


This is the annexure of 43 pages marked (A) referred to in  
form 388 signed by Peter Lucas and dated 29/08/2011.



# **MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY**

ABN 88 459 580 639

**ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED  
30 JUNE 2011**



MACQUARIE

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

## Annual Report

for the year ended 30 June 2011

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This annual financial report covers Macquarie Fortress Australia Notes Trust and its controlled entities as an individual entity.

#### Trustee:

Macquarie Fortress Investments Limited  
ABN 66 113 113 214  
No. 1, Martin Place,  
Sydney,  
New South Wales, 2000  
AUSTRALIA

Neither the Trustee, nor any member of the Macquarie Group Limited, guarantees the performance of Macquarie Fortress Australia Notes Trust and Consolidated Entity, the repayments of capital or the payment of a particular rate of return on the notes issued.

Macquarie Fortress Investments Limited is not an authorised deposit-taking institution for the purposes of the Banking Act (Commonwealth of Australia) 1959, and Macquarie Fortress Investments Limited's obligations do not represent deposits or other liabilities of Macquarie Bank Limited ABN 46 008 583 542 (MBL). MBL does not guarantee or otherwise provide assurance in respect of the obligations of Macquarie Fortress Investments Limited.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

## Directors' Report

30 June 2011

The Directors of Macquarie Fortress Investments Limited (ABN 66 113 113 214) (a wholly owned subsidiary of Macquarie Group Limited), the Trustee of the Macquarie Fortress Australia Notes Trust ("the Trust"), submit their report together with the consolidated financial report of the Trust, and its controlled entities (together "the Consolidated Entity") for the year ended 30 June 2011.

### Principal activities

The principal activity of the Consolidated Entity is to invest in a leveraged portfolio of US dollar-denominated senior secured loans.

The Consolidated Entity did not have any employees during the period.

There has been no significant change in the nature of this activity during the year.

### Directors

The names of the Directors of the Trustee in office during the financial year and until the date of this report are:

Benjamin Barry  
Anthony Abraham  
Peter Bruce Lucas

The Directors were in office from the beginning of the financial year until the date of this report, unless otherwise stated.

### Review of results and operations

The investment policy of the Consolidated Entity continues to be that detailed in the Trust's product disclosure statements and is in accordance with the provisions of the governing documents of the Consolidated Entity.

### Results

The performance of the Consolidated Entity and Parent Entity, as represented by the results of their operations, were as follows:

	Year ended			
	Consolidated Entity		Parent Entity	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
	\$'000s	\$'000s	\$'000s	\$'000s
Net profit before financing costs attributable to noteholders	16,581	28,790	16,581	28,790

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

Directors' Report  
30 June 2011 (continued)

## Distribution

	Consolidated Entity		Parent Entity	
	30 June 2011 \$'000s	30 June 2010 \$'000s	30 June 2011 \$'000s	30 June 2010 \$'000s
Distribution paid to Trust beneficiaries	-	-	-	-
Interest paid to noteholders	-	-	-	-
	Cents per Unit or Note	Cents per Unit or Note	Cents per Unit or Note	Cents per Unit or Note
Distribution paid to Trust beneficiaries	-	-	-	-
Interest paid to noteholders	-	-	-	-

The interest on the notes is calculated by reference to the bank bill swap rate adjusted for the performance of the underlying loan portfolio.

## Significant changes in the state of affairs

Since the last annual financial report for the year ended 30 June 2010, traded prices of Senior Loans have continued to improve. At 30 June 2011, the net asset value attributable to the Trust's noteholders was \$0.45 compared to a value at 30 June 2010 of \$0.34.

In the opinion of the Directors, there were no other significant changes in the state of affairs of the Consolidated Entity that occurred during the period under review.

## Significant events after the balance date

As announced on Australian Securities Exchange (ASX) on 25 August 2011, the Trustee has confirmed that the portfolio of senior secured loans to which holders of Macquarie Fortress Notes are exposed has been sold subsequent to year end. The sale proceeds will be utilised to repay the remaining balance of the debt facility put in place in April 2008 and the remaining cash balance will be distributed to noteholders as a return of capital at which point the notes will be cancelled. The Trustee estimates that the cash distributed will be near the net asset value as disclosed in the announcement made on the 25 August 2011.

## Likely developments and expected results

As a result of the sale of the portfolio, the Trustee expects that the distribution to noteholders will occur no sooner than 60 days from 25 August 2011, to allow sufficient time for all the loan sale transactions to settle and to complete relevant regulatory and legal requirements.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

Directors' Report  
30 June 2011 (continued)

## **Indemnification and insurance of officers and auditors**

No insurance premiums are paid for out of the assets of the Consolidated Entity in regards to insurance cover provided to either the officers of Macquarie Fortress Investments Limited or the auditors of the Consolidated Entity. Under the Trust Constitution, Macquarie Fortress Investments Limited as Trustee of the Trust is entitled to be indemnified out of the assets of the Consolidated Entity for any liability incurred by it in properly performing or exercising any of its powers or duties in relation to the Consolidated Entity.

## **Fees paid to and units held in the Consolidated Entity by the Trustee and associates**

Fees paid to the Trustee and its associates out of the Consolidated Entity's property during the year are disclosed in note 13 of the financial statements.

No fees were paid out of the Consolidated Entity's property to the Directors of the Trustee during the year (2010: \$Nil).

The number of units and notes in the Consolidated Entity held by the Trustee or its associates as at the end of the financial year are disclosed in note 13 of the financial statements.

## **Units in the Consolidated Entity**

The movement in units and notes on issue in the Consolidated Entity during the year is disclosed in note 6 of the financial statements.

## **Consolidated Entity's Assets**

The value of the Consolidated Entity's assets and liabilities at 30 June 2011 is disclosed on the statement of financial position and derived using the basis set out in note 2 of the financial statements.

## **Environmental regulation and performance**

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

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

Directors' Report  
30 June 2011 (continued)

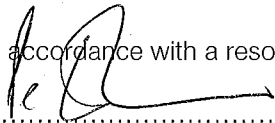
## **Auditor's Independence Declaration**

An independence declaration has been provided to the Directors by the auditor of Macquarie Fortress Australia Notes Trust, Ernst & Young, and is attached to the Director's report.

## **Rounding of amounts**

The amounts contained in this report and in the financial report have been rounded under the option available to the Consolidated Entity under ASIC Class Order 98/100. The Consolidated Entity is an entity to which the Class Order applies, and in accordance with that Class Order, amounts in the Directors' report and the financial report have been rounded to the nearest thousand dollar (where rounding is appropriate).

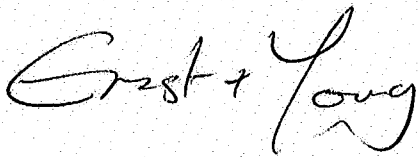
Signed in accordance with a resolution of the Directors.



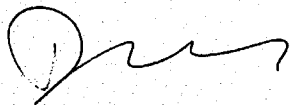
.....  
Director  
Sydney  
29 August 2011

**Auditor's Independence Declaration to the Directors of Macquarie  
Fortress Investments Limited as the Trustee for Macquarie Fortress  
Australia Notes Trust**

In relation to our audit of the financial report of Macquarie Fortress Australia Notes Trust for the financial year ended 30 June 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



Ernst & Young



Darren Handley-Greaves  
Partner  
Sydney  
29 August 2011

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

## Consolidated Statement of Comprehensive Income

for the year ended 30 June 2011

	Notes	Consolidated Entity		Parent Entity	
		30 June 2011 \$'000s	30 June 2010 \$'000s	30 June 2011 \$'000s	30 June 2010 \$'000s
<b>Income</b>					
Other investment income		-	832	135	115
Interest income		6,975	11,843	1	-
Net gains on financial instruments at fair value through profit or loss (includes realised losses)	5	41,558	50,821	-	-
Reversal of impairment of investment in control entity		-	-	16,604	28,920
Fee Income		96	142	-	-
<b>Total income</b>		<b>48,629</b>	<b>63,638</b>	<b>16,740</b>	<b>29,035</b>
<b>Expenses</b>					
Notes Trustee fees		28	28	28	28
Trustee fees		135	310	57	168
Professional fees		13	30	13	30
Registry fees		14	9	14	9
Interest distribution to Macquarie Fortress New Zealand Note holders		24	33	-	-
Organisational expenses		-	3,376	-	-
Note Interest expenses		2,681	9,347	-	-
Management expenses		1,605	1,610	-	-
Other operating expenses		192	225	47	10
Increase in net assets attributable to minority interests		10,154	18,504	-	-
Foreign currency exchange translation		17,202	1,376	-	-
<b>Total expenses</b>		<b>32,048</b>	<b>34,848</b>	<b>159</b>	<b>245</b>
<b>Net profit before finance costs attributable to noteholders</b>		<b>16,581</b>	<b>28,790</b>	<b>16,581</b>	<b>28,790</b>
<b>Financing costs attributable to noteholders</b>					
Interest on listed loan notes issued to noteholders	7	-	-	-	-
<b>Profit for the year</b>		<b>16,581</b>	<b>28,790</b>	<b>16,581</b>	<b>28,790</b>
Other comprehensive income/(loss)		-	-	-	-
<b>Change in net assets attributable to noteholders</b>		<b>(16,581)</b>	<b>(28,790)</b>	<b>(16,581)</b>	<b>(28,790)</b>

