

Form 388

Corporations Act 2001
294, 294B, 295, 298-301, 307, 308, 319, 321, 322
Corporations Regulations
1.0.08, 2M.3.01, 2M.3.03

Copy of financial statements and reports

If there is insufficient space in any section of the form, you may photocopy the relevant page(s) and submit as part of this lodgement

Company/scheme details

Company/scheme name

MACQUARIE NEW ZEALAND PORTRESS NOTES TRUST

ACN/ARSN/PIN/ABN

97 486 815 882

Lodgement details

An image of this form will be available as part of the public register.

Who should ASIC contact if there is a query about this form?

ASIC registered agent number (if applicable)

Firm/organisation

MACQUARIE GROUP LIMITED

Contact name/position description

JOANNA LEE

Telephone number (during business hours)

(02) 8237 2281

Email address (optional)

Joanna.Lee@Macquarie.com

Postal address

LEVEL 19, 1 MARTIN PLACE

Suburb/City

SYDNEY

State/Territory

NSW

Postcode

2000

1 Reason for lodgement of statement and reports

Tick appropriate box.

See Guide for definition of Tier 2 public company limited by guarantee

See Guide for definition of large proprietary company

See Guide for definition of small proprietary company

Dates on which financial year begins and ends

- A public company or a disclosing entity which is not a registered scheme or prescribed interest undertaking (A)
- A Tier 2 public company limited by guarantee (L)
- A registered scheme (B)
- Amendment of financial statements or directors' report (company) (C)
- Amendment of financial statements or directors' report (registered scheme) (D)
- A large proprietary company that is not a disclosing entity (H)
- A small proprietary company that is controlled by a foreign company for all or part of the period and where the company's profit or loss for the period is not covered by the statements lodged with ASIC by a registered foreign company, company, registered scheme, or disclosing entity (I)
- A small proprietary company, or a small company limited by guarantee that is requested by ASIC to prepare and lodge statements and reports (J)
- A prescribed interest undertaking that is a disclosing entity (K)

Financial year begins

01 / 07 / 10
[D] [D] [M] [M] [Y] [Y]

to

Financial year ends

30 / 06 / 11
[D] [D] [M] [M] [Y] [Y]

2 Details of large proprietary company

See Guide for definition of large and small proprietary companies.

If the company is a large proprietary company that is not a disclosing entity, please complete the following information as at the end of the financial year for which the financial statements relate:

A What is the consolidated revenue of the large proprietary company and the entities that it controls?

B What is the value of the consolidated gross assets of the large proprietary company and the entities that it controls?

C How many employees are employed by the large proprietary company and the entities that it controls?

D How many members does the large proprietary company have?

3 Auditor's or reviewer's report

Tick one box and complete relevant section(s)

Were the financial statements audited or reviewed?

Audited - complete B only

Reviewed - complete A and B

No

If no, is there a class or other order exemption current for audit/review relief?

Yes

No

A. Reviewed

Is the reviewer a registered company auditor, or member of The Institute of Chartered Accountants in Australia, CPA Australia Limited, or National Institute of Accountants and holds a practising certificate issued by one of those bodies?

Yes

No

B. Audited or Reviewed

Is the opinion/conclusion in the report:

Modified? (The opinion/conclusion in the report is qualified, adverse or disclaimed)

Yes

No

Does the report contain an Emphasis of Matter and/or Other Matter paragraph?

Yes

No

4 Details of current auditor or auditors

Notes:

- Registered schemes must advise ASIC of the appointment of an auditor on a Form 5137 *Appointment of scheme auditor* within 14 days of the appointment of the auditor.
- A public company limited by guarantee may, in some circumstances, have their accounts reviewed. These companies are still required to have an auditor and these details must be provided.

Auditor registration number (for individual auditor or authorised audit company)

Family name Given name

or
 Company name

ACN/ABN

or
 Firm name (if applicable)

Office, unit, level

Street number and Street name

Suburb/City State/Territory Postcode

Country (if not Australia)

Date of appointment
 / /
 [D] [D] [M] [M] [Y] [Y]

A company may have two appointed auditors, provided that both auditors were appointed on the same date. Otherwise, an appointed auditor must resign, be removed or otherwise ceased before a subsequent appointment may be made.

Auditor registration number (for individual auditor or authorised audit company)

Family name Given name

or
 Company name

ACN/ABN

or
 Firm name (if applicable)

Office, unit, level

Street number and Street name

Suburb/City State/Territory Postcode

Country (if not Australia)

5 Statements and reports to be attached to this form

Financial statements for the year (as required by s295(2) and accounting standards)

- Statement of comprehensive income, may also include a separate income statement for the year
- Statement of financial position as at the end of the year
- Statement of cash flows for the year
- Statement of changes in equity.

