**ASX Announcement**

## Qualitas Limited (ASX: QAL)

**23 October 2023**

## Qualitas Limited – 2023 Annual Report

Qualitas Limited (ASX: QAL) provides the attached 2023 Annual Report.

This announcement is 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
Qualitas Limited
**M:** +61 481 251 552
**E:** kate.stokes@qualitas.com.au


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

**About Qualitas**

Qualitas Limited ACN 655 057 588 (**Qualitas**) is an ASX-listed Australian alternative real estate investment manager with approximately A$8.0 billion[1] of committed funds under management.

Qualitas matches global capital with access to attractive risk adjusted investments in real estate private credit and real estate private equity through a range of investment solutions for institutional, wholesale and retail clients. Qualitas offers flexible capital solutions for its partners, creating long-term value for shareholders, and the communities in which it operates.

For 15 years Qualitas has been investing through market cycles to finance assets with a combined value of over A$21 billion[2] across all real estate sectors. Qualitas focuses on real estate private credit, opportunistic real estate private equity, income producing commercial real estate and build-to-rent residential. The broad platform, complementary debt and equity investing skillset, deep industry knowledge, long-term partnerships, and diverse and inclusive team of more than 80 professionals provides a unique offering in the market to accelerate business growth and drive performance for shareholders.

**Disclaimer**

This announcement contains general information only and does not take into account your investment objectives, financial situation or needs. Qualitas is not licensed to provide financial product advice in relation to Qualitas shares or any other financial products. This announcement does not constitute financial, tax or legal advice, nor is it an offer, invitation or recommendation to apply for or acquire a share in Qualitas or any other financial product. Before making an investment decision, readers should consider whether Qualitas is appropriate given your objectives, financial situation and needs. If you require advice that takes into account your personal circumstances, you should consult a licensed or authorised financial adviser. Past performance is not a reliable indicator of future performance.

[1] FUM metrics as at 31 August 2023 and adjusted for additional A$530 million activated commitment in QPICF.
[2] As at 30 June 2023.


Annual Report 2023
QUALITAS

# ACKNOWLEDGMENT OF COUNTRY

Qualitas acknowledges the Traditional Custodians of country throughout Australia and their ongoing connection to land, sea, and community. We pay our respect to their Elders past and present.

Alysha Menzel has brought our vision for a 'Journey of Growth' to life in designing our Reflect Reconciliation Action Plan (RAP).

The artwork depicts the beginning of our reconciliation journey and our potential for future growth as Qualitas establishes a deeper understanding of our spheres of influence and opportunities within these to create and nurture meaningful relationships with Aboriginal and Torres Strait Islander peoples and their land.

*Journey of Growth by Alysha Menzel*

## OUR TIMELINE

**2008**
Qualitas established in Melbourne

**2009**
First Mezzanine debt fund

**2010**
First equity deal with investments in NSW, TAS and QLD

$100M FUM

**2011**
Sydney office established

**2013**
First senior debt deal

**2014**
Launch of first single asset fund

First discretionary debt fund launched

$500M FUM

**2015**
Launch of Opportunity Fund 1

**2016**
Launch of Construction Fund

$1B FUM

**2017**
Launch of open-ended Senior Debt Fund

Close of Opportunity Fund 1 raising

International mandate with foreign sovereign fund

**2018**
Launch and close of Food Infrastructure Fund

Launch of Qualitas Real Estate Income Fund (ASX:QRI)

$2B FUM

**2019**
Launch of Opportunity Fund 2

**2020**
Launch of Qualitas Build-to-Rent Impact Fund

$3B FUM

# CONTENTS



15 YEARS

**2021**

16 Dec 2021 QAL initial public offering (IPO)

Close of Opportunity Fund 2 raising

QRI became 4th largest LIT on ASX

Launch of Build-to-Rent Equity strategy

Launch of Qualitas Diversified Real Estate Fund

**2022**

$700M fully discretionary mandate from a wholly owned subsidiary of Abu Dhabi Investment Authority (ADIA)

Brisbane office established

Secured $440M commitment from global institutional investor

**2023**

Announced
$1B CREDIT MANDATE WITH INSTITUTIONAL INVESTOR

Launch of first
RECONCILIATION ACTION PLAN

Established Qualitas
ESG ADVISORY GROUP

Secured additional
$700M COMMITMENT FROM ADIA

QRI enters
ASX300 & ASX300 A-REIT INDICES[1]

Secured additional
$750M PRIVATE CREDIT COMMITMENT

1. Effective 18 September 2023.

# ABOUT US

Qualitas Limited (Qualitas or Company) is an ASX-listed Australian alternative real estate investment manager with approximately $8.0 billion[1] of committed funds under management (FUM). Qualitas matches global capital with attractive risk-adjusted investments in real estate private credit and real estate private equity through a range of investment solutions for institutional, wholesale and retail clients. Qualitas offers flexible capital solutions for its partners, creating long-term value for shareholders, and the communities in which it operates.

For 15 years, Qualitas has been investing through market cycles to finance assets with a combined value of over $21 billion[2] across all real estate sectors. Qualitas focuses on real estate private credit, opportunistic real estate private equity, income-producing commercial real estate and build-to-rent (BTR) residential. The broad platform, complementary debt and equity investing skillset, deep industry knowledge, long-term partnerships, and diverse team of more than 80 professionals provides a unique offering in the market to accelerate business growth and drive performance for shareholders.

**VISION**

A dominant, global, client-led investment manager generating best-in-class long term value, a magnet for talent.

**PURPOSE**

A leading, trusted investor delivering access to long-term returns through focused, responsible and sophisticated real asset strategies.

**OUR VALUES**

- Respect
- Integrity
- Collaboration
- Excellence
- Entrepreneurship

1. FUM metrics as at 31 August 2023 and adjusted for additional $530 million activated commitment in QPICF as at 3 October 2023.
2. As of 30 June 2023.

# CHAIR'S LETTER

**This year, as Qualitas celebrates its 15 year anniversary, our first full year as a listed entity, and the delivery of another strong full-year result, it is worth reflecting on how the Company has transformed and grown since it was founded in 2008.**

Qualitas commenced business in the depths of a global recession, a time that while challenging, offered immense investment opportunities. Today, Qualitas is a leading Australian alternative real estate investment manager. Our position is demonstrated by our enviable track record having financed assets with a combined value of over $21 billion[1] across all real estate sectors, with significant capital from overseas institutional investors.

Across 17 active strategies, since inception, we have achieved a 15-year compound annual growth rate (CAGR) in our FUM of approximately 37%. By the end of FY23, our total FUM had increased to $6.1 billion and is now $8.0 billion[2].

We remain cognisant of the macroeconomic backdrop and have built a reputation based on disciplined investment. With global markets impacted by heightened inflation and interest rates, it is important to note that the regulation of Australia's banking system is significantly more conservative compared with other systems.

The Australian Prudential Regulation Authority's (APRA) rigorous capital provisioning requirements have contributed to Australia's stable and transparent regulatory environment to provide a secure investment climate, with legal protections for both domestic and international investors.

As traditional sources of finance continue to retreat and market conditions create a greater need for flexible capital solutions from lenders with in-depth local knowledge, we are confident of our ability to achieve further growth through continued investment performance and client-led product innovation.

**$8.0B**

**Total funds under management[2]**

Importantly, this growth has always been underpinned by our unwavering focus on risk, sound corporate governance and invasive financial oversight. We believe it is these practices, regularly reviewed to strengthen and evolve as needed, that have held us in good stead, helped build our reputation, and ultimately rewarded our investors and shareholders.

One recent example is our establishment of an ESG Advisory Group to help shape best practice and guide us as we embed ESG considerations across the Company.

On behalf of the Board, I thank the Qualitas team for your commitment, enthusiasm, and hard work. Once again, your efforts have contributed greatly to a successful year.

In closing, I also extend my sincere appreciation and thanks to my fellow Qualitas board members. Your depth of experience is reflected regularly in the guidance and insights you provide and the decisions we make collectively. This stewardship has contributed to the strong results that have been delivered year after year by Qualitas.

Andrew Fairley AM
*Independent Chairman*

QUALITAS FUNDS UNDER MANAGEMENT[2] ($M)


1. As of 30 June 2023.
2. FUM metrics as at 31 August 2023 and adjusted for additional $530 million activated commitment in QPICF as at 3 October 2023.

# CEO'S LETTER

**The 2023 financial year (FY23) is the first full financial year of Qualitas as a listed entity and also marks our 15-year anniversary. I'm proud of what the team has achieved to get us here and our potential as we look forward.**

Since the IPO, we've been focused on three key areas of growth. Growing top line funds management revenue, improving scalability through larger investments and mandates, and the strategic use of balance sheet capital to aid the growth of the platform. These objectives were well progressed in FY23, and I'm pleased to report another year of high-quality earnings as our platform continues to scale through growth and total FUM.

$33.9M
**Funds management EBITDA[1]**
FY22: $18.9M | FY21: $20.0M

45.0%
**Normalised EBITDA margin**
FY22: 35% | FY21: 27%

$8.0B
**Funds Under Management[3]**
FY23: $6.1B | FY22: $4.3B | FY21: $2.9B

## FY23 PERFORMANCE

We reported normalised EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) for the Company of $33.9 million[1] in FY23. The quality of earnings has significantly increased and while this was 7 per cent lower than FY22, the core underlying contribution, excluding the less uniform contribution from performance fees, was up 78 per cent at $30.7 million from the $17.2 million achieved in FY22.

A final fully franked dividend of 5.5 cents per share has been declared, bringing the total dividend for the year to 7.5 cents per share.

The strong execution of our strategy was demonstrated by the step change of our growth in FUM, and another record year of capital deployment that was driven by macroeconomic tailwinds and selective key investment thematics. FUM increased by 43 per cent to $6.1 billion and $3 billion was deployed. Throughout, we've remained uncompromisingly disciplined in our investment deployment with our proven risk management framework ensuring consistency in the evaluation of risks. These factors are reflected in the substantial growth in our core pre-performance fees funds management EBITDA margin which increased by 10 per cent from 35 per cent in FY22 to 45 per cent in FY23.

The quality of our earnings has improved materially as recurring funds management revenue and principal income increased by 25 per cent and 273 per cent respectively.

Since 30 June 2022, we raised a net $3.3 billion[2] in committed capital, primarily driven by the significant interest in the Australian commercial real estate (CRE) private credit and BTR sectors from institutional investors. Notably, we achieved this during a softer capital raising environment globally, once again highlighting the strength and scalability of our platform.

We ended FY23 with a cash balance of $192 million, well-positioned to take advantage of opportunities that may arise and providing flexibility to support new FUM growth through co-investment and fund underwriting activities.

**We adopt a disciplined approach to all investment selections and asset management, one that has been demonstrated over our 15-year track record and is acknowledged by our investors.**

Post financial year-end, we announced additional commitments from ADIA and an institutional investor totalling $1.45 billion. These new commitments have put us in an enviable position in the Australian CRE alternative financing space. Investors have entrusted us with $2.3 billion of dry powder. This, combined with our strong balance sheet, is anticipated to provide both earnings stability and growth potential into FY24 and beyond.

1. Excludes any MTM movements for Qualitas' co-investment in QRI, MTM movement in co-investment in funds or investments held on balance sheet where assets have completed construction, and QRI capital raising costs.
2. As at 23 August 2023.
3. FUM metrics as at 31 August 2023 and adjusted for additional $530 million activated commitment in QPICF as at 3 October 2023.

## MARKET CONDITIONS

The past year will be remembered as a turbulent period in markets generally, with tightening financial conditions, elevated inflation and concerns over distress in the real economy. This backdrop, and the increased hesitancy of traditional funding sources to deploy capital in the CRE sector has benefitted Qualitas, as highlighted by our growth since inception and most recently illustrated in our strong FY23 financial results.

As at 30 June 2023, our FUM is 71 per cent invested in the residential development sector which we believe presents the most attractive risk-return metrics out of all the real estate sectors at the current time, and the market tailwinds includes an entrenched supply issue and the impact of the current strong surge in migration on housing demand.

Regardless of market conditions, risk management is central to our thinking. Qualitas has always recognised its responsibility as an investment manager to generate attractive risk-adjusted returns for investors and importantly, return their capital at the end of an investment.

Risk management extends to managing and reducing environmental risks when investing. We know that residential property contributes to greenhouse gas emissions with an estimated ~12.5 per cent[4] of Australia's total carbon footprint from the sector, and this year we have further integrated ESG factors into our new product development initiatives.

## OUR TEAM

On behalf of the Executive Team, I would like to thank every member of the Qualitas team for their ongoing commitment to help us deliver on our strategic priorities.

Our financial results, and indeed the growth and success of Qualitas over the past 15 years, is a true reflection of our team, their levels of engagement and our core values – respect, integrity, collaboration, excellence, and entrepreneurship.

Thank you again for your hard work. I am looking forward to the year ahead and beyond as we continue to grow the business and move from strength to strength.

## LOOKING AHEAD

As we look to FY24, there are several reasons why we see the year ahead will provide unique opportunities for Qualitas.

Firstly, we have $2.3 billion in dry powder that underpins our earnings growth potential over the next 12 months.

Next, we are anticipating an increased allocation from institutional capital into CRE private credit. Offshore institutional investors recognise the tailwinds and see the Australian multi-dwelling sector, particularly private credit and BTR, as an attractive segment for their capital. This is evidenced by the capital commitments Qualitas has recently announced.

And finally, our continued growth will be underpinned by the resilience and ongoing demand in the multi-dwelling residential sector over the medium-term.

We are all extremely proud of the business that has been built over the last 15 years and thank you for your continued support.

A Schwartz

**Andrew Schwartz**
*Group Managing Director and Co-Founder*

4. Department of Climate Change, Energy the Environment and Water.

# PERFORMANCE HIGHLIGHTS

## FY23 is the first full-year financial results for Qualitas as a listed entity. It also marks our 15-year anniversary.

Since the IPO, we have been focused on the following three key areas of growth and these objectives were well progressed through FY23 as reflected by the Company's results.

**GROWING TOP LINE FUNDS MANAGEMENT REVENUE**

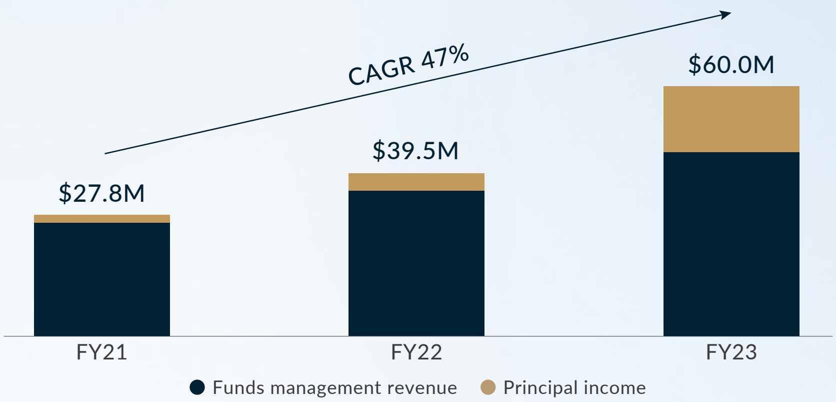
**IMPROVING SCALABILITY** through larger investments and mandates

**STRATEGIC USE OF BALANCE SHEET CAPITAL** to aid the growth of the platform

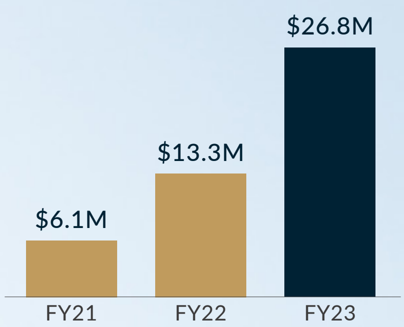
**COMPANY HIGHLIGHTS**

The Company has used the cash and assets in a form readily convertible to cash that it had at the time of admission to the ASX in a way that was consistent with its business objectives.

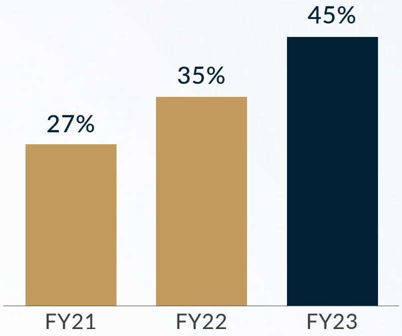
### CONSISTENT GROWTH IN RECURRING FUNDS MANAGEMENT REVENUE AND PRINCIPAL INCOME



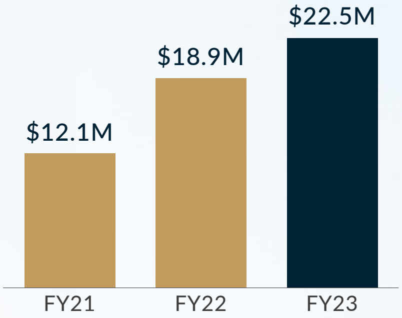

### FUNDS MANAGEMENT EBITDA
excluding performance fees




### NORMALISED EBITDA MARGIN
excluding performance fees




### STATUTORY NPAT




**OTHER HIGHLIGHTS**

## INCREASED OPERATIONAL EFFICIENCY

through larger mandate and investment sizes

Post-year end

## $1.98B[1]

new commitments announced

## ASX:QRI ADDED TO ASX300 & ASX300 A-REIT INDICES[2]

and classified as a MREIT

Established

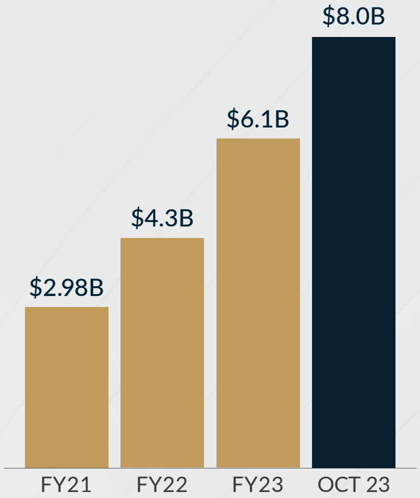
## ESG ADVISORY GROUP

Launched

## REFLECT RECONCILIATION ACTION PLAN

**FUNDS MANAGEMENT SEGMENT HIGHLIGHTS**

### FUNDS UNDER MANAGEMENT[3]




## $73.0M

Average gross investment size[4]

FY22: $51.0M | FY21: $39.7M

## $44.1M

FUM revenue

FY22: $35.3M | FY21: $27.3M

## $2.9B

Deployment

FY22: $1.9B | FY21: $1.2B

1. As at 3 October 2023.
2. Effective 18 September 2023.
3. FUM metrics as at 31 August 2023 and adjusted for additional $530 million activated commitment in QPICF on 3 October 2023.
4. Measured over a 12-month period as of 30 June 2023, excluding 'AURA by Aqualand' due to its non-typical, significant size, single transaction nature.

# YEAR IN REVIEW

## FY23 – Successful execution to IPO strategy

- FY23 saw substantial top-line growth and margin expansion – increasing scalability due to significant FUM and deployment growth
- Private credit and BTR continues to attract sticky institutional capital – a growth enabler and accelerator
- Building brand and remaining uncompromisingly disciplined in deployment
- Integration of ESG in new product development and investment committee screening processes
- Long-term fund structures, dry powder and a strong balance sheet underpin earnings stability and growth during volatile market periods

## Demonstrated the successful execution of our strategic priorities and strong growth across financial and funds management metrics.

### COMPANY PERFORMANCE

The Company delivered increasing quality of earnings and operational efficiency, which was underpinned by substantial FUM and deployment growth.

Qualitas achieved funds management revenue of $44.1 million and principal income of $15.9 million in FY23, up 25 per cent and 273 per cent respectively on FY22. This has been driven by strong FUM growth and reflects the continued support we enjoy from our investors, itself a reflection of our track record of delivering attractive returns.

Group Normalised EBITDA[1] of $33.9 million, down 7 per cent on FY22. Group normalised EBITDA margin[2], excluding performance fees was up to 45 percent, compared with 34 per cent in FY22, due to scale efficiencies from FUM growth, larger mandate and investment size, as well as a higher utilisation of balance sheet capital.

Total cash balance of $192 million was held at 30 June 2023 proving our ability to underwrite and recycle investments on behalf of our funds while reserving capacity for co-investment commitments.

Our principal income reached $15.9 million, up 273 per cent on FY22, driven by returns generated from underwriting balance sheet capital. These factors, combined with the efficiency benefits from larger mandates and investment sizes, translated to a 101 per cent increase in funds management EBITDA (pre-performance fees). Margins expanded by 11 per cent.

**$44.1M**
**FY23 revenue**
Up 25 per cent on FY22

**$192M**
**Net cash balance**
30 June 2023

Our direct lending business, Arch Finance, remained relatively consistent compared with FY22 contributing $3.9 million or 11.4 per cent to normalised EBITDA. The result reflected increased competitor pressures and our focus on the quality of the portfolio given prevailing market conditions.

Normalised net profit before tax (NPBT) was $31.1 million, which included performance fee revenue of $4.3 million. We are keeping a careful watch on the performance fee recognition for existing equity investments as asset valuations continue to recalibrate.

Statutory net profit after tax was $22.5 million, up 19 per cent on FY22, which included one-off listing costs of Qualitas Limited. Funds management fee growth, a significant increase in principal income and platform efficiency gains contributed to this increase.

Qualitas declared a full year dividend of 7.5 cents per share, representing a payout ratio of 98 per cent of the full year earnings.

1. Adjusted for abnormal /non-recurring items including capital raise costs for the Qualitas Real Estate Income Fund (ASX: QRI), Qualitas IPO costs in FY22 and mark-to-market (MTM) adjustment from Qualitas' co-investment in QRI.
2. FY22 normalised earnings adjusted for abnormal items including QRI capital raise costs, QAL IPO costs and unrealised mark to market (MTM) losses from Qualitas' co-investment in QRI. FY23 normalised earnings adjusted for unrealised MTM gains from Qualitas' co-investment in QRI.

## FUNDS MANAGEMENT AND OPERATIONAL PERFORMANCE

Qualitas' funds management platform is well-positioned in the current economic environment and is set-up for long-term success. We reported a year of high-quality earnings as our platform continues to scale through growth and total FUM.

We manage 17 active debt or equity funds across four investment thematics – Private Credit, BTR, Inflationary Hedge and Opportunistic – and continue to integrate ESG considerations into new product development and investment committee screening processes.

Qualitas' committed FUM[3] and deployment grew 43 per cent and 55 per cent respectively on FY22, outpacing our historical average rate and underpinning the increase in the quality of earnings for FY23. FUM at the end of the year was $6.1 billion, representing a 45 per cent increase since the IPO[4] and a CAGR since the inception of Qualitas in 2008 of 37 per cent. All the capital deployed was in private credit with 85 per cent in residential private credit and 95 per cent was in senior deb with substantial equity buffers.

Positively, and reflecting the level of institutional investments in CRE private credit in Australia, the average gross investment size[5] of $73 million, was up 44 per cent on FY22.

Post year end, Qualitas' FUM was further boosted by three increased capital commitments. One of $750 million from an institutional investor in the Qualitas Construction Debt Fund II, and then an additional commitment of $700 million from ADIA. These recent mandates increase the proportion of Qualitas' FUM managed on behalf of local and international institutional investors to approximately 81 per cent[6].

Our growth is primarily attributable to strong investor interest in the Australian CRE private credit and BTR sectors where liquidity withdrawal from traditional financiers has created a significant opportunity for Qualitas. We remain uncompromising in our disciplined approach to asset selection and deployment as our pipeline expands.

Funds management revenue increased by 25 per cent on FY22 to $44.1 million. Accompanying this growth was a significant improvement in the quality of earnings. A reduction in net performance fee revenue from $19.4 million to $3.2 million and decreased fee revenue as a percentage of Average Invested FUM were offset by the increased principal income, record FUM growth, and capital deployed in the period of $3 billion.

The scalability of our business is evidenced by the decline in funds management employee costs as a percentage of average invested FUM to 0.9 per cent compared to 1.5 per cent in the previous financial year.

Growth in FUM resulted in a net funds management contribution of $18.8 million, which represents growth of 34 per cent on FY22.

Looking ahead, we anticipate the multi-dwelling residential sector will remain resilient and exhibit strong growth over the medium-term underpinned by long-term undersupply; and we expect the increased allocation from institutional capital into CRE private credit will continue.

Our investors have entrusted us with $2.3 billion of dry powder to deploy in a measured way and capitalise on further market dislocation. Combined with our strong balance sheet and long-term fund structures of predominantly closed ended funds and perpetual capital, this is anticipated to provide both earnings stability and growth potential into FY24 and beyond.

3. FUM represents committed capital from investors with signed investor agreements.
4. Based on FUM of A$4.2 billion at 31 October 2021 as per the Prospectus for the Qualitas IPO.
5. Measured over a 12-month period as of 30 June 2023, excluding 'AURA by Aqualand' due to its non-typical, significant size, single transaction nature.
6. As of 23 August 2023.

# STRATEGY

We connect global capital to responsible alternative credit and equity strategies, with an emphasis on real assets, managed by a dynamic team of trusted experts. We provide access to considered opportunities shaped through deep expertise and relationships.

**TO DELIVER ON OUR STRATEGY WE ARE FOCUSED ON FOUR KEY PILLARS:**

- Expand our Fund strategies
- Capitalise on structural industry tailwinds
- Sustainable FUM growth
- Disciplined deployment

**OUR STRATEGIC PILLARS ARE SUPPORTED BY**

- A focus on maintaining a culture of organisational excellence, innovation, respect, and open communication
- Attracting and retaining top class talent
- Incorporating ESG considerations into our operational and investment activities
- Maintaining robust risk management systems and governance structures

**CLIENTS**

## INVESTMENT PRIORITIES

We have a client-led investment model, leveraging our strong sector experience across private credit and equity to increase our exposure to scalable and attractive industry megatrends and investment opportunities. These include:

### RESIDENTIAL

- Australian residential sector, including both BTR and build-to-sell (BTS), offers opportunities due to the significant disconnect between limited supply, and constraints on future supply, compared to the core underlying demand
- Borrowers are seeking speed and certainty of capital and decision making; flexibility; specialist financing and industry experience

### CRE CREDIT

- Investors are seeking appropriate risk-adjusted returns and regular income with access to private credit, especially in CRE
- Investor returns are expected to increase with rising interest rates

### BUILD-TO-RENT

- A fast-growing sector in Australia, addressing affordability and providing lifestyle benefits. The sector is well established in offshore markets, yet only in its infancy in Australia
- Increasing interest from investors in BTR equity and debt opportunities as the asset class becomes better understood

# OUR APPROACH TO INVESTING

## Experience tells us that the best investment results are delivered by following a consistent approach when identifying real estate investment opportunities.

