Qualitas Group

Aggregated special purpose interim financial statements

For the half-year ended 31 December 2021

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For the half-year ended 31 December 2021

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The aggregated interim financial statements cover the aggregated group of Qualitas Limited, Qualitas Property Partners Pty Ltd and Qualitas Investments Unit Trust and their controlled entities (together referred to as the “Group” or “aggregated Group”).

The Group’s registered office is:
Level 38, 120 Collins Street
Melbourne, VIC 3000

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

Directors' report

The directors of the aggregated Group present their report together with the aggregated special purpose interim financial statements of the aggregated Group for the half-year ended 31 December 2021 and the auditor's review report thereon.

Directors

The following persons were Directors of the aggregated Group during the half 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]
Jo-Anne Stephenson	Appointed 4 November 2021
Brian Delaney	Appointed 4 November 2021[1]

Company Secretary

The Company Secretary of the Group is:

Daniel Mote	Appointed 4 November 2021

Operating result

The net profit after tax of the aggregated Group for the half year amounted to $4,920,117 (2020: $5,236,632)

Review of operations

A review of the Group's operations during the half year, and the results of those operations, is as follows:

- Total committed funds under management (FUM) of $4.2 billion as at 31 December 2021.
- Total head count increased by four employees for the half year ended 31 December 2021.
- 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. No other dividends were declared for the half-year ended 31 December 2021.

Key financial highlights and operating achievements for the half year included:

- 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 $16.2 million were incurred with $12.4 million reflected through equity (net of tax effect) and the balance of $3.8 million expensed through the profit and loss statement.

[1] Andrew Schwartz was also a director of various companies in the Group during the half 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 half year up until 1 November 2021.

Directors' report (continued)

Summary 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.

The Group's operations performed well during the half year, in line with the expected performance as contained in the prospectus dated 9 November 2021.

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 half-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 21 December 2021. The ASX ticker is QAL.

Principal activities

Qualitas Limited is an Australian alternative real estate investment manager with committed funds under management (FUM) of $4.2 billion as at 31 December 2021 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 $4.2 billion of FUM. Additionally, Qualitas holds interests in its Funds alongside wholesale and retail investors (Fund Investors), totaling $24.4 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 21 December 2021.

After balance date events

No matter or circumstance has arisen since 31 December 2021 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.

Dividends

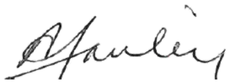
As disclosed in the prospectus of Qualitas Limited dated 29 November 2021, a pre-IPO distribution and dividend was paid of $20 million to previous shareholders of Qualitas Property Partners Pty Ltd and previous unitholders of Qualitas Investments Unit Trust from retained earnings. This $20 million comprised $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. No other dividends were declared for the half-year ended 31 December 2021.

Directors' report (continued)

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 Group.



Andrew Fairley AM
Chairman

Melbourne

25 February 2022

Aggregated interim statement of comprehensive income

	Notes	Half-year ended 31 December 2021 $'000	Half-year ended 31 December 2020 $'000
Income			
Interest income	8	9,583	9,810
Interest expense	8	(6,200)	(6,900)
Net interest income		3,383	2,910
Performance fees	7a	14,636	95
Income from the provision of financial services	7b	18,586	13,951
Other income		308	803
Net gains/(losses) on financial instruments held at fair value through profit or loss		61	988
Total income from provision of financial services		33,591	15,837
Total revenue		36,974	18,747
Loan impairment (expense)/reversal		546	164
Expenses			
Employee costs		(17,573)	(9,214)
Marketing and sales commission expenses		(148)	(80)
Consulting and professional fees		(434)	(182)
Travel expenses		(6)	(16)
Depreciation and amortisation		(931)	(1,196)
Capital raising costs – Funds		(5,212)	-
Capital raising costs - QAL		(3,779)	-
Other operating expenses		(2,096)	(2,211)
Total operating expenses		(30,179)	(12,899)
Profit before income tax		7,341	6,012
Income tax expense	9	(2,421)	(775)
Profit for the period		4,920	5,237
Other comprehensive income		-	-
Total comprehensive income/(loss) for the period		4,920	5,237
Total comprehensive income/(loss) attributable to:			
Owners of Qualitas Limited		4,920	5,518
Non-controlling interests		-	(281)

The above aggregated interim statement of comprehensive income should be read in conjunction with the accompanying notes.