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

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

## Consolidated Statement of Financial Position

at 30 June 2011

	Notes	Consolidated Entity		Parent Entity	
		30 June 2011 \$'000s	30 June 2010 \$'000s	30 June 2011 \$'000s	30 June 2010 \$'000s
<b>Assets</b>					
Cash and cash equivalents	8	47,936	40,591	62	68
Interest receivable		305	664	-	-
Receivables	12	25	860	23	27
Receivable from Related Entity		310	340	-	-
Financial assets at fair value through profit and loss	9	141,148	298,678	-	-
Derivative financial instruments		23,318	-	-	-
Investment in controlled entities	11	-	-	65,129	48,525
<b>Total assets</b>		<b>213,042</b>	<b>341,133</b>	<b>65,214</b>	<b>48,620</b>
<b>Liabilities</b>					
Notes Trustee fees payable		28	42	28	42
Trustee fees payable		49	21	38	-
Establishment costs payable		180	182	180	182
Professional fees payable		84	109	84	109
Payable to Related Entity	13	424	-	488	488
Debt issued at amortised cost	10	107,732	260,424	-	-
Derivative financial instruments		-	2,560	-	-
Other liabilities		58	43	56	40
Net assets attributable to minority interest		40,147	29,993	-	-
<b>Total liabilities (excluding net assets attributable to noteholders of the parent entity)</b>		<b>148,702</b>	<b>293,374</b>	<b>874</b>	<b>861</b>
<b>Net assets attributable to noteholders of the parent entity – liability</b>	6	<b>64,340</b>	<b>47,759</b>	<b>64,340</b>	<b>47,759</b>

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

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

## Consolidated Statement of Changes in Equity

for the year ended 30 June 2011

	Year ended			
	Consolidated Entity		Parent Entity	
	30 June 2011 \$'000s	30 June 2010 \$'000s	30 June 2011 \$'000s	30 June 2010 \$'000s
Total equity at the beginning of the financial year	-	-	-	-
Profit/(loss) for the year	-	-	-	-
Other comprehensive income/(loss) for the year	-	-	-	-
Total comprehensive income and loss for the year	-	-	-	-
Transactions with owners in their capacity as owners	-	-	-	-
Total equity at the end of the financial year	-	-	-	-

Under Australian Accounting Standards, net assets attributable to noteholders and Trust beneficiaries are classified as a liability rather than equity. As a result there was no equity at the start or end of the year.

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

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

## Consolidated Statements of Cash Flows

for the year ended 30 June 2011

	Notes	Year ended			
		Consolidated Entity		Parent Entity	
		30 June 2011	30 June 2010	30 June 2011	30 June 2010
		\$'000s	\$'000s	\$'000s	\$'000s
<b>Cash flows from operating activities</b>					
Proceeds from sale of financial instruments held at fair value through profit or loss		13,197	41,408	-	-
Interest received		7,103	12,538	1	-
Amounts received from US senior loan holders		99,431	108,671	-	-
FX Forward realised income		992	-	-	-
Distribution received		-	-	135	115
Trustee fees paid		(87)	(136)	(3)	-
Other income received		114	4,043	-	-
Other expenses paid		(747)	(2,272)	(139)	(117)
<b>Net cash provided by operating activities</b>	14(a)	<b>120,003</b>	<b>164,252</b>	<b>(6)</b>	<b>(2)</b>
<b>Cash flows from financing activities</b>					
Interest paid to loan notes provider		(2,475)	(5,481)	-	-
Repayments to loan notes provider		(104,913)	(154,819)	-	-
Interest distribution paid to Macquarie Fortress New Zealand Note holders		(24)	(33)	-	-
<b>Net cash used in financing activities</b>		<b>(107,412)</b>	<b>(160,333)</b>	<b>-</b>	<b>-</b>
Net increase/(decrease) in cash and cash equivalents		12,591	3,919	(6)	(2)
Cash and cash equivalents at the beginning of the year		40,591	37,890	68	70
Effect of foreign currency exchange rate changes on cash and cash equivalents		(5,246)	(1,218)	-	-
<b>Cash and cash equivalents at the end of the year</b>		<b>47,936</b>	<b>40,591</b>	<b>62</b>	<b>68</b>

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

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

## Notes to the Consolidated Financial Statements

for the year ended 30 June 2011

### 1. Corporate information

This financial report covers Macquarie Fortress Australia Notes Trust ("the Trust") and its controlled entities (together "the Consolidated Entity"). The Trust was constituted on 4 March 2005 and commenced operations on 16 May 2005. The Trust holds investments in loan notes issued by Knight Portfolio Trust, a Cayman Islands entity ("the Portfolio Trust"). The Portfolio Trust, in turn, has acquired investments that provide direct or indirect exposures to a Portfolio that consists primarily of US senior secured loan assets.

The Trustee of the Trust is Macquarie Fortress Investments Limited ("the Trustee"). The Trustee's registered office is No.1, Martin Place, Sydney, New South Wales, 2000, Australia. This financial report is presented in Australian dollars.

The principal activity of the Consolidated Entity is to invest in a leveraged portfolio of US dollar-denominated senior secured loans.

The consolidated financial statements of Macquarie Fortress Australia Notes Trust ("the Trust") and its controlled entities (together "the Consolidated Entity") for the year ended 30 June 2011 were authorised for issue in accordance with a resolution of the Board of Directors on 29 August 2011.

### 2. Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following text.

#### 2.1 Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirement of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

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

The amounts contained in the financial report have been rounded under the option available to the Consolidated Entity under ASIC Class Order 98/100. The Consolidated Entity is an entity to which the Class Order applies, and in accordance with that Class Order, amounts in the financial report have been rounded to the nearest thousand dollar (where rounding is appropriate).

#### Statement of Compliance

The financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

## Notes to the Consolidated Financial Statements for the year ended 30 June 2011 (continued)

### 2.1 Basis of preparation (continued)

#### New accounting standards and interpretations

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Trust for the annual reporting period ended 30 June 2011. The impact of these standards and interpretations has been assessed and to the extent applicable to the Trust are discussed below. Standards and Interpretations that are not expected to have a material impact on the Trust have not been included.

*i) AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010 Amendment to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013).*

AASB 9 Financial Instruments addresses the classification and measurement of financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not traded. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. The Trust has not yet decided when to adopt AASB 9. However, management does not expect any impact on the Trust's financial statements as the Trust does not hold any available-for-sale investments.

*(ii) Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011)*

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities. The Trust will apply the amended standard from 1 July 2011. The amendments will not have any effect on the Trust's financial statements.

*(iii) AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets (effective for annual reporting periods beginning on or after 1 July 2011)*

In November 2010, the AASB issued AASB 2010-6 Disclosures on Transfers of Financial Assets which amends AASB 1 First time Adoption of Australian Accounting and AASB 7 Financial Instruments: Disclosures to introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitize, lend or otherwise transfer financial assets to other parties. The amendments will not have any impact on the Trust's disclosures. The Trust intends to apply the amendment from 1 July 2011.

*(iv) Amendments to AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective for annual reporting periods beginning on or after 1 January 2011)*

In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. Management does not expect this will have a significant effect on the Trust's financial statement.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

## Notes to the Consolidated Financial Statements for the year ended 30 June 2011 (continued)

### 2.1 Basis of preparation (continued)

#### New accounting standards and interpretations (continued)

##### (v) IFRS 10 *Consolidated Financial Statements*

IFRS 10 establishes a new control model that applies to all entities. It replaces parts of IAS 27 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*.

