

Bakehouse Quarter Trust

ARSN 162 705 455

Interim Financial Statements

For the Half-year Ended 31 December 2014

Bakehouse Quarter Trust

ARSN 162 705 455

Responsible Entity: BlackWall Fund Services Limited

ABN 39 079 608 825

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Directors' Report

The Trust

The Bakehouse Quarter Trust (BQT) is a registered managed investment scheme. BlackWall Fund Services Limited acts as the Responsible Entity. BlackWall Fund Services Limited is a wholly owned subsidiary of BlackWall Property Funds Limited.

BlackWall is a vertically integrated real estate company engaged in funds management and principal investment in deep value or property related special situations. BlackWall is listed on the ASX under the stock code BWF. BlackWall and the Responsible Entity share the same board of directors and management.

BQT was established to allow retail investors the opportunity to invest in a large scale, mixed use property in Sydney's inner west known as the Bakehouse Quarter. This project is owned by a wholesale investment trust called the Kirela Development Unit Trust. BQT owns approximately 13% of Kirela. BlackWall undertakes the asset and debt management of the project for Kirela.

In addition to the Bakehouse Quarter, Kirela held significant investments in the BlackWall Property Trust (BWR) and the Pyrmont Bridge Trust (PBT). Recently these interests were distributed in-specie to all Kirela's unitholders and as a consequence BQT holds almost 3% of BWR and just over 6% of PBT. Details of these investments are set out later in this report.

Kirela Development Unit Trust

Below is a summary of Kirela's unaudited balance sheet as at 31 December 2014:

BALANCE SHEET	December 2014
	\$
Property Value	225,000,000
Net Payables	(292,000)
Debt	
Bank Debt	(108,150,000)
Bakehouse Bonds	(26,690,000)
Net Property Equity	89,868,000
BWF Shares at ASX price	450,000
Secured Loans	8,930,000
Net Assets	99,248,000

2015 is Kirela's 18th year and could prove to be one of its most significant. The Bakehouse Quarter sits in the heart of a substantial infrastructure investment by both the NSW and Australian Governments and is expected to benefit from changes to zoning and town planning controls in connection with the Westconnex project and the Parramatta Road corridor revitalisation (www.westconnex.com.au). BlackWall expects the town planning changes and general development activity associated with that investment to have a positive impact on the property.

In May 2014 an unsolicited approach was made to purchase the Bakehouse Quarter at a price significantly above its carrying value. As a consequence of this offer, the Directors resolved to appoint Jones Lang LaSalle to conduct a sales campaign. The sales process is ongoing, however, the Board has resolved that the site will not be sold unless the price and terms offered generate a superior outcome to that we can generate through continuing a staged development process.

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Kirela holds the Bakehouse Quarter at approximately \$225 million. This value does not reflect the value of the site's future development potential and is neither an indication of the offers made through the sale process or the price at which the property would be sold.

The project has \$108 million of bank debt and \$26.7 million of subordinated debt notes known as Bakehouse Bonds. The bonds are held by BWR as to \$21.3 million and BlackWall as to \$5.4 million. The bonds expire in 2020 and they attract a coupon of 5.5% per annum. They were issued at a \$1 each and this issue price is indexed to CPI throughout the term.

During the period, Kirela made a number of returns of capital to its investors, in cash and in specie. The cash distribution received by BQT was then paid as part of the 3 cent per unit distribution to its investors in November 2014. The in specie returns of capital were paid by way of units in BlackWall Property Trust (ASX code: BWR) and Pymont Bridge Trust.

BlackWall Property Trust (BWR)

BQT holds almost 3% of the issued equity in BWR acquired through an in specie return of capital on its Kirela holding in July 2014.

BWR is an ASX listed real estate investment trust managed by BlackWall. The trust has \$116 million of gross assets comprised of a portfolio of commercial, retail and industrial property along with an investment of approximately \$21.3 million in Bakehouse Bonds (as described above).

BWR has declared an interim distribution of 0.55 cents per unit (100% tax deferred). For more information on BWR please refer to its half-year results announcement which was recently released to the market.

BWR is a stable, income producing property trust. BlackWall aims to grow its assets and scale through development opportunities, mergers or acquisitions.

Pymont Bridge Trust (PBT)

BQT owns 1 million units in PBT, representing just over 6% of issued equity in that trust.

PBT was structured by BlackWall to invest in an opportunistic property venture with National Australia Bank. The property, known as 55 Pymont Bridge Road, is an office, media and technology facility located in Pymont on the Sydney CBD's western fringe.