Aggregated interim statement of financial position

	Notes	As at 31 December 2021 $'000	As at 30 June 2021 $'000
Assets			
Cash and cash equivalents		292,357	31,491
Trade and other receivables		17,977	13,202
Prepayments		1,614	637
Right-of-use assets		1,988	2,390
Office equipment		479	461
Accrued performance fees		31,777	17,428
Deferred tax asset		8,755	2,814
Inventories		23,860	23,711
Investments		31,752	28,881
Mortgage loans	5	400,567	408,182
Capitalised contract costs		4,610	4,947
Total assets		815,736	534,144
Liabilities			
Distribution payable		-	2,240
Trade and other payables		10,106	7,725
Deferred income		4,978	4,224
Employee benefits		18,848	14,533
Lease liability		2,152	2,342
Loans and borrowings	10	439,252	454,881
Total liabilities		475,336	485,945
Net assets		340,400	48,199
Equity			
Issued capital	11	324,528	18,476
Retained earnings		15,845	29,723
Share based payments reserve		27	-
Total equity		340,400	48,199

The above aggregated interim statement of financial position should be read in conjunction with the accompanying notes.

Aggregated interim statement of changes in equity

	Issued capital	Retained earnings	Share-based payments reserve	Total before non-controlling interests	Non-controlling interests	Total after non-controlling interests
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 30 June 2021	**18,476**	**29,723**	**-**	**48,199**	**-**	**48,199**
Total comprehensive income for the period						
Profit for the period (after tax)	-	4,920	-	4,920	-	4,920
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	-
Transactions recorded directly in equity						
Contributions of capital	335,000	-		335,000	-	335,000
Pre-IPO (Return) of capital	(17,308)	-	-	(17,308)	-	(17,308)
IPO costs reflected directly through equity (tax effected)	(11,640)	-	-	(11,640)	-	(11,640)
Share-based payments	-	-	27	27	-	27
Contributions by and distributions to owners of the Group						
Pre-IPO Distributions and dividends to owners of Qualitas Property Partners Pty Ltd and Qualitas Investments Unit Trust	-	(18,798)	-	(18,798)	-	(18,798)
Balance at 31 December 2021	**324,528**	**15,845**	**27**	**340,400**	**-**	**340,400**

Aggregated interim statement of changes in equity (continued)

	Issued capital	Retained earnings	Total before non-controlling interests	Non-controlling interests	Total after non-controlling interests
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 30 June 2020	**20,976**	**19,364**	**40,340**	**3,454**	**43,794**
Total comprehensive income					
Profit for the period (after tax)	-	5,518	5,518	(281)	5,237
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-
Transactions recorded directly in equity					
Contributions/(return) of capital	(2,500)	-	(2,500)	-	(2,500)
Change in non-controlling interest in subsidiary	-	3,454	3,454	-	3,454
Contributions by and distributions to owners of the Group					
Distributions to owners	-	(2,675)	(2,675)	-	(2,675)
Distributions to NCI – profits	-	-	-	(3,454)	(3,454)
Balance at 31 December 2020	**18,476**	**25,661**	**44,137**	**(281)**	**43,856**

The above aggregated interim statement of changes in equity should be read in conjunction with the accompanying notes.