OR

If required by accounting standards — the consolidated statements of comprehensive income/income statement, financial position, cash flows and changes in equity.

Notes to financial statements (see s295(3))

- Disclosures required by the regulations
- Notes required by the accounting standards
- Any other information necessary to give a true and fair view (see s297).

The signed directors' declaration about the statements and notes (see s295(4)).

The signed directors' report for the year, including the copy of the auditor's or reviewer's independence declaration (see s298 to s300A).

Signed auditor's report or, where applicable, reviewer's report (see s301, s307 to s308).

Concise report (if any) (see s319).

Signature

See Guide for details of signatory.

I certify that the attached documents marked (**A**) are a true copy of the original reports required to be lodged under s319 of the *Corporations Act 2001*.

Name

PETER LUCAS

Signature



Capacity

- Director
 Company secretary

Date signed

29 / 08 / 11
[D] [D] [M] [M] [Y] [Y]

Lodgement

Send completed and signed forms to:
Australian Securities and Investments Commission,
PO Box 4000, Gippsland Mail Centre VIC 3841.

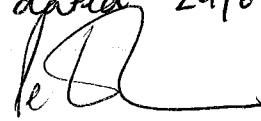
For more information

Web www.asic.gov.au
Need help? www.asic.gov.au/question
Telephone 1300 300 630

Or lodge the form electronically by:

- visiting the ASIC website www.asic.gov.au
- using Standard Business Reporting enabled software. See www.sbr.gov.au for more details.

This is the annexure of 36 pages marked (A) referred to in form 388 signed by Peter Lucas and dated 29/08/2011.



MACQUARIE NEW ZEALAND FORTRESS NOTES TRUST

ABN 97 486 815 882

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2011



MACQUARIE

MACQUARIE NEW ZEALAND FORTRESS NOTES TRUST

Annual Report

for the year ended 30 June 2011

Contents

Directors' Report	2
Auditor's independence declaration	6
Statement of Comprehensive Income	7
Statement of Financial Position	8
Statement of Changes in Equity	9
Statement of Cash Flows	10
Notes to the Financial Statements	11
Directors' Declaration	34
Independent Auditor's Report to the Unitholders of Macquarie New Zealand Fortress Notes Trust	35

This annual financial report covers Macquarie New Zealand Fortress Notes Trust 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 New Zealand Fortress Notes Trust, 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 (Cth) 1959, and Macquarie Fortress Investments Limited's obligations do not represent deposits or other liabilities of Macquarie Bank Limited ABN 46 008 583 542. Macquarie Bank Limited does not guarantee or otherwise provide assurance in respect of the obligations of Macquarie Fortress Investments Limited.

MACQUARIE NEW ZEALAND FORTRESS NOTES TRUST

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 Macquarie New Zealand Fortress Notes Trust ("the Trust"), submit their report together with the financial report of the Trust, for the year ended 30 June 2011.

Principal activities

The principal activity of the Trust is to invest in unlisted notes issued by a Cayman Islands entity, the return on which is linked to a leveraged portfolio of US dollar denominated senior secured loans and the New Zealand bank bill rate.

The Trust 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 Trust continues to be that detailed in the Trust's product disclosure statement and is in accordance with the provisions of the governing documents of the Trust.

Results

The performance of the Trust, as represented by the results of its operations, was as follows:

	Year ended	
	30 June 2011	30 June 2010
	NZ\$	NZ\$
Net profit before finance costs attributable to noteholders	3,507,133	6,268,729

MACQUARIE NEW ZEALAND FORTRESS NOTES TRUST

Directors' Report
30 June 2011 (continued)

Distribution

	Year ended 30 June 2011 NZ\$	30 June 2010 NZ\$
Distribution paid and payable to Trust beneficiaries	-	-
Interest paid to noteholders	-	-
	Cents per Unit or Note	Cents per Unit or Note
Distribution paid to Trust beneficiaries (cents per unit)	-	-
Interest paid to noteholders (cents per note)	-	-

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 NZ\$0.46 compared to a value at 30 June 2010 of NZ\$0.34.

In the opinion of the Directors, there were no significant changes to the state of affairs of the Trust during the year.

Significant events after the balance date

As announced on New Zealand Debt Exchange 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 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 NEW ZEALAND FORTRESS NOTES TRUST

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 Trust in regards to insurance cover provided to either the officers of Macquarie Fortress Investment Limited or the auditors of the Trust. Under the Trust Constitution, Macquarie Fortress Investment Limited as Trustee of the Trust is entitled to be indemnified out of the assets of the Trust for any liability incurred by it in properly performing or exercising any of its powers or duties in relation to the Trust.