This standard is yet to be approved by the Australian Accounting Standards Board and has not been issued in Australia. The standard is not applicable until 1 January 2013 but is available for early adoption. The Trust has not yet decided when to adopt IFRS 10. Management does not expect this will have a significant effect on the Trust's financial statements.

##### (vi) IFRS 12 *Disclosures of Interests in Other Entities*

IFRS 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.

This standard is yet to be approved by the Australian Accounting Standards Board and has not been issued in Australia. The standard is not applicable until 1 January 2013 but is available for early adoption. The Trust has not yet decided when to adopt IFRS 12. Management does not expect this will have a significant effect on the Trust's financial statements.

##### (vii) IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for determining the fair value of assets and liabilities. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under IFRS when fair value is required or permitted by IFRS. Application of this definition may result in different fair values being determined for the relevant assets.

IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

This standard is yet to be approved by the Australian Accounting Standards Board and has not been issued in Australia. The standard is not applicable until 1 January 2013 but is available for early adoption. The Trust has not yet decided when to adopt IFRS 13. Management does not expect this will have a significant effect on the Trust's financial statements.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

Notes to the Consolidated Financial Statements  
for the year ended 30 June 2011 (continued)

## 2.2 Summary of significant accounting policies

### (a) Use of estimates

#### *Critical accounting estimates and judgements*

The consolidated financial statements have been prepared using estimates and judgements regarding the value of certain assets and liabilities. The notes to the consolidated financial statements set out areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the Consolidated Entity or Trust and the financial report such as:

- Fair value of financial instruments [note 2.2 (c), 3 (d) and 9] and
- Impairment of loan assets and investments in controlled entities [note 2.2 (d), 9 and 11].

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Management believes the estimates used in preparing the financial report are reasonable. Actual results in the future may differ from those reported and therefore it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from our assumptions and estimates could require an adjustment to the carrying amounts of the assets and liabilities reported.

### (b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of the controlled entity of Macquarie Fortress Australia Notes Trust ("Parent Entity") as at 30 June 2011 and the results of the entities it controlled for the year then ended. Macquarie Fortress Australia Notes Trust and its controlled entities together are referred to in this financial report as the Consolidated Entity.

Controlled entities are all those entities (including special purpose entities) over which the Consolidated Entity has the power to govern the financial and operating policies in order to obtain the majority of risks and benefits.

The controlled entity is fully consolidated from the date on which control was transferred. It is de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Controlled Entity.

Intercompany transactions, balances and unrealised gains on transactions between the entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of the controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Consolidated Entity.

Investments in controlled entities are accounted for at cost in the individual financial statements of Macquarie Fortress Australia Notes Trust.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

Notes to the Consolidated Financial Statements  
for the year ended 30 June 2011 (continued)

## 2.2 Summary of significant accounting policies (continued)

### (c) Financial instruments

#### (i) Classification

The Consolidated Entity's investments are classified as at fair value through profit or loss. They comprise:

- Financial instruments designated at fair value through profit or loss upon initial recognition.

These include financial assets that are not held for trading purposes and which may be sold, which include the Trust's investment in loan notes issued by Knight Portfolio Trust ("the Loan Notes"). Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Consolidated Entity's documented investment strategy. The Consolidated Entity's policy is for the Trustee to evaluate the information about these financial assets on a fair value basis together with other related financial information.

#### (ii) Recognition/derecognition

The Consolidated Entity recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in the fair value of the financial assets or financial liabilities from this date. Investments are derecognised when the right to receive cashflows from the investments have expired or the Consolidated Entity has transferred substantially all risks and rewards of ownership.

#### (iii) Measurement

##### (a) Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of comprehensive income.

##### *Fair value in an inactive or unquoted market*

The primary investment of the Trust is Loan Notes issued by the Portfolio Trust. These Loan Notes are collateralised by the value of the assets in the Portfolio Trust which are primarily made up of US Senior Secured loan assets ("Senior Loans"). The underlying Senior Loans have been valued based on prices provided by an independent pricing service based on quotes from brokers and other market participants. This represents the best estimate of the carrying value of the Senior Loans at the reporting date, however, it may not represent the price obtained if Senior Loans are subsequently sold. Refer to note 3(d) for a summary of the significant accounting policies applied to the Portfolio which impacts the valuation of the Loan Notes.

##### (b) Loans and receivables

Loans and receivables are measured initially at fair value plus transaction costs and subsequently amortised using the effective interest rate method, less impairment losses if any.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

Notes to the Consolidated Financial Statements  
for the year ended 30 June 2011 (continued)

## 2.2 Summary of significant accounting policies (continued)

### *(c) Debt issued at amortised cost*

Debt securities and instruments are initially recognised at fair value net of transaction costs incurred, and subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

### *(iv) Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### **(d) Impairment**

#### *(i) Loan and receivables*

Loan assets are reviewed at each reporting date to determine whether there is objective evidence of impairment for example when there has been a significant or prolonged decline in the fair value below cost.

If any such indication of impairment exists, an impairment loss is recognised in the statement of comprehensive income as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the statement of comprehensive income.

#### *(ii) Investment in controlled entities*

Investments in controlled entities are tested annually for impairment or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the investments carrying amount exceeds its recoverable amount (which is the higher of fair value less costs to sell and value in use). At each reporting date, investments in controlled entities that have been impaired are reviewed for possible reversal of the impairment.

### **(e) Net assets attributable to noteholders**

Net assets attributable to noteholders includes unrealised changes in the net market value of investments, accrued income not yet assessable, expenses provided or accrued for which are not yet deductible and net capital losses attributable to noteholders. Non-distributable income is transferred directly to noteholders' funds.

### **(f) Net assets attributable to Trust beneficiaries**

Trust beneficiaries have limited rights which are at the complete discretion of the Trustee. Noteholders have a priority interest in the net assets of the Consolidated Entity.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

## Notes to the Consolidated Financial Statements for the year ended 30 June 2011 (continued)

### 2.2 Summary of significant accounting policies (continued)

#### (g) Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash includes cash on hand and deposits held at call with financial institutions. Cash equivalents include other short term, highly liquid investments with original maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Bank overdrafts, if any, are shown separately on the consolidated statement of financial position.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Consolidated Entity's main income generating activity.

#### (h) Interest payments

In accordance with the prospectus, the Trust fully distributes income to noteholders in the form of interest payments. The interest payments are payable on a quarterly basis for quarters ended 31 August, 30 November, 28 February and 31 May and are recognised as a finance cost in the statement of comprehensive income. As announced on the Australian Securities Exchange (ASX) on 7 April 2008, there will be no interest payments until current financing has been fully repaid.

#### (i) Distributions

In accordance with the Trust Deed, the Trust fully distributes its distributable (taxable) income to Trust beneficiaries.

#### (j) Foreign currency translation

##### *i) Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the Trust and its controlled entities operate (the "functional currency"). This is the Australian dollar, which reflects the currency of the economy in which the Trust and its controlled entities competes for funds and is regulated. The Australian dollar is also the presentation currency.

##### *ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates, of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

#### (k) Income tax

Under current income tax legislation, the Trust and its controlled entities are not subject to income tax provided its taxable income is fully distributed to investors either by way of cash or reinvestment. Withholding tax may be deducted from interest payments to noteholders.

Financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be distributed so that the Trust is not subject to capital gains tax.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

## Notes to the Consolidated Financial Statements for the year ended 30 June 2011 (continued)

### 2.2 Summary of significant accounting policies (continued)

Realised capital losses are not distributed to unitholders but are retained in the Trust to be offset against any realised capital gains. If realised capital gains exceed realised capital losses, the excess is distributed to unitholders.

#### (l) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Consolidated Entity by third parties such as registry fees have been passed on to the Consolidated Entity. The Trust qualifies for Reduced Input Tax Credits (RITC) at a rate of 75% hence expenses have been recognised in the consolidated statements of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the consolidated statement of financial position.

#### (m) Receivables

Receivables may include amounts for interest and Trust distributions. Trust distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment. Amounts are generally received within 30 days of being recorded as receivables.

#### (n) Payables

Payables include liabilities and accrued expenses owing by the Consolidated Entity which are unpaid as at the reporting date. The distribution amount payable to noteholders and Trust beneficiaries as at the reporting date is recognised separately on the statement of financial position when noteholders and Trust beneficiaries are presently entitled to the distributable income under the Trust's Constitution.

#### (o) Segment reporting

The group has identified its operating segments based on the internal reports that are reviewed and used by management in assessing performance and in determining the allocation of resources.

