This is the annexure of 38 pages marked (A) referred to in form 388 signed by Peter Lucas and dated 14/09/2011.

MACQUARIE FORTRESS FUND AND CONSOLIDATED ENTITY

ARSN 107 933 700

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2011

MACQUARIE

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MACQUARIE FORTRESS FUND AND CONSOLIDATED ENTITY

Annual Report
for the year ended 30 June 2011

Contents

This annual financial repot covers Macquarie Fortress Fund and Consolidated Entity as an individual entity.

Responsible Entity:
Macquarie Financial Products Management Limited
ABN 38 095 135 694
No. 1, Martin Place,
Sydney,
New South Wales, 2000
AUSTRALIA

Neither the Responsible Entity, nor any member of the Macquarie Group, guarantees the performance of The Macquarie Fortress Fund and Consolidated Entity, the repayments of capital or the payment of a particular rate of return on the units issued.

Macquarie Financial Products Management Limited is not an authorised deposit-taking institution for the purposes of the Banking Act (Cth) 1959, and Macquarie Financial Products Management 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 Financial Products Management Limited.

Directors' Report

30 June 2011

The Directors of Macquarie Financial Products Management Limited (ABN 38 095 135 694) (a wholly owned subsidiary of Macquarie Group Limited), the Responsible Entity of the Macquarie Fortress Fund ("the Fund"), submit their report together with the consolidated financial report of the Macquarie Fortress Fund and its controlled entity (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 dollars denominated senior secured loans in accordance with the provisions of the governing documents of the Consolidated Entity.

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

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

Directors

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

Antony Clubb (appointed on 11/02/2011)
Simone Alison Mosse (resigned on 11/02/2011)
Jason King
Peter Bruce Lucas
William Dudley Fox

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 Fund'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 its operations, was as follows:

	Year ended			
	Consolidated Entity		Parent Entity	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
	$	$	$	$
Net profit before financing costs attributable to unitholders	7,530,313	13,658,197	7,530,313	13,658,197

Directors' Report
30 June 2011 (continued)

Distribution

Distributions paid represent net cash flow received on a subordinated note held by the Fund.

	Year ended			
	Consolidated Entity		Parent Entity	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
	$	$	$	$
Distribution paid to unitholders	-	-	-	-
Distribution (cents per unit)	-	-	-	-

Significant changes in the state of affairs

Since the last annual financial report for the year ended 30 June 2010, the net asset value ("NAV") has continued to improve. As at 30 June 2011, the net asset value attributable to unitholders was 50.4 cents per unit compared to a value at 30 June 2010 of 37.9 cents per unit.

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 in the investor update on 25 August 2011, the portfolio of senior secured loans to which unitholders of Macquarie Fortress Fund 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 unitholders as a return of capital at which point the units will be redeemed. Macquarie Financial Products Management Limited (MFPML, as responsible entity for the Macquarie Fortress Fund) 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 Responsible Entity expects that the distribution to unitholders 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.

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 or Directors of Macquarie Financial Products Management Limited or the auditors of the Consolidated Entity. Under the Fund Constitution, Macquarie Financial Products Management Limited as Responsible Entity of the Fund 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 Responsible Entity and associates

Fees paid to the Responsible Entity and its associates out of the Consolidated Entity's property during the year are disclosed in Note 11 of the financial statements.

No fees were paid out of the Consolidated Entity's property to the Directors of the Responsible Entity during the year.

The number of units in the Fund held by the Responsible Entity and its associates as at the end of the financial year are disclosed in Note 11 of the financial statements.

Units in the Consolidated Entity

The movement in units 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.

Auditor's independence declaration

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

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 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 dollar (where rounding is appropriate).

Signed in accordance with a resolution of the Directors.

