BlueSky
Alternative Thinking

Annual Report

For the year ended 30 June 2018

Blue Sky Alternative Investments Limited

ACN 136 866 236

Contents

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Chairman's Report

Dear Shareholders

The 2018 financial year has been an 'annus horribilis' for Blue Sky. Our financial result has been dreadful, our reputation has been materially diminished and market sentiment has collapsed. Notwithstanding this, we have maintained the confidence and support of our institutional investor clients and our team. The importance of this cannot be overstated, as it is our team and our investor clients who together with a restructured business model are the key foundations to turning around our financial performance, and over time our reputation.

As has been well documented, in March, Glaucus a US based activist, released an emotive report attacking Blue Sky. The report and the associated short selling campaign destroyed market confidence in Blue Sky. In the aftermath of this short attack, we have identified a number of areas to improve our business. They are explained in our Directors' Report.

We have long maintained that the four keys to our business are: investor returns; growth in fee earning assets under management ('FEAUM'); governance, risk and compliance; and our team. An important lesson from the last six months is that whilst three of these matters are absolutely key to our business, the growth in FEAUM is not of itself a key to our business. Rather, growth in FEAUM is simply a consequence of a great team consistently delivering strong risk adjusted returns to our investor clients. And if we deliver those returns to our investor clients, our team, our business and our shareholders will all prosper. Our deliberate move away from a focus on growing FEAUM will be seen in the changes to our business, including in the changes to our remuneration model explained in the Remuneration Report.

There has been an extraordinary amount written and said about Blue Sky in the last six months. Despite months of sustained criticism each of our institutional investor clients has continued to support us. Further, each of the senior members of our investment teams and executive have remained loyal to Blue Sky, despite the disruption we have experienced and despite most of them being repeatedly approached by opportunistic recruitment firms with offers of alternative employment. This is a testament to the quality and integrity of our team and our ability to invest well on behalf of our core constituents - our investor clients. I thank each of our team and each of our investor clients for their patience and support in these very trying times.

The ongoing support of our investor clients and our team is a validation of Blue Sky's underlying business by those who know it best, warts and all. We look forward to continuing to deliver for our investor clients, and in doing so building a stronger future for Blue Sky, our team and our shareholders.

John Kain
Chair

30 August 2018
Brisbane

Director's Report

The Directors present their report, together with the Financial Report of Blue Sky Alternative Investments Limited (the 'Company', 'parent entity' or 'Blue Sky') and the entities it controlled (the 'Group) for the financial year ended 30 June 2018 ('FY18').

DIRECTORS

At the date of this report the Directors of the Company are:

Non-executive Directors
John Kain, Chair

Independent Directors
Philip Hennessy

Executive Directors
Tim Wilson, Deputy Chair
Kim Morison, Interim Managing Director & Chief Executive Officer

The Directors have been in office since the start of the financial year to the date of this report.

The following Directors resigned during financial year ended 30 June 2018:

Robert Shand, Executive Director (Resigned 23 April 2018)
Elaine Stead, Executive Director (Resigned 23 April 2018)
Nicholas Dignam, Executive Director (Resigned 23 April 2018)
Alexander McNab, Executive Director (Resigned 7 May 2018)
Michael Gordon, Independent Director (Resigned 14 May 2018)

The Chair, John Kain, having served as a Director of Blue Sky group companies since 2007, is no longer deemed independent. To ensure that Blue Sky has an independent Chair, John Kain will step down as Chair once a replacement has been appointed. This is targeted to occur by the time of this year's Annual General Meeting ('AGM').

Executive Director Tim Wilson will retire from the Board as Independent Directors are identified and appointed in the coming months. Tim Wilson will continue in his executive role as Managing Director of Blue Sky's Private Equity business.

Executive Directors Elaine Stead and Nicholas Dignam stepped down from the Board in April 2018 to concentrate on their executive roles as head of Venture Capital and Growth Capital respectively.

Executive Directors Robert Shand, Managing Director and Alexander McNab, Chief Investment Officer resigned from their directorships and executive roles at the Company in April and May 2018 respectively.

Independent Director Michael Gordon resigned in May 2018 for health reasons.

Blue Sky announced in February 2018 that it intended to move to a majority of Independent Directors.

The process to recruit for these roles is well advanced and is anticipated to be completed by the time of the AGM which will be held before 30 November 2018. An executive search process has commenced for a Managing Director and is expected to be completed by the time of the AGM.

JOINT COMPANY SECRETARIES

Blue Sky's joint company secretaries are Jane Prior (maternity leave since 10 March 2018) and Leyya Taylor (appointed 22 February 2018).

PRINCIPAL ACTIVITIES

Blue Sky's principal activities are the management of funds and investments across four major alternative asset classes: Real Assets, Private Real Estate, Private Equity and Hedge Funds.

DIVIDENDS

The Directors resolved not to pay a dividend in relation to the 2018 financial year.

Dividends paid during previous financial years were as follows:

	30 June 2018 $'000	30 June 2017 $'000
Dividends paid during the year (fully franked)	15,719	10,783
Cents per share	23	16

OPERATING AND FINANCIAL REVIEW

Executive Summary

FY18 was a very disappointing year for Blue Sky.

As has been well documented, in March, Glaucus Research Group a US-based activist, released an emotive report targeting Blue Sky. The consequent loss of stakeholder confidence highlighted areas for improvement in the Blue Sky business and management structure. Those areas have been addressed and are explained in detail in this report.

This report explains:

- What Blue Sky has done following the loss of stakeholder confidence (Part A), Blue Sky's financial performance and financial position (Part B), Blue Sky's operations (Part C) and the future (Part D).
- Blue Sky's FY18 performance is a reflection of a loss of stakeholder confidence and a range of structural improvements we have made to our business in order to rebuild trust and confidence with all our stakeholders.
- Sustaining top-quartile investment performance, on a realised basis, remains paramount to Blue Sky's future success. This requires people with integrity devising compelling investment strategies, generating proprietary deal flow, seeking competitive entry valuations, acting as good partners with investee companies, exercising rigorous discipline and comprehensively managing risks throughout the life of an investment.
- Like any business, if we do the right things by our investor clients they in turn will be encouraged to continue to support our business. Ultimately, delivering sustained investment returns for our investor clients will deliver shareholder value.
- We remain encouraged by the ongoing support, commitment and patience of our institutional investors and joint venture partners while we navigate through this difficult period for the Company.
- In reshaping our business and making some tough decisions in FY18 we believe that we are establishing the best platform to deliver growth for our investor clients and shareholders over the medium and long term.

Directors' Report - continued

PART A: What Blue Sky has done following the loss of stakeholder confidence

Since April 2018 Blue Sky has undertaken a comprehensive review of every aspect of its investment business model and management structure. The review has identified nine areas of improvement to strengthen Blue Sky's ability to deliver sustained investment performance.

AREA	CHANGES	STATUS
Strategy	▪ Focus on managing alternative asset classes that are scalable, profitable, institutional grade, are within our risk tolerance and circle of competence, and where we offer a unique value proposition for investor clients (demonstrable competitive advantage).	Exit underway of: hedge funds, regional residential developments, property management rights and retirement living.
Fee earning assets under management ('FEAUM')	▪ Reduce focus on growing FEAUM by:	
	▪ Changing remuneration structure to remove incentives for FEAUM growth (see Remuneration Report).	Expected to be completed by AGM
	▪ Adjusting Blue Sky's cost base so that fixed operating costs are covered by annual management fees.	Expected to be completed by 31 December
	▪ Changing future fund structure to focus more on portfolio style (rather than single asset) funds and reduce reliance on one off transaction fees.	Underway
Governance	▪ Appoint additional directors with requisite independence and experience in investment and asset management.	Expected to be completed by AGM
	▪ Appoint an independent Chair of Blue Sky Private Equity Limited, the trustee entity.	Complete
Risk and compliance	▪ Appoint a dedicated Chief Risk Officer to replace the former role of the Chief Investment Officer.	Complete
	▪ Appoint a Group Investment Committee to ensure consistent investment discipline across the Group.	Expected to be completed by 30 September
	▪ Implement relevant recommendations from external review of risk, valuations and financial processes.	Report expected to be received by 30 September
	▪ Implement uniform institutional grade risk and compliance function. Where a business unit does not already meet institutional grade investment standards, enhance our risk, compliance and governance regimes to achieve that benchmark.	Underway
Remuneration	▪ Change remuneration structure to better align investment teams to investor client outcomes and remove alignment to FEAUM (see Remuneration Report).	Expected to be completed by 30 September
Group management	▪ Recruit new, appropriately qualified executives.	Expected to be completed by AGM
Balance sheet	▪ Increase rigour in deployment of balance sheet by restructuring the risk and compliance functions, with balance sheet allocation reserved to the Group Investment Committee under tight Board delegations.	Expected to be completed by 30 September

AREA	CHANGES	STATUS
Portfolio management	▪ Make hard decisions about underperforming assets early by:	
	▪ Giving Group Investment Committee greater oversight of portfolio performance.	Expected to be completed by 30 September
	▪ Changing the remuneration structure (see Remuneration Report) to better align investment teams to actively manage all assets, not just those performing well.	Expected to be completed by AGM
	▪ Creating Blue Sky Strategic Capital to support the Group Investment Committee on underperforming assets.	Completed
Communication	▪ Harmonise the content, timing, consistency, transparency, and coordination of communications with all stakeholders.	Expected to be completed by 31 December
	▪ Further market disclosures through:	
	▪ Detailed breakdown of FEAUM.	Completed and ongoing
	▪ Breakdown of one off transaction fees and recurring annual management fees.	Completed and ongoing
	▪ Breakdown of divisional profit and loss.	To be included in FY19 reporting

Directors' Report - continued

PART B: Blue Sky's financial performance and financial position

	Underlying Results[1]			Consolidated Group Results[2]		
	FY18	FY17	% change	FY18	FY17	% change
Revenue	$24.9m	$68.0m	(63%)	$30.1m	$69.1m	(56%)
EBITDA[3]	($98.2m)	$38.9m	(352%)	($74.5m)	$32.3m	(330%)
Net profit after tax[4]	($85.6m)	$25.5m	(436%)	($70.6m)	$20.6m	(443%)
Operating cash flow	($38.4m)	$19.5m	(297%)	($34.6m)	$8.4m	(512%)
Net tangible assets	$152.4m	$150.6m	1%	$151.1m	$130.4m	16%

Financial Performance and Financial Position – Underlying Results

The deterioration in Blue Sky's FY18 financial performance is principally caused by six factors, each arising post the 1H results:

- *Revenue:* A reduction in previously anticipated Q4 revenue as new investment fund capital raisings were largely halted;
- *Disruption costs:* Unbudgeted one-off cash expenses relating to the disruption to our usual business operations including external legal advice, increased audit costs, accelerated valuation reviews, corporate advisory and corporate communications;
- *Restructure costs:* Unbudgeted one-off cash expenses relating to restructuring our business including staff redundancies, staff retention measures and closing certain investment strategies;
- *Changes to business strategy:* Both revenue (such as the reversal of some management fee income on partly completed projects) and expenses (such as the write down in goodwill) were impacted by decisions to:
  - restructure business divisions, such as:
    - closing the retail hedge fund business;
    - divesting the property management rights and retirement businesses; and
    - winding up, rather than completing the development of, residential projects, particularly those in regional Queensland; and
  - change the management of assets within business divisions, such as the termination or deferral of certain retirement living and purpose-built student accommodation ('PBSA') development projects announced on 12 June 2018 due to Council changes and compromises to project feasibility.
- *Operating performance impacts*: Revenue (such as the reversal of accrued performance fees and investment income) was impacted by the operating performance of certain assets deteriorating after the first half results, including:
  - reductions in occupancy levels at PBSA facilities; and
  - certain underperforming private equity investments.
- *Valuation impacts:* A reduction in revenue (such as through the reversal of accrued performance fees and investment income) arising from revisions to the carrying values of investments, including those where the operating performance of the asset deteriorated post first half results.

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[1] The Underlying Results are non-IFRS financial information and are prepared on the basis that all investments held by Blue Sky in funds that it manages are accounted for at Fair Value through Profit and Loss under AASB 139 Financial Instruments using the same approach as outlined in AASB 13 Fair Value Measurement.

This means that the Underlying Results exclude, for example, all of the revenues and expenses associated with entities that have been consolidated in the Consolidated Group Results. These revenues and expenses are attributable to the fund's unitholders (of which Blue Sky is one), but are not wholly attributable to Blue Sky. It also means that the Underlying Results include, for example, all of the management, performance and other fees that have been earned by Blue Sky from these entities, but which are required to be eliminated upon consolidation in the Consolidated Group Results. The Directors therefore believe the Underlying Results are more reflective of the economic reality for shareholders in Blue Sky.

The non-IFRS financial information has been subject to review by Blue Sky's auditor (Ernst & Young).

[2] The Consolidated Group Results reflect Blue Sky's Statutory Results. These results include the financial information of 37 Blue Sky funds or fund related entities that are required to be consolidated or equity accounted in accordance with AASB 10 Consolidated Financial Statements. For example, the Consolidated Group Results include all of the revenues and expenses from funds that are consolidated. These revenues and expenses are attributable to the fund's unitholders (of which Blue Sky is one) but are not wholly attributable to Blue Sky. The Consolidated Group Results also exclude the management, performance and other fees earned by Blue Sky from these entities as they are required to be eliminated upon consolidation under AASB 10.

[3] Earnings Before Interest, Taxes, Depreciation and Amortisation ('EBITDA').

[4] Excludes non-controlling interests where applicable.

Each of these matters arose after our first half results reported a NPAT of $16.1 million. Many of these matters had arisen by and were reflected in the 12 June 2018 announcement, which disclosed a number of these events with an unaudited negative NPAT impact of $59.4 million (pre-tax of $84.9 million).

The following provides greater explanation of these impacts.

Amid a lack of confidence amongst investor clients and other stakeholders, we elected to defer nearly all new sophisticated investment fund capital raises as announced in April 2018. Blue Sky has traditionally raised a large proportion of its investment fund capital in the last quarter of the financial year. Missing this capital raise period resulted in Blue Sky earning considerably less revenue than anticipated from new fund transaction and management fees for FY18.

FY18 NPAT was negatively impacted by significant abnormal restructure costs; unbudgeted increases in corporate and legal advice; non-cash impacts resulting from the independent review of carrying values for every investment fund; and, the termination or deferment of certain retirement living and Australian PBSA development projects.

Management fees of $23.1 million (FY17: $22.8 million) were generated but reduced to $13.6 million (FY17: $21.9 million) or a 38% decrease year-on-year. These reversals were largely due to decisions made in June to terminate certain property development projects. Similarly, transaction fees earned on new investment funds were 74% less at $4.1 million (FY17: $15.7 million) after reversals of $8.6 million which also largely represent fees returned for the property development projects noted above.

Our Real Assets and Private Equity businesses generated a combined $15.0 million in accrued performance fee revenue during FY18. However, due to a decline in occupancy levels recorded at the 31 March 2018 student census date, previously accrued performance fees relating to PBSA development projects were reduced by $12.2 million during the year. This resulted in a net increase in performance fee revenue of only $2.8 million in FY18.

Investment income was negative $19.8 million largely resulting from non-cash reductions in holding values for balance sheet investments in Blue Sky’s share of the PBSA operator (‘Atira’) and retirement living operations joint venture (‘Aura’). The value of both platform operating businesses was revised lower as a consequence of decisions announced on 12 June 2018 to terminate three retirement living projects and one PBSA project and defer two PBSA projects. The reduction in the Atira holding value was also impacted by the decline in occupancy levels recorded at the 31 March 2018 student census date.

Blue Sky's carrying value of its share of US joint ventures was reduced by $5.1 million.

In April 2018, Blue Sky commissioned independent valuation reviews of all carrying values across all of its 90+ underlying assets with the exception of the Water Fund, institutional water mandates and Hedge Funds (which are independently marked to market monthly), certain terminated property development projects and investments which were contracted for sale or recently acquired for institutional mandates.

The net impact on Blue Sky’s financial performance following the valuation review, was negative $8.3 million across 41 assets (of the total 88 assets reviewed). A material deterioration in the 2H FY18 operating performance in a number of these assets made a material contribution to this impact. These values have again been audited as part of the Company’s usual audit processes with their external auditor.

In addition and as part of the broader business review provisions of $27.7 million were made against loans to funds where Blue Sky had previously provided capital to those funds for either working capital or equity bridging purposes. These loans were made to support underlying fund investments going through challenging periods with the rationale that supporting those investments provided the best opportunity to achieve optimal fund returns for unitholders at eventual exit; and in turn optimise shareholder returns via performance fee revenues.

FY18 operating costs were abnormally inflated 113% to $98.2 million (FY17: $46.1 million) as a result of $31.5 million of provisions and impairments, $1.9 million in termination and redundancy costs, $4.7 million in short-term retention incentives for key investment staff and $2.5 million in external consultancies including corporate advisory, corporate legal advice and corporate communications.

External service provider expenses increased 175% to $7.4 million (FY17: $2.7 million) reflecting increased costs of independent valuation reviews, audits, external legal advice and due diligence advisory services.

The Company has moved to reduce fixed operating expenses to be in line with recurring management fee revenues. Further cost reductions are planned in the first half of FY19 to achieve this aim.

Blue Sky's balance sheet was considerably bolstered in March 2018 by approximately a $100 million placement of 8.7 million new shares at $11.50 per share. The funds raised were intended at the time to be used to provide additional capital for ongoing co-investment alongside institutional investors in funds and mandates managed by Blue Sky and to provide balance sheet support for new Blue Sky funds, investment platforms and/or joint ventures.

In the first half of FY18, Blue Sky secured an institutional investor real asset mandate which requires Blue Sky to co-invest capital as an alignment and retention measure as investment opportunities are identified and secured. Blue Sky also has co-investment requirements in Australian PBSA investments. Blue Sky has made - and intends to continue to make - these co-investments where there is a strong economic and/or strategic rationale to deploy our balance sheet in this manner. Our capacity to continue to co-invest will be improved as cash is recycled from Balance Sheet receivables over the course of FY19 and beyond.

Blue Sky's underlying cash position at 30 June 2018 was $40.0 million with no corporate debt.

Net tangible assets at 30 June 2018 were $152.4 million, representing $1.97 per share (30 June 2017: $2.22 per share).

Financial Performance and Financial Position – Statutory Results

Blue Sky invests in a range of funds and fund related entities that we manage, primarily as alignment capital where we have invested alongside institutional and other investor clients. Given that Blue Sky both (i) holds an economic interest in these funds and (ii) as the investment manager of these funds, exerts a degree of control over these funds, we are required under the accounting standards to either consolidate or account for these funds using the equity method (depending on the degree of control) rather than accounting for them at fair value.

This approach is required under the AASB 10 Consolidated Financial Statements accounting standard ('AASB 10'). In accordance with AASB 10, seven entities are consolidated into the Group's FY18 statutory Financial Report and a further 30 funds and fund related entities are accounted for using the equity method in accordance with AASB 128.

The impact of this accounting treatment includes:

- In the Group's statutory financial results, management, performance and other fees that are earned by Blue Sky are eliminated upon consolidation. As such, the management, performance and other fees that Blue Sky earns from these funds are not included in the consolidated results of the Group;
- For those entities that are consolidated, the assets and liabilities of those entities - that are held by each fund on behalf of investor clients in those funds - appear on the Group's consolidated statement of financial position. Further, the value of the units that Blue Sky holds in those entities is eliminated upon consolidation and therefore is not included in the consolidated results of the Group; and
- For funds and funds related entities that are accounted for using the equity method, a share of the profit or loss - rather than the fair value of the units held by Blue Sky in those funds - appears in the consolidated results of the Group.

Given that AASB 10 has these impacts on Blue Sky's statutory results, the business is managed on a day-to-day basis using exactly the same approach that is presented in our underlying results. In our underlying results, all balance sheet investments in funds that we manage are reported at Fair Value through Profit or Loss under AASB 139 Financial Instruments using the same principles of fair value that are included in AASB 13 Fair Value Measurement. This is the only difference between our underlying and statutory results. This approach reflects the approach used by a range of large global alternative asset managers that have investments in their underlying funds (and as such are impacted by IFRS 10, the global equivalent of the AASB 10 accounting standard).

Blue Sky's underlying results are non-IFRS financial information and have been subject to review by Blue Sky's auditor (Ernst & Young).

In relation to the Group's statutory results, in FY18 the Group reported a 66% decline in revenue to $28.7 million and an 427% decrease in net profit after tax to ($67.6) million. While this movement is directionally the same as Blue Sky's underlying results, as noted previously these statutory results exclude items such as the management, performance and other fees that are earned by Blue Sky from funds that are eliminated upon consolidation as required under AASB 10. In addition, they include the revenue and expenses from funds that Blue Sky has invested in and is deemed to control. For example, the Group's statutory results included the revenue and expenses associated with management and letting rights and the operation of retirement villages. All of these revenue and expense items are attributable to the unitholders of funds managed by Blue Sky, rather than Blue Sky itself.

The Group's statutory net tangible assets ('NTA') at 30 June 2018 were $151.1 million, up from $130.4 million at 30 June 2017. These statutory results exclude the value of investments that Blue Sky has made in funds that it manages and which it is deemed to control as the value of these investments is eliminated upon consolidation in accordance with AASB 10. The Group's consolidated statement of financial position also includes the assets and liabilities of those funds and entities that have been consolidated in accordance with AASB 10. For example, the Group's Consolidated Statement of Financial Position includes $112.7 million worth of 'Investment Property - Retirement Villages' that is owned by Aura funded by a range of funds managed by Blue Sky.

Comparative tables that reconcile Blue Sky's statutory results with Blue Sky's underlying results have been provided (starting at page 124).

FEAUM

Blue Sky's FEAUM at 30 June 2018 was $3.4 billion (30 June 2017: $3.25 billion).

FEAUM ended the year lower than its peak in March 2018 at $4.1 billion due to a reduction of $686.5 million of gross realisable value of property developments following decisions not to proceed with the development of three retirement living projects and one PBSA project. Two other PBSA projects were deferred and therefore were no longer considered fee earning at 30 June 2018.

The proportion of Blue Sky's FEAUM from institutional investors increased to 42% (30 June 2017: 38%) as we deployed new and existing mandates across multiple asset classes. The ongoing growth in FEAUM from institutional investors reflects the quality of our team, our track record and the platform we have built.

Blue Sky's sophisticated investor base represents 51% of its FEAUM (30 June 2017: 55%) and includes family offices and high net worth individuals. The Company will continue to cater to its sophisticated investor base as these investors look to allocate more of their portfolios to investments in private markets.

AUM refers to the assets of the investment funds, joint ventures, and investment management mandates to which Blue Sky provides investment management services. FEAUM refers to the AUM on which Blue Sky earns management fees, or other investment related fees pursuant to investment management agreements or other fee agreements. It includes any fee earning capital commitments that those funds, joint ventures, and mandates have the right to call from investors.

In relation to private real estate development projects including retirement living, PBSA and residential developments, Blue Sky is a property development manager. It is not a manager of pre-built stabilised assets (other than for PBSA facilities once we have finished developing them). Blue Sky levies development management fees in line with industry standard rates, which are typically levied based on the total cost of development. For example, a $100 million development project that is funded 50% equity, and 50% debt (in which debt will be progressively drawn over the construction period of say two years but agreed and locked in up-front) may incur a development management fee of 4% of the total development cost. Based on the equity tranche itself, that would represent an 8% fee on the equity raised for the project. As that construction project may take two years to complete the 8% fee is not an annual fee. It is spread across two years of development management, including project design, equity and debt raising, contract management, sales, settlement and disbursement. Blue Sky's investment offer documents provide full fee disclosures for such projects.

Valuation

Blue Sky's valuation policy applies a market standard approach for private asset managers such as the approach recommended by the Australian Private Equity and Venture Capital Association Limited ('AVCAL') such that:

- The value of any closed-end Fund or assets that are material to Blue Sky's performance (that is accruing performance fees or generates investment income) must be independently (externally) reviewed.
- Valuation methodology and all key valuation inputs (e.g. discount rates, earnings multiples) are reviewed by independent experts.
- The Water Fund is open-ended and independently valued every month by reference to traded market values.
- Hedge Funds are marked-to-market monthly by reference to publicly traded market values of underlying positions in futures, foreign exchange, derivatives, stock indices.
- The valuations of our investments are reviewed every reporting period by Ernst & Young in their capacity as Blue Sky's auditor.
- Valuations are reviewed by the Audit Committee (majority Non-executive Directors); the Board of Blue Sky; and for the funds that the Blue Sky Alternatives Access Fund (ASX: BAF or the 'Alternatives Fund') held investments in, the Audit and Risk Committee of the Alternatives Fund (majority Independent Directors) and the Board of the Alternatives Fund.

Like any other investment asset, the value of private market investments managed by Blue Sky are subject to a range of market conditions similar to any publicly traded asset. While some Blue Sky managed fund investments may pay distributions through their life-cycle, total investor returns from any private market investment are only ever realised at an exit and on winding up of the investment fund. Unrealised investments are subject to changes in valuation through the term of the investment fund.

Performance fees

Performance fees are the portion of the gains of underlying investment funds and investment management mandates that Blue Sky is entitled to retain (also known as carried interest).

Within Blue Sky investment funds and mandates, performance fees are generally structured as a proportion of the gains of the fund or investment portfolio (e.g. 15% or 20%) over and above a specified annualised hurdle rate after allowing for management fees and other direct expenses.

Performance fee hurdle rates and participation percentages are clearly defined in each investment management agreement or offer document. Hurdle rates may be fixed (e.g. 8% per annum net of transaction fees, management fees and other costs) or determined by reference to an observable benchmark (e.g. Australian CPI plus 5%) and may be subject to a 'high water mark' for open-ended funds, where the previous peak in value at which a performance fee was paid has to be exceeded before a subsequent performance event may be triggered.