#### (p) Interest income and expenses

Interest revenue and expense are recognised in the statement of comprehensive income for all financial instruments not at fair value through profit or loss using the effective interest method. Interest earned on financial assets classified as 'at fair value through the profit or loss' is recorded in 'Interest revenue' according to the terms of the contract.

#### (q) Change in fair value of financial assets and liabilities

This item includes changes in the fair value of financial assets and liabilities held for trading or designated upon initial recognition as 'held at fair value through profit or loss' and excludes interest and dividend income and expenses. Amounts are calculated as the difference between the fair value at sale or at year end, and the fair value at the previous valuation point. This includes both realised and unrealised gains and losses.

#### (r) Management expenses

Four Corners Capital Management is paid management fees for carrying out their duties as investment manager. The fee is calculated at forty five basis point per annum of the Portfolio Value.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

Notes to the Consolidated Financial Statements  
for the year ended 30 June 2011 (continued)

## 3 Financial risk management

### Investment Policy

The consolidated entity is exposed to market risk (price risk, foreign exchange risk and interest rate risk) credit risk, and liquidity risk arising from the financial assets and liabilities that it holds. Financial risk management is carried out by Four Corners Capital Management ("the Portfolio Manager"). The Portfolio Manager has established a set of investment guidelines designed to manage risk which covers factors such as the number of issuers in the portfolio, the type of borrowers and industry concentrations and the level of leverage employed. It is important to note that the Portfolio Manager expects that as Senior Loans in the portfolio are repaid and are not replaced, the percentage holdings in the portfolio will be distorted and will no longer satisfy the guidelines.

#### (a) Market risk

##### (i) Price risk

Market price risk is the risk that the value of the consolidated entity's investment portfolio will fluctuate as a result of changes in market prices. This risk arises directly from the consolidated entity's exposure to Senior Loans for which prices in the future are uncertain. Consistent with prior years, this risk is managed by ensuring that all activities are transacted in accordance with mandates, overall investment strategy and within approved limits. Market price risk analysis is conducted regularly on a total portfolio basis.

The table below summarises the impact that an increase/decrease of the market prices of the Senior Loans would have on the Consolidated Entity's profit and loss for the year ended 30 June 2011. The analysis is based on assumptions that the market prices for these Senior Loans increased/decreased by 10% (2010: 10%) with all other variables held constant and utilising the actual leverage ratios that applied at the relevant valuation date. The impact arises from reasonably possible changes in the market prices of the Senior Loans.

	Consolidated Entity			
	30 June 2011		30 June 2010	
	Impact on profit or (loss)		Impact on profit or (loss)	
Change in market prices	+10%	-10%	+10%	-10%
	AU\$'000		AU\$'000	
<i>Investment in loan notes</i>	14,115	(14,115)	29,868	(29,868)

	Parent Entity			
	30 June 2011		30 June 2010	
	Impact on profit or (loss)		Impact on profit or (loss)	
Change in market prices	+10%	-10%	+10%	-10%
	AU\$'000		AU\$'000	
<i>Investment in loan notes</i>	8,623	(8,623)	18,238	(18,238)

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

Notes to the Consolidated Financial Statements  
for the year ended 30 June 2011 (continued)

## 3. Financial risk management (continued)

### (a) Market risk (continued)

#### (ii) Foreign exchange risk

The Consolidated Entity is exposed to foreign exchange risk as a result of its exposure to the Senior Loans which are denominated in US dollars. This exposure is partially hedged by the financing of the Portfolio with US dollar borrowings. The Portfolio Manager enters into foreign currency forward contracts on behalf of the Trust designed to hedge either some or all of the remaining net exposure. These foreign currency forward contracts are held at fair value through profit or loss at the Portfolio level. The Trust does not itself directly enter into any foreign currency contracts.

The table below shows the Consolidated Entity's direct exposure to the United States dollar basis underlying Portfolio. The Trust has an exposure to 61.1% (2010: 61.1%) of the Portfolio with 10.8% held by Macquarie New Zealand Fortress Notes Trust (2010: 10.8%) and the remaining 28.1% held by Macquarie Fortress Fund (2010: 28.1%). The Trust owns 84.94% of Knight Portfolio Trust which in turn owns 71.9% of the underlying Portfolio. Macquarie Fortress New Zealand Notes Trust owns the remaining 15.06% of Knight Portfolio Trust.

As disclosed to the Australian Securities Exchange on 7 April 2008, the Portfolio includes USD:AUD foreign currency forward contracts entered into by the Portfolio Manager for the benefit of the Trust and Macquarie Fortress Fund as well USD:NZD foreign currency forward contracts for the benefit of the Macquarie New Zealand Fortress Notes Trust. The table excludes the market value of these foreign currency contracts as the USD:AUD foreign currency contracts are considered to represent an Australian dollar exposure, and the Trust has no direct entitlement to the USD:NZD foreign currency contracts (though any negative market value of the USD:NZD foreign currency contracts could impact the amount ultimately realised by the Trust on its investment in Loan Notes).

	30 June 2011 AU\$'000	30 June 2010 AU\$'000
Cash and cash equivalents	47,874	40,523
Financial assets held at fair value through profit and loss	141,148	298,678
Other assets	617	1,837
<b>Total financial assets</b>	<b>189,639</b>	<b>341,038</b>
Other liabilities	437	24
Debts issued at amortised cost	107,732	260,424
Net asset attributable to minority interest	31,462	29,993
<b>Total financial liabilities</b>	<b>139,631</b>	<b>290,441</b>
<b>Net Foreign Currency Exposure</b>	<b>50,008</b>	<b>50,597</b>
Foreign currency forward contracts – notional amount (sell USD)	(71,308)	(87,159)
<b>Net Foreign Currency Exposure</b>	<b>(21,300)</b>	<b>(36,562)</b>

The net foreign currency exposure represents the future expected returns from the Portfolio that have been economically hedged by the Portfolio Manager.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

Notes to the Consolidated Financial Statements  
for the year ended 30 June 2011 (continued)

## 3. Financial risk management (continued)

### (a) Market risk (continued)

#### (ii) Foreign exchange risk (continued)

The table below indicates the impact that a +/-10% (2010: +/-5%) change in foreign currency rates would have on the Consolidated Entity's profit and loss when including the effect of foreign currency forward contracts included within the Portfolio. As the Parents' investment is denominated in Australian dollars there is no foreign exchange risk.

	Consolidated Entity			
	30 June 2011		30 June 2010	
	Impact on profit or (loss)		Impact on profit or (loss)	
Change in currency rates	+10%	-10%	+5%	-5%
	AU\$'000		AU\$'000	
AUD-USD Exchange rate	106	(130)	1,391	(1,537)

#### (iii) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument and/or the cash flows that it generates will fluctuate due to changes in market interest rates.

As announced on Australian Securities Exchange (ASX) on 25 August 2011, the Trustee has confirmed that the portfolio of senior secured loans to which holders of Macquarie Fortress Notes are exposed has been sold subsequent to year end. The sale proceeds will be utilised to repay the remaining balance of the debt facility put in place in April 2008 and the remaining cash balance will be distributed to noteholders as a return of capital at which point the notes will be cancelled

The table below summarises the impact an increase/decrease in interest rates would have on the Consolidated Entity's profit and loss for the year ended 30 June 2011. The analysis is based on the assumptions that interest rates in Australia and the United States increase/decrease by 25 basis points from the year-end rate (2010: 75 basis points) with all other variables held constant, that the change in cash flows on the Senior Loans and the leveraging in the Portfolio moved according to the historical correlation with these interest rates, and that any changes in cash flows within the Portfolio flowed directly to the interest received by the Trust on Loan Notes.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

Notes to the Consolidated Financial Statements  
for the year ended 30 June 2011 (continued)

## 3. Financial risk management (continued)

### (a) Market risk (continued)

#### (iii) Interest rate risk (continued)

	Consolidated Entity			
	30 June 2011		30 June 2010	
	Impact on profit or (loss)		Impact on profit or (loss)	
Change in interest rates	+25bps	-25bps	+75bps	-75bps
	AU\$'000		AU\$'000	
Change in interest cash flows for the financial year	203	(203)	591	(591)

	Parent Entity			
	30 June 2011		30 June 2010	
	Impact on profit or (loss)		Impact on profit or (loss)	
Change in interest rates	+25bps	-25bps	+75bps	-75bps
	AU\$'000		AU\$'000	
Change in interest cash flows for the financial year	126	(126)	367	(367)

### (b) Credit risk

Credit risk is the risk that counterparty will fail to perform contractual obligations, either in whole or in part, under a contract. Potential areas of credit risk consist of the Cash and cash equivalents and Financial assets at fair value through profit or loss. The Consolidated Entity's main credit risk primarily arises from the Senior Loans it holds. The Trust also has exposure to Macquarie Bank Limited with whom the Consolidated Entity's cash balances are held. However, credit risk for the Trust primarily arises indirectly from the Senior Loans, to which the Trust has an indirect exposure through its holding of the Loan Notes.