Fees paid to and interests held in the Trust by the Trustee and associates

Fees paid to the Trustee and associates out of Trust property during the year are disclosed in note 9 of the financial statements.

No fees were paid out of Trust property to the Directors of the Trustee during the year (2010: NZ\$Nil).

No interests were held in the Trust by the Trustee and associates as at the end of the financial year.

Interests on issue

The movement in notes on issue in the Trust during the year is disclosed in note 6 of the financial statements.

Trust Assets

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

Environmental regulation and performance

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

Auditor's Independence Declaration

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

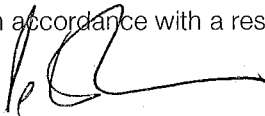
MACQUARIE NEW ZEALAND FORTRESS NOTES TRUST

Directors' Report
30 June 2011 (continued)

Rounding of amounts

The amounts contained in this report and in the financial report have been rounded under the option available to the Trust under ASIC Class Order 98/100. The Trust 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 dollar (where rounding is appropriate).

Signed in accordance with a resolution of the Directors.

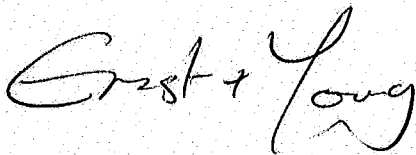
A handwritten signature in black ink, consisting of a stylized 'M' followed by a horizontal line.

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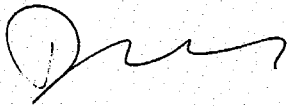
Director
Sydney
29 August 2011

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

In relation to our audit of the financial report of Macquarie New Zealand Fortress 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.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'Darren Handley-Greaves'.

Darren Handley-Greaves
Partner
Sydney
29 August 2011

MACQUARIE NEW ZEALAND FORTRESS NOTES TRUST

Statement of Comprehensive Income

for the year ended 30 June 2011

	Notes	Year ended	
		30 June 2011 NZ\$	30 June 2010 NZ\$
Income			
Net gains on financial instruments at fair value through profit or loss	5	3,608,615	6,387,224
Other investment income		30,700	25,099
Unrealised Foreign exchange (losses)/gains		(10,289)	4,991
Other income		22,248	2,643
Total income		3,651,274	6,419,957
Expenses			
Trustee fees	9	68,555	95,650
Notes Trustee fees		12,000	12,000
Professional fees		27,136	30,846
Registry fees		12,521	12,732
Other operating expenses		23,929	-
Total expenses		144,141	151,228
Net profit before finance costs attributable to noteholders		3,507,133	6,286,729
Finance costs attributable to noteholders			
Interest on listed loan notes issued to noteholders	7	-	-
Profit for the year		3,507,133	6,286,729
Other comprehensive income/(loss)		-	-
Change in net assets attributable to noteholders		(3,507,133)	(6,286,729)

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

MACQUARIE NEW ZEALAND FORTRESS NOTES TRUST

Statement of Financial Position

at 30 June 2011

	Notes	30 June 2011 NZ\$	30 June 2010 NZ\$
Assets			
Cash and cash equivalents		14,963	63
Receivables		13,732	13,060
Financial assets at fair value through profit or loss	8	13,966,064	10,323,495
Total assets		13,994,759	10,336,618
Liabilities			
Notes Trustee fees payable		29,951	17,951
Trustee fees payable		49,335	13,974
Establishment costs payable to Trustee		35,099	39,010
Professional fees payable to Trustee		138,078	105,453
Payable to related entities	9	430,558	391,718
Other liabilities		62,366	26,273
Total liabilities (excluding net assets attributable to noteholders)		745,387	594,379
Net assets attributable to noteholders – liability	6	13,249,372	9,742,239
Net assets attributable to Trust beneficiaries - liability	6	-	-

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

MACQUARIE NEW ZEALAND FORTRESS NOTES TRUST

Statement of Changes in Equity

for the year ended 30 June 2011

	Year ended	
	30 June 2011	30 June 2010
	NZ\$	NZ\$
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 financial year.