As required under AASB 118, the revenue recognition accounting standard that applied to FY18 and previous years, Blue Sky accrued performance fees (up or down) as the value of assets it managed moved up or down. Therefore, the upward revaluation of assets gave rise to an accrual of non-cash performance fees. It did not give rise to payment of performance fees (with the exception of the open-ended funds, being the Water Fund, Alternatives Fund and Hedge Funds, and other similar mandates). A subsequent downward revaluation of assets resulted in a reversal of previously accrued of non-cash performance fees.

At each balance date, Blue Sky determines if a fund or underlying investment is eligible to generate performance fees based on its returns net of expenses being above the hurdle rate. A fund that is determined to be eligible will generate an accrued performance fee, which is non-cash in nature, but reflects the amount Blue Sky would be eligible to receive upon a hypothetical realisation of the fund at fair value at that balance date.

Similar to other alternative investment management companies, Blue Sky recognises the total accrued performance fees that all unrealised funds and mandates would generate if they were sold and exited at fair value at each balance date.

In accruing for performance fees in this manner, the value of each unrealised fund and mandate at a point in time (given by the net asset value) will reflect fair value for investors after allowing for fees payable to the investment manager.

Blue Sky and its investment management teams are not paid cash based on accrued future performance fees.

With the exception of the open-ended Funds (Water Fund, Alternatives Fund and Hedge Funds) and other similar mandates, Blue Sky and its investment management teams are only paid cash performance fees based on outperformance of realised investments above certain hurdle rates of return when proceeds are distributed to investors. When the performance fees are paid Blue Sky reduces its accrued performance fees by the amount paid.

From 1 July 2018 a new revenue recognition accounting standard will apply to the Company (AASB 15) and it removes the previous requirement for Blue Sky to accrue unrealised performance fees. Rather, performance fees must now be accrued when they are certain to be paid, effectively converting the accounting of performance fees from accrual to cash accounting. This change to accounting standards, and the consequent impact on Blue Sky's reporting, removes a significant area of subjectivity, being the assessment of the value of assets (and therefore the value of possible future performance fees) at a point in time.

Investment performance

At 30 June 2018 Blue Sky had achieved an equity weighted return of 13.9%[5] per annum net of fees (30 June 2017: 15.9%) across its entire portfolio of investments, realised and unrealised since inception.

In the past five years Blue Sky has exited 35 fund investments, of which 28 have been realised at or above the carrying value prior to exit. In addition, twelve funds paid investors a cash yield during FY18.

Most of our underlying funds are closed-ended investment trusts which do not offer redemption rights. As explained above, Blue Sky's investment performance will ultimately be judged by its exits.

Historically, Blue Sky has reported its investment performance by division on an equity weighted basis since inception. Our portfolio now represents 88 separate underlying assets.

The decline in this measure of Blue Sky's collective investment performance was largely a result of:

- downward revisions to carrying values of various PBSA funds reflecting weaker-than-expected PBSA occupancy rates in the first years of newly opened facilities in Brisbane and Adelaide;
- decision to either delay the commencement of construction of several residential developments which resulted in asset valuations based on a land valuation approach rather than "as if complete" approach, or to wind up the project rather than fully develop the project;
- the 2H FY18 deterioration in operating performance of a number of Private Equity investments;
- a significant amount of capital invested in Private Equity investments in FY18 that was not yet contributing to returns.

[5] Past performance is not a reliable indicator of future performance.

PART C: Blue Sky's Operations

Divisional Review

Blue Sky's Private Equity, Private Real Estate and Real Assets businesses are focused on making long term investments in private markets. Typically, the investment opportunities the Company executes are proprietary and mostly reflect its overarching investment thematic of 'the essentials' - that is, investing in things that people need rather than things that people want. This has led Blue Sky to invest into sectors such as food and water, education, affordable housing, healthcare and technology. The Company maintains its conviction in these more defensive sectors and the structural drivers that underpin their growth.

Real Assets

Blue Sky's Real Assets business remains focused on investing in several portfolios of water entitlements as well as providing growth capital for opportunities in agriculture across a range of sectors.

The lead series of the Blue Sky Water Fund has delivered an ungeared return of 17.79% per annum since inception (net of fees, gross of tax)[5,6]. The Water Fund generated a 27.57% annual return during FY18 (net of fees, gross of tax) (FY17 annual return: 3.06%)[5]. Growth in water prices across the Murray-Darling basin was exceptionally strong during FY18, driven by increasing demand from a broad range of market participants seeking security of water supplies for permanent crop plantings amidst progressively lower-than-average rainfall throughout FY18. Given the ongoing development of higher value, often permanent, irrigated agriculture across the Basin, and the increased demand for water expected to emanate from those developments, we retain our view that despite the recent escalation in asset prices, the value of water entitlements (the right to receive in perpetuity the annual allocations of a specific share of irrigation water available from a specific river or aquifer system) will continue to move higher over the long term.

The Water Fund was temporarily closed to new subscriptions in November 2017 as Real Assets secured several new institutional clients who agreed to progressively deploy capital in the Water Fund. Those investors agreed that Blue Sky would progressively call those capital commitments as required over a defined period in order to progressively invest in the Water Fund as opportunities presented and to prevent a cash drag impacting the Water Fund's existing investors.

Following the short-seller campaign commencing in March 2018, and certain investment adviser market rating changes following those reports, redemptions increased to an aggregate 14% of the Water Fund's deployed capital between March and June 2018. The redemptions were readily funded from the Water Fund's cash reserves and a progressive draw-down of capital commitments previously secured from institutional investors.

During FY18, the Real Assets business was awarded substantial mandates to deploy in Australian water entitlements and high value agricultural investments on behalf of domestic and offshore institutional investors. This reflects the depth of sector experience of the team, its well-developed strategies, and its investment track record to date.

For FY18, the Real Assets division earned performance fees of $11.6 million predominantly from the Water Fund and a corresponding institutional water investment mandate. The Water Fund performance fees will be received in FY19. The performance fees for the institutional mandate are realised and will be progressively paid in FY19 and part in future years under an applied retention mechanism.

Private Equity

In FY18 Blue Sky's Australian Private Equity business had a net increase in FEAUM of $66 million. Capital was deployed across six new investments (two in Growth Capital, and four in Venture Capital), plus five follow-on investments. In addition, the team realised one investment but are preparing to exit six investments in FY19 (including several investments that have been in the portfolio for more than five years).

The Growth Capital team completed its largest investment to date into Birch & Waite, a leading manufacturer of premium sauces and condiments. The Growth Capital team also completed an investment into Digital Lifecycle Group ('DLG'), a leading IT consulting business pursuing a buy and build strategy, following the success of the team's investment in Readify (which was sold to Telstra in 2016). The team completed the exit of its investment in Foundation Early Learning, its buy and build

5 Past performance is not a reliable indicator of future performance.
6 The Blue Sky Water Fund is ungeared. Inception date is 1 August 2012.

investment into the childcare sector. Whilst the return of this investment was below our original expectations (expecting to deliver a small profit following an earn out payment), the business outperformed the broader sector which has been suffering from significant oversupply. The Growth Capital team has also been progressing the exit of early investments, two of which were completed in July 2018 including Lenard's to its management team. Three of the four remaining early investments are expected to be finalised over the coming months.

The Venture Capital team had an active year, with new investments into South East Asian opportunities in ShopBack and Akulaku. The team also completed the first two investments on behalf of the South Australian Government as part of the SAVCF mandate, investing in Myriota and Kid Sense. Further, the Venture Capital team won its second AVCAL award for Best Early Stage Deal for its investment and exit from its Pet Circle investment in the prior year. Shoes of Prey ceased trading post 30 June and it is likely to be a disappointing outcome for investors.

The quality and quantity of the Private Equity business's deal flow remains robust with a strong pipeline of opportunities across Australia, New Zealand and Asia.

Private Real Estate

Blue Sky's Private Real Estate business continued to focus on the delivery and execution of its national student accommodation platform and retirement villages platform in FY18.

The Australian and New Zealand PBSA sector continued to structurally mature with the new wave of off campus facilities attracting attention globally from institutional investors. This demand is driven by ongoing year-on-year growth in enrolment from overseas students that traditionally occupy PBSA. As at May 2018 the number of international students in Australia rose to over 500,000, representing an 11% increase from 2017 (Australian Bureau of Statistics, International Student Data Monthly Summary, May 2018). Australia's penetration rates into this alternative asset class still sit below its global peers. Despite the current supply pipeline in key educational cities such as Sydney and Melbourne, we expect PBSA demand to exceed supply over the next three to five years.

However, in Brisbane previous Council incentives to encourage PBSA development resulted in a wave of new PBSA facilities opening at the same time, which has impacted operational performance in the short-term. Opening occupancy levels were lower than forecast as students were provided with an abundance of choice. To address this, Blue Sky's 50% owned operating platform Atira, was bolstered with arguably Australia's most experienced management team. Led by CEO Michael Heffernan, the collective experience of the management team in the sector in Australia and New Zealand is 46 years. Since their employment in January 2018 there have been significant performance increases across the operational portfolio. Second semester occupancy across Blue Sky's Brisbane PBSA facilities exceeded 80%.

Two Melbourne PBSA development assets are on track for completion in December 2019, however FY18 saw delays occur at two other pipeline projects (Melbourne and Perth) as well as termination of a proposed Sydney development. Blue Sky is seeking to secure at least one new development site in Sydney in FY19.

Throughout FY18, Blue Sky continued its development of several premium vertical retirement living facilities in south-east Queensland to be operated by its joint venture platform, Aura. The first multi staged development asset in the Brisbane suburb of Corinda was completed, construction commenced at Maroochydore, and development applications were lodged or approved at other proposed villages at Lutwyche, Bilinga and Toowoomba. Three other proposed development funds were wound up in this period, with capital and fees returned to fund investor clients due to changes in Council planning and feasibility assumptions. At the close of FY18, and following a review of its entire portfolio of investments, Blue Sky entered into discussions to sell its interests in all its current retirement living developments and its 50% share in the operator, Aura. Blue Sky adjudged this offer to be in the best interests of investor clients and shareholders. Settlement of the transaction is subject to Foreign Investment Review Board ('FIRB') approval and is anticipated to complete in Q1 FY19, with proceeds paid to fund investor clients at that time.

FY18 demonstrated ongoing pressure in the high density residential markets in Brisbane across sales absorption, revenues and availably of debt (both retail and wholesale). Blue Sky's remaining apartment development project funds in Brisbane were revalued in this period to capture an 'as is' land value, rather than on 'as if' completed basis.

Directors' Report - continued

US business

In FY18 the US team has focused on growing the US business around highly specialised teams seeking to build out scaled real asset platforms. Some activity and highlights include:

- Cove completing construction and commencing lease up on the 101 Greenwich project (formerly 2 Rector Street) and progressing construction significantly at Hudson Commons (formerly 441 Ninth Avenue);
- Student Quarters adding key senior hires, completing several transactions and focusing on optimisation of property management with a focus on driving cashflow; and
- US private equity investments in esVolta and Lord Hobo Brewery.

The US office also plays a role in sourcing and managing capital with institutional partners. It achieved significant momentum in raising capital for Real Assets and Student Quarters in North America during FY18.

Hedge Funds

Hedge fund returns were lower than the prior year, being by design negatively correlated to global equity markets which generally out-performed in FY18. Despite continued efforts to grow this division of its business since 2010, Blue Sky made the decision to progressively exit the Hedge Funds business. While the Hedge Funds business had success in raising and managing institutional capital from the US and Europe in FY18, domestically, it has failed to establish the required momentum to justify the resources needed to maintain a locally targeted business.

In June 2018 the decision was made to close the Alliance Fund, the domestic vehicle for the Dynamic Macro, Absolute and Real Return strategies and return capital to investors. On a cost-neutral basis to Blue Sky, the Dynamic Macro strategy presently continues to trade, managing mandates for its US and European investors.

The Alternatives Fund

Blue Sky's primary investment offering for retail investors is the Alternatives Fund, a listed investment company that provides investors with exposure to a diverse range of alternative assets in an ASX-listed structure.

The Alternatives Fund's entitlement offer in November 2017 was well supported by a broad range of financial planners nationally. In addition to its diversified portfolio of alternative investments the Alternatives Fund currently has a strong cash position and is undertaking an on-market share buyback program whilst its stock price trades at a discount to NTA.

Trustee Entity

Blue Sky Private Equity Limited, a wholly owned Blue Sky subsidiary, holds an Australian Financial Services License ('AFSL') number 314 177. It acts as trustee for many of Blue Sky's managed investments with a clear mandate to act in the best interests of unit-holders (investor clients) at all times. In May 2018 Andrew McNeil was appointed as Independent Chair of Blue Sky Private Equity Limited in order to support the governance of the trustee entity and its continued independence from the investment management business units.

Legal and Regulatory Matters

In certain circumstances, breaches of the terms of an AFSL must be self-reported to Australian Securities and Investment Commission ('ASIC'). As discussed above, in the last quarter of FY18, Blue Sky commissioned a review of all 88 underlying assets and all parts of its business. Through this review, Blue Sky identified three matters which constituted a reportable breach of its AFSL. Two of the matters have been rectified without loss to fund investors. The third is in the process of being rectified and Blue Sky anticipates it will cause no loss to fund investors. Each was self-reported to ASIC on time and to date ASIC has not indicated that any action will be taken.

Blue Sky also notes that it engaged with ASIC in early April 2018 in the wake of the publication of the short-seller report. Subsequently, and following further market disclosures, ASIC issued a notice to Blue Sky under section 33 of the Australian Securities and Investment Commission Act 2001 (Cth) for the purpose of ensuring compliance with section 674 of the Corporations Act 2001 (Cth) in the period 1 January 2016 to 12 June 2018. We continue to co-operate with ASIC in relation to the notice.

Blue Sky also notes that within a few days of the publication of the short-seller report in March 2018, and prior to Blue Sky responding via its ASX release, three legal firms had commenced advertising widely for class action participants. At the date of this report Blue Sky has received no communication from these firms and no claim has been served.

PART D: The future

FY18 in retrospect

Blue Sky has successfully developed leading alternative investment strategies which have historically been underserved by institutional capital. There remains substantial potential for growth within those core strategies. We have a successful investment track record developed over more than a decade for delivering investors good risk adjusted returns (both realised and unrealised) across all strategies.

Blue Sky has developed leading investment teams across each strategy and, critically, has maintained all of those investment teams, notwithstanding the events of recent months.

Blue Sky has been able to access capital from multiple sources, including institutional sources, family offices, sophisticated investors and onshore retail through the Alternatives Fund.

From the beginning, Blue Sky has built its business by focusing on sophisticated investors. Over the years this network of high net worth individuals and family offices has provided Blue Sky with an ability to source private equity, private real estate and real assets deals through proprietary channels. We believe 50% of investment performance is a function of being able to buy well. Proprietary deal flow, originated through our network of private stakeholders, is a source of our competitive advantage.

The Path Forward: What is most important to Blue Sky?

Trust in good people; that is what is most important to Blue Sky. The quality and integrity of its team; the relationships they hold; the trust they build; and the risk-adjusted investment performance they generate and realise for investor clients are our most important drivers of shareholder value.

Blue Sky and our people are committed to operate with integrity and being good custodians of other people's wealth; to managing those risks that are in our control and mitigating or avoiding those which are outside our control; to keeping our investor clients well informed through the life of their closed-end investment. By doing this we will attract more capital under management and build a world-class investment management business.

Given that it is now relatively easy for investors to invest anywhere in the world, and people are ultimately portable, it is critical that we build and retain a world class investment management team with appropriate reward structures and fulfilling investment management experiences. Despite the sustained negativity of the past quarter, we are confident that the people at Blue Sky will continue to deliver on investment outcomes for investor clients, and in turn deliver for our shareholders.

The Path Forward: Outlook

The recent comprehensive review of our business identified a number of improvements Blue Sky has made or intends to make to restructure Blue Sky to deliver top quartile investment performance for investor clients. By serving the interests of our investor clients, our team and our shareholders will also benefit.

The Company will focus on managing alternative asset classes that are scalable, profitable, institutional grade, are within our risk tolerance and circle of competence, and where we offer a unique value proposition for investor clients (demonstrable competitive advantage).

Blue Sky has reviewed its existing strategies against this criteria and determined to exit or otherwise divest the following divisions: hedge funds, regional residential developments, property management rights, current retirement living platform and associated projects.

The Company will continue to build out its Real Assets, Private Equity and Private Real Estate strategies in Australia and selectively, the USA.

Blue Sky will concentrate on delivering strong investment returns for existing mandates and funds (most of which are closed-ended) to continue to earn the right to grow our investment management business.

The Company will accelerate our focus on institutionalised capital sources, in turn preferring more portfolio style fund investments (eg Strategic Australian Agriculture Fund) to single asset fund investments.

Blue Sky's initial focus in Private Real Estate will remain in student accommodation (Australia and US). Blue Sky will continue to build out its joint venture operating platforms in US student accommodation and Australian and New Zealand student accommodation, supported by various institutional partners. We remain committed to the development and operation of PBSA facilities in Australia and New Zealand with our institutional partner. The Atira PBSA portfolio will, by the beginning of calendar year 2019, have over 3,500 operational beds.

Directors' Report - continued

Blue Sky's review of its business model and management structure, announced on 7 May 2018, is now largely complete. Blue Sky has commenced implementing the changes to:

- ensure each business unit is scalable, institutional grade and based upon deep expertise with a competitive advantage;
- reduce our fixed operating costs to be in line with recurring management fees; and
- evolve governance, valuation and compliance regimes and strengthen risk management frameworks.

Blue Sky's business restructure, being implemented progressively, will enshrine four core principles:

- alignment of the interests of investor clients, investment management team and Blue Sky shareholders;
- autonomy for our investment managers to control investment decision making, acting in the best interests of investor clients at all times;
- a uniform institutional-grade risk, compliance and investment governance framework consistent with the improvements identified in the review noted above; and
- clear segregation of Blue Sky Private Equity Limited as the trustee entity.

Historically, up-front transaction fees have made a material contribution to revenue. A move to institutional grade platforms and portfolio style funds, together with fixed cost reductions will allow fee structures to be re-weighted towards recurring management fees, reducing Blue Sky's reliance on upfront transaction fees. By 31 December 2018 Blue Sky will have reduced its fixed operating costs to be in line with recurring management fees on a run-rate basis.

As previously committed to shareholders, Blue Sky has also commissioned independent reviews of its risk, valuation and financial systems. These reports are expected to be completed by 30 September 2018 and any recommendations received and decisions made will be incorporated into the changes noted above.

These initiatives will drive behaviours consistent with Blue Sky's intention to deliver top quartile investment performance to investor clients - and by doing that, to advance the interests of Blue Sky's investor clients and its shareholders.

Significant changes in the state of affairs

Having regard to the reputational damage suffered by the Group (collectively and individually), and the need to quarantine the reputations of the individual investment management business units, Blue Sky will pursue a rebranding of its investment management business.

Matters subsequent to the end of the financial year

Retirement platform sale

Blue Sky announced on 24 August 2018 that it had signed a binding agreement with an offshore institutional investor to sell the wholesale funds' interests in the Company's six retirement living funds and its 50% interest in Aura, the operator of the retirement living business. The sale remains conditional on Foreign Investment Review Board ('FIRB') approval and third-party consents, with settlement expected by the end of September 2018. Blue Sky's 50% ownership in Aura is expected to be sold at a profit with the net cash inflow to Blue Sky following completion expected to be approximately $2.5 million, dependent on completion price adjustments.

Ongoing process with Oaktree Capital Management ('Oaktree')

Blue Sky has received a number of inbound enquiries to invest in various parts of the business. Having regard to recent events the Blue Sky board ran a formal process to identify a capital partner who would help stabilise and grow the Blue Sky business by:

- Investing capital in Blue Sky to fund further co-investment;
- Adding additional market leading expertise in asset management; and
- Assisting to attract additional investment capital into underlying funds and strategies.

Following a comprehensive assessment of all interested parties, Blue Sky selected Oaktree as its preferred capital partner and entered into exclusive negotiations in July this year. The key terms of the capital partnership with Oaktree contemplate:

- An investment in Blue Sky of approximately $60 million by a convertible note facility;
- Proceeds to fund co-investment and working capital requirements;
- Board representation;
- Conversion rights capped at 30% of issued share capital;
- Detailed terms remain confidential, noting that the Transaction remains subject to final approvals by all parties; and
- Aspects of the conversion rights will be subject to shareholder approval.

Likely developments and expected results of operations

Other than as described in this report the Group does not expect a change in the nature of its operations in the foreseeable future.

Environmental regulation

The Group is not subject to any particular or significant environmental regulation under Commonwealth, State or Territory legislation.

Information on current Directors

Name:	John Kain Chair Non-Executive Director
Qualifications:	John holds a Bachelor of Laws from the Adelaide University and was admitted to legal practice in South Australia in 1990. He was subsequently admitted to practice in England and Wales, and in New South Wales.
Experience and expertise:	John is a corporate lawyer with over 20 years of experience in corporate advisory, private equity and mergers and acquisitions. John is the Managing Director of Kain Lawyers, an innovative legal consulting company specialising in complex transactions, disputes and advice. John has also served on a number of boards, including as Chairman of Blue Sky Alternatives Access Fund Limited, Director of public charitable trusts, as Chair of a Commonwealth Government advisory panel and as Director of a number of private companies. He is also a Fellow of the Australian Institute of Company Directors.
Other current directorships of listed entities:	None
Former directorships of listed entities (in the last 3 years):	Blue Sky Alternatives Access Fund Limited (resigned 18 November 2016)
Interests in shares:	1,360,477 shares
Interests in options:	None

Name:	Timothy Wilson Deputy Chair Executive Director
Qualifications:	Tim holds a Bachelor of Commerce and a Bachelor of Laws from the University of Queensland, a Graduate Diploma of Applied Finance and Investment and a Master of Science in Finance from the London Business School. Tim has also undertaken the Private Equity and Venture Capital course at Harvard Business School, Boston, USA.
Experience and expertise:	Tim is the Head of the Company's private equity division. He is responsible for leading this team, sourcing and negotiating deals, advising portfolio companies on financing, entry and exit negotiation and building the Company's network. Tim has been involved in private equity since 1997 including with Blue Sky Private Equity, and previously through investment banking roles in London, Sydney and Brisbane. He began his career as a commercial lawyer in Brisbane with Minter Ellison before moving to London where he lived for seven years, working in investment banking roles with Paribas and Credit Suisse First Boston. Tim then returned to Australia and worked in finance roles with Babcock & Brown, Westpac Institutional Bank and Investec before joining Blue Sky in 2009 to run the private equity business.
Other current directorships of listed entities:	None
Former directorships of listed entities (in the last 3 years):	None
Interests in shares:	1,555,480 shares
Interests in options:	None

Name:	**Philip Hennessy** **Non-Executive Director (Independent)**
Qualifications:	Philip holds a Bachelor of Business (Accountancy) from the Queensland University of Technology. Philip is also a Fellow, Chartered Accountants Australia and New Zealand.
Experience and expertise:	Over the past 30 years, Philip has been involved in corporate insolvency and reorganisation across a variety of industries including construction, real estate, mining, manufacturing, professional services, hospitality, tourism, agriculture and financial services. He has served as a Chair and Director on a number of government owned corporations focussed on water storage, treatment and transport services to industrial and mining customers and for household use, and also involving the construction of pipelines, dams and other infrastructure. Philip has also been a Director of various not-for-profit organisations serving intellectually disabled women, children with chronic health issues, hospitals and education. Philip is currently an independent company director and adviser to public, private and not for profit organisations.
Other current directorships of listed entities:	Metro Mining Limited (Appointed 30 September 2014)
Former directorships of listed entities (in the last 3 years):	Blue Sky Alternatives Access Fund Limited (Resigned 31 May 2017), Collection House Limited (Ceased 28 November 2017)
Interests in shares:	18,705 shares
Interests in options:	None
Share acquisition rights:	3,705 share acquisition rights

Name:	**Kim Morison** **Interim Managing Director**
Qualifications:	Kim holds a Graduate Diploma in Applied Finance from the Securities Institute of Australia, a Graduate Diploma of Agricultural Economics from the University of New England and a Bachelor of Commerce from the University of Western Australia.
Experience and expertise:	Kim joined Blue Sky in 2010 as Head of Blue Sky's real assets division with responsibility for managing Blue Sky's water, water infrastructure and agribusiness investments. Prior to Blue Sky, Kim held various roles in Australian agribusiness including General Manager (Marketing) at CSR Sugar, Australia's largest sugar milling and refining company; Division Director and Joint Head of the international cotton trading business at Macquarie Bank; General Manager of Colly Cotton Marketing, a division of the Twynam Agricultural Group and Commercial Manager at Colly Cotton Limited, Australia's largest cotton growing company at the time. Kim was appointed as Interim Managing Director on 23 April 2018.
Other current directorships of listed entities:	None
Former directorships of listed entities (in the last 3 years):	None
Interests in shares:	896,815 shares
Interests in options:	None

Directors' Report - continued

Joint Company Secretaries

Jane Prior

Jane holds a Bachelor of Arts and a Bachelor of Laws from the University of Queensland and is admitted as a solicitor of the Supreme Courts of QLD and NSW. Jane has worked in law firms in Brisbane and London where she advised on fund establishments and investments as well as a range of joint venture, private equity and merger and acquisition transactions. Jane holds 155,706 shares and 75,000 options in the Company. Jane went on maternity leave on 10 March 2018.

Leyya Taylor

Leyya holds a Bachelor of Laws (Hons) from the Queensland University of Technology and is admitted as a solicitor of the Supreme Court of QLD and the High Court of Australia. Leyya has worked as in-house legal counsel for companies in the mining and energy sectors and for law firm DLA Piper in the Litigation and Regulatory team. Leyya holds 1,100 shares in the Company.

Meetings of Directors

During the financial year, thirty-three full meetings of Directors were held.