### THERE ARE CERTAIN KEY CHARACTERISTICS IN THE IDEAS AND INVESTMENTS QUALITAS CONSIDER.

1. The question we ask on everything we look at – Is it anchored by real estate that has strong end-user demand? Our focus is always on the end occupier.
2. Are we able to deploy sizeable amounts of capital into a thematic/opportunity with a runway of many years. Typically, where there are strong underlying fundamentals, such as demographic drivers and suitable regulatory conditions, there are also large-scale deployment opportunities.
3. We then weigh up the relative value of the opportunity compared to other real asset options. A unique characteristic of our platform is that if we identify a great underlying thematic or sector, we can invest in either credit or equity, a decision we make after considering the relative opportunity, liquidity in markets and cyclical factors.

**Total capital deployed since foundation in 2008 as at 30 June 2023**

| | No. of investments | Total capital deployed[1] |
|---|---|---|
| **Total investments** | **270** | **$8.5 billion** |
| Credit investments | 222 | $7.0 billion |
| Equity investments | 48 | $1.5 billion |

At Qualitas we have a team of experienced investment professionals with the ability to analyse real estate opportunities from both a debt and equity perspective. This gives us a strong competitive advantage and enables us to deliver an enviable track record of returns for our fund investors.

Overall, there are times in the various cycles, which can be at different points depending on sector and geography, where we prefer downside protection (credit investing) and other times where we prefer the ability to earn upside and outsized returns (equity investing). This is a dynamic process. Qualitas' agility, experience and ability to pivot as needed is what gives investors' confidence and contributes to the company's successful performance.

Risk is always important in our investment decisions. We have a three lines of defence framework – our investment team, risk team and investment committee – that ensures effective and efficient risk governance, and it is incumbent on all our team to ensure risk is central in our thinking. We know that our investment due diligence process underpinned by risk assessment has helped build Qualitas' industry-leading investing reputation.

### QUALITAS KEY RISK MANAGEMENT TOOLS

**Robust risk grading model**
Average LTV of circa 65%[2] in income credit strategies, fully secured loans typically supported by personal guarantees from sponsors

**Mostly short tenor**
Flexibility for active loan management and potential for repricing and timely security revaluation

**Strong focus on sponsor criteria**
Formal client onboarding policy and direct borrower and partner relationship

**Diversification**
By geography, types of loans and sectors within the CRE market

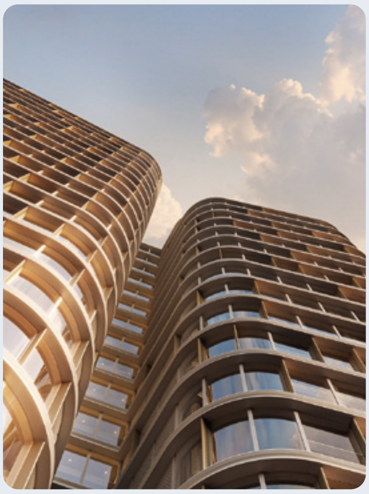
1. Cumulative capital invested exceeds total FUM due to recycling of funds relating to capital returned to investors from realised investments in closed end funds.
2. Loan-to-value ratio as at 30 June 2023.

# CASE STUDIES

AURA

## CONSTRUCTION DEBT — AURA BY AQUALAND

Qualitas demonstrated its position as one of the largest alternative finance construction lenders in Australia during the year when we provided a funding package of circa $600M to Aqualand Group.



The construction debt facility, believed to be one of the largest property development project finance arrangements provided by an alternative financier in Australia, is also the largest single facility ever advanced by Qualitas.

Aqualand Group will use the finance to develop their mixed-use AURA by Aqualand project located in North Sydney, New South Wales. The project has achieved 'topping-out' and incorporates a luxury 29 level mixed-used development, including 386 high-end residences, a retail and dining precinct and commercial spaces, and is forecast to be completed by mid-2024.

Landmark projects, like AURA by Aqualand, that contribute to urban regeneration and are developed with a commitment to sustainability, are imperative in the major Australian gateway cities that are experiencing historically low vacancy rates and heavily constrained supply of new residential product.

Equally, as traditional financiers continue to reduce their residential and development loan books, alternative financiers such as Qualitas can step in and fill the gap in the market.

GQ

## BUILD-TO-RENT RESIDENTIAL — A GROWING SECTOR FOR QUALITAS

The GQ BTR platform, jointly owned by GURNER™ and Qualitas, commenced construction this year on two BTR assets, being Beach House and Madison Grand.

Beach House is on a prime site in St Kilda Junction in Melbourne, the project will deliver 297 residences across two towers spanning 12 and 28 levels. The plans were designed specifically for BTR use, including over 3,700sqm of GQ's signature world-class resident amenities and 1,563sqm of net lettable area across commercial and retail spaces.

Madison Grand is located in Southbank in Melbourne and will deliver 394 apartments across 39 levels when complete in early 2025.

GQ owns two other BTR sites at North Fitzroy in Victoria and Parramatta in New South Wales which are anticipated to commence construction in 2024.

The GQ BTR platform is a part of our heavily weighted allocation of capital to the residential sector, currently 71 per cent of our invested FUM. Our position is underpinned by the current macroeconomic backdrop that sees residential vacancy at its lowest level due to an entrenched, and deteriorating housing undersupply in Australia. The BTR sector is well-placed to service this growing deficit.

From an investment perspective, the long-term underlying fundamentals have created conditions ripe for the next phase of growth in both apartment prices and rental growth over the medium-term, plus the sector is aligned to investors demand for assets generating defensive and resilient cashflows through all economic cycles.

Currently, GQ has an existing portfolio of over 1,400 apartments, a pipeline of a further 3,600 apartments and gross committed capital of $3.2 billion. The platform integrates development, design, delivery, capital raising, fund and investment management and property management capabilities in a specialised BTR residential platform.

FLAGSTAFF

## PRIVATE CREDIT — FLAGSTAFF HILL

Flagstaff Hill is a newly completed residential development on the city fringe in West Melbourne. The project comprises 169 apartments over 25 levels with carparks, storage and some commercial space.

Qualitas has been involved with this project since the beginning, when a construction mezzanine loan was provided to the developer and new client, United Asia Group (UAG). UAG is an experienced development group that have undertaken more than 50 residential projects over the past 28 years.

Following the completion of Flagstaff Hill, UAG sought a residual stock loan (RSL) against the 'as is' completed residential apartments while the apartment sales were finalised. Notwithstanding a competitive process, UAG selected Qualitas for the funding due to the positive experience they had with the earlier loan.

The facility, which was closed in May 2023, demonstrates the depth and breadth of Qualitas capital sources to support developers through the lifecycle of their development. We were able to provide a seamless transition for the developer from a construction loan to an RSL.

The current sales rate of the apartment security is tracking ahead of the underwritten sales rate – demonstrating high risk-adjusted return for our investors.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE

At Qualitas, we are committed to integrating and managing appropriate ESG measures throughout the organisation, and in our funds and investment processes.

**WE HAVE A VISION FOR ESG THAT ENCOMPASSES**

Leveraging Qualitas' platform and position as a leading alternative CRE financier to play a role in assisting Australia to transition to a more sustainable built environment, with a focus on residential property

Delivering real impact through our social and community programs, including charitable engagement, diversity, equity and inclusion

Continuing to review and refine our governance framework to work towards 'best-in-class' alignment to achieve our growth objectives

Our focus is on ESG priorities that we consider are the most important to our business and in laying the foundations for our initiatives in the future. Specifically, these are:

## LIMIT GLOBAL TEMPERATURE RISE TO 1.5°C

Qualitas strongly endorses strengthening the global response to climate change and is committed to reducing emissions as a business to align with these goals.

## CLIMATE CHANGE ADAPTATION

Qualitas acknowledges the importance of adaptation to physical climate change risks. We will seek to increase the level of impact-style investments in both our traditional and ESG-linked funds.

## DIVERSITY AND INCLUSION

Qualitas is better equipped to face complex business challenges by harnessing a diverse team's unique talents and experiences.

## STRONG AND EFFECTIVE GOVERNANCE

Qualitas believes that strong governance translates into long-term investor value and is of the view that good governance will tend to be rewarded.

## MITIGATING CLIMATE-RELATED INVESTMENT RISKS

To deliver desired investment outcomes, and to protect the value of the real assets that are invested in or lent to, efforts to mitigate and prevent climate change are needed.

Embedding ESG considerations into our governance, culture and investing approaches can lead to a variety of beneficial outcomes over the long term, including:

- Enhancing our risk-adjusted returns
- Attracting and retaining talent
- Contributing towards positive environmental outcomes
- Addressing the broad expectations of our stakeholders
- Promoting an inclusive work environment that values diversity

During the year we established the Qualitas ESG Advisory Group to help shape ESG best practice within the firm, identify and report progress against objectives and advise how Qualitas can leverage its strengths to influence positive ESG outcomes with borrowers and partners.

## OUR FY23 ESG SCORECARD

Over the past year, we progressed from the development of our ESG policy, which articulates our beliefs, framework, and commitments, to implementing sustainability-focused initiatives that will drive long-term value.

# ENVIRONMENTAL

**Leveraging Qualitas' platform and position as a leading alternative CRE financier to play a role in assisting Australia to transition to a more sustainable built environment, with a focus on residential property.**

Through the year, we continued to expand the environmental initiatives that we believe can make a real impact in driving change across the property industry and increasing investment in real assets with strong sustainability outcomes.

In 2021, Qualitas launched Australia's first dedicated sustainable investment fund in the BTR market. Our aim was to accelerate Australia's transition to a low carbon economy and with the fund's 'green' overlay, help reduce emissions generated by residential housing[1].

We believe there is more to do to foster sustainable practices in the real estate sector, so we have commenced a review of the fund to consider a range of options, including expanding the investment opportunities, updating the criteria for eligible sustainable investments, and broadening the current focus to include BTS.

Key initiatives undertaken through the year included:

- the implementation of an enhanced internal ESG Assessment Tool that provides a more rigorous assessment of the environmental credentials of all prospective investments;
- further progress on our low carbon emissions product strategy, which aims to incorporate energy and water efficiency measures linked to industry ratings schemes specifically targeted at the residential sector, one of the largest emitters in Australia of greenhouse gases; and
- having the Company's carbon neutrality reaffirmed by Climate Active Certification.

Climate Active Carbon Neutral ORGANISATION

## NEW ESG ASSESSMENT FRAMEWORK INTRODUCED

ESG is a key component of our investment due diligence.

The new Qualitas ESG Assessment Framework provides a more robust and objective assessment of the ESG performance of our counterparties and transactions, with a significantly increased focus on the environmental performance of the physical property assets underpinning our investments.

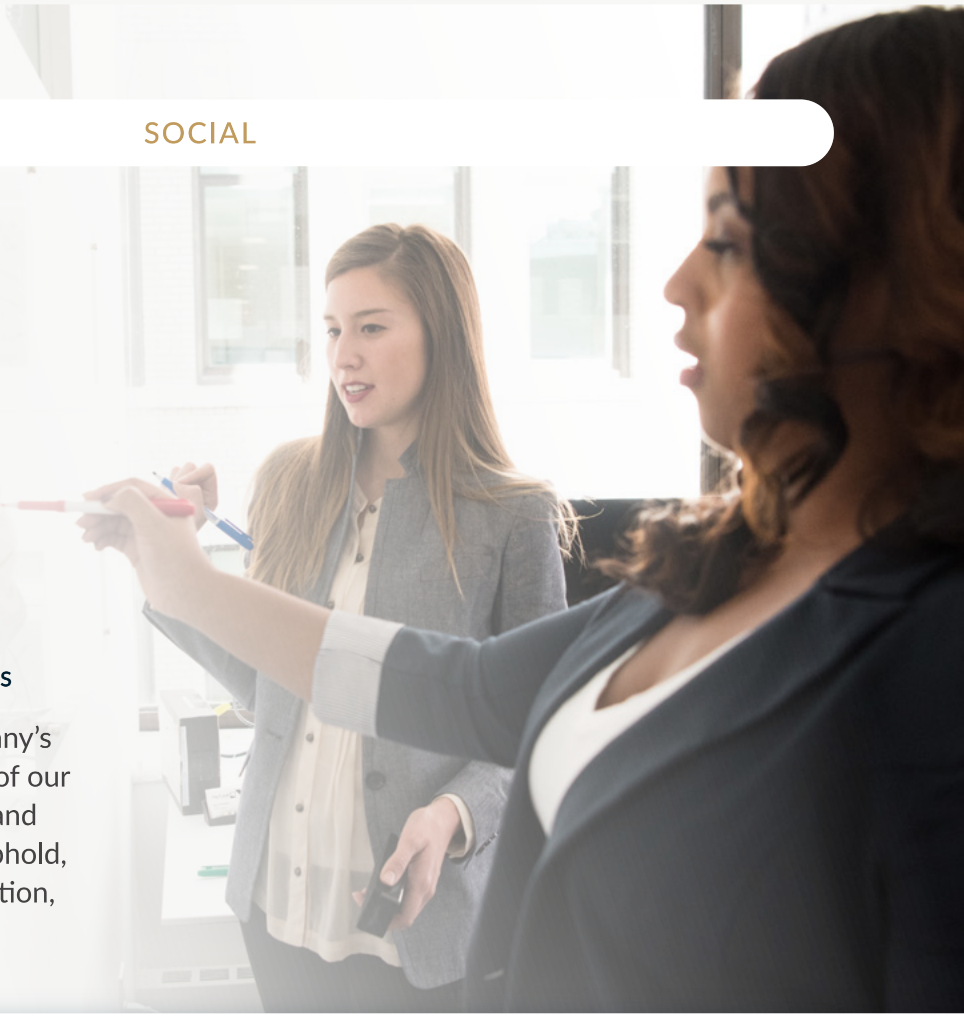
The Framework includes two components: an upgraded ESG Assessment Tool that focuses on the ESG alignment of our borrowers and partners across a range of relevant ESG factors and a new Sustainability Rating Tool, which provides a standalone evaluation of the environmental performance and design of the physical property assets we invest in, including factors such as building rating schemes, energy use and efficiency, carbon exposure, climate risk exposure, water management and sustainable transport.

The new framework produces an ESG score that provides a consistent basis for comparison as we roll it out across our investments and portfolios. Ultimately, it will help us to identify and assess ESG-related risks in our transactions and portfolios more comprehensively.

| FY23 Achievements Environmental | Low carbon emissions product strategy | Systematic approach to assessing sustainability of our investments | Carbon neutral |
|---|---|---|---|
| | Incorporating low emission principles as part of our product development. | Developed environment focused module as part of an updated ESG Assessment Tool to assess investments for sustainability and ESG performance. | Certified carbon neutral at the corporate level by Climate Active Certification. |

1. The fund is being revisited to widen scope and update its ESG criteria.

# SOCIAL



## OUR VALUES UNDERPIN OUR SUCCESS

Qualitas' success since the Company's establishment is a true reflection of our team, their levels of engagement and our five core values which they uphold, being: respect, integrity, collaboration, excellence, and entrepreneurship.

**Respect**
Treat all stakeholders fairly and enjoy the value of diversity

**Integrity**
Honour commitments and be transparent in our dealings and conduct ourselves ethically

**Collaboration**
Build collaborative relationships as we can achieve more collectively than individually

**Excellence**
Perform at our best and delight in excelling at our work and exceeding expectations

**Entrepreneurship**
Encourage creativity and innovation to retain the entrepreneurial spirit that created the firm

## Delivering real impact through our social and community programs including, charitable engagement, diversity, equity and inclusion

Qualitas advanced several social initiatives through FY23. We developed new policies that support how we embrace our inclusive and diverse culture and commenced our reconciliation journey with the launch of our Reflect RAP and activities that focused on cultural education and awareness. A range of community and social impact projects that we have actively supported for several years also continued.

**FY23 Achievements**
**Social**

**Youth homelessness**
12 years of actively supporting the Property Industry Foundation, including top fundraising team at 'Steps for homeless youth' event.

**Reconciliation journey commenced**
Launched Reflect RAP, endorsed by Reconciliation Australia.

**Inclusive and diverse culture**
All staff were invited to participate in cultural competency and awareness raising workshops.

## AN INCLUSIVE AND DIVERSE CULTURE

As Qualitas continues to grow, we recognise the importance of maintaining our deep commitment to our culture. In our recruitment of new team members, we are clear and transparent about our culture and the expectations of our team. Equally, we are open to and expect, our culture will positively evolve as our team becomes increasingly diverse.

Our Diversity Policy recognises the importance of diversity across the business and outlines our goals of providing equal opportunities based on merit; fostering an inclusive corporate culture that embraces and values diversity; and implementing programs and processes to develop a broader, more diverse pool of skilled and experienced employees over time.

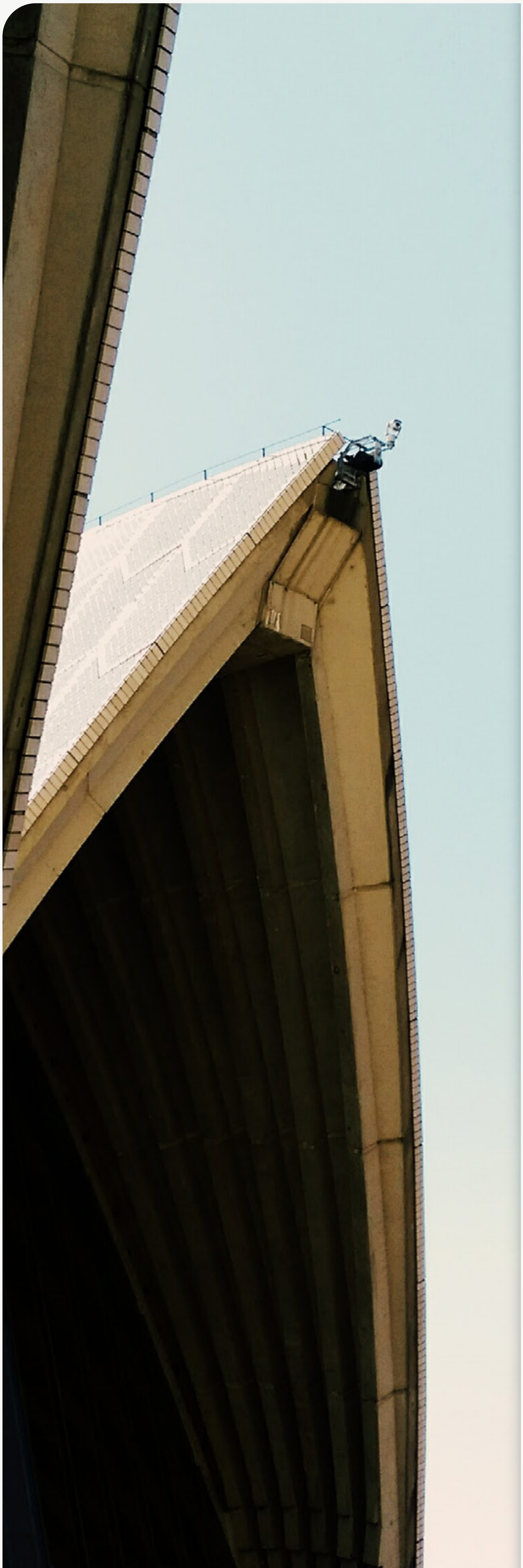
Through the year, we invited all staff to participate in cultural competency and awareness raising workshops. We will build on this in the year ahead by offering training on how our business and employees interact with culture, in a variety of contexts.

Qualitas aspires to achieve gender diversity across the firm and throughout all levels of the Company of 40/40/20 (40 per cent men, 40 per cent women, 20 per cent of any gender). This target is one of our strategic priorities. To help achieve it, we ask our recruitment partners to provide a 50/50 equally weighted gendered shortlist of potential candidates with diverse talent and from a range of backgrounds.

## HEALTH AND WELLBEING

Qualitas has an ongoing commitment to fostering a positive and productive work environment. The health and wellbeing of our team members is an important element of this as we firmly believe that if our people are physically and mentally healthy, they are well-equipped to contribute to our success.

To support our people we have established a Wellbeing Committee to work across the business and recommend and implement initiatives. Qualitas recognises the profound importance of mental wellbeing. We have invested in mental health support and offer every employee access to a confidential, independent Employee Assistance Program that is available if needed.



## OUR RECONCILIATION ACTION PLAN

### We believe that reconciliation is a continuing journey of growth, commitment, and togetherness.

Throughout the year we continued our efforts to recognise and implement changes towards the betterment of Aboriginal and Torres Strait Islander people. We worked together as a business to deliver the first Qualitas Reflect RAP, which we launched after receiving final approval from Reconciliation Australia.

We are early in our reconciliation journey however; our Reflect RAP marks the beginning of our journey and is an acknowledgement of our intentions and initial steps towards strategically setting reconciliation commitments. It lays important foundations that provide a solid framework for our reconciliation initiatives and helps us reflect, learn, and enact positive social change that is inclusive of all Australians.

**THE KEY AREAS OF FOCUS FOR OUR RAP INCLUDE**

- An established RAP Working Group, the governing body for our RAP, comprising members from across the business along with Kristal Kinsela, a proud Jawoyn and Wiradjuri woman, who will work with us primarily on our engagement and relationships with Aboriginal and Torres Strait Islander people.
- A range of cultural education and awareness activities that help our people to learn about our shared histories cultures and achievements and to explore how each of us can contribute to achieving reconciliation in Australia.
- Continuing to celebrate the diversity across our business, and in the communities in which we operate, through numerous in-house activities, including National Reconciliation Week, NAIDOC Week and Indigenous Literacy Day. We recently hosted a session on the Voice Referendum to help our people deepen their understanding around what voters are being asked to vote on to help everyone make an informed decision.

CELEBRATING NAIDOC WEEK

## COMMUNITY AND SOCIAL IMPACT

Qualitas has been engaging in a range of community and social impact projects, through our long association with the Property Industry Foundation and their activities.

This year, we took steps to extend our commitment and engagement with charitable stakeholders by establishing a Charitable Engagement Committee. The purpose of the Committee is to help formalise our approach to charitable initiatives and focus our efforts with charitable organisations that align with our business and the interests of our people. Our efforts will be focused on three charitable organisations – the Property Industry Foundation, Lighthouse Foundation, and batyr. We believe this approach will help us have a greater impact across these charities and the causes they are supporting and align our work with the 'S' part of our ESG vision.

Qualitas has a longstanding association, and corporate partnership with the Property Industry Foundation, dating back to 2011. We continue to champion the Property Industry Foundation's work to break the cycle of youth homelessness, one of the most severe forms of disadvantage and social exclusion that a young person can experience. During the year we partnered with the Property Industry Foundation in the production of a research report, the "Main drivers of Youth Homelessness", to help drive systematic change to reduce youth homelessness. Following the release of the report, industry lunches were held to raise awareness of the issue and to discuss the findings. Our support also saw members of our team participate in events including the Property Industry Foundation's Steps For Homelessness fundraiser in Melbourne.

We are working to increase our engagement with the Lighthouse Foundation due to the connectivity between the Property Industry Foundation and Lighthouse in supporting youth homelessness as well as associated drivers such as mental health. During the year we were a sponsor of Lighthouse's Royal Melbourne Golf Day, which raised funds for their programs, and also made a donation during the holiday season in lieu of gifts for clients.

Further extending our support to increase the awareness of youth mental health, we are now engaging with batyr, an organisation who specialise in running outreach programs in schools and universities addressing mental ill-health and sharing lived experiences to provide hope to young people going through tough times.

**THE LINKS BETWEEN THE WORK OF THESE THREE CHARITIES IS CRITICAL AS WE START TO BETTER UNDERSTAND WHY YOUNG PEOPLE BECOME HOMELESS IN THE FIRST PLACE.**

**The Property Industry Foundation** brings together the property and construction industry in a unique collaboration to have a tangible impact on Youth Homelessness.

**Lighthouse** provides children and young people who are homeless, or at risk of homelessness, with the care and support they need to heal, thrive, and achieve a lifelong sense of belonging.

**batyr** are working towards a world where all young people lead mentally healthy and fulfilling lives. Through lived experience storytelling and peer-to-peer education they are keeping young people from reaching the point of crisis and changing lives.

# GOVERNANCE

## Continuing to review and refine our governance framework to ensure 'best-in-class' alignment to achieve our growth objectives.

### FY23 ACHIEVEMENTS

| FY23 Achievements **Governance** | **ESG Advisory Group established** | **Enhanced ESG Assessment Tool** |
|---|---|---|
| | Appointment of highly credentialed members with global ESG experience to help shape best practice within the firm, identifying and reporting progress against objectives and using our platform as a positive influence with key stakeholders. | Initially established in 2020, the updated ESG Assessment Tool now incorporates a detailed sustainability module which assesses the sustainability of investments based on industry recognised benchmarks. |

### COMMITTED TO A HIGH STANDARD OF CORPORATE GOVERNANCE.

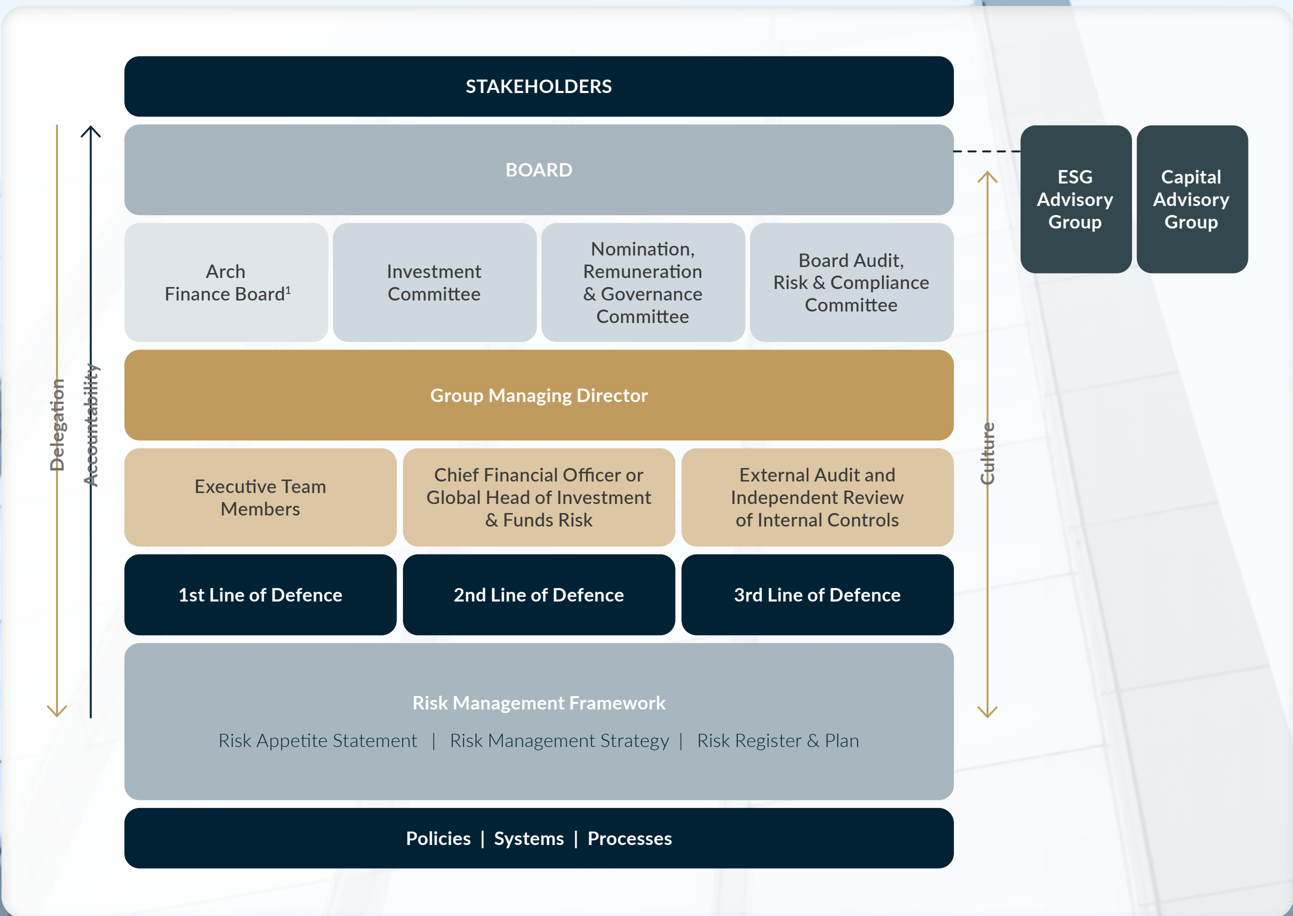
Good corporate governance is central to achieving our objectives of delivering attractive, risk-adjusted returns to investors and helping our borrowers bring their projects to life. To that end, we are committed to ensuring that we have the right people, policies, and practices in place.