The Consolidated Entity manages its exposure to credit risk by dealing with well established financial institutions that the Trustee has assessed to have a high quality credit standing. The credit standing of these counterparties is monitored on a regular basis.

The credit risk within the Senior Loan portfolio is monitored by the Portfolio Manager on a regular basis. The Portfolio Manager performs a detailed credit analysis of all borrowers designed to ensure that borrowers have the capacity to repay their loans. The risk management guidelines adopted to manage credit risk include applying limits to ensure there is no concentration of risk to a particular counterparty or market. The investment mandate for the Portfolio includes the requirement that no more than 2% of the total Portfolio be invested with a particular individual counterparty and no more than 10% of the total Portfolio be invested in any single industry classification except that up to three industries represented in the Portfolio may each account for up to 15% of the Portfolio provided that the aggregate represented by the top three industries does not exceed 35% of the Portfolio. It is important to note that the Portfolio Manager expects that as Senior Loans in the portfolio are repaid and are not replaced, the percentage holdings in the portfolio will be distorted and will no longer satisfy the guidelines.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

Notes to the Consolidated Financial Statements  
for the year ended 30 June 2011 (continued)  
3. Financial risk management (continued)

## (b) Credit risk (continued)

### Maximum exposure to credit risk

The Consolidated Entity's maximum exposure to credit risk at the reporting date is the carrying amount of its financial assets. The table below details the concentration of credit exposure of the Consolidated Entity's assets to significant geographical locations and counterparty types. The amounts shown represent the maximum credit risk of the Consolidated Entity's assets. This is equal to the carrying value of the assets with the exception of commitments and contingent liabilities and derivatives which are recorded at the maximum credit exposure.

30 June 2011	Cash and cash equivalents AU\$'000	Financial assets at fair value through profit or loss AU\$'000	Other assets AU\$'000	Total AU\$'000
<b>United States</b>				
Financial institutions	47,874	-	2	47,876
Other	-	141,148	23,933	165,081
<b>Total United States</b>	<b>47,874</b>	<b>141,148</b>	<b>23,935</b>	<b>212,957</b>
<b>Australia</b>				
Financial institutions	62	-	-	62
Other	-	-	23	23
<b>Total Australia</b>	<b>62</b>	<b>-</b>	<b>23</b>	<b>85</b>
<b>Total Gross credit risk</b>	<b>47,936</b>	<b>141,148</b>	<b>23,958</b>	<b>213,042</b>
30 June 2010	Cash and cash equivalents AU\$'000	Financial assets at fair value through profit or loss AU\$'000	Other assets AU\$'000	Total AU\$'000
<b>United States</b>				
Financial institutions	40,523	-	4	40,527
Other	-	298,678	1,833	300,511
<b>Total United States</b>	<b>40,523</b>	<b>298,678</b>	<b>1,837</b>	<b>341,038</b>
<b>Australia</b>				
Financial institutions	68	-	-	68
Other	-	-	27	27
<b>Total Australia</b>	<b>68</b>	<b>-</b>	<b>27</b>	<b>95</b>
<b>Total Gross credit risk</b>	<b>40,591</b>	<b>298,678</b>	<b>1,864</b>	<b>341,133</b>

The credit risk for the Trust primarily arises indirectly from the Senior Loans to which the Trust has an indirect exposure through its holding of the loan notes. The Trust has an exposure of 61.1% of the Portfolio and therefore indirectly owns 61.1% of US senior loans as stated above.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

Notes to the Consolidated Financial Statements  
for the year ended 30 June 2011 (continued)

## 3. Financial risk management (continued)

### (b) Credit risk (continued)

#### Credit quality of financial assets

The credit quality of financial assets is managed by the Consolidated Entity using external credit ratings, where available. Where a financial guarantee has been provided over the performance of a counterparty, the credit quality of the provider of the guarantee is considered in assessing the overall credit quality of the exposure.

Credit Quality	Neither past due nor impaired					Past due or individually impaired AU\$'000	Total AU\$'000
	Investment Grade AU\$'000	Investment Below Grade AU\$'000	Default AU\$'000	Unrated AU\$'000			
30 June 2011							
Cash and cash equivalents							
Financial institutions	47,936	-	-	-	-	-	47,936
Other	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss							
Financial institutions	-	-	-	-	-	-	-
Other	-	141,148	-	-	-	-	141,148
Other assets							
Financial institutions	2	-	-	-	-	-	2
Other	23,956	-	-	-	-	-	23,956
<b>Total</b>	<b>71,894</b>	<b>141,148</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>213,042</b>

Credit Quality	Neither past due nor impaired					Past due or individually impaired AU\$'000	Total AU\$'000
	Investment Grade AU\$'000	Investment Below Grade AU\$'000	Default AU\$'000	Unrated AU\$'000			
30 June 2010							
Cash and cash equivalents							
Financial institutions	40,591	-	-	-	-	-	40,591
Other	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss							
Financial institutions	-	-	-	-	-	-	-
Other	-	298,203	475	-	-	-	298,678
Other assets							
Financial institutions	4	-	-	-	-	-	4
Other	-	-	-	1,860	-	-	1,860
<b>Total</b>	<b>40,595</b>	<b>298,203</b>	<b>475</b>	<b>1,860</b>	<b>-</b>	<b>-</b>	<b>341,133</b>

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

Notes to the Consolidated Financial Statements  
for the year ended 30 June 2011 (continued)

## 3. Financial risk management (continued)

### (b) Credit risk (continued)

#### Credit quality of financial assets (continued)

Consistent with prior year, all of the Senior Loans represent credit exposures to borrowers in the United States and, therefore, the Trust has an indirect concentration of credit exposure to this geographical segment. There are no concentrations of credit exposure to any particular counterparty or industry segment.

At 30 June 2011, no Senior Loan is considered to be in default (2010: 0.315% with combined face value of \$909,481). There were no other Senior Loans that were more than 90 days past due in principal or interest payments at 30 June 2011.

Because the Senior Loans in the portfolio are secured, they typically provide lenders with a high ranking right to any cash flows or proceeds from the sale of collateral if the borrowers become insolvent. The form of collateral varies depending on each individual borrower but can include cash, accounts receivable, inventory, property, plant and equipment, common and/or preferred stock of subsidiaries, and intangible assets including trademarks, patent rights, and franchise value. The Portfolio Trust's entitlement to any cash flows or proceeds from the sale of collateral is subordinate to that of the external financiers of the Portfolio. The Trust does not have any direct entitlement to this collateral but it does indirectly enhance the credit quality of the Loan Notes.

### (c) Liquidity risk

Liquidity risk is the risk that the Trust will experience difficulty in either realising assets or otherwise raising sufficient funds to satisfy commitments associated with financial instruments. The Consolidated Entity generates cash from interest cash flows received on the Loan Notes and from redemption of Loan Notes, where required. The Knight Portfolio Trust would fund redemptions of Loan Notes from available cash and/or by selling its direct or indirect interest in the Senior Loans. The secondary market for the Senior Loans may be less liquid than some other secondary markets. Therefore, some Senior Loans may be relatively illiquid.

As disclosed to the Australian Securities Exchange on 7 April 2008, the Portfolio was refinanced on 4 April 2008. As a result of this refinance, all cash flows generated by the Portfolio (including all interest and principal repayments from the underlying Senior Loans) will be used to meet interest and ongoing Portfolio expenses with any excess cash flow being applied to reduce the principal outstanding on the new financing. The Trustee has communicated to noteholders that there will be no payments on the Notes issued by the Trust until the current financing arrangements within the Portfolio has been fully repaid.

As announced on Australian Securities Exchange (ASX) on 25 August 2011, the Trustee has confirmed that the portfolio of senior secured loans to which holders of Macquarie Fortress Notes are exposed has been sold subsequent to year end. The sale proceeds will be utilised to repay the remaining balance of the debt facility put in place in April 2008 and the remaining cash balance will be distributed to noteholders as a return of capital at which point the notes will be cancelled. The Trustee estimates that the cash distributed will be near the net asset value as disclosed in the announcement made on the 25 August 2011. The Trustee expects that the distribution to noteholders will occur no sooner than 60 days from 25 August 2011, to allow sufficient time for all the loan sale transactions to settle and to complete relevant regulatory and legal requirements.