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Director
Sydney
14 September 2011

ERNST & YOUNG

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Auditor's Independence Declaration to the Directors of Macquarie Financial Products Management Limited, as the Responsible Entity for Macquarie Fortress Fund

In relation to our audit of the financial report of Macquarie Fortress Fund 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

Ernst & Young

Darren Handley-Greaves
Partner
Sydney
14 September 2011

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2011

	Notes	Consolidated Entity		Parent Entity	
		30 June 2011	30 June 2010	30 June 2011	30 June 2010
		$	$	$	$
Income					
Interest income		17,771	6,271	12,225	2,513
Other investment income		-	377,215	-	-
Net gains on financial instruments at fair value through profit or loss	5	13,455,447	13,062,795	-	-
Impairment reversal on investment		-	-	7,575,378	13,765,471
Foreign currency exchange translation		(5,872,640)	328,711	-	-
Other Income		16,899	-	16,899	-
Total income		7,617,477	13,774,992	7,604,502	13,767,984
Expenses					
Responsible Entity fees	11	50,000	50,000	50,000	50,000
Auditor's remuneration		16,250	20,000	16,250	20,000
Trustee fees		10,695	12,283	-	-
Other operating expenses		10,219	34,512	7,939	39,787
Total expenses		87,164	116,795	74,189	109,787
Net profit before finance costs attributable to unitholders		7,530,313	13,658,197	7,530,313	13,658,197
Financing costs attributable to unitholders					
Distributions to unitholders	7	-	-	-	-
Net profit for the year attributable to unitholders		7,530,313	13,658,197	7,530,313	13,658,197
Total comprehensive income/(loss) for the year		-	-	-	-

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

Consolidated Statement of Financial Position

as at 30 June 2011

	Notes	Consolidated Entity 30 June 2011 $	Consolidated Entity 30 June 2010 $	Parent Entity 30 June 2011 $	Parent Entity 30 June 2010 $
Assets					
Cash and cash equivalents	8	1,206,397	1,499,028	477,804	478,876
Financial assets at fair value through profit or loss	9	29,360,947	21,576,840	-	-
Investment in subsidiary	10	-	-	30,712,269	23,136,891
Other assets		12,095	12,815	65,262	55,673
Total assets		30,579,439	23,088,683	31,255,335	23,671,440
Liabilities					
Responsible Entity fees payable		33,151	79,041	33,151	79,041
Professional fees payable to related entities		104,513	121,413	104,513	121,413
Payable to related entities		-	-	677,650	585,287
Other liabilities		67,847	44,614	66,093	42,084
Total liabilities (excluding net assets attributable to unitholders)		205,511	245,068	881,407	827,825
Net assets attributable to unitholders – liability	6	30,373,928	22,843,615	30,373,928	22,843,615

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

Consolidated Statement of Changes in Equity

for the year ended 30 June 2011

	Year ended			
	Consolidated Entity		Parent Entity	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
	$	$	$	$
Total equity at the beginning of the financial year	-	-	-	-
Profit/(loss) for the year	-	-	-	-
Other comprehensive income/(loss) for the year	-	-	-	-
Total comprehensive income/(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 unitholders 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.

Consolidated Statements of Cash Flows

for the year ended 30 June 2011

		Year ended			
		Consolidated Entity		Parent Entity	
	Notes	30 June 2011	30 June 2010	30 June 2011	30 June 2010
		$	$	$	$
Cash flows from operating activities					
Interest received		17,771	6,271	12,225	2,513
Responsible Entity fees paid		(105,479)	-	(105,479)	-
Funds received from related entity		-	-	92,362	-
Other income received		-	377,215	-	-
Other expenses paid		(13,165)	(19,716)	(180)	(220)
Net cash (used in)/provided by operating activities	12(a)	(100,873)	363,770	(1,072)	2,293
Cash flows from financing activities					
Net cash provided by/(used in) financing activities		-	-	-	-
Net (decrease)/increase in cash and cash equivalents		(100,873)	363,770	(1,072)	2,293
Cash and cash equivalents at the beginning of the year		1,499,028	1,156,103	478,876	476,583
Effect of foreign currency exchange rate changes on cash and cash equivalents		(191,758)	(20,845)	-	-
Cash and cash equivalents at the end of the year	8	1,206,397	1,499,028	477,804	478,876

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

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

1. Corporate information

This financial report covers Macquarie Fortress Fund ("the Fund") and its controlled entities (together "the Consolidated Entity").The Macquarie Fortress Fund ("the Parent Entity") was registered in Australia on 20 February 2004 and commenced operations on 9 June 2004. On 9 June 2004, the Parent Entity acquired a controlling interest in the Fortress Portfolio Trust.