Attendances by each Director during the year were as follows:

			Meetings of committees					
	Full meetings of Directors		Audit Committee		Risk and Compliance Committee		Nomination and Remuneration Committee	
	A	B	A	B	A	B	A	B
John Kain	33	33	5	5	3	3	6	6
Timothy Wilson[1]	30	33	1	1	-	-	6	6
Nicholas Dignam[2]	22	22	-	-	-	-	-	-
Michael Gordon[3]	25	25	4	4	-	-	5	5
Philip Hennessy[4]	32	33	5	5	3	3	1	1
Alexander McNab[5]	23	24	-	-	3	3	-	-
Kim Morison	33	33	-	-	-	-	-	-
Robert Shand[2]	19	21	-	-	-	-	-	-
Elaine Stead[2]	22	22	-	-	-	-	-	-

1 On 14 May 2018, Timothy Wilson was appointed as a member of the Audit Committee and the Risk and Compliance Committee.
2 On 23 April 2018, Nicholas Dignam, Robert Shand and Elaine Stead resigned as Directors of the Company.
3 On 14 May 2018, Michael Gordon resigned as a Director of the Company and ceased to be a member of the Audit Committee and the Nomination and Remuneration Committee.
4 On 14 May 2018, Philip Hennessy was appointed as a member of the Nomination and Remuneration Committee.
5 On 7 May 2018, Alexander McNab resigned as a Director of the Company and ceased to be a member of the Risk and Compliance Committee.

A = Number of meetings attended.
B = Number of meetings held during the time the Director held office or was a member of the committee during the period.

Shares under option

As at the date of this report, there were 6,730,637 unissued ordinary shares under option.

Share acquisition rights

As at the date of this report, there were 3,705 unvested share acquisition rights on issue relating to Philip Hennessy.

Indemnity and insurance of Officers

The Company maintains Directors & Officers Insurance and has entered into a Deed of Access, Insurance and Indemnity with each Director. During the year, the Company paid premiums in respect of Directors and Officers liability, and for professional indemnity insurance contracts, for all Directors of the Company named in this report, as well as other Officers of the Company.

This policy insures persons who are Directors or Officers of the Company against certain liabilities incurred as such by a Director or Officer, while acting in that capacity, except where the liability arises out of conduct involving lack of good faith. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Director's and Officer's liability insurance contract, as this disclosure is prohibited under the terms of the contract.

Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount) and which have not arisen from the auditor's negligence or wrongful acts or omissions. No payment has been made to indemnify Ernst & Young during or since the financial year.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 37 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The Directors are of the opinion that the services as disclosed in Note 37 to the financial statements do not compromise the external auditor's independence for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former audit partners of Ernst & Young

There are no Officers of the Company who are former audit partners of Ernst & Young.

Rounding

The amounts contained in this report and in the Financial Report have been rounded to the nearest $1,000 (unless otherwise stated) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the Instrument 2016/191 applies.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 37.

Auditor

Ernst & Young continues in office in accordance with section 327 of the *Corporations Act 2001*.

Remuneration Report (Audited)

REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2018

As discussed in the Directors' Report Blue Sky seeks to deliver top quartile investment performance to investor clients, understanding that, if the interests of investor clients are served then Blue Sky, its team and its shareholders will also benefit. We cannot deliver those returns without a quality team who are aligned to the interests of our investor clients. That alignment, in turn aligns the interests of our team with those of our shareholders, who benefit when our investor clients benefit.

To create that alignment we have always actively encouraged our team members to have genuine 'skin in the game'. That is, to invest personally in Blue Sky shares, the Alternatives Fund, as well as directly into the funds that we manage. This approach is fundamentally different to simply having incentives that provide upside rewards but no meaningful downside exposure. While we do use these sorts of incentives to enhance the alignment of our team, we believe there is no better demonstration of genuine alignment with our shareholders and investor clients, than to have our team invested personally in what we do.

Where we do provide incentives to our team, they are deliberately weighted to - and typically contingent upon - the delivery of outcomes over the long term to shareholders, investor clients, or both. This focus reflects the long term nature of the investments that we manage, and ensures our team is incentivised to make decisions that are in the long term interests of our business. Examples of the long term incentives used in FY18 are included in our Investment Company Bonus Policy and our Employee Share Option Plan ('ESOP'). These are explained in detail in this report.

Our focus on the delivery of long term outcomes to our investor clients is fundamental to Blue Sky's culture and something we seek to reflect in our approach to remuneration.

Given the events of FY18, our remuneration principles, along with all other elements of our business have been reviewed. Having regard to the outcomes discussed in the Directors' Report, the remuneration model for our investment teams, and in particular our Investment Company Bonus Policy, will change in FY19. These changes will be designed to further enhance alignment between our investment teams and our investor clients, and consequently with our shareholders. During FY19 the process of realigning the cost base of Business Units will be completed which will ensure that each Business Unit will at least meet its fixed operating costs (after costs and corporate overheads) from recurring annual management fees, with any surplus from management fees, together with performance fees and other revenue, delivering profit at a Business Unit level. Investment teams will (in addition to fixed remuneration) be directly remunerated by sharing 50% of the profit of the Business Unit. That is a move from sharing ~25% of gross profit (under our current Investment Company Bonus Policy) to ~50% of net profit. That share of profit shall be paid in cash (25-50%) and through reinvestment alongside our investor clients into the strategies managed by the investment teams (50-75%). These changes will further drive the behaviours necessary to deliver top quartile investment returns to investor clients, and by doing that, to advance the interests of Blue Sky, its team and its shareholders. Further details of this remuneration model will be provided in the FY19 Remuneration Report.

The remainder of this report outlines the following in respect of FY18:

(i) Our remuneration governance
(ii) Board remuneration
(iii) Executive remuneration
(iv) Managing Director's remuneration
(v) Our ESOP
(vi) The statutory disclosures.

i. Remuneration governance

Our Board recognises the importance of independent oversight of its remuneration policy, structure and implementation. To ensure that independence, the majority of the Nomination and Remuneration Committee ('N&R Committee') are Non-Executive Directors ('NEDs'). The composition of the Board and each of its committees, including the N&R Committee, is expected to change before the 2018 AGM. With those changes, the N&R Committee is expected to be comprised entirely of NEDs.

The N&R Committee is responsible for a range of functions including advising the Board on remuneration issues for the Directors, the Managing Director and other executive team members. Those functions are set out in the N&R Committee Charter which can be found on our website.

During FY18, the Board accepted all recommendations made to it by the N&R Committee.

ii. Board remuneration

Approach to Board remuneration

The Board seeks advice from external remuneration advisors and keeps appraised of developments in remuneration practice. In September 2016, we commissioned an independent report from Ernst & Young on the quantum and structure of Board remuneration. To ensure that we attract the best possible talent, total NED remuneration has been set in the top quartile of comparable companies as identified in that report.

Director's fees paid to Executive Directors are less than those paid to NEDs, reflecting the fact that the incremental time required in their Board role is, by virtue of inherent knowledge of the business, less than that of NEDs. Director's fees paid to Executive Directors are incremental to the remuneration paid for their executive responsibilities, and reported separately in order to give shareholders greater transparency over our remuneration practices.

Alignment of the Board with shareholder outcomes

The Board's remuneration is structured to align primarily with the interests of our shareholders. In contrast, the remuneration of those members of our executive team who are directly responsible for the management of the capital of our investor clients is structured to align their interests with those investors, and where appropriate, our shareholders. This is explained further in Section (iii) below.

As part of our approach to aligning the Board with shareholder outcomes, we seek to ensure that all Directors have 'skin in the game'. As a minimum, we expect that each Director will acquire an investment in Blue Sky shares worth at least double their initial total annual Board remuneration within four years of their appointment.[1] To facilitate this objective, the Company adopted a Sacrifice Share Acquisition Plan in September 2017. Pursuant to that plan, shareholders approved the grant of certain rights to Independent Directors Michael Gordon and Philip Hennessy at the 2017 AGM. The table below sets out the position as at 30 June 2018.

Name	Total initial annual FY19 Board remuneration $'000	Number of BLA shares held at 30 June 2018 '000
Non-Executive Directors		
John Kain	210	1,360
Philip Hennessy	165	15
Executive Directors		
Timothy Wilson	78	1,555
Kim Morison	78	897

1 This is calculated at 1 July 2018 (for those Directors appointed before that date) or otherwise at the time of appointment.

Remuneration Report (Audited) - continued

iii. Executive remuneration

Blue Sky's executive remuneration is designed to ensure that we can attract and retain a world class team. Our approach is specifically designed to provide meaningful remuneration over the long term to those members of our team that make a significant positive impact on the long term value of Blue Sky and/or its fund investments.

During FY18, our approach included five 'tiers' of remuneration that are outlined in the table below. The performance of the individual employee and/or the performance of Blue Sky directly impacts all of these tiers except the first (fixed salary).

Tier	Description	Explanation	Alignment
First	Fixed salary	Base compensation reflecting the person's duties and responsibilities.	Shareholders and investor clients (attracting and retaining talent)
Second*	Equity	We actively encourage our Board and team to own shares in Blue Sky. We also grant options through our ESOP to employees that act as owners of our business and who have added materially to the value of Blue Sky. The details of the ESOP are described in more detail below.	Shareholders
Third*	Performance bonuses for investment management	Blue Sky earns performance fees from its funds. Performance fees are typically calculated as a percentage of the returns paid to investor clients above a prescribed hurdle rate. For each of our closed ended funds, these fees are only paid to Blue Sky once investors have received a return over the hurdle rate relevant for that fund. Blue Sky has a policy that requires a minimum of 25% of the performance fees received by the Company to be paid to a performance bonus pool ('Investment Company Bonus Policy'). That bonus pool is paid to team members who contributed meaningfully to the generation of the performance fee. Importantly, these bonuses are typically only paid to the team when our investor clients have received a return from their investment that exceeds the relevant hurdle rate for a fund. The amount paid to individuals is discretionary and in order to be eligible an employee must be employed when the pool is paid. The head of the relevant Blue Sky division recommends the allocation of the pool to the Managing Director who then decides upon final allocations. Where the Managing Director has any interest in this allocation, the N&R Committee approves the final allocation.	Investor clients
Fourth*	Discretionary performance bonuses for fund capital raising	The Board has adopted a policy to pay bonuses to those employees that make a meaningful contribution to the growth in FEAUM of the business.These bonuses are recommended by senior management to the Managing Director who then decides upon final allocations.	Shareholders
Fifth*	Other discretionary performance bonuses	From time to time, Blue Sky may pay cash or non-cash incentives to employees who are responsible for delivering outcomes that have a material positive impact on the value of Blue Sky's business and which are not adequately covered by one of the first four tiers in this table. These bonuses are recommended by the Managing Director to the Board and are subject to the financial and non-financial performance of Blue Sky as well as relevant market circumstances.	Shareholders and/or investor clients

* The Board retains full and final discretion over the payment of bonuses and the issue of equity-based compensation, and there is no constructive obligation to pay amounts under each of these tiers.

Co-investment by executives in funds managed by Blue Sky

Blue Sky encourages members of our team - and particularly our investment managers - to invest in our funds. This reflects our belief that there is no better form of alignment with investor clients than to ensure our team have their own 'skin in the game'.

To promote that alignment, Blue Sky has a co-investment facility ('Employee Loan Program') from which we provide limited recourse loans to select employees to invest in funds managed by the Blue Sky. Employees must apply in writing to be granted a loan under the Employee Loan Program, with each loan made on the following terms and at the discretion of the Board:

- loans are only provided on a matching capital basis. That is, for every $1 which the employee invests in a particular fund, Blue Sky may lend up to an additional $1 to be invested in that same fund (meaning the maximum loan-to-value ratio for any loan is 50%);
- each loan is provided on arms' length commercial terms with interest payable at market rates; and
- the borrower is required to enter into a Specific Security Agreement that grants Blue Sky a security interest over the securities acquired and authorises Blue Sky to apply all proceeds from that investment (including any income and capital distributions):
  - first, to pay interest;
  - secondly, to repay loan principal; and
  - finally, after all amounts due to Blue Sky have been repaid, to pay the balance to the employee.

The Board has imposed a current limit on the total funds available for the Employee Loan Program to a maximum of $5 million (up from $2.5 million at 30 June 2017), and the facility is regularly monitored to ensure loans are not concentrated in any one fund, asset class or set of individuals.

The Employee Loan Program is not open to NEDs after 1 July 2017. The Board considers this important to preserve the independence of the NEDs. Any loans issued to Non-Executive Directors prior to 1 July 2017 will be repaid as investments are realised.

iv. Managing Director's remuneration

The Board's approach in remunerating the former Managing Director Robert Shand was consistent with Blue Sky's overall approach to executive remuneration. It is designed to closely align the former Managing Director's remuneration with the delivery of tangible shareholder outcomes and is significantly weighted towards long term variable remuneration (rather than fixed or short-term variable remuneration).

Until his resignation on 23 April 2018, Mr Shand earned a fixed salary of $400,000 (exclusive of Superannuation Guarantee Contributions, the maximum of which are $20,049 for the 2018 financial year) per annum plus a director's fee of $77,500 per annum. The Board believed the quantum and structure of the Managing Director's remuneration would result in Mr Shand being paid less than Managing Directors of comparable companies in the event of Blue Sky not achieving its longer-term targets and above his peers if the Company's targets are exceeded. The Board believed this alignment was is in the interests of shareholders of the Company.

Upon Mr Shand's resignation he was paid all contractual and statutory entitlements. There was no additional remuneration paid upon resignation. 1.3 million options then held by Mr Shand, lapsed.

On 23 April 2018, Kim Morison was appointed Interim Managing Director. Upon that appointment, Mr Morison's existing remuneration as Managing Director of our Real Assets business was unchanged at a fixed salary of $400,000 (exclusive of Superannuation Guarantee Contributions, the maximum of which are $20,049 for the 2018 financial year) per annum plus a director's fee of $77,500 per annum.

Remuneration Report (Audited) - continued

v. ESOP

Blue Sky has implemented an ESOP to promote ownership of Blue Sky among key team members and enhance their alignment with the interests of shareholders.[2] A summary of the terms of the ESOP is as follows:

Eligibility	Any Director, employee or consultant (or their approved 'permitted nominee') of Blue Sky who is determined by the Board to be eligible may participate in the ESOP.
Grant of options	All options are offered to eligible participants for no consideration.
Vesting criteria and dates	The ESOP rules enable the Board to determine the applicable vesting criteria and to set a timetable for vesting of options in the relevant offer document. The Board has the discretion to set performance hurdles or to link vesting solely to a defined service period. The most recent options issued were at a strike price of $10 per share and are only exercisable if Blue Sky hits its target of having $5 billion in FEAUM. These options vest over a five year period with 33.3% of the options vesting on each of the third, fourth and fifth anniversaries of their issue.
Exercise	The options may be exercised, in part or full, subject to the option holder continuing to be employed at the relevant vesting dates and the independent Audit Committee confirming that the relevant vesting criteria (e.g. Blue Sky reaching $5 billion in FEAUM) have been satisfied.
Lapse/expiry of options	Subject to the accelerated expiry terms set out in the ESOP, options will expire six years after the date of grant.
Rights of participation	Once shares are allotted upon the exercise of the options, the participant will hold the shares free of restrictions. The shares will rank equally for dividends declared on or after the date of issue but will carry no right to receive any dividend before the date of issue. Should Blue Sky undergo a reorganisation or reconstruction of capital or any other change, the terms of the options (including number and/or exercise price) will be correspondingly changed to the extent necessary to comply with the ASX Listing Rules. With this exception, the terms of the exercise of each option remain unchanged. In the event of a change of control of Blue Sky, all options will vest immediately and may be exercised by the option holder (regardless of whether the vesting conditions have been satisfied). A holder of options is not entitled to participate in dividends, a new or bonus issue of shares or other securities made by Blue Sky to shareholders merely because he or she holds the options.
Assignment	The options are not transferrable, assignable or able to be encumbered, without Board consent, and the options will immediately lapse upon any assignment, transfer or encumbrance, with the exception of certain dealings in the event of death of the option holder.

Whilst the terms of the ESOP allow for options to be issued to all KMP (including NEDs) and employees, there are no options presently on issue to NEDs and the Board.

[2] Shareholders approved the implementation of Blue Sky's ESOP at the 2013 Annual General Meeting ('AGM'). This was subsequently renewed at the 2015 AGM.

vi. Statutory disclosures

Key Management Personnel

KMP are defined under AASB 124 *Related Party Disclosures* as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether executive or otherwise) of that entity. Blue Sky has determined that its KMP in the 2018 financial year included the Directors and Officers as set out below.

Name	Position	Term as KMP
Non-Executive Directors		
John Kain	Independent Chair	Full Year
Michael Gordon	Independent Director (Resigned 14 May 2018)	1 July 2017 – 14 May 2018
Philip Hennessy	Independent Director	Full Year
Executive Directors		
Timothy Wilson	Deputy Chair	Full Year
Nicholas Dignam	Executive Director (Resigned 23 April 2018)	1 July 2017 – 23 April 2018
Alexander McNab	Executive Director (Resigned 7 May 2018)	1 July 2017 – 7 May 2018
Kim Morison	Interim Managing Director	Full Year
Robert Shand	Managing Director (Resigned 23 April 2018)	1 July 2017 – 23 April 2018
Elaine Stead	Executive Director (Resigned 23 April 2018)	1 July 2017 – 23 April 2018
Other KMP		
Jane Prior	Company Secretary	Full Year
Leyya Taylor	Company Secretary (Appointed 22 February 2018)	22 February 2018 – 30 June 2018

There were no changes of KMP between the reporting date and the date the Financial Report was authorised for issue.

Board policy on remuneration for KMP (s300A(1)(a))

The Board's policies for determining remuneration for KMP's are explained in the preceding sections of this report. On an annual basis, the Board reviews and determines the remuneration of Executive Directors and other KMP in line with the approach set out previously and may utilise the services of external advisors as part of this process.

The fixed remuneration of the Executive Directors and other KMPs for the year ended 30 June 2018 and 30 June 2017 is detailed in the table on page 25 of this report. The cash bonuses detailed in these tables primarily relate to performance bonuses received by KMP in accordance with our Investment Company Bonus Policy outlined above on page 26.

Relationship between remuneration policy and Blue Sky's performance (s300A(1)(b)) including consequences of company performance on shareholder wealth (s300A(1AA))

Executive Directors may receive incentive payments under Blue Sky's Investment Company Bonus Policy and under the other tiers of remuneration outlined in Section (iii).

Executive Directors, KMP and other Directors may also acquire shares through the exercise of options granted through Blue Sky's ESOP.

Remuneration Report (Audited) - continued

As required under s300A(1)(b), the table below presents a summary of the Group's statutory financial performance for the years ending 30 June 2014 to 30 June 2018. These results do not reflect Blue Sky's underlying performance, which, for the reasons outlined in the Directors' Report, we believe present a more meaningful view of Blue Sky's performance.

For the year ended:	30 June 2018 $'000	30 June 2017 $'000	30 June 2016 $'000	30 June 2015 $'000	30 June 2014 $'000
Operating revenue	30,147	69,138	68,839	58,549	32,217
(Loss)/profit after income tax	(70,646)	20,634	11,401	10,387	3,863
Dividend	15,719	10,783	6,221	3,941	2,339
Earning per share (cents)	(99.18)	30.59	19.80	18.44	8.16
Share price	1.71	9.49	8.10	4.11	2.95

KMP remuneration subject to a performance condition (s300A(1)(ba))

As outlined in Section (iii), four of the five tiers of remuneration at Blue Sky are subject to performance conditions. For example, the payment of performance bonuses under our Investment Company Bonus Policy is subject to:

- investment returns having been delivered to relevant investor clients in excess of the relevant fund's prescribed hurdle rate;
- the KMP having played a meaningful role in the creation of those returns for investor clients; and
- the KMP being employed at Blue Sky at the time the performance fee is received by the Company in cash.

Similarly, the payment of performance bonuses to KMP for capital raising is contingent on the individual making a meaningful contribution to the growth in FEAUM of the business.

Options issued under Blue Sky's ESOP also typically include performance conditions that are designed to focus recipients on delivering long term shareholder returns. For example, all options issued to KMP throughout FY18 are only exercisable if the Audit Committee confirms that Blue Sky has met its target of having $5 billion in FEAUM and the KMP is employed by Blue Sky at the time the options are exercised.

During FY18, the Board hurdle of $5 billion of FEAUM was considered appropriate as it:

- represents significant growth from the current level of FEAUM;
- is aligned with the interests of shareholders;
- is simple rather than complex;
- cannot be 'gamed' in the way other more complex sets of targets can potentially be; and
- supports a growth culture across the business rather than within each individual's particular business.

The options held by Executive Directors and other KMPs for the year ended 30 June 2018 and 30 June 2017 are detailed in the table on page 32.

Historically a key hurdle for options to vest was the Company achieving defined growth in FEAUM. Growth in FEAUM (along with investor returns; governance, risk and compliance; and our team) was seen as one of the four keys to our business. As explained elsewhere in the Directors Report, reviews conducted over the last six months have recognised that whilst three of these matters are absolutely key to our business, the growth in FEAUM is not of itself a key to our business. Rather, growth in FEAUM is simply a consequence of a great team delivering strong risk adjusted returns to our investor clients. And if we deliver those returns to our investor clients our team, our business and our shareholders will all prosper. Accordingly, we anticipate that in future option grants, growth in FEAUM will not be a hurdle for options to vest.

Prescribed details for KMP (s300A(1)(c))

The remuneration of the NEDs for the years ended 30 June 2018 and 30 June 2017 is detailed in the tables on the following page. Fees and payments to NEDs reflect the demands which are made on, and the responsibilities of, the Directors. The Board reviews and determines the remuneration of NEDs in line with the principles for Board remuneration set out in this report on an annual basis and may utilise the services of external advisors.

NEDs do not receive performance-based remuneration.

Total remuneration includes any superannuation entitlements. Expenses will be reimbursed or paid in accordance with Group policies. Blue Sky does not pay committee fees. Committee work is seen as part of the role of a Director, not to be separately remunerated.

The Board may pay further fees for one-off projects that have required sustained abnormal time commitments for a NED.

NED's fees are determined within an aggregate annual Directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum approved amount currently stands at $1 million per annum. In FY18 we paid $497,000.

Remuneration Report (Audited) - continued

	Short term		Post-employment		Long term		Share-basedpayment		Total	Performance related	Share options[2]
	Salary $'000	*Incentives[1] $'000*	*Non Cash Benefit $'000*	*Superannuation $'000*	*Termination Payments[9] $'000*	*Long Service Leave $'000*	*Share Options $'000*	*Share Rights $'000*	*$'000*	*%*	*'000*
Non-Executive Directors											
John Kain											
2018	210	-	-	-	-	-	-	-	210	-%	-
2017	175	-	-	-	-	-	-	-	175	-%	-
Michael Gordon[3]											
2018	130	-	-	12	-	-	-	-	142	-%	-
2017	52	-	-	5	-	-	-	-	57	-%	-
Phillip Hennessy[3]											
2018	101	-	-	14	-	-	-	30	145	-%	-
2017	56	-	-	5	-	-	-	-	61	-%	-
Sub-Total											
2018	441	-	-	26	-	-	-	30	497	-%	-
2017	283	-	-	10	-	-	-	-	293	-%	-
Executive Directors											
Timothy Wilson											
2018	477	63	-	29	-	14	-	-	583	10.76%	-
2017	394	118	-	34	-	7	-	-	553	21.34%	-
Nicholas Dignam[4]											
2018	303	-	-	22	-	14	185	-	524	35.29%	750
2017	213	496	-	17	-	-	87	-	813	71.71%	500
Alexander McNab[5]											
2018	344	-	-	29	266	5	-	-	644	-%	-
2017	360	141	-	24	-	6	-	-	531	26.55%	-
Kim Morison											
2018	477	9	-	27	-	7	-	-	520	1.72%	-
2017	435	342	-	23	-	14	-	-	814	42.01%	-
Robert Shand[4]											
2018	388	5	-	30	331	7	(179)	-	582	(29.91)%	-
2017	427	1	-	22	-	43	177	-	670	26.57%	1,338
Mark Sowerby[6]											
2018	-	-	-	-	-	-	-	-	-	-%	-
2017	139	-	-	6	-	5	-	-	150	-%	-

	Short term		Post-employment		Long term		Share-based payment		Total	Performance related	Share options[2]
	Salary $'000	*Incentives[1] $'000*	*Non Cash Benefit $'000*	*Superannuation $'000*	*Termination Payments[9] $'000*	*Long Service Leave $'000*	*Share Options $'000*	*Share Rights $'000*	*$'000*	*%*	*'000*
Elaine Stead[4]											
2018	305	-	-	22	-	5	147	-	479	30.62%	450
2017	219	57	-	18	-	12	31	-	337	26.11%	200
Sub-Total											
2018	2,294	77	-	159	597	52	153	-	3,332	6.88%	1,200
2017	2,187	1,155	-	144	-	87	295	-	3,868	37.49%	2,038
Other KMP											
Jane Prior[7]											
2018	165	-	-	14	-	13	19	-	211	9.01%	125
2017	178	6	-	18	-	16	1	-	219	3.20%	75
Leyya Taylor[8]											
2018	42	50	-	9	-	-	-	-	101	49.88%	-
2017	-	-	-	-	-	-	-	-	-	-%	-
Sub-Total											
2018	207	50	-	23	-	13	19	-	312	22.15%	125
2017	178	6	-	18	-	16	1	-	219	3.20%	75
Total											
2018	2,942	127	-	208	597	65	172	30	4,141	7.20%	1,325
2017	2,648	1,161	-	172	-	103	296	-	4,380	33.26%	2,113

1 Includes share of realised performance fees in accordance with the Investment Company Bonus Policy.
2 Share options movements are disclosed in Note 30. The balance is at the end of the financial year or date of ceasing to be a KMP if earlier.
3 On 17 February 2017, Michael Gordon and Philip Hennessy were appointed as independent Non-Executive Directors of the Company. On 14 May 2018, Michael Gordon resigned as an independent Non-Executive Director of the Company.
4 On 29 September 2016, Nicholas Dignam, Robert Shand and Elaine Stead were appointed as Executive Directors of the Company. On 23 April 2018, Nicholas Dignam, Robert Shand and Elaine Stead resigned as Executive Directors of the Company.
5 On 7 May 2018, Alexander McNab resigned as an Executive Director of the Company.
6 On 30 September 2016, Mark Sowerby retired from his role as Managing Director of the Company.
7 On 10 March 2018, Jane Prior went on maternity leave.
8 On 22 February 2018, Leyya Taylor was appointed as a Joint Company Secretary of the Company.
9 Termination payments comprised the statutory and contractual entitlements for payment in lieu of notice and accrued but unpaid leave.