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

MACQUARIE NEW ZEALAND FORTRESS NOTES TRUST

Statement of Cash Flows

for the year ended 30 June 2011

	Notes	Year ended	
		30 June 2011 NZ\$	30 June 2010 NZ\$
Cash flows from operating activities			
Interest received		330	-
Trustee fees paid		(52,618)	(93,817)
Distribution income		30,700	25,099
Other expenses paid		(312)	(311)
GST refund		13,882	-
Other income		22,918	-
Net cash provided by/(used in) operating activities	10(a)	<u>14,900</u>	<u>(69,029)</u>
Cash flows from financing activities			
Funds received from related entities		-	68,718
Net cash provided by financing activities		<u>-</u>	<u>68,718</u>
Net increase/(decrease) in cash and cash equivalents		14,900	(311)
Cash and cash equivalents at the beginning of the year		63	374
Cash and cash equivalents at the end of the year		<u>14,963</u>	<u>63</u>

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

MACQUARIE NEW ZEALAND FORTRESS NOTES TRUST

Notes to the Financial Statements

for the year ended 30 June 2011

1. Corporate information

Macquarie New Zealand Fortress Notes Trust ("the Trust") was constituted in Australia on 12 March 2005 and commenced operations on 17 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. This financial report covers Macquarie New Zealand Fortress Notes Trust as an individual entity.

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

The principal activity of the Trust is to invest in unlisted notes issued by a Cayman Islands entity, the return on which is linked to a leveraged portfolio of US dollar denominated senior secured loans and the New Zealand bank bill rate.

The financial statements of Macquarie New Zealand Fortress Notes Trust 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 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. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are expected to be recovered or settled within twelve months. The amount expected to be recovered or settled within twelve months in relation to these balances cannot be reliably determined.

Amounts in the financial report have been rounded off to the nearest dollar unless otherwise indicated.

Statement of Compliance

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

MACQUARIE NEW ZEALAND FORTRESS NOTES TRUST

Notes to the 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 Australia 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 Statements.

Notes to the 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 NEW ZEALAND FORTRESS NOTES TRUST

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

- Fair value of financial instruments [note 2 (b) and 8] and
- Impairment of loan assets [note 2 (b) and 8].

Estimates and judgements 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) Financial instruments

(i) Classification

The Trust'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 Trust's documented investment strategy. The Trust'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 Trust recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in 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 Trust has transferred substantially all risks and rewards of ownership.

MACQUARIE NEW ZEALAND FORTRESS NOTES TRUST

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

2.2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(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

Loan 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. Such assets are reviewed at each statement of financial position date to determine whether there is objective evidence of impairment.

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.

(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.

(c) Net assets attributable to noteholders

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 are attributable to noteholders. Non-distributable income is transferred directly to noteholders' funds.

(d) 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 Trust.

MACQUARIE NEW ZEALAND FORTRESS NOTES TRUST

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

2.2 Summary of significant accounting policies (continued)

(e) Cash and cash equivalents

For the purpose of presentation in the 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 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 Trust's main income generating activity.

(f) 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 costs in the statement of comprehensive income. As disclosed to the New Zealand Debt Market on 7 April 2008, there will be no interest payments until current financing arrangements have been fully repaid.

(g) Distributions

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

(h) Foreign currency translation

i) Functional and presentation currency

Items included in the Trust's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the New Zealand dollar, which reflects the currency of the economy in which the Trust competes for funds and is regulated. The New Zealand dollar is also the Trust's 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 statements of comprehensive income.

The Trust does not isolate that portion of gains or losses on financial instruments that are measured at fair value through profit or loss and which is due to changes in foreign exchange rates from that which is due to changes in the market price of securities. Such fluctuations are included with the net gains or losses on financial instruments at fair value through profit or loss.

(i) Investment income and expenses

Investment income and expenses are brought to account on an accruals basis. Interest income and expenses are recognised in the statement of comprehensive income for all debt instruments using the effective interest method. Interest income on assets at fair value through the profit and loss is included in the net gains/(losses) on fair value of financial instruments at fair value through profit or loss. Other changes in fair value for such instruments are recorded in accordance with the policies described in note 2.2(b).

MACQUARIE NEW ZEALAND FORTRESS NOTES TRUST

Notes to the Financial Statements

for the year ended 30 June 2011 (continued)

2.2 Summary of significant accounting policies (continued)

(j) Income tax

Under current legislation, the Trust is not subject to income tax provided the taxable income of the Trust is fully distributed either by way of cash or reinvestment (i.e. unitholders are presently entitled to the income of the Trust).

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.

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.

(k) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Trust by third parties such as registry fees have been passed onto the Trust. The Trust qualifies for Reduced Input Tax Credits (RITC) at a rate of 75% hence expenses have been recognised in the 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 statement of financial position.

(l) 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.

(m) Payables

Payables include liabilities and accrued expenses owing by the Trust 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.