The Responsible Entity of the Macquarie Fortress Fund is Macquarie Financial Products Management Limited ("the Responsible Entity"). The Responsible Entity's registered office is No. 1, Martin Place, Sydney, NSW 2000. The financial report is presented in the Australian dollars.

The principal activity of the Consolidated Entity is to invest in a leveraged portfolio of US dollars denominated senior secured loans in accordance with the provisions of the governing documents of the Consolidated Entity.

The consolidated financial statements of Macquarie Fortress Fund ("the Fund") 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 14 September 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 periods 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 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 dollar (where rounding is appropriate).

Statement of Compliance with International Financial Reporting Standards

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

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 Fund 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 Fund are discussed below. Standards and Interpretations that are not expected to have a material impact on the Fund 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 trading. 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 Fund has not yet decided when to adopt AASB 9. However, management does not expect any impact on the Fund's financial statements as the Fund 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 Fund will apply the amended standard from 1 July 2011. The amendments will not have any effect on the Fund'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 Fund's disclosures. The Fund 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 Fund's financial Statements.

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 Fund has not yet decided when to adopt IFRS 10. Management does not expect this will have a significant effect on the Fund'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 Fund has not yet decided when to adopt IFRS 12. Management does not expect this will have a significant effect on the Fund'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 Fund has not yet decided when to adopt IFRS 13. Management does not expect this will have a significant effect on the Fund's financial statements.

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 judgments 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 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 subsidiaries [Note 2 (d), 9 and 10].

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 the 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 Fund ("the Parent Entity") as at 30 June 2011 and the results of the entity it controlled for the year then ended. Macquarie Fortress Fund and its controlled entity together are referred to in this financial report as the Group or 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, generally accompanying a holding of more than one-half of interests. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Consolidated Entity controls another entity.

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 Group 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 Group.

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

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 Consolidated Entity's investment in loan notes ("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 Responsible Entity 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 fair value of the financial assets or financial liabilities from this date. Investments are derecognised when the right to receive cash flows 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 held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the consolidated statement of comprehensive income.

Fair value in an inactive or unquoted market

The primary investment of the Fund is Loan Notes issued by the Fortress Portfolio Trust ("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.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated 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.

2.2 Summary of significant accounting policies (continued)

(d) Impairment

Investment in subsidiaries

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 unitholders

Units are redeemable at the unitholders' option and are therefore classified as financial liabilities. The units can be put back to the Consolidated Entity at any time for cash equal to a proportionate share of the Consolidated Entity's net asset value. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the reporting date if unitholders exercised their right to put the units back to the Consolidated Entity. The Consolidated Entity's redemption unit price is based on different valuation principles to that applied in financial reporting, a valuation difference exists, which has been treated as a separate component of net assets attributable to unitholders. Changes in the value of this financial liability are recognised in the consolidated statement of comprehensive income as they arise. As a result of the refinance outlined in the Interim Investment Update dated 8 April 2008, unitholders are unable to redeem units as all cash flows from the Portfolio must be first applied to pay down financing.

(f) 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.

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

2.2 Summary of significant accounting policies (continued)

(g) Foreign currency translation

i) Functional and presentation currency

Items included in the Consolidated Entity's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency") which reflects the currency of the economy in which the Consolidated Entity competes for funds and is regulated. This is the Australian dollar for the Parent Entity and the United States dollar for the entity it controlled. The Australian dollar is the Consolidated Entity'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 consolidated statement of comprehensive income.

The Consolidated Entity does not isolate that portion of gains or losses on securities and derivative 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.

(h) Income tax

Under current income tax legislation, the Fund is 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 distributions to unitholders.

(i) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as registry fees have been passed on to the Fund. The Fund 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.

(j) Receivables

Receivables may include interest and manager fee rebates. These are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment using the effective interest rate method. Amounts are generally received within 30 days of being recorded as receivables.

(k) Payables

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

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

2.2 Summary of significant accounting policies (continued)

(l) Applications and redemptions

Applications received for units in the Parent Entity are recorded net of any entry fees payable prior to the issue of units in the Parent Entity. Redemptions from the Parent Entity are recorded gross of any exit fees payable after the cancellation of units redeemed.

