Qualitas Limited

ACN 655 057 588

Interim report
For the half-year ended 31 December 2022

Incorporating the requirements of Appendix 4D

Qualitas Limited Appendix 4D
For the half-year ended 31 December 2022

Details of Reporting Period

Current:	For the half-year ended 31 December 2022
Previous corresponding:	For the period 4 November 2021 to 31 December 2021

The Directors of Qualitas Limited (ACN: 655 057 588) announce the consolidated results of Qualitas Limited and its controlled entities ("the Group") for the half-year ended 31 December 2022 as follows:

Results for announcement to the market

Extracted from the Condensed Consolidated Interim Financial Statements for the half-year ended 31 December 2022.

	2022 $'000	2021 $'000	Change $	Change %
Revenue from ordinary activities	**35,406**	**2,323**	**33,023**	**1422%**
Profit/(loss) from ordinary activities after tax attributable to members	**10,692**	**(1,846)**	**12,538**	**679%**
Net profit/(loss) for the period attributable to members	**10,692**	**(1,846)**	**12,538**	**679%**

Details of dividends

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

Details of Dividend Reinvestment Plan

The Group does not have a Dividend Reinvestment Plan ("DRP").

Net tangible assets per security

The net tangible assets per security is $1.20 (2021: $1.16).

Control gained or lost over entities during the period

On 5 December 2022 the Group acquired 100% controlling equity interest in Capital Management Australia Pty Ltd, Chauvel Capital Partners Funds Management Pty Ltd and Chauvel Capital Partners Pty Ltd. The acquisition was effective on 1 July 2022.

Details of associates and joint venture entities

The Group is part of a joint venture arrangement with control over four assets. The joint venture is a strategic partnership to establish a build-to-rent platform, targeting $5 billion of gross assets over the next 5-7 years.

Other information

The Group is not a foreign Group.

Independent review report

This report is based on the condensed consolidated interim financial statements for the half-year ended 31 December 2022 which has been subject to an independent review by the Group's Auditors, KPMG. All the documents comprise the information required by ASX Listing Rule 4.2A.

Qualitas Limited

ACN 655 057 588

Interim financial statements

For the half-year ended 31 December 2022

Qualitas Limited

ACN 655 057 588

Interim financial statements

For the half-year ended 31 December 2022

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The condensed consolidated interim financial statements cover Qualitas Limited (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

Directors' report

The condensed 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 half-year ended 31 December 2022 and the auditor's review report thereon.

Directors

The following persons were Directors of Qualitas (ASX: QAL) during the half-year 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

Company Secretary

The Company Secretary of the Company is:

Terrie Morgan	Appointed 8 June 2022

Operating result

The net profit after tax of the Company for the half-year ended 31 December 2022 amounted to $10,691,763 (2021: loss of ($1,845,908) for the period 4 November 2021 to 31 December 2021).

Review of operations

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

- Secured $700m commitment from Abu Dhabi Investment Authority (ADIA) for a new fully discretionary investment mandate. Also secured a new capital commitment from a global institutional investor to invest $440m in the Qualitas Construction Debt Fund II. A further $350m equity commitment was secured for a second Build to Rent Fund from a global institutional investor.
- Majority of new committed funds under management (FUM) of $1.5b is from global institutional investors bringing greater diversity to the Group's capital sources. Institutional FUM comprises circa 76% of total committed FUM. FUM represents committed capital from investors with signed investor agreements.
- Use of IPO proceeds during the period resulting in income of $6.8m. IPO proceeds were deployed to make co-investments (in Qualitas Diversified Credit Investments) as well as underwrite deals for various funds ahead of capital raising. In December 2022, $125m Liquidity Facility was established to warehouse deals for income credit funds.
- Cashflows from operating activities in the statement of cashflows includes an outflow of $143.9m relating to investments acquired. This includes $41.1m of term deposits, $88.9m deployment of IPO proceeds to underwrite deals for various funds and $13.9m co-investment in funds.
- Qualitas originated and deployed the Company's single largest loan in the reporting period, being a circa $600m exposure to a Sydney mixed use development (*AURA by Aqualand*), with funding by construction and mezzanine loans.
- Record total deployment in the reporting period of $1.76b on the back of strong momentum in senior debt origination by the Qualitas team.
- A key driver of operating efficiency is the change in Qualitas average gross investment size. During the reporting period the average gross investment size increased to $71m (excluding *AURA by Aqualand*).
- Qualitas achieved renewal of its certification of a carbon neutral footprint from Climate Active for 2021-2022 in December 2022.
- Qualitas' Reflect Reconciliation Action Plan (RAP) was conditionally endorsed by Reconciliation Australia.
- The Company was incorporated on 4 November 2021 (and operations commenced on 22 December 2021) and the comparative information in the statement of comprehensive income and statement of cash flows reflects the period from 4 November 2021 to 31 December 2021.