(n) Segment reporting

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

MACQUARIE NEW ZEALAND FORTRESS NOTES TRUST

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

3. Financial risk management

Investment Policy

The Trust holds Loan Notes denominated in New Zealand dollars and issued by the Portfolio Trust. The Portfolio Trust, in turn, has acquired investments that provide direct or indirect exposures to a portfolio that consists primarily of Senior Loans ("the Portfolio").

The Trust 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 Trust's investment portfolio will fluctuate as a result of changes in market prices. This risk arises directly from the Trust's investment in the Loan Notes whose price is impacted by the Portfolio Trust's exposure to Senior Loans for which prices in the future are uncertain. Consistent with prior year, 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 Trust'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.

	30 June 2011		30 June 2010	
	Impact on profit or (loss)		Impact on profit or (loss)	
Change in market prices	+10%	-10%	+10%	-10%
	NZ\$		NZ\$	
Investment in loan notes	1,979,471	(1,979,471)	3,976,893	(3,976,893)

MACQUARIE NEW ZEALAND FORTRESS NOTES TRUST

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

3. Financial risk management (continued)

(a) Market risk (continued)

(ii) Foreign exchange risk

The Trust is not directly exposed to foreign exchange risk as its investments are all denominated in New Zealand dollars, the functional currency of the Trust. However, the Trust is indirectly 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 Trust's indirect exposure to the United States dollar. The table has been prepared on a look through basis to the underlying Portfolio. The Trust has an exposure to 10.8% (2010: 10.8%) of the Portfolio with 61.1% held by Macquarie Fortress Australia Notes Trust (2010: 61.1%) and the remaining 28.1% held by Macquarie Fortress Fund (2010: 28.1%). The Trust owns 15.06% of Knight Portfolio Trust which in turn owns 71.9% of the underlying Portfolio. Macquarie Fortress Australia Notes Trust owns the remaining 84.94% of Knight Portfolio Trust.

As disclosed to the New Zealand Debt Market on 7 April 2008, the Portfolio includes USD:NZD foreign currency forwards contracts entered into by the Portfolio Manager for the benefit of the Trust as well USD:AUD foreign currency forwards contracts for the benefit of the Macquarie Fortress Australia Notes Trust and the Macquarie Fortress Fund. The table excludes the market value of these foreign currency contracts, so as to determine the net exposure of the Trust to movement in the USD:NZD exchange rates.

	30 June 2011	30 June 2010
	NZ\$	NZ\$
Cash and cash equivalents	61,118,755	48,398,869
Senior Loan portfolio	182,780,992	366,308,613
Other assets	394,650	1,992,639
Total financial assets	244,294,397	416,700,121
Accrued expenses	563,105	185,547
Borrowings and other liabilities	139,509,200	319,391,868
Total financial liabilities	140,072,305	319,577,415
Net assets attributed to subordinated notes (excluding the value of foreign currency forward contracts)	104,222,092	97,122,706
Trust's exposure %	10.8%	10.8%
Trust's exposure to USD in Portfolio	11,286,985	10,544,295
Foreign currency forward contacts – notional amount (sell USD)	(15,154,878)	(18,492,834)
Net Foreign Currency Exposure	(3,867,893)	(7,948,539)

The net foreign currency exposure represents the future expected returns from the Portfolio.

MACQUARIE NEW ZEALAND FORTRESS NOTES TRUST

Notes to the 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 Trust's profit and loss when including the effect of foreign currency forward contracts included within the Portfolio.

	30 June 2011		30 June 2010	
	Impact on profit or (loss)		Impact on profit or (loss)	
Change in currency rates	+10%	-10%	+5%	-5%
	NZ\$		NZ\$	
NZD-USD Exchange rate	63,647	(77,791)	331,069	(365,918)

(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 a result of the refinance that occurred in April 2008, the objective of the Trust is now focused on protecting capital in order to maximise the amount principal that can be repaid to noteholders at maturity. All cash flows from the Portfolio must be used to meet interest payments, expenses and reduce the principal on outstanding debt. As announced on New Zealand Debt Exchange 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 Trust's profit and loss for the year ended 30 June 2011. The table has been prepared on a look through basis to the underlying Portfolio. The analysis is based on the assumptions that interest rates in 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 the Loan Notes¹. The table also takes into consideration the Trust's exposure over interest bearing assets in the Knight Portfolio Trust.