The Board has overall responsibility for the Company's corporate governance and the directors are accountable to shareholders for the performance of Qualitas, overseeing management and their adherence to the Company's policies and procedures.

The Board has developed and adopted a framework of corporate governance policies and procedures, risk management practices, and internal controls that it considers appropriate for the Qualitas business. The governance framework is based on clear lines of accountability, effective delegation, and adequate oversight.

The Board monitors the operational and financial position and performance of Qualitas and oversees its investment and business strategy, including approving the Company's strategic goals, annual business plan and the associated budget.

The Board and its committees regularly review all aspects of the governance framework to ensure they meet regulatory requirements and are fit for purpose with respect to Qualitas' growth aspirations.




1. Subsidiary Entity Board of the Company. Directors are Mary Ploughman (Chair), Andrew Fairley AM and Andrew Schwartz.

Qualitas meets the requirements of the ASX Corporate Governance Council's Corporate Governance Principles Recommendations (4th edition) as set out in its 2023 *Corporate Governance Statement*, available on the Qualitas Investor Centre.

Further information about Qualitas' corporate governance practices, and copies of key governance documents referred to in this document, are available on the Qualitas' website.

Qualitas' ongoing commitment to embedding ESG considerations across the company and in our investment decisions means we will strengthen and evolve our policies and tools over time. Reflecting this, during the year we established the ESG Advisory Group and introduced a new ESG Assessment Framework.

Qualitas proactively undertakes security management of our technology network to protect our data and to protect against the threat of cyber-attacks. This includes, active monitoring and reporting at all times, along with compulsory education and training for employees on cyber security and fraud awareness. To help us manage this we have engaged an external cyber risk incident advisor along with our incident response plan and team. During the year the Board also undertook cyber incident risk scenario training.

The Qualitas ESG Advisory Group, comprising specialists in environmental, social and/or governance issues, has been established to help shape ESG best practice within the Company.

Under the ESG Advisory Group Charter, this Group will provide advice on ESG strategy, policy development, risks and opportunities, and reporting progress against our strategic priorities. Equally, it will advise Qualitas on how we can best leverage our strengths to maximise our impact and influence positive ESG outcomes with borrowers and partners.

PRI Principles for Responsible Investment

Qualitas is a proud signatory to the UNPRI and its six principles of responsible investment, which align with Qualitas' core ESG beliefs. We have completed our first submission as part of the PRI Transparency and Assessment reporting process.

**THE ESG ADVISORY GROUP MEMBERS:**

## FIONA REYNOLDS

*Independent Chair*

Ms Reynolds was formerly Chief Executive of the Principles for Responsible Investment (2012-2021), a UN-supported network of investors representing USD 121 trillion in assets under management. She is currently Chair of the UN Global Compact Network Australia which seeks to mobilise Australia's leading businesses to create a sustainable future.

## IAN WOODS

*Independent Member*

Dr Woods is a founding member and Deputy Chair of the Investor Group on Climate Change, which aims to raise awareness of the potential positive and negative effects of climate change and encourage best-practice investment analysis. He is also a Chronos's Expert Sustainability Network member and the Principal and Founder of Ian Woods Advisors.

## BRIAN DELANEY

*Qualitas Board Member*

Mr Delaney has over 35 years of experience in the funds management industry holding senior roles globally, including being a founding member of QIC's ESG Advisory Committee. He provides Qualitas Board representation within the ESG Advisory Group.

Full biography on page 25.

## LOOKING AHEAD

Our ongoing commitment to embedding ESG considerations across the Company and in our investment decisions, means we are on a journey. Over time, we will continue to strengthen and evolve our polices and regularly review our strategy, targets and initiatives to ensure Qualitas and our people are able to contribute in a meaningful way.

In FY24 and beyond, we are targeting Environmental initiatives that include, delivering new product development focused on sustainable finance and increasing FUM allocated to those activities, and expanding our ESG reporting infrastructure and data collection to provide more transparent ESG reporting to our domestic and offshore stakeholders.

In Social, through our Inclusion and Diversity program we will continue initiatives delivering employee engagement, recruitment, retention and gender diversity. We will also continue to build our level of meaningful and impactful charitable engagement.

In the area of Governance, we are developing our Modern Slavery policy and statement, determining our disclosures under TCFD/ISSB and UNPRI, and building out ESG reporting for Qualitas and our funds. ESG specific training for our teams to build greater knowledge on sustainability issues, including Climate Change, Responsible Investment, and ESG in the built environment is a key priority for us in FY24 as we seek to embed ESG into our investment processes.

JoAnne Stephenson
*Independent Non-Executive Director*

Brian Delaney
*Non-Independent Non-Executive Director*

Andrew Fairley AM
*Independent Chairman*


Michael Schoenfeld
*Independent*
*Non-Executive Director*
Mary Ploughman
*Independent*
*Non-Executive Director*
Andrew Schwartz
*Group Managing Director*
*& Co-Founder*

# DIRECTORS' REPORT

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The consolidated financial report covers Qualitas Limited (**Qualitas** or the **Company**) and its controlled entities (together referred to as the **Group**).

The Company'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

The Directors of the Company present their report together with the consolidated financial report of the Group for the year ended 30 June 2023 and the auditor's review report thereon.

Qualitas 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.

The results presented are for the year ended 30 June 2023. The corresponding period is from 4 November 2021 to 30 June 2022.

## PRINCIPAL ACTIVITY

The principal activities of the Group during the year were funds management and direct lending on commercial real estate.

## DIRECTORS

The following persons were Directors of Qualitas Limited (ASX ticker: QAL) during the year ended 30 June 2023 and up to the date of this report unless otherwise stated.

| | |
|---|---|
| Andrew Fairley AM | *Appointed 4 November 2021* |
| Andrew Schwartz | *Appointed 4 November 2021* |
| Mary Ploughman | *Appointed 4 November 2021* |
| Michael Schoenfeld | *Appointed 4 November 2021* |
| JoAnne Stephenson | *Appointed 4 November 2021* |
| Brian Delaney | *Appointed 4 November 2021* |

## 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 Victoria, 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 38 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.

### 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.

# DIRECTORS' REPORT

**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 2020 to 15 September 2021 and Chairman from 16 September 2021), and a Non-Executive Director of Challenger Limited (appointed 2012). JoAnne was previously a Chair of the Major Transport Infrastructure Board (Victoria) and 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*
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, Armitage Associates 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 Company is Terrie Morgan (LLB; B.Ag; GDLP) and was appointed by the Board on 8 June 2022. Terrie has over 15 years' experience in commercial, executive and legal counsel roles, with experience as an ASX listed company secretary and advisor. She is admitted as a lawyer to the Supreme Court of Victoria.

## DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of Directors and excluding circulatory resolutions) and number of meetings attended by each of the Directors of the Company during the year are:

| | Board meetings | | Audit, Risk & Compliance 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 | 8 | 8 | 7 | 6 |
| Andrew Schwartz | 12 | 12 | 5 | 5 | 5 | 5 | 7 | 7 |
| Mary Ploughman | 12 | 12 | 2[1] | 2[1] | 8 | 8 | – | – |
| Michael Schoenfeld | 12 | 12 | 5 | 5 | 2 | 2 | 7 | 7 |
| JoAnne Stephenson | 12 | 10 | 5 | 5 | 2[1] | 2[1] | 7 | 7 |
| Brian Delaney | 12 | 11 | 1 | 1 | 8 | 8 | – | – |

A. Indicates the number of meetings held during the period of each Director's tenure. Where a Director is not a member but attending meetings during the period, then only the number of meetings attended rather than held is shown.
B. Indicates the number of meetings attended by each Director.
1. One meeting was attended in part.

# DIRECTORS' REPORT

## DIRECTORS' INTERESTS

Please see the Remuneration Report for the details of Directors' interests in the Group.

## OPERATING AND FINANCIAL REVIEW

The net profit after tax of the Group for the year ended 30 June 2023 amounted to $22,539,474 (2022: $12,115,681).

## SHAREHOLDER RETURNS

| | For the year ended 30 June 2023 $'000 | For the period 4 November 2021 to 30 June 2022 $'000 |
|---|---|---|
| Profit attributable to the owners of the Group | 22,539,474 | 12,115,681 |
| Basic EPS | 7.70 cents | 5.13 cents |
| Dividends paid | 17,680,321 | – |
| Dividends per share | 6.00 cents | – |
| Change in share price | 1.13 | (0.94) |
| Return on capital employed | 6.23% | 3.42 % |

## REVIEW OF OPERATIONS

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

The Company was incorporated on 4 November 2021. It listed on the Australian Securities Exchange (**ASX**) on 16 December 2021 on a conditional and deferred basis and commenced trading on a normal basis on 22 December 2021.

The Company is one of Australia's leading alternative real estate investment managers with extensive operating experience. The Group invests in real estate private credit, opportunistic real estate private equity, income producing commercial real estate and build-to-rent residential. Qualitas manages predominantly 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.

## FUNDS MANAGEMENT

### Real Estate Private Credit

Funds [1] 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.

### Real Estate Private Equity

Funds 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 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.

### Co-Investments and Fund Underwriting Activities

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
- underwriting 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 underwriting position (including by repayment or acquiring or directly pursuing the investment opportunity).

Key activities for the period include:

- Total committed funds under management increased to $6.1bn as at 30 June 2023, up 43% on FY22. Qualitas has been successful in executing its growth strategy of attracting large mandates.
- $3.0 billion capital deployed in FY23, up 55% on FY22 with average transaction size excluding 'AURA by Aqualand' increasing by 44% reaching $73m.
- Funds management revenue increased to $44.1m, up 25% on FY22 driven by strong growth in FUM and deployment.
- Funds management EBITDA excluding performance fees of $26.8m increased 101% on FY22 with margin expansion of 11% on FY22. This is reflective of improvement in earnings quality underpinned by scale efficiency and utilisation of balance sheet capital.
- Normalised NPBT of $31.1m, down 9% driven by lower performance fees recognised in FY23 due to timing of relevant fund maturities. Normalised NPBT excluding performance fees is up 88% on FY22, reflective of growth in core recurring funds management earnings. Statutory NPBT for FY23 of $31.8m (FY22: $13.5m).
- Statutory NPAT of $22.5m, up 19% on FY22.

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

# DIRECTORS' REPORT

## DIRECT LENDING

### Arch Finance

Qualitas' direct lending subsidiaries, 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.

A summary of the financial performance for the period ended 30 June 2023 is detailed below.

| | For the year ended 30 June 2023 $'000 | For the period 4 November 2021 to 30 June 2022 $'000 |
|---|---|---|
| Total Revenue | $73,403 | $39,214 |
| Profit/(loss) from ordinary activities after tax attributable to members | $22,539 | $12,116 |
| Funds from operations (**FFO**) | $30,783 | $8,140 |
| Weighted average securities on issue | 292,841 | 236,184 |

The Company recorded total revenue of $73,402,758 (2022: $39,214,074) a statutory profit of $22,539,474 (2022: $12,115,681) and funds from operations of $30,783,412 (2022: $8,139,906). 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.

| | For the year ended 30 June 2023 $'000 | For the period 4 November 2021 to 30 June 2022 $'000 |
|---|---|---|
| Statutory profit after tax | 22,539 | 12,116 |
| Income tax expense | 9,293 | 1,416 |
| Straight lining & amortisation | 1,904 | 704 |
| Acquisition & transaction costs (IPO & QRI) | – | 3,924 |
| Performance fee revenue net of staff incentives | (3,212) | (10,879) |
| Fair value movements | 259 | 859 |
| Other adjustments | – | – |
| FFO | 30,783 | 8,140 |

A summary of the financial position as at 30 June 2023 and 2022 is detailed below.

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| ***Assets*** | | |
| Investments | 38,209 | 32,134 |
| Total assets | 739,919 | 812,764 |
| Net assets | 362,058 | 354,568 |
| Net tangible assets | 362,058 | 354,568 |
| Adjusted net tangible assets | 362,058 | 354,568 |
| Number of securities on issue | 296,016 | 294,000 |
| Net tangible assets ($ per security) | 1.22 | 1.21 |
| Adjusted net tangible assets ($ per security) | 1.22 | 1.21 |
| ***Capital management*** | | |
| Drawn debt | 37,333 | 37,790 |
| Cash | 192,369 | 309,010 |
| Gearing ratio (%) | 10.3% | 10.7% |
| Weighted average Cost of Debt (% per annum) | 6.8% | 6.7% |

# DIRECTORS' REPORT

## STRATEGY AND OUTLOOK

The Company 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 Company will continue to focus on growing the funds management platform and improving efficiency through attracting large capital mandates from new and existing investors and deploying into large scale investments.

While interest rates and inflation remain elevated, the Company is observing less credit availability in commercial real estate market particularly in the residential and development financing sector. Long term supply shortage in the residential sector and rising construction costs create conditions that may give rise to price growth for multi-dwelling residential assets. Well capitalised alternative financiers such as Qualitas are well positioned against the current macroeconomic backdrop as the dislocated liquidity market presents outsized return opportunities. The investment returns on Qualitas' credit funds are delivering positive inflation adjusted returns for investors on a compounding basis, while Qualitas' equity funds have the benefit of opportunistically sourcing investments with recalibrated asset values, with premiums being paid for liquidity. Qualitas' BTR equity funds aim to institutionalise what may be one of the largest and most recession-proof income streams with growth of the sector underpinned by long-term supply shortage.

The Company's operations during the period performed as expected in the opinion of the Directors.

## 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 legislation, regulation published regulatory guidance as well as regulatory views, all 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 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 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.

# DIRECTORS' REPORT

*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 pestilence) 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 goals is focused 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 Active [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.

*Information technology risk, 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.

## 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 current reporting period.

## PRINCIPAL ACTIVITIES [2]

The Company is an Australian alternative real estate investment manager with committed FUM of approximately $6.1 billion as at 30 June 2023 across debt and equity Funds and other mandates. The Company specialises in managing funds focused on the real estate private credit and real estate private equity sectors. The Company Funds platform consists of 17 active funds, comprising 7 specialist commercial real estate (CRE) credit funds, and 10 specialist real estate private equity funds, which, together with other investor and non-fund mandates (Funds), manage a total $6.1 billion of FUM. Additionally, the Company holds interests in its Funds alongside institutional, wholesale and retail investors (Fund Investors), totaling $38.2 million (Co-Investments).

Arch Finance Unit Trust is a wholly owned entity of the Company. 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.

### Options for Company Shares

On 1 August 2022 the Company granted options to Abu Dhabi Investment Authority (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 with the Group, within the option term. The exercise price of each option is the VWAP [3] (per share) of shares issued since the IPO of Qualitas. The expiry date of the options is 1 August 2024 [4].

On 8 March 2023 the Company issued 817,299 options to non-executive employees to acquire ordinary shares in the Company, at an exercise price of $2.75, under the Company's employee equity plan [5]. The options expire on 8 March 2033.

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.
2. As at 30 June 2023.
3. Options strike price is the volume weighted average price of shares issued since the IPO of Qualitas. Hence it is subject to future issuances of Qualitas shares. The current strike price of $2.50 includes the issue of 2,016,053 Loan Shares on 6 December 2022.
4. Refer to the Company's ASX announcement on 2 May 2023.
5. Refer to Item 6 of the Company's 2022 AGM Notice.

# DIRECTORS' REPORT

## AFTER BALANCE DATE EVENTS

Subsequent to 30 June 2023, the Group secured an increased capital commitment from an institutional investor of $750 million in the Qualitas Construction Debt Fund II supporting the Fund to capitalise on upcoming attractive opportunities in the CRE private credit sector. This increases the size of the Fund to approximately $1.95 billion of committed capital and Qualitas will increase its co-investment in the Fund by a further $5 million to $10 million total commitment.

The Group has also since balance date secured an additional $700 million from a wholly owned subsidiary of the Abu Dhabi Investment Authority (ADIA) for the existing Qualitas Diversified Credit Investments Fund (QDCI). The additional commitment brings QDCI's committed capital to $1.45 billion and Qualitas committed FUM to $7.5 billion. In August 2022, Qualitas granted options to ADIA under which ADIA may acquire up to a maximum of 32,630,374 new ordinary shares. This new mandate means ADIA can exercise its options to acquire an initial tranche of 22,841,263 ordinary shares at a strike price currently at $2.50 per share [1] until the options expiry date of 1 August 2024.

Subsequent to year end, on 23 August 2023, the Directors declared a fully franked dividend of 5.5 cents per share which amounted to $16,280,833 to be paid on 3 October 2023 with a record date of 12 September 2023.

There were no other matters or circumstances that have arisen since 30 June 2023 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

On 18 August 2022, the Directors declared a fully franked dividend of 4 cents per share which amounted to $11,760,000 to be paid on 8 September 2022 with a record date of 24 August 2022.

On 22 February 2023, the Directors declared a fully franked dividend of 2 cents per share which amounted to $5,920,321 to be paid on 4 April 2023 with a record date of 7 March 2023.

## 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 33 on page 87 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.

## REMUNERATION REPORT

The Remuneration Report is set out on pages 31 to 42 and forms part of this Directors' Report.

## AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 43.

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

Andrew Fairley AM
*Chairman*

Melbourne
23 August 2023

1. Options strike price is the volume weighted average price of shares issued since the IPO of Qualitas. Hence it is subject to future issuances of Qualitas shares. The current strike price of $2.50 includes the issue of 2,016,053 Loan Shares on 6 December 2022

# AUDITED REMUNERATION REPORT

30 JUNE 2023

## LETTER FROM THE CHAIR OF THE NOMINATION, REMUNERATION AND GOVERNANCE COMMITTEE OF QUALITAS

Dear Securityholders,

On behalf of the Board of Directors, I am pleased to present the Company's Remuneration Report.

There have been some outstanding achievements over the past year, which delivered Qualitas' strong results year-on-year. The Board would like to congratulate the whole team on their hard work and the contributions they have made throughout the year.

Notable financial highlights for the year ended 30 June 2023, include:

- An increase in total committed funds under management (**FUM**) to $6.1 billion. This was up 43 per cent on FY22, demonstrating Qualitas' success in executing its growth strategy of attracting large mandates.
- The deployment of $3.0 billion in capital, up 55 per cent on FY22. Supporting this was a 44 per cent increase in the average transaction size (excluding 'AURA by Aqualand') which reached $73 million.
- Strong growth in funds management revenue. Driven by the increased FUM and deployment, revenue increased to $44.1 million, up 25 per cent on the prior corresponding period.

There were many more highlights during the year that underpinned the results.

### FY23 REMUNERATION OUTCOMES

Qualitas' Executive Remuneration Framework aims to be market competitive and to align performance measures with the Group's strategic objectives, values and behaviours, and risk culture. We believe it is appropriately aligned with the interests of shareholders and investors in our funds.

The key components of the Framework are Fixed Remuneration, Short-Term (**STI**) and Long-Term Incentives (**LTI**), and in some instances, a legacy entitlement of Fund Participation Rights. In relation to Executive pay in FY23, the following key comments are made, with further details provided within this Report:

- Andrew Schwartz (Group Managing Director and Co-Founder) (**Group Managing Director**) did not participate in the FY23 STI plan. His significant shareholding in the Group ensures continued alignment with long-term shareholder outcomes.
- Mark Fischer (Global Head of Real Estate and Co-Founder) and Philip Dowman (Chief Financial Officer) participated in the FY23 STI plan and achieved vesting outcomes of $452,804 and $82,253 respectively. The Board views these outcomes as appropriate in the context of their individual performance as well as the performance of the Group.
- The Executive LTI was offered for the first time in FY23 under the Qualitas Employee Equity Plan. The LTI for Executive employees (except for Andrew Schwartz) was offered in the form of Performance Rights with a performance period from 1 July 2022 to 30 June 2025.
- As set out in this report and prior Company disclosures, Andrew Schwartz does not participate in the LTI under the Qualitas Employee Equity Plan. In FY23, he participated in an LTI under the Loan Share Plan for the first time, which also has a performance period from 1 July 2022 to 30 June 2025.
- As outlined in the Prospectus and the FY22 Remuneration Report, our Executive key management personnel (**KMP**) have legacy interests in 'Fund Participation Rights', connected to the performance of certain Qualitas Funds.

We will continue to review and assess the effectiveness of our remuneration framework and policies to ensure they remain appropriate for Qualitas, market competitive, and align with shareholder expectations.

On behalf of the Board, I invite you to read the Remuneration Report and welcome any feedback you may have.

**Mary Ploughman**

*Chair of the Nomination, Remuneration and Governance Committee*

23 August 2023

# AUDITED REMUNERATION REPORT

The Company was incorporated on 4 November 2021 and first listed on the Australian Securities Exchange on 16 December 2021.

This Remuneration Report captures the Company's remuneration arrangements for the year ended 30 June 2023. Comparatives are for the period from incorporation to 30 June 2022. The Remuneration Report is presented in accordance with the requirements of the *Corporations Act 2001* (Cth) (the Act). It has been audited as required by Section 308(3C) of the Act.

## 1) KEY MANAGEMENT PERSONNEL

The remuneration report details the KMP remuneration arrangements for the Group, in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including all directors. They include Non-Executive Directors and senior executives who fall within those criteria. For the year ended 30 June 2023, KMP were:

*Table 1: Listing of KMP*

| Non-Executive Directors | Role | Term |
|---|---|---|
| Andrew Fairley AM | Independent, Non-Executive Chairman | Full year |
| Mary Ploughman | Independent Non-Executive Director | Full year |
| Michael Schoenfeld | Independent Non-Executive Director | Full year |
| JoAnne Stephenson | Independent Non-Executive Director | Full year |
| Brian Delaney | Non-Executive Director | Full year |

| Executive Director | Role | Commenced as KMP |
|---|---|---|
| Andrew Schwartz | Group Managing Director | Full year |

| Other Executive KMP | Role | Commenced as KMP |
|---|---|---|
| Mark Fischer | Global Head of Real Estate | Full year |
| Philip Dowman | Chief Financial Officer | Full year |

The term Executive KMP refers to the Executive Director and Other Executive KMP.

We note that there were no changes in KMP or other material matters from close of reporting period to publishing of the report.

## 2) EXECUTIVE REMUNERATION GOVERNANCE AND STRUCTURE

Qualitas recognises the importance of retaining key talent in a globally competitive market and aligning remuneration with the interests of shareholders and investors. To assist the Board, the NRG Committee and Management to implement this remuneration philosophy, Qualitas has a Remuneration Policy that sets out a framework for the group to operate within. The policy provides the following key principles that guide Qualitas' reward structures:

a) ensuring alignment with Qualitas' vision, values, and strategy, and encouraging appropriate behaviours;

b) aligning the interests of Employees and Directors with company performance and achievement of business goals (both, financial and non-financial), without rewarding misconduct, or conduct negatively impacting Qualitas' reputation;

c) promoting diversity and equality;

d) ensuring easy to understand, and transparent, remuneration policies and practices designed to attract, retain and motivate Employees and Directors;

e) including risk gateways to ensure participants act within agreed risk parameters;

f) balancing competitiveness, with economical value to shareholders, in changing market conditions, recognising that for truly critical talent, generous packages should be favoured, but weighted to the long-term; and

g) meeting high standards of governance and complying with all relevant legal and regulatory provisions, including having regard for the expectations of an ASX-listed entity.

The Board is accountable to Qualitas' shareholders and reviews and approves the recommendations of the NRG Committee on Qualitas' remuneration policies, incentive programs and remuneration of the Group Managing Director.

The NRG Committee's role and objectives [1] are to support and advise the Board in fulfilling its responsibilities to shareholders and employees of the Group in relation to remuneration. The NRG Committee oversees the Group's overall remuneration and incentives framework and policies, including giving appropriate consideration to the Company's performance and objectives, employment conditions and remuneration relativities.

The members of the NRG Committee are Mary Ploughman (Chair), Andrew Fairley AM and Brian Delaney.

***Principles used to determine the nature and amount of remuneration***

The Board, with the assistance of the NRG Committee partnered with management to structure an Executive Remuneration Framework and policy that seeks to be market competitive and to align performance measures to the achievement of the Group's strategic objectives. The executive remuneration framework operates within the key principles of the Remuneration Policy.

1. Further detail can be found in the NRG Charter on the Investor Centre on the Company website.

# AUDITED REMUNERATION REPORT

## 3) EXECUTIVE REMUNERATION FRAMEWORK

The remuneration framework is intended to be commercially appropriate and designed to attract, retain and motivate staff, and be consistent with the objectives outlined in the business strategy. This is done through an appropriate balance between variable and fixed components and a direct connection with the remuneration of individual performance and Qualitas' performance.