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 funds growth and performance by taking advantage of significant commercial real estate private credit opportunities and its diverse investor base of wholesale and retail investors.

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

Directors' report (continued)

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

Qualitas is an Australian alternative real estate investment manager with FUM of $5.8 billion as at 31 December 2022 across debt and equity funds and other mandates. Qualitas specialises in managing funds focused on the real estate private credit and real estate private equity sectors.

The Qualitas funds platform consists of 16 active funds, comprising 6 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 $5.8 billion of FUM. Additionally, Qualitas holds interests in its Funds alongside wholesale and retail investors (**Fund Investors**), totaling $45 million (**Co-Investments**).

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

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

After balance date events

On 22 February 2023, the Directors declared an interim 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.

No other matter or circumstance has arisen since 31 December 2022 that has significantly affected, or may significantly affect:

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

Likely developments in the operations of the Group, and the expected results of those operations in future financial years, have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Group.

Environmental regulation

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

Dividends

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

On 22 February 2023, the Directors declared an interim 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.

Directors' report (continued)

Rounding of amounts to the nearest thousand dollars

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

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 5.

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

Andrew Fairley AM
Chairman

Melbourne

22 February 2023

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 review of Qualitas Limited for the half year ended 31 December 2022 there have been:

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

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

KPMG

KPMG

Rachel Gatt

Rachel Gatt
Partner

Sydney
22 February 2023

Condensed consolidated interim statement of comprehensive income

	Notes	Half year to 31 December 2022 $'000	4 November to 31 December 2021 $'000
Income			
Interest income	8	**18,723**	**690**
Interest expense	8	**(10,027)**	**(381)**
Net interest income		**8,696**	**309**
Performance fees	7a	**2,035**	**858**
Income from the provision of financial services	7b	**22,947**	**1,082**
Other income		**1,552**	**27**
Net gains/(losses) on financial instruments held at fair value through profit or loss		**176**	**47**
Total income from provision of financial services		**26,710**	**2,014**
Total revenue		**35,406**	**2,323**
Loan impairment (expense)/reversal		**25**	**187**
Expenses			
Employee costs		**(14,121)**	**(1,149)**
Marketing and sales commission expenses		**(322)**	**(12)**
Consulting and professional fees		**(1,475)**	**(48)**
Travel expenses		**(288)**	**(2)**
Depreciation and amortisation		**(885)**	**(56)**
Insurance costs		**(892)**	**(51)**
Capital raising costs - QAL		**-**	**(3,779)**
Other operating expenses		**(1,967)**	**(50)**
Total operating expenses		**(19,950)**	**(5,147)**
Equity accounted investments		**(176)**	-
Profit/(loss) before income tax		**15,305**	**(2,637)**
Income tax benefit/(expense)	9	**(4,613)**	**791**
Profit/(loss) for the period		**10,692**	**(1,846)**
Other comprehensive income		**-**	**-**
Total comprehensive income/(loss) for the period		**10,692**	**(1,846)**
Total comprehensive income/(loss) attributable to:			
Owners of Qualitas Limited		**10,692**	**(1,846)**
Earnings per share for profit attributable to shareholders of the Group			
Basic earnings per share (cents)		**3.65**	**(0.63)**
Diluted earnings per share (cents)		**3.62**	**(0.63)**

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

Condensed consolidated interim statement of financial position

	Notes	As at 31 December 2022 $'000	As at 30 June 2022 $'000
Assets			
Cash and cash equivalents		159,411	309,010
Trade and other receivables		16,153	15,452
Prepayments		1,668	960
Loan receivables	10	88,923	-
Accrued performance fees		46,679	44,654
Intangible		577	-
Right-of-use assets		2,607	2,775
Property, plant and equipment		735	528
Deferred tax asset		8,435	9,490
Investments		86,177	32,134
Inventories		24,123	24,114
Mortgage loans		355,194	369,368
Intangible asset - capitalised contract costs		4,181	4,279
Total assets		794,863	812,764
Liabilities			
Trade and other payables		9,149	11,511
Deferred income		6,477	6,336
Employee benefits		22,367	23,812
Lease liability		2,694	2,824
Loans and borrowings	11	399,753	413,713
Total liabilities		440,440	458,196
Net assets		354,423	354,568
Equity			
Issued capital	12	723,487	723,141
Retained earnings		11,081	12,116
Share based payments reserve		995	451
Treasury share reserve		-	-
Common control reserve		(381,140)	(381,140)
Total equity		354,423	354,568