The opportunity is a leasing "turnaround." This means filling vacant space to grow income and property value with limited construction, development and town planning risk.

The transaction is structured as a distressed debt acquisition. BlackWall negotiated to purchase a \$108 million debt facility (and control of the property) for \$80 million. The acquisition was funded by a new NAB debt facility of just over \$50 million and equity of \$30 million. NAB provided \$15 million of the equity with the remaining \$15 million provided by BlackWall via the newly formed Pymont Bridge Trust.

The property's issues were caused by the insolvency of UBI World TV in 2011. UBI occupied 2,500 sqm and was associated with the property owner, Boulos Holdings Pty Ltd. This was followed by Fox Sports vacating a further 4,800 sqm in 2013. With these two vacancies and other financial stresses on the Boulos group the debt facility provided by NAB went into default and the bank appointed PwC as receivers and managers.

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Investment returns will depend on the value of the acquired debt, which in turn is a function of the property value. The property value will depend on BlackWall's success, or otherwise, in leasing vacant space in the building.

BlackWall's strategy is to break up the former UBI and Fox Sports space into smaller tenancies, add amenity and reduce the building's reliance on large tenants. BlackWall has already secured almost 3,000 sqm of new leasing deals (New Deals).

The property currently has net income before debt service of \$4.2 million per annum, which will rise to \$5.2 million per annum when rent from the New Deals commences. On a fully leased basis the net income is expected to exceed \$8.1 million per annum. The leasing position is summarised below in the floor-by-floor breakdown.

	NLA	Leased	New Deals	Vacant
Level 6	1,510 sqm	1,510 sqm	-	-
Level 5	2,117 sqm	2,117 sqm	-	-
Level 4	2,449 sqm	2,449 sqm	-	-
Level 3	2,322 sqm	584 sqm	791 sqm	947 sqm
Level 2	2,756 sqm	-	-	2,756 sqm
Level 1	2,660 sqm	534 sqm	2,126 sqm	-
Ground	741 sqm	491 sqm	-	250 sqm
Total	14,555 sqm	7,685 sqm	2,917 sqm	3,953 sqm
Percentage	100%	53%	20%	27%

Distributions

BQT's revenue is derived from the distributions earned from its holding in Kirela and BWR, and later from PBT. During the period BQT paid distributions equating to 3 cents per unit. Both Kirela and BWR have significant carried forward tax losses and as such distributions passed through BQT are by way of return of capital.

Officeholders

The names of the Directors of the Responsible Entity in office at any time during or since the end of the year are set out below. Unless otherwise stated, the Directors have been in office since the beginning of the financial year to the date of these financial statements.

Richard Hill (Non-executive Director and Independent Chairman)

Joseph (Seph) Glew (Non-executive Director)

Robin Tedder (Non-executive Director)

Stuart Brown (Executive Director and Chief Executive Officer)

Caroline Raw (Company Secretary from 18 February 2015)

Don Bayly (Company Secretary until 18 February 2015)

Events Subsequent to Reporting Date and Likely Developments

To the best of the Directors' knowledge, since the end of the financial period there have been no matters or circumstances that have materially affected the Trust's operations or may materially affect its operations, state of affairs or the results of operations in future financial years.

Auditor

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out in these financial statements.

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ESV continues in office in accordance with section 327 of the Corporations Act 2001.

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

A handwritten signature in black ink, appearing to be 'Stuart Brown', with a long horizontal flourish extending to the right.

Stuart Brown

Director

Sydney, 27 February 2015



Auditor's Independence declaration to the directors of Blackwall Fund Services Limited

In accordance with the requirements of section 307C of the Corporations Act, as auditor for the review of Bakehouse Quarter Trust for the half-year ended 31 December 2014, I declare that, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

Dated at Sydney the ~~26~~²⁶ day of February 2015

A handwritten signature in black ink, appearing to read 'Tim Valtwies', written over the printed name and title.

ESV Accounting and Business Advisors

Tim Valtwies
Partner

Bakehouse Quarter Trust

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Statement of Profit or Loss and Other Comprehensive Income

For the Half-year Ended 31 December 2014

		December 2014	December 2013
	Note	\$	\$
Distribution income	1	42,902	-
Interest income		12	501
Unrealised gain on financial assets		2,610,034	-
Total revenue		2,652,948	501
Fund management fees		(39,975)	-
Administration expenses		(22,008)	(105)
Profit For the Period		2,590,965	396
Total Comprehensive Income For the Period		2,590,965	396

As discussed in the Directors' Report the Trust received distributions from its investment in Kirela. However, as Kirela has carried forward tax losses these distributions are not recognised as revenue but by way of a return of capital - see Distributions note.