Aggregated interim statement of cash flows

	Half-year ended 31 December 2021 $'000	Half-year ended 31 December 2020 $'000
Cash flows from operating activities		
Interest received	**9,565**	**11,023**
Interest paid	**(6,200)**	**(6,900)**
Receipts from provision of financial services and performance fees	**21,869**	**20,505**
Payments to suppliers, employees and others	**(22,090)**	**(13,132)**
Payment of IPO costs	**(16,162)**	**-**
Working capital funding	**(6,690)**	**(6,289)**
Payments in relation to projects	**(149)**	**(188)**
Tax received/(paid)	**(5,251)**	**145**
Mortgage loans advanced	**(55,806)**	**(25,958)**
Mortgage loans repaid	**63,966**	**48,497**
(Investments acquired) / funds advanced	**(6,570)**	**(6,252)**
Investments disposed / (funds repaid)	**3,759**	**1,465**
Net cash movement from operating activities	**(19,759)**	**22,916**
Cash flows from investing activities		
Receipts/(Payments) for fixed assets	**(168)**	**(5)**
Net cash movement from investing activities	**(168)**	**(5)**
Cash flows from financing activities		
Payment of lease liabilities	**(236)**	**(481)**
Proceeds from loans and borrowings	**28,354**	**16,079**
Repayments of loans and borrowings	**(43,979)**	**(35,269)**
Repayment of Financier loan (capital)	**(17,308)**	**(2,500)**
Other distributions to shareholders and unitholders	**(1,038)**	**(1,614)**
Pre IPO distributions to shareholders and unitholders – profit	**(20,000)**	**-**
IPO proceeds received	**335,000**	**-**
Net cash movement from financing activities	**280,793**	**(23,785)**
Net increase in cash and cash equivalents	**260,866**	**(874)**
Cash and cash equivalents at the beginning of the period	**31,491**	**17,011**
Cash and cash equivalents at the end of the period	**292,357**	**16,137**

The above aggregated interim statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the aggregated interim financial statements

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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 31 December 2021 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 interim financial report of Qualitas Limited would cover the period from 4 November 2021 to 31 December 2021 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 21 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. 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.

The results and the cash flows for the half year to 31 December 2021, including prior period comparatives reflect a full half year of trading for the Group as if it were an aggregated group in both reporting periods.

(b) Statement of compliance

These aggregated special purpose interim financial statements are special purpose financial statements prepared in accordance with the following accounting standards as applicable under AASB 134 *Interim Financial Reporting*:

- 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*

They do not include all of the information required for a complete set of annual financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance.

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 interim financial statements have been rounded off to the nearest thousand dollars, unless otherwise stated.

These aggregated special purpose interim financial statements were authorised for issue by Management on 25 February 2022.

2 Basis of preparation (continued)

(c) Basis of measurement

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

(d) Functional and presentation currency

These aggregated consolidated interim financial statements are presented in Australian dollars, which is the functional currency of the Group.

(e) Use of estimates and judgements

The preparation of financial statements in conformity with AASBs require 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:

- the use of assumptions relating to the recoverable value of the Group's investments, including financial assets measured at amortised cost. The measurement of impairment of financial assets measured at amortised cost requires management's best estimate of any losses incurred or expected on the financial assets measured at amortised cost at reporting date. The Group measures loss allowances at an amount equal to the 12-month expected credit loss (ECL) where the credit risk of a financial asset has not increased significantly since initial recognition. The loss allowance is measured at an amount equal to lifetime expected credit losses where the credit risk of a financial asset has increased significantly since initial recognition. 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;

- 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.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these aggregated interim financial statements.

(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 interim period, 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 interim period 1 July 2021 to 31 December 2021 and the comparative period 1 July 2020 to 31 December 2020.

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) Special purpose entities

A special purpose Group (SPE) is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. SPEs controlled by the Group were established under terms that impose strict limitations on the decision-making powers of the SPE's management and that result in the Group receiving the majority of the benefits related to the SPEs' operations and net assets, being exposed to the majority of risks incident to the SPE's activities, and retaining the majority of the residual or ownership risks related to the SPE or its assets.