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

Condensed consolidated interim statement of changes in equity

	Issued capital	Retained earnings	Share-based payments reserve	Common control reserve	Treasury share reserve	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 4 November 2021	-	-	-	-	-	-
Total comprehensive income for the period						
Loss after tax for the period	-	(1,846)	-	-	-	(1,846)
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)	-	18,859
IPO costs reflected directly through equity (net of tax)	(11,640)	-	-	-	-	(11,640)
Share-based payments	-	-	27	-	-	27
Balance at 31 December 2021	**723,360**	**(1,846)**	**27**	**(381,140)**	**-**	**340,400**
Balance at 1 July 2022	723,141	12,116	451	(381,140)	-	354,568
Total comprehensive income for the period						
Profit after tax for the period	-	10,692	-	-	-	10,692
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	-
Transactions recorded directly in equity						
Treasury shares acquired/(sold)	-	-	-	-	-	-
IPO costs reflected directly through equity (net of tax)	(15)	-	-	-	-	(15)
Options issued	361	-	-	-	-	361
Share-based payments	-	-	544	-	-	544
Dividends paid	-	(11,727)	-	-	-	(11,727)
Balance at 31 December 2022	**723,487**	**11,081**	**995**	**(381,140)**	**-**	**354,423**

Condensed consolidated interim statement of cash flows

	Half-year ended 31 December 2022 $'000	4 November to 31 December 2021 $'000
Cash flows from operating activities		
Interest received	**18,145**	**643**
Interest paid	**(10,027)**	**(381)**
Receipts from provision of financial services and performance fees	**25,931**	**2,774**
Payments to suppliers, employees and others	**(21,546)**	**(1,362)**
Payment of IPO costs	**-**	**(16,162)**
Working capital funding	**(1,580)**	**758**
Payments in relation to projects	**(9)**	**(6)**
Tax received/(paid)	**(5,865)**	**-**
Mortgage loans advanced	**(55,560)**	**(5,540)**
Mortgage loans repaid	**69,759**	**3,952**
Investments acquired	**(143,864)**	**(2,825)**
Investments disposed	**1,074**	**1,340**
Net cash movement from operating activities	**(123,542)**	**(16,809)**
Cash flows from investing activities		
Payments for Property, plant and equipment	**(342)**	**(64)**
Cash of subsidiary entities on acquisition date	**-**	**9,802**
Net cash movement from investing activities	**(342)**	**9,738**
Cash flows from financing activities		
Payment of lease liabilities	**(373)**	**(14)**
Proceeds from loans and borrowings	**21,992**	**2,390**
Repayments of loans and borrowings	**(35,952)**	**(20,640)**
Repayment of Financier loan (capital)	**-**	**(17,308)**
IPO proceeds received	**-**	**335,000**
Payment of IPO costs	**(15)**	**-**
Options issued	**361**	
Dividends paid	**(11,728)**	**-**
Net cash movement from financing activities	**(25,715)**	**299,428**
Net increase in cash and cash equivalents	**(149,599)**	**292,357**
Cash and cash equivalents at the beginning of the period	**309,010**	**-**
Cash and cash equivalents at the end of the period	**159,411**	**292,357**

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

Notes to the condensed consolidated interim financial statements

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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 listed on the Australian Stock Exchange ("ASX") on 16 December 2021 on a conditional and deferred basis and commenced trading on 21 December 2021. The ASX ticker is QAL.

The Company commenced operations on 21 December 2021.

2 Basis of preparation

These condensed consolidated interim financial statements as at and for the half-year ended 31 December 2022 comprise the Company and its controlled entities (together referred to as the "Group"). The Group is a 'for profit' entity for the purpose of preparing these condensed consolidated interim financial statements. The Company was incorporated on 4 November 2021 (comparative information reflects this period) and operations commenced on 22 December 2021.

The condensed consolidated interim statement of financial position is presented on a liquidity basis.

(a) Statement of compliance

These condensed consolidated interim financial statements are general purpose financial statements prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*, and with IAS 34 *Interim Financial Reporting.* The condensed consolidated financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

They do not include all of the information required for a complete set of annual financial statements and should be read in junction with the 2022 Annual report. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 30 June 2022.

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

These condensed consolidated interim financial statements were authorised for issue by the Directors on 22 February 2023.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

Key judgements involve:
- Credit risk;
- Revenue recognition in relation to performance fees;
- Equity accounted investees; and
- Financial asset disclosures

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;
- Recognition and measurement of deferred tax assets and liabilities;
- Credit risk relating to financial assets (Expected Credit Loss); and
- Revenue recognition

3 Changes in significant accounting policies

Except as described below, the accounting policies and risk management policies and practices applied in these condensed consolidated interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 30 June 2022.