(m) Investment income and expenses

Interest income and expenses are recognised in the consolidated statement of comprehensive income for all debt instruments, and the collateral deposit for the gearing facility, using the effective interest rate method. Other changes in fair value for such investments are recorded in accordance with the policies described in note 2.2(c).

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Consolidated Entity estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all payments and receipts between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premium or discounts.

Investment income is brought to account when the return from the collateral deposit and senior secured loan notes is probable and can be reliably measured. Interest income and expenses are recognised in the consolidated statement of comprehensive income for all debt instruments and the collateral deposit using the effective interest method.

3. Financial risk management

Investment Policy

The Fund holds Loan Notes denominated in Australian 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 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 repay and are not replaced the percentage holdings in the portfolio will be distorted and will no longer satisfy the guidelines.

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

3. Financial risk management (continued)

(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 Fund'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 Consolidated Entity's profit and loss for the year ended 30 June 2011. This would not be materially different to the impact on the Parent Entity's profit and loss given the underlying investments are the same. 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%
	AU$		AU$	
Investment in loan notes	3,963,436	(3,963,436)	8,386,881	(8,386,881)

(ii) Foreign exchange risk

The Consolidated Entity is exposed to foreign exchange risk as a result of investments in financial instruments 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 Fund 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 Consolidated Entity does not itself directly enter into any foreign currency contracts.

The table on the following page shows the Consolidated Entity's exposure to the United States dollar which is not materially different to the Parent Entity's exposure given the underlying investments are the same. The table has been prepared based on a look through basis to the underlying Portfolio. The Consolidated Entity has an exposure to 28.1% (2010: 28.1%) of the Portfolio with 10.8% (2010: 10.8%) held by Macquarie New Zealand Fortress Notes Trust and remaining 61.1% (2010: 61.1%) held by Macquarie Fortress Australia Notes Trust.

As disclosed in the interim investment update on 8 April 2008, the Portfolio includes USD:AUD foreign currency forward contracts entered into by the Portfolio Manager for the benefit of the Consolidated Entity and Macquarie Fortress Australia Notes Trust as well as 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).

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)

	30 June 2011 AU$	30 June 2010 AU$
Cash and cash equivalents	47,197,418	39,463,122
Senior Loan portfolio	141,148,015	298,678,083
Other assets	304,759	1,624,744
Total financial assets	188,650,192	339,765,949
Accrued expenses	434,844	151,290
Borrowings	107,732,464	260,423,445
Total financial liabilities	108,167,308	260,574,735
Net assets attributed to subordinated notes (excluding the value of foreign currency forward contracts)	80,482,884	79,191,214
Fund's exposure %	28.1%	28.1%
Fund's exposure to USD in Portfolio	22,599,594	22,236,893
Foreign currency forward contracts – notional amount (sell USD)	(32,776,592)[1]	(40,080,288)[1]
Net Foreign Currency Exposure	(10,176,998)	(17,843,395)

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

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. This is not materially different to the Parent Entity's exposure given the underlying investments are the same.

	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$		AU$	
AUD-USD Exchange rate	83,980	(102,642)	688,721	(761,218)

(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.

[1] Excludes foreign currency forward contacts taken out by the Portfolio Manager for the benefit of the Macquarie Fortress Australia Notes Trust. The Trust does not have any direct entitlement to this foreign currency contract (though any negative market value on the contract could impact the amount ultimately realised by the Trust on its investment in Loan Notes).

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)

As a result of the refinance that occurred in April 2008, all cash flows from the Portfolio must be used to meet interest payments, expenses and reduce the principal on outstanding debt. As announced in the investor update on 25 August 2011, the portfolio of senior secured loans to which unitholders of Macquarie Fortress Fund 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 unitholders as a return of capital at which point the units will be redeemed.

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. This would not be materially different to the impact on the Parent Entity's profit and loss given the underlying investments are the same. 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 Consolidated Entity on the Loan Notes.

	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$		AU$	
Change in interest cash flows for the financial year	58,887	(58,887)	165,904	(165,904)

(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. Credit risk for the Consolidated Entity primarily arises indirectly from the Senior Loans, to which the Fund has an indirect exposure through its holding of the Loan Notes.