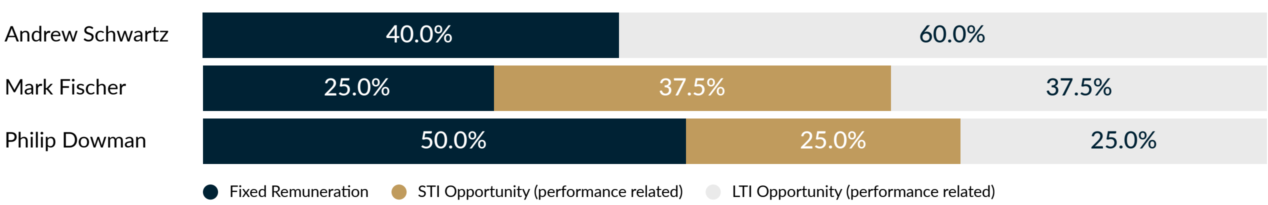
The key components of the Company's remuneration framework are summarised below.

*Table 2: Executive Remuneration Framework*

| Component | Purpose |
|---|---|
| ***Fixed Remuneration***<br>Delivered in **Cash**, comprising:<br>– Base salary;<br>– Statutory benefits (superannuation);<br>– Other agreed benefits. | Primary reward for performing duties of job, and defined according to role, qualifications, experience, and skills against appropriate comparator group. This is reviewed annually.<br>Benchmarked against comparator data, and purposefully set above median, in order to attract, retain and motivate the appropriate talent. |
| ***Short-Term Incentive (STI)***<br>Delivered in **Cash**, and 50% of balance over $100,000 in **Deferred Equity** over two years.<br>Performance tested against a scorecard of financial and non-financial measures.<br>The Group Managing Director did not participate in the STI in FY23. | Reward to encourage performance against identified annual short-term financial and strategic objectives.<br>Inclusion of risk gateway to foster acceptable risk behaviour.<br>Deferred component encourages longer-term alignment with shareholders and retention. |
| ***Long-Term Incentive (LTI)***<br>Delivered in **Performance Rights**, subject to 3-year performance conditions to KMP except for the Group Managing Director.<br>The Group Managing Director participates in an LTI under the Loan Share Plan, as described further in this report.<br>The first grant was made in FY23. | Reward to encourage performance against long-term group-wide objectives, to align key individuals with shareholder outcomes, and to encourage retention. |

*Table 3: Executive KMP remuneration mix*

Maximum Executive KMP remuneration mix for FY23



# AUDITED REMUNERATION REPORT

## 4) EXECUTIVE SHORT-TERM INCENTIVE (STI) PLAN

The table below provides an explanation of the terms and conditions applying to the FY23 STI.

| | |
|---|---|
| Overview of the STI | The STI is an 'at-risk' component of senior executive remuneration whereby, if the applicable performance conditions are met, 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 in the form of Performance Rights, which will be deferred for two further years. |
| Participation | Senior management and other selected employees are eligible to participate in the STI, including Global Head of Real Estate and Chief Financial Officer.<br><br>Group Managing Director did not participate in the FY23 STI. |
| Performance period | 1 July 2022 to 30 June 2023. |
| FY23 STI opportunity (maximum) | Global Head of Real Estate: 150% of Fixed Remuneration<br><br>Chief Financial Officer: 50% of Fixed Remuneration |
| Performance conditions | The Board has discretion to adjust STI outcomes against conduct and financial performance gateway conditions.<br><br>To receive payments under the FY23 STI, Executive performance is assessed against Personal KPI's (50%) and Group KPI's (50%), which are a combination of financial and non-financial performance conditions.<br><br>The Board recognises that variable remuneration structures must encourage appropriate behaviours and not be singularly focused on single-year financial objectives. |
| Delivery of FY23 STI | The first $100,000 of any vested STI award will be paid in cash, as well as 50% of the remaining award, and the remaining 50% in the form of Share Rights which will vest following a deferral period of two years (Deferred Component). |
| Deferred STI | The Deferred Component of the STI will be delivered in Share Rights.<br><br>A Share Right is a conditional entitlement to receive a share.<br><br>The number of Share Rights allocated will be calculated by dividing the Deferred Component by the 5-day VWAP immediately following release of FY23 results.<br><br>Subject to the participant's continued employment for a further two years, the Share Rights will vest and entitle the participant to the equivalent number of ordinary shares.<br><br>Share Rights are granted for nil consideration and no amount is payable on vesting. Share Rights do not carry dividend or voting rights prior to vesting. |
| Treatment of Share Rights on cessation of employment | Unless the Board determines otherwise, all Share Rights will immediately lapse upon cessation of employment prior to the end of the performance period. |
| Change of control | The Board may determine that all or a specified number of a senior executive's Share Rights will vest where there is a change of control event in accordance with the Qualitas Employee Equity Plan (**QEEP**) rules. |
| Clawback and preventing inappropriate benefits | The QEEP rules provide the Board with broad clawback powers if, for example, the senior executive has acted fraudulently or dishonestly or there is a material financial misstatement. |

# AUDITED REMUNERATION REPORT

## 4) EXECUTIVE SHORT-TERM INCENTIVE (STI) PLAN CONTINUED

### FY23 STI PLAN OUTCOME

The Executive STI plan is intended to reward outperformance. Company and personal KPI's threshold and stretch targets set a high performance benchmark.

**Company gateways:**

Both the gateways were assessed as met:

- Financial gateway (achievement of financial targets) was achieved and assessed with reference to audited financial results.
- Conduct gateway were assessed as achieved for FY23. The conduct gateway was assessed with reference to Qualitas conduct, risk and compliance protocols all met.

**Company KPIs (50% weighting):**

Each performance condition must meet threshold (50%) to contribute to STI outcome. Based on the assessment of performance against Company KPIs, the outcome was between threshold and met for this component.

| | |
|---|---|
| **Financial Measures (25%)**<br>Threshold: 50%<br>Stretch: 100% | Performance was measured against Net Profit Before Tax, Funds Under Management growth and IPO proceeds utilisation. |
| **Leadership, Culture and ESG (12.5%)**<br>Threshold: 50%<br>Stretch: 100% | Performance was measured against leadership and culture engagement survey, and Reconciliation Action Plan progress. |
| **Capital and Governance (12.5%)**<br>Threshold: 50%<br>Stretch: 100% | Performance was measured against strategic initiatives, investment mandates and risk tolerance (risk metric met threshold). |

**Individual KPIs (50% weighting):**

Individual KPIs within the executive's influence and line of sight were set for Mark Fischer and Philip Dowman at the start of FY23. Targets were set in areas including IPO revenue proceeds, key strategic priorities and performance was assessed at the end of the year. Based on the assessment of performance against individual KPIs, Mark Fischer and Philip Dowman exceeded and met respectively (out of a maximum of 50%) this component.

**Overall FY23 Outcomes**

The following STI payments were approved by the Board for the following Executive KMP based on the assessment of the FY23 outcomes.

*Table 4: FY23 STI outcomes*

| Name or Position | STI Opportunity $ | STI Outcome $ | STI Outcome | STI forfeited |
|---|---|---|---|---|
| Mark Fischer | $900,000 | $452,804 | Met | $447,196 |
| Philip Dowman | $192,500 | $82,253 | Mainly met | $110,247 |

# AUDITED REMUNERATION REPORT

## 5) EXECUTIVE LONG-TERM INCENTIVE (LTI) PLAN

The Company has established the Executive LTI plan to assist in the motivation, retention and reward of eligible employees.

The Executive LTI is designed to align the interests of executives with the interests of shareholders by providing an opportunity for employees to receive an equity interest in the Company subject to satisfaction of key performance conditions. Please note due to Andrew Schwartz's substantial Company shareholding, he is not eligible to participate in the Executive LTI plan to receive a grant of Performance Rights, however instead participates in the LTI Loan Plan, described below. The LTI Loan Plan contains an additional inherent condition (beyond the Executive LTI plan), as the value of the Loan must be repaid before the LTI Loan Plan will deliver any value.

Qualitas made its first grant of rights under the Executive LTI plan in FY23 (**FY23 Executive LTI Grant**). Key details of the FY23 Executive LTI Grant are set out below.

*Table 5: Executive LTI Grant details*

| Term | Details | |
|---|---|---|
| Participation | Mark Fischer and Philip Dowman are eligible to participate in the Executive LTI plan. | |
| LTI opportunity | Mark Fischer | 150% of Fixed Remuneration |
| | Philip Dowman | 50% of Fixed Remuneration |
| LTI instrument | Performance Rights | |
| Performance Period | Three years, commencing on 1 July 2022 and ending on 30 June 2025. | |
| Performance Conditions | Performance will be assessed against a mix of financial and non-financial measures which are intended to appropriately align vesting with Company performance from the perspective of a shareholder as follows:<br><br>EPS CAGR – 37.5% weighting<br>– 37.5% will be subject to targets in relation to the compound annual growth rate (**CAGR**) of the Company's earnings per share (**EPS**) over the Performance Period. EPS CAGR measures the growth in profit generated by the company attributable to each Share on issue, thereby aligning vesting outcomes with shareholder experience. | |
| | rTSR – 37.5% weighting<br>– 37.5% will be subject to a relative total shareholder return (**rTSR**) measure, assessing the Company's performance over the Performance Period relative to the constituents of the S&P/ASX300 A-REIT index. By measuring the return shareholders would earn by the change in the Company's share price together with the value of dividends, this metric ensures executives are rewarded only when performance is meeting or exceeding the median of the comparator group. The S&P/ASX300 A-REIT index has been chosen to make appropriate comparisons to companies with similar business operations.<br><br>Other measures – 25% weighting<br>The remainder of the LTI is subject to two equally weighted non-financial metrics which the Board views as balancing the financial performance of the company with its strategic objectives. These measures consider Leadership, Culture and ESG metrics (12.5%), and Capital and Governance metrics (12.5%). | |
| Treatment of Performance Rights on cessation of employment | Unless the Board determines otherwise, if a participant ceases employment during the performance period as a 'good leaver', they will be entitled to retain a pro-rated number of their unvested Performance Rights, based on the proportion of the Performance Period which has elapsed at the date of cessation. The Performance Rights retained will remain subject to the same terms, including the applicable performance conditions. The remainder of the unvested Performance Rights will lapse on cessation of employment.<br><br>If a participant ceases employment in any circumstances where they are not considered a 'good leaver', their unvested Performance Rights will lapse immediately on cessation, unless the Board determines otherwise. | |
| Change of control | The Board may determine that all or a specified number of unvested Performance Rights will vest where there is a change of control event in accordance with the QEEP rules. | |
| Clawback and preventing inappropriate benefits | The QEEP rules provide the Board with broad clawback power if, for example, a participant has acted fraudulently or dishonestly or there is a material financial misstatement. | |

# AUDITED REMUNERATION REPORT

## 5) EXECUTIVE LONG-TERM INCENTIVE (LTI) PLAN CONTINUED

### LTI LOAN PLAN

The Group Managing Director's LTI arrangement differs to the other Executives. This is because the Group Managing Director is a substantial shareholder of the Company and as a result, would not be able to participate in the FY23 Executive LTI without significant detriment, as any equity under the Executive LTI plan would be taxed at grant.

Instead, the Group Managing Director participated in the LTI Loan Plan, that was approved by shareholders at the 2022 Annual General Meeting (**AGM**). Under the LTI Loan Plan and in accordance with shareholder approval, the Group Managing Director was entitled to acquire loan shares in Qualitas.

The table below provides a summary of the terms and conditions of the Loan Plan.

*Table 6: Loan Plan summary*

| | |
|---|---|
| Overview of the Loan Plan | The LTI is an 'at-risk' component of senior executive remuneration. Under the Loan Plan, Loan Shares are allocated for market value consideration. A Loan is provided by the Company to fund the acquisition price of the Loan Shares.<br>The Loan Shares may generally not be sold or otherwise transferred until they vest and the Loan is repaid. |
| Loan terms | The Loan is:<br>– interest free;<br>– limited recourse; and<br>– repayable on the earliest of:<br>> the date Loan Shares are forfeited under the Loan Plan;<br>> the date the Loan Shares are sold;<br>> the expiry of the Loan (3.5 years from grant); and<br>> any other date agreed between the Company and the Group Managing Director.<br>The Loan balance is repaid by (i) applying any after-tax dividends received on the Loan Shares; (ii) applying after-tax proceeds from the disposal of vested Loan Shares, and (iii) the Group Managing Director may choose to self-fund the repayment of the outstanding Loan balance. |
| FY23 LTI opportunity | 150% of Fixed Remuneration.<br>An independent valuer was engaged to provide an indicative valuation of a Loan Share. This valuation valued one Loan Share at 30.61% of the market value of one fully paid ordinary share in the Company for the FY23 grant. Therefore, the value of the Loan provided was $4,899,816. An updated valuation will be completed prior to any future grants. |
| Vesting conditions | Loan Shares will vest following the end of the Performance Period, subject to the Group Managing Director's continuing employment and to the extent that the Performance Conditions are satisfied. |
| Performance Period | Three years, commencing on 1 July 2022 to 30 June 2025. |
| Performance Conditions | The Loan Shares will vest depending on whether a mix of financial and non-financial measures are met over the performance period. The performance conditions are the same as for the Executive LTI Performance Conditions outlined above in table 5. |
| Treatment of Loan Shares on cessation of employment | Unless the Board determines otherwise, if the Group Managing Director ceases employment during the Performance Period as a 'good leaver', he will be entitled to retain all unvested Loan Shares, in accordance with the Loan Plan rules. Any outstanding Loan balance must be repaid within six months from the date of vesting.<br>If the Group Managing Director ceases employment in any circumstances where he is not considered a 'good leaver', his unvested Loan Shares will be forfeited on cessation of employment and surrendered in full satisfaction of the Loan, unless the Board determines otherwise. |
| Change of control | The Board may determine that all or a specified number of unvested Loan Shares will vest where there is a change of control event in accordance with the Loan Plan rules. |
| Clawback and preventing inappropriate benefits | The Loan Plan rules provide the Board with broad clawback power if, for example, the Group Managing Director has acted fraudulently or dishonestly or there is a material financial misstatement. |

# AUDITED REMUNERATION REPORT

## 5) EXECUTIVE LONG-TERM INCENTIVE (LTI) PLAN CONTINUED

### LTI LOAN PLAN CONTINUED

The Board determined that the LTI Loan Plan was appropriate for the Group Managing Director and will approve the vesting of the Loan Shares at the conclusion of the FY23 three year performance period of 1 July 2022 to 30 June 2025. The performance and vesting of the Loan Shares to the Group Managing Director will be assessed against the Performance Measures set out above in Table 5.

The Board views the Performance Measures as an appropriate balance of financial and non-financial performance measures. The number of Loan Shares that vest will depend on the level of performance achieved, and the Board retains overall discretion to determine whether vesting of Loan Shares is appropriate.

Further detail on the LTI Loan Plan is set out on pages 12 to 17 of the Qualitas 2023 Notice of Annual General Meeting and Explanatory Notes.

### Other legacy awards

*Employee Equity Award*

As outlined in the Prospectus, selected 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**).

Philip Dowman was one of the participants in this award. He was granted Share rights with a face value of $125,000.

*Fund Participation Rights*

One method used by Qualitas to incentivise key individuals to maximise performance of Funds managed, and to retain these key individuals for the life of the investment, is to award Fund Participation Rights.

Fund Participation Rights are a share of performance fees linked to the performance of a Fund, or other investment vehicle, managed by Qualitas with or without conditions, and distributed as cash payments, when the Fund matures (or similar milestone event occurs), subject to individuals remaining employed with Qualitas at the time.

While the terms of Fund Participation Rights can differ based on the circumstance, fees are typically:

- Only payable based on Performance Fee calculation reflected in final audited financial statement of the Fund, prepared in accordance with Fund's governing documents, including Information Memorandum, Trust Deed and associated documents;
- Only payable once all Performance Fees earned by Qualitas from the Fund have been received in cash;
- Only payable subject to there being no future claims against Qualitas (e.g. contingent liability), with Qualitas completely 'off-risk' on the Fund; and
- Only payable subject to the Participant's continued employment until the payment date.

As outlined in the Prospectus, Fund Participation Rights have historically been a significant component of remuneration for many Qualitas executives, including the current Executive KMP.

As a result of this, the Executive KMP have a significant value of legacy Fund Participation Rights which remain on foot. The values of these awards are variable based on performance of the individual Funds, and subject to continued employment at the date each relevant Fund matures. The Funds are scheduled to mature between January 2024 and September 2027.

*Table 7: Fund Participation Rights*

| Fund (Maturity Date) | Andrew Schwartz $ | Mark Fischer $ | Philip Dowman $ |
|---|---|---|---|
| Total | 7,616,083 | 5,449,770 | 217,721 |

As outlined in the Prospectus, Mark Fischer also has legacy entitlements to receive 'success payments' to the extent certain agreed Qualitas Fund milestones are met. The total value of these success payments is not expected to exceed $300,000 and would only be paid due to successful achievement of specific milestones. During the current reporting period, Mark Fischer received a payment of $105,000. A further $45,000 will be paid in FY24.

# AUDITED REMUNERATION REPORT

## 6) NON-EXECUTIVE DIRECTOR'S REMUNERATION

*Table 8: Non-Executive Director's remuneration*

| Name | From 1 January 2023 $ | Prior to 1 January 2023 $ |
|---|---|---|
| Annual base – Chair | 220,500 | 210,000 |
| Annual base – Non-Executive Director fees | 110,250 | 105,000 |
| Chair of each Board committee | 21,000 | 20,000 |

In addition to the responsibilities associated with being a Board member, Mr Delaney will be chairing the firm's Capital Advisory Group, which has an associated fee of $20,000 (increased to $21,000 from 1 January 2023), representing additional time commitments and responsibilities. Mr Schoenfeld will be serving as a member of various Fund investment committees (in addition to chairing the Investment Committee of Qualitas), which has an associated fee of $25,000 (increased to $26,250 from 1 January 2023), representing additional time commitments and responsibilities in relation to Fund investment committees.

Non-Executive Directors may be reimbursed for all travel, hotel and other expenses properly incurred by them in attending and returning from meetings of the Directors or any committee of the Directors or general meetings of the Company or otherwise in connection with the Company's business.

Non-Executive Directors may be paid such additional or special remuneration if they, at the request of the Board, perform any extra services or make special exertions outside the scope of the ordinary duties of a Director. Expense reimbursement fees, special exertion fees and the value of equity-based remuneration will not be included in the aggregate maximum amount paid to all Non-Executive Directors.

There are no retirement benefit schemes for Non-Executive Directors, other than statutory superannuation contributions.

*Table 9: Statutory remuneration of the Non-Executive Directors*

Statutory remuneration of the Non-Executive Directors for 2023 and 2022.

| Name | | Fees $ | Superannuation $ | Share based payments $ | Total remuneration $ |
|---|---|---|---|---|---|
| Andrew Fairley AM | **2023** | **215,250** | | **–** | **215,250** |
| | 2022 | 138,250 | – | 125,000 | 263,250 |
| Mary Ploughman | **2023** | **115,950** | **12,175** | **–** | **128,125** |
| | 2022 | 75,758 | 7,576 | 25,000 | 108,334 |
| Michael Schoenfeld | **2023** | **139,140** | **14,610** | **–** | **153,750** |
| | 2022 | 90,909 | 9,091 | 175,000 | 275,000 |
| JoAnne Stephenson | **2023** | **115,950** | **12,175** | **–** | **128,125** |
| | 2022 | 75,758 | 7,576 | 25,000 | 108,334 |
| Brian Delaney | **2023** | **115,950** | **12,175** | **–** | **128,125** |
| | 2022 | 75,758 | 7,576 | 75,000 | 158,334 |

## 7) EMPLOYMENT AGREEMENTS

Remuneration and other terms of employment for Executive KMP are formalised in employment agreements which outline their duties and remuneration. All employment agreement term lengths are open-ended (i.e., ongoing until notice is provided by either party).

In the case of termination of employment by the Company or by the Executive, the Company may:

- in lieu of part or all of the notice period, elect to pay to the Executive an amount equivalent to the Fixed Remuneration for that part or all of the period of notice not given or required to be served (and, if the Company does so, the Executive's employment terminates on the date the Company notifies the Executive of its election); and
- require the Executive to perform only those Duties determined by the Company, or no Duties, during any notice period.

Following review, KMP base remuneration for FY24 has increased by 2% per Executive member (including KMP), except for the Chief Financial Officer who received a 7.8% increase for FY24 to meet market comparable salaries.

*Table 10: FY23 Executive KMP employment agreements*

| | Notice period | |
|---|---|---|
| | **By Employee** | **By Qualitas** |
| Andrew Schwartz | 6 months | 6 months |
| Mark Fischer | 6 months | 6 months |
| Philip Dowman | 3 months | 3 months |

Other than prescribed notice periods, there are no special termination benefits payable under the employment agreements of the Executive KMP.

# AUDITED REMUNERATION REPORT

## 8) STATUTORY REMUNERATION DISCLOSURES

### AMOUNTS OF REMUNERATION

The following table sets out the statutory disclosures in accordance with the Accounting Standards year ended 30 June 2023. Comparatives are for the period from incorporation to 30 June 2022 (noting Qualitas Limited was incorporated on 4 November 2021 and acquired the Qualitas operating entities on 21 December 2021).

### REMUNERATION FOR EXECUTIVE KMP FOR FY23 AND FY22

*Table 11: Executive KMP total remuneration*

Executive KMP total remuneration for FY23 and FY22

| | | Short-term benefits | | | | Post-employment benefits | Long term employee benefits | Share based payments | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Year | Base salary $ | Cash bonus $ | Non-monetary benefit $ | Annual leave $ | Superannuation $ | Long service leave $ | Shares $ | Rights $ | Fund Participation Rights $ | Termination benefits $ | Total $ | Percentage of remuneration performance related % |
| Andrew Schwartz | 2023 | 972,500 | – | – | (14,962) | 27,500 | 16,209 | 172,551 | – | – | – | 1,173,798 | 14.7% |
| Mark Fischer | 2023 | 574,708 | 276,402 | – | (22,561) | 25,292 | 9,205 | – | 311,753 | 242,419 | – | 1,417,218 | 58.6% |
| Philip Dowman | 2023 | 359,708 | 82,253 | – | 10,594 | 27,292 | 7,147 | – | 64,994 | – | – | 551,988 | 26.7% |
| Andrew Schwartz | 2022 | 515,018 | – | – | 9,009 | 13,866 | 8,676 | – | – | 1,047,442 | – | 1,594,011 | 65.7% |
| Mark Fischer | 2022 | 307,583 | 433,850 | – | 32,162 | 11,784 | 34,162 | – | 69,447 | 545,625 | – | 1,434,613 | 73.1% |
| Philip Dowman | 2022 | 178,164 | 123,620 | – | 1,049 | 11,885 | 2,947 | – | 20,984 | 44,995 | – | 383,644 | 49.4% |

### KMP SECURITY HOLDINGS

The following table lists the KMP security holdings (including their related parties for FY23 and FY22

*Table 12: Security Holdings – Shares – FY23*

| | | | | Held at 30 June 2023 | |
|---|---|---|---|---|---|
| KMP | Holding at 30 June 2022 | Received as remuneration | Other net change | Personally (Directly held) [1] | Nominally (Indirectly held) |
| *Non-Executive Directors* | | | | | |
| Andrew Fairley AM | 257,400 | – | – | 50,000 | 207,400 |
| Brian Delaney | 55,000 | – | – | 30,000 | 25,000 |
| JoAnne Stephenson | 30,000 | – | 20,000 | 10,000 | 40,000 |
| Mary Ploughman | 30,000 | – | – | 30,000 | – |
| Michael Schoenfeld | 140,000 | – | – | 70,000 | 70,000 |
| *Executives* | | | | | |
| Andrew Schwartz [2] | 66,830,066 | 2,016,053 [4] | – | 2,016,053 [4] | 66,830,066 |
| Philip Dowman | – | – | – | – | – |
| Mark Fischer [3] | 7,770,927 | – | – | – | 7,770,927 |

1. All personally held shares (with the exception of 20,000 shares held by Mary Ploughman) have a holding lock until 16 December 2023.
2. Following completion, QPP Holdings (an entity controlled by Andrew Schwartz) held 66,830,066 Qualitas Shares. As outlined in the Prospectus these shares are subject to a disposal restriction with 33.3% eligible for disposal following the release of FY22 results, 33.3% on 16 December 2023 and the final 33.3% on 16 December 2027.
3. A loan is attached to these shares of $461,357 (balance of $440,352 at beginning of the reporting period) and is required to be repaid at the earlier of October 2031 or pro rata upon disposal of the shares. As outlined in the Prospectus these shares are subject to a disposal restriction with 33.3% eligible for disposal following the release of FY22 results, 33.3% on 16 December 2023 and the final 33.3% on 16 December 2027. The loan is subject to an interest rate of 4.77%. Interest of $21,005 was charged on the loan during the reporting period.
4. In accordance with shareholder approval at the Company's 2022 AGM, 2,016,053 ordinary shares (as defined in the Company's 2022 AGM Notice of Meeting as Loan Shares) were issued to Andrew Schwartz, Group Managing Director, on 6 December 2022. The total number of ordinary shares currently on issue is 296,016,053, notwithstanding that the Loan Shares are subject to a 3-year vesting condition and may be forfeited in whole or part at that time.

# AUDITED REMUNERATION REPORT

## 8) STATUTORY REMUNERATION DISCLOSURES CONTINUED

### KMP SECURITY HOLDINGS CONTINUED

*Table 13: Security Holdings – Rights – FY23*

| KMP | Holding at 30 June 2022 | Exercised/ vested | Received as remuneration | Held at 30 June 2023 | |
|---|---|---|---|---|---|
| | | | | Personally | Nominally |
| *Non-Executive Directors* | | | | | |
| Andrew Fairley AM | – | – | – | – | – |
| Brian Delaney | – | – | – | – | – |
| JoAnne Stephenson | – | – | – | – | – |
| Mary Ploughman | – | – | – | – | – |
| Michael Schoenfeld | – | – | – | – | – |
| *Executives* | | | | | |
| Andrew Schwartz | – | – | – | – | – |
| Philip Dowman | 50,000 | – | 98,720 | 148,720 | – |
| Mark Fischer | – | – | 563,608 | 563,608 | – |

*Table 14: Security Holdings – Shares – FY22*

| KMP | Holding at listing date [1] | Received as remuneration | Other net change | Held at 30 June 2022 | |
|---|---|---|---|---|---|
| | | | | Personally (Directly held) | Nominally (Indirectly held) |
| *Non-Executive Directors* | | | | | |
| Andrew Fairley AM | 200,000 | – | 57,400 [3] | 50,000 | 207,400 |
| Brian Delaney | 25,000 | – | 30,000 | 30,000 | 25,000 |
| JoAnne Stephenson | 20,000 | – | 10,000 | 10,000 | 20,000 |
| Mary Ploughman | 20,000 | – | 10,000 | 30,000 | – |
| Michael Schoenfeld | 70,000 | – | 70,000 | 70,000 | 70,000 |
| *Executives* | | | | | |
| Andrew Schwartz [2] | 66,830,066 | – | – | – | 66,830,066 |
| Philip Dowman | – | – | – | – | – |
| Mark Fischer [4] | 7,770,927 | – | – | – | 7,770,927 |

1 As none of the KMP held securities between incorporation and listing, only the securities held at listing date have been reported.