The table below analyses the Trust's financial liabilities into relevant maturity groupings based on the remaining period to the earliest possible contractual maturity date at the year end date. The amounts in the table are contractual undiscounted cash flows. For the current year the Trust's financial liabilities have been allocated into the relevant maturity based on the announcement made subsequent to year-end.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

Notes to the Consolidated Financial Statements  
for the year ended 30 June 2011 (continued)

## 3. Financial risk management (continued)

### (c) Liquidity risk (continued)

As at 30 June 2011	Consolidated Entity			Total cash flow AU\$'000
	< 6 months AU\$'000	6-12 months AU\$'000	1 year and above AU\$'000	
Notes trustee fee payable	28	-	-	28
Trustee fees payable	49	-	-	49
Establishment costs payable	180	-	-	180
Professional fees payable	84	-	-	84
Debts issued at amortised cost	107,732	-	-	107,732
Derivative financial instruments	-	-	-	-
Other liabilities	482	-	-	482
Net assets attributable to minority interest	40,147	-	-	40,147
Net assets attributable to noteholders	64,340	-	-	64,340
<b>Total financial liabilities</b>	<b>213,042</b>	<b>-</b>	<b>-</b>	<b>213,042</b>

As at 30 June 2010	Consolidated Entity			Total cash flow AU\$'000
	< 6 months AU\$'000	6-12 months AU\$'000	1 year and above AU\$'000	
Notes trustee fee payable	-	-	42	42
Establishment costs payable	-	-	182	182
Professional fees payable	-	-	109	109
Debts issued at amortised cost	49,970	49,524	163,735	263,229
Derivative financial instruments	-	-	2,560	2,560
Other liabilities	-	-	64	64
Net assets attributable to minority interest	-	-	29,993	29,993
Net assets attributable to noteholders	-	-	47,759	47,759
<b>Total financial liabilities</b>	<b>49,970</b>	<b>49,524</b>	<b>244,444</b>	<b>343,938</b>

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

Notes to the Consolidated Financial Statements  
for the year ended 30 June 2011 (continued)

## 3. Financial risk management (continued)

### (c) Liquidity risk (continued)

As at 30 June 2011	Parent Entity			Total cash flow AU\$'000
	< 6 months AU\$'000	6-12 months AU\$'000	1 year and above AU\$'000	
Notes trustee fee payable	28	-	-	28
Trustee fees payable	38	-	-	38
Establishment costs payable	180	-	-	180
Professional fees payable	84	-	-	84
Payable to related party	488	-	-	488
Other liabilities	56	-	-	56
Net assets attributable to noteholders	64,340	-	-	64,340
<b>Total financial liabilities</b>	<b>65,214</b>	<b>-</b>	<b>-</b>	<b>65,214</b>

As at 30 June 2010	Parent Entity			Total cash flow AU\$'000
	< 6 months AU\$'000	6-12 months AU\$'000	1 year and above AU\$'000	
Notes trustee fee payable	-	-	42	42
Trustee fees payable	-	-	-	-
Establishment costs payable	-	-	182	182
Professional fees payable	-	-	109	109
Payable to related party	-	-	488	488
Other liabilities	-	-	40	40
Net assets attributable to noteholders	-	-	47,759	47,759
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>48,620</b>	<b>48,620</b>

### (d) Fair values of financial assets and financial liabilities

#### Fair value estimation

The carrying amounts of all the Consolidated Entity's financial assets and financial liabilities at the reporting date approximated their fair values as all financial assets and liabilities not fair valued are short-term in nature except debts at amortised cost. The fair value of variable rate financial instruments, which are debts at amortised cost, is approximated by their carrying amounts.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

Notes to the Consolidated Financial Statements  
for the year ended 30 June 2011 (continued)

## 3. Financial risk management (continued)

### (d) Fair values of financial assets and financial liabilities (continued)

#### Fair value estimation (continued)

##### *Fair value in an inactive or unquoted market*

The primary investment of the Trust is Loan Notes issued by the Knight Portfolio Trust ("KPT"). These loan notes are valued based on the net asset backing per note of KPT which in turn is based on valuing a portfolio of US senior Secured loan assets ("Senior Loans") and subtracting debt and other liabilities ("the Portfolio"). The underlying Senior Loans have been valued based on prices provided by an independent pricing service based on quotes from brokers and other market participants. This represents the best estimate of the carrying value of the Senior Loans at the reporting date, however, it may not represent the price obtained if Senior Loans are subsequently sold. A summary of the significant accounting policies applied by the Portfolio Manager to the Portfolio, which impacts the valuation of the Loan Notes, is provided below:

##### *(i) Senior Loans*

Senior Loans are classified as financial assets held at fair value through profit or loss. These Senior Loans are initially measured at fair value excluding any transaction costs that are directly attributable to the acquisition of a Senior Loan. Transaction costs on Senior Loans are expensed immediately. Subsequent to initial recognition, Senior Loans are measured at fair value with changes in fair value recognised in the statement of comprehensive income. The Senior Loans are valued based on prices provided by independent pricing services based on quotes from brokers and other market participants. This represents the best estimate of the carrying value of the Senior Loans at the reporting date, however it may not represent the prices obtained if Senior Loans are subsequently sold.

##### *(ii) Foreign currency forward contracts*

Foreign currency forward contracts are initially measured at fair value excluding any transaction costs which are expensed immediately. Subsequent to initial recognition, foreign currency forward contracts are measured at fair value with changes in fair value recognised in the statement of comprehensive income. The foreign currency forward contracts are valued based on a discounted cash flow model.

##### *(iii) Borrowings*

Borrowings are initially measured at fair value plus transaction costs that are directly attributable to the issue of the financial liability. Subsequent to initial recognition, these borrowings are measured at amortised cost which includes the amortisation of transaction costs and any discount on issue of the borrowings as part of the effective yield of the financial liability.

#### Fair value hierarchy

The Consolidated Entity has adopted the amendments to AASB 7, effective 1 July 2009. This requires the Consolidated Entity to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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 (i.e. as prices) or indirectly (i.e. derived from prices);

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

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

Notes to the Consolidated Financial Statements  
for the year ended 30 June 2011 (continued)

## 3. Financial risk management (continued)

### (d) Fair values of financial assets and financial liabilities (continued)

#### Fair value hierarchy (continued)

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The table below sets out the fair value of financial assets and liabilities (by class) according to the fair value hierarchy at 30 June 2011. It includes the market value of USD:AUD foreign currency forward contracts entered into by the Portfolio Manager for the benefit of the Trust and Macquarie Fortress Fund as well USD:NZD foreign currency forward contracts for the benefit of the Macquarie New Zealand Fortress Notes Trust.

	As at 30 June 2011 Level 2 AU\$'000	As at 30 June 2010 Level 2 AU\$'000
<b>Financial assets designated at fair value through profit &amp; loss</b>		
US Senior loans	141,148	298,678
<b>Financial assets held for trading</b>		
Foreign currency forward contracts	23,318	(2,560)
<b>Total financial assets at fair value through profit &amp; loss</b>	<b>164,466</b>	<b>296,118</b>
<b>Financial liabilities at fair value through profit &amp; loss</b>		
Net assets attributable to minority interest	40,147	29,993
<b>Total financial liabilities at fair value through profit &amp; loss</b>	<b>40,147</b>	<b>29,993</b>

There have been no transfers between levels for the year ended 30 June 2011.

Financial assets held by the Consolidated Entity are primarily made up of US Senior loan which are valued by an independent pricing service based on quotes from brokers and other market participants. The underlying Portfolio is comprised of US Senior loans which are priced based on quotes from brokers. These brokers' quotes are determined to be observable as they are supported by recent market transactions. All financial assets in the Consolidated Entity are classified as Level 2.

Foreign currency forwards have been valued through observable data inputs such as interest rates and foreign currency rates.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

Notes to the Consolidated Financial Statements  
for the year ended 30 June 2011 (continued)

## 4 Auditor's remuneration

During the year the following fees were paid or payable for services provided by the auditors of the Consolidated Entity.