The Consolidated Entity'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 on the following page. The table has been prepared on a look through basis to the underlying Portfolio. The Consolidated Entity has an exposure to 28.1% (2010: 28.1%) of the Portfolio with 10.8% (2010: 10.8%) held by Macquarie New Zealand Fortress Notes Trust and the remaining 61.1% (2010: 61.1%) held by Macquarie Fortress Australia Notes Trust.

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

	2011 AU$	%	2010 AU$	%
BBB	2,480,939	1.8%	-	-
BBB-	8,528,219	6.0%	-	-
BB+	517,117	0.4%	14,971,460	5.0%
BB	20,143,490	14.3%	11,544,413	3.9%
BB-	26,661,646	18.9%	38,988,647	13.1%
B+	47,582,650	33.7%	104,789,924	35.1%
B	19,119,949	13.5%	69,758,517	23.4%
B-	12,682,304	9.0%	57,789,945	19.3%
CCC+	2,049,583	1.4%	359,631	0.1%
CCC-	17,084	0.0%	-	-
C	1,365,034	1.0%	-	-
D	-	-	475,546	0.1%
Total	141,148,015	100.0%	298,678,083	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.

Consistent with prior year, all of the Senior Loans represent credit exposures to borrowers in the United States and, therefore, the Fund 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 on the next page. The table has been prepared based on a look through basis to the underlying Portfolio. The Consolidated Entity has an exposure to 28.1% (2010: 28.1%) of the Portfolio with 10.8% (2010: 10.8%) held by Macquarie New Zealand Fortress Notes Trust and the remaining 61.1% (2010: 61.1%) held by Macquarie Fortress Australia Notes Trust.

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

3. Financial risk management (continued)

(b) Credit risk (continued)

Industry concentration

	2011		2010	
	AU$	%	AU$	%
Aerospace & defence	7,704,784	5.5%	19,096,962	6.4%
Business equipment & services	-	-	32,528,973	10.9%
Chemical/plastics	17,559,135	12.4%	28,440,200	9.5%
Financial intermediaries	13,228,114	9.4%	4,565,534	1.5%
Healthcare	15,304,380	10.8%	28,401,384	9.5%
Lodging and casinos	-	-	21,367,851	7.2%
Oil & gas	2,378,711	1.7%	7,294,918	2.4%
Publishing	-	-	9,385,397	3.1%
Radio & Television	-	-	9,457,450	3.2%
Utilities	11,391,668	8.1%	26,771,177	9.0%
Other	73,581,223	52.1%	111,368,237	37.3%
Total	141,148,015	100.0%	298,678,083	100.0%

At 30 June 2011, no Senior Loan is considered to be in default (2010: 0.318% with combined face value of $909,481). There were no 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.

Notes to the Consolidated 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 Consolidated Entity will experience difficulty in either realising assets or otherwise raising sufficient funds to satisfy commitments associated with financial instruments. The Fund generates cash from interest cash flows received on the Loan Notes and from redemption of Loan Notes, where required.

The 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 the 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 Responsible Entity has communicated to unitholders that there will be no payments on the units issued by the Fund until the current financing within the Portfolio has been fully repaid.

As announced in the investor update on 25 August 2011, the portfolio of senior secured loans to which unitholders of Macquarie Fortress Fund 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 unitholders as a return of capital at which point the units will be redeemed. Macquarie Financial Products Management Limited (MFPML, as responsible entity for the Macquarie Fortress Fund) estimates that the cash distributed will be near the net asset value as disclosed in the announcement made on 25 August 2011.

The table below analyses the Consolidated Entity's and Parent Entity'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 Fund's financial liabilities have been allocated into the relevant maturity based on the announcement made subsequent to year-end.