2 Following completion, QPP Holdings (an entity controlled by Andrew Schwartz) held 66,830,066 Qualitas Shares. As outlined in the Prospectus these shares are subject to a disposal restriction with 33.3% eligible for disposal following the release of FY22 results, 33.3% on 16 December 2023 and the final 33.3% on 16 December 2027.

3 7,400 were an on-market purchase.

4 A loan is attached to these shares of $440,352 (balance of $421,309 at beginning of the reporting period) and is required to be repaid at the earlier of October 2031 or pro rata upon disposal of the shares. As outlined in the Prospectus these shares are subject to a disposal restriction with 33.3% eligible for disposal following the release of FY22 results, 33.3% on 16 December 2023 and the final 33.3% on 16 December 2027. The loan is subject to an interest rate of 4.52%. Interest of $12,469 was charged on the loan during the reporting period.

*Table 15: Security Holdings – Rights – FY22*

| KMP | Holding at listing date | Exercised/ vested | Received as remuneration | Held at 30 June 2022 | |
|---|---|---|---|---|---|
| | | | | Personally | Nominally |
| *Non-Executive Directors* [1] | | | | | |
| Andrew Fairley AM | 50,000 | 50,000 | – | – | – |
| Brian Delaney | 30,000 | 30,000 | – | – | – |
| JoAnne Stephenson | 10,000 | 10,000 | – | – | – |
| Mary Ploughman | 10,000 | 10,000 | – | – | – |
| Michael Schoenfeld | 70,000 | 70,000 | – | – | – |
| *Executives* | | | | | |
| Andrew Schwartz | – | – | – | – | – |
| Philip Dowman [2] | 50,000 | – | – | 50,000 | – |
| Mark Fischer | – | – | – | – | – |

1 As outlined in the Prospectus, Non-Executive Directors received Share Rights to compensate them for their contribution to Qualitas prior to listing. These were provided at no cost, at a nil exercise price and at a fair value of $2.50 per Share Right. These Share Rights converted to Shares in March 2023 and are subject to a disposal restriction until 16 December 2023.

2 Philip Dowman received Share Rights as part of the Employee Equity Award. These Share Rights had a fair value of $2.285 (Eligible to vest 16 December 2024) and $2.152 (Eligible to vest 16 December 2026).

# AUDITED REMUNERATION REPORT

## 8) STATUTORY REMUNERATION DISCLOSURES CONTINUED

### ADDITIONAL INFORMATION

The factors that are considered to affect total shareholder return ('TSR') are summarised below:

*Table 16: Factors impacting Group performance FY23*

| | Security performance $ | | | | Earnings performance $ | | | | | Liquidity |
|---|---|---|---|---|---|---|---|---|---|---|
| | Closing security price $ | IPO security price $ | Distribution per security ¢ | EPS ¢ | Revenue $m | EBIT $m | NPAT $ | ROE % | Cash flow operations $m | Debt equity ratio |
| 2023 | 2.69 | 2.50 | 6.00 | 7.70 | 73.40 | 33.59 | 22.54 | 6.23 | (22.89) | 1.04 |
| 2022 | 1.56 | 2.50 | Nil | 5.13 | 39.21 | 13.09 | 12.12 | 3.42 | 38.85 | 1.29 |

### OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Apart from the details disclosed in this Report, no Executive KMP or Non-Executive Director or their related parties have entered into a transaction with the Group since listing and there were no transactions involving those people's interests existing at year-end.

### REMUNERATION CONSULTANTS

The NRG Committee seeks advice from remuneration advisors from time to time in respect of market practice and other remuneration matters. Such information is used to inform decision making and is not a substitute for detailed consideration and debate by the NRG Committee.

No remuneration recommendations were provided to the Group by external providers during the reporting period.

This concludes the remuneration report, which has been audited in accordance with section 308(3c) of the *Corporations Act 2001*.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the directors:

Mary Ploughman
*Chair of NRG Committee*

Andrew Fairley AM
*Chair*

23 August 2023

# LEAD AUDITOR'S INDEPENDENCE DECLARATION

## Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

### To the Directors of Qualitas Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Qualitas Limited for the financial year ended 30 June 2023 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Rachel Gatt

Rachel Gatt
*Partner*

Sydney

23 August 2023

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Notes | Year ended 30 June 2023 $'000 | 4 November 2021 to 30 June 2022 $'000 |
|---|---|---|---|
| ***Income*** | | | |
| Interest income | 8 | 39,091 | 10,729 |
| Interest expense | 8 | (20,469) | (7,062) |
| **Net interest income** | | **18,622** | **3,667** |
| Performance fees | 7a | 4,284 | 13,758 |
| Income from the provision of financial services | 7b | 48,502 | 20,765 |
| Other income | | 2,254 | 1,883 |
| Net gains/(losses) on financial instruments held at fair value through profit or loss | | (259) | (859) |
| **Total income from provision of financial services** | | **54,781** | **35,547** |
| **Total revenue** | | **73,403** | **39,214** |
| Loan impairment reversal/(expense) | | 101 | 187 |
| ***Expenses*** | | | |
| Employee costs | | (29,769) | (16,568) |
| Marketing and sales commission expenses | | (707) | (177) |
| Consulting and professional fees | | (2,466) | (1,428) |
| Travel expenses | | (686) | (149) |
| Depreciation and amortisation | | (1,904) | (704) |
| Insurance costs | | (1,750) | (884) |
| Capital raising costs – QAL | | – | (3,922) |
| Other operating expenses | 9 | (3,849) | (1,943) |
| **Total operating expenses** | | **(41,131)** | **(25,775)** |
| Equity accounted projects result for the year | 24 | (541) | (94) |
| **Profit before income tax** | | **31,832** | **13,532** |
| Income tax benefit/(expense) | 10 | (9,293) | (1,416) |
| **Profit for the period** | | **22,539** | **12,116** |
| Other comprehensive income | | – | – |
| **Total comprehensive income for the period** | | **22,539** | **12,116** |
| Total comprehensive income attributable to: Owners of Qualitas Limited | | 22,539 | 12,116 |
| ***Earnings per share for profit attributable to shareholders of the Group*** | | | |
| Basic earnings per share (cents) | | 7.70 | 5.13 |
| Diluted earnings per share (cents) | | 7.59 | 5.08 |

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes on pages 48 to 87.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | As at 30 June 2023 $'000 | As at 30 June 2022 $'000 |
|---|---|---|---|
| ***Assets*** | | | |
| Cash and cash equivalents | 11 | 192,369 | 309,010 |
| Trade and other receivables | 12 | 16,029 | 15,452 |
| Prepayments | | 1,362 | 960 |
| Loans | 17 | 87,451 | — |
| Accrued performance fees | | 48,928 | 44,654 |
| Intangible asset | | 469 | — |
| Right-of-use assets | 22 | 2,165 | 2,775 |
| Property, plant and equipment | 13 | 722 | 528 |
| Deferred tax asset | 10 | 6,571 | 9,490 |
| Investments | 15 | 38,209 | 32,134 |
| Inventories | 14 | 24,462 | 24,114 |
| Mortgage loans | 18 | 317,570 | 369,368 |
| Intangible asset – capitalised contract costs | 16 | 3,612 | 4,279 |
| **Total assets** | | **739,919** | **812,764** |
| ***Liabilities*** | | | |
| Trade and other payables | 19 | 7,589 | 11,511 |
| Deferred income | 20 | 4,476 | 6,336 |
| Employee benefits – accrued incentives | 21 | 21,889 | 20,869 |
| Employee benefits – accrued annual leave and long service leave | 21 | 3,164 | 2,943 |
| Lease liability | 22 | 2,285 | 2,824 |
| Loans and borrowings | 23 | 338,458 | 413,713 |
| **Total liabilities** | | **377,861** | **458,196** |
| **Net assets** | | **362,058** | **354,568** |
| ***Equity*** | | | |
| Issued capital | 25 | 724,267 | 723,141 |
| Retained earnings | | 17,032 | 12,116 |
| Share based payments reserve | | 1,899 | 451 |
| Treasure share reserve | | — | — |
| Common control reserve | | (381,140) | (381,140) |
| **Total equity** | | **362,058** | **354,568** |

The above consolidated statement of financial position should be read in conjunction with the accompanying notes on pages 48 to 87.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| Balance at 4 November 2021 | Issued capital $'000 | Retained earnings $'000 | Share-based payments reserve $'000 | Common control reserve $'000 | Treasury share reserve $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| ***Total comprehensive income for the period*** | | | | | | |
| Profit after tax for the period | – | 12,116 | – | – | – | 12,116 |
| Other comprehensive income | – | – | – | – | – | – |
| Total comprehensive income for the period | – | – | – | – | – | – |
| ***Transactions recorded directly in equity*** | | | | | | |
| Contributions of capital | 335,000 | – | – | – | – | 335,000 |
| Shares issued for consideration of Qualitas Property Partners Pty Ltd and Qualitas Investments Unit Trust | 400,000 | – | – | (381,140) | – | 18,860 |
| IPO costs reflected directly through equity (net of tax) | (11,859) | – | – | – | – | (11,859) |
| Share-based payments | – | – | 451 | – | | 451 |
| **Balance at 30 June 2022** | **723,141** | **12,116** | **451** | **(381,140)** | **–** | **354,568** |

| Balance at 1 July 2022 | Issued capital $'000 | Retained earnings $'000 | Share-based payments reserve $'000 | Common control reserve $'000 | Treasury share reserve $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| ***Total comprehensive income for the period*** | 723,141 | 12,116 | 451 | (381,140) | – | 354,568 |
| Profit after tax for the period | – | 22,539 | – | – | – | 22,539 |
| Other comprehensive income | – | – | – | – | | – |
| Total comprehensive income for the period | – | – | – | – | – | – |
| ***Transactions recorded directly in equity*** | | | | | | |
| IPO costs reflected directly through equity (net of tax) | 743 | – | – | – | – | 743 |
| Options issued | 361 | – | – | – | – | 361 |
| Contributions of capital | 22 | – | – | – | – | 22 |
| Dividends paid | – | (17,623) | – | – | – | (17,623) |
| Share-based payments | – | – | 1,448 | – | – | 1,448 |
| **Balance at 30 June 2023** | **724,267** | **17,032** | **1,899** | **(381,140)** | **–** | **362,058** |

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes on pages 48 to 87.

# CONSOLIDATED STATEMENT OF CASH FLOWS

| | Notes | Year ended 30 June 2023 $'000 | 4 November 2021 to 30 June 2022 $'000 |
|---|---|---|---|
| ***Cash flows from operating activities*** | | | |
| Interest received | | 38,470 | 10,397 |
| Interest paid | | (20,468) | (7,101) |
| Receipts from provision of financial services and performance fees | | 49,167 | 26,135 |
| Payments to suppliers, employees and others | | 33,862 | (17,597) |
| Payment of IPO costs | | – | (3,922) |
| Working capital funding | | (1,923) | 7,573 |
| Payments in relation to projects | | (348) | (260) |
| Tax (received)/paid | | (13,207) | (4,614) |
| Mortgage loans advanced | | (85,731) | (39,689) |
| Mortgage loans repaid | | 137,630 | 71,555 |
| Investments acquired | | (22,273) | (5,623) |
| Investments disposed | | 15,939 | 1,994 |
| Loans advanced | | (397,464) | – |
| Loans repaid | | 311,176 | – |
| **Net cash movement from operating activities** | 32 | **(22,894)** | **38,848** |
| ***Cash flows from investing activities*** | | | |
| Payments for Property, plant and equipment | | (467) | (332) |
| Cash of subsidiary entities on acquisition date | | – | 9,802 |
| **Net cash movement from investing activities** | | **(467)** | **9,470** |
| ***Cash flows from financing activities*** | | | |
| Payment of lease liabilities | | (640) | (498) |
| Proceeds from loans and borrowings | | 69,710 | 15,394 |
| Repayments of loans and borrowings | | (145,109) | (60,038) |
| Options issued | | 361 | – |
| Dividends paid | | (17,623) | – |
| Payment of IPO costs | | – | (11,859) |
| Return of capital | | 21 | – |
| Repayment of Financier loan (capital) | | – | (17,307) |
| IPO proceeds received | | – | 335,000 |
| **Net cash movement from financing activities** | | **(93,280)** | **260,692** |
| ***Net increase in cash and cash equivalents*** | | (116,641) | 309,010 |
| Cash and cash equivalents at the beginning of the period | | 309,010 | – |
| **Cash and cash equivalents at the end of the period** | | **192,369** | **309,010** |

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes on pages 48 to 87.

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## CONTENTS

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 1 REPORTING ENTITY

Qualitas Limited (the **Company**) is a public company limited by shares, domiciled in Australia. The registered office is Level 38, 120 Collins Street, Melbourne, Victoria 3000.

The Company was incorporated on 4 November 2021, listed on the ASX on 16 December 2021 on a conditional and deferred basis and commenced trading on 22 December 2021. The ASX ticker is QAL.

The Company commenced operations on 22 December 2021.

## 2 BASIS OF PREPARATION

This consolidated financial report as at and for the year ended 30 June 2023 comprises the Company and its controlled entities (together referred to as the **Group**). The Group is a 'for profit' entity for the purpose of preparing this consolidated financial report. The Company was incorporated on 4 November 2021 (comparative information reflects this period) and operations commenced on 22 December 2021.

### a) Statement of compliance

The consolidated general purpose financial report have been prepared in accordance with Australian Accounting Standards (**AASBs**), other authoritative pronouncements of the Australian Accounting Standards Board (**AASB**) and the Corporations Act 2001 in Australia. The consolidated financial report comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (**IASB**).

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

This consolidated financial report was authorised for issue by the Directors on 23 August 2023.

### b) Basis of measurement

The consolidated financial report has been prepared on the historical cost basis except for derivative financial instruments which are measured at fair value in the consolidated statement of financial position. The statement of financial position is presented on a liquidity basis.

### c) Functional and presentation currency

This consolidated financial report is presented in Australian dollars, which is the functional currency of the Parent and majority of operating entities.

### d) Use of estimates and judgements

The preparation of the consolidated financial report 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:

- Credit risk (refer to Note 5(b));
- Revenue recognition (refer to Note 3(j)(ii));
- Equity-accounted investees (Refer to note 3(j)(ii)); and
- Financial asset disclosures (Refer to note 3(a)(ii))

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 4);
- 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 5(b)); and
- Revenue recognition (refer to Note 3(j)(ii))

## 3 SIGNIFICANT ACCOUNTING POLICIES

### a) Basis of consolidation

#### *i) Common control transaction*

The Company is the ultimate parent of the Group and consolidates Qualitas Property Partners Pty Ltd, Qualitas Investments Unit Trust and their controlled entities. The shares of Qualitas Property Partners Pty Ltd and units of Qualitas Investments Unit Trust were transferred to the Company under common control resulting in the creation of the common control reserve during the 2022 financial year.

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

The Group's interests in equity-accounted investees comprise equity 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 report 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) 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 consolidated financial report from the date on which control commences until the date on which control ceases.

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### *iv) Transactions eliminated on consolidation*

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 adjusted for, 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; Fair value through other comprehensive income (**FVOCI**)– debt investment; FVOCI – equity investment; or Fair value through profit or loss (**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.

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

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 tto 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.

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

***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 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, 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 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***

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

***Dividends***

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

### d) Property, plant and 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:

| | 2023 |
|---|---|
| – Furniture, fixtures and fittings | 2-8 years |
| – Computer equipment | 2-4 years |
| – Computer software | 2-4 years |

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

### e) Intangibles

During the year, the Group acquired a funds management business for $827,129 which resulted in the recognition of $577,000 management rights, recorded as an intangible asset on the statement of financial position. These management rights will be amortised over 2.66 years and will be subject to impairment testing.

### f) 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.

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### g) 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.

*Presentation of allowance for ECL in the consolidated 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.

### h) 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.

### i) 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.

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 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 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.

Fund participation rights are a share of performance fees linked to the performance of a fund, or other investment vehicle, managed by Qualitas. These rights are distributed as cash payments when the Funds mature (and Qualitas receives the performance fees in cash), and subject to the employee remaining employed with Qualitas at the time.

### *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 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.

***Employee Equity Award***

Selected 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 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**).

***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.

***Long-Term Incentive (LTI)***

- Loan Plan
  The Company granted Loan Shares to the Group Managing Director as a LTI under the new Loan Plan at the Company's Annual General meeting on 18 November 2022. The LTI under the Loan Plan carries a maximum opportunity of $1,500,000. An interest-free limited recourse loan of $4.9m was provided by the Company to the Group Managing Director to purchase 2,016,053 newly issued shares. An independent valuation was obtained to determine the value of the loan and the maximum number of shares that were to be issued.
- Executive LTI
  In line with the Prospectus, the Board approved its first grant of rights under the Executive LTI Plan during the period. The rights granted under the FY23 Executive LTI are measured against KPIs over a 3-year performance period from 1 July 2022 to 30 June 2025.
- FY23 Options Offer
  Issue of 817,299 Options to acquire Ordinary Shares in the Company to certain non-Executive employees under the Qualitas Employee Equity Plan at $2.75. Options vest and become exercisable subject to meeting Group and individual performance conditions and continued service over a five-year vesting period. The Options have an expiry date of 8 March 2033.

### j) 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.

### k) 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 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 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.

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

***Arrangement, establishment and 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 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) 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 a Private SMA. The Groups' investment into listed and/or unlisted fund structures earns a distribution yield and is recognised when received.

### l) 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 remeasured 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 consolidated 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 recognised lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 3 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### m) Loans and borrowings

Loans and borrowings are recognised at cost.

### n) 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 consolidated 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.

### o) 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 recognised 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 recognised. 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 recognised.

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 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 . The members of the tax consolidated group are identified at note 30.

### p) 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 consolidated 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.

### q) 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. The analysis of the transitional impact of the standards is expected to be completed prior to the implementation dates. The new standards include:

- Disclosures of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Definition of Accounting Estimates (Amendments to IAS 8)
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

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

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. The analysis of the transitional impact of the standards is expected to be completed prior to the implementation dates. The new standards include:

- Disclosures of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2
- Definition of Accounting Estimates (Amendments to IAS 8)
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 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 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 30 June 2023, 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 +/- $359k shift in the valuation of the asset. There were no transfers into or out of Level 3.

### *iii) Unobservable inputs used in measuring fair value (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 CONSOLIDATED FINANCIAL REPORT

## 4 FAIR VALUE MEASUREMENTS CONTINUED

The table below sets out the Group's financial assets and liabilities measured at their carrying amount and fair value at 30 June 2023 and 2022:

| | Carrying amount | | | Fair value |
|---|---|---|---|---|
| As at 30 June 2023 | Fair value through profit or loss $'000 | Financial assets/ (financial liabilities) at amortised cost $'000 | Carrying amount $'000 | Total $'000 |
| ***Financial assets measured at fair value*** | | | | |
| Qualitas Co-Investments | 3,591 | – | 3,591 | 3,591 |
| Qualitas Fund Co-Investments | 29,191 | – | 29,191 | 29,191 |
| ***Financial assets not measured at fair Value*** | | | | |
| Qualitas Fund Co-Investments | – | 5,155 | 5,155 | 5,155 |
| Other | – | 174 | 174 | 174 |
| Mortgage loans | – | 317,570 | 317,570 | 317,570 |
| Term deposits | – | 98 | 98 | 98 |
| Cash and cash equivalents | – | 192,369 | 192,369 | 192,369 |
| Loans | – | 87,451 | 87,451 | 87,451 |
| Trade receivables and other assets | – | 16,029 | 16,029 | 16,029 |
| Prepayments | – | 1,362 | 1,362 | 1,362 |
| ***Financial liabilities not measured at fair value*** | | | | |
| Payables | – | (7,589) | (7,589) | (7,589) |
| Lease liability | – | (2,285) | (2,285) | (2,285) |
| Loans and borrowings | – | (338,458) | (338,458) | (338,458) |
| | **32,782** | **271,876** | **304,658** | **304,658** |

| | Carrying amount | | | Fair value |
|---|---|---|---|---|
| As at 30 June 2022 | Fair value through profit or loss $'000 | Financial assets/ (financial liabilities) at amortised cost $'000 | Carrying amount $'000 | Total $'000 |
| ***Financial assets measured at fair value*** | | | | |
| Qualitas Co-Investments | 3,602 | – | 3,602 | 3,602 |
| Qualitas Fund Co-Investments | 25,250 | – | 25,250 | 25,250 |
| ***Financial assets not measured at fair Value*** | | | | |
| Qualitas Fund Co-Investments | – | 1,212 | 1,212 | 1,212 |
| Other | – | 165 | 165 | 165 |
| Mortgage loans | – | 369,368 | 369,368 | 369,368 |
| Term deposits | – | 404 | 404 | 404 |
| Cash and cash equivalents | – | 309,010 | 309,010 | 309,010 |
| Trade receivables and other assets | – | 15,452 | 15,452 | 15,452 |
| Prepayments | – | 96 | 960 | 960 |
| ***Financial liabilities not measured at fair value*** | | | | |
| Payables | – | (11,409) | (11,409) | (11,409) |
| Lease liability | – | (2,824) | (2,824) | (2,824) |
| Loans and borrowings | – | (413,713) | (413,713) | (413,713) |
| | **28,852** | **268,625** | **297,477** | **297,477** |

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 4 FAIR VALUE MEASUREMENTS CONTINUED

***Recognised fair value measurements***

The table below sets out the Group's financial assets and liabilities measured at fair value according to the fair value hierarchy at 30 June 2023 and 2022:

| As at 30 June 2023 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| ***Financial assets at fair value*** | | | | |
| Qualitas Co-Investments | – | – | 3,591 | 3,591 |
| Qualitas Fund Co-Investments | 9,281 | 19,910 | – | 29,191 |
| | **9,281** | **19,910** | **3,591** | **32,782** |

| As at 30 June 2022 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| ***Financial assets at fair value*** | | | | |
| Qualitas Co-Investments | – | – | 3,602 | 3,602 |
| Qualitas Fund Co-Investments | 8,594 | 16,656 | – | 25,250 |
| | **8,594** | **16,656** | **3,602** | **28,852** |

***Transfers between levels of financial assets and liabilities***

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 2022 | 3,602 |
| Level 3 assets acquired | – |
| ***Loss included in 'finance costs'*** | |
| Net change in fair value (unrealised) | (11) |
| Additional net investment during the period | – |
| Capital returned during the period | – |
| Balance at 30 June 2023 | 3,591 |

| | $'000 |
|---|---|
| Balance at 4 November 2021 | – |
| Level 3 assets acquired | 5,494 |
| ***Loss included in 'finance costs'*** | |
| Net change in fair value (unrealised) | 100 |
| Additional net investment during the period | 451 |
| Capital returned during the period | (2,443) |
| Balance at 30 June 2022 | 3,602 |

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 5 FINANCIAL RISK MANAGEMENT

### a) Overview

The Group's activities expose it to a variety of financial risks. The Group has in place a risk management 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 will not have a material impact to the Group's financial position.

***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.

***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.

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 5 FINANCIAL RISK MANAGEMENT CONTINUED

*Loans*

The Group is exposed to minimal credit risk through loans provided by the Liquidity Lending Facility. The credit risks have been transferred to the Funds in the event of defaulting loans.

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

| | 30 June 2023 $'000 | 30 June 2022 $'000 |
|---|---|---|
| Cash and cash equivalents | 192,369 | 309,010 |
| Trade and other receivables | 16,029 | 15,452 |
| Loans | 87,451 | – |
| Mortgage loans | 317,570 | 369,368 |
| ***Investments measured at amortised cost:*** | | |
| Term deposits | 98 | 404 |
| Qualitas Fund Co-Investments | 5,155 | 1,136 |
| Other | 174 | 241 |
| Prepayment | 1,362 | 960 |
| | **620,208** | **696,571** |

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

| | 30 June 2023 Gross amount $'000 | Allowance for ECL $'000 |
|---|---|---|
| ***Ageing of trade and other receivables*** | | |
| Not past due | 16,029 | – |
| ***Ageing of loans*** | | |
| Not past due | 60,533 | – |
| More than 30 days past due [1] | 26,918 | – |
| **Total** | **87,451** | **–** |
| ***Ageing of Arch Finance mortgage loans*** | | |
| Not past due (12-month ECL) | 312,575 | 425 |
| 0-30 days past due (12-month ECL) | 1,130 | 1 |
| More than 30 days past due (lifetime ECL) | 4,440 | 149 |
| **Total** | **318,145** | **575** |
| **Total Group** | **405,596** | **575** |

1. The Group provided an underwrite loan to a Qualitas Fund (QREO Growth A III Sub Pty Ltd) during the period. The loan repayment was past due at the reporting date, however due to ongoing marketing the Group did not enforce the repayment of this underwrite (principle and accrued interest up to repayment date), nor default interest as it is pending ongoing marketing by the Qualitas Fund. As at 30 June 2023 the Group expects the principal and accrued interest up to the repayment date to be fully recovered based on the sell down terms being negotiated for which this underwrite position to the Fund represents. Subsequent to year end, commercial negotiations are underway and the Group expects the full loan and accrued interest to be repaid.

| | 30 June 2022 Gross amount $'000 | Allowance for ECL $'000 |
|---|---|---|
| ***Ageing of trade and other receivables*** | | |
| Not past due | 15,452 | – |
| ***Ageing of Arch Finance mortgage loans*** | | |
| Not past due (12-month ECL) | 361,797 | 305 |
| 0-30 days past due (12-month ECL) | 4,999 | 247 |
| More than 30 days past due (lifetime ECL) | 3,245 | 121 |
| **Total** | **370,041** | **673** |
| **Total Group** | **385,493** | **673** |

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 5 FINANCIAL RISK MANAGEMENT CONTINUED

The following table presents at 30 June 2023 and 2022 an analysis of the mortgage loans relating to Arch Finance.

| | At amortised cost | | | |
|---|---|---|---|---|
| **30 June 2023<br>Credit rating** | **Credit rating** | **Lifetime ECL – not credit-impaired** | **Lifetime ECL credit-impaired** | **Total** |
| Strong | 262,834 | 2,620 | – | 265,454 |
| Good | – | – | – | – |
| Satisfactory | 45,231 | – | – | 45,231 |
| Marginal | – | – | – | – |
| Weak | 5,640 | 1,820 | – | 7,460 |
| **Gross carrying amounts** | **313,705** | **4,440** | **–** | **318,145** |
| Loss allowance | (426) | (149) | – | (575) |
| **Amortised cost** | **313,279** | **4,291** | **–** | **317,570** |
| **Carrying amount** | **313,279** | **4,291** | **–** | **317,570** |

The table above only assesses risk ratings and ECL calculations against the Arch mortgage portfolio as other loans receivables held on the balance sheet are assessed for impairment individually on a regular basis.

| | At amortised cost | | | |
|---|---|---|---|---|
| **30 June 2022<br>Credit rating** | **12-month ECL** | **Lifetime ECL – not credit-impaired** | **Lifetime ECL credit-impaired** | **Total** |
| Strong | 306,854 | 3,500 | – | 310,354 |
| Good | – | – | – | – |
| Satisfactory | 51,443 | – | – | 51,443 |
| Marginal | – | – | – | – |
| Weak | 8,245 | – | – | 8,245 |
| **Gross carrying amounts** | **366,542** | **3,500** | **–** | **370,042** |
| Loss allowance | (673) | (1) | – | (674) |
| **Amortised cost** | **365,869** | **3,499** | **–** | **369,368** |
| **Carrying amount** | **365,869** | **3,499** | **–** | **369,368** |

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

To measure the expected credit loss (ECL) of the mortgage assets the Group uses a credit loss model which is calculated by multiplying the probability of default by the exposure at default multiplied by the loss given default.