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)

Intangible assets
During the period, 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 amortized over 2.66 years and will be will be subject to impairment testing.

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.

At 31 December 2022, the Group holds investments in Qualitas Real Estate Income Fund.

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

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

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

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

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

As at 31 December 2022, the Group holds investments in Qualitas funds which are recognised as Level 2 and an investment in an unlisted entity recognised as Level 3. The fair value of Qualitas funds is estimated based on the net asset value (NAV) of the fund at reporting date. The NAV is assessed to be the best estimate of fair value for the funds given this is the transaction price that unitholders would transact upon. Where the fund is a closed-ended fund, liquidity factors are considered in estimating the fair value of the fund.

For the Level 3 investment in an unlisted entity, the Group uses a combination of management accounts, recently audited financial statements and property valuations to estimate the fair value, on the basis that the value of the investment is mainly driven by the property assets held within the unlisted entity. The key input assumption in this valuation is therefore market capital rates. A 10% shift in market capital rates would have a +/- $530k shift in the valuation of the asset. There were no transfers into or out of Level 3.

4 Fair value measurements (continued)

(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.

Recognised fair value measurements

The tables below sets out the Group's financial assets and liabilities measured at their carrying amount and fair value at 31 December 2022 and 30 June 2022.

	Carrying amount				Fair value
As at 31 December 2022	**Fair value through profit or loss $'000**	**Fair value through OCI $'000**	**Financial assets/ (financial liabilities) at amortised cost $'000**	**Carrying amount $'000**	**Total $'000**
Financial assets measured at fair value					
Digital Harbor	3,602	-	-	3,602	3,602
GQ Multifamily Unit Trust	2,994	-	-	2,994	2,994
Qualitas Real Estate Opportunity Fund I	3,066	-	-	3,066	3,066
Qualitas Real Estate Opportunity Fund II	7,850	-	-	7,850	7,850
Qualitas Food Infrastructure Fund	2,185	-	-	2,185	2,185
Qualitas Seniors Housing Fund	1,656	-	-	1,656	1,656
Qualitas US Office Fund	2,184	-	-	2,184	2,184
Qualitas Real Estate Income Fund	9,250	-	-	9,250	9,250
Financial assets not measured at fair Value					
Qualitas Construction Debt Fund	-	-	1,085	1,085	1,085
Qualitas Build to Rent Debt Fund	-	-	113	113	113
Qualitas Diversified Credit Investments Fund	-	-	11,100	11,100	11,100
Other	-	-	21	21	21
Mortgage loans	-	-	355,194	355,194	355,194
Term deposits		-	41,073	41,073	41,073
Cash and cash equivalents	-	-	159,411	159,411	159,411
Trade receivables and other assets	-	-	16,153	16,153	16,153
Loan receivables	-	-	88,923	88,923	88,923
Prepayments	-	-	1,668	1,668	1,668
Financial liabilities not measured at fair value					
Payables	-	-	(9,149)	(9,149)	(9,149)
Lease liability	- -	-	(2,694)	(2,694)	(2,694)
Loans and borrowings	-	-	(399,753)	(399,753)	(399,753)
	32,787	-	263,145	295,932	295,932

4 Fair value measurements (continued)

As at 30 June 2022	Carrying amount: Fair value through profit or loss $'000	Fair value through OCI $'000	Financial assets/ (financial liabilities) at amortised cost $'000	Carrying amount $'000	Fair value: Total $'000
Financial assets measured at fair value					
Digital Harbor	3,602	-	-	3,602	3,602
Qualitas Real Estate Opportunity Fund I	3,420	-	-	3,420	3,420
Qualitas Real Estate Opportunity Fund II	6,802	-	-	6,802	6,802
Qualitas Food Infrastructure Fund	2,175	-	-	2,175	2,175
Qualitas Seniors Housing Fund	1,560	-	-	1,560	1,560
Qualitas US Office Fund	2,699	-	-	2,699	2,699
Qualitas Real Estate Income Fund	8,594	-	-	8,594	8,594
Financial assets not measured at fair Value					
Qualitas Construction Debt Fund	-	-	1,136	1,136	1,136
Qualitas Build to Rent Debt Fund	-	-	76	76	76
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

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 31 December 2022 and 30 June 2022:

As at 31 December 2022	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets at fair value				
Digital Harbor	-	-	3,602	3,602
GQ Multifamily Unit Trust	-	2,994	-	2,994
Qualitas Real Estate Opportunity Fund I	-	3,066	-	3,066
Qualitas Real Estate Opportunity Fund II	-	7,850	-	7,850
Qualitas Food Infrastructure Fund	-	2,185	-	2,185
Qualitas Seniors Housing Fund	-	1,656	-	1,656
Qualitas US Office Fund	-	2,184	-	2,184
Qualitas Real Estate Income Fund	9,250	-	-	9,250
	9,250	19,935	3,602	32,787

4 Fair value measurements (continued)

As at 30 June 2022	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets at fair value				
Digital Harbor Investments	-	-	3,602	3,602
Qualitas Real Estate Opportunity Fund I	-	3,420	-	3,420
Qualitas Real Estate Opportunity Fund II	-	6,802	-	6,802
Qualitas Food Infrastructure Fund	-	2,175	-	2,175
Qualitas Seniors Housing Fund	-	1,560	-	1,560
Qualitas US Office Fund	-	2,699	-	2,699
Qualitas Real Estate Income Fund	8,594	-	-	8,594
	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:

	$'000 2022	**$'000 2021**
Balance at 1 July	3,602	-
Level 3 assets acquired	-	5,494
Loss included in 'finance costs'		
Net change in fair value (unrealised)	-	-
Additional net investment during the period	-	430
Capital returned during the period	-	-
Balance at 31 December	3,602	5,924

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. Arch Finance, a subsidiary of the Group operates with its own specific risk register and risk framework in relation to its mortgage business.

(b) Credit risk

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

Investments

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

Other Assets

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

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

Mortgage Loans

The Group is exposed to credit risk primarily on loans secured by first mortgage through its Arch Finance business as noted above the Arch Finance operates its own risk register and risk framework related to its mortgage 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.

5 Financial risk management (continued)

(b) Credit risk (continued)

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:

	31 December 2022 $'000	30 June 2022 $'000
Cash and cash equivalents	159,411	309,010
Trade and other receivables	16,153	15,452
Loan receivables	88,923	-
Mortgage loans	355,194	369,368
Investments measured at amortised cost:		
Term deposits	41,073	404
Qualitas Construction Debt Fund	1,085	1,136
Qualitas Build to Rent Debt Fund	113	76
Qualitas Diversified Credit Investment	11,100	-
Other	21	165
Prepayment	1,668	960
	674,741	696,571

The ageing of trade receivables and mortgage loans at 31 December 2022 and 30 June 2022 is outlined below:

31 December 2022

	Gross amount $'000	*Allowance for ECL* $'000
Ageing of trade and other receivables		
Not past due	16,153	-
Ageing of Arch Finance mortgage loans		
Not past due (12-month ECL)	351,265	307
0-30 days past due (12-month ECL)	-	-
More than 30 days past due (lifetime ECL)[1]	4,578	342

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)[2]	3,245	121

[1] *All of the balance is more than 120 days past due*

[2] *$2,800,000 of the balance is less than 60 days past due with the remaining balance more than 120 days past due*

(b) Credit risk (continued)

The following tables presents at 31 December 2022 and 30 June 2022 an analysis of the mortgage loans.

Credit rating	At amortised cost			
31 December 2022	**12-month ECL**	**Lifetime ECL - not credit-impaired**	**Lifetime ECL – credit impaired**	**Total**
Strong	307,652	-	-	307,652
Good	-	-	-	-
Satisfactory	43,613	-	-	43,613
Marginal	-	-	-	-
Weak	-	4,578	-	4,578
Gross carrying amounts	**351,265**	**4,578**	**-**	**355,843**
Loss allowance	(307)	(342)	-	(649)
Amortised cost	**350,958**	**4,236**	**-**	**355,194**
Carrying amount	**350,958**	**4,236**	**-**	**355,194**

Credit rating	At amortised cost			
30 June 2022	**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**

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.

5 Financial risk management (continued)

(b) Credit risk (continued)

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

$'000	12 month ECL	Lifetime ECL – not credit-impaired	Lifetime ECL – credit-impaired	Total
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
Balance at 1 July 2022	673	1	-	674
Net movement during the year	(366)	341	-	(25)
Balance at 31 December 2022	307	342	-	649

The following tables show the movement in the Group's impairment provisions and credit exposures by expected credit loss (ECL) stage.