	Consolidated Entity		Parent Entity	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
(a) Audit services	\$	\$	\$	\$
Audit services				
Ernst & Young				
Review of the half-year financial report (exclusive of GST)	3,875	4,000	3,875	4,000
Audit of the annual financial report (exclusive of GST)	11,625	8,000	11,625	8,000
Total remuneration for audit services	<u>15,500</u>	<u>12,000</u>	<u>15,500</u>	<u>12,000</u>
(b) Non audit services				
PricewaterhouseCoopers Australian firm				
Tax Compliance	8,000	8,000	8,000	8,000
Total remuneration for non-audit services	<u>8,000</u>	<u>8,000</u>	<u>8,000</u>	<u>8,000</u>

## 5 Net gains on financial instruments at fair value through profit or loss

Net gains recognised in relation to financial instruments at fair value through profit or loss:

	Year ended			
	Consolidated Entity		Parent Entity	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
	\$'000s	\$'000s	\$'000s	\$'000s
Net gain on financial instruments at fair value through profit or loss	41,558	50,821	-	-

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

Notes to the Consolidated Financial Statements  
for the year ended 30 June 2011 (continued)

## 6 Net assets attributable to Trust beneficiaries and noteholders

Each unit represents a right to an individual share in the Trust does not extend to a right to the underlying assets of the Trust.

Movement in number of units and net assets attributable to Trust beneficiaries and noteholders during the year were as follows:

### Net assets attributable to Trust beneficiaries

	30 June 2011	30 June 2010	As at	
			Parent Entity	
	Units on issue No.	Units on issue No.	30 June 2011 Net assets attributable \$'000s	30 June 2010 Net assets attributable \$'000s
Opening balance	10	10	-	-
Applications	-	-	-	-
Redemptions	-	-	-	-
Increase/(decrease) in net assets attributable to Trust beneficiaries	-	-	-	-
Closing balance	10	10	-	-

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

Notes to the Consolidated Financial Statements  
for the year ended 30 June 2011 (continued)

## 6. Net assets attributable to Trust beneficiaries and noteholders (continued)

Net assets attributable to noteholders	30 June 2011 Notes on issue No.	30 June 2010 Notes on issue No.	As at Parent Entity	
			30 June 2011 Net assets attributable \$'000s	30 June 2010 Net assets attributable \$'000s
Opening balance	141,476,899	141,476,899	47,759	18,969
Notes issued	-	-	-	-
Notes redeemed	-	-	-	-
Increase in net assets attributable to noteholders	-	-	16,581	28,790
Closing balance	141,476,899	141,476,899	64,340	47,759

### Capital risk management

The Trust manages its net assets attributable to Trust beneficiaries and noteholders as capital, notwithstanding net assets attributable to Trust beneficiaries and noteholders are classified as liabilities.

The unaudited net asset valuation is published on a monthly basis. The Trust is a closed end Trust and therefore is not subject to capital fluctuations as a result of redemptions. However, the Trustee may elect to repurchase notes off the market and redeem them at any time if doing so is considered to be beneficial for Trust beneficiaries and noteholders as a whole.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

Notes to the Consolidated Financial Statements  
for the year ended 30 June 2011 (continued)

## 7 Interest payments to noteholders

	Year ended			
	30 June 2011 cents/note	30 June 2010 cents/note	30 June 2011 \$'000s	30 June 2010 \$'000s
Interest paid	-	-	-	-
Total interest paid and payable (including withholding taxes paid and payable)	-	-	-	-

The interest on the notes is calculated by reference to the bank bill swap rate adjusted for the performance of the underlying Senior Loan portfolio. Refer to Note 3 (a)(iii) for an overview of the Consolidated Entity's exposures to interest rate risk.

## 8 Cash and cash equivalents

	As at			
	Consolidated Entity		Parent Entity	
	30 June 2011 \$'000s	30 June 2010 \$'000s	30 June 2011 \$'000s	30 June 2010 \$'000s
Cash at bank	47,936	40,591	62	68

## 9 Financial assets held at fair value through profit or loss

	As at			
	Consolidated Entity		Parent Entity	
	30 June 2011 \$'000s	30 June 2010 \$'000s	30 June 2011 \$'000s	30 June 2010 \$'000s
Designated at fair value through profit or loss				
Investment in secured loans				
At cost	128,100	285,630	-	-
Unrealised gain	13,048	13,048	-	-
Total financial assets at fair value through profit or loss	141,148	298,678	-	-

The current value and gearing of the underlying Senior Loan portfolio is provided in Note 3 along with an overview of the risk exposures relating to the Consolidated Entity's financial assets. If the underlying Senior Loans had to be sold prior to maturity, there is a risk that the sales price obtained may be less than carrying value, which would impact on the value of the investment in the Loan Notes.

At 30 June 2011, the net asset value attributable to the Trust's noteholders was \$0.45 (30 June 2010: \$0.34). As announced on Australian Securities Exchange (ASX) on 25 August 2011, the Trustee has confirmed that the portfolio of senior secured loans to which holders of Macquarie Fortress Notes are exposed has been sold subsequent to year end. The Trustee estimates that the cash distributed will be near the net asset value as disclosed in the announcement made on the 25 August 2011.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

Notes to the Consolidated Financial Statements  
for the year ended 30 June 2011 (continued)

## 10 Debt issued at amortised cost

	Consolidated Entity		Parent Entity	
	30 June 2011 \$'000s	30 June 2010 \$'000s	30 June 2011 \$'000s	30 June 2010 \$'000s
Debt issued at amortised cost	107,732	260,424	-	-
Total debt issued at amortised cost	<u>107,732</u>	<u>260,424</u>	<u>-</u>	<u>-</u>

## 11 Investment in controlled entities

	Consolidated Entity		Parent Entity	
	30 June 2011 \$'000s	30 June 2010 \$'000s	30 June 2011 \$'000s	30 June 2010 \$'000s
Investment in controlled entities at cost	-	-	141,477	141,477
Impairment of investment in controlled entity	-	-	(76,348)	(92,952)
	<u>-</u>	<u>-</u>	<u>65,129</u>	<u>48,525</u>

Macquarie Fortress Australia Notes Trust owns 84.91% of the issued notes of Knight Portfolio Trust, a Caymans Islands Trust, which owns 71.92% of the issued notes of the underlying Portfolio.

As a result of a reduction in value in the underlying Portfolio from its original purchase price due to price volatility in the US credit markets, the carrying value of the investment in subsidiary has been written down to its recoverable amount. The recoverable amount has been determined to be its fair value, which has been assessed by the Trustee based on the value of the underlying Portfolio. This Portfolio has been valued using an independent pricing service based on quotes from brokers and other market participants.

## 12 Receivables

	Consolidated Entity		Parent Entity	
	30 June 2011 \$'000s	30 June 2010 \$'000s	30 June 2011 \$'000s	30 June 2010 \$'000s
Broker receivable	-	13	-	-
Management fee receivable	-	810	-	-
Other receivables	25	37	23	27
	<u>25</u>	<u>860</u>	<u>23</u>	<u>27</u>

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

Notes to the Consolidated Financial Statements  
for the year ended 30 June 2011 (continued)

## 13 Related party disclosures

### (a) Trustee

The Trustee of the Macquarie Fortress Australia Notes Trust is Macquarie Fortress Investments Limited (a wholly owned subsidiary of Macquarie Group Limited).

### (b) Details of Key management personnel

#### (i) Trustee

The directors of Macquarie Fortress Investments Limited (the "Trustee") are considered to be Key Management Personnel of the Trust. The Directors of the Trustee in office during the year and up to the date of the report are:

Benjamin Barry  
Anthony Abraham  
Peter Bruce Lucas

#### (ii) Other key management personnel

There were no other persons with responsibility for planning, directing and controlling the activities of the Trust, directly or indirectly during the financial year.

#### (iii) Compensation of Key Management Personnel

No amount is paid by the Trust directly to the Directors of the Trustee. Consequently, no compensation as defined in AASB 124 "Related Party Disclosures" is paid by the Trust to the Directors of the Trustee as Key Management Personnel.

Compensation is paid to the Trustee in the form of fees and is disclosed in the note below.

### (c) Interest in controlled entities

Macquarie Fortress Australia Notes Trust incorporates assets, liabilities and results of the following controlled entities in the consolidated financial statements in accordance with the accounting policy disclosed in Note 2.2(b):

Name of Entity	Country of domicile	Class of shares/units	Controlling interest	
			2011 %	2010 %
Knight Portfolio Trust	Cayman Islands	Loan notes	84.9%	84.9%
SFR Limited	Cayman Islands	Loan notes	61.1%	61.1%

The proportion of controlling interest is equal to the proportion of Notes held.