The key model inputs used in measuring 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 and any interest amount outstanding at reporting date. The Group does not offer loan redraw facilities or loan commitments in its Direct Lending business and therefore there are no undrawn commitments included in the EAD.
- Probability of Default (PD): Given the Group has experienced very few losses in its history, external data has been used to determine an appropriate probability of default measure. All loans in the portfolio are assumed to have an equivalent probability of default to that of a B+ rated Corporate Bond given that the mortgage book is comprised predominately of commercial borrowers.
  - Loss Given Default (LGD): the LGD is the magnitude of the ECL in a default event. 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

    LGD is adjusted for factors such as the site quality of the secured property, whether the secured property is under construction and whether there is any subordination of the loan.

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 5 FINANCIAL RISK MANAGEMENT CONTINUED

The movement in the allowance for impairment at amortised cost during the year was as follows:

| | 12-month ECL $'000 | Lifetime ECL – not credit-impaired $'000 | Lifetime ECL credit-impaired $'000 | Total $'000 |
|---|---|---|---|---|
| Balance at 1 July 2022 | 673 | 1 | – | 674 |
| Allowance for expected credit loss acquired under common control | – | – | – | – |
| Net movement during the year | (248) | 149 | – | (99) |
| Balance at 30 June 2023 | 425 | 150 | – | 575 |

| | 12-month ECL $'000 | Lifetime ECL – not credit-impaired $'000 | Lifetime ECL credit-impaired $'000 | Total $'000 |
|---|---|---|---|---|
| Balance at 4 November 2021 | – | – | – | – |
| Allowance for expected credit loss acquired under common control | 861 | 1 | – | 862 |
| Net movement during the year | (188) | – | – | (188) |
| Balance at 30 June 2022 | 673 | 1 | – | 674 |

The following tables show the movement in the Group's impairment provisions and credit exposures by expected credit loss (ECL) stage for the year ended 30 June 2023 and 2022.

| | 12 month ECL | | Lifetime ECL – not credit-impaired | | Lifetime ECL credit-impaired | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Gross exposure $'000 | Provision $'000 | Gross exposure $'000 | Provision $'000 | Gross exposure $'000 | Provision $'000 | Gross exposure $'000 | Provision $'000 |
| Balance at 1 July 2022 | 366,542 | 673 | 3,500 | 1 | – | – | 370,042 | 674 |
| Loans acquired under common control | – | – | – | – | – | – | – | – |
| New loans originated | 82,155 | 48 | – | – | – | – | 82,155 | 48 |
| *Transfers* | | | | | | | | |
| Transfers to stage 1 | (4,440) | (149) | 4,440 | 149 | – | – | – | – |
| Transfers to stage 2 | – | – | – | – | – | – | – | – |
| Transfers to stage 3 | – | – | – | – | – | – | – | – |
| Loans repaid | (130,552) | (146) | (3,500) | (1) | – | – | (134,052) | (147) |
| Write-offs | – | – | – | – | – | – | – | – |
| Balance at 30 June 2023 | 313,705 | 426 | 4,440 | 149 | – | – | 318,145 | 575 |

| | 12 month ECL | | Lifetime ECL – not credit-impaired | | Lifetime ECL credit-impaired | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Gross exposure $'000 | Provision $'000 | Gross exposure $'000 | Provision $'000 | Gross exposure $'000 | Provision $'000 | Gross exposure $'000 | Provision $'000 |
| Balance at 4 November 2021 | – | – | – | – | – | – | – | – |
| Loans acquired under common control | 398,939 | 861 | 40 | 1 | – | – | 398,979 | 862 |
| New loans originated | 39,689 | – | – | – | – | – | 39,689 | – |
| *Transfers* | | | | | | | | |
| Transfers to stage 1 | – | – | – | – | – | – | – | – |
| Transfers to stage 2 | (3,500) | (1) | 3,500 | 1 | – | – | – | – |
| Transfers to stage 3 | – | – | – | – | – | – | – | – |
| Loans repaid | (68,586) | (187) | (40) | (1) | – | – | (68,626) | (188) |
| Write-offs | – | – | – | – | – | – | – | – |
| Balance at 30 June 2022 | 366,542 | 673 | 3,500 | 1 | – | – | 370,042 | 674 |

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 5 FINANCIAL RISK MANAGEMENT CONTINUED

The ECL allowance as a percentage of the gross carrying amounts of the mortgage loans at 30 June 2023 and 2022 is split as follows:

| 30 June 2023 | Current $'000 | Stage1 $'000 | Stage 2 $'000 | Stage 3 $'000 | Total $'000 |
|---|---|---|---|---|---|
| Expected loss rate | 0.13% | 3.34% | 0.00% | 0.00% | 0.21% |
| Gross carrying amount | 313,705 | 4,440 | – | – | 318,145 |
| Loss allowance | (426) | (149) | – | – | (575) |

| 30 June 2022 | Current $'000 | Stage1 $'000 | Stage 2 $'000 | Stage 3 $'000 | Total $'000 |
|---|---|---|---|---|---|
| Expected loss rate | 0.18% | 0.03% | 0.00% | 0.00% | 0.21% |
| Gross carrying amount | 366,542 | 3,500 | – | – | 370,042 |
| Loss allowance | (673) | (1) | – | – | (674) |

### 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 2023, it is estimated that a 10% decrease in equity prices would decrease the Group's profit before income tax by approximately $3,278,277 (2022: $2,885,236), and would decrease equity by approximately $2,294,794 (2022: $2,019,665). 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 2023, 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.

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 5 FINANCIAL RISK MANAGEMENT CONTINUED

### *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 2023 and 2022, including the Group's assets and liabilities at fair values.

| 30 June 2023 | Average effective interest rate % | Carrying amount $'000 |
|---|---|---|
| ***Fixed rate instruments*** | | |
| Qualitas Real Estate Income Fund Manager Loan | 5.00 | 14,464 |
| ***Variable rate instruments*** | | |
| Cash and cash equivalents | 1.86 | 171,364 |
| Liquidity Lending Facility [1] | 9.21 | 59,979 |
| Mortgage loans | 7.79 | 317,570 |
| Interest bearing notes | 5.95 | (301,125) |
| Project funding loans | 8.26 | (11,356) |

1. The average effective interest rate for the Liquidity Lending Facility has been annualised as the facility was established in December 2022.

The fair values are not materially different to their carrying value amount since the interest payable is either close to current market rates or the borrowings are of a short term nature.

| 30 June 2022 | Average effective interest rate % | Carrying amount $'000 |
|---|---|---|
| ***Fixed rate instruments*** | | |
| Qualitas Real Estate Income Fund Manager Loan | 5.00 | 15,830 |
| ***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 | 8.01 | (10,447) |

### *iv) Sensitivity analysis – interest rate risk*

At 30 June 2023, 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 $2,364,329 (2022: $1,553,091) and would increase equity by approximately 1,655,031 (2022: $1,087,163).

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

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 5 FINANCIAL RISK MANAGEMENT CONTINUED

### 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.

The following table shows the contractual maturities of financial assets and liabilities as at 30 June 2023 and 2022:

| As at 30 June 2023 | Carrying amount $'000 | Contractual cashflow $'000 | Less than 3 months $'000 | 3 to 12 month $'000 | 1 to 3 years $'000 | to 5 years $'000 |
|---|---|---|---|---|---|---|
| ***Financial assets*** | | | | | | |
| Cash and cash equivalents | 192,369 | 192,369 | 192,369 | – | – | – |
| Trade and other receivables | 16,029 | 16,029 | – | 11,117 | – | 4,912 |
| Prepayments | 1,362 | 1,362 | – | 1,362 | – | – |
| Loans | 87,451 | 87,451 | – | 86,898 | – | 553 |
| Accrued performance fees | 48,928 | 48,928 | – | 34,728 | 14,200 | – |
| Inventories | 24,462 | 24,462 | – | – | 24,462 | – |
| Investments | 38,209 | 38,209 | – | 2,684 | 24,018 | 11,507 |
| Mortgage loans | 317,570 | 317,570 | 28,608 | 83,127 | 205,835 | – |
| Capitalised Contract costs | 3,612 | 3,612 | 168 | 501 | 2,001 | 942 |
| ***Financial liabilities*** | | | | | | |
| Distributions payable | – | – | – | – | – | – |
| Trade and other payables | (7,589) | (7,589) | (862) | (6,727) | – | – |
| Lease liabilities | (2,285) | (2,285) | (214) | (654) | (1,417) | – |
| Loans and borrowings | (338,458) | (338,458) | (27,477) | (80,034) | (221,011) | (9,936) |
| | 381,660 | 381,660 | 192,592 | 133,002 | 48,088 | 7,978 |

| As at 30 June 2022 | Carrying amount $'000 | Contractual cashflow $'000 | Less than 3 months $'000 | 3 to 12 month $'000 | 1 to 3 years $'000 | to 5 years $'000 |
|---|---|---|---|---|---|---|
| ***Financial assets*** | | | | | | |
| Cash and cash equivalents | 3,090 | 3,090 | 3,090 | – | – | – |
| Trade and other receivables | 15,452 | 15,452 | – | 14,443 | – | 1,009 |
| Prepayments | 960 | 960 | – | 960 | – | – |
| Accrued performance fees | 44,654 | 44,654 | – | 24,032 | 20,622 | – |
| Inventories | 24,114 | 24,114 | – | – | 24,114 | – |
| Investments | 32,134 | 32,134 | – | 3,565 | 17,276 | 11,293 |
| Mortgage loans | 369,368 | 399,278 | 68,097 | 68,564 | 262.617 | – |
| Capitalised Contract costs | 4,279 | 4,279 | 168 | 499 | 2,003 | 1,609 |
| ***Financial liabilities*** | | | | | | |
| Distributions payable | – | – | – | – | – | – |
| Trade and other payables | (11,511) | (11,511) | (944) | (10,567) | – | – |
| Lease liabilities | (2,824) | (2,824) | (180) | (555) | (1,858) | (231) |
| Loans and borrowings | (413,713) | (413,713) | (69,354) | (69,994) | (267,688) | (11,086) |
| | 66,003 | 71,504 | 877 | 30,947 | 37,086 | 2,594 |

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 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 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 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.

The segment information for the reportable segments is as follows:

### b) Segment overview

| For the year ended 30 June 2023 | Funds management $'000 | Direct lending $'000 | Total $'000 |
|---|---|---|---|
| Interest income | 11,923 | 27,168 | 39,091 |
| Interest expense | (306) | (20,163) | (20,469) |
| **Net interest income** | 11,617 | 7,005 | 18,622 |
| Net revenue | 52,484 | 1,756 | 54,240 |
| Depreciation and amortisation expense | – | – | – |
| Loan impairment expense | – | 101 | 101 |
| Total expenses | (35,364) | (5,767) | (41,131) |
| **Segment profit** | **28,737** | **3,095** | **31,832** |

*Segment financial position information*

| As at 30 June 2023 | Funds management $'000 | Direct lending $'000 | Total $'000 |
|---|---|---|---|
| Cash and cash equivalents | 183,244 | 9,125 | 192,369 |
| Mortgage loans | – | 317,570 | 317,570 |
| Investments | 38,126 | 83 | 38,209 |
| Other assets | 189,236 | 2,535 | 191,771 |
| **Total assets reported by the Group** | **410,606** | **329,313** | **739,919** |
| Loans and borrowings | 18,808 | 319,650 | 338,458 |
| Other liabilities | 33,512 | 5,891 | 39,403 |
| **Total liabilities reported by the Group** | **52,320** | **325,541** | **377,861** |

| For the period 4 November 2021 to 30 June 2022 | Funds management $'000 | Direct lending $'000 | Total $'000 |
|---|---|---|---|
| Interest income | 744 | 9,985 | 10,729 |
| Interest expense | (897) | (6,165) | (7,062) |
| **Net interest income** | **(153)** | **3,820** | **3,667** |
| Net revenue | 34,336 | 1,087 | 35,453 |
| Depreciation and amortisation expense | (663) | (41) | (704) |
| Loan impairment expense | – | 187 | 187 |
| Total expenses | (21,756) | (3,315) | (25,071) |
| **Segment profit** | **11,794** | **1,738** | **13,532** |

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 6 SEGMENT INFORMATION CONTINUED

*Segment financial position information*

| As at 30 June 2022 | Funds management $'000 | Direct lending $'000 | 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 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 Group** | **70,760** | **387,436** | **458,196** |

*Major customers*

Three funds contributed more than 10% of total revenue of the Group and are included in the Funds Management segment. The total amount contributed by the three funds was $24,681,310.79 for 2023 financial year, comprising base management, arranger and performance fees.

## 7 INCOME FROM THE PROVISION OF FINANCIAL SERVICES AND PERFORMANCE FEES

### a) Performance Fees

| | For the year ended 30 June 2023 $'000 | For the period 4 November 2021 to 30 June 2022 $'000 |
|---|---|---|
| Performance fees | 4,284 | 13,758 |

Performance fees are variable consideration and are recognised 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 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 2023 financial year relate to Qualitas Construction Debt Fund I, Qualitas Real Estate Opportunity Fund II (Assembly Sidecar) and other co-investment projects. Of the $4,284,000 performance fees recognised during the period, an amount of $10,000 was received during the year relating to a co-investment project. The balance has been recorded on the consolidated statement of financial position as accrued performance fees.

### b) Income from the provision of financial services

| | For the year ended 30 June 2023 $'000 | For the period 4 November 2021 to 30 June 2022 $'000 |
|---|---|---|
| Arrangement, establishment and mandate fees | 12,377 | 5,739 |
| Management fees | 32,608 | 13,965 |
| Distributions from funds and projects | 2,614 | 484 |
| Portfolio and ancillary fees | 903 | 577 |
| | **48,502** | **20,765** |

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 8 INTEREST INCOME AND INTEREST EXPENSE

| Interest income | For the year ended 30 June 2023 $'000 | For the period 4 November 2021 to 30 June 2022 $'000 |
|---|---|---|
| Arch Finance – mortgage loans | 26,757 | 9,961 |
| Bank balances and term deposits | 5,348 | 768 |
| Liquidity Lending Facility | 6,878 | – |
| Others | 108 | – |
| **Total interest income** | **39,091** | **10,729** |
| ***Interest expense*** | | |
| Interest expense on interest bearing notes – bank & other financial institutions | (20,368) | (7,018) |
| Lease interest expense | (101) | (44) |
| **Total interest expense** | **(20,469)** | **(7,062)** |
| **Net interest income recognised in profit or loss** | **18,622** | **3,667** |

## 9 OTHER EXPENSES

| | For the year ended 30 June 2023 $'000 | For the period 4 November 2021 to 30 June 2022 $'000 |
|---|---|---|
| Arch commissions | 730 | 853 |
| Information technology | 511 | 251 |
| Subscriptions | 786 | 227 |
| Rental expenses | 225 | 170 |
| Company administration fees | 184 | 124 |
| Other miscellaneous costs | 1,413 | 318 |
| | 3,849 | 1,943 |

## 10 INCOME TAX

### a) Reconciliation of income tax expense

| Recognised in the consolidated statement of profit or loss and other comprehensive income | For the year ended 30 June 2023 $'000 | For the period 4 November 2021 to 30 June 2022 $'000 |
|---|---|---|
| Current period | 11,455 | 4,609 |
| ***Deferred tax (benefit)/expense*** | | |
| Origination and reversal of temporary differences | (2,162) | (3,193) |
| | **9,293** | **1,416** |
| ***Reconciliation between tax expense and profit*** | | |
| Profit before income tax | 31,832 | 13,532 |
| Income tax using domestic corporation tax rate of 30% | 9,550 | 4,059 |
| *Net movement in income tax due to:* | | |
| Tax cost base remeasurement due to IPO | – | (2,480) |
| Non-assessable income | (257) | (114) |
| Utilisation of prior year tax losses not previously recognised | – | (49) |
| Prior year adjustments | – | – |
| **Income tax (benefit)/expense on profit/(loss)** | **9,293** | **1,416** |

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 10 INCOME TAX CONTINUED

*Franking account*

The amount of franking credits available to the Shareholders for subsequent financial years is $15,458,119 (2022:$9,481,939). The ability to utilise the franking credits is dependent upon the ability to declare dividends.

### b) Movement of deferred tax

| 30 June 2023 | Balance at 1 July 2022 $'000 | Recognised in profit or loss $'000 | Recognised directly in equity $'000 | Balance at 30 June 2023 $'000 Net | Deferred tax assets | Deferred tax liabilities |
|---|---|---|---|---|---|---|
| Investments | 253 | (2,046) | – | (1,793) | – | (1,793) |
| Accrued performance fees | 7,938 | (3,727) | – | 4,211 | 4,211 | – |
| Capitalised contract costs | (200) | (883) | – | (1,083) | – | (1,083) |
| QAL- capital raising costs | 659 | 506 | (757) | 408 | 408 | – |
| Employee benefits | 446 | 2,460 | – | 2,906 | 2,906 | – |
| Other items | 394 | 1,528 | – | 1,922 | 1,922 | – |
| **Tax assets/(liabilities) before set off** | **9,490** | **(2,162)** | **(757)** | **6,571** | **9,447** | **–** |
| Set off | – | – | – | – | (2,876) | 2,876 |
| **Net tax assets/(liabilities)** | **9,490** | **(2,162)** | **(757)** | **6,571** | **6,571** | **–** |

| 30 June 2022 | Balance acquired on 4 Nov 2021 $'000 | Recognised in profit or loss $'000 | Recognised directly in equity $'000 | Balance at 30 June 2022 $'000 Net | Deferred tax assets | Deferred tax liabilities |
|---|---|---|---|---|---|---|
| Investments | (4) | 257 | – | 253 | 253 | – |
| Accrued performance fees | 2,464 | 5,474 | – | 7,938 | 7,938 | – |
| Capitalised contract costs | (95) | (105) | – | (200) | – | (200) |
| QAL- capital raising costs | | 1,416 | (757) | 659 | 659 | – |
| Employee benefits | 1,233 | (787) | – | 446 | 446 | – |
| Other items | 3,456 | (3,062) | – | 394 | 394 | – |
| **Tax assets/(liabilities) before set off** | **7,054** | **3,193** | **(757)** | **9,490** | **9,690** | **(200)** |
| Set off | – | – | – | – | (200) | 200 |
| **Net tax assets/(liabilities)** | **7,054** | **3,193** | **(757)** | **9,490** | **9,490** | **–** |

## 11 CASH AND CASH EQUIVALENTS

| | As at 30 June 2023 $'000 | As at 30 June 2022 $'000 |
|---|---|---|
| Cash on hand | 1 | 1 |
| Cash at bank | 192,368 | 309,009 |
| Cash and cash equivalents | 192,369 | 309,010 |

## 12 TRADE AND OTHER RECEIVABLES

| | As at 30 June 2023 $'000 | As at 30 June 2022 $'000 |
|---|---|---|
| Trade receivables | 5,284 | 4,943 |
| Accrued income | 4,314 | 3,927 |
| Recoverable fund costs | 1,923 | 808 |
| Digital Harbor receivable | 100 | 2,443 |
| Underwrites receivable | – | 1,361 |
| Sundry receivables | 4,408 | 1,970 |
| | 16,029 | 15,452 |

The above comprises a current balance of $11,120,000 (2022: $12,617,000) and non-current balance of $4,909,000 (2022: $2,835,000).

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 13 PROPERTY, PLANT AND EQUIPMENT

| Cost | Office equipment $'000 |
|---|---|
| Balance at 1 July 2022 | 2,153 |
| Acquired during the period | 466 |
| Disposals | – |
| **Balance at 30 June 2023** | **2,619** |
| Balance at 4 November 2021 | – |
| Acquired during the period | 2,153 |
| Disposals | – |
| **Balance at 30 June 2022** | **2,153** |
| ***Accumulated depreciation*** | |
| Balance at 1 July 2022 | 1,625 |
| Depreciation charge for the period | 272 |
| Disposals | – |
| **Balance at 30 June 2023** | **1,897** |
| Balance at 4 November 2021 | |
| Acquired during the period | 1,536 |
| Depreciation charge for the period | 89 |
| Disposals | – |
| **Balance at 30 June 2022** | **1,625** |
| ***Carrying amount*** | |
| At 4 November 2021 | – |
| At 30 June 2022 | 528 |
| At 1 July 2022 | 528 |
| At 30 June 2023 | 722 |

## 14 INVENTORIES

| | As at 30 June 2023 $'000 | As at 30 June 2022 $'000 |
|---|---|---|
| Development and capitalised project costs | 24,462 | 24,114 |
| | **24,462** | **24,114** |

The above comprises a current balance of $nil and non-current balance of $24,462,000 (2022: $24,114,000).

## 15 INVESTMENTS

| | As at 30 June 2023 $'000 | As at 30 June 2022 $'000 |
|---|---|---|
| ***Investments measured at amortised cost:*** | | |
| Term deposits | 98 | 404 |
| Qualitas Fund Co-Investments | 5,155 | 1,136 |
| Others | 174 | 241 |
| ***Investments measured at fair value through profit or loss:*** | | |
| Qualitas Co-Investments | 3,591 | 3,602 |
| Qualitas Fund Co-Investments | 29,191 | 26,751 |
| | **38,209** | **32,134** |

The above comprises a current balance of $4,020,000 (2022: $3,824,000) and non-current balance of $34,189,000 (2022: $28,310,000).

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 16 INTANGIBLE ASSET – CAPITALISED CONTRACT COSTS

| | As at 30 June 2023 $'000 | As at 30 June 2022 $'000 |
|---|---|---|
| Opening net book amount at beginning of period | 4,279 | – |
| Acquired during the period | – | 4,630 |
| Amortisation charge | (667) | (351) |
| **Closing net book amount at end of period** | **3,612** | **4,279** |

The above comprises a current balance of $667,000 (2022: $667,000) and non-current balance of $2,945,000 (2022: $3,612,000).

## 17 LOANS

| | As at 30 June 2023 $'000 | As at 30 June 2022 $'000 |
|---|---|---|
| Liquidity Lending Facility | 59,980 | – |
| Loan – QREO Growth A III Sub Pty Ltd | 26,918 | |
| Loan – GQ Multifamily Unit Trust | 553 | – |
| | **87,451** | **–** |

During the period, the Group established a Liquidity Lending Facility to Qualitas Funds. The facility has a limit of $150,000,000 and was drawn to $42,475,659 by related parties as at 30 June 2023. The facility earns interest and is on mutually agreed commercial terms.

During the period, the Group also entered into a loan agreement with a Qualitas Fund with a facility limit of $30,000,000 which was drawn to $26,918,415 at 30 June 2023. The facility earns interest and is on mutually agreed commercial terms. As at 30 June 2023, the loan has a carrying value of $26,918,415 while the fair value was $27,051,913.

There is also a related party loan with the Group's joint venture (GQ Multifamily Unit Trust) of $553,102 at 30 June 2023. This is an unsecured interest free loan.

## 18 MORTGAGE LOANS

| | As at 30 June 2023 $'000 | As at 30 June 2022 $'000 |
|---|---|---|
| Gross mortgage loans – held directly | 318,145 | 370,042 |
| Allowance for expected credit losses | (575) | (674) |
| **Total mortgage loans – net of allowance for expected credit losses** | **317,570** | **369,368** |
| ***Maturity analysis:*** | | |
| No longer than three months | 28,608 | 67,165 |
| Longer than three months but no longer than twelve months | 83,699 | 65,824 |
| Longer than one year but no longer than three years | 205,835 | 236,379 |
| **Total mortgage loans** | **318,142** | **369,368** |
| Allowance for expected credit losses – Opening balance | (674) | (1,220) |
| Decrease/(Increase) in allowance during the year | 99 | 546 |
| **Allowance for expected credit losses – Closing balance** | **(575)** | **(674)** |

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 18 MORTGAGE LOANS CONTINUED

| As at 30 June 2023 | 12-month ECL applied $'000 | Lifetime ECL applied $'000 | Total $'000 |
|---|---|---|---|
| ***Gross mortgage loans*** | | | |
| Gross mortgage loans balance | 313,705 | 4,440 | 318,145 |
| Allowance for expected credit loss | (416) | (149) | (575) |
| **Total** | **313,279** | **4,291** | **317,570** |

| As at 30 June 2022 | 12-month ECL applied $'000 | Lifetime ECL applied $'000 | Total $'000 |
|---|---|---|---|
| ***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** |

As at 30 June 2023, there are three Arch Finance loans with a combined value of $4,440,000 that are greater than 30 days in arrears (significant increased credit risk since initial recognition).

The first loan with a value of $1,800,000 is more than 120 days past due and has an expected credit loss allowance of $139,184. The loan balance is considered recoverable to the extent of the expected credit loss recognised. The second loan has a value of $150,000 and is more than 90 days past due with an expected credit loss allowance of $5,736. The loan balance is considered recoverable to the extent of the expected credit loss recognised. The third loan has a value of $2,470,000 and is more than 30 days past due with an expected credit loss allowance of $4,722. The loan balance is considered recoverable to the extent of the expected credit loss recognised.