3 Significant accounting policies (continued)

(a) Basis of aggregation (continued)

(iii) 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 consolidated 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.

(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) 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 ("Fair value through other comprehensive income")– debt investment; FVOCI – equity investment; or FVTPL ("Fair value through profit or loss").

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.

A debt investment is measured at FVOCI if it meets both the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; 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.

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;

3 Significant accounting policies (continued)

Financial assets – Business model assessment (continued)

- 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.

(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, 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 consolidated interim 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.

3 Significant accounting policies (continued)

(c) Financial instruments (continued)

(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.

(vi) Equity plan arrangements

Equity plan arrangements are accounted for as equity instruments on the basis that the equity instruments are issued at a fair value issuance price and the terms of consideration paid or payable are set on an arm's length basis. The fair value of equity instruments that do not have a quoted market price in an active market is based on valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would consider in pricing a transaction.

(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:

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

	2021	2020
• 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 andadjusted if appropriate.

3 Significant accounting policies (continued)

(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 instruments

The Group recognises loss allowances for expected credit losses ("ECL's") on financial assets measured at amortised cost.

A financial asset is assessed at each reporting date to determine the expected credit loss. Where the credit risk on a financial asset has not significantly increased since initial recognition, a 12-month expected credit loss is applied. Where the credit risk on a financial asset has increased significantly since initial recognition, a lifetime expected credit loss is applied.

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 quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is 90 days overdue.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs 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).

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.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

3 Significant accounting policies (continued)

(f) Impairment (continued)

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- principal and/or interest repayments more than 90 days overdue;
- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the aggregated interim 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
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.

(ii) Non-financial assets (continued)

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.

Impairment losses are recognised in profit or loss. An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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

(i) 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.

(h) Employee benefits

(i) Short-term benefits

Short-term employee benefit obligations are expensed as the related service is provided.

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.

3 Significant accounting policies (continued)

(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 AA credit-rated or government 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.

(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.

(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 are based on net assets under management in the Group 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 variable and are recognised to the extent that it is highly probable a significant reversal will not subsequently occur.

Revenue from services rendered also consists of fees for transaction structuring, advisory services,commitment fees, arranger fees, mandate fees and exit 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.

(ii) Performance fees

Performance fees are estimated using the expected value approach based on the performance fee calculation methodology in the relevant investment management agreements and the expected performance of the Group. Performance fees are variable and therefore the estimated expected value is recognised to the extent that itis highly probable a significant reversal will not subsequently occur.

(iii) Distributions

Distributions from investments in projects are recorded as revenue when the Group becomes contractually entitled to the distribution.

(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.

3 Significant accounting policies (continued)

(k) Leases (continued)

(i) As a lessee (continued)

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 measure 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.

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 aggregated interim 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 initially at fair value less attributable transaction costs. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the loans and borrowings on an effective interest basis.

(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 interim 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.

3 Significant accounting policies (continued)

(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 group, 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.

(i) Tax consolidation

Certain entities that form part of the Qualitas Limited have formed a tax-consolidated group. As a consequence of forming a tax-consolidated group, all members of this group are taxed as a single Group.

A tax-consolidated group was previously created in the Qualitas Investments Group with QFM HoldCo Pty Ltd as the head entity. A tax-consolidated group also existed in the Qualitas Property Partners Group with Qualitas Property Partners Pty Ltd as the head entity. These two groups ceased to exist and a new tax-consolidated group was created during the reporting period with Qualitas Limited as the head entity.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the ‘separate taxpayer within group’ approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each Group and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax consolidated group and are recognised by the Group as amounts payable (receivable) to / (from) other entities in the tax-consolidated group in conjunction with any tax grouping arrangement amounts (refer below). Any difference between these amounts is recognised by the head entity as an equity contribution or distribution

The head entity recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised. Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

(n) 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 aggregated interim 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.