The accompanying notes form part of these financial statements.

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Statement of Financial Position

As At 31 December 2014

	Note	December 2014 \$	June 2014 \$
ASSETS			
Current Assets			
Cash		27,623	44,754
Total Current Assets		27,623	44,754
Non-current Assets			
Investment in Kirela Development Unit Trust		12,196,586	12,007,979
Investment in BlackWall Property Trust		1,348,353	-
Investment in Pymont Bridge Trust		1,000,000	-
Total Financial Assets	2	14,544,939	12,007,979
Total Non-current Assets		14,544,939	12,007,979
TOTAL ASSETS		14,572,562	12,052,733
LIABILITIES			
Current Liabilities			
Trade and other payables		53,278	44,473
Total Current Liabilities		53,278	44,473
NET ASSETS		14,519,284	12,008,260
Unitholders' fund		10,702,297	10,782,238
Retained profits		3,816,987	1,226,022
TOTAL EQUITY		14,519,284	12,008,260

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Statement of Changes in Equity

For the Half-year Ended 31 December 2014

	Number of Units on Issue No.	Unitholders' Fund \$	Retained Profits \$	Total \$
Balance at 1 July 2014	2,663,771	10,782,238	1,226,022	12,008,260
Profit	-	-	2,590,965	2,590,965
Return of capital	-	(79,941)	-	(79,941)
Balance at 31 December 2014	2,663,771	10,702,297	3,816,987	14,519,284
Balance at 1 July 2013	-	-	-	-
Profit	-	-	396	396
Issue of units	2,663,771	11,008,566	-	11,008,566
Return of capital	-	(67,921)	-	(67,921)
Balance at 31 December 2013	2,663,771	10,940,645	396	10,941,041

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Statement of Cash Flows

For the Half-year Ended 31 December 2014

	December 2014	December 2013
	\$	\$
Cash Flows From Operating Activities		
Interest received	12	501
Payment of expenses	(59,339)	(105)
Net Cash Flows From/(Used in) Operating Activities	(59,327)	396
Cash Flows From Investing Activities		
Distribution / Return of capital from investments	115,976	67,921
Net Cash Flows From Investing Activities	115,976	67,921
Cash Flows From Financing Activities		
Return of capital to unitholders	(73,780)	(50,314)
Net Cash Flows Used in Financing Activities	(73,780)	(50,314)
Net Increase/(Decrease) in Cash Held	(17,131)	18,003
Cash and cash equivalents at the beginning of period	44,754	-
Cash and Cash Equivalents at the End of Period	27,623	18,003

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Notes to the Financial Statements

For the Half-year Ended 31 December 2014

1. Distribution Income

	December 2014	December 2013
	\$	\$
Distributions from BWR	42,902	-
Total	42,902	-

Distributions from BWR are 100% tax deferred for income tax purposes.

2. Non-current Assets – Financial Assets at FVTPL

	December 2014	June 2014
	\$	\$
Kirela Development Unit Trust	12,196,586	12,007,979
BlackWall Property Trust	1,348,353	-
Pymont Bridge Trust	1,000,000	-
Total	14,544,939	12,007,979

In August 2014, Kirela distributed its entire holding of 98.3 million BWR units in specie to all Kirela's unitholders on a pro rata basis. BQT now holds 12.3 million units in BWR directly.

In November 2014, Kirela also made a special distribution of just under \$16 per unit. This was paid in part by way of units in Pymont Bridge Trust and the remainder in cash. As a result, the Trust received 1 million units in PBT at \$1 per unit and a cash distribution of \$774.

3. Distributions

During the period, the Trust paid distributions by way of return of capital as follows:

	December 2014		December 2013	
	CPU	\$	CPU	\$
Return of capital paid in November	3.00	79,941	3.13	67,921
Total	3.00	79,941	3.13	67,921

4. Commitments and Contingencies

There are no commitments or contingencies as at 31 December 2014 (2013: \$Nil).

5. Subsequent Events

To the best of the Directors' knowledge, since the end of the financial year there have been no matters or circumstances that have materially affected the Trust's operations or may materially affect its operations, state of affairs or the results of operations in future financial years.

6. Fair Value Measurements of Financial Instruments

(a) Fair value hierarchy

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

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Notes to the Financial Statements

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- Level 1 - quoted prices (unadjusted) in active markets for identical assets;
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (as prices) or indirectly (derived from prices); and
- Level 3 - inputs for the asset that are not based on observable market data (unobservable inputs).