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

Notes to the Consolidated Financial Statements  
for the year ended 30 June 2010 (continued)

## 13. Related party transactions (continued)

### (d) Note holdings and Unitholding of Related Party and Key Management Personnel.

Parties related to the Consolidated Entity (including the Trustee, its directors, its affiliates and other Trusts managed by the Trustee), held notes in the Trust as follows:

30 June 2011					
Noteholders	No. of notes held	Notes held	No. of notes acquired	No. of notes disposed	Interest paid / payable by the Trust
	(Notes)	(%)	(Notes)	(Notes)	(\$)
Directors					
P Lucas	734,212	0.52	-	-	-
B Barry	63,800	0.05	-	-	-
A Abraham	50,000	0.04	-	-	-
Macquarie Bank Limited	2,362,569	1.67	-	-	-
30 June 2010					
Noteholders	No. of notes held	Notes held	No. of notes acquired	No. of notes disposed	Interest paid / payable by the Trust
	(Notes)	(%)	(Notes)	(Notes)	(\$)
Directors					
P Lucas	734,212	0.52	89,187	-	-
B Barry	63,800	0.05	-	-	-
A Abraham	50,000	0.04	-	-	-
Macquarie Bank Limited	2,362,569	1.67	-	-	-

No notes were held in the Trust by the Trust beneficiaries (2010: Nil).

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

Notes to the Consolidated Financial Statements  
for the year ended 30 June 2010 (continued)

## 13. Related party transactions (continued)

### (e) Related party transactions

#### (i) Related Parties

All expenses in connection with the preparation of accounting records and the maintenance of the register are borne by Knight Portfolio Trust.

The Consolidated Entity has not made, guaranteed or secured, directly or indirectly, any loans to the Trustee, its affiliates and other Trusts managed by the Trustee at any time during the financial year.

All related party transactions are conducted on normal commercial terms and conditions.

#### (ii) Key Management Personnel

The Consolidated Entity has not made, guaranteed or secured, directly or indirectly, any loans to the Directors or their personally related entities at any time during the financial year.

Payments made from the Consolidated Entity to the Trustee do not include any amounts directly attributable to the compensation of Directors of the Trustee.

Apart from those details disclosed in this note, no Director of the Trustee has entered into a material contract with the Consolidated Entity during the financial year and there were no material contracts involving Director's interests existing at year end.

### (f) Fees

For the year ended 30 June 2011, in accordance with the Trust Constitution, the Trustee received a total fee of \$56,954 (exclusive of GST) (2010: \$55,905) and paid establishment costs of (\$2,414) (2010: \$111,667).

As at 30 June 2011, the Trust had a payable balance with Knight Portfolio Trust ("KPT") amounting to \$488,000 (2010: \$488,000). As at 30 June 2011, KPT has a receivable balance with Macquarie New Zealand Fortress Notes amounting to \$310,000 (2010: \$340,000).

Portfolio Management fee amounted to AU\$1,604,926 (2010: AU\$1,609,771). As at 30 June 2011, the Trust had a payable balance with Four Corners Capital Management amounting to \$424,156.

The transactions during the financial year and amounts payable at year end between the Trust and the Trustee were as follows:

	30 June 2011	30 June 2010
	\$	\$
Trustee fees for the financial year incurred by the Trust to the Trustee	56,954	55,905
(Paid)/recovery of establishment costs per Prospectus	(2,414)	111,667
Aggregate amounts paid/payable to the Trustee at the reporting date	54,540	165,572

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

Notes to the Consolidated Financial Statements  
for the year ended 30 June 2010 (continued)

## 14 Statement of cash flows reconciliation

	Consolidated Entity		Parent Entity	
	30 June 2011 \$'000	30 June 2010 \$'000	30 June 2011 \$'000	30 June 2010 \$'000
<b>(a) Reconciliation of net profit to net cash provided by/(used in) from operating activities</b>				
Net profit	16,581	28,790	16,581	28,790
Increase in net assets attributable to minority interests	10,154	18,504	-	-
Adjustments to profit from ordinary activities				
- Interest on notes payables	2,681	9,347	-	-
- Foreign currency exchange movement	(44,799)	(24,542)	-	-
- FX Forward realised income	992	-	-	-
- Distribution cost	24	33		
Decrease in financial assets held at fair value through profit or loss	157,530	128,676	-	-
Increase/(decrease) in Trustee fees payable	28	(32)	38	(32)
Decrease in receivables	1,224	9,334	4	(26)
(Decrease)/increase in Notes Trustee fees payable	(14)	28	(14)	28
Increase/(decrease) in other liabilities and withholding taxes payable	412	148	(11)	158
Movement in unrealised loss on derivatives	(24,810)	(6,034)	(16,604)	(28,920)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>120,003</b>	<b>164,252</b>	<b>(6)</b>	<b>(2)</b>

### (b) Non-cash financing activities

The Consolidated Entity did not engage in any non-cash financing and investment activities during the financial year (2010: Nil).

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

Notes to the Consolidated Financial Statements  
for the year ended 30 June 2011 (continued)

## 15 Segment information

For management purposes, the Consolidated Entity is organised into one main business segment, which operates solely in the business of investment management within Australia. While the Consolidated Entity operates in Australia only (the geographical segment), the Consolidated Entity has investment exposures in different countries as below:

Country	As at Consolidated Entity			
	% of Total assets		Total assets \$'000s	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
United States	99.97%	99.98%	212,958	341,065
Australia	0.03%	0.02%	84	68
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>213,042</b>	<b>341,133</b>

Country	As at Parent Entity			
	% of Total assets		Total assets \$'000s	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
United States	99.91%	99.86%	65,130	48,552
Australia	0.09%	0.14%	84	68
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>65,214</b>	<b>48,620</b>

The financial results from this segment are equivalent to the financial statements of the Trust and Consolidated Entity as a whole.

The table below analyses the Trust and Consolidated Entity's operating income per geographical location. The basis for attributing the operating income is the counterparty's place of incorporation.

Country	Consolidated Entity	
	30 June 2011	30 June 2010
	\$'000s	\$'000s
United States	16,712	29,007
Australia	(131)	(217)
<b>Total</b>	<b>16,581</b>	<b>28,790</b>

Country	Parent Entity	
	30 June 2011	30 June 2010
	\$'000s	\$'000s
United States	16,712	29,007
Australia	(131)	(217)
<b>Total</b>	<b>16,581</b>	<b>28,790</b>

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

Notes to the Consolidated Financial Statements  
for the year ended 30 June 2011 (continued)

## **16 Events after balance date**

As announced on Australian Securities Exchange (ASX) on 25 August 2011, the Trustee has confirmed that the portfolio of senior secured loans to which holders of Macquarie Fortress Notes are exposed has been sold. The sale proceeds will be utilised to repay the remaining balance of the debt facility put in place in April 2008 and the remaining cash balance will be distributed to noteholders as a return of capital at which point the notes will be cancelled. The Trustee estimates that the cash distributed will be near the net asset value as disclosed in the announcement made on the 25 August 2011.

## **17 Commitments and contingencies**

There are no commitments or contingencies at the reporting date (2010: SFR Ltd had a commitment to provide revolving credit to Graham Packaging Holdings Company of \$ 3 million).

# MACQUARIE FORTRESS AUSTRALIA NOTES TRUST AND CONSOLIDATED ENTITY

## Directors' Declaration

30 June 2011

In accordance with a resolution of the Directors of Macquarie Fortress Investments Limited, I state that:

In the opinion of the directors:

- (a) the financial statements and notes set out on pages 7 to 40 are in accordance with the Corporations Act 2001, including
  - (i) Giving a true and fair view of the financial position of Consolidated Entity as at 30 June 2011 and of its performance for the ended on that date; and
  - (ii) Complying with Accounting Standards and *Corporations Regulations 2001*.
- (b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2.1; and

The Directors declare that the notes to the financial statements include an explicit and unreserved statement of compliance with the International Financial Reporting Standards (see note 2.1).

On behalf of the board.



Director  
Sydney  
29 August 2011

## Independent auditor's report to the unitholders of Macquarie Fortress Australia Notes Trust

We have audited the accompanying financial report of Macquarie Fortress Australia Notes Trust (the "Trust"), which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Trust and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' responsibility for the financial report

The directors of Macquarie Fortress Investments Limited, the Trustee of the Trust, are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trustee's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the Trustee a written Auditor's Independence Declaration, a copy of which is included with the directors' report.