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 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 recognised.

### Mortgage loans – Geographical diversification

| | At 30 June 2023 $'000 | At 30 June 2022 $'000 |
|---|---|---|
| Victoria | 89,325 | 101,693 |
| New South Wales | 173,192 | 197,333 |
| Queensland | 45,802 | 51,323 |
| South Australia | 3,699 | 4,572 |
| Others | 5,552 | 14,447 |
| | **317,570** | **369,368** |

### Mortgage loans – Loan to value ratios

| | At 30 June 2023 $'000 | At 30 June 2022 $'000 |
|---|---|---|
| 0-30% | 15,127 | 16,008 |
| 30-50% | 61,703 | 68,489 |
| 50-70% | 225,995 | 261,343 |
| 70-80% | 14,746 | 23,528 |
| 80-100% | – | – |
| | **317,570** | **369,368** |

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 19 TRADE AND OTHER PAYABLES

| | As at 30 June 2023 $'000 | As at 30 June 2022 $'000 |
|---|---|---|
| Trade payables | 23 | 247 |
| Sundry payables | 4,225 | 1,106 |
| Interest payable on Notes – Arch Finance | 1,873 | 1,241 |
| Taxes payable | 629 | 8,220 |
| GST payable | 839 | 697 |
| | **7,589** | **11,511** |

The above comprises a current balance of $7,589,000 (2022: $11,511,000) and non-current balance of $nil (2022: $nil).

## 20 DEFERRED INCOME

| | As at 30 June 2023 $'000 | As at 30 June 2022 $'000 |
|---|---|---|
| Interest received in advance – Arch Finance | 47 | 92 |
| Management fees received in advance | 1,648 | 1,314 |
| Interest reserve | 2,089 | 4,190 |
| Deferred arranger fees | 650 | 740 |
| Other | 42 | – |
| | **4,476** | **6,336** |

The above comprises a current balance of $2,387,000 (2022: $2,146,000) and non-current balance of $2,089,000 (2022: $4,190,000).

## 21 EMPLOYEE BENEFITS

| | As at 30 June 2023 $'000 | As at 30 June 2022 $'000 |
|---|---|---|
| Accrued incentives | 21,889 | 20,869 |
| Accrued annual leave | 1,733 | 1,762 |
| Accrued long-service leave | 1,431 | 1,181 |
| **Total accrued leave** | **3,164** | **2,943** |
| **Total employee benefits** | **25,053** | **23,812** |

The above comprises a current balance of $19,783,000 (2022: $17,145,000) and non-current balance of $5,270,000 (2022: $6,667,000).

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:

| | |
|---|---|
| Assumed rate of increase in wages/salaries | 4.35% |
| Discount rate | 4.06% |
| Settlement term | 7 years |

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 22 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.

| Right of use assets | As at 30 June 2023 $'000 | As at 30 June 2022 $'000 |
|---|---|---|
| Balance at beginning of period | 2,775 | – |
| Acquired during the period | 246 | 3,039 |
| Depreciation charge for the period | (856) | (264) |
| Additions to right-of-use assets | – | – |
| **Balance at end of period** | **2,165** | **2,775** |

The above comprises a current balance of $873,000 (2022: $801,000) and non-current balance of $1,292,000 (2022: $1,974,000).

| Lease liabilities | As at 30 June 2023 $'000 | As at 30 June 2022 $'000 |
|---|---|---|
| Balance at beginning of period | 2,824 | – |
| Acquired during the period | – | 3,278 |
| Interest on lease liabilities during the period | 101 | 44 |
| Additions to lease liabilities | – | – |
| Rent payments | (640) | (498) |
| **Balance at end of period** | **2,285** | **2,824** |

The above comprises a current balance of $874,000 (2022: $735,000) and non-current balance of $1,411,000 (2022: $2,089,000).

| | As at 30 June 2023 $'000 | As at 30 June 2022 $'000 |
|---|---|---|
| *Maturity analysis:* | | |
| Within one year | 874 | 735 |
| Later than one year but no later than five years | 1,411 | 2,089 |
| Later than five years | – | – |
| | 2,285 | 2,824 |

| Amounts recognised in profit or loss | As at 30 June 2023 $'000 | As at 30 June 2022 $'000 |
|---|---|---|
| Depreciation on right-of-use assets | 856 | 264 |
| Interest expense on lease liabilities | 101 | 44 |
| Expenses relating to short-term leases | 19 | – |
| | 976 | 308 |

| Amounts recognised in statement of cash flow | As at 30 June 2023 $'000 | As at 30 June 2022 $'000 |
|---|---|---|
| Total cash outflows for leases | 640 | 498 |
| | **640** | **498** |

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 23 LOANS AND BORROWINGS

| | As at 30 June 2023 $'000 | As at 30 June 2022 $'000 |
|---|---|---|
| Interest bearing notes – banks & other financial institutions | 301,125 | 375,923 |
| Qualitas Real Estate Income Fund Manager Loan | 14,464 | 15,830 |
| Project Funding loan | 22,869 | 21,960 |
| | **338,458** | **413,713** |

The above comprises a current balance of $107,511,000 (2022: $136,715,000) and non-current balance of $230,947,000 (2022: $276,998,000).

*Interest bearing notes – bank & other financial institutions*

At 30 June 2023, the Interest bearing notes collectively have an effective limit available for drawing of $359,000,000 (2022: $400,000,000) 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 29 June 2023 until 30 September 2024. 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 rate of interest applicable to the noteholders as at 30 June 2023 are as follows:

Class A: BBSY plus a margin of 1.85% per annum (2022: 1.65%)

Class B: BBSY plus a margin of 4.7% per annum (2022: 4.2%)

Class C-1: BBSY plus a margin of 7.0% per annum (2022: 6.3%)

Class C-1b: BBSY plus a margin of 9.7% per annum (2022: 9.7%)

Class C-2: BBSY plus a margin of 11.75% per annum (2022: 11.75%)

*Qualitas Real Estate Income Fund Manager Loan*

The Qualitas Real Estate Income Fund Manager Loan is amortised over 10 years from the date of the most recent raise. Interest rate on the loan is 5%. As at 30 June 2023, the Manager Loan has a carrying value of $14,464,000 while the fair value was $13,985,000.

*Project Funding loan*

The loan with an external loan provider in relation to the development property held through Inventories has a facility limit of $11,600,000. The loan was extended by 12 months in April 2023 at a fixed rate of 9%. This loan is has a carrying value of $11,356,000 as at 30 June 2023.

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 24 EQUITY-ACCOUNTED INVESTEES

The Group entered into a joint venture arrangement during the 2022 financial year, 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 2023 $'000 | As at 30 June 2022 $'000 |
|---|---|---|
| Interest in joint venture | 2,910 | 1,501 |
| **Percentage ownership interest** | **50%** | **50%** |
| Non-current assets | 7,134 | 3,458 |
| Current assets (including cash and cash equivalents) | 208 | 262 |
| Non-current liabilities (Including non-current financial liabilities excluding Trade and other payables and provisions) | (1,106) | – |
| Current liabilities (including current financial liabilities excluding trade and other payables and provisions) | (416) | (718) |
| **Net assets (100%)** | **5,820** | **3,002** |
| Group's share of net assets (50%) | 2,910 | 1,501 |
| Goodwill | – | – |
| **Carrying amount of interest in joint venture** | **2,910** | **1,501** |
| Revenue | 516 | 940 |
| Depreciation and amortisation | (9) | (35) |
| Interest expense | – | – |
| Income tax expense | – | – |
| Other expenses | (1,589) | (1,094) |
| Profit and other comprehensive income (100%) | (1,082) | (189) |
| Profit and other comprehensive income (50%) | (541) | (94) |
| **Group's share of total comprehensive income** | **(541)** | **(94)** |
| **Dividends received by the Group** | **–** | **–** |

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 25 CAPITAL, RESERVES AND DIVIDENDS

### a) Issued capital

| | As at 30 June 2022 | |
|---|---|---|
| | $'000 | Number of shares |
| **Opening balance at 4 November 2021** | – | – |
| Contributions of capital | 335,000 | 134,000,000 |
| Shares issued for consideration of Qualitas Property Partners Pty Ltd and Qualitas Investments Unit Trust | 400,000 | 160,000,000 |
| IPO costs reflected through equity (tax effected) | (11,859) | – |
| **Closing balance at 30 June 2022** | **723,141** | **294,000,000** |

| | As at 30 June 2023 | |
|---|---|---|
| | $'000 | Number of shares |
| **Opening balance at 1 July 2022** | **723,141** | **294,000,000** |
| Options issued | 361 | |
| IPO costs reflected through equity (tax effected) | 743 | – |
| Shares issued | 22 | 2,016,053 |
| **Closing balance at 30 June 2023 (including Treasury shares)** | **724,267** | **296,016,053** |
| Less Treasury shares | – | (3,260,424) |
| **Closing balance at 30 June 2023 (excluding Treasury shares)** | **724,267** | **292,755,629** |

In accordance with shareholder approval at the Company's 2022 AGM, 2,016,053 ordinary shares were issued to the Group Managing Director in the form of loan shares on 6 December 2022. These are accounted for as share-based payments and as such no equity contribution has been recorded in relation to the issue of the shares. As the shares have not vested, they are classified as treasury shares and are excluded from total shares on issue. Any repayments of the loan throughout the year are recorded as equity contributions on those shares.

### b) Treasury shares

When shares recognised are repurchased, the amount of consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the treasury share reserve. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity and the resulting surplus or deficit on the transaction is presented within share premium.

### c) Dividends

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

On 22 February 2023, the Directors declared a fully franked distribution of 2 cents per share which amounted to $5,920,321 to be paid on 4 April 2023 with a record date of 7 March 2023.

### d) Reserves

*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.

*Common control reserve*

The difference between the purchase consideration and the net assets acquired on the restructure under common control, were accounted for in equity and transferred to a common control reserve.

*Treasury share reserve*

The reserve for the Group's treasury shares comprised the cost of the Company's shares held by the Group. At 30 June 2023 the group held 3,260,424 shares (2022: nil).

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 26 EARNINGS PER SHARE

### a) Basic earnings per share

The calculation of the basic EPS has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

*i) Profit/(loss) attributable to ordinary shareholders (basic)*

| | As at 30 June 2023 '000 | As at 30 June 2022 '000 |
|---|---|---|
| Profit/(loss) for the period attributable to the owners of the Company | 22,539 | 12,116 |

*ii) Weighted-average number of ordinary shares (basic)*

| | As at 30 June 2023 '000 | As at 30 June 2022 '000 |
|---|---|---|
| Weighted-average number of ordinary shares at 30 June | 292,841 | 236,184 |

### b) Diluted earnings per share

The calculation of the diluted EPS has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential of ordinary shares.

*i) Profit/(loss) attributable to ordinary shareholders (diluted)*

| | As at 30 June 2023 '000 | As at 30 June 2022 '000 |
|---|---|---|
| Profit/(loss) for the period attributable to the owners of the Company | 22,539 | 12,116 |

*ii) Weighted-average number of ordinary shares (diluted)*

| | As at 30 June 2023 '000 | As at 30 June 2022 '000 |
|---|---|---|
| Weighted-average number of ordinary shares at 30 June | 297,052 | 238,588 |

## 27 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 2023 and 2022 was as follows:

| | As at 30 June 2023 '000 | As at 30 June 2022 '000 |
|---|---|---|
| Total liabilities | 377,861 | 458,196 |
| Less: cash and cash equivalents | (192,369) | (309,010) |
| **Net debt** | **185,492** | **149,186** |
| Total equity | 362,058 | 354,568 |
| Less: Share based payments reserve | (1,899) | (451) |
| **Adjusted equity** | **360,159** | **354,177** |
| **Net debt to adjusted equity ratio** | **0.52** | **0.42** |

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 28 SHARE BASED PAYMENT

### a) Description of share-based payment arrangement

At 30 June 2023, 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:

| Employees entitled | Number of awards at grant date (30 June 2023) | Number ofawards at 30 June 2023 [2] | Vesting conditions | Contractual life of awards |
|---|---|---|---|---|
| Key Management Personnel | 51,374 [1] | 214,662 | Per above | 2 years |
| All other employees | 193,703 [1] | 459,782 | Per above | 2 years |

| Employees entitled | Number of awards at grant date (30 June 2022) | Number of awards at 30 June 2022 [3] | Vesting conditions | Contractual life of awards |
|---|---|---|---|---|
| Key Management Personnel | 163,288 | 163,288 | Per above | 2 years |
| All other employees | 266,079 | 266,079 | Per above | 2 years |

1. The number of awards is based on the share price as at 30 June 2023. These awards are yet to be issued.
2. No awards were forfeited during the year.
3. No awards were forfeited during the year.

#### *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 $285,000 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**).

| Employees entitled | Number of awards at grant date (16 December 2022) | Number of awards at 30 June 2023 [1] | Vesting conditions | Contractual life of awards |
|---|---|---|---|---|
| Key Management Personnel | **50,000** | 50,000 | Per above | 3 & 5 years |
| All other employees | **750,000** | 556,000 | Per above | 3 & 5 years |

| Employees entitled | Number of awards at grant date (16 December 2022) | Number of awards at 30 June 2022 [2] | Vesting conditions | Contractual life of awards |
|---|---|---|---|---|
| Key Management Personnel | 50,000 | 50,000 | Per above | 3 & 5 years |
| All other employees | 750,000 | 670,000 | Per above | 3 & 5 years |

1. No awards were granted during the period with 114,000 awards forfeited during the period, resulting in a closing balance of 606,000.
2. 800,000 awards were issued at grant date. 80,000 awards forfeited during the period, resulting in a closing balance of 720,000.

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 28 SHARE BASED PAYMENT CONTINUED

### *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 414,782 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.

| Employees entitled | Number of awards at grant date (24 September 2022) | Number ofawards at 30 June 2023 [2] | Vesting conditions | Contractual life of awards |
|---|---|---|---|---|
| Key Management Personnel [1] | – | – | – | – |
| All other employees [1] | 3,011,352 | 1,766,992 | Per above | 3 & 5 years |

| Employees entitled | Number of awards at grant date (24 September 2022) | Number ofawards at 30 June 2022 | Vesting conditions | Contractual life of awards |
|---|---|---|---|---|
| Key Management Personnel [1] | – | – | – | – |
| All other employees [1] | 3,011,352 | 2,181,772 | Per above | 3 & 5 years |

1. Legacy award.
2. 414,782 shares forfeited during the period and held in a share trust. The resulting closing balance is 1,766,992.

### *iv) Non-Executive Director Share rights compensation*

Non-Executive Directors were granted 170,000 rights as compensation for contribution to the Group prior to listing. These rights were exercised during the period ending 30 June 2023 and as such the balance of rights held at the end of the period is nil.

### *v) Long-Term Incentive (LTI)*

#### *Loan Plan*

The Company granted Loan Shares to the Group Managing Director as a LTI under the new Loan Plan at the Company's Annual General meeting on 18 November 2022. The LTI under the Loan Plan carries a maximum opportunity of $1,500,000. An interest-free limited recourse loan of $4,900,000 was provided by the Company to the Group Managing Director to purchase 2,016,053 newly issued shares. An independent valuation was obtained to determine the value of the loan and the maximum number of shares that were to be issued.

#### *Executive LTI*

In line with the Prospectus, the Board approved its first grant of rights under the Executive LTI Plan during the period. The rights granted under the FY23 Executive LTI are against KPIs measured over a 3-year performance period from 1 July 2022 to 30 June 2025. The total number of LTI rights granted is 1,064,085.

#### *FY23 Options Offer*

Issue of 817,299 Options to acquire Ordinary Shares in the Company to certain non-Executive employees under the Qualitas Employee Equity Plan at $2.75. Options vest and become exercisable subject to meeting Group and individual performance conditions and continued service over a five-year vesting period. The Options have an expiry date of 8 March 2033.

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 28 SHARE BASED PAYMENT CONTINUED

### 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 serve 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 serving 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.

| 30 June 2023 Award type | FY22 STI Rights | FY23 STI Rights | Employee Equity Plan Rights | | Intergen Rights | | Loan Plan Rights | Executive LTI Rights | FY23 Options Offer Options |
|---|---|---|---|---|---|---|---|---|---|
| Expected life of rights | – | – | 3 years | 5 years | 3 years | 5 years | 3.5 years | 3 years | 5 years |
| Fair Value at grant date | $2.19 | $2.69 [1] | $2.28 | $2.15 | $0.013 | $0.017 | $0.73 | $1.26 | $0.88 |
| Security price at grant date | $2.19 | $2.69 [1] | $2.60 | $2.60 | $0.07 | $0.07 | $2.43 | $1.56 | $2.66 |
| Exercise price | – | – | – | – | – | – | $2.43 | – | $2.75 |
| Expected dividends | – | – | 3% | 3% | 3% | 3% | – | 3% | 3% |
| Risk-free interest rate | – | – | 0.12% | 0.12% | 0.12% | 0.12% | 3.21% | 1.64% | 3.62% |

1. Estimated fair value and security price for FY23 STI Rights as at 30 June 2023. These rights are yet to be issued.

| 30 June 2022 Award type | FY22 STI Rights | Employee Equity Plan Rights | | Intergen Rights | |
|---|---|---|---|---|---|
| Expected life of rights | – | 3 years | 5 years | 3 years | 5 years |
| Fair Value at grant date | $2.19 | $2.28 | $2.15 | $0.013 | $0.017 |
| Security price at grant date | $2.19 | $2.60 | $2.60 | $0.07 | $0.07 |
| Exercise price | – | – | – | – | – |
| Expected dividends | – | 3% | 3% | 3% | 3% |
| Risk-free interest rate | – | 0.12% | 0.12% | 0.12% | 0.12% |

*ii) Expense recognised in the profit or loss*

The share-based payment expense incurred in the period was $1,898,815 (2022: $439,609).

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 29 RELATED PARTIES

### a) Key management personnel compensation

The following were key management personnel of the Company 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 |
| Jo-Anne 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 | Appointed 4 November 2021 |
| Philip Dowman | Chief Financial Officer | Appointed 16 December 2021 |
| Mark Fischer | Global Head of Real Estate | Appointed 16 December 2021 |

The key management personnel compensation comprised:

| | For the period ended 30 June 2023 $'000 | For the period ended 30 June 2022 $'000 |
|---|---|---|
| Short-term employee benefits | 3,140 | 2,057 |
| Other long-term benefits | 5,486 | 1,684 |
| Termination benefits | – | – |
| Shared based payments | 549 | 515 |
| Post-employment benefits | 131 | 69 |
| | **9,306** | **4,325** |

### 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:

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Total for key management personnel at beginning of period | 441 | 428 |
| Interest paid/payable during the period | 20 | 13 |
| **Total for key management personnel at end of period** | **461** | **441** |

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.

### 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) Loans to related parties

During the period, the Group established a liquidity lending facility to Qualitas Funds. The facility has a limit of 150,000,000 and was drawn to $42,475,659 by related parties as at 30 June 2023. The facility earns interest and is on mutually agreed commercial terms.

During the period, the Group also entered into a loan agreement with a Qualitas Fund with a facility limit of $30,000,000 which was drawn to $26,918,415 at 30 June 2023. The facility earns interest and is on mutually agreed commercial terms.

There is also a related party loan with the Group's joint venture (GQ Multifamily Unit Trust) of $553,102 at 30 June 2023.

### e) Ultimate parent

The Ultimate parent of the group is Qualitas Limited.

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 30 GROUP ENTITIES

At the reporting date, the aggregation of the Qualitas Group comprised two consolidated groups including the following entities:

| | 2023 | 2022 |
|---|---|---|
| Qualitas Investments Pty Ltd atf Qualitas Investment Unit trust | 100% | 100% |
| Treasury Finance Pty Ltd atf Treasury Finance Unit Trust | 100% | 100% |
| Arch Finance Pty Ltd atf Arch Finance Unit Trust | 100% | 100% |
| Arch Finance Warehouse Trust | 100% | 100% |
| Arch Finance Holdings Pty Ltd | 100% | 100% |
| QEP DHH Investor B Pty Ltd atf QEP DHH Investor B Unit Trust | 100% | 100% |
| QFM Hold Co Pty Ltd | 100% | 100% |
| Qualitas Funds Management Pty Ltd | 100% | 100% |
| Qualitas REO Fund Manager Pty Ltd | 100% | 100% |
| QREO Fund Manager II Pty Ltd | 100% | 100% |
| QREO Nominee Pty Ltd | 100% | 100% |
| QREO Fixed Pty Ltd | 100% | 100% |
| QREO Fixed A Pty Ltd | 100% | 100% |
| QREO Growth Pty Ltd | 100% | 100% |
| QREO Growth A Pty Ltd | 100% | 100% |
| QREO Growth A II Pty Ltd | 100% | 100% |
| QREO Fixed A II Pty Ltd | 100% | 100% |
| Peer Estate Administrators Pty Ltd | 100% | 100% |
| Peer Estate Pty Ltd | 100% | 100% |
| Peer Estate Investor Pty Ltd | 100% | 100% |
| Peer Estate IP Pty Ltd | 100% | 100% |
| Peer Estate Finance Pty Ltd | 100% | 100% |
| Peer Estate Mortgages Pty Ltd | 100% | 100% |
| Peer Estate Pool Pty Ltd | 100% | 100% |
| QCD Fund Manager Pty Ltd | 100% | 100% |
| QCD Fund Pty Ltd | 100% | 100% |
| QSD Fund Feeders Pty Ltd | 100% | 100% |
| QCRF Runaway Bay Pty Ltd (previously QSD Fund Manager Pty Ltd) | 100% | 100% |
| QSD Fund Pty Ltd | 100% | 100% |
| Qualitas Discretionary Funds Management Pty Ltd | 100% | 100% |
| QFI Fund Manager Pty Ltd | 100% | 100% |
| QFI Fund Pty Ltd | 100% | 100% |
| QFI Property Fund Pty Ltd | 100% | 100% |
| QUMF No.1 Pty Ltd | 100% | 100% |
| QRI Manager Pty Ltd | 100% | 100% |
| QRI Fund Services Pty Ltd | 100% | 100% |
| QUMF Fund Manager Pty Ltd | 100% | 100% |
| QMD Fund Manager Pty Ltd | 100% | 100% |
| QLDF Manager Pty Ltd | 100% | 100% |
| QSH No.1 Manager Pty Ltd | 100% | 100% |
| Qualitas BTR Impact Fund Pty Ltd | 100% | 100% |
| QMD Fund Pty Ltd | 100% | 100% |
| QUMF Property No. 1 Pty Ltd | 100% | 100% |
| Qualitas Administrators (NZ) Pty Ltd | 100% | 100% |
| Qualitas Property Partners Pty Ltd | 100% | 100% |
| 3 Carrington Road Pty Ltd | 100% | 100% |
| 3 Carrington Road Unit Trust | 100% | 100% |
| Hollywood Apartments Pty Ltd | 100% | 100% |
| QEP Bondi Junction Investor Pty Ltd | 100% | 100% |
| QEP Bondi Junction Investor Unit Trust | 0% | 100% |

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 30 GROUP ENTITIES CONTINUED

| | 2023 | 2022 |
|---|---|---|
| QEP Bondi Junction Manager Pty Ltd | 100% | 100% |
| QEP Bondi Junction Pty Ltd | 100% | 100% |
| QEP Bondi Junction Unit Trust | 0% | 100% |
| QEP Bondi Junction Unit Trust No. 2 | 0% | 100% |
| QEP DHH Pty Ltd | 100% | 100% |
| QEP DHH Unit Trust | 100% | 100% |
| QEP First Mortgage Enhancement Pty Ltd | 100% | 100% |
| QEP First Mortgage Enhancement Unit Trust | 100% | 100% |
| QEP Marrickville No.2 Pty Ltd | 100% | 100% |
| QEP Marrickville Pty Ltd | 100% | 100% |
| QEP Marrickville Unit Trust | 100% | 100% |
| QEP Marrickville Unit Trust No. 2 | 100% | 100% |
| QEP Spire Apartments Financier Pty Ltd | 100% | 100% |
| QEP Spire Apartments Investor Pty Ltd | 100% | 100% |
| QEP Spire Apartments Investor Unit Trust | 0% | 100% |
| QEP Spire Apartments Manager Pty Ltd | 100% | 100% |
| QEP Spire Apartments Pty Ltd | 100% | 100% |
| QEP Spire Apartments Unit Trust | 0% | 100% |
| QPP Pagewood Pty Ltd | 100% | 100% |
| QREF Senior Debt No.17 Pty Ltd | 100% | 100% |
| QREF Senior Debt No.19 Pty Ltd | 100% | 100% |
| QREF Mezzanine Debt No.20 Pty Ltd | 100% | 100% |
| QREF Senior Debt No.23 Pty Ltd | 100% | 100% |
| QREF Senior Debt No.25 Pty Ltd | 100% | 100% |
| QREF Mezzanine Debt No.26 Pty Ltd | 100% | 100% |
| QREF Senior Debt No.27 Pty Ltd | 100% | 100% |
| QREF Debt No. 28 Pty Ltd (QLA Manager Pty Ltd repurposed) | 100% | 100% |
| QREF Senior Debt No.29 Pty Ltd | 100% | 100% |
| QREF Senior Debt No.30 Pty Ltd | 100% | 100% |
| QREF Senior Debt No.31 Pty Ltd | 100% | 100% |
| Qualitas Operations Pty Ltd | 100% | 100% |
| Qualitas Advisory Pty Ltd | 100% | 100% |
| Qualitas CDF investor Pty Ltd | 100% | 100% |
| Qualitas Equity Partners Pty Ltd | 100% | 100% |
| Qualitas Equity Partners Unit Trust | 100% | 100% |
| Qualitas Agency Services Pty Ltd (Qualitas Management Services repurposed) | 100% | 100% |
| Qualitas Property Partners Pty Ltd | 100% | 100% |
| Qualitas Real Estate Finance Pty Ltd | 100% | 100% |
| Qualitas Real Estate Finance Trust | 100% | 100% |
| Qualitas REIT Partners Pty Ltd | 100% | 100% |
| Qualitas REIT Partners Unit Trust | 100% | 100% |
| Qualitas Securities Pty Ltd | 100% | 100% |
| QPP Pagewood Finance Pty Ltd | 100% | 100% |
| QUSOF Investor Pty Ltd | 100% | 100% |
| QUSOF Investor II Pty Ltd | 100% | 100% |
| QUSOF Bridge Pty Ltd | 100% | 100% |
| Qualitas Bridge Pty Ltd (repurposed from QREOF II Bridge Pty Ltd) | 100% | 100% |
| QCRF III Runaway Bay Pty Ltd (repurposed from QREOF II Investor Pty Ltd) | 100% | 100% |
| Qualitas Fund Holdings Pty Ltd | 100% | 100% |
| Qualitas Seniors Housing No.1 Pty Ltd | 100% | 100% |
| Qualitas Seniors Housing Property No.1 Pty Ltd | 100% | 100% |
| QREO Australian Feeder Pty Ltd | 100% | 100% |

