consistent with the objectives of the capital raised in our IPO. The mandate increases total committed funds under management (**FUM**) to circa A$5 billion focused on CRE credit (74% of FUM) and equity (26% of FUM) opportunities. Additionally, Qualitas has granted options to ADIA under which ADIA may acquire up to 32,630,374 new ordinary shares in Qualitas, conditional on further investment mandates from ADIA of up to $1 billion in the next 2 years with the Group [1], representing up to 9.99% of current issued equity on a fully diluted basis.

Additionally, subsequent to year end, on August 18 2022, the Directors declared a distribution of 4 cents per share which amounted to $11,760,000 to be paid on September 8 2022, with a record date of 24 August 2022.

Based on the current available information, Management believe that the Group will remain a going concern.

No significant events have occurred since the reporting period which would impact on the financial position of the Group disclosed in the aggregated statement of financial position as at 30 June 2022 or on the results and cash flows of the Group for the current reporting period ended on that date.

1 This may be extended by a further 6 months where the allocation of ADIA's capital under the mandate does not exceed A$560 million by the date that is 18 months after the issue date.

Management declaration

Qualitas Group Aggregation

Management Declaration

QUALITAS

In the opinion of Management of Qualitas Limited as representatives of the Qualitas Group of entities ("the Qualitas Group"):

(a) The Qualitas Group is not a reporting entity;

(b) the aggregated financial statements and notes, set out on pages 8 to 45:

(i) present fairly the financial position of the Qualitas Group as at 30 June 2022 and of its performance, as represented by the results of its operations and its cash flows, for the year ended 30 June 2022 in accordance with the basis of preparation described in Note 2; and

(ii) complies with Australian Accounting Standards (including the Australian Accounting Interpretations) to the extent described in Notes 1 to 3; and

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

A Schwartz

Andrew Schwartz
Group Managing Director and Chief Investment Officer
Melbourne, 18 August 2022

KPMG

Independent Auditor's Report

To the Directors of Qualitas Limited, Qualitas Property Partners Pty Ltd and Qualitas Investments Unit Trust

Opinion

We have audited the ***Aggregated Special Purpose Financial Statements*** of Qualitas Limited, Qualitas Property Partners Pty Ltd and Qualitas Investments Unit Trust and their controlled entities (the ***Aggregated Group***.

In our opinion, the accompanying ***Aggregated Special Purpose Financial Statements*** present fairly, in all material respects, the financial position of ***Aggregated Group*** as at 30 June 2022, and of its financial performance and its cash flows for the year then ended, in accordance with the basis of preparation described in Note 2 to the financial statements.

The ***Aggregated Special Purpose Financial Statements*** comprise:

- Aggregated statement of financial position as at 30 June 2022
- Aggregated statement of profit or loss and other comprehensive income, Aggregated statement of changes in equity, and Aggregated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies

The ***Aggregated Group*** consists of Qualitas Limited, Qualitas Property Partners Pty Ltd, Qualitas Investments Unit Trust and the entities they controlled at the year end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Aggregated Special Purpose Financial Statements* section of our report.

We are independent of the Aggregated Group in accordance with the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the Aggregated Special Purpose Financial Statements in Australia. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter – basis of preparation and restriction on use and distribution

We draw attention to Note 2 and 2a to the Aggregated Special Purpose Financial Statements, which describes their aggregation basis of preparation, including the approach taken to and the purpose of preparing them.

The Aggregated Special Purpose Financial Statements have been prepared for the purpose of assisting the Directors of Qualitas understand the trading of the Group as if they were an aggregated group. As a result, the Aggregated Special Purpose Financial Statements and this Auditor's Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Independent auditor's report

Our report is intended solely for the Directors of Qualitas Limited, Qualitas Property Partners Pty Ltd and Qualitas Investments Unit Trust and should not be used by parties other than the Directors of Qualitas Limited, Qualitas Property Partners Pty Ltd and Qualitas Investments Unit Trust. We disclaim any assumption of responsibility for any reliance on this report, or on the Aggregated Special Purpose Financial Statements to which it relates, to any person other than the Directors of Qualitas Limited, Qualitas Property Partners Pty Ltd and Qualitas Investments Unit Trust or for any other purpose than that for which it was prepared.

Other Information

Other Information is financial and non-financial information in the Aggregated Group's annual reporting which is provided in addition to the Aggregated Special Purpose Financial Statements and the Auditor's Report. Management is responsible for the Other Information.

Our opinion on the Aggregated Special Purpose Financial Statements does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Aggregated Special Purpose Financial Statements, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Aggregated Special Purpose Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of Management for the Aggregated Special Purpose Financial Statements

Management are responsible for:

- the preparation and fair presentation of the Aggregated Special Purpose Financial Statements and have determined that the basis of preparation described in Note 2 to the Aggregated Special Purpose Financial Statements is appropriate to meet the needs of the Directors for the purpose of assisting the Directors of Qualitas understand the trading of the Group as if they were an aggregated group.
- implementing necessary internal control to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error
- assessing the Aggregated Group and the aggregated entities' ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Aggregated Group and the aggregated entities or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Aggregated Group's financial reporting process.

Auditor's responsibilities for the audit of the Financial Statements

Our objective is:

- to obtain reasonable assurance about whether the Aggregated Special Purpose Financial Statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Independent auditor's report

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 the Aggregated Special Purpose Financial Statements.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Aggregated Special Purpose Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Aggregated Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Aggregated Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the Aggregated Special Purpose Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Aggregated Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Aggregated Special Purpose Financial Statements, including the disclosures, and whether the Aggregated Special Purpose Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the Aggregated Special Purpose Financial Statements of the entities or business activities within the Group to express an opinion on the group financial report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for the audit opinion.
- We communicate with Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.
- We also provide Management with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

KPMG

KPMG

Sydney
18 August 2022