(o) New and revised standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 July 2021 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.

3 Significant accounting policies (continued)

(p) 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. The adoption of these Accounting Standards and Interpretations did not have any significant impact for the half-year ended 31 December 2021. Any new, revised or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

(q) 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.

4 Fair value measurements

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 Group holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including liquidity risk and counterparty risk.

As at 31 December 2021, the Group holds investments in Qualitas funds which are categorised as Level 2 and an investment in an unlisted entity categorised 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 statements 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 +/- $530k shift in the valuation of the asset. The movement in the fair value since 30 June 2021 represents an additional capital investment during the half year ended 31 December 2021. There were no transfers into or out of Level 3.

For fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or OCI for the half-year was nil.

Recognised fair value measurements

The tables below set out the Group's financial assets and liabilities measured at fair value according to the fair value hierarchy at 31 December 2021 and 30 June 2021.

4 Fair value measurements (continued)

As at 31 December 2021	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets at fair value through profit or loss				
Digital Harbour Investments	-	-	5,924	5,924
Qualitas Real Estate Opportunity Fund I	-	3,623	-	3,623
Qualitas Real Estate Opportunity Fund II	-	4,170	-	4,170
Qualitas Food Infrastructure Fund	-	1,940	-	1,940
Qualitas Real Estate Income Fund	10,031	-	-	10,031
Qualitas Seniors Housing Fund	-	947	-	947
Qualitas US Office Fund		2,560	-	2,560
Financial assets measured at amortised cost				
Mortgage loans	-	-	400,567	400,567
Term deposits	-	-	403	403
Qualitas Construction Debt Fund	-	-	815	815
Other	-	-	1,339	1,339
Total financial assets	10,031	13,240	409,048	432,319

As at 30 June 2021	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets at fair value through profit or loss				
Digital Harbour 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	10,188	-	-	10,188
Financial assets not measured at amortised cost				
Mortgage loans	-	-	408,182	408,182
Term deposits	-	-	399	399
Qualitas Construction Debt Fund	-	-	551	551
Other		-	796	796
Total financial assets	10,188	11,453	415,422	437,063

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.

5 Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts when they fall due.

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

As part of its extensive investment processes, the Group identifies and manages credit risk of 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;
- engagement of property experts on valuation, technical planning and environmental risks; and
- sensitivity analysis on loan performance for a range of adverse events

Ongoing loan monitoring includes regular inspections of the real property security, conducting borrower meetings, financial accounts, property reporting, covenant compliance and staying abreast of market conditions. The Group undertakes a formal review process of individual loans on a regular basis, determining which loans are performing, underperforming, or are impaired. The Group identifies and monitors key risks and may recommend appropriate actions which include re-pricing or restructuring of the loan 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, loan type, 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 the 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 interim Statement of Financial Position as outlined below:

	31 December 2021 $'000	**30 June 2021 $'000**
Cash and cash equivalents	292,357	31,491
Trade and other receivables	17,977	13,202
Mortgage loans	400,567	408,182
Investments measured at amortised cost:		
Term deposits	403	399
Qualitas Construction Debt Fund	815	551
Other	1,339	796
	713,458	454,621

5 Credit risk (continued)

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

	31 December 2021		30 June 2021	
	Gross amount	***Allowance for ECL***	***Gross amount***	***Allowance for ECL***
	$	**$**	**$**	**$**
Ageing of trade and other receivables				
Not past due	17,977	-	13,202	-
Ageing of mortgage loans				
Not past due (12-month ECL)	399,967	673	406,384	1,218
0-30 days past due (12-month ECL)	560	1	-	-
More than 30 days past due (lifetime ECL)	40	1	3,017	2

The Group's accounting policy for credit impairment is outlined in Note 3(f).