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 30 GROUP ENTITIES CONTINUED

| | 2023 | 2022 |
|---|---|---|
| QAMF Wellington Pty Ltd | 100% | 100% |
| QCAB Overflow Pty Ltd | 100% | 100% |
| QCD Fund No.2 Pty Ltd | 100% | 100% |
| QEP Development Services (Bondi) Pty Ltd | 100% | 100% |
| QSH No.1 Burniside Pty Ltd | 100% | 100% |
| QSH NO.1 Keilor Pty Ltd | 100% | 100% |
| QSH NO.1 Taylors Hill Pty Ltd | 100% | 100% |
| Qualitas Australia Multifamily Property Fund Pty Ltd | 100% | 100% |
| QUMF Borrower Pty Ltd | 100% | 100% |
| QUMF Bridge Pty Ltd | 100% | 100% |
| QPagewood Pty Ltd | 100% | 100% |
| QPagewood Finance Pty Ltd | 100% | 100% |
| QLDF Pty Ltd | 100% | 100% |
| QREO Holding II Pty Ltd | 100% | 100% |
| QREO II Financier Pty Ltd | 100% | 100% |
| Q Queens Parade Pty Ltd | 100% | 100% |
| Q Beach House Developer Pty Ltd | 100% | 100% |
| Q Beach House Nominee Pty Ltd | 100% | 100% |
| Q Hassall Street Developer Pty Ltd | 100% | 100% |
| Q Hassall Street Nominee Pty Ltd | 100% | 100% |
| Q City Road Pty Ltd | 100% | 100% |
| Q City Road Developer Pty Ltd | 100% | 100% |
| Q Queens Parade Developer Pty Ltd | 100% | 100% |
| Qualitas Co-Investments Pty Ltd | 100% | 100% |
| Chauvel Holdings Pty Ltd | 100% | 0% |
| QPICF 1A Holdings Pty Ltd | 100% | 0% |
| QPICF 1A Pty Ltd | 100% | 0% |
| QPICF 1B Holdings Pty Ltd | 100% | 0% |
| QPICF 1B Pty Ltd | 100% | 0% |
| QPICF 1C Holdings Pty Ltd | 100% | 0% |
| QPICF 1C Pty Ltd | 100% | 0% |
| QPICF 1D Holdings Pty Ltd | 100% | 0% |
| QPICF 1D Pty Ltd | 100% | 0% |
| QPICF 1E Holdings Pty Ltd | 100% | 0% |
| QPICF 1E Pty Ltd | 100% | 0% |
| Qualitas Kensington Co-invest Pty Ltd | 100% | 0% |
| Qualitas Private Income Credit Finance Pty Ltd | 100% | 0% |
| Capital Management Australia Pty Ltd | 100% | 0% |
| Chauvel Capital Investment Services #2 Pty Ltd | 100% | 0% |
| Chauvel Capital Investment Services #3 Pty Ltd | 100% | 0% |
| Chauvel Capital Investment Services #4 Pty Ltd | 100% | 0% |
| Chauvel Capital Investment Services #5 Pty Ltd | 100% | 0% |
| Chauvel Capital Investment Services (Ashgrove) Pty Ltd | 100% | 0% |
| Chauvel Capital Investment Services Pty Ltd | 100% | 0% |
| Chauvel Capital Partners Funds Management Pty Ltd | 100% | 0% |
| Chauvel Capital Partners Pty Ltd | 100% | 0% |

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 31 PARENT ENTITY DISCLOSURES

As at, and throughout, the financial period ended 30 June 2023 the parent entity of the Group was Qualitas Limited.

| Results of the parent entity | Period ended 30 June 2023 $'000 | Period ended 30 June 2022 $'000 |
|---|---|---|
| Profit/(loss) for the period | 19,698 | 44,013 |
| Other comprehensive income | – | – |
| **Total comprehensive income for the period** | **19,968** | **44,013** |

**Financial position of parent entity at year end**

| | At 30 June 2023 $'000 | At 30 June 2022 $'000 |
|---|---|---|
| Current assets | 258,549 | 279,511 |
| **Total assets** | **374,406** | **366,404** |
| Current liabilities | 5,623 | 6 |
| **Total liabilities** | **5,623** | **6** |
| **Net assets** | **367,783** | **366,398** |
| ***Total equity of the parent entity comprising of:*** | | |
| Share capital | 322,752 | 322,385 |
| Retained earnings | 46,031 | 44,013 |
| **Total equity** | **368,783** | **366,398** |

### PARENT ENTITY CONTINGENT LIABILITIES

The Directors are of the opinion that there are no contingent liabilities, as it is not probable that a future sacrifice of economic benefits will be required, or the amount is not capable of reliable measurement.

## 32 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

| | Period ended 30 June 2023 $'000 | Period ended 30 June 2022 $'000 |
|---|---|---|
| Profit/(loss) for the period | 22,539 | 12,116 |
| *Adjustments for:* | | |
| Depreciation | 1,904 | 317 |
| Employee share based payments | 1,448 | 451 |
| Net (gains)/losses on financial instruments at fair value through profit or loss | 259 | – |
| *Changes in:* | | |
| Trade and other receivables | (92,301) | (22,227) |
| Inventories | (348) | (260) |
| Prepayments | (402) | (834) |
| Intangibles – capitalised contract costs | 198 | 387 |
| Trade and other payables | 3,668 | 299 |
| Deferred tax assets | 2,919 | (7,343) |
| Deferred income | (1,860) | 2,591 |
| Employee benefits | 1,241 | 11,131 |
| Tax payables | (7,591) | 4,146 |
| Investment loans – classified as operating activity | 45,432 | 38,074 |
| **Net cash inflow/(outflow) from operating activities** | **(22,894)** | **38,848** |

### a) Components of cash and cash equivalents

Cash at the end of the financial period as shown in the statement of cash flows is reconciled to the statement of financial position as follows:

| | Period ended 30 June 2023 $'000 | Period ended 30 June 2022 $'000 |
|---|---|---|
| Cash and cash equivalents | 192,369 | 309,010 |

# NOTES TO THE CONSOLIDATED FINANCIAL REPORT

## 33 AUDITORS' REMUNERATION

During the period, the following fees were paid or payable for services provided by KPMG, the auditor of the Group:

| | For the period ended 30 June 2023 $'000 | For the period ended 30 June 2022 $'000 |
|---|---|---|
| ***Audit and review services*** | | |
| ***Auditors of the Group – KPMG*** | | |
| Audit and review of financial report | 314 | 224 |
| Other regulatory services | 40 | 44 |
| **Total remuneration for audit and review services** | **354** | **268** |
| ***Other services*** | | |
| ***Auditors of the Group – KPMG*** | | |
| Tax services | 177 | 93 |
| Advisory services | 384 | 1,338 |
| Other services | – | – |
| **Total remuneration for other services** | **561** | **1,431** |
| **Total auditors' remuneration** | **915** | **1,699** |

## 34 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 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 2023, and has not been provided for, is not expected to affect its financial position in any material way, either individually or in aggregate.

## 35 EVENTS OCCURRING AFTER THE REPORTING PERIOD

Subsequent to 30 June 2023, the Group secured an increased capital commitment from an institutional investor of $750 million in the Qualitas Construction Debt Fund II supporting the Fund to capitalise on upcoming attractive opportunities in the CRE private credit sector. This increases the size of the Fund to approximately $1.95 billion of committed capital and Qualitas will increase its co-investment in the Fund by a further $5 million to $10 million total commitment.

The Group has also since balance date secured an additional $700 million from a wholly owned subsidiary of the Abu Dhabi Investment Authority (ADIA) for the existing Qualitas Diversified Credit Investments Fund (QDCI). The additional commitment brings QDCI's committed capital to $1.45 billion and Qualitas committed FUM to $7.5 billion. In August 2022, Qualitas granted options to ADIA under which ADIA may acquire up to a maximum of 32,630,374 new ordinary shares. This new mandate means ADIA can exercise its options to acquire an initial tranche of 22,841,263 ordinary shares at a strike price currently at $2.50 per share until the options expiry date of 1 August 2024.

Subsequent to year end, on 23 August 2023, the Directors declared a fully franked dividend of 5.5 cents per share which amounted to $16,280,833 to be paid on 3 October 2023 with a record date of 12 September 2023.

No significant events have occurred since the reporting period which would impact on the financial position of the Group disclosed in the consolidated statement of financial position as at 30 June 2023 or on the results and cash flows of the Group for the current reporting period ended on that date.

# DIRECTORS' DECLARATION

1) In the opinion of the Directors of Qualitas Limited:

   a) The consolidated financial report and notes set out on pages 48 to 87 are in accordance with the *Corporations Act 2001*, including:

      i) Giving a true and fair view of the Group's financial position at 30 June 2023 and of its performance for the year ended 30 June 2023;

      ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*; 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.

2) The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Controller for the period ended 30 June 2023.

3) The Directors draw attention to Note 2 of the consolidated financial report, which includes a statement of compliance with International Financial Reporting Standards.

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

**Andrew Fairley AM**
*Chairman*

Melbourne
23 August 2023

# INDEPENDENT AUDITOR'S REPORT

# Independent Auditor's Report

To the shareholders of Qualitas Limited

## Report on the audit of the Financial Report

### Opinion

We have audited the ***Financial Report*** of Qualitas Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group***'s financial position as at 30 June 2023 and of its financial performance for the year then ended; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2023
- Consolidated Statement of comprehensive income, Consolidated Statement of changes in equity, and Consolidated Statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it 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 Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and 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 Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with these requirements.

# INDEPENDENT AUDITOR'S REPORT

KPMG

## Key Audit Matters

The ***Key Audit Matters*** we identified are:

- Revenue Recognition of performance fee income
- Expected credit loss allowance

***Key Audit Matters*** are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Recognition of performance fee income ($4,284,000)

Refer to Note 7a to the Financial Report

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| The Group earns performance fee income from the funds it manages in accordance with investment management agreements, based on the performance obligations by the funds.<br><br>Recognition of performance fee income and the associated performance fee accrual is a key audit matter due to the following:<br><br>• Contribution of performance fee income to the Group's result; and<br><br>• the significant audit effort and judgement we have applied in assessing the Group's recognition and measurement of performance fee income and the associated performance fee accrual.<br><br>Complexity and judgements involved in applying the requirements of AASB 15 *Revenue from Contracts with Customers* include judgements made by the Group in:<br><br>• Assessing the underlying timing of its performance fee income recognition based on the terms of the investment management agreements, the stage of the investment lifecycle and performance of the underlying Fund.<br><br>• Estimating the expected value of variable consideration based on fund returns and fund net asset values; and<br><br>• Determining the amount for which it is highly probable that a significant revenue reversal will not subsequently occur (applying the constraint). | Our procedures included:<br><br>• Obtaining an understanding of the performance fee income recognition process and key controls.<br><br>• Evaluating the Group's accounting policies for revenue recognition in relation to performance fee income against the requirements of AASB 15 and our understanding of the business.<br><br>• Reading the relevant investment management agreements to understand the key terms of the arrangements and the performance obligations.<br><br>• Assessing the Group's judgements in relation to the timing of revenue recognised. This included assessment of which funds the Group had recognised performance fees from, based on the stage of the investment lifecycle, expected termination and the performance to date of the underlying fund. Our assessment was based on our procedures on the underlying Funds.<br><br>• Re-calculating a sample of the estimated expected value of variable consideration in accordance with the relevant investment management agreements, including testing a sample of inputs such as fund returns and fund net asset values to underlying Fund source documentation.<br><br>• Challenged management's judgements in determining the portion of revenue constraint applied to the expected value of variable consideration. This included performing probability weighted scenario and sensitivity analysis over variable consideration and |

# INDEPENDENT AUDITOR'S REPORT

KPMG

| | |
|---|---|
| In assessing this key audit matter, we involved senior audit team members who understand the Group's business, industry and economic environment it operates in. | developing a reasonable possible range to compare against the variable consideration recognised.<br>• We assessed the appropriateness of the Group's disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standard. |

| **Expected credit loss allowance ($575,000)** | |
|---|---|
| Refer to Note 5b and Note 17 to the Financial Report | |
| **The key audit matter** | **How the matter was addressed in our audit** |
| Allowance for expected credit losses is a key audit matter due to:<br>• the significance of the mortgage loans balance to the financial report; and<br>• the inherent complexity of the Group's Expected Credit Loss (ECL) model (ECL model) used to measure ECL allowances. The model is reliant on data and a number of assumptions such as defining a significant increase in credit risk (SICR). This involves significant judgement applied by the Group and required by us to challenge these assumptions incorporating forward looking information reflecting the Group's view of the future economic factors.<br>The Group's criteria selected to identify a SICR, such as a decrease in default/credit rating, are key areas of judgement within the Group's ECL methodology as these criteria determine if a forward-looking 12 month or lifetime allowance is recorded.<br>AASB 9 requires the Group to measure ECLs on a forward-looking basis reflecting a range of economic factors as well as net realisable value of secured property are considered key assumptions.<br>The Group's policy is to apply overlays to address ECL measurement uncertainties in their model. In the current year, this included an economic cycle overlay taking into consideration the potential impact of an inflationary and increasing interest rate economic environment. We exercise significant judgement in challenging the economic factors considered and the | Our procedures included:<br>• Assessing the Group's significant accounting policies for ECL allowance against the requirements of the accounting standard.<br>• Obtaining an understanding of the Group's processes to determine ECL allowances.<br>• Testing key controls relating to the Group's lending and provisioning processes including:<br>- Review and approval by Management of new loans against the Group's lending policies<br>- Review and approval by Management of the Group's ECL model methodology.<br>• Assessing the appropriateness of the Group's ECL methodology against the requirements of the accounting standards and industry practice.<br>• Assessing the economic cycle overlay applied by the Group to the ECL model. We compared the mortgage loan portfolios' underlying performance and characteristics to current economic factors, emerging risks and trends, using our knowledge of the industry.<br>• Re-performing the ECL calculation using the Group's provisioning methodology and relevant data used within the ECL models. We compared our results to the amount recorded by the Group.<br>• Tested the implementation of the group's SICR criteria by re-performing the staging assessment of loans and comparing our expectation to actual staging applied in the Group's ECL model.<br>• Performed industry comparisons of the impairment allowance coverage rates. We did this by using our knowledge of the loan portfolio and comparing the outputs of the Group's ECL model to publicly available data of comparable entities and against our industry experience. |

# INDEPENDENT AUDITOR'S REPORT

| | |
|---|---|
| judgemental model overlays the Group applies to the ECL model results. | • Tested the completeness and accuracy of relevant loan data and inputs used within the ECL model such as checking the year-end balances to the general ledger and arrears and loan-to-value ratios to relevant source systems.<br>• Challenged key assumptions used in the ECL model relating to forward-looking economic factors with reference to publicly available macro-economic information.<br>• Considered the sensitivity of the model by varying key assumptions such as secured property valuations and expected probabilities of default within a reasonably possible range. We did this to identify those assumptions at higher risk of bias or inconsistency in application and focus further procedures.<br>• We assessed the appropriateness of the Group's disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standard. |

## Other Information

Other Information is financial and non-financial information in Qualitas Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Director's Report. The Chairman and Managing Director Letter; Company Overview, Strategy, People and Environmental, Social and Governance Report; Corporate Governance Statement; Shareholder Information; and Company Directory are expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report 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 the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*

# INDEPENDENT AUDITOR'S REPORT

- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's 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 Group and Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *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 Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our Auditor's Report.

## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of Qualitas Limited for the year ended 30 June 2023, complies with *Section 300A* of the *Corporations Act 2001*.

### Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

### Our responsibilities

We have audited the Remuneration Report included in pages 10 to 20 of the Directors' report for the year ended 30 June 2023.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Rachel Gatt
*Partner*

Sydney
23 August 2023

# SHAREHOLDER INFORMATION

Information contained in this section is valid as of 19 September 2023, unless otherwise stated.

Qualitas is listed on the Australian Securities Exchange (ASX) under the ASX Listing Code: QAL.

## VOTING RIGHTS

Shareholders in Qualitas Limited are entitled to one vote for each share they hold in the Company.

## NUMBER OF HOLDERS OF EQUITY SECURITIES

**Contributed equity**

296,016,053 fully paid shares are held by 1,080 individual security holders.

## SHAREHOLDERS

| Substantial shareholders | Number of Shares |
|---|---|
| Qualitas Limited[1] | 104,800,431 |
| ACS Qualitas Management Pty Ltd | 66,830,066 |
| QPP Holdings Pty Ltd[2] | 66,830,066 |
| Ethical Partners Funds Management Pty Ltd[3] | 15,480,524 |
| Quest Asset Partners Pty Ltd[4] | 14,831,401 |

| Distribution of Shares | Number of Shareholders | Percentage of total Issued Shares |
|---|---|---|
| 100,001 and Over | 70 | 6.48 |
| 10,001 to 100,000 | 421 | 38.98 |
| 5,001 to 10,000 | 144 | 13.33 |
| 1,001 to 5,000 | 260 | 24.07 |
| 1 to 1,000 | 185 | 17.13 |
| **Total Number of Shareholders** | **1,080** | **100.00** |

Number of securityholders holding less than a marketable parcel (being 207 securities at the closing market price of $2.42 on 19 September 2023): 31.

| TOP 20 SHAREHOLDERS | Number of Shares | Percentage of total Issued Shares |
|---|---|---|
| QPP HOLDINGS PTY LTD <Qualitas Holdings (AJS) Trust A/C>[2] | 66,830,066 | 22.58 |
| ACS QUALITAS MANAGEMENT PTY LTD <ACS Qualitas Management Trust A/C> | 66,830,066 | 22.58 |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 50,383,990 | 17.02 |
| CITICORP NOMINEES PTY LIMITED | 13,629,698 | 4.60 |
| J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 11,682,155 | 3.95 |
| JURRAH INVESTMENTS PTY LTD <RM Davis Investment Trust A/C> | 10,102,242 | 3.41 |
| NATIONAL NOMINEES LIMITED | 9,726,340 | 3.29 |
| IBROX CAPITAL MANAGEMENT PTY LTD <IBROX Investments Qualitas Discretionary Trust A/C>[5] | 7,770,927 | 2.63 |
| BNP PARIBAS NOMINEES PTY LTD <Agency Lending DRP A/C> | 7,154,791 | 2.42 |
| NETWEALTH INVESTMENTS LIMITED <Wrap Services A/C> | 6,948,897 | 2.35 |
| HHV INVESTMENTS PTY LTD <HHV ESOP Trust A/C> | 3,885,474 | 1.31 |
| NETWEALTH INVESTMENTS LIMITED <Super Services A/C> | 2,367,148 | 0.80 |
| PARRI ESTATE PTY LTD | 2,341,899 | 0.79 |
| PACIFIC CUSTODIANS PTY LIMITED[6] | 2,186,053 | 0.74 |
| MELTIM HOLDINGS PTY LTD <Meltim Family Trust A/C> | 1,569,873 | 0.53 |
| UBS NOMINEES PTY LTD | 1,347,631 | 0.46 |
| PACIFIC CUSTODIANS PTY LIMITED <Employee Share Tst A/C>[7] | 1,244,360 | 0.42 |
| VENTI SEVEN PTY LTD | 1,138,364 | 0.38 |
| BNP PARIBAS NOMS PTY LTD <DRP> | 828,292 | 0.28 |
| DEEMCO PTY LIMITED | 810,000 | 0.27 |
| HIGHPOINT SHOPPING CENTRES PTY LTD | 800,000 | 0.27 |
| LANGBURGH PTY LTD <The Marc Besen Family Trust A/C> | 800,000 | 0.27 |
| **Total** | **270,378,266** | **91.34** |
| **Total Shares on Issue** | **296,016,053** | **100.00** |

1. The Company has a deemed relevant interest in its own Shares under section 608(1)(c) of the Corporations Act by virtue of the restriction on the disposal of Shares under the voluntary escrow deeds entered into with each of the shareholders set out in Annexure A, as disclosed in section 7.7 of the Company's Prospectus dated 29 November 2021 and in the notice to the ASX on 22 December 2021. The Company has no right to acquire these Shares or to exercise, or control the exercise of, a right to vote attached to these Shares.
2. Holding of Andrew Schwartz, Group Managing Director of the Company.
3. Per the ASX:QAL Notice of substantial holder notice on 12 September 2022.
4. Per the ASX:QAL Notice of substantial holder notice on 19 September 2023.
5. Holding entity of Mark Fischer (a Key Management Person).
6. QAL Employee Sub Register and includes the 2,016,053 Loan Shares issued to the Group Managing Director as detailed under 'Issue of Securities', and the 170,000 Non-Executive Director shares subject to a holding lock until 16 December 2023.
7. The Company's Employee Share Trust as described in the Company's Employee Equity Plan.

# SHAREHOLDER INFORMATION

## OPTIONS ON ISSUE

There are 32,630,374 unquoted options on issue to a wholly owned subsidiary of Abu Dhabi Investment Authority (ADIA) with an expiry date of 1 August 2024[1].

There are 817,299 unquoted options on issue expiring 8 March 2033 with an exercise price of $2.75 issued to certain employees under the Company's Employee Equity Plan[2].

## PERFORMANCE RIGHTS ON ISSUE

There are 2,399,666 unquoted performance share rights on issue under the Company's Employee Equity Plan[3].

## ESCROW SHARES

| Security description | Current issued capital |
|---|---|
| Voluntary Escrow[4] until 2 years from Listing Date (16 December 2023 inclusive) | 52,400,217 |
| Voluntary Escrow until 5 years from Listing Date (16 December 2026 inclusive) | 52,400,214 |
| Employee Escrow[5] until 3 years from Listing Date (16 December 2024 inclusive) | 883,496 |
| Employee Escrow until 5 years from Listing Date (16 December 2026 inclusive) | 883,496 |
| **Total** | **106,567,423** |

## ISSUE OF SECURITIES

The Company issued 2,016,053 Ordinary Fully Paid securities on 6 December 2022 under the Company's Long Term Incentive Loan Share Plan to the Group Managing Director. The issue price per security was $2.4304. The issue was approved by shareholders at the Company's Annual General Meeting held 18 November 2022. Further information can be found in the 2022 Notice of Meeting.

## ON-MARKET PURCHASES

There were no on-market purchases of securities by the Company for the period.

1. Refer to ASX Announcement 22 August 2023.
2. Refer to the plan released to the ASX at https://cdn-api.markitdigital.com/apiman-gateway/ASX/asx-research/1.0/file/2924-02467148-3A583826?access_token=83ff96335c2d45a094df02a206a39ff4.
3. Per the ASX:QAL Notice of substantial holder notice on 19 September 2023.
4. As outlined in section 7.7 of the Company's Prospectus dated 29 November 2021.
5. As outlined in section 4.6.5 of the Company's Prospectus dated 29 November 2021, noting 1,244,360 shares have since been forfeited.

# FUND KEY AND GLOSSARY

## LISTED ENTITY

| | |
|---|---|
| ASX: QAL | Qualitas Limited |

## LISTED FUND

| | |
|---|---|
| ASX: QRI | Qualitas Real Estate Income Fund |

## UNLISTED FUNDS

| | |
|---|---|
| QSDF | Senior Debt Fund |
| QBIF | Build-to-Rent Impact Fund |
| QCDF | Construction Debt Fund |
| QCDFII | Construction Debt Fund II |
| QDCI | Diversified Credit Investments |
| QDREF | Diversified Real Estate Fund |
| QFIF | Food Infrastructure Fund |
| QLCDF | Low Carbon Debt Fund |
| QPICF | Private Income Credit Fund |
| QREOFI | Real Estate Opportunity Fund 1 |
| QREOFII | Real Estate Opportunity Fund 2 |
| QREOFIII | Real Estate Opportunity Fund 3 |
| QSDEF | Senior Debt Enhanced Fund |
| Senior Debt SMA | Senior Debt separately managed account |
| QTCF | Tactical Credit Fund |

## GLOSSARY

| | |
|---|---|
| ADI | Authorised deposit-taking institution |
| ASX | Australian Securities Exchange |
| BTR | Build-to-rent |
| CAGR | Compound annual growth rate |
| CRE | Commercial real estate |
| Deployed capital | Capital committed on investments |
| EBITDA | Earnings before interest tax depreciation & amortisation |
| ESG | Environmental, Social and Governance |
| FM | Funds Management |
| FUM | Funds under management represented by committed capital from investors with signed investor agreements |
| GAV | Gross Asset Value |
| Invested FUM | FUM that is currently deployed. This includes capital drawn for equity funds and funds drawn on live deals/ loans less repayments for credit funds |
| IPO | Initial Public Offering |
| MREIT | Mortgage Real Estate Investment Trust |
| RAP | Reconciliation Action Plan |
| Total return credit | Construction and opportunistic credit |
| WALE | Weighted average lease expiry |

# COMPANY DIRECTORY

## QUALITAS LIMITED

### REGISTERED OFFICE

**Qualitas Limited** (Registered Office)
Level 38, 120 Collins Street Melbourne, Victoria 3000, Australia
Telephone: +61 3 9612 3900
www.qualitas.com.au
investor.relations@qualitas.com.au

### SECURITIES EXCHANGE LISTING

Qualitas (QAL) is listed on the Australian Securities Exchange (ASX)
ASX code: QAL

### BOARD OF DIRECTORS

**Andrew Fairley AM**
*Independent Non-Executive Chairman*

**Andrew Schwartz**
*Group Managing Director, Co-Founder and Chief Investment Officer*

**Mary Ploughman**
*Independent Non-Executive Director*

**Michael Schoenfeld**
*Independent Non-Executive Director*

**JoAnne Stephenson**
*Independent Non-Executive Director*

**Brian Delaney**
*Non-Independent Non-Executive Director*

### COMPANY SECRETARY

Terrie Morgan

### SHARE REGISTRY

**Australia**
Link Market Services
Level 12, 680 George Street Sydney NSW 2000
Telephone: 8280 7100 (within Australia) +61 2 8280 7100 (outside Australia)

### QUALITAS CONTACT

Telephone: 1800 628 703 (within Australia)
Email: qualitas@linkmarketservices.com.au

### AUDITOR

**KPMG**
Level 38 Tower Three 300 Barangaroo Avenue Sydney NSW 2000

QUALITAS