Remuneration Report (Audited) - continued

LOANS TO KMP AND THEIR RELATED PARTIES

(i) Details of loans to KMP and their related parties

Table 1: Loans to KMP and their related parties for the year ended 30 June 2018

	Balance at beginning of period $'000	Net additional loans/ (repayments) $'000	Interest charged $'000	Interest not charged $'000	Interest $'000	Balance at paid end of period[4] $'000	Highest balance during period $'000
John Kain[5]	98	-	4	-	-	102	102
Timothy Wilson	282	175	16	-	(15)	458	459
Nicholas Dignam[1]	97	(3)	3	-	(3)	94	97
Alexander McNab[2]	206	(5)	7	-	(7)	201	206
Robert Shand[1]	4	-	-	-	-	4	4
Leyya Taylor[3]	5	-	-	-	-	5	5
Total	**692**	**167**	**30**	**-**	**(25)**	**864**	**873**

1 On 23 April 2018, Nicholas Dignam and Robert Shand resigned as Executive Directors of the Company.
2 On 7 May 2018, Alexander McNab resigned as an Executive Director of the Company.
3 On 22 February 2018, Leyya Taylor was appointed as a Joint Company Secretary of the Company.
4 Or date of ceasing to be a KMP if earlier.
5 The terms of the Employee Loan Program were recently amended and effective 1 July 2017. Non-Executive Directors are no longer entitled to participate in the Employee Loan Program. Loans issued to Non-Executive Directors prior to 1 July 2017 will be repaid as investments are realised.

Table 2: Loans to KMP and their related parties for the year ended 30 June 2017

	Balance at beginning of period $'000	Net additional loans/ (repayments) $'000	Interest charged $'000	Interest not charged $'000	Interest $'000	Balance at paid end of period[8] $'000	Highest balance during period $'000
John Kain[6]	359	(252)	16	-	(25)	98	361
Timothy Wilson	139	142	8	-	(7)	282	294
Nicholas Dignam[7]	100	(3)	5	-	(5)	97	100
Alexander McNab	251	(45)	10	-	(10)	206	251
Kim Morison	69	(69)	-	-	-	-	-
Robert Shand[7]	39	(35)	1	-	(1)	4	36
Elaine Stead[7]	-	-	-	-	-	-	4
Total	**957**	**(262)**	**40**	**-**	**(48)**	**687**	**1,046**

6 The terms of the Employee Loan Program were recently amended and effective 1 July 2017. Non-Executive Directors are no longer entitled to participate in the Employee Loan Program. Loans issued to Non-Executive Directors prior to 1 July 2017 will be repaid as investments are realised.
7 On 29 September 2016, Nicholas Dignam, Robert Shand and Elaine Stead were appointed as Executive Directors of the Company.
8 Or date of ceasing to be a KMP if earlier.

(ii) Terms and conditions of loan to KMP and their related parties:

During the year, Blue Sky provided loans under the terms of the Employee Loan Program, as previously mentioned, with the proceeds used exclusively to invest in funds managed by Blue Sky. Interest has been charged at the same rate as that charged by Blue Sky's financial institution on its loan facilities. During FY18, this ranged from 3.97% to 4.41% per annum (FY17: 4.41% to 4.81% per annum).

Remuneration consisting of securities, not subject to performance condition (s300A(1)(d))

There is no remuneration payable to a KMP which consists of securities and which is not dependent on the satisfaction of a performance condition.

Philip Hennessy was granted 3,705 share acquisition rights during the financial year.

Further details of KMP remuneration (s300A(1)(e))

Each Executive Director has entered into an executive service contract with Blue Sky on substantially similar terms other than specific remuneration. Each agreement continues until terminated in accordance with the agreement. During the term, either party may terminate the agreement by giving six months' notice. Grounds of termination by Blue Sky without notice include misconduct and bankruptcy. Non-compete covenants and customary post-termination restraints apply to each Executive Director for up to one year after termination of employment.

Other prescribed details are disclosed in the table on page 32.

Prescribed matters (s300A(1)(f))

There are no other matters prescribed by the regulations.

25% of votes cast against remuneration report at the last AGM (s300A(1)(g))

No comments were made at Blue Sky's most recent AGM held on 2 November 2017 and 0.28% of votes (i.e. less than 25%) were cast against the remuneration report.

Remuneration consultant recommendation in relation to any of the KMP (s300A(1)(g))

No remuneration recommendations were made within the meaning of s300A(1)(g) of the *Corporations Act 2001*, including in the September 2016 report from Ernst & Young on Board remuneration.

Directors' Report (Audited) - continued

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.
On behalf of the Directors

John Kain
Chair

30 August 2018
Brisbane

Auditor's Independence Declaration

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Auditor’s independence declaration to the directors of Blue Sky Alternative Investments Limited

As lead auditor for the audit of Blue Sky Alternative Investments Limited for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Blue Sky Alternative Investments Limited and the entities it controlled during the financial year.

Ernst & Young

Michael Reid
Partner
30 August 2018

Corporate Governance Statement

The Company's Corporate Governance Statement is available at the following internet address:
http://blueskyfunds.com.au/shareholder-centre/

Financial Report

FOR THE YEAR ENDED 30 JUNE 2018

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Financial Report

FOR THE YEAR ENDED 30 JUNE 2018

GENERAL INFORMATION

The Financial Report covers Blue Sky Alternative Investments Limited ('Company', 'parent entity' or 'Blue Sky') as a consolidated entity consisting of the Company and the entities it controlled (the 'Group'). The financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

The Financial Report consists of the financial statements, notes to the financial statements and the Directors' Declaration.

The Company is a publicly listed company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 46, 111 Eagle Street
Brisbane QLD 4000

The Financial Report was authorised for issue, in accordance with a resolution of Directors, on the date that the Directors' Declaration was signed. The Directors have the power to amend and reissue the Financial Report.

Consolidated Statement of Profit or Loss

FOR THE YEAR ENDED 30 JUNE 2018

		Year ended	
	Notes	30 June 2018 $'000	30 June 2017 $'000
Income			
Operating revenue	4	30,147	69,138
Share of (loss)/profit of associates and joint ventures	26	(6,221)	8,081
Other income	5	4,795	7,179
Expenses			
Employee benefits	32	(35,692)	(26,513)
Occupancy		(2,388)	(2,156)
External service providers	6	(7,621)	(2,888)
Consultancy	7	(3,884)	(1,240)
Marketing		(2,619)	(2,001)
Administrative		(1,493)	(1,691)
Travel and entertainment		(3,359)	(2,779)
Provisions and impairments	8	(30,467)	-
Other expenses	9	(15,707)	(12,722)
Finance costs		(1,860)	(1,250)
Depreciation and amortisation		(643)	(1,430)
(Loss)/profit before income tax		**(77,012)**	**29,728**
Income tax benefit/(expense)	12	9,413	(9,043)
(Loss)/profit after income tax		**(67,599)**	**20,685**
(Loss)/profit is attributable to:			
Non-controlling interests		3,047	51
Owners of Blue Sky Alternative Investments Limited		(70,646)	20,634
		(67,599)	**20,685**
		Cents	Cents
Earnings per share			
Basic (loss)/earnings per share	10	(99.18)	30.59
Diluted (loss)/earnings per share	10	(99.18)	30.29

The above Consolidated Statement of Profit or Loss should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2018

	Year ended	
	30 June 2018 $'000	30 June 2017 $'000
(Loss)/profit after income tax	**(67,599)**	**20,685**
Other comprehensive income **Items that may be reclassified subsequently to profit or loss**		
Exchange differences on translation of foreign operations, net of tax	959	-
Total comprehensive (loss)/income	**(66,640)**	**20,685**
Total comprehensive (loss)/income is attributable to:		
Non-controlling interests	3,047	51
Owners of Blue Sky Alternative Investments Limited	(69,687)	20,634
	(66,640)	**20,685**

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

AS AT 30 JUNE 2018

	Notes	As at 30 June 2018 $'000	30 June 2017 $'000
Assets			
Current assets			
Cash and cash equivalents	21	40,922	72,187
Trade and other receivables	13	43,384	38,371
Inventory - residential developments	14	1,120	491
Income tax receivable	12	4,175	-
Other assets	34	3,403	4,651
Total current assets		93,004	115,700
Non-current assets			
Trade and other receivables	13	49,737	53,054
Inventory - residential developments	14	3,800	1,986
Financial assets held at fair value through profit or loss		226	-
Investment property - retirement villages	15	112,170	54,917
Investments in associates and joint ventures	26	46,301	46,994
Property, plant and equipment	16	9,768	4,783
Intangible assets	17	9,591	11,038
Total non-current assets		231,593	172,772
Total assets		**324,597**	**288,472**
Liabilities			
Current liabilities			
Trade and other payables	18	18,602	35,667
Borrowings	23	6,179	16,726
Deferred revenue	19	7,506	9,061
Provision for income tax	12	-	1,345
Employee benefits	32	7,216	4,424
Resident loans - retirement villages	20	23,515	14,849
Total current liabilities		63,018	82,072
Non-current liabilities			
Deferred revenue	19	1,035	3,637
Employee benefits	32	4,141	4,692
Borrowings	23	86,138	37,164
Other liabilities	35	4,422	8,595
Deferred tax liabilities	12	1,031	10,875
Provision for income tax	12	4,129	-
Total non-current liabilities		100,896	64,963
Total liabilities		**163,914**	**147,035**
Net assets		**160,683**	**141,437**
Equity			
Contributed equity	24	220,058	120,613
Reserves	24	(2,614)	(5,547)
Accumulated (losses) / profits		(59,701)	26,664
Total equity, attributable to the owners of Blue Sky Alternative Investments Limited		**157,743**	**141,730**
Non-controlling interests		2,940	(293)
Total equity		**160,683**	**141,437**

The above Consolidated 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 2018

	Notes	Contributed equity $'000	Reserves $'000	Accumulated profits $'000	Non-controlling Interests $'000	Total equity $'000
Balance at 1 July 2016		**119,611**	**(6,633)**	**16,813**	**17,650**	**147,441**
(Loss)/profit after income tax for the year		-	-	20,634	51	20,685
Other comprehensive (loss)/income for the year, net of tax		-	-	-	-	-
Total comprehensive (loss)/income for the year		-	-	20,634	51	20,685
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs		1,002	-	-	-	1,002
Employee share option reserve		-	1,086	-	-	1,086
Foreign exchange reserve		-	-	-	-	-
Increase/(decrease) in non-controlling interests		-	-	-	(12,322)	(12,322)
Dividends	25	-	-	(10,783)	(5,672)	(16,455)
Balance at 30 June 2017	24	**120,613**	**(5,547)**	**26,664**	**(293)**	**141,437**
Balance at 1 July 2017		**120,613**	**(5,547)**	**26,664**	**(293)**	**141,437**
(Loss)/profit after income tax for the year		-	-	(70,646)	3,047	(67,599)
Other comprehensive (loss)/income for the year, net of tax		-	959	-	-	959
Total comprehensive (loss)/income for the year		-	959	(70,646)	3,047	(66,640)
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs		99,445	-	-	-	99,445
Employee share option reserve		-	1,974	-	-	1,974
Increase/(decrease) in non-controlling interests		-	-	-	454	454
Dividends	25	-	-	(15,719)	(268)	(15,987)
Balance at 30 June 2018	24	**220,058**	**(2,614)**	**(59,701)**	**2,940**	**160,683**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

AS AT 30 JUNE 2018

	Notes	Year ended 30 June 2018 $'000	30 June 2017 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		46,036	65,838
Payments to suppliers and employees (inclusive of GST)		(74,992)	(54,816)
		(28,956)	11,022
Interest received		570	2,393
Interest and other finance costs paid		(1,220)	(1,165)
Income taxes paid		(5,047)	(3,880)
Net cash (used in)/from operating activities	21	**(34,653)**	**8,370**
Cash flows from investing activities			
Payments for equity investments		(28,447)	(10,965)
Proceeds from equity investments (disposals and distributions)		6,727	27,610
Payments for property, plant and equipment		(6,103)	(396)
Payments for investment property		(34,245)	(28,260)
Payments for intangible assets (net of proceeds on disposal)		(563)	652
Bridging finance and loans to funds (net)		(38,715)	(7,328)
Net cash used in investing activities		**(101,346)**	**(18,687)**
Cash flows from financing activities			
Proceeds from issue of shares		101,855	1,020
Share issue transaction costs		(3,508)	(175)
Proceeds from borrowings		75,932	71,888
Repayment of borrowings		(54,371)	(37,602)
Dividends paid		(15,987)	(16,455)
Net cash from financing activities		**103,921**	**18,676**
Net (decrease)/increase in cash and cash equivalents		**(32,078)**	**8,359**
Effects of exchange rate changes on cash and cash equivalents at the end of period		813	-
Cash and cash equivalents at the beginning of the financial year		72,187	63,828
Cash and cash equivalents at the end of the financial year	21	**40,922**	**72,187**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

Section 1: About this Report

NOTE 1. BASIS OF PREPARATION

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

Going concern

The Financial Report of the Group is prepared on a going concern basis.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*. These financial statements also comply with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB'). The Company is a for-profit entity for the purpose of preparing the financial statements.

The financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

Historical cost convention

The financial statements have been prepared under the historical cost convention except for, where applicable, financial assets and financial liabilities measured at fair value, investment properties and resident loans.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2018 and the results of all subsidiaries for the year then ended or from when control was obtained. The Company and its subsidiaries together are referred to in these financial statements as 'the Group'.

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

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. Refer to the 'Business Combinations' accounting policy for further details. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent entity.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the Consolidated Statement of Profit or Loss and Consolidated Statement of Financial Position of the Group. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit and loss.

Changes in accounting policy and interpretations

The accounting policies applied in these financial statements are the same as those applied in the Group's financial statements as at and for the year ended 30 June 2017 unless otherwise mentioned.

Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in Note 31.

Comparatives

Where necessary, comparative information has been restated to conform to changes in presentation in the current year.

Rounding

The amounts contained in the Financial Report have been rounded to the nearest $1,000 (unless otherwise stated) under the option available to the Company under ASIC Corporations Instrument 2016/191 (Rounding in Financial/Directors' Reports). The Company is an entity to which the Instrument 2016/191 applies.

Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 2. NEW AND AMENDED ACCOUNTING STANDARDS

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods and which the Group has decided not to early adopt. A discussion of those future requirements and their impact on the Group is as follows:

Reference	Title	Summary	Application date of standards	Application date for the Group
AASB 9	Financial Instruments	AASB 9 contains new requirements for the classification, measurement and de-recognition of financial assets and liabilities, replacing the recognition and measurement requirements in AASB 139 Financial Instruments: Recognition and Measurement. Under the new requirements the four current categories of financial assets will be replaced with two measurement categories: fair value and amortised cost, and financial assets will only be measured at amortised cost where very specific conditions are met. The Group is currently assessing the impact of this standard.	1 January 2018	1 July 2018
AASB 15	Revenue from Contracts with Customers	AASB 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. AASB 15 replaces current revenue recognition guidance in AASB 118 Revenue, AASB 111 Construction Contracts and related interpretations. AASB 15 is a significant change from the current revenue requirements and will involve more judgement and estimates. The Group has formed a preliminary view on the impacts of AASB 15 on performance fees and development management fees which represent a substantial portion of operating revenue recorded for FY18. The estimated impact upon adopting the new standard is summarised below. Further analysis is required to determine the impact of AASB 15 on the Group's remaining revenue streams and overall impact to the Group's financial statements.	1 January 2018	1 July 2018
AASB 16	Leases	AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 Leases. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). The Group is currently assessing the impact of this standard.	1 January 2019	1 July 2019

Impact

The estimated impacts from applying AASB 15 on the Group's consolidated financial statements on a modified retrospective approach following the Group’s preliminary analysis are shown below:

Summarised impact

Item	Application
Performance fees	Under AASB 15, performance fee revenue will be recognised when the risk of reversal is no longer highly probable. The most significant impact of this will be to the timing of performance fee revenue recognition for closed-ended funds. The timing of cash flows to Blue Sky remains unchanged.
Development management fees	Under AASB 15, development management fees in relation to real estate development projects will be recognised evenly over the development lifecycle. The most significant impact of this will be to the timing that Development Management Fees are recognised as revenue. The timing of cash flows to Blue Sky remains unchanged.

The adoption of AASB 15 will also result in additional disclosures to the Group’s financial statements. The accounting policies for the Company’s investments in associates and joint ventures will be aligned to the Group. Net assets are estimated to decrease by $21.0 million on 1 July 2018 following the impacts of AASB 15 described above.

Estimate of cumulative impact on consolidated statement of financial position

Modified retrospective basis

	Balance at 30 June 2018 $'000	Estimated impact $'000	Restated balance at 1 July 2018 $'000
Assets			
Current assets			
Cash and cash equivalents	40,922	-	40,922
Trade and other receivables	43,384	(1,100)	42,284
Inventory - residential developments	1,120	-	1,120
Income tax receivable	4,175	-	4,175
Other assets	3,403	169	3,572
Total current assets	**93,004**	**(931)**	**92,073**
Non-current assets			
Trade and other receivables	49,737	(19,861)	29,876
Inventory - residential developments	3,800	-	3,800
Financial instruments at fair value through profit or loss	226	-	226
Investment property - retirement villages	112,170	-	112,170
Investments in associates and joint ventures	46,301	(5,775)	40,526
Property, plant and equipment	9,768	-	9,768
Intangible assets	9,591	-	9,591
Total non-current assets	**231,593**	**(25,636)**	**205,957**
Total assets	**324,597**	**(26,567)**	**298,030**
Liabilities			
Current liabilities			
Trade and other payables	18,602	-	18,602
Borrowings	6,179	-	6,179
Deferred revenue	7,506	462	7,968
Employee benefits	7,216	(13)	7,203
Resident loans - retirement villages	23,515	-	23,515
Total current liabilities	**63,018**	**449**	**63,467**
Non-current liabilities			
Deferred revenue	1,035	-	1,035
Employee benefits	4,141	(2,370)	1,771
Borrowings	86,138	-	86,138
Other liabilities	4,422	(2,650)	1,772
Deferred tax liabilities	1,031	(1,031)	-
Income tax	4,129	-	4,129
Total non-current liabilities	**100,896**	**(6,051)**	**94,845**
Total liabilities	**163,914**	**(5,602)**	**158,312**
Net assets	**160,683**	**(20,965)**	**139,718**

NOTE 3. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other factors, including expectations of future events that management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Revenue recognition – performance fees

Performance fees are recognised when financial performance outcomes in relation to funds managed by Blue Sky are probable and can be reliably measured. Performance fees are accrued when there is evidence that the stated hurdle rate within the respective fund constituent document has been exceeded. In order to ensure reliable measurement in relation to unrealised funds, performance fees are recognised and recorded after Blue Sky's valuation has been reviewed by an independent expert or valuer, where material. Given the majority of the assets managed by Blue Sky are classified as 'Level 3' assets in the fair value hierarchy, significant judgement regarding key assumption is required to determine fair value. Performance fees are adjusted to reflect actual cash flows following the realisation of assets within closed-ended funds.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Binomial pricing model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact the statement of comprehensive income and equity. The assumptions and models used for estimating fair value of share-based payment transactions are disclosed in Note 33.

Goodwill and other indefinite life intangible assets

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in Note 17. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including forecasted cash flows, estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Impairment

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment indicator exists, the recoverable amount of the asset is determined. This involves fair value less costs to sell or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Subsidiaries and associates

The Group has investments in a number of investees and is therefore required to assess whether it has significant influence, joint control or control over these investees in accordance with the guidelines provided in AASB 128 *Investments in Associates and Joint Ventures* and AASB 10 *Consolidated Financial Statements*, respectively. An assessment is performed at each reporting date, or more frequently where appropriate, with reference to the guidelines in the applicable accounting standards. Both quantitative and qualitative factors are taken into account when making this assessment. Assumptions are also made regarding whether assets or a business is acquired or disposed.

Investment entity and venture capital organisation exemption

The Group has investments in a number of investees that are considered associates in accordance with AASB 128 *Investments in Associates and Joint Ventures*. Further, a number of the associates satisfy the criteria to be considered an investment entity in accordance with AASB 10 *Consolidated Financial Statements*, or a venture capital organisation in accordance with AASB 128 *Investments in Associates and Joint Ventures*. As a result, the investments held by these entities are recorded at fair value and are therefore subject to valuation assumptions as mentioned in revenue recognition - performance fees above. Both quantitative and qualitative factors are taken into account when making this assessment.

Investment properties and resident loans – retirement villages

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are re-measured at fair value, which reflects market conditions. Estimates of fair value are prepared by management and are subject to independent review by a qualified expert where material. Refer to Note 15 and 20 for further details.

Resident loans are non-interest bearing and are payable at the end of the resident contract. They are classified as current liabilities because the Group does not have an unconditional right to defer settlement for at least 12 months after reporting date. Resident loans are presented net of deferred management fees contractually accrued to reporting date and other amounts owing by residents, which are offset against the repayment of the loan on settlement following a residents departure. Refer to note 20 for further details.

Recoverability of deferred tax assets and measurement of current and deferred tax liabilities

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

The Group has not recognised a deferred tax asset for unused tax losses of the Australian tax consolidated group as disclosed in Note 12. These Australian tax losses do not expire but are subject to tax loss recoupment rules. The Group has also not recognised a deferred tax asset for part of the deductible temporary differences related to the Australian tax consolidated group. The Group only recognised a deferred tax asset for deductible temporary differences relating to the Australian tax consolidated group up to the amount of taxable temporary differences related to the Australian tax consolidated group.

If the Group was able to recognise all unrecognised deferred tax assets, profit and equity would have increased by $11,577,492. Further details on taxes are disclosed in Note 12.

Inventory - residential development

Inventory is stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business (including residual land values), less estimated costs necessary to make the sale. Estimates of selling prices are prepared by management and are subject to independent review by a qualified expert where material.

Receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Section 2: Results for the Year

NOTE 4. OPERATING REVENUE

	Year ended	
	30 June 2018 $'000	**30 June 2017 $'000**
Management fees	24,184	18,572
Returned management fees[1]	(9,482)	(874)
Transaction fees	12,914	16,806
Returned transaction fees[1]	(8,590)	(1,071)
Performance fees	2,785	22,252
Responsible entity and trustee fees	249	1,266
Sales commissions	260	623
Interest revenue[2]	2,128	4,037
Other revenue	2,760	2,066
Supply of water utilities	-	1,851
Apartment sales revenue	-	306
Management and letting rights revenue	2,363	2,600
Deferred management fees - retirement villages	576	704
Total operating revenue[3]	**30,147**	**69,138**

[1] As part of the asset-by-asset review conducted in Q4 FY18, the decision was made to terminate or defer three student accommodation projects and three retirement living projects. As a result, investor capital and fees were returned during FY18.

[2] $967,658 of interest income recorded for the year ended 30 June 2018 related to interest earned on preference shares held in Excel Operations Holding Trust. Of this amount, $413,684 relates to interest income earned but not recognised in FY17.

[3] Refer to Note 29 for information regarding revenue from related parties.

ACCOUNTING POLICY

Revenue is measured at the fair value of the consideration received or receivable and is recognised if it meets the criteria below:

Management fees	Management fees for ongoing management services are charged on a regular basis and recognised as revenue at the time the services are provided. Management fees include development management fees which are typically charged as a percentage of the total development cost of a project for managing, organising and overseeing the pre-construction and development process of real estate development projects. Development management fee revenue is recognised on a milestone basis throughout the development life cycle.
Transaction fees	Transaction fees (establishment fees) are charged to compensate Blue Sky for costs associated with establishing funds and acquiring the associated assets. Revenue is recognised as per the contractual arrangements in each fund's constituent documents, and is typically upon the issue of units to investors in that fund.
Performance fees	Performance fees are recognised when financial performance outcomes in relation to funds managed by Blue Sky can be reliably measured. Performance fees are accrued when there is evidence that the stated hurdle rate within the respective fund constituent document has been exceeded. In order to ensure reliable measurement in relation to unrealised funds, performance fees are recognised and recorded after Blue Sky's valuation has been reviewed by an independent expert or valuer, where material. Performance fees are adjusted to reflect actual cash flows following the realisation of assets within closed-ended funds.
Responsible entity and trustee fees	Blue Sky Private Equity Limited, a 100% owned subsidiary of the Company, acts as the appointed responsible entity / trustee for a number of funds and receives the fees set out in the relevant fund constituent document. Responsible entity and trustee fees are charged on a regular basis and recognised as revenue at the time the services are provided.
Sales commissions	Sales commission revenue is recognised in stages when the services to which it relates have been performed and the right to receive payment has been established. Typically, this is on the sale and/or settlement of an apartment.
Interest revenue	Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.
Supply of water utilities revenue	Revenue from the supply of water utilities is recognised on an accruals basis in accordance with the contractual terms of supply agreements with customers.
Apartment sales revenue	Revenue from the sale of residential development properties is recognised when the developments are completed and sales are settled.
Management and letting rights revenue	Revenue from the rendering of property management and holiday agency services is recognised on an accruals basis when the right to receive the revenue is established, it can be reliably measured and it is probable that the revenue will be received.
Deferred Management Fees ('DMF') – retirement villages	DMF revenue from retirement village investment property is earned while a resident occupies an independent living unit and is recognised as revenue over the resident's expected tenure. The expected tenure is calculated with reference to Australian Bureau of Statistics current data relating to life expectancy and national trends of rollovers. DMF revenue is not discounted to present value, as the revenue is received by a reduction of the existing resident loan on its settlement. (refer to Note 20). DMF revenue to which the Group is contractually entitled at reporting date is presented on the Statement of Financial Position as a deduction from resident loans. The excess of DMF revenue to which the Group is contractually entitled at reporting date, over DMF revenue earned to date by amortisation of the expected period of tenure, is included in deferred revenue on the same.
Other revenue	Other revenue is recognised when it is received or when the right to receive payment is established.