$'000	12 month ECL		Lifetime ECL – not credit-impaired		Lifetime ECL – credit-impaired		Total	
	Gross exposure	**Provision**	**Gross exposure**	**Provision**	**Gross exposure**	**Provision**	**Gross exposure**	**Provision**
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
Balance at 1 July 2022	366,542	673	3,500	1	-	-	370,042	674
New loans originated	55,560	38	-	-	-	-	55,560	38
Transfers								
Transfers to stage 1	-	-	-	-	-	-		
Transfers to stage 2	(1,078)	(341)	1,078	341	-	-		
Transfers to stage 3	-	-	-	-	-	-		
Loans repaid	(69,760)	(295)	-	-	-	-	(69,760)	(295)
New and Increased Provisions (Net of releases)	-	232	-	-	-	-	-	232
Write-offs	-		-	-	-	-	-	-
Balance at 31 December 2022	351,264	307	4,578	342	-	-	355,842	649

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 half-year ended 31 December 2022 ($'000)	**Funds management**	**Direct lending**	**Total**
Interest income	5,511	13,212	18,723
Interest expense	(602)	(9,425)	(10,027)
Net interest income	4,909	3,787	8,696
Net revenue	25,465	1,069	26,534
Loan impairment expense	-	25	25
Total expenses	(17,225)	(2,725)	(19,950)
Segment profit	13,149	2,156	15,305

Segment financial position information

As at 31 December 2022 ($'000)	**Funds management**	**Direct lending**	**Total**
Cash and cash equivalents	140,599	18,812	159,411
Mortgage loans	-	355,194	355,194
Investments	86,094	83	86,177
Other assets	189,900	4,181	194,081
Total assets reported by the Group	416,593	378,270	794,863
Loans and borrowings	36,250	366,200	402,450
Other liabilities	30,667	7,323	37,990
Total liabilities reported by the Group	66,917	373,523	440,440

6 Segment information (continued)

For the period 4 November to 31 December 2021 ($'000)	Funds management	Direct lending	Total
Interest income	31	659	690
Interest expense	(43)	(338)	(381)
Net interest income	(12)	321	309
Net revenue	1,939	75	2,014
Loan impairment expense	-	187	187
Total expenses	(4,969)	(178)	(5,147)
Segment profit	(3,042)	405	(2,637)

Segment financial position information

As at 30 June 2022 ($'000)	Funds management	Direct lending	Total
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

7 Income from the provision of financial services and performance fees

(a) Performance Fees

	For the half-year ended 31 December 2022 $'000	For the period 4 November to 31 December 2021 $'000
Performance fees	2,035	858

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 that fund is nearing the final stages of its investment lifecycle and termination. Performance fee income is generally constrained up to the point when the final amount to be paid out of the fund is known.

Performance fees for the half-year ended 31 December 2022 relate to Qualitas Construction Debt Fund I, Qualitas Mezzanine Debt Fund and other co-investment projects. Of the $2,035,000 performance fees recognised during the period, an amount of $10,000 was received during the year with the balance not yet received recorded on the consolidated statement of financial position as accrued performance fees.

7 Income from the provision of financial services and performance fees (continued)

(b) Income from the provision of financial services

	For the half-year ended 31 December 2022 $'000	For the period 4 November to 31 December 2021 $'000
Arrangement, establishment and mandate fees	5,645	322
Management fees	15,535	726
Distributions from funds and projects	1,213	18
Portfolio and ancillary fees	554	16
	22,947	1,082

8 Interest income and interest expense

Interest income	For the half-year ended 31 December 2022 $'000	For the period 4 November to 31 December 2021 $'000
Interest income on project loans, mortgages, bank balances and term deposits:		
- Arch Finance – mortgage loans	16,109	659
- Qualitas Limited	2,614	31
Total interest income	18,723	690
Interest expense		
Interest expense on interest bearing notes - bank & other financial institutions	(9,975)	(378)
Lease interest expense	(52)	(3)
Total interest expense	(10,027)	(381)
Net interest income recognised in profit or loss	8,696	309

9 Income tax

(a) Reconciliation of income tax expense

	For the half-year ended 31 December 2022	For the period 4 November to 31 December 2021
Recognised in the condensed consolidated interim statement of profit or loss and other comprehensive income	**$'000**	**$'000**
Current period	5,670	(1,926)
Deferred tax (benefit)/expense		
Origination and reversal of temporary differences	(1,057)	1,135
	4,613	(791)

Reconciliation between tax expense and profit		
Profit before income tax	15,305	(2,637)
Income tax using domestic corporation tax rate of 30% (2021: 30%)	4,591	(791)
Net movement in income tax due to:		
Non-deductible expenses	32	-
Non-assessable income	-	-
Utilisation of prior year tax losses not previously recognised	-	-
Tax adjustments for prior year over/(under) provision	(10)	-
Income tax (benefit)/expense on profit	4,613	(791)

10 Related parties

The loan receivables balance includes transactions with related parties as described below.