The following table presents the Trust's financial assets measured at fair value.

	Level 1	Level 2	Level 3	Total balance
	\$	\$	\$	\$
As at 31 December 2014				
Financial assets	1,348,353	-	13,196,586	14,544,939
As at 30 June 2014				
Financial assets	-	-	12,007,979	12,007,979

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

The following table is a reconciliation of the movements in financial assets classified as Level 3:

As at 31 December 2014	\$
Balance at the beginning of the year	12,007,979
Additions	1,000,000
Return of capital	(2,164,014)
Fair value movements	2,352,621
Balance at the end of the period	<u>13,196,586</u>
As at 30 June 2014	
Balance at the beginning of the year	-
Additions	11,008,566
Return of capital	(226,328)
Fair value movements	1,225,741
Balance at the end of the year	<u>12,007,979</u>

7. Segment Reporting

The Trust currently operates in one business segment in Australia acting as the recipient of income to which investors are entitled to and to distribute this income to investors in proportion to their entitlements.

8. Trust Details

The management of the Trust is undertaken at:
Level 1, 50 Yeo Street
Neutral Bay, NSW, 2089

9. Critical Accounting Estimates and Judgments

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

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Notes to the Financial Statements

For the Half-year Ended 31 December 2014

Key estimates – financial assets

The fair value of the unlisted securities is determined by reference to the net assets of the underlying entities. The fair value of the listed securities is based on the closing price from the ASX as at the reporting date. The Trust assesses impairment at each reporting date by evaluating conditions specific to the Trust that may lead to impairment of assets.

10. Statement of Significant Accounting Policies

The Trust is a managed investment scheme registered in Australia.

The financial statements for the Trust were authorised for issue in accordance with the resolution of the Directors of the Responsible Entity on the date they were issued.

Basis of preparation

The financial statements are general-purpose financial reports which have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standard AASB 134 *Interim Financial Reporting*, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with AASB 134 ensures compliance with IFRS IAS 34 *Interim Financial Reporting*.

The financial statements do not include full disclosure of the type normally included in an annual financial report. It is recommended that the financial statements be read in conjunction with the annual financial statements for the year ended 30 June 2014 and any public announcements made by the Trust during the half-year.

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets and financial instruments for which the fair value basis of accounting interim reporting has been applied.

The accounting policies adopted are consistent with those of the previous financial year.

Going concern

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

Comparative figures

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

New Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the current reporting period. The Trust's assessment of the impact of these new standards and interpretations is set out below.

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Notes to the Financial Statements

For the Half-year Ended 31 December 2014

AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets (from 1 July 2014)

It amends AASB 136 to require additional disclosure about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. In addition, a further requirement has been included to disclose the discount rates that have been used in the current and previous measurements if the recoverable amount of impaired assets based on fair value less costs of disposal was measured using a present value technique. There were no material changes to the Trust's financial statements.

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Directors' Declaration

In the opinion of the Directors of BlackWall Fund Services Limited, the Responsible Entity of Bakehouse Quarter Trust:

- (a) the financial statements and notes are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards AASB 134 *Interim Financial Reporting*, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the Trust's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

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

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



Stuart Brown

Director

Sydney, 27 February 2015



Independent Review Report to the Investors of Bakehouse Quarter Trust

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Bakehouse Quarter Trust ("the Trust") which comprises the statement of financial position as at 31 December 2014, the statement of profit or loss and other comprehensive income, statement of changes in net assets attributable to unitholders, statement of cash flows for the half-year ended on that date, selected accompanying notes to the financial statements and the director's declaration for the half-year ended on that date.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Trust's financial position as at 31 December 2014 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. As the auditor of the Trust, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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



Independent Review Report to the Investors of Bakehouse Quarter Trust

Conclusion

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

- (a) giving a true and fair view of the financial position of the Trust as at 31 December 2014 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*,

Dated at Sydney the 27th day of February 2015

ESV Accounting and Business Advisors

Tim Valtwies
Partner

Bakehouse Quarter Trust

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GLOSSARY

Property	Bakehouse Quarter
BlackWall	BlackWall Property Funds Limited and, where applicable, its subsidiaries (including BlackWall Fund Services Limited)
BWR	BlackWall Property Trust
FVTPL	Fair value through profit and loss
IFRS	International Financial Reporting Standards
Kirela	Kirela Development Unit Trust
NLA	Net lettable area
PBT	Pymont Bridge Trust
Responsible Entity	BlackWall Fund Services Limited
Trust / BQT	Bakehouse Quarter Trust