	30 June 2011		30 June 2010	
	Impact on profit or (loss)		Impact on profit or (loss)	
Change in interest rates	+25bps	-25bps	+75bps	-75bps
	NZ\$		NZ\$	
Financial assets at fair value through profit or loss	28,923	(28,923)	80,552	(80,552)

MACQUARIE NEW ZEALAND FORTRESS NOTES TRUST

Notes to the Financial Statements

for the year ended 30 June 2011 (continued)

3. Financial risk management (continued)

(b) Credit risk

Credit risk is the risk that the counterparty will fail to perform contractual obligations, either in whole or in part, under a contract. The Trust has the majority of its financial assets with one counterparty, being Knight Portfolio Trust. The Trust also has exposure to Macquarie Bank Limited and the Bank of New Zealand with whom the Trust's cash balances are held. However, credit risk for the Trust primarily arises indirectly from the Senior Loans, to which the Trust has an exposure through its holding of the Loan Notes.

The Trust's maximum exposure to credit risk at the reporting date is the carrying amount of its financial assets. An analysis of the credit rating of the Senior Loan portfolio based on ratings provided by Standard & Poors is presented below. The table has been prepared on a look through basis to the underlying Portfolio. The Trust has an exposure to 10.8% (2010: 10.8%) of the Portfolio with 61.1% held by Macquarie Fortress Australia Notes Trust (2010: 61.1%) and the remaining 28.1% held by Macquarie Fortress Fund (2010: 28.1%).

Credit quality

Credit quality	2011		2010	
	NZ\$	%	NZ\$	%
BBB	3,212,716	1.8	-	-
BBB-	11,043,700	6.0	-	-
BB+	669,645	0.4	18,361,490	5.0
BB	26,085,009	14.3	14,158,448	3.9
BB-	34,525,757	18.8	47,816,958	13.1
B+	61,617,616	33.7	128,517,804	35.0
B	24,759,564	13.5	85,554,137	23.4
B-	16,423,073	9.0	70,875,487	19.3
CCC+	2,654,127	1.5	441,064	0.1
CCC-	22,122	0.0	-	-
C	1,767,663	1.0	-	-
D	-	-	583,225	0.2
Total	182,780,992	100.0	366,308,613	100.0

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 NEW ZEALAND FORTRESS NOTES TRUST

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

3. Financial risk management (continued)

(b) Credit risk (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. The split of the Portfolio by industry category at 30 June 2011 is presented below. The Trust has an exposure to 10.8% (2010: 10.8%) of the Portfolio with 61.1% held by Macquarie Fortress Australia Notes Trust (2010: 61.1%) and the remaining 28.1% held by Macquarie Fortress Fund (2010: 28.1%).

Industry concentration

	2011		2010	
	NZ\$	%	NZ\$	%
Aerospace & defence	9,977,385	5.5	23,421,141	6.4
Business equipment & services	-	-	39,894,601	10.9
Chemical/plastics	22,738,372	12.4	34,879,996	9.5
Financial intermediaries	17,129,874	9.4	5,599,321	1.5
Healthcare	19,818,556	10.8	34,832,390	9.5
Lodging & casinos	-	-	26,206,235	7.2
Oil & gas	3,080,334	1.7	8,946,727	2.4
Publishing	-	-	11,510,559	3.1
Radio & Television	-	-	11,598,929	3.2
Utilities	14,751,751	8.1	32,833,051	9.0
Other	95,284,720	52.1	136,585,663	37.3
Total	182,780,992	100.0	366,308,613	100.0

At 30 June 2011, no Senior Loan is considered to be in default (2010: 0.315% with combined face value of NZ\$1,115,417). 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.

MACQUARIE NEW ZEALAND FORTRESS NOTES TRUST

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

3. Financial risk management (continued)

(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 Trust 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 a result of a refinance that occurred in April 2008, 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. The Trustee has decided not to invoice any expenses paid on behalf of the Trust until the Trust receives payments on the Notes.

As announced on New Zealand Debt Exchange 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 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.

As at 30 June 2011	< 6 months	6-12 months	1 year and above	Total
	NZ\$	NZ\$	NZ\$	NZ\$
Notes Trustee payable	29,951	-	-	29,951
Trustee fees payable	49,335	-	-	49,335
Establishment costs payable	35,099	-	-	35,099
Professional fees payable	138,078	-	-	138,078
Payable to related entity	430,558	-	-	430,558
Other liabilities	62,366	-	-	62,366
Net assets attributable to noteholders	13,263,254	-	-	13,263,254
Total undiscounted financial liabilities	13,994,759	-	-	13,994,759

MACQUARIE NEW ZEALAND FORTRESS NOTES TRUST

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

3. Financial risk management (continued)

As at 30 June 2010	< 6 months	6-12 months	1 year and above	Total
	NZ\$	NZ\$	NZ\$	NZ\$
Notes Trustee payable	-	-	17,951	17,951
Trustee fees payable	13,974	-	-	13,974
Establishment costs payable	-	-	39,010	39,010
Professional fees payable	-	-	105,453	105,453
Payable to related entity	-	-	391,718	391,718
Other liabilities	-	-	26,273	26,273
Net assets attributable to noteholders	-	-	9,742,239	9,742,239
Total undiscounted financial liabilities	13,974	-	10,322,644	10,336,618

(d) Fair values of financial assets and liabilities

(i) Fair value estimation

The carrying amounts of all the Trust'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.