As at 30 June 2011	Consolidated Entity			
	< 6 months	6-12 months	1 year and above	Total
	AU$	AU$	AU$	AU$
Responsible Entity fees payable	33,151	-	-	33,151
Professional fees payable	104,513	-	-	104,513
Other liabilities	67,847	-	-	67,847
Net assets attributable to unitholders	30,373,928	-	-	30,373,928
Total financial liabilities	30,579,439	-	-	30,579,439

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 2010	Consolidated Entity			
	< 6 months	6-12 months	1 year and above	Total
	AU$	AU$	AU$	AU$
Responsible Entity fees payable	79,041	-	-	79,041
Professional fees payable	121,413	-	-	121,413
Other liabilities	44,614	-	-	44,614
Net assets attributable to unitholders	-	-	22,843,615	22,843,615
Total financial liabilities	245,068	-	22,843,615	23,088,683

As at 30 June 2011	Parent Entity			
	< 6 months	6-12 months	1 year and above	Total
	AU$	AU$	AU$	AU$
Responsible Entity fee payable	33,151	-	-	33,151
Professional fees payable	104,513	-	-	104,513
Payable to related entity	677,650	-	-	677,650
Other liabilities	66,093	-	-	66,093
Net assets attributable to unitholders	30,373,928	-	-	30,373,928
Total financial liabilities	31,255,335	-	-	31,255,335

As at 30 June 2010	Parent Entity			
	< 6 months	6-12 months	1 year and above	Total
	AU$	AU$	AU$	AU$
Responsible Entity fee payable	79,041	-	-	79,041
Professional fees payable	121,413	-	-	121,413
Payable to related entity	-	-	585,287	585,287
Other liabilities	42,084	-	-	42,084
Net assets attributable to unitholders	-	-	22,843,615	22,843,615
Total financial liabilities	242,538	-	23,428,902	23,671,440

3. Financial risk management (continued)

(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.

Financial assets and liabilities held 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 held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the consolidated statement of comprehensive income.

Fair value in an inactive or unquoted market

The primary investment of the Fund is Loan Notes issued by the Fortress Portfolio Trust ("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. A summary of the significant accounting policies applied by the Portfolio Manager to the Portfolio, which impacts the valuation of the Loans 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 the 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 consolidated 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 price 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 consolidated 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.

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

AASB 7 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).

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 Fund's allocation of the fair value assets based on its exposure (28.1%) 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:AUD foreign currency forwards contracts entered into by the Portfolio Manager for the benefit of the Fund.

	As at	
	30 June 2011	30 June 2010
	Level 2 AU$	Level 2 AU$
Financial assets designated at fair value through profit & loss		
US Senior Loan Notes	141,148,015	298,678,083
Fund's exposure %	28.1%	28.1%
Fund's exposure in portfolio	39,634,363	83,868,805
Foreign currency forward contracts	6,726,344	(660,053)
Total financial assets designated at fair value through profit & loss	46,360,707	83,208,752

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

This exposure is classified as financial assets held at fair value through profit or loss of $29,360,947 (2010: $21,576,840) at Consolidated Entity level, which is after reducing gross assets by $16,999,760 mainly due to borrowings classified at amortised cost. This exposure in relation to the US Senior Loan Notes is the same for both the Consolidated Entity and the Fund.

The Fund uses a valuation model which values the underlying Portfolio adjusted for the Fund'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 asses in the Fund are classified as Level 2.

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

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

4. Auditors remuneration

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

	Consolidated Entity		Parent Entity	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
Amounts received or due and receivable by Ernst & Young for:	$	$	$	$
- an audit and review of the financial report of the Fund	7,940	11,710	7,940	11,710
- other services in relation to the Fund: audit of compliance plan	310	290	310	290
	8,250	12,000	8,250	12,000
Amounts received or due and receivable by PricewaterhouseCoopers Australian firm for				
- other services in relation to the Fund: tax	8,000	8,000	8,000	8,000
	8,000	8,000	8,000	8,000

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

Net gains recognised in relation to financial instruments held 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
	$	$	$	$
Net gains on financial instruments at fair value through profit or loss	13,455,447	13,062,795	-	-
Net gains on financial instruments at fair value through profit or loss	13,455,447	13,062,795	-	-

6. Net assets attributable to unitholders

As stipulated within the Fund Constitution, each unit represents a right to an individual share of the Fund and does not extend to a right to the underlying assets of the Fund and Consolidated Entity. Ordinary units were issued on 9 June 2004 and Class A units were issued on 30 October 2004. These units each have the same rights attaching to them as all other units of the Fund. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