NOTE 5. OTHER INCOME

	Year ended	
	30 June 2018 $'000	30 June 2017 $'000
Gain on disposal of subsidiary[1]	-	5,231
Unrealised gain/(loss) in fair value of investment properties (Note 15)	4,893	2,569
Unrealised gain/(loss) in fair value of resident loans (Note 20)	(265)	(283)
Other	167	(338)
Total other income	**4,795**	**7,179**

[1] This balance relates to the sale of Water Utilities Australia Group ('WUG') by the Water Utilities Australia Fund 1 ('WUA Fund 1').

NOTE 6. EXTERNAL SERVICE PROVIDERS

	Year ended	
	30 June 2018 $'000	30 June 2017 $'000
Transactional due diligence services	(4,744)	(1,599)
Audit & accounting services	(1,744)	(922)
Legal services	(635)	(183)
Other	(498)	(184)
Total external service providers expenses	**(7,621)**	**(2,888)**

NOTE 7. CONSULTANCY

	Year ended	
	30 June 2018 $'000	30 June 2017 $'000
Advisory & restructuring costs	(2,534)	-
Other	(1,350)	(1,240)
Total consultancy expenses	**(3,884)**	**(1,240)**

Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 8. PROVISIONS AND IMPAIRMENTS

	Year ended	
	30 June 2018 $'000	30 June 2017 $'000
Provisions - Loans (Note 13)	(23,710)	-
Provisions - Other (Note 13)	(578)	-
Amounts written off - Loans and other	(227)	-
Impairments - Goodwill (Note 17)	(3,016)	-
Impairments - Other	(2,936)	-
Total provisions and impairments	**(30,467)**	**-**

NOTE 9. OTHER EXPENSES

	Year ended	
	30 June 2018 $'000	30 June 2017 $'000
Fee rebate expenses to BAF	(2,742)	(5,933)
External capital raising costs for funds	(4,412)	(2,370)
Insurance	(694)	(642)
Gains and losses on contingent consideration - acquisition of Investment Science Pty Ltd	(200)	(50)
Costs associated with supply of water utilities	-	(601)
Costs associated with apartment sales (cost of inventory sold)	-	(259)
Management and letting rights expenses	(1,961)	(2,297)
Retirement village operator expenses	(1,183)	(320)
Franking deficit tax (Note 12)	(4,129)	-
Other	(386)	(250)
Total other expenses	**(15,707)**	**(12,722)**

NOTE 10. EARNINGS PER SHARE ('EPS')

	Year ended	
	30 June 2018 $'000	30 June 2017 $'000
Net profit/(loss) attributable to ordinary equity holders of the Parent	(70,646)	20,634

Number of shares	**'000**	**'000**
Weighted average number of ordinary shares used in calculating basic earnings per share	71,226	67,456
Weighted average number of ordinary shares and ordinary shares under option used in calculating diluted earnings per share	71,226	68,126
Statutory EPS (cents)	**(99.18)**	**30.59**
Diluted statutory EPS (cents)	**(99.18)**	**30.29**

ACCOUNTING POLICY

Basic earnings per share

Basic earnings per share is calculated by dividing the statutory profit attributable to the owners of the Group (excluding any costs of servicing equity other than ordinary shares), by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares. Potential ordinary shares shall be treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

NOTE 11. OPERATING SEGMENTS

Identification of reportable operating segments

The Group's core operating segment is Alternative Asset Management. This operating segment is based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. The financial information below in relation to the core operating segment incorporates the results, assets and liabilities of the 100% owned subsidiaries of the Group as outlined in Note 27.

There is no aggregation of operating segments.

The Group's non-core operating segment includes the various funds where control and/or significant influence exists. The management and performance of these entities is currently not being reviewed at an operating segment level by the CODM in the same manner at which the core operating segment is reviewed. However, the management and performance of these entities is reviewed regularly by the appropriate Investment Manager.

The CODM review both adjusted earnings before interest, tax, depreciation and amortisation (segment result) and net profit before income tax (segment result). The information is reported to the CODM on at least a monthly basis.

Year ended 30 June 2018	Core segment $'000	Non-core segment $'000	Adjustments and eliminations $'000	Consolidated $'000
Operating revenue	24,853	6,880	(1,586)	30,147
Depreciation and amortisation	(371)	(272)	-	(643)
Impairment - goodwill	(634)	(2,382)	-	(3,016)
Impairment - other	(1,002)	(1,934)	-	(2,936)
Share of profit/(loss) of associates and joint ventures	(6,221)	-	-	(6,221)
Segment profit/(loss)	(75,355)	(1,711)	54	(77,012)
Year ended 30 June 2017				
Operating revenue	67,983	5,489	(4,334)	69,138
Depreciation and amortisation	(420)	(1,010)	-	(1,430)
Share of profit/(loss) of associates and joint ventures	8,081	-	-	8,081
Segment profit/(loss)	21,165	11,234	(2,671)	29,728
As at 30 June 2018				
Total assets	195,796	132,700	(3,899)	324,597
Total liabilities	46,343	123,444	(5,873)	163,914
As at 30 June 2017				
Total assets	217,379	73,806	(2,713)	288,472
Total liabilities	93,377	60,684	(7,026)	147,035

In FY19, the internal reports that are reviewed and used by the CODM in assessing performance and allocating resources expect to change to include at least four operating groups and a corporate segment. These segments have been established based on the different core products and services offered and reflect the recent Blue Sky restructure initiatives to facilitate enhanced autonomy, alignment and oversight of business unit investment teams.

ACCOUNTING POLICY

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the CODM. The CODM are responsible for the allocation of resources to operating segments and assessing their performance.

NOTE 12. TAXATION

(a) Reconciliation of income tax expense

	Year ended	
	30 June 2018 $'000	**30 June 2017 $'000**
(Loss)/profit before income tax	(77,012)	29,728
Tax at the Australian tax rate of 30%	(23,103)	8,918
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Franked distribution	-	(895)
Non-deductible expenses	3,147	148
Non-assessable income	-	113
Deferred tax balances not brought to account	11,577	(661)
Sundry items	(15)	-
Effect of foreign tax rate	(1,019)	1,420
Income tax (benefit)/expense	**(9,413)**	**9,043**
Represented by:		
Current tax	(193)	4,771
Deferred tax	(9,220)	4,272
Aggregate income tax (benefit)/expense	**(9,413)**	**9,043**

Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2018

(b) Breakdown of deferred tax balances

	Deferred tax asset 30 June 2018 $'000	Deferred tax liability 30 June 2018 $'000	Deferred tax asset 30 June 2017 $'000	Deferred tax liability 30 June 2017 $'000
Tax losses	800	-	773	-
Employee benefits	2,792	-	1,163	-
Investments	2,901	(2,989)	1,334	(5,875)
Accrued expenses and provisions	10,481	-	4,420	-
Trade and other receivables	-	(10,994)	-	(13,289)
Transaction costs on share issue	1,086	-	527	-
Unearned income	-	-	8	-
Prepayments	-	(29)	-	(295)
Other	34	-	359	-
Adjustment for deductible temporary differences not recognised	(5,113)	-	-	-
Total	**12,981**	**(14,012)**	**8,584**	**(19,459)**
Set-off against deferred tax liabilities pursuant to set-off provisions	(12,981)	12,981	(8,584)	8,584
Net deferred tax balances	**-**	**(1,031)**	**-**	**(10,875)**

(c) Movements in deferred tax balances

	Opening balance $'000	Credited/ (Charged) to profit or loss $'000	Credited/ (Charged) to equity $'000	Credited/ (Charged) to other comprehensive income $'000	Deferred tax in business sale $'000	Tax losses $'000	Closing balance $'000
2018							
Deferred tax assets	8,584	3,353	993	-	-	51	12,981
Deferred tax liabilities	(19,459)	5,867	-	(420)	-	-	(14,012)
2017							
Deferred tax assets	6,248	2,022	8	-	(571)	877	8,584
Deferred tax liabilities	(19,225)	(6,294)	-	-	6,060	-	(19,459)

(d) Income Tax

	As at	
	30 June 2018 $'000	**30 June 2017 $'000**
Current		
Income tax receivable	(4,175)	-
Provision for income tax	-	1,345
Total current income tax	**(4,175)**	**1,345**

	As at	
	30 June 2018 $'000	**30 June 2017 $'000**
Non-current		
Provision for income tax	4,129	-
Total non-current income tax	**4,129**	**-**

The effective income tax rate for 2018 was impacted by not bringing to account deferred tax assets in relation to tax losses and deductible temporary differences. No deferred tax asset was recognised in relation to Australian tax losses of the company of $28,881,646 (2017: nil). The ability to utilise these losses will depend on satisfaction of tax loss recoupment rules and future Australian taxable income to offset them.

The Company has announced that its cost base is being reduced so that recurring management fees exceed fixed operating costs. This will allow variable revenue items, such as transaction fees, performance fees or investment income (together with any surplus recurring management fees) to fall to profit. For the purpose of recognising deferred tax assets, the Company has adopted a conservative policy of assuming that in future years it earns only contracted revenue and does not earn variable revenue. Therefore the Company has excluded future transaction fees, performance fees and investment income when calculating the probability of future taxable profit against which the losses may be offset. Consequently, much of the gross tax benefit of these losses has been excluded from the FY18 after tax earnings. In addition, although performance fees may be realised in FY19, the Company is conservatively assuming they are not significant in the context of whether to record a deferred tax asset on the tax losses.

Due to a reduction in the US corporate tax rate during 2018, there was also an abnormal tax benefit as a result of a reduction in deferred tax liabilities relating to the Group's US business.

The Company also recognised a provision for franking deficit tax. Due to the tax losses for the year, the Company will obtain a refund of tax instalments paid during the year. As a result of this refund and the tax loss position, it is likely that the Company will have a franking deficit at 30 June 2019 and be required to pay franking deficit tax in July 2019. This has not been recorded in income tax benefit/(expense) given it is not covered under AASB 112 *Income Taxes*, and has been recorded in other expenses (refer to Note 9).

Taxation authorities undertake risk reviews and audits as part of their normal activities. The Group has assessed these where relevant, including seeking advice where appropriate, and considers the positions adopted to be appropriate.

ACCOUNTING POLICY

Income tax

The income tax expense/(benefit) for the period is the tax payable/(refundable) on that period's taxable income/(loss) based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses and under and over provisions in prior periods, where applicable.

Deferred tax

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on the same taxable entity or different taxable entity's which intend to settle simultaneously.

Tax consolidation legislation

The Company and its wholly-owned Australian subsidiaries elected to form a tax consolidated group effective from 1 July 2011. Entities that were acquired after this date and that are eligible, join the tax consolidated group on acquisition date.

The parent entity and the tax consolidated group's wholly-owned tax consolidated entities continue to account for their current and deferred tax amounts. These tax amounts are measured based on a modified separate taxpayer within a Group approach (modified such that each entity continues to notionally recognise intra-group revenue and expenses, except that intra-group dividends are not assessable).

In addition to its current and deferred tax amounts, the Company also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from the tax consolidated Group's wholly-owned tax consolidated entities.

The members of the tax consolidated Group have entered into a tax funding agreement under which the wholly-owned entities fully compensate Blue Sky Alternative Investments Limited for any current tax payable assumed and are compensated by Blue Sky Alternative Investments Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Blue Sky Alternative Investments Limited.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other Group entities. Any differences between the amounts assumed and amounts receivable or payable under the tax funding agreements are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

The members of the tax consolidated Group have also entered into a tax sharing agreement which sets out the allocation of income tax liabilities between the entities, should the head entity default on its tax payment obligations and the treatment of entities leaving the tax consolidated Group.

Goods and Services Tax (GST) and other similar taxes

Revenues, expenses and assets are recognised net of the amount of GST, except:

- when the GST incurred on a sale or purchase of assets or services is not payable to or recoverable from the taxation authority, in which case the GST is recognised as part of the revenue or the expense item or as part of the cost of acquisition of the asset, as applicable;
- when receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Section 3: Operating Assets and Liabilities

NOTE 13. TRADE AND OTHER RECEIVABLES

	As at					
	30 June 2018			30 June 2017		
	Gross $'000	Provisions and impairments $'000	Net $'000	Gross $'000	Provisions and impairments $'000	Net $'000
Current						
Trade receivables	1,233	(139)	1,094	797	-	797
Other receivables	9,905	(7,394)	2,511	367	-	367
Performance fees receivable	8,331	-	8,331	3,012	-	3,012
Receivables from Blue Sky managed funds[1]	40,355	(8,907)	31,448	34,195	-	34,195
Total current trade and other receivables	**59,824**	**(16,440)**	**43,384**	**38,371**	**-**	**38,371**

[1] This balance relates mostly to unpaid fees in relation to Blue Sky managed funds and capital provided to Blue Sky managed funds including working capital loans and bridging finance.

Impairment

An impairment analysis is performed at each reporting date where the expected recovery value is less than the initial carrying value, the non-collectability of the receivables is provided for and a provision for impairment is raised.

The Group has recognised a loss of $139,435 (2017: nil) in profit or loss in respect of impairment of trade receivables for the year ended 30 June 2018.

	As at	
Aging of trade receivables	30 June 2018 $'000	30 June 2017 $'000
Current		
0 – 1 month	941	402
1 – 2 months	6	33
Over 2 months	147	362
	1,094	**797**

Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2018

Past due but not impaired trade receivables

Customers with balances past due but without provision for impairment of trade receivables amount to $153,156 as at 30 June 2018 (2017: $395,579). The Group did not adjust for credit risk on the aggregate balances after reviewing agency credit information and credit terms of customers based on recent collection practices.

	As at					
	30 June 2018			30 June 2017		
	Gross $'000	Provisions and impairments $'000	Net $'000	Gross $'000	Provisions and impairments $'000	Net $'000
Non-current						
Performance fees receivable	25,020	-	25,020	28,845	-	28,845
Receivables from Blue Sky managed funds[1]	32,565	(7,848)	24,717	24,209	-	24,209
Total non-current trade and other receivables	**57,585**	**(7,848)**	**49,737**	**53,054**	**-**	**53,054**

[1] $7,124,126 (2017: $4,572,571) relates to preference shares held by the Group in Excel Operations Holding Trust and has been reclassified from Investments in associates and joint ventures to trade and other receivables in current and prior year.

[1] This balance relates mostly to unpaid fees owing in relation to Blue Sky managed funds, loans to Blue Sky managed funds and staff loans for co-investment in Blue Sky managed funds.

ACCOUNTING POLICY

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

NOTE 14. INVENTORY - RESIDENTIAL DEVELOPMENTS

	As at	
Current	**30 June 2018 $'000**	**30 June 2017 $'000**
Cost of land acquisition	470	67
Development work in progress	2,753	388
Interest capitalised	212	36
Impairments	(2,315)	-
Total current inventory	**1,120**	**491**

	As at	
Non-current	**30 June 2018 $'000**	**30 June 2017 $'000**
Cost of land acquisition	3,800	402
Development work in progress	-	1,372
Interest capitalised	-	212
Total non-current inventory	**3,800**	**1,986**

Inventory has been allocated between current and non-current based on the latest information available in relation to the residential developments.

ACCOUNTING POLICY

Inventory is carried at the lower of cost and net realisable value. Net realisable value is determined based on sales for each class of inventory in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

Development work in progress

Costs have been assigned to inventory quantities at balance date based on the expected gross margin rate. The rate has been determined based on expected sales and costs from the remainder of the project. Cost comprises all costs of purchase and conversion including material, labour, sub-contract charges and direct contract expenses and an appropriate proportion of fixed and variable overheads.

The amount of any write-down of inventories to net realisable value is recognised as an expense in the Consolidated Statement of Profit or Loss. The amount of any reversal of write-down of inventory arising from a change in the circumstances that gave rise to the original write-down is recognised as a reduction in the impairment of inventories recognised as an expense in the Consolidated Statement of Profit or Loss.

Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 15. INVESTMENT PROPERTY – RETIREMENT VILLAGES

	As at	
At fair value	**30 June 2018 $'000**	**30 June 2017 $'000**
Balance at the beginning of the year - Aura	54,917	-
Acquisition of investment properties - Aura	-	16,969
Acquisition of development land - Aura	9,413	6,425
Capitalised subsequent expenditure - Aura	47,100	28,954
Unrealised gain/(loss) in fair value of investment properties (Note 5) - Aura[1]	4,893	2,569
Disposals of Investment Properties - Aura	(4,153)	-
Balance at the end of the year	**112,170**	**54,917**

[1] This balance excludes change in fair value of resident loans.

The investment property assets above relate to retirement villages owned by Aura, an entity established to own, operate and manage retirement villages throughout Australia including Blue Sky's portfolio of retirement villages.

The Group's investment properties consist of retirement villages held to earn revenues and capital appreciation over the long term, comprising of independent living units, common facilities and integral plant and equipment.

At 30 June 2018, the fair value of investment properties has been determined using the discounted cash flow valuation method. These valuations are based on projected cash flows using resident contracts and the current market value of individual retirement units.

Estimates of fair value are prepared by management and have been independently reviewed by a qualified expert.

Retirement villages are classified as level 3 in the fair value hierarchy, meaning key assumptions used in management's valuations are not directly observable. The key assumptions used are as follows:

- Discount rate of 13.4% to 15.6% (2017: 13.2% to 15.6%);
- Property price growth rates of 3% in the medium term and 3% in the long term (2017: 4% in the medium term and 4% in the long term);
- Average subsequent tenure period of 10 years for independent living units (2017: 10 years); and
- Aggregate current market value of occupied individual retirement units of $26,599,717 (2017: $16,819,685).

Increasing assumptions made on aggregate current market value of individual retirement units and property price growth rates would increase the fair value of the retirement villages (and vice-versa). If the value used for the capital growth input was 5% higher, the fair value of investment property would be $3,853,186 higher (2017: $1,958,977), and if the input was 5% lower, the fair value of investment property would be $2,605,171 lower (2017: $810,934). If the aggregate current market value of occupied ILU's was increased/(decreased) by 5%, then the fair value of investment property would also be 5% higher/(lower) (2017: same result). Similarly, increasing assumptions made about the discount rate and average tenure period would reduce the fair value of the retirement villages (and vice-versa). If the value used for the average tenure period input was 12 years, the fair value of investment property would be $27,505 lower (2017: $31,277) . If the discount rate used was 1% higher, the fair value of investment property would be $887,954 lower (2017: $333,920) and if the discount rate used was 1% lower, the fair value of investment property would be $913,313 higher (2017: $421,257).

An explanation of the fair value hierarchy is given in Note 22.

ACCOUNTING POLICY

Retirement villages are investment properties held to derive revenue and capital growth over the long term and are made up of independent living units, common facilities and integral plant and equipment. Retirement villages also include undeveloped land and land subject to residential site lease agreements including constructed independent living units.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are re-measured at fair value, which reflects market conditions. Estimates of fair value are prepared by management and are subject to independent review by a qualified expert where material. Gains or losses arising from changes in the fair values of investment properties are recognised in profit or loss in the period in which they arise. Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the period of retirement or disposal.

NOTE 16. PROPERTY, PLANT AND EQUIPMENT

	As at	
	30 June 2018 $'000	**30 June 2017 $'000**
Land and buildings - at cost	1,621	1,619
Less: Accumulated depreciation	(221)	(182)
	1,400	**1,437**
Plant and equipment - at cost[1]	5,449	130
Less: Accumulated depreciation	(85)	(8)
	5,364	**122**
Motor vehicles - at cost	111	111
Less: Accumulated depreciation	(48)	(37)
	63	**74**
Office equipment - at cost	1,807	1,547
Less: Accumulated depreciation	(951)	(756)
	856	**791**
Leased asset - fit out	3,313	3,204
Less: Accumulated depreciation	(1,234)	(852)
	2,079	**2,352**
Office equipment–under lease	120	120
Less: Accumulated depreciation	(114)	(113)
	6	**7**
Total property, plant and equipment	**9,768**	**4,783**

[1] The increase in this balance relates to the assets purchase by Sunday Ridge Group, a new wholly-owned subsidiary as at 30 June 2018.

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Land and buildings $'000	Plant and equipment $'000	Motor vehicles $'000	Office equipment $'000	Leased asset - fit out $'000	Leased office equipment $'000	Total $'000
Consolidated							
Balance at 1 July 2016	1,748	24,697	78	905	2,712	11	30,151
Additions	2	130	25	107	-	1	265
Disposals[1]	(301)	(23,881)	(16)	(30)	-	-	(24,228)
Depreciation expense	(12)	(824)	(13)	(191)	(360)	(5)	(1,405)
Balance at 30 June 2017	**1,437**	**122**	**74**	**791**	**2,352**	**7**	**4,783**
Consolidated							
Balance at 1 July 2017	1,437	122	74	791	2,352	7	4,783
Additions	2	5,319	-	260	109	-	5,690
Depreciation expense	(39)	(77)	(11)	(195)	(382)	(1)	(705)
Balance at 30 June 2018	**1,400**	**5,364**	**63**	**856**	**2,079**	**6**	**9,768**

[1] The decrease in the plant and equipment balance mainly relates to the sale of WUG by WUA Fund 1.

ACCOUNTING POLICY

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line and diminishing balance basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives. The useful lives of assets acquired in the ordinary course of business are in line with Australian Taxation Office guidelines as follows:

Land and buildings	40 years
Plant and equipment (including infrastructure assets)	5 - 80 years
Motor vehicles	6 – 8 years
Office equipment (including lease fit-out)	2 – 20 years

The useful lives of infrastructure assets acquired as a part of a business combination are assessed via independent engineering reviews, taking into account obsolescence.

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

NOTE 17. INTANGIBLE ASSETS

	As at	
	30 June 2018 $'000	30 June 2017 $'000
Goodwill - at cost	8,368	6,627
Less: Accumulated impairment	(3,016)	-
	5,352	**6,627**
Management rights - at cost	3,938	4,438
Less: Accumulated amortisation	(507)	(403)
	3,431	**4,035**
Licenses and trademarks - at cost	3	11
Less: Accumulated amortisation	-	-
	3	**11**
Website - at cost	292	153
Less: Accumulated amortisation	(100)	(61)
	192	**92**
Software - at cost	1,276	794
Less: Accumulated amortisation	(672)	(535)
	604	**259**
Other - at cost	35	34
Less: Accumulated amortisation	(26)	(20)
	9	**14**
Total intangible assets	**9,591**	**11,038**

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Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Goodwill $'000	Management rights $'000	Licenses & trademarks $'000	Website development $'000	Software $'000	Other $'000	Total $'000
Consolidated							
Balance at 1 July 2016	12,816	5,552	11	19	271	-	18,669
Additions	1,100	-	-	88	168	16	1,372
Disposals	(7,289)	(1,358)	-	-	-	-	(8,647)
Amortisation expense	-	(159)	-	(15)	(180)	(2)	(356)
Impairment	-	-	-	-	-	-	-
Balance at 30 June 2017	**6,627**	**4,035**	**11**	**92**	**259**	**14**	**11,038**

	Goodwill $'000	Management rights $'000	Licenses & trademarks $'000	Website development $'000	Software $'000	Other $'000	Total $'000
Consolidated							
Balance at 1 July 2017	6,627	4,035	11	92	259	14	11,038
Additions	1,741	-	-	139	482	-	2,362
Disposals	-	(500)	(8)	-	-	-	(508)
Amortisation expense	-	(104)	-	(39)	(137)	(5)	(285)
Impairment	(3,016)	-	-	-	-	-	(3,016)
Balance at 30 June 2018	**5,352**	**3,431**	**3**	**192**	**604**	**9**	**9,591**

Impairment

AASB 136 *Impairment of Assets* requires an entity to assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. AASB 136 identifies, as a minimum, indications which could result in an asset being impaired. One such indication is if there is a significant change with an adverse effect on the entity from a technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.

There are no indications of impairment for any assets held at 30 June 2018, unless stated otherwise below.

Goodwill

Irrespective of whether any indications of impairment exist, an entity shall test goodwill acquired from business combinations on an annual basis in accordance with AASB 136.

Total impairment losses from goodwill during the financial year ended 30 June 2018 were $3,016,254 (2017: nil). The impairment losses related to goodwill recorded upon acquisition of Wellington Road East Brisbane Trust 2 (Note 28) being written down to nil and the write-off of goodwill recorded in relation to Blue Sky Investment Science Pty Ltd following the anticipated closure of the Group's domestic hedge funds business unit.

1. Blue Sky Water Partners Pty Ltd (a wholly owned subsidiary of the Company)

Goodwill was acquired through the acquisition of Blue Sky Water Partners Pty Ltd (which trades as Blue Sky's Real Assets division). Blue Sky Water Partners Pty Ltd has been identified as a separate cash generating unit (CGU) distinct from other alternative asset classes within the business. The recoverable amount of the CGU has been determined by a value-in-use calculation using discounted cash flow projections approved by senior management covering a three-year period.

The projected cash flows have been updated to reflect the income and expenditure derived from managing Real Assets funds. The pre-tax discount rate applied to cash flow projections is 12%.

Key assumptions used in value in use calculations

The calculation of value in use for Blue Sky Water Partners Pty Ltd is most sensitive to the following assumptions:

(i) Procurement of fee-earning assets under management in real assets: Management have made estimates of the value of the fee-earning assets under management to the Group. Management has assumed that fee-earning assets under management grow by an average of $300 million p.a. over the next three years across water entitlements and agribusiness assets managed by Blue Sky.

(ii) Discount rates: Discount rates represent the current market assessment of the risks specific to the cash-generating unit taking into consideration the time value of money and inherent risks of the underlying cash flows. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital ('WACC'). A reasonably expected change in key cash flow projections of 1% would not alter the impact of the impairment assessment.

The carrying value of the goodwill is $4.2 million and the recoverable amount has been calculated as $25.6 million at 30 June 2018 (2017: $26.3 million). As a result of this analysis, management determined that no impairment is considered necessary as the recoverable amount of the CGU exceeds the carrying value for the financial year ended 30 June 2018.