To measure the expected credit loss (ECL) the Group uses a credit loss model. The key model inputs used inmeasuring the ECL include:

- Exposure at Default (EAD): represents the calculated exposure in the event of a default. The EAD for mortgage loans is the principal amount outstanding at reporting date.
- Probability of Default (PD): the development of PDs is developed at a portfolio level considering shared credit risk characteristics and applies economic forecast factors.
- Loss Given Default (LGD): the LGD is the magnitude of the ECL in a default event. The LGD is estimated using estimated sales prices less costs to sell of the underlying secured property.

In estimating the key inputs above, consideration is given to the economic environment. An economic cyclefactor is applied to the ECL calculation which considers a low, medium or high-range depending on current economic forecast information on economic factors such as unemployment, GDP growth and inflation.

6 Segment information

(a) Description of segments

An operating segment is a component of a Group that engages in business activities from which it may earn revenue and incur expenses, whose operating results are reviewed regularly by 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 expenses 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.

6 Segment information (continued)

The segment information for the reportable segments is as follows:

(b) Segment overview

For the half-year ended 31 December 2021 ($'000)	Funds management	Direct lending	Total
Interest income	114	9,469	9,583
Interest expense	(471)	(5,729)	(6,200)
Net interest income	(357)	3,740	3,383
Net revenue	32,778	813	33,591
Loan impairment expense	-	546	546
Total expenses	(26,923)	(3,256)	(30,179)
Segment profit	5,498	1,843	7,341

Segment financial position information

As at 31 December 2021 ($'000)	Funds management	Direct lending	Total
Cash and cash equivalents	282,578	9,779	292,357
Mortgage loans	-	400,567	400,567
Investments	31,669	83	31,752
Other assets	86,930	4,130	91,060
Total assets reported by the Group	401,177	414,559	815,736
Loans and borrowings	35,922	405,482	441,404
Other liabilities	27,474	6,458	33,932
Total liabilities reported by the Group	63,396	411,940	475,336

For the year ended 31 December 2020 ($'000)	Funds management	Direct lending	Total
Interest income	99	9,711	9,810
Interest expense	(713)	(6,187)	(6,900)
Net interest income	(614)	3,524	2,910
Net revenue	15,160	677	15,837
Loan impairment expense	-	164	164
Total expenses	(9,723)	(3,176)	(12,899)
Segment profit	4,823	1,189	6,012

6 Segment information (continued)

(b) Segment overview (continued)

Segment financial position information (continued)

As at 30 June 2021 ($'000)	Funds management	Direct lending	Total
Cash and cash equivalents	12,122	19,369	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 Group	104,107	430,037	534,144
Loans and borrowings	31,908	422,973	454,881
Other liabilities	24,784	6,280	31,064
Total liabilities reported by the aggregated Group	56,692	429,253	485,945

7 Income from the provision of financial services and performance fees

(a) Performance Fees

	For the half year ended 31 December 2021 $'000	For the half year ended 31 December 2020 $'000
Performance fees	14,636	**95**

Performance fees are variable consideration and are recognized to the extent that it is highly probable a significant reversal will not 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 that fund is nearing the final stages of its investment lifecycle and termination. 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 half year ended 31 December 2021 relate to Qualitas Real Estate Opportunity Fund I, Qualitas Construction Debt Fund I, Qualitas Food Infrastructure Fund, Qualitas Mezzanine Debt Fund and other co-investment projects (2020: other co-investment projects). Of the $14.6 million performance fees recognized during the year, this amount is not yet received and has been recorded on the consolidated statement of financial position as accrued performance fees.