During the period, the Group established a liquidity lending facility to Qualitas Funds. The facility has a limit of $125,000,000 and was drawn to $41,873,952 by related parties as at 31 December 2022. 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 $25,544,890 at 31 December 2022. The facility earns interest and is on mutually agreed commercial terms.

Other than described above, there have been no significant changes to the arrangements with related parties since the year ended 30 June 2022.

11 Loans and borrowings

	As at 31 December 2022 $'000	As at 30 June 2022 $'000
Interest bearing notes – banks & other financial institutions	362,206	375,923
Project funding loans	22,388	21,960
Qualitas Real Estate Income Fund manager loan	15,159	15,830
	399,753	413,713

12 Capital, reserves and dividends

(a) Issued capital

	$'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
Opening balance at 1 July 2022	723,141	294,000,000
Options issued	361	-
IPO costs reflected through equity (tax effected)	(15)	-
Shares issued	-	2,016,053
Closing balance at 31 December 2022 (including Treasury shares)	723,487	296,016,053
Less Treasury shares	-	(3,260,424)
Closing balance at 31 December 2022 (excluding Treasury shares)	723,487	292,755,629

(b) Treasury shares

When shares recognized 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 dividends of 4 cents per share which amounted to $11,760,000 and was paid on 8 September 2022 with a record date of 24 August 2022.

On 22 February 2023, the Directors declared an interim fully franked dividends 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) Franking account

The amount of Australian franking credits available at the 30% tax rate to the Group for subsequent years is $15.9 million. This is calculated from the franking account at year end adjusted for franking credits that will arise from the payment of income tax on profits for the current reporting period.

12 Capital, reserves and dividends (continued)

(e) 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.

***T**reasury share reserve*
The reserve for the Group's treasury shares comprised the cost of the Company's shares held by the Group. At 31 December 2022, the Group held 3,260,424 shares.

13 Share based payments

(a) Description of share-based payment arrangement

At 31 December 2022 and 30 June 2022, the Group had the following share-based payment arrangements:

(i) Short term incentive plan ("STI")

The Board has determined that the current remuneration policy for senior management and other selected employees of the Group will include a 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 the discretion to reduce any FY23 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:

31 December 2022

Grant date/employees entitled	Number of awards[3]	Vesting conditions	Contractual life of awards
Key Management Personnel – 30 June 2022	229,147	Per above	2 years
All other employees – 30 June 2022	375,340	Per above	2 years

30 June 2022

Grant date/employees entitled	Number of awards[4]	Vesting conditions	Contractual life of awards
Key Management Personnel – 30 June 2022	229,147	Per above	2 years
All other employees – 30 June 2022	375,340	Per above	2 years

No change to 30 June 2022 as formal staff review is undertaken on an annual basis at 30 June each 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 $385,000 has been forfeited to date. 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).

31 December 2022

Grant date/employees entitled	Number of awards[5]	Vesting conditions	Contractual life of awards
Key Management Personnel – 16 December 2022	50,000	Per above	3 & 5 years
All other employees– 16 December 2022	596,000	Per above	3 & 5 years

30 June 2022

Grant date/employees entitled	Number of awards[6]	Vesting conditions	Contractual life of awards
Key Management Personnel – 16 December 2022	50,000	Per above	3 & 5 years
All other employees– 16 December 2022	670,000	Per above	3 & 5 years

[3] *No awards were forfeited during the year*
[4] *No awards were forfeited during the year*
[5] *No awards were granted during the period with 74,000 awards forfeited during the period, resulting in a closing balance of 646,000*
[6] *800,000 awards were granted during the period with 80,000 awards forfeited during the period, resulting in a closing balance of 720,000*

13 Share based payments (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 829,580 has been forfeited) shortly prior to completion. A total of 1,244,362 shares have been forfeited since inception with 414,782 forfeited during the period, in accordance with the Restructure Deed. These shares 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

31 December 2022

Grant date/employees entitled	Number of awards	Vesting conditions	Contractual life of awards
Key Management Personnel – 24 September 2021*	-	-	-
All other employees – 24 September 2021*	1,766,980[7]	Per above	3 & 5 years

30 June 2022

Grant date/employees entitled	Number of awards	Vesting conditions	Contractual life of awards
Key Management Personnel – 24 September 2021*	-	-	-
All other employees – 24 September 2021*	2,181,772[8]	Per above	3 & 5 years

*Legacy award

(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 2022 and as such the balance of rights held at the end of 30 June 2022 is nil.

(v) Long-Term Incentive Loan Plan ("Loan Plan")

The Company granted Loan Shares to the Group Managing Director as a long-term incentive (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.

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.

(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.