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

	As at Parent Entity			
	30 June 2011 Units on issue No.	30 June 2010 Units on issue No.	30 June 2011 Net assets attributable $	30 June 2010 Net assets attributable $
Opening balance	60,213,413	60,213,413	22,843,615	9,185,418
Units issued	-	-	-	-
Units redeemed	-	-	-	-
Increase in net assets attributable to unitholders	-	-	7,530,313	13,658,197
Closing balance	60,213,413	60,213,413	30,373,928	22,843,615

Capital risk management

The Fund manages its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The Fund monitors the level of net assets attributable to unitholders on a regular basis to ensure it has sufficient capital. The unaudited net asset valuation is published on a monthly basis.

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

7. Distributions to unitholders

	Year ended			
	30 June 2011 cents/unit	30 June 2010 cents/unit	30 June 2011 $	30 June 2010 $
Distributions paid	-	-	-	-
Total distribution 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 loan portfolio. Refer to Note 3(a) for assessment of interest rate risk.

8. Cash and cash equivalents

	As at			
	Consolidated Entity		Parent Entity	
	30 June 2011 $	30 June 2010 $	30 June 2011 $	30 June 2010 $
Cash at bank – Services account	477,804	478,876	477,804	478,876
Cash at bank – Custodian account	728,593	1,020,152	-	-
	1,206,397	1,499,028	477,804	478,876

9. Financial assets at fair value through profit or loss

	As at			
	Consolidated Entity		Parent Entity	
	30 June 2011 $	30 June 2010 $	30 June 2011 $	30 June 2010 $
Designated at fair value through profit or loss				
Investment in Loan Notes				
At cost	57,624,229	57,624,229	-	-
Unrealised loss	(28,263,282)	(36,047,389)	-	-
	29,360,947	21,576,840	-	-

As at 30 June 2011, the net asset value attributable to the Fund's unitholders was $0.50 (30 June 2010: $0.38).

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

10. Investment in subsidiary

	As at			
	Consolidated Entity		Parent Entity	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
	$	$	$	$
Investment in subsidiary at cost	-	-	59,991,640	59,991,640
Impairment of investment in subsidiary	-	-	(29,279,371)	(36,854,749)
	-	-	30,712,269	23,136,891

As a result of a reduction in value in the underlying Portfolio due to price volatility in the US credit markets, the carrying value of the investment in subsidiary has been written down to it is recoverable amount. The recoverable amount has been determined to be it is fair value, which has been assessed by the Responsible Entity 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.

11. Related party disclosures

(a) Responsible Entity

The Responsible Entity of the Macquarie Fortress Fund is Macquarie Financial Products Management Limited (a wholly owned subsidiary of Macquarie Group Limited).

(b) Details of Key Management Personnel

(I) Responsible Entity

The Directors of Macquarie Financial Products Management Limited, the Responsible Entity, are considered to be Key Management Personnel of the Fund. The Directors of the Responsible Entity in office during the year and up to the date of the report are:

Antony Clubb (appointed on 11/02/2011)
Simone Alison Mosse (resigned on 11/02/2011)
Jason King
Peter Bruce Lucas
William Dudley Fox

(ii) Other Key Management Personnel

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

(iii) Compensation of Key Management Personnel

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

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

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

11. Related party disclosures (continued)

(c) Interests in controlled entities

Macquarie Fortress Fund 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	Amount 2011 $	Amount 2010 $	Controlling interest 2011 %	Controlling interest 2010 %
Fortress Portfolio Trust	Cayman Islands	Loan notes	30,712,269	23,136,891	100	100

The proportion of controlling interest is equal to the proportion of voting power held.