(b) Income from the provision of financial services

	For the half year ended 31 December 2021 $'000	For the half year ended 31 December 2020 $'000
Arrangement, establishment and mandate fees	4,480	**3,471**
Management fees	13,130	**9,664**
Exit fees	-	**17**
Distributions from funds and projects	682	**435**
Portfolio and ancillary fees	294	**364**
	18,586	**13,951**

8 Interest income and interest expense

Interest income	For the half year ended 31 December 2021 $'000	For the half year ended 31 December 2020 $'000
Interest income on project loans, mortgages, bank balances and term deposits:		
- Arch Finance – mortgage loans	9,469	**9,715**
- Qualitas Limited	114	**95**
Total interest income	9,583	**9,810**
Interest expense		
Interest expense on interest bearing notes - bank & other financial institutions	(6,161)	**(6,850)**
Lease interest expense	(39)	**(50)**
Total interest expense	(6,200)	**(6,900)**
Net interest income recognised in profit or loss	3,383	**2,910**

9 Income tax

(a) Reconciliation of income tax expense

Recognised in the aggregated interim statement of profit or loss and other comprehensive income	For the half year ended 31 December 2021 $'000	For the half year ended 31 December 2020 $'000
Current period	8,362	**1,035**
Deferred tax expense		
Origination and reversal of temporary differences	(5,941)	**(260)**
	2,421	**775**

Reconciliation between tax expense and profit		
Profit before income tax	7,341	**6,012**
Income tax using domestic corporation tax rate of 30% (2020: 30%)	2,202	**1,803**
Net movement in income tax due to:		
Non-deductible expenses	2	**3**
Non-assessable income	(279)	**(796)**
Utilisation of prior year tax losses not previously recognised	(48)	**(9)**
Prior year adjustments	544	**(226)**
Income tax expense on profit	2,421	**775**

10 Loans and borrowings

	As at 31 December 2021 $'000	As at 30 June 2021 $'000
Interest bearing notes – banks & other financial institutions	401,214	**418,521**
Project funding loans	21,555	**21,121**
Qualitas Real Estate Income Fund manager loan	16,483	**11,418**
Financier Loans	-	**3,821**
	439,252	**454,881**

At 31 December 2021, the interest bearing notes of $401,214,000 (30 June 2021: $418,521,000) 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 during the period to 30 September 2022.

The Group may request between 7 and 8 months before the current availability period matures an extension to the availability period of no longer than 364 days after the current availability period.

11 Capital, reserves and dividends

(a) Issued capital

	As at 31 December 2021 $'000	As at 30 June 2021 $'000
Opening balance	18,476	**20,976**
Return of Capital	(17,308)	**(2,500)**
Contributions of capital	335,000	**-**
IPO costs reflected through equity (tax effected)	(11,640)	**-**
	324,528	**18,476**

Number of shares/units	As at 31 December 2021 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	**-**

(b) Dividends and distributions

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. No other dividends were declared for the half-year ended 31 December 2021.

12 Related party transactions

(a) Key management personnel

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[2]
Andrew Schwartz	Executive Director, Group Managing Director and Chief Investment Officer	Appointed 4 November 2021[2]
Mary Ploughman	Non-Executive Director	Appointed 4 November 2021
Michael Schoenfeld	Non-Executive Director	Appointed 4 November 2021[2]
Jo-Anne Stephenson	Non-Executive Director	Appointed 4 November 2021
Brian Delaney	Non-Executive Director	Appointed 4 November 2021[2]
Mark Fischer	Global Head of Real Estate	
Philip Dowman	Chief Financial Officer	

13 Share based payment

(a) Description of share-based payment arrangement

At 31 December 2021, the Group had the following share-based payment arrangements:

(i) 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. 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).

(ii) 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 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

(iii) Non-Executive Director Share rights compensation

Non-Executive Directors were granted 170,000 rights as payment in connection with the Listing. These rights will convert into Shares within 6 months following the Listing Date and will remain subject to a disposal restriction for 2 years from the Listing Date.

14 Contingent assets and liabilities and commitments

The Group is subject to a number of obligations which, if not discharged, may give rise to potential claims or othercosts. 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 31 December 2021, and has not been provided for, is not expected to affect its financial positionin any material way, either individually or in aggregate.