[7] 414,782 shares forfeited during the period and held in an Employee Share Trust. The resulting closing balance is 1,766,980
[8] 3,011,352 shares were granted during the period with 829,580 shares forfeited during the period and held in an Employee Share Trust. The resulting closing balance is 2,181,772

13 Share based payments (continued)

(b) Measurement of fair value (continued)

(ii) Equity-settled share-based payment arrangements (continued)

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

31 December 2022	Short Term Incentive		Employee Equity Plan		Intergen	
	Key Management Personnel	All other employees including senior management	Key Management Personnel	All other employees including senior management	Key Management Personnel	All other employees including senior management
Fair Value at grant date	$1.56	$1.56	$2.28 & $2.15*	$2.28 & $2.15*	n/a	$0.013 & $0.017*
Security price at grant date	$1.56	$1.56	2.60	2.60	n/a	$0.07
Exercise price	n/a	n/a	n/a	n/a	n/a	-
Expected volatility (Weighted average volatility)	n/a	n/a	37.50%	37.50%	n/a	37.50%
Option life (expected weighted average life)	n/a	n/a	4 years	4 years	n/a	4 years
Expected dividends	n/a	n/a	3%	3%	n/a	3%
Risk-free interest rate	n/a	n/a	0.12%	0.12%	n/a	0.12%

30 June 2022	Short Term Incentive		Employee Equity Plan		Intergen	
	Key Management Personnel	All other employees including senior management	Key Management Personnel	All other employees including senior management	Key Management Personnel	All other employees including senior management
Fair Value at grant date	$1.56	$1.56	$2.28 & $2.15*	$2.28 & $2.15*	n/a	$0.013 & $0.017*
Security price at grant date	$1.56	$1.56	2.60	2.60	n/a	$0.07
Exercise price	n/a	n/a	n/a	n/a	n/a	-
Expected volatility (Weighted average volatility)	n/a	n/a	37.50%	37.50%	n/a	37.50%
Option life (expected weighted average life)	n/a	n/a	4 years	4 years	n/a	4 years
Expected dividends	n/a	n/a	3%	3%	n/a	3%
Risk-free interest rate	n/a	n/a	0.12%	0.12%	n/a	0.12%

*Multiple values recorded for fair value at grant date for Employee Equity Plan and Intergen arrangements, reflecting the due service period of 3 and 5 years respectively.

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

(iii) Expense recognised in the profit or loss

The share-based payment expense incurred in the period was $543,326 (2021: $20,738).

14 Contingent assets and liabilities and commitments

The Group is subject to a number of obligations which, if not discharged, may give rise to potential claims or othercosts. Where some loss from an actual or alleged non-performance of an obligation is more likely than not and can be reliably estimated, provisions have been made. The Group considers that the outcome of any specific enquiry which is underway as at 31 December 2022, and has not been provided for, is not expected to affect its financial positionin any material way, either individually or in aggregate.

15 Events occurring after the reporting period

No significant events have occurred since the reporting period which would impact on the financial position of the Group disclosed in the condensed consolidated interim statement of financial position as at 31 December 2022 or on the results and cash flows of the Group for the current reporting period ended on that date.

Directors' declaration

In the opinion of the Directors of Qualitas Limited:

(a) The condensed consolidated interim financial statements and notes set out on pages 6 to 27 are in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position at 31 December 2022 and of its performance for the half-year ended 31 December 2022;

(ii) Complying with Australian Accounting Standards AASB 134 *Interim Financial Reporting* 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.

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

Andrew Fairley AM
Chairman
Melbourne
22 February 2023

Independent Auditor's Review Report

To the shareholders of Qualitas Limited

Conclusion

We have reviewed the accompanying ***Interim Report*** of Qualitas Limited and its controlled entities (the ***Group***).

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Report of the ***Group*** does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2022 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Interim Report*** comprises:

- Condensed consolidated interim statement of financial position as at 31 December 2022
- Condensed consolidated interim statement of comprehensive income, Condensed consolidated interim statement of changes in equity and Condensed consolidated interim statement of cash flows for the Half-year ended on that date
- Notes 1 to 15 comprising a summary of significant accounting policies and other explanatory information
- The Directors' declaration.

The ***Group*** comprises Qualitas Limited and the entities it controlled at the Half-year's end or from time to time during the Half-year.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of 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 annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with these requirements.

KPMG

Responsibilities of the Directors for the Interim Report

The Directors of the ***Group*** are responsible for:

- the preparation of the Interim Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Interim Report

Our responsibility is to express a conclusion on the Interim Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2022 and its performance for the Half-Year ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

KPMG

KPMG

Rachel Gatt

Rachel Gatt
Partner

Sydney
22 February 2023