(d) Unitholdings of Related party and Key Management Personnel

Parties related to the Consolidated Entity (including the Responsible Entity, its directors, its affiliates and other Trusts managed by the Responsible Entity), held units in the Fund as follows:

30 June 2011 Unitholders	No. of units held (Units)	Units held (%)	No. of units acquired (Units)	No. of units disposed (Units)	Distribution paid/payable by the Fund ($)
Directors					
Peter Lucas	242,656	0.40%	-	-	-
Macquarie Financial Products Management Limited	6,793,410	11.29%	-	-	-

30 June 2010 Unitholders	No. of units held (Units)	Interest held (%)	No. of units acquired (Units)	No. of units disposed (Units)	Distribution paid/payable by the Fund ($)
Directors					
Peter Lucas	242,656	0.40%	-	-	-
Macquarie Financial Products Management Limited	6,793,410	11.29%	-	-	-

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

11. Related party disclosures (continued)

(e) Related party transactions

(i) Related parties

All expenses in connection with the preparation of accounting records and the maintenance of the register have been fully borne by the Responsible Entity.

The Consolidated Entity has not made, guaranteed or secured, directly or indirectly, any loans to the Responsible Entity, its affiliates and other Trusts or Funds managed by the Responsible Entity 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 of the Responsible Entity or their personally related entities at any time during the financial year.

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

Apart from those details disclosed in this note, no Director 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 Constitution, the Responsible Entity received a total fee of $50,000 (exclusive of GST, net of RITC available to the Consolidated Entity) per annum (2010: $50,000).

The transactions during the year and amounts payable at year end between the Consolidated Entity and the Responsible Entity were as follows:

	Consolidated Entity		Parent Entity	
	30 June 2011 $	30 June 2010 $	30 June 2011 $	30 June 2010 $
Management fees for the year payable to the Responsible Entity	50,000	50,000	50,000	50,000
Administration expenses incurred by the Responsible Entity which are reimbursed in accordance with the Fund Constitution	26,478	21,250	26,478	21,250
Aggregate amounts payable to the Responsible Entity at the reporting date	83,540	105,452	83,540	105,452

The Portfolio Management fee amounted to AU$1,604,926 (2010: AU$1,609,771) of which $450,663 (2010: $452,024) is attributable to the Consolidated Entity.

As at 30 June 2011, the Fund had a payable balance with Fortress Portfolio Trust ("FPT") amounting to $677,650 (2010: $585,287).

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

12. Statement of cash flows reconciliation

	Year ended			
	Consolidated Entity		Parent Entity	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
	$	$	$	$
(a) Reconciliation of net profit to net cash (used in)/ provided by operating activities				
Net profit	7,530,313	13,658,197	7,530,313	13,658,197
Decrease on financial instruments at fair value through profit or loss	(7,784,107)	(13,412,350)	(7,575,378)	(13,765,471)
Decrease/(increase) in receivables	720	(10,990)	(9,589)	-
(Decrease)/increase in Responsible Entity fees payable	(45,890)	50,000	(45,890)	50,000
Increase in other liabilities	6,333	58,068	99,472	59,567
Net exchange rate differences	191,758	20,845	-	-
Net cash (used in)/provided by operating activities	(100,873)	363,770	(1,072)	2,293

(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).

13. Events after balance date

As announced in the investor update on 25 August 2011, the portfolio of senior secured loans to which unitholders of Macquarie Fortress Fund 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 unitholders as a return of capital at which point the units will be redeemed. Macquarie Financial Products Management Limited (MFPML, as responsible entity for the Macquarie Fortress Fund) estimates that the cash distributed will be near the net asset value as disclosed in the announcement made on 25 August 2011.

14. Commitments and contingencies

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

Directors' Declaration

30 June 2011

In accordance with a resolution of the Directors of Macquarie Financial Products Management Limited, I state that:

In the opinion of the Directors:

(a) The financial statements and notes set out on pages 6 to 35 are in accordance with the *Corporations Act 2001* including:

  (i) Giving a true and fair view of the financial position of the Consolidated Entity as at 30 June 2011 and of its performance for the financial year 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
14 September 2011

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Independent auditor's report to the unitholders of Macquarie Fortress Fund

We have audited the accompanying financial report of Macquarie Fortress Fund (the "fund"), 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 fund 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 Financial Products Management Limited, the responsible entity of the fund, 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 responsible entity'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 responsible entity a written Auditor's Independence Declaration, a copy of which is included with the directors' report.

Opinion

In our opinion:

a. the financial report of Macquarie Fortress Fund is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of Macquarie Fortress Fund and the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Ernst & Young

Ernst & Young

Darren Handley-Greaves
Partner
Sydney
14 September 2011