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:

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

3. Financial risk management (continued)

(a) Senior Loans

Senior Loans are classified as financial assets 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 reporting date, however it may not represent the price obtained if Senior Loans are subsequently sold.

(b) 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.

(c) 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.

(ii) Fair value hierarchy

The Trust has adopted the amendments to AASB 7, effective 1 July 2009. This requires the Trust 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:

MACQUARIE NEW ZEALAND FORTRESS NOTES TRUST

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

3. Financial risk management (continued)

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

(ii) Fair value hierarchy (continued)

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).

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 has been prepared on a look through basis to the underlying Portfolio and then disclosing the Trust's allocation of the fair value assets based on its exposure (10.8%) of the Portfolio. The table below sets out the financial instruments recorded at fair value within the underlying portfolio according to the fair value hierarchy at 30 June 2011. The Portfolio also includes the market value of the USD:NZD foreign currency forwards contracts entered into by the Portfolio Manager for the benefit of the Trust.

	As at 30 June 2011 Level 2 NZ\$	As at 30 June 2010 Level 2 NZ\$
Financial assets designated at fair value through profit & loss		
US Senior loans	182,780,992	366,308,613
Trust's exposure %	10.8%	10.8%
Trust's exposure in portfolio	<u>19,794,713</u>	<u>39,768,930</u>
Financial assets held for trading at KPT level		
Foreign currency forward contracts	<u>2,535,605</u>	<u>(570,453)</u>
Total financial assets at fair value through profit & loss	<u>22,330,318</u>	<u>39,198,477</u>

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

The Trust uses a valuation model which values the underlying Portfolio adjusted for the Trust's ownership. 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 Trust are classified as Level 2.

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

MACQUARIE NEW ZEALAND FORTRESS NOTES TRUST

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

4. Auditor's remuneration

	Year ended	
	30 June 2011	30 June 2010
	NZ\$	NZ\$
Amounts received or due and receivable by Ernst & Young for:		
- an audit and review of the financial report of the Trust	15,190	14,427
- other services in relation to the Trust: audit of compliance plan	<u>310</u>	<u>290</u>
	<u>15,500</u>	<u>14,717</u>
Amounts received or due and receivable by PricewaterhouseCoopers Australian firm for:		
- other services in relation to the Trust: tax compliance	<u>10,360</u>	<u>9,811</u>
	<u>10,360</u>	<u>9,811</u>

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

Net gains recognised in relation to loan notes held at fair value through profit or loss:

	Year ended	
	30 June 2011	30 June 2010
	NZ\$	NZ\$
Gains on financial instruments at fair value through profit or loss	<u>3,608,615</u>	<u>6,387,224</u>
Net gains on financial instruments at fair value through profit or loss	<u>3,608,615</u>	<u>6,387,224</u>

MACQUARIE NEW ZEALAND FORTRESS NOTES TRUST

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

6. Net assets attributable to Trust beneficiaries and noteholders

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

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

Net assets attributable to noteholders	As at			
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
	Notes on Issue No.	Notes on issue No.	Net assets attributable NZ\$	Net assets attributable NZ\$
Opening balance	28,694,843	28,694,843	9,742,239	3,473,510
Notes issued	-	-	-	-
Notes redeemed	-	-	-	-
Increase in net assets attributable to noteholders	-	-	3,507,133	6,268,729
Closing balance	28,694,843	28,694,843	13,249,372	9,742,239

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 seen to be beneficial for Trust beneficiaries and noteholders as a whole.

MACQUARIE NEW ZEALAND FORTRESS NOTES TRUST

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

7. Interest payments to noteholders

	Year ended			
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
	cents/note	cents/note	NZ\$	NZ\$
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 Trust's exposure to interest rate risk.