15 Events occurring after the reporting period

No significant events have occurred since the reporting period which would impact on the financial position of the Group disclosed in the aggregated interim statement of financial position as at 31 December 2021 or on the results and cash flows of the Group for the half-year ended on that date.

[2] Andrew Schwartz was also a director of various companies in the Group during the half 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 half year up until 1 November 2021.

Management declaration

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

(a) The Qualitas Group in its aggregated form is not a reporting entity;
(b) The aggregated interim financial statements and notes set out on pages 6 to 30:
   (i) Fairly presents the financial position of the Qualitas Group as at 31 December 2021 and of its performance, as represented by the results of its operations and its cash flows, for the interim period from 1 July 2021 to 31 December 2021 in accordance with the statement of compliance and basis of preparation in Note 2; and

   (ii) Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) to the extent described in Note 2; and

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

Andrew Schwartz
Group Managing Director and Chief Investment Officer
Melbourne
25 February 2022

Independent Auditor's Review Report

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

Conclusion

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

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Aggregated Special Purpose Interim Financial Statements of the ***Aggregated Group*** does:

- Present fairly, in all material respects, the ***Aggregated Group's*** financial position as at 31 December 2021 and of its performance for the Half-year ended on that date; and
- in accordance with the basis of preparation described in Note 2 of the Aggregated Special Purpose Interim Financial Statements.

The ***Aggregated Special Purpose Interim Financial Statement*** comprises:

- Aggregated interim statement of financial position as at 31 December 2021
- Aggregated interim statement of comprehensive income, Aggregated interim statement of changes in equity and Aggregated interim statement of cash flows for the Half-year ended on that date
- Notes 1 to 15 comprising a summary of significant accounting policies and other explanatory information
- The Management Declaration.

The ***Aggregated Group*** comprises Qualitas Limited, Qualitas Property Partners Pty Ltd, Qualitas Investments Unit Trust and the entities they controlled at the Half year's end or from time to time during the Half-year.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity.*

Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* 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 review of the Aggregated Special Purpose Interim Financial Statements in Australia . We have fulfilled our other ethical responsibilities in accordance with these requirements.

KPMG

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

We draw attention to Note 2 and 2(a) to the Aggregated Special Purpose Interim Financial Statements, which describes their aggregation basis of preparation, including the approach taken to and the purpose of preparing them. The Aggregated Special Purpose Interim Financial Statements have been prepared to for the purpose of assisting the Directors of Qualitas understand trading for the Group as if they were an aggregated group. As a result, the Aggregated Special Purpose Interim Financial Statements and this Review Report may not be suitable for another purpose. Our review conclusion is not modified in respect of this matter.

Our report is intended solely for the Directors and should not be distributed or used by parties other than the Directors of Qualitas. We disclaim any assumption of responsibility for any reliance on this report, or on the Aggregated Special Purpose Interim Financial Statements to which it relates, to any person other than the Directors, or for any other purpose than for which it was prepared.

We also draw attention to the fact that we have not reviewed the accompanying Aggregated interim statement of comprehensive income and Aggregated interim statement of cash flows for the half-year ended 31 December 2020 or any related notes and accordingly, we do not express a conclusion on them.

Responsibilities of Management for the Aggregated Special Purpose Interim Financial Statements

The Management of the Qualitas Limited are responsible for:

- the preparation and fair presentation of the Aggregated Special Purpose Interim 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 Directors; and
- implementing necessary internal control to enable the preparation of Aggregated Special Purpose Interim Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Aggregated Special Purpose Interim Financial Statements

Our responsibility is to express a conclusion on the Aggregated Special Purpose Interim Financial Statements based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Aggregated Special Purpose Interim Financial Statements do not present fairly, in all material aspect, the Aggregated Group's financial position as at 31 December 2021 and its performance for the half-year period ended on that date, and complying with the basis of preparation in Note 2.

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

KPMG

KPMG

Sydney
25 February 2022