ACCOUNTING POLICY

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the de-recognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangibles are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Where an entity or operation is acquired in a business combination, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of the acquisition over the fair value of the identifiable net assets acquired is brought to account as goodwill. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Management and letting rights

Management and letting rights are recognised at cost less any accumulated amortisation and any accumulated impairment losses. Management and letting rights are amortised over the life of the building with which they are associated on the basis that the useful life of the rights will equate to the period over which the building will be used for its current purpose. The Company has assessed that the buildings over which the Group has management and letting rights have a finite useful life of not less than 40 years.

Software

Costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 2.5 years.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever 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 asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 18. TRADE AND OTHER PAYABLES

	As at	
Current	**30 June 2018 $'000**	**30 June 2017 $'000**
Trade payables	1,680	5,453
Other payables	624	20
Accrued expenses	3,190	1,695
Lease incentive liability	387	359
Payables to Blue Sky managed funds[1] (Note 29)	12,721	28,140
Total current trade and other payables	**18,602**	**35,667**

[1] This balance relates mostly to uncalled capital in relation to investments in Blue Sky managed funds and fee rebates.

ACCOUNTING POLICY

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and not discounted. The amounts are unsecured.

NOTE 19. DEFERRED REVENUE

	As at	
Current	**30 June 2018 $'000**	**30 June 2017 $'000**
Unearned income	6,298	8,355
Unearned deferred management fees - Aura	1,208	706
Total current deferred revenue	**7,506**	**9,061**
Non-current		
Unearned income	1,035	3,637
Total non-current deferred revenue	**1,035**	**3,637**

ACCOUNTING POLICY

Unearned income

Revenues are deferred and recorded as liabilities when the services to which the revenue relates have not yet been performed at the reporting date.

Unearned deferred management fees

Unearned deferred management fees are recorded as a liability when the expected tenure of a resident is different to the resident's contracted term.

NOTE 20. RESIDENT LOANS – RETIREMENT VILLAGES

	As at	
	30 June 2018 $'000	**30 June 2017 $'000**
Opening balance	14,849	-
Deferred management fees	(576)	(1,410)
Unrealised gain/(loss) in fair value of resident loans (Note 5)	265	283
Net cash receipts on resident departures and arrivals	8,977	15,976
Closing balance	**23,515**	**14,849**

The resident loan liabilities above relate to retirement villages owned by Aura, an entity established to own, operate and manage retirement villages throughout Australia including Blue Sky's portfolio of retirement villages.

Resident loans are classified as level 3 in the fair value hierarchy, meaning that a key assumption used in their valuation is not directly observable. This key assumption is the aggregate current market value of the occupied retirement units of $26,599,717 (2017: $16,819,685). This was determined on the same basis as the market value of both occupied and unoccupied units used as an input into the fair value of Investment Property - Retirement Villages (Note 15). If the value used for this input was 5% higher, the fair value of the resident loans would be $901,277 higher (2017: $260,438 higher), and if the input was 5% lower, the fair value of the resident loans would be $901,277 lower (2017: $260,438 lower).

An explanation of the fair value hierarchy is given in Note 22.

ACCOUNTING POLICY

Resident loans are classified as financial liabilities at fair value through profit and loss with resulting fair value adjustments recognised in the Consolidated Statement of Profit or Loss. Fair value is the amount payable on demand and is measured at the principal amount plus the resident's share of any increases in market value to reporting date less deferred management fees contractually accruing to reporting date.

Resident loans are non-interest bearing and are payable at the end of the resident contract. They are classified as current liabilities because the Group does not have an unconditional right to defer settlement for at least 12 months after reporting date. The rate at which the Group's retirement residents vacate their units, and hence the rate at which the resident loans will fall due for repayment, can be estimated based on statistical tables.

Resident loans are presented net of deferred management fees contractually accrued to reporting date and other amounts owing by residents, which are offset against the repayment of the loan on settlement following a residents departure.

Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 21. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of cash flow from operating activities

	Year ended	
	30 June 2018 $'000	30 June 2017 $'000
(Loss)/profit after income tax expense for the year	(67,599)	20,685
Non-cash adjustments to reconcile (loss)/profit after tax to net cash flow from operations:		
Share options	1,974	1,086
Depreciation	990	1,430
Provisions and impairments	30,467	-
Share of loss/(profit) from associates and joint ventures	6,221	(8,081)
Change in fair value of investment properties	(4,893)	(2,569)
Change in fair value of resident loans	265	283
Gain on disposal of subsidiary	-	(5,231)
Loss on disposal of intangible assets	-	452
Other	-	(1,090)
Change in operating assets and liabilities		
(Increase)/Decrease in trade and other receivables	18,903	(8,191)
(Increase)/Decrease in inventories	(2,443)	112
(Increase)/Decrease in other operating assets	2,786	507
Increase/(Decrease) in trade and other payables	(16,472)	1,719
Increase/(Decrease) in provisions	6,341	2,119
Increase/(Decrease) in other non-current liabilities	(73)	(309)
Increase/(Decrease) in income tax provision	(5,520)	1,884
Increase/(Decrease) in resident loans	8,401	(1,411)
Increase/(Decrease) in deferred taxes	(9,844)	3,185
Increase/(Decrease) in deferred revenue	(4,157)	1,790
Net cash (used in)/from operating activities	**(34,653)**	**8,370**

(b) Cash and cash equivalents

	As at	
	30 June 2018 $'000	30 June 2017 $'000
Cash at bank	40,922	72,187
Total cash and cash equivalents	**40,922**	**72,187**

As at 30 June 2018, monies held on trust is nil (2017: nil).

ACCOUNTING POLICY

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Section 4: Capital and Financial Risk Management

NOTE 22. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial risk management objectives

The Group's principal financial assets comprise of cash and cash equivalents and trade and other receivables. The Group's principal financial liabilities comprise of borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations.

The Group's activities expose it to a variety of financial risks: for example, market risk (including interest rate risk), credit risk (including counterparty default risk) and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate risk, and ageing analysis for credit risk.

Risk management is carried out by senior management. The Board identifies and monitors the risk exposure of the Group and determines appropriate procedures, controls and risk limits. Senior management identifies, evaluates and monitors financial risks within the Group's operating units. Senior management reports to the Board on a monthly basis.

To improve governance and strengthen the compliance regime, Blue Sky has appointed a Chief Risk Officer to manage risk across the Blue Sky group. This is a new function, solely dedicated to risk and compliance oversight. The Chief Risk Officer is to be ultimately responsible for ensuring that there is standardised institutional grade risk management framework across the business.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk relates primarily to cash and cash equivalents and borrowings.

Sensitivity analysis

Based on the cash and cash equivalents (including term deposits) and borrowings held by the Group at balance date, the sensitivity on the Group's operating loss before tax from an increase/decrease of 50 basis points in floating interest rates, assuming all other variables remain constant is:

	As at	
	30 June 2018 $'000	30 June 2017 $'000
Impact on operating (loss)/profit before tax	19	253

The impact of interest rate sensitivity analysis for 2018 financial year is low, mainly due to other borrowings - Aura being charged on a fixed interest rate.

Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The Group obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the balance date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Liquidity risk

Liquidity risk is the risk that financial obligations of the Group cannot be met as and when they fall due without incurring significant costs. Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (primarily cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable. The Group manages liquidity risk by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Maturity profiles and cash flow forecasts are reviewed by the Board on a monthly basis to ensure sufficient liquidity within the Group.

In determining the level of liquidity to maintain, regard is had to liquidity obligations over the next 12 months during a period of liquidity stress in which capital would not be readily available, regulatory obligations such as Australian Financial Services Licence requirements and financial covenants attached to relevant contractual obligations of the Group.

With regard to the above and in the interests of prudent liquidity risk management, the Group has resolved to maintain a minimum level of liquidity of $20 million at all times. This minimum level of liquidity is reviewed periodically and adjusted as appropriate.

Capital management

In relation to capital management, capital includes issued capital and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise shareholder value. In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to any relevant contractual obligations of the Group and interest-bearing borrowings that have defined capital structure requirements. Breaches in meeting financial covenants may permit counter-parties to immediately call borrowings.

The Group's objectives when managing capital is to maintain an optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

There have been no events of default or breaches of financial covenants during the financial year and the Group was in compliance with all financial covenants at reporting date.

Contractual maturities

The following tables detail the Group's remaining contractual maturities for its financial liabilities. The tables have been prepared based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid.

	1 year or less $'000	Between 1 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Year ended 30 June 2018				
Interest-bearing loans and borrowings	6,179	86,138	-	-
Trade and other payables	18,602	-	-	-
Resident loans	23,515	-	-	-
Contingent consideration - acquisition of Investment Science Pty Ltd	-	319	-	-
Total	**48,296**	**86,457**	**-**	**-**
Year ended 30 June 2017				
Interest-bearing loans and borrowings	16,726	37,164	-	-
Trade and other payables	35,667	-	-	-
Resident loans	14,849	-	-	-
Contingent consideration - acquisition of Investment Science Pty Ltd	-	125	-	-
Total	**67,242**	**37,289**	**-**	**-**

Fair value

All financial instruments carried at fair value may be grouped into three categories, defined as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. They include quoted prices for similar assets or liabilities in active markets.

Level 3 inputs are unobservable inputs for an asset or liability. Unobservable inputs have been used to measure fair value where relevant observable inputs are not available.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Year ended 30 June 2018				
Financial liabilities				
Resident loan obligations at fair value through profit and loss	-	-	23,515	23,515
Year ended 30 June 2017				
Financial liabilities				
Resident loan obligations at fair value through profit and loss	-	-	14,849	14,849

The fair value of interest-bearing loans and borrowings are $92,316,751 at 30 June 2018 (2017: $53,891,149) and are level 3 financial instruments. Unless otherwise stated, the carrying amounts of financial assets and liabilities reflect their fair value. The carrying amounts of trade and other receivables, trade and other payables and borrowings are assumed to approximate their fair values due to their short-term nature or are at market rates. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial instruments.

ACCOUNTING POLICY

Financial assets

Financial assets are measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the Consolidated Statement of Profit or Loss when the asset is derecognised or impaired.

Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss are either: i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit; or ii) designated as such upon initial recognition, where they are managed on a fair value basis or to eliminate or significantly reduce an accounting mismatch. Fair value movements are recognised in the statement of comprehensive income.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for loans and receivables carried at amortised cost is 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 there is a reversal of impairment, the reversal cannot exceed the amortised cost that would have been had the impairment not been recognised and is reversed to the statement of comprehensive income. The amount of the impairment allowance for financial assets carried at cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for similar financial assets.

Financial liabilities

All financial liabilities are recognised initially at fair value and, in the case of loans, borrowings and payables, net of directly attributable transaction costs. Financial liabilities are derecognised when the obligation under the liability is discharged or cancelled, or expires. Interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

NOTE 23. BORROWINGS

	As at	
	30 June 2018 $'000	30 June 2017 $'000
Current		
Bank loans - Blue Sky	-	7,902
Bank loans - Aura	2,625	8,060
Bank loans - Wellington Road 2	2,000	-
Bank loans - Sunday Ridge Group	581	-
Other borrowings	973	764
Total current borrowings	**6,179**	**16,726**
Non-current		
Bank loans - Management Rights Income Fund 2	2,388	2,480
Bank loans - Aura	19,223	-
Other borrowings - Aura[1]	64,527	34,684
Total non-current borrowings	**86,138**	**37,164**

[1] This balance relates to borrowings from a number of Blue Sky Retirement Living Funds that are managed by the Group, in accordance with the constituent documents. The loans include interest representing the amount of development profit and the amount of the final pre-determined interest payment contractually owing to the Blue Sky Living Funds from Aura (in accordance with constituent documents) recognised at reporting date using the effective interest rate method. These loans are secured by mortgage over the individual retirement living developments. The interest is accrued on the loan until maturity and repayment which occurs once the development is complete and the right to reside in all ILU's have been sold to residents.

	Opening balance $'000	Cashflows $'000	Capitalised interest $'000	Borrowings acquired on acquisition of subsidiary $'000	Other $'000	Closing balance $'000
2017						
Current	8,603	8,077	196	-	(150)	16,726
Non-current	9,335	26,209	7,620	-	(6,000)	37,164

	Opening balance $'000	Cashflows $'000	Capitalised interest $'000	Borrowings acquired on acquisition of subsidiary $'000	Other $'000	Closing balance $'000
2018						
Current	16,726	(12,606)	59	2,000	-	6,179
Non-current	37,164	34,167	14,807	-	-	86,138

Other than 'Bank loans - Blue Sky', the above borrowings all relate to entities that have been consolidated by Blue Sky. These borrowings are guaranteed by the respective entities with no recourse to Blue Sky Alternative Investments Limited or its 100% controlled subsidiaries.

Interest rate risk in relation to the above borrowings and other financial assets and liabilities is considered in Note 22 of the financial statements.

ACCOUNTING POLICY

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method. Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

NOTE 24. EQUITY

(a) Contributed equity

	2018 Shares '000	2017 Shares '000	2018 $'000	2017 $'000
Ordinary shares - fully paid	77,528	67,693	220,058	120,613

	Date	Number of shares '000	Issue price $	$'000
Details				
Opening balance	1 July 2016	67,354	-	119,611
Share issue	29 August 2016	37	2.57	95
Share issue	21 October 2016	25	2.89	72
Share issue	21 February 2017	27	1.00	27
Share issue	28 February 2017	50	4.64	232
Share issue	15 May 2017	200	2.97	594
Equity raising costs (net of tax)		-	-	(18)
Closing balance	**30 June 2017**	**67,693**	**-**	**120,613**

	Date	Number of shares '000	Issue price $	$'000
Details				
Opening balance	1 July 2017	67,693	-	120,613
Share issue	23 August 2017	650	1.00	650
Share issue	4 September 2017	30	1.00	30
Share issue	6 September 2017	276	1.00	276
Share issue	12 October 2017	5	4.00	20
Share issue	12 October 2017	50	7.00	350
Share issue	12 October 2017	13	2.89	38
Share issue	23 October 2017	5	6.00	30
Share issue	1 November 2017	5	5.00	25
Share issue	1 November 2017	5	6.00	30
Share issue	1 November 2017	26	7.50	195
Share issue	6 November 2017	19	2.57	49
Share issue	25 January 2018	5	6.00	30
Share issue	7 March 2018	50	2.50	125
Share issue	13 March 2018	8,696	11.50	100,000
Equity raising costs (net of tax)		-	-	(2,403)
Closing balance	**30 June 2018**	**77,528**	**-**	**220,058**

Summary of ordinary share capital

	As at 30 June 2018 $'000	As at 30 June 2017 $'000
Opening balance - ordinary shares	120,613	119,611
Movements in ordinary share capital:		
Equity contributions	101,848	1,020
Equity raising costs (net of tax)	(2,403)	(18)
Closing balance - ordinary shares	**220,058**	**120,613**

Ordinary shares

The Group had authorised share capital amounting to 77,527,973 ordinary shares at 30 June 2018 (2017: 67,693,064).

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(b) Reserves

	As at 30 June 2018 $'000	As at 30 June 2017 $'000
Capital reserve	(7,436)	(7,436)
Share-based payments reserve	332	332
Employee share options reserve	3,531	1,557
Foreign currency translation reserve	959	-
Total reserves	**(2,614)**	**(5,547)**

	Capital reserve $'000	Share based payments reserve $'000	Employee share options reserve $'000	Foreign currency translation reserve $'000	Total reserves $'000
Movements in reserves					
Balance at 30 June 2016	(7,436)	332	471	-	(6,633)
Additions	-	-	1,086	-	1,086
Balance at 30 June 2017	(7,436)	332	1,557	-	(5,547)
Additions	-	-	1,974	959	2,933
Balance at 30 June 2018	**(7,436)**	**332**	**3,531**	**959**	**(2,614)**

Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2018

Capital reserve

This reserve is used to recognise adjustments to equity arising from the acquisition of non-controlling interests in subsidiary companies.

Share-based payments and employee share options reserve

These reserves are used to recognise the value of equity benefits provided to employees as part of their remuneration, and other parties as part of their compensation for services.

Foreign currency translation reserve

The results and financial position of all entities that have a functional currency other than Australian dollars are translated into Australian dollars as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing exchange rate at the date of that statement of financial position;
- income and expenses for each income statement are translated at actual exchange rates at the dates of the transactions; and
- all resulting exchange differences are recognised in other comprehensive income within a separate component of equity, being the foreign currency translation reserve.

ACCOUNTING POLICY

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction, net of tax, from the proceeds.

NOTE 25. DIVIDENDS

	As at	
	30 June 2018 $'000	30 June 2017 $'000
Cash dividends to the equity holders of Blue Sky **Dividends on ordinary shares declared and paid:**		
Final dividend in relation to the 2017 financial year: 23.0 cents fully franked per share		
(2016 financial year: 16.0 cents fully franked per share)	15,719	10,783
	15,719	**10,783**

The Group did not propose a dividend for the year ended 30 June 2018.

	As at	
	30 June 2018 $'000	30 June 2017 $'000
Franking account		
Balance as at the end of the financial year at 30%	22	1,208
Franking credits that will arise from the payment/receipt of income tax payable/(refundable)	(4,151)	1,368
Franking credits that will be used from the payment of dividends	-	-
Franking credits available for subsequent financial years at 30%	**(4,129)**	**2,576**
Franking credits that will be used from the payment of dividends declared subsequent to the reporting date at 30%	-	(6,672)
	(4,129)	**(4,096)**

In relation to the above franking credit deficit, the company has recognised a provision for franking deficit tax as noted in Note 12.

ACCOUNTING POLICY

Dividends are recognised when declared during the financial year and no longer at the discretion of the Group.

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Group, on or before the end of the financial year but not distributed at the reporting date.

Section 5: Group Structure

NOTE 26. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The Group's associates and joint ventures can be categorised into the following major asset classes:

1. *Private Equity*
   Specialise in funds that deploy capital into established growing businesses, primarily as 'expansion capital' or 'late stage venture capital'.

2. *Private Real Estate*
   Specialise in funds that include a range of real estate investments focusing on student accommodation, retirement living and commercial property.

3. *Real Assets*
   Specialise in funds that include a range of investments focusing on water entitlements and agribusiness.

Investments in associates and joint ventures are accounted for using the equity method where significant influence exists. Information relating to material associates and joint ventures is set out below.

	Percentage interest	
	30 June 2018 %	30 June 2017 %
Associate		
Blue Sky Private Equity Vinomofo Fund	19.30	19.30
Blue Sky Private Equity Retirement Village Fund	17.84	17.84
Blue Sky Retirement Living Parkwood Fund	-	8.21
Blue Sky Strategic Australian Agriculture Fund	4.29	5.54
Blue Sky Student Accommodation Funds (5-9)[1]	10.00	10.00
Cove Operating Company LLC	38.00	38.00
Valterra Hops Holdings LLC	-	24.00
Student Quarters Blue Sky GP LLC	59.40	59.40

1 The Blue Sky Student Accommodation Fund 8 was terminated in the 2018 financial year.

	As at	
	30 June 2018 $'000	30 June 2017 $'000
Investments		
Blue Sky Private Equity Vinomofo Fund	4,130	4,500
Blue Sky Private Equity Retirement Village Fund	181	217
Blue Sky Retirement Living Parkwood Fund	-	2,007
Blue Sky Strategic Australian Agriculture Fund	4,888	4,739
Blue Sky Student Accommodation Funds (5-9)[2]	8,978	10,822
Cove Operating Company LLC	7,593	11,397
Valterra Hops Holdings LLC[3]	-	5,172
Student Quarters Blue Sky GP LLC[4]	12,154	135
Other investments accounted for using the equity method[5]	8,377	8,005
Total investments accounted for using the equity method	**46,301**	**46,994**

2 The Blue Sky Student Accommodation Fund 8 was terminated in the 2018 financial year.

3 The Group disposed of its investment in the Valterra Hops Holdings LLC during the year to a Blue Sky managed fund realising a gain on sale of $3,259,877. Management acknowledged and discussed the related-party nature of the transaction extensively, giving consideration as to how best to manage the fiduciary duties to both shareholders and incoming fund investors. Management agreed to transfer the Company's interest at US$5.5 million, which was towards the low end of the valuation range deemed reasonable by an independent third party expert. This was disclosed to incoming fund investors. Refer to Note 29 related party transactions for a summary of the Conflict of Interest Policy.

4 The Group's economic interest in Student Quarters Blue Sky GP LLC has not changed during the year in percentage terms. The movement in the carrying amount during the year mostly reflects capital contributed, partially offset by the share of losses and impairments. Carrying value of the investment does not equal the proportionate share of business net assets due to the structure of the instrument used to invest. On a like-for-like basis the carrying amount at 30 June 2017 would have been $2,871,786.

5 $7,124,126 (2017: $4,572,571) relates to preference shares held by the Group in Excel Operations Holding Trust and is not included above given it has been reclassified from Investments in associates and joint ventures to trade and other receivables in the current and prior year.

Notes to Financial Statements - continued

	As at	
Reconciliation	**30 June 2018 $'000**	**30 June 2017 $'000**
Opening value	46,994	31,717
Additions	20,870	24,214
Disposals	(14,748)	(15,879)
Share of (loss)/profit of associates and joint ventures for the year	(6,221)	8,081
Impairments	(555)	-
Dividends	(39)	(1,139)
Closing value	**46,301**	**46,994**

	Year ended	
	30 June 2018 $'000	**30 June 2017 $'000**
Share of (loss)/profit of associates and joint ventures	(6,221)	8,081

The following tables illustrate the summarised financial information for the Group's material associates and joint ventures.

	Blue Sky Private Equity Vinomofo Fund $'000	Blue Sky Strategic Australian Agriculture Fund $'000	Blue Sky Student Accommodation Funds (5-9)[1] $'000	Cove Operating Company LLC $'000	Student Quarters Blue Sky GP LLC $'000
Summary - 2018					
Assets and liabilities					
Current assets	368	21,757	4,271	737	10,375
Non-current assets	20,000	94,408	79,296	23,174	3,015
Total assets	20,368	116,165	83,567	23,911	13,390
Current liabilities	-	(2,367)	(749)	(56)	(89)
Non-current liabilities	-	-	(3,186)	(4,324)	(1,147)
Total liabilities	-	(2,367)	(3,935)	(4,380)	(1,236)
Net assets	**20,368**	**113,798**	**79,632**	**19,531**	**12,154**
Proportion of the Group's ownership	19.30%	4.29%	10.00%	38.00%	59.40%
Carrying amount of the investment[2]	**3,931**	**4,882**	**7,963**	**7,422**	**7,219**
Revenue, expenses and results					
Revenue	(1,382)	5,738	(1,786)	(8,515)	1,865
Expenses	(475)	(1,570)	233	(2,977)	(3,191)
Profit/(loss) for the year	**(1,857)**	**4,168**	**(1,553)**	**(11,492)**	**(1,326)**
Group's share of profit for the year	**(358)**	**179**	**(155)**	**(4,367)**	**(788)**

	Blue Sky Private Equity Vinomofo Fund $'000	Blue Sky Retirement Living Parkwood Fund $'000	Blue Sky Strategic Australian Agriculture Fund $'000	Blue Sky Student Accommodation Funds (5-9) $'000	Cove Operating Company LLC $'000	Valterra Hops Holdings LLC $'000
Summary - 2017						
Assets and liabilities						
Current assets	1,594	21,699	86,690	20,161	488	-
Non-current assets	21,382	2,750	-	89,741	35,572	37,152
Total assets	22,976	24,449	86,690	109,902	36,060	37,152
Current liabilities	-	-	(1,135)	(403)	(17)	(16,088)
Non-current liabilities	-	-	-	(1,357)	(6,051)	-
Total liabilities	-	-	(1,135)	(1,760)	(6,068)	(16,088)
Net assets	**22,976**	**24,449**	**85,555**	**108,142**	**29,992**	**21,064**
Proportion of the Group's ownership	19.30%	8.21%	5.54%	10.00%	38.00%	24.00%
Carrying amount of the investment[2]	**4,434**	**2,007**	**4,740**	**10,814**	**11,397**	**5,055**
Revenue, expenses and results						
Revenue	1,382	-	-	12,195	34,125	5,300
Expenses	(565)	(2,351)	(195)	(6,076)	(9,613)	-
Profit/(loss) for the year	**817**	**(2,351)**	**(195)**	**6,119**	**24,512**	**5,300**
Group's share of profit for the year	**158**	**(193)**	**(11)**	**612**	**9,315**	**1,272**

[1] The Blue Sky Student Accommodation Fund 8 was terminated in the 2018 financial year.

[2] The carrying amount of the Group's ownership in the above funds does not equal the carrying amount of the investment as a result of changes in the investment percentage held by the Group throughout the year (where applicable), establishment costs incurred prior to the Group's investment and consideration paid to third parties for the Group's investment (where applicable).

ACCOUNTING POLICY

Associates are entities over which the Group has significant influence but not control or joint control.