8. Financial assets at fair value through profit or loss

	As at	
	30 June 2011	30 June 2010
	NZ\$	NZ\$
Financial assets designated as at fair value through profit or loss		
Investment in loan notes at cost	28,694,843	28,694,843
Unrealised loss on loan notes	(14,728,779)	(18,371,348)
Total financial assets at fair value through profit or loss	13,966,064	10,323,495

The current value and gearing of the underlying loan portfolio is provided in note 3 along with an overview of the risk exposures relating to the Trust'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 NZ\$0.46 (30 June 2010: NZ\$0.34). However, due to the reasons noted above, this net asset value may not be realised. At close of trading on 30 June 2011, the Notes were trading at NZ\$0.26 on the New Zealand Debt Market (30 June 2010: NZ\$0.15).

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

9. Related party disclosures

(a) Trustee

The Trustee of the Macquarie New Zealand Fortress 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 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 as Key Management Personnel.

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

(c) Note holdings of Related Party and Key Management Personnel

No interests were held in the Trust by the parties related to the Trust (including the Trustee, its directors, its affiliates and other Trusts managed by the Trustee) (2010: Nil).

(d) 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 Trust 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.

MACQUARIE NEW ZEALAND FORTRESS NOTES TRUST

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

9. Related party disclosures (continued)

(d) Related party transactions (continued)

(ii) Key Management Personnel

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

Payments made from the Trust 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 Trust during the financial year and there were no material contracts involving Director's interests existing at year end.

(e) Fees

For the year ended 30 June 2011, in accordance with the Trust Constitution, the Trustee received a total fee of NZ\$74,611 (2010: NZ\$69,931) (exclusive of GST) and recovered establishment costs of (NZ\$6,056) (2010: NZ\$25,719).

As at 30 June 2011, the Trust has a payable balance with Knight Portfolio Trust amounting to NZ\$430,558 (2010: NZ\$391,718). For the year ended 30 June 2011, Knight Portfolio Trust paid distribution income of NZ\$52,618 which was used to pay trustee fees.

As at 30 June 2011, the Trust has a payable balance with Macquarie Bank Limited (MBL) amounting to NZ\$34,000 (2010: NZ\$ nil) as MBL paid the unwind expense on behalf of the Trust.

Portfolio management fees amounted to NZ\$2,078,314 (2010: NZ\$1,974,276) of which NZ\$243,002 (2010: NZ\$229,117) is attributable to the Trust.

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

	30 June 2011 NZ\$	30 June 2010 NZ\$
Administration fees for the financial year incurred by the Trust to the Trustee	74,611	69,931
Recovery of establishment costs per Prospectus	<u>(6,056)</u>	<u>25,719</u>
Aggregate amounts paid/payable to the Trustee at the reporting date	<u>68,555</u>	<u>95,650</u>

MACQUARIE NEW ZEALAND FORTRESS NOTES TRUST

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

10. Statement of cash flows reconciliation

	Year ended	
	30 June 2011	30 June 2010
	NZ\$	NZ\$
(a) Reconciliation of net profit to net cash provided by/(used in) operating activities		
Profit for the year	3,507,133	6,268,729
(Increase)/decrease in receivables	(672)	247
Increase in notes trustee fees payable	12,000	11,951
Increase/(decrease) in trustees fees payable	35,361	(26,106)
Increase in other liabilities	64,807	63,374
Increase/(decrease) in Payable to related entity	38,840	-
Net gains on financial instruments at fair value through profit or loss	(3,642,569)	(6,387,224)
Net cash provided by/(used in) operating activities	<u>14,900</u>	<u>(69,029)</u>

(b) Non-cash financing activities

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

11. Segment information

For management purposes, the Trust is organised into one main business segment, which operates solely in the business of investment management within Australia and New Zealand. While the Trust operates in Australia and New Zealand (the geographical segment), the Trust has an investment exposure in different countries as below:

	As at		Total assets NZ\$	
	% of Total assets 30 June 2011	30 June 2010	30 June 2011	30 June 2010
United States	99.80%	99.87%	13,966,064	10,323,495
Australia & New Zealand	0.20%	0.13%	28,695	13,123
Total	<u>100.00%</u>	<u>100.00%</u>	<u>13,994,759</u>	<u>10,336,618</u>

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

The table below analyses the Trust's profit or (loss) per geographical location. The basis for attributing the profit or (loss) is the counterparty's place of incorporation.

	30 June 2011	30 June 2010
	NZ\$s	NZ\$s
Country		
United States	3,639,275	6,407,957
Australia	(132,142)	(139,228)
Total	<u>3,507,133</u>	<u>6,268,729</u>

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

12. Events after balance date

As announced on New Zealand Debt Exchange 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 25 August 2011.

13. Commitments and contingencies

There are no commitments or contingencies at the reporting date (2010: none).