Investments in associates are accounted for in the consolidated financial statements using the equity method. Under the equity method, the share of profits or losses of the associate are recognised in the Consolidated Statement of Profit or Loss. Investments in associates are carried in the Consolidated Statement of Financial Position at cost plus post-acquisition changes in the Group's share of net assets of the associates. Dividends received or receivable from associates reduce the carrying amount of the investment. Transactions between the Group and its associates are eliminated to the extent of the interest in the associate.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

NOTE 27. SUBSIDIARIES

Information relating to subsidiaries

The material subsidiaries of the Company based on contribution to the Group's assets, liabilities and results are:

		Equity holding	
	Principal place of business	30 June 2018	30 June 2017
Name of entity			
Australian Financial Services Licence holders			
Blue Sky Investment Science Asset Management Pty Ltd	Australia	100%	100%
Blue Sky Private Equity Ltd	Australia	100%	100%
Investment management entities			
Blue Sky Alternative Investments LLC	USA	100%	100%
Blue Sky Investment Science Pty Ltd	Australia	100%	100%
Blue Sky Private Real Estate Pty Ltd	Australia	100%	100%
Blue Sky Real Asset Investment Manager Pty Ltd	Australia	100%	100%
Blue Sky Residential Asset Managers Pty Ltd	Australia	100%	100%
Blue Sky SRA Alliance Pty Ltd	Australia	100%	100%
Blue Sky Water Partners Pty Ltd	Australia	100%	100%
BSAAF Management Pty Ltd	Australia	100%	100%
BSAI International Pty Ltd	Australia	100%	100%
BSPE Pty Ltd	Australia	100%	100%
BSPRE Investment Management Pty Ltd	Australia	100%	100%
BSVC Pty Ltd	Australia	100%	100%
Blue Sky Commercial Asset Managers Pty Ltd	Australia	100%	100%
Blue Sky VC GP Pty Ltd	Australia	100%	100%
Blue Sky Strategic Capital Pty Ltd	Australia	100%	-%
Blue Sky QC Holdings Pty Ltd	Australia	100%	-%
Other entities			
Sunday Ridge Dairies Pty Ltd	Australia	100%	-%
Sunday Ridge Robotics Pty Ltd	Australia	100%	-%
Sunday Ridge Homestead Pty Ltd	Australia	100%	-%
Blue Sky Venture Capital Fund	Australia	97%	-%
Wellington Road East Brisbane Trust 2	Australia	77%	-%
Riverside Gardens Trust	Australia	48%	48%
Aura Anzac Avenue Trust	Australia	50%	50%
Aura Australia Holding Trust	Australia	50%	50%
Aura Australia Holdings Pty Ltd	Australia	50%	50%
Aura Australia Management Pty Ltd	Australia	50%	50%
Aura Kingsford Terrace Trust	Australia	50%	50%
Blue Sky Management Rights Income Fund 2	Australia	48%	48%
Water Utilities Australia Fund 1	Australia	52%	52%

Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2018

Material partly-owned subsidiaries

Financial information of subsidiaries that have material non-controlling interests is provided below:

Proportion of equity interest held by non-controlling interests:

	Year ended	
	30 June 2018 %	30 June 2017 %
Name of entity		
Riverside Gardens Trust	52	52
Aura Australia Holdings Trust	50	50
Wellington Road East Brisbane Trust 2	23	-
Water Utilities Australia Fund 1	48	48

	Year ended	
	30 June 2018 $'000	30 June 2017 $'000
Accumulated balances of material non-controlling interest:		
Riverside Gardens Trust	424	(376)
Aura Australia Holdings Trust	1,774	(854)
Wellington Road East Brisbane Trust 2	-	-
Water Utilities Australia Fund 1	516	-
Profit/(loss) allocated to material non-controlling interest:		
Riverside Gardens Trust	(780)	(15)
Aura Australia Holdings Trust	919	854
Wellington Road East Brisbane Trust 2	-	-
Water Utilities Australia Fund 1	516	1,974

The summarised financial information of these subsidiaries are provided below. This information is based on amounts before inter-company eliminations.

Summarised statement of profit or loss - 2018

	Riverside Gardens Trust $'000	Aura Australia Holdings Trust $'000	Wellington Road East Brisbane Trust 2 $'000	Water Utilities Australia Fund 1 $'000
Revenue	20	5,254	-	-
Expenses	(1,513)	(3,416)	-	-
Profit/(loss) before income tax	(1,493)	1,838	-	-
Profit/(loss) for the year from continuing operations	(1,493)	1,838	-	-
Total comprehensive income	**(1,493)**	**1,838**	**-**	**-**
Attributable to non-controlling interests	(780)	919	-	516

Summarised statement of profit or loss - 2017

	Riverside Gardens Trust $'000	Aura Australia Holdings Trust $'000	Water Utilities Australia Fund 1 $'000
Revenue	306	3,009	6,766
Expenses	(335)	(1,300)	(3,478)
Profit/(loss) before income tax	(29)	1,709	3,288
Income tax benefit/(expense)	-	-	(202)
Profit/(loss) for the year from continuing operations	(29)	1,709	3,086
Total comprehensive income	**(29)**	**1,709**	**3,086**
Attributable to non-controlling interests	(15)	854	1,974
Dividends paid to non-controlling interests	-	-	5,672

Summarised statement of financial position as at 30 June 2018

	Riverside Gardens Trust $'000	Aura Australia Holdings Trust $'000	Wellington Road East Brisbane Trust 2 $'000	Water Utilities Australia Fund 1 $'000
Current assets	1,123	3,052	368	-
Non-current assets	-	115,029	3,800	-
Current liabilities	(261)	(28,584)	(2,228)	-
Non-current liabilities	-	(83,750)	-	-
Total equity	**862**	**5,747**	**1,940**	**-**
Attributable to:				
Equity holders of parent	438	3,973	1,940	(516)
Non-controlling interest	424	1,774	-	516

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FOR THE YEAR ENDED 30 JUNE 2018

Summarised statement of financial position as at 30 June 2017

	Riverside Gardens Trust $'000	Aura Australia Holdings Trust $'000	Water Utilities Australia Fund 1 $'000
	$’000	$’000	$’000
Current assets	495	2,271	643
Non-current assets	2,929	60,029	-
Current liabilities	(277)	(23,708)	(85)
Non-current liabilities	(772)	(34,684)	-
Total equity	**2,375**	**3,908**	**558**
Attributable to:			
Equity holders of parent	2,751	4,762	558
Non-controlling interest	(376)	(854)	-

Summarised cash flow information for year ending 30 June 2018

	Riverside Gardens Trust $'000	Aura Australia Holdings Trust $'000	Wellington Road East Brisbane Trust 2 $'000	Water Utilities Australia Fund 1 $'000
Operating	(115)	4,503	-	(85)
Investing	114	(34,644)	(2,955)	-
Financing	-	29,924	2,955	(409)
Net increase/(decrease) in cash and cash equivalents	**(1)**	**(217)**	**-**	**(494)**

Summarised cash flow information for year ending 30 June 2017

	Riverside Gardens Trust $'000	Aura Australia Holdings Trust $'000	Water Utilities Australia Fund 1 $'000
Operating	91	(1,170)	(391)
Investing	208	(33,973)	11,755
Financing	(297)	36,221	(11,838)
Net increase/(decrease) in cash and cash equivalents	**2**	**1,078**	**(474)**

NOTE 28. BUSINESS COMBINATIONS

Acquisitions in 2018

i) Wellington Road East Brisbane Trust 2 ('Wellington Rd 2')

On 29 June 2018, the Group acquired 59% of the units and voting interests in Wellington Rd 2. As a result, the Group's equity interest in the trust increased from 13% to 77%. Wellington Rd 2 was established to develop 75 residential apartments in an 8 storey building located at 140-148 Wellington Road, East Brisbane. As a result of acquiring additional units, the Group is required to consolidate the assets, liabilities and results of Wellington Rd 2 into its consolidated financial statements from the date of acquisition. Wellington Rd 2 contributed nil revenue and profit to the Group from the date of acquisition. If the acquisition had occurred on 1 July 2017, management estimates that consolidated Group income would have been nil and consolidated Group loss before tax would have been $77,620,568. In determining these amounts management has assumed fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if acquisition had occurred on 1 July 2017.

In accordance with AASB 10 *Consolidated Financial Statements,* the Group is deemed to have control over Wellington Rd 2 from 29 June 2018 given: (a) the percentage of voting interests held; (b) the size and variable nature of returns arising from the equity investment; and (c) the relative dispersion of the remaining interests not held.

The following table summarises the acquisition-date fair values of identifiable net assets of Wellington Rd 2:

	Fair value recognised on acquisition $'000
Assets	
Cash	1
Inventory	3,800
Other assets	370
Total assets	**4,171**
Liabilities	
Borrowings	(2,000)
Trade payables	(231)
Total liabilities	**(2,231)**
Total identifiable net assets at fair value	**1,940**
Non-controlling interest measured at fair value	(446)
Goodwill arising on acquisition (Note 17)	1,719
Purchase consideration transferred	**3,213**

The following table summarises the total acquisition-date fair value of the consideration transferred:

	$'000
Related party receivables[1]	3,213
Total consideration	**3,213**

[1] This relates to the conversion of the loan previously provided.

ACCOUNTING POLICY

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to the profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition date.

Where the business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition date fair value. Subsequent changes in the fair value of contingent consideration classified as an asset or liability are recognised in the statement of comprehensive income. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in the statement of comprehensive income by the acquirer on the acquisition date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition date. The measurement period ends on either the earlier of: (i) 12 months from the date of the acquisition; or (ii) when the acquirer receives all the information possible to determine fair value.

NOTE 29. RELATED PARTY TRANSACTIONS

The Company has a Conflicts of Interest Policy ('the Policy') setting out the procedures and controls which help to identify and appropriately manage conflicts of interest as they arise during the course of doing business. Systems and protocols are in place to identify actual, perceived or potential conflicts of interest. Once a conflict has been identified, procedures are implemented to ensure it is appropriately managed. Conflicts may potentially arise, for example, where:

- an advantage is gained or a financial loss avoided at the expense of a beneficiary, client, customer, unit holder or counterparty;
- an incentive exists to favour the interests of one beneficiary, client, or group of beneficiaries clients or customers, over another beneficiaries, client or group of beneficiaries, clients or customers.

Ultimate parent entity

Blue Sky Alternative Investments Limited is the ultimate parent entity of the entities defined as subsidiaries in Note 27. These subsidiaries are involved in the management of funds of related entities.

Associates

Blue Sky Alternative Investments Limited is associated to entities through its investments in those entities as set out in Note 26 (Investments in associates and joint ventures).

Key management personnel

Details of key management personnel are set out in Note 30.

	As at 30 June 2018		As at 30 June 2017	
	KMP $'000	BSAIL $'000	KMP $'000	BSAIL $'000
Related party investments in related entities				
Aura Australia Holding Trust	-	2,200	-	2,200
Blue Sky Agriculture Fund	175	-	180	-
Blue Sky Agriculture Fund II	50	-	50	-
Blue Sky Alternatives Access Fund Limited	197	-	821	-
Blue Sky Alliance Fund Dynamic Macro Units	-	-	25	-
Blue Sky Beach Burrito Company Fund	50	-	100	-
Blue Sky Carbon Services Trust	-	-	45	-
Blue Sky Digital Outdoor Advertising Fund	150	-	860	-
Blue Sky Hotel Fund	80	-	140	-
Blue Sky Mackay Mezzanine Debt Fund	50	-	-	-
Blue Sky Management Rights Income Fund	-	135	-	135
Blue Sky Management Rights Income Fund 2	-	2,190	-	2,190
Blue Sky Mining Services Trust	-	-	80	-
Blue Sky Premium Beef Development Fund	150	1,650	100	2,000
Blue Sky Private Equity 2010 Institutional Trust	65	1,486	125	1,486
Blue Sky Private Equity aCommerce Fund 2	10	-	-	-
Blue Sky Private Equity aCommerce Fund 3	50	-	-	-
Blue Sky Private Equity Akulaku Fund	25	-	-	-
Blue Sky Private Equity Aquila Fund	100	-	600	-
Blue Sky Private Equity Better Medical Fund	50	-	100	-
Blue Sky Private Equity Birch & Waite Fund	100	-	-	-
Blue Sky Private Equity Early Learning Fund	45	-	45	-
Blue Sky Private Equity Hospital Pharmacy Services Fund	-	-	72	-
Blue Sky Private Equity IT Consulting Fund	100	-	-	-
Blue Sky Private Equity Lexer Fund	20	-	20	-
Blue Sky Private Equity Origo Education Fund	40	-	40	-
Blue Sky Private Equity QFS Fund	50	-	50	-
Blue Sky Private Equity QFS Fund II	26	-	-	-
Blue Sky Private Equity Sunfresh Fund	80	-	-	-
Blue Sky Private Equity Tourism Fund	50	-	52	-
Blue Sky Private Equity Retirement Village Fund	-	4,350	140	4,350
Blue Sky Private Equity Vinomofo Fund	-	4,620	-	4,620
Blue Sky Private Equity Wild Breads Fund	70	-	140	-

Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2018

	As at 30 June 2018		As at 30 June 2017	
	KMP $'000	BSAIL $'000	KMP $'000	BSAIL $'000
Blue Sky Private Equity Wild Breads RCPS Fund	23	-	23	-
Blue Sky Residential Asset Income Fund 1/ Mackay Opco Pty Ltd	-	418	-	418
Blue Sky Residential Developments Fund	-	-	40	-
Blue Sky Retirement Living Corinda Fund	100	-	100	-
Blue Sky Retirement Living Parkwood Fund	-	-	-	2,200
Blue Sky SMG Fund	44	-	44	-
Blue Sky SMG Fund II	12	-	-	-
Blue Sky Solar Fund	50	-	-	-
Blue Sky Strategic Australian Agriculture Fund	-	4,750	-	4,750
Blue Sky Student Accommodation Fund II	-	-	5	-
Blue Sky Student Accommodation Fund 5	-	2,163	-	2,163
Blue Sky Student Accommodation Fund 6	-	1,575	-	1,575
Blue Sky Student Accommodation Fund 7	-	2,150	-	2,150
Blue Sky Student Accommodation Fund 8	-	-	-	2,375
Blue Sky Student Accommodation Fund 9	-	3,331	-	2,100
Blue Sky VC2012 Fund LP	125	525	225	525
Blue Sky VC2014 Fund LP	50	-	50	-
Blue Sky VC2017 ESVCLP Fund LP	-	2,500	-	2,500
BSPE Mining Services Unit Trust	70	-	-	-
Blue Sky Venture Capital Fund	-	214	-	-
Blue Sky VC Milk Fund	-	-	568	200
Blue Sky Water Fund	222	-	590	-
Coolibah Water Trust	-	730	-	-
Cove Property Group 441 Ninth Avenue Trust	50	-	50	-
Duke Street Kangaroo Point Trust	-	125	-	125
Excel Operations Holding Trust	-	9,499	-	6,097
Fresh Country Farms of Australia Pty Ltd	-	2,441	-	-
Fresh Country Farms of Australia No. 2 Pty Ltd	-	216	-	-
High Street Lutwyche Trust	-	-	-	1,000
Milky Way Development 2 Unit Trust	169	-	169	-
Milky Way Development 4 Unit Trust	50	-	200	-
RCL Accelerator Fund One	-	10	-	10
Riverside Gardens Trust	36	1,200	137	1,200
Wellington Road East Brisbane Trust 2	-	3,815	-	860

	As at 30 June 2018		As at 30 June 2017	
	KMP $'000	BSAIL $'000	KMP $'000	BSAIL $'000
Water Utilities Australia Fund 1	-	7,875	-	7,875
Water Utilities Australia Fund 2	-	1,236	-	1,236
Valterra Hops Holdings LLC	-	-	-	3,900
Total	**2,784**	**61,404**	**5,986**	**60,240**

The above amounts are recorded at the entry price paid or committed for the relevant investment in accordance with AASB 124 *Related Party Disclosures* and have not been adjusted for subsequent valuation changes.

The majority of the decrease in total KMP investments in related entities is a result of KMP movements during the financial year.

Certain KMP and their related parties have transacted with entities managed by subsidiaries within the Group. All transactions with KMP (including their related parties) were conducted on an arm's length basis in the ordinary course of business and under standard terms and conditions for other customers and employees.

Fees

The Company provides management services to the funds it manages (which are defined as either associates or related entities).

	Year ended	
	30 June 2018 $'000	30 June 2017 $'000
Revenue from associates		
Management fees (net of returned fees)	385	9,854
Transaction fees (net of returned fees)	(755)	-
Performance fees	(668)	1,373
Responsible entity and trustee fees (net of returned fees)	20	472
Other revenue	607	1,700
Total	**(411)**	**13,399**
Revenue from related entities		
Management fees (net of returned fees)	12,038	21,919
Transaction fees (net of returned fees)	4,854	-
Performance fees	(2,906)	20,895
Responsible entity and trustee fees (net of returned fees)	230	794
Other revenue	2,732	4,644
Total	**16,948**	**48,252**
Total revenue from related parties[1]	**16,537**	**61,651**

[1] Includes non-rebateable fees of $1,019,782 from Blue Sky Alternatives Access Fund (2017: $2,864,553).

Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2018

Receivables from and payables to related parties

Balances held with related parties as disclosed in Note 13 and Note 18 are shown below:

	As at					
	30 June 2018			30 June 2017		
	Gross $'000	Provisions and impairments $'000	Net $'000	Gross $'000	Provisions and impairments $'000	Net $'000
Receivables						
Current trade and other receivables from associates	5,159	(1,831)	3,328	17,174	-	17,174
Current trade and other receivables from related parties	35,196	(7,076)	28,120	17,021	-	17,021
Non-current trade and other receivables from associates	11,059	(668)	10,391	7,307	-	7,307
Non-current trade and other receivables from related parties	21,506	(7,180)	14,326	12,329	-	12,329
Total	**72,920**	**(16,755)**	**56,165**	**53,831**	**-**	**53,831**

	As at	
Payables	30 June 2018 $'000	30 June 2017 $'000
Current trade and other payables to associates	3,629	19,369
Current trade and other payables to related parties	9,092	8,771
Non-current trade and other payables to associates	2,193	2,874
Non-current trade and other payables to related parties	217	3,603
Total	**15,131**	**34,617**

Loans to related parties

The Group has loans owing from related parties and associates at 30 June 2018. These loans are provided on commercial terms with interest being charged at an interest rate of 10% per annum (2017: 10% per annum) where appropriate.

Where loans have been made to Blue Sky employees (including KMP), interest has been charged at interest rates ranging from 3.97% to 4.41% per annum (2017: 4.41% to 4.81% per annum).

NOTE 30. KEY MANAGEMENT PERSONNEL DISCLOSURES

Directors

The following persons were Directors of the Company during the financial year:

John Kain (Chair)
Timothy Wilson (Deputy Chair)
Nicholas Dignam (Resigned 23 April 2018)
Michael Gordon (Resigned 14 May 2018)
Elaine Stead (Resigned 23 April 2018)
Alexander McNab (Resigned 7 May 2018)
Kim Morison
Robert Shand (Resigned 23 April 2018)
Philip Hennessy

Other key management personnel

The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, during the financial year:

Jane Prior (Joint Company Secretary) (maternity leave since 10 March 2018)
Leyya Taylor (Joint Company Secretary) (appointed 22 February 2018)

Compensation

The aggregate compensation paid/payable to Directors and other members of key management personnel of the Group is set out below:

	Year ended	
	30 June 2018 $'000	**30 June 2017 $'000**
Short-term employee benefits	3,069	3,809
Post-employment benefits and long service leave	273	275
Termination payments	597	-
Share based payments	202	296
Total	**4,141**	**4,380**

Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2018

Shareholdings

The number of shares in the Company held during the financial year by each Director and other members of key management personnel of the Group, including their related parties, is set out below:

	Balance at the start of the year '000	Granted as remuneration '000	Additions '000	Disposals '000	Balance at the end of the year[5] '000
Ordinary shares					
2018					
John Kain	1,301	-	59	-	1,360
Timothy Wilson	1,705	-	-	(150)	1,555
Michael Gordon[1]	10	-	15	-	25
Philip Hennessy	5	-	10	-	15
Alexander McNab[2]	1,004	-	-	(100)	904
Kim Morison	947	-	-	(50)	897
Robert Shand[3]	200	-	20	-	220
Elaine Stead[3]	19	-	9	-	28
Jane Prior	156	-	-	-	156
Leyya Taylor[4]	-	-	1	-	1
	5,347	**-**	**114**	**(300)**	**5,161**

1 On 14 May 2018, Michael Gordon resigned as a Director of the Company.
2 On 7 May 2018, Alexander McNab resigned as a Director of the Company.
3 On 23 April 2018, Robert Shand and Elaine Stead resigned as Directors of the Company.
4 On 22 February 2018, Leyya Taylor was appointed as a Joint Company Secretary of the Company.
5 Or date of ceasing to be a KMP if earlier.

	Balance at the start of the year '000	Granted as remuneration '000	Additions '000	Disposals '000	Balance at the end of the year[9] '000
2017					
John Kain	1,210	-	91	-	1,301
Timothy Wilson	1,700	-	5	-	1,705
Michael Gordon[6]	-	-	10	-	10
Philip Hennessy[6]	5	-	-	-	5
Alexander McNab	1,004	-	-	-	1,004
Kim Morison	947	-	-	-	947
Robert Shand[7]	200	-	-	-	200
Mark Sowerby[8]	8,365	-	-	(3,365)	5,000
Elaine Stead[7]	15	-	4	-	19
Jane Prior	156	-	-	-	156
	13,602	**-**	**110**	**(3,365)**	**10,347**

6 On 17 February 2017, Michael Gordon and Philip Hennessy were appointed as independent Non-Executive Directors of the Company.
7 On 29 September 2016, Robert Shand and Elaine Stead were appointed as Directors of the Company.
8 On 30 September 2016, Mark Sowerby retired from his role as Managing Director of the Company.
9 Or date of ceasing to be a KMP if earlier.

Share options

The number of share options in the Company held during the financial year by each Director and other members of key management personnel of the Group, including their related parties, is set out below:

	Balance at the start of the year '000	Granted as remuneration '000	Option exercised '000	Option forfeited '000	Balance at the end of the year[2] '000	Total '000	Exercisable '000	Not exercisable '000
Share options								
2018								
Nicholas Dignam[1]	500	250	-	-	750	750	50	700
Robert Shand[1]	1,338	-	-	(1,338)	-	-	-	-
Elaine Stead[1]	200	250	-	-	450	450	-	450
Jane Prior	75	50	-	-	125	125	75	50
	2,113	**550**	**-**	**(1,338)**	**1,325**	**1,325**	**125**	**1,200**
2017								
Nicholas Dignam[1]	200	300	-	-	500	500	100	400
Robert Shand[1]	38	1,300	-	-	1,338	1,338	19	1,319
Elaine Stead[1]	-	200	-	-	200	200	-	200
Jane Prior	75	-	-	-	75	75	56	19
	313	**1,800**	**-**	**-**	**2,113**	**2,113**	**175**	**1,938**

[1] On 29 September 2016, Nicholas Dignam, Robert Shand and Elaine Stead were appointed as Directors of the Company. On 23 April 2018, Nicholas Dignam, Robert Shand and Elaine Stead resigned as Directors of the Company.

[2] Or date of ceasing to be a KMP if earlier.

Share based compensation

550,000 share options were granted as remuneration to KMP during the year ended 30 June 2018 (2017: 1,800,000). Nicholas Dignam and Elaine Stead were granted 250,000 share options from issue 4 in Note 33 during the year ended 30 June 2018, respectively. Jane Prior was granted 50,000 share options from issue 6 in Note 33 during the year ended 30 June 2018.

8,346 share acquisition rights were granted during the year ended 30 June 2018 (2017: nil). 4,641 share acquisition rights were forfeited during the year ended 30 June 2018 (2017: nil).

Related party transactions

Related party transactions are set out in Note 29.

Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 31. PARENT ENTITY INFORMATION

Set out below is the supplementary information about the parent entity:

	Year ended	
	30 June 2018 $'000	30 June 2017 $'000
Statement of comprehensive income		
Net (loss) after income tax	(39,093)	(13,640)
Total comprehensive income	**(39,093)**	**(13,640)**

	As at	
	30 June 2018 $'000	30 June 2017 $'000
Statement of financial position		
Total current assets	28,687	33,200
Total assets	115,828	76,058
Total current liabilities	3,658	15,271
Total liabilities	11,374	18,213
Equity		
Contributed equity	220,058	120,613
Reserves	3,864	1,889
Accumulated losses	(119,469)	(64,657)
Total equity	**104,453**	**57,845**

Contingent liabilities

The Company has provided Letters of Financial Support to its wholly owned subsidiaries Blue Sky Water Partners Pty Ltd, Blue Sky Residential Asset Managers Pty Ltd and Blue Sky Students Operations Fund. Pursuant to these letters, the Company undertakes to provide financial support for the debts of these subsidiaries.

At the date of this declaration, there are reasonable grounds to believe that Blue Sky Water Partners Pty Ltd, Blue Sky Residential Asset Managers Pty Ltd and Blue Sky Students Operations Fund will be able to meet any obligations or liabilities to which they are, or may become, liable due to the Letters of Financial Support.

Section 6: Other

NOTE 32. EMPLOYEE BENEFITS

(a) Amounts recognised in profit or loss

	Year ended	
	30 June 2018 $'000	**30 June 2017 $'000**
Employee benefits		
Salaries[1]	27,468	19,681
Performance based compensation[2]	6,249	5,746
Share based payments	1,975	1,086
Total employee benefits	**35,692**	**26,513**

[1] $1,887,901 relates to termination and redundancy expenses incurred during the financial year (2017: nil).
[2] $4,656,234 relates to employee retention measures implemented during the financial year (2017: nil).

(b) Amounts recognised in balance sheet

	As at	
	30 June 2018 $'000	**30 June 2017 $'000**
Current		
Annual leave	1,177	1,091
Long service leave	42	-
Salary and superannuation[1]	5,997	3,333
Total current employee benefits	**7,216**	**4,424**
Non-current		
Long service leave	669	506
Salary and superannuation[2]	3,472	4,186
Total non-current employee benefits	**4,141**	**4,692**

[1] $4,493,771 relates to performance based compensation (2017: $2,508,337).
[2] $3,471,825 relates to performance based compensation (2017: $4,185,628).

ACCOUNTING POLICY

Provisions

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability.

Employee benefits

Wages and salaries, annual leave, bonuses

Liabilities for wages and salaries, including non-monetary benefits, annual leave and bonuses in accordance with the Investment Company Bonus Policy are recognised in current and non-current liabilities depending on the expected date of settlement. Those expected to be settled within 12 months of the reporting date are recognised in current liabilities and are measured at the amounts expected to be paid when the liabilities are settled. Those not expected to be settled within 12 months of the reporting date are recognised in non-current liabilities and are measured using the present value of expected future payments.

Long service leave

The liability for long service leave is recognised in current and non-current liabilities, depending on the unconditional right to defer settlement of the liability for at least 12 months after the reporting date. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

NOTE 33. SHARE-BASED PAYMENTS

	2018 Number '000	2018 WAEP[1]	2017 Number '000	2017 WAEP[1]
Options outstanding at 1 July	**5,381**	**$6.45**	**2,428**	**$3.72**
Granted during the year	4,067	$10.17	3,492	$8.05
Forfeited during the year	(1,578)	$7.73	(200)	$7.00
Exercised during the year	(1,139)	$1.63	(339)	$3.01
Options outstanding at 30 June	**6,731**	**$9.37**	**5,381**	**$6.45**
Exercisable at 30 June	528	$3.92	1,060	$2.29

[1] Weighted Average Exercise Price ('WAEP').

The weighted average remaining life of share options outstanding as at 30 June 2018 was 4.61 years (2017: 3.74 years).

The weighted average fair value of share options granted during the year was $425,761 (2017: $272,478).

The range of exercisable prices for share options outstanding at the end of the year was $2.50 to $13.14 (2017: $1.00 to $10.00).

The information below lists the inputs to the models used for the years ended 30 June 2018 and 30 June 2017.

2018	Issue 1	Issue 2	Issue 3	Issue 4
Dividend yield (%)	2.50%	2.17%	1.86%	1.76%
Expected volatility (%)	32.50%	32.50%	32.50%	32.50%
Risk-free interest rate (%)	2.01%	2.24%	2.37%	2.18%
Expected life of options (years)	6.0	6.0	6.0	6.0
Weighted average strike price ($)	$10.00	$10.00	$10.00	$10.00
Model used	Binomial	Binomial	Binomial	Binomial

	Issue 5	Issue 6	Issue 7	Issue 8
Dividend yield (%)	1.75%	1.70%	1.83%	1.83%
Expected volatility (%)	32.50%	32.50%	32.50%	32.50%
Risk-free interest rate (%)	2.17%	2.27%	2.34%	2.34%
Expected life of options (years)	6.0	6.0	6.0	8.0
Weighted average strike price ($)	$13.14	$12.50	$10.00	$10.00
Model used	Binomial	Binomial	Binomial	Binomial

2017	Issue 1	Issue 2	Issue 3	Issue 4
Dividend yield (%)	2.09%	2.71%	2.00%	2.14%
Expected volatility (%)	35.00%	35.00%	35.00%	35.00%
Risk-free interest rate (%)	2.11%	2.16%	1.62%	2.27%
Expected life of options (years)	6.0	6.0	6.0	6.0
Weighted average strike price ($)	$10.00	$7.7	$8.63	$7.50
Model used	Binomial	Binomial	Binomial	Binomial

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

The Group has recognised a $1,974,734 (2017: $1,086,000) expense in relation to share options in the 30 June 2018 financial statements.

The majority of share options issued vest evenly over a period of between four and five years should an accelerated vesting event not occur, and will be settled through the issue of shares once they are exercised.

The Group has recognised a $67,644 (2017: nil) expense in relation to share acquisition rights in the 30 June 2018 financial statements.

ACCOUNTING POLICY

Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is determined by using the Binomial pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option. The probability of meeting non-market vesting conditions is used to estimate the number of options which are likely to vest.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to the statement of comprehensive income is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in the statement of comprehensive income for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

When an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

NOTE 34. OTHER ASSETS

	As at	
	30 June 2018 $'000	30 June 2017 $'000
Current		
Prepayments	3,403	4,651
Total other assets	**3,403**	**4,651**

NOTE 35. OTHER LIABILITIES

	As at	
	30 June 2018 $'000	30 June 2017 $'000
Non-current		
Contingent consideration - acquisition of Investment Science Pty Ltd	319	125
Lease incentive liability	1,693	1,992
Related party payables (Note 29)	2,410	6,478
Total other non-current liabilities	**4,422**	**8,595**

NOTE 36. COMMITMENTS AND CONTINGENT LIABILITIES

	Year ended	
	30 June 2018 $'000	30 June 2017 $'000
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	2,128	1,945
One to five years	6,578	6,412
More than five years	1,911	3,103
Total commitment	**10,617**	**11,460**

Operating lease commitments include leases of property, plant and equipment. Rental payments are subject to inflation and the leases contain extension and renewal options.

	Year ended	
	30 June 2018 $'000	30 June 2017 $'000
Investment commitments		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	175	12,867
One to five years	-	-
More than five years	-	-
Total commitment	**175**	**12,867**

Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2018

Blue Sky manages funds and mandates on behalf of a number of domestic and offshore institutional investors, some of which require Blue Sky to provide co-investment capital to facilitate alignment. Given the provision of co-investment capital is dependant on sourcing appropriate investment opportunities, among other things, it is generally not considered committed at reporting date unless an investment opportunity is unconditional and the capital has been called upon to settle the investment.

Contingent liabilities

Contingent liabilities exist in respect of actual and potential claims and proceedings that arise in the conduct of the business. In the event it is likely that a loss is probable and can be reliably measured then a liability is recognised and the exposure is excluded from the contingent liabilities. There are currently no liabilities recognised of this nature (2017: nil) and the Company is currently not engaged in any litigation or claim which is likely to have a material adverse effect on the Company's business, financial condition or performance.

The Company has reported three AFSL breaches to ASIC; ASIC has requested information from the Company pertaining to its continuous disclosure obligations; and three law firms have advertised for participants in a class action. There has been no liability accrued in respect of any of these matters as there is no probable liability which can be reliably measured. If such future liabilities do accrue, they will be recorded in future periods.

The Company has provided a letter of Financial Support to its partly owned subsidiary Excel Operations Holding Trust. Pursuant to this letter, the Company undertakes to provide financial support for the debts of this entity.

At the date of this declaration, there are reasonable grounds to believe that Excel Operations Holding Trust will be able to meet any obligations or liabilities to which they are, or may become, liable due to the Letter of Financial Support.

ACCOUNTING POLICY

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

NOTE 37. REMUNERATION OF AUDITORS

During the financial year the following fees were paid or payable for services provided by Ernst & Young, the auditor of the Group, and its related practices:

	Year ended	
	30 June 2018 $'000	30 June 2017 $'000
Audit and other assurance services		
Audit and review of financial statements	595,000	296,412
Other assurance services	308,635	167,378
Total remuneration for audit and other assurance services	**903,635**	**463,790**
Other non-audit services		
Other advisory services	196,313	167,131
Taxation services	62,024	11,845
Total remuneration for other non-audit services	**258,337**	**178,976**
Total remuneration of Ernst & Young	**1,161,972**	**642,766**

The statutory audit requirements for the Company vary from year to year and can have an impact on the level of audit fees. The Company may decide to engage the auditor on other non-audit assignments in addition to their statutory audit duties where the auditor's expertise and experience with the Company is important.

The majority of other assurance services in FY18 relate to audit of the GS007 and Australian financial services ('AFS') licence holders. The majority of non-audit services in FY18 relate to advisory on financial close process review, Non-executive director ('NED') Sacrifice Share Acquisition Plan ('SSAP') and taxation services.

The auditor has provided an independence declaration and the Audit Committee is satisfied that the work performed on other non-audit services was conducted by a team separate from the audit team and does not impact the independence of the auditor.

Ernst & Young provided occupancy services to the Group. All transactions with Ernst & Young were conducted on an arm's length basis in the ordinary course of business and under standard terms and conditions for other customers and employees.

Notes to Financial Statements - continued

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 38. EVENTS SUBSEQUENT TO THE REPORTING DATE

Retirement platform sale

Blue Sky announced on 24 August 2018 that it had signed a binding agreement with an offshore institutional investor to sell the wholesale funds' interests in the Company's six retirement living funds and its 50% interest in Aura, the operator of the retirement living business. The sale remains conditional on Foreign Investment Review Board ('FIRB') approval and third-party consents, with settlement expected by the end of September 2018. Blue Sky's 50% ownership in Aura is expected to be sold at a profit with the net cash inflow to Blue Sky following completion expected to be approximately $2.5 million, dependent on completion price adjustments.

Ongoing process with Oaktree Capital Management ('Oaktree')

Blue Sky has received a number of inbound enquiries to invest in various parts of the business. Having regard to recent events the Blue Sky board ran a formal process to identify a capital partner who would help stabilise and grow the Blue Sky business by:

- Investing capital in Blue Sky to fund further co-investment;
- Adding additional market leading expertise in asset management; and
- Assisting to attract additional investment capital into underlying funds and strategies.

Following a comprehensive assessment of all interested parties, Blue Sky selected Oaktree as its preferred capital partner and entered into exclusive negotiations in July this year. The key terms of the capital partnership with Oaktree contemplate:

- An investment in Blue Sky of approximately $60 million by a convertible note facility;
- Proceeds to fund co-investment and working capital requirements;
- Board representation;
- Conversion rights capped at 30% of issued share capital;
- Detailed terms remain confidential, noting that the Transaction remains subject to final approvals by all parties; and
- Aspects of the conversion rights will be subject to shareholder approval.

Directors' Declaration

In accordance with a resolution of the Directors of the Company, the Directors declare that:

1. the financial statements and notes, as set out on pages 41 to 112, are in accordance with the *Corporations Act 2001* and:

   (a) comply with Australian Accounting Standards, which, as stated in the accounting policy in Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards; and

   (b) give a true and fair view of the financial position of the Company as at 30 June 2018 and of the performance for the year ended on that date;

2. in the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

3. the Directors have been given the declarations required by s295A of the *Corporations Act 2001* from the Chief Financial Officer and Managing Director.

On behalf of the Directors

John Kain
Chair

30 August 2018
Brisbane

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Independent Auditor's Report to the Members of Blue Sky Alternative Investments Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Blue Sky Alternative Investments Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Performance fee revenue

Why significant	How our audit addressed the key audit matter
Revenues from performance fees are described in Note 4 to the financial report. Determining performance fees requires significant judgment to determine the value of the underlying investment and the extent to which relevant financial performance hurdles have been exceeded. The determination of the underlying investment value is a subjective matter, as described in key audit matter 3 below. As a result of these factors, performance fees were a key audit matter.	We performed the following procedures for a sample of performance fee revenue recognised during the year: ▸ Assessed whether the recognition requirements of Australian Accounting Standards were met. ▸ Read contracts and agreements including Information Memoranda to understand the nature of the performance fee arrangements. ▸ Agreed the performance fee hurdles and applicable terms to the respective Fund's constituent documents. ▸ Agreed the investment value as at 30 June 2018 to the underlying investment valuation and performed the procedures outlined in key audit matter 3 below. ▸ Assessed whether the performance fee revenue accrued as at 30 June 2018 is recoverable. Considered the adequacy of the financial report disclosures contained in Notes 3 and 4.

Building a better working world

2. Assessment of control/significant influence over Funds

Why significant	How our audit addressed the key audit matter
As described in Note 3, 26 and Note 27 the Group holds investments in certain Funds that it manages. Investments are accounted for in the Group by consolidation, equity accounting, or as investments carried at fair value. The determination of the appropriate accounting treatment depends upon whether the Group has the ability to exercise control, or significant influence over each investee, as defined by Australian Accounting Standards. Investments that are controlled are consolidated. Where the Group does not control but has significant influence, the investment is equity accounted. The determination of whether the Group has significant influence or control of an entity requires significant judgement and therefore was considered to be a key audit matter. As a result of the Group controlling four Funds as at 30 June 2018, these Funds have been consolidated into the Group's financial report and a further 28 Funds have been equity accounted.	Our audit procedures included the following: ▸ We obtained the Group's assessment as to the existence of control, or significant influence in relation to the investments under management. ▸ For a sample of investments we evaluated whether the Group had appropriately assessed the existence of control, or significant influence in accordance with Australian Accounting Standards and the related accounting treatment adopted by the Group. ▸ For investments in Funds with assets carried at fair value, we performed the procedures as outlined in key audit matter 3 below. ▸ For a sample of Funds we agreed selected amounts from the balance sheet and profit and loss statement to supporting documentation. ▸ We assessed the adequacy of the related disclosures in the financial report.

3. Valuation of investments held at fair value

Why significant	How our audit addressed the key audit matter
The Group holds investments in certain Funds and these investments are significant to the Group. The valuation process involves significant judgment as there are no observable market inputs for use in valuing the type of investments held by the Group as described in Note 3 of the financial report. The Group uses internal and external valuation experts to assist in determining the appropriateness of fair values. Due to the significant judgments involved, the valuation experts generally provide a range of estimated values, which the Directors consider in determining fair value. Because of the significance of the investments and the judgement involved in determining their value, this was considered to be a key audit matter.	For a sample of investments that are carried at fair value we performed the following procedures: ▸ Considered the financial performance and position of the investee by examining the underlying financial reports of the investees where available. ▸ Examined the internal valuations performed and the work of the external valuation experts engaged by the Company. ▸ Assessed the qualifications, competence and objectivity of the Company's internal and external valuation experts.

Why significant	How our audit addressed the key audit matter
	▸ Where we considered it necessary, we involved our valuation specialists to assess the valuation methodology and key assumptions used in the valuations of the investments including forecast earnings and cash flows, discount rates, capitalisation rates, and valuation multiples. ▸ Agreed historical and forecast earnings and cash flows used (as applicable) in the valuations to actual results and Board approved forecasts and tested the mathematical accuracy of the fair value calculations. ▸ Assessed the reasonableness of forecast earnings and cash flows, and evaluated the accuracy of forecasts prepared by the investee entities by comparing previous forecasts to actual results. ▸ Assessed the adequacy of the disclosures in the notes to the financial report.

4. Provision for impairment trade and other receivables

Why significant	How our audit addressed the key audit matter
As described in Note 13 of the financial report the Group has recorded a provision for impairment of trade and other receivables. There is significant judgement involved calculating the provision for impairment, particularly regarding the estimation of future cash collection. Provisions are recorded against the Group's trade and other receivables based on estimated future cash collection.	For a sample of trade and other receivables we performed the following: ▸ Reviewed supporting documentation evidencing loans receivable and key terms. ▸ Evaluated the Group's recoverability assessment. ▸ Considered the Group's assessment of the underlying value of assets that support the recoverability of the loan and available funds of the debtor. ▸ We assessed the adequacy of the related disclosures in the notes to the financial report.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2018 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report and the Corporate Governance Statement that are to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

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In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company 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 control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Blue Sky Alternative Investments Limited for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001.*

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Michael Reid
Partner
Brisbane
30 August 2018

Appendix A

COMPARATIVE TABLES: STATUTORY RESULTS AND UNDERLYING RESULTS

Adoption of AASB 10 Accounting Standard by the Group

The Group consists of Blue Sky Alternative Investments Limited and its wholly owned subsidiaries. These subsidiaries manage a range of funds across Private Equity, Private Real Estate, Real Assets and Hedge Funds on behalf of investors in each of those funds. The Group also holds investments in a number of the funds that it manages from which it seeks to derive investment income.

Blue Sky adopted AASB 10 in the 2014 financial year and this standard continues to apply. Following the adoption of the control framework provided in AASB 10, the accounting treatment of the investments Blue Sky holds in a number of the funds it manages changed. In this Financial Report, seven entities have been consolidated into the Group's FY18 full year results and investments in 30 funds and fund related entities have been accounted for using the equity method during the year. The accounting treatment for each of these funds is discussed in more detail below.

In order to provide shareholders with meaningful insight into the financial condition and performance of the Group, comparative tables have been provided that reconcile the Group's statutory results with Blue Sky's underlying results. These underlying results are those that would be produced if Blue Sky reported all of its investments in funds that it manages at fair value through Profit and Loss under AASB 139 *Financial Instruments* using the same principles of fair value that are included in AASB 13 *Fair Value Measurement*. Management and the Board review the performance of Blue Sky on the basis of its underlying results on at least a monthly basis throughout each year. The performance of Blue Sky on the basis of its statutory results is only reviewed by Management and the Board semi-annually at the time of preparing Blue Sky's half and full-year Financial Reports.

These underlying results are non-IFRS financial information and have been subject to review by Blue Sky's auditor (Ernst & Young).

Investments Consolidated in Blue Sky's Statutory Results

Under AASB 10, the Group consolidates all of the entities it controls, including those funds managed by Blue Sky in which it holds equity and is deemed to have control. In relation to the funds in which Blue Sky holds equity, the Company is presumed to have control based on a range of quantitative and qualitative factors that include:

- the economic return that Blue Sky derives from its ownership in the relevant fund;
- whether Blue Sky or its related parties have control or significant influence over the relevant fund; and
- variable returns, such as performance and other fees, that Blue Sky is entitled to as manager of the fund.

In the 2018 financial year, seven entities managed by Blue Sky have been consolidated into the Group's Financial Report and the Group's statutory results include the financial performance of these funds:

1. Blue Sky Private Real Estate Riverside Gardens Trust ('Riverside Gardens Trust')

   The Riverside Gardens Trust ('the Trust') is managed by Blue Sky's Private Real Estate division. The Trust owns a parcel of land in Townsville that is being developed into 110 apartments across three stages. Construction is complete in Stages 1 and 2 of the development. The remaining assets of the Trust (two unsold apartments and residual land of Stage 3) are being held at their net realisable value as independently reviewed in June 2018.

2. Water Utilities Australia Fund 1 ('WUA Fund 1')

   WUA Fund 1 is managed by Blue Sky's Real Assets division and was originally invested in the Water Utilities Group ('WUG'), a business that was established to invest in water infrastructure in Australia and was sold in December 2016 to Colonial First State's Global Diversified Infrastructure Fund. Blue Sky is still considered to control WUA Fund 1 (while the fund's assets have been sold, WUA Fund 1 has not yet been wound up) as it continues to hold a controlling interest in the fund and as such Blue Sky continues to consolidate the fund during the period. Blue Sky owns 7.875 million units in WUA Fund 1.

3. Blue Sky RAMS Management Rights Income Fund 2 ('Management Rights Fund 2')

   Management Rights Fund 2 is managed by Blue Sky's Private Real Estate division. The trust owns management rights for a range of apartment complexes in Townsville. As at 30 June 2018, there were approximately 132 apartments in the letting pool managed by this trust. Blue Sky owns 2.19 million units in Management Rights Fund 2.

4. Aura Australia Holdings Trust ('Aura')

   Aura owns, operates and manages retirement villages throughout Australia including Blue Sky's portfolio of retirement villages. These retirement villages are currently at varying stages of completion ranging from finished product earning deferred management fee revenue, to under construction or in the development approval process. Blue Sky owns 120 units in Aura.

5. Wellington Road East Brisbane Trust 2 ('Wellington Rd 2')

   Wellington Rd 2 is managed by Blue Sky's Private Real Estate division and was established to develop 75 residential apartments in an 8 storey building located at 140-148 Wellington Road, East Brisbane. Blue Sky owns 3.8 million units in Wellington Rd 2.

6. Sunday Ridge Dairies Pty Ltd and it's controlled entities ('Sunday Ridge Group')

   Sunday Ridge Group is managed by Blue Sky's Real Asset division and is a Victorian based dairy farming enterprise as a joint venture partnership between agribusiness managers AgScope (farm operators) and Blue Sky Water Partners Pty Ltd (investors). The Sunday Ridge farmland was acquired in April 2018 and includes the purchase of buildings, land improvements and water improvements. Blue Sky owns 3 units in Sunday Ridge Group.

7. Blue Sky Venture Capital Fund ('BSVC Fund')

   BSVC Fund is managed by Blue Sky's Venture Capital division. The Fund was established to invest alongside the South Australian Government as part of Blue Sky's 5% co-investment commitment to the South Australian Venture Capital mandate. Blue Sky currently holds 0.2 million units in the Trust.

Investments Accounted for using the Equity Method in Blue Sky's Statutory Results

As a result of the control considerations outlined in AASB 10 which contemplates both returns from equity investments and other variable returns such as those from investment management services, Blue Sky has re-assessed where it is deemed to exert significant influence, but not control its funds, which are accounted for using the equity method of accounting. Under the equity method of accounting, Blue Sky's share of profits or losses from equity accounted investments are included in the Consolidated Statement of Profit or Loss and the carrying amounts reflected in the Consolidated Statement of Financial Position.

During the 2018 financial year, Blue Sky held investments in 30 funds and fund related entities that have been accounted for using the equity method:

Blue Sky Management Rights Income Fund
Blue Sky Premium Beef Development Fund
Blue Sky Private Equity 2010 Institutional Trust
Blue Sky Private Equity Retirement Village Fund
Blue Sky Private Equity Vinomofo Fund
Blue Sky Residential Asset Income Fund 1
Blue Sky Retirement Living Indooroopilly Fund
Blue Sky Retirement Living Parkwood Fund
Blue Sky Strategic Australian Agriculture Fund
Blue Sky Student Accommodation Fund 5
Blue Sky Student Accommodation Fund 6
Blue Sky Student Accommodation Fund 7
Blue Sky Student Accommodation Fund 8
Blue Sky Student Accommodation Fund 9
Blue Sky VC2012 Fund LP
Blue Sky VC2017 ESVCLP Fund LP
Coolibah Water Group Pty Ltd
Coolibah Water Trust
Cove Operating Company LLC
Duke Street Kangaroo Point Trust
Excel Operations Holding Trust[1]
Fresh Country Farms of Australia Pty Ltd
Fresh Country Farms of Australia No. 2 Pty Ltd
High Street Lutwyche Trust
Mackay Opco Pty Ltd
RCL Accelerator Fund One
Student Quarters Blue Sky GP LLC
Valterra Hops Holdings LLC
Water Utilities Australia Fund 2
Wellington Road East Brisbane Trust 2

1 Excel Operations Holding Trust is the joint venture vehicle with Goldman Sachs which owns 100% of Atira Student Living Pty Ltd (formerly The Pad Management (Australia) Pty Ltd).

Appendix A - continued

Measurement of Fair Value

• Valuation techniques

Investments held by the Company include investments in funds that it manages. These funds are in turn invested in direct and indirect equity and debt investments and other assets. The following valuation techniques are applied by the Company to determine fair values in accordance with AASB 13:

- Market approach;
- Income approach; and
- Adjusted net asset value method.

The Company has control mechanisms in place to ensure that the fair value of financial instruments that are reported in or are material to its financial statements are in accordance with AASB 13, are determined on a reasonable basis and are subject to appropriate levels of independent review by third parties.

1) Market approach

A market approach uses quoted market prices or dealer quotes for comparable instruments to fair value a financial asset. A multiple approach can be used in the valuation of less liquid securities, such as equity in a private operating company. Comparable businesses and multiple techniques assume that the valuation of unquoted direct investments can be assessed by comparing performance measure multiples of similar quoted assets for which observable market prices are readily available. This may involve defining a list of comparable public companies based on industry, size, development stage, strategy, etc. Subsequently, the most appropriate performance measure for determining the valuation of the relevant direct investment is selected (these include but are not limited to EBITDA, price/earnings ratios for earnings or price/book ratios for book values). Trading multiples for each comparable company identified are calculated by dividing the market capitalisation or enterprise value of the comparable company by the defined performance measure. The relevant trading multiples might be subject to adjustment for general qualitative differences such as liquidity, growth rate or quality of customer base between the valued direct investment and the comparable company set. The indicated fair value of the direct investment is determined by applying the relevant adjusted trading multiple to the identified performance measure of the valued company.

2) Income approach

Within the income approach the Company primarily uses the discounted cash flow method and the income capitalisation model. Expected cash flow amounts are discounted to a present value at a rate of expected return that represents the time value of money and reflects the relative risks of the investment. Direct investments can be valued by using the 'cash flow to investor' method, or indirectly, by deriving the enterprise value using the 'free cash flow to company or project' method and subsequently subtracting the direct investment's net debt in order to determine the equity value of the relevant direct investment. Expected future cash flows based on agreed investment terms or expected growth rates must be determined. In addition, and based on the current market environment, an expected return of the respective direct investment is projected. The future cash flows are discounted to the balance date to determine the fair value at that time.

The Company commonly applies this method to Private Real Estate projects (student accommodation, retirement living and residential development) or infrastructure-style assets.

3) Adjusted net asset value method

In certain circumstances, a combination of the market and the income approach is used to derive the adjusted net asset value of an asset owned through a financial instrument. This balance-sheet focused methodology considers the fair value of a company or fund's assets, reduced by the value of its liabilities. It is most applicable for businesses where the value lies in the underlying assets and not the ongoing operations of the business. It may be used for example, where a business is undergoing significant change and no longer operating in its full capacity as a going concern (such as an operating farm undergoing a change of use).

The fair value of one or more balance sheet assets may be determined using a commonly-accepted methodology applied on a consistent basis, with the assistance of a third-party specialist where appropriate (such as for agricultural land, biological assets and farming equipment). Despite the use of observable inputs or expert opinion where possible, such a process may still involve varying degrees of judgement by management.

• Unobservable input factors

Where available, valuation techniques use market-observable assumptions and inputs. If such information is not available, inputs may be derived by reference to similar assets and active markets, from recent prices for comparable transactions or from other observable market data. When measuring fair value, the Company selects the non-market-observable inputs to be used in its valuation techniques based on a combination of historical experience, derivation of input levels based upon similar investment strategies with observable price levels and knowledge of current market conditions and valuation approaches. Within its valuation techniques the Company uses different unobservable input factors. Significant unobservable inputs include: EBITDA multiples (based on budgeted/forward-looking EBITDA or historical EBITDA and EBITDA multiples of comparable listed companies for an equivalent period), discount rates, capitalisation rates, price/book as well as price/earnings ratios and enterprise value/revenue multiples.

The valuation process also considers the original transaction prices, recent transactions in the same or similar instruments and completed third-party transactions in comparable instruments, and adjusts the model as deemed necessary. Further inputs consist of external valuation appraisals and broker quotes.

A significant portion of the Company's Private Equity investments are measured using EBITDA or revenue multiples. Private Real Estate projects typically employ a discounted cash flow or income capitalisation approach, whilst Real Assets funds typically adopt the adjusted net asset value method.

Appendix A - continued

FY18: Reconciliation of Consolidated Statement of Profit or Loss with Underlying Results for the year ended 30 June 2018

In AUD $Ms	Consolidated statement of comprehensive income ('statutory results')	Impact where investments are consolidated or equity accounted rather than reported at fair value	Underlying results
Income			
Management fees	$24.2m	($1.1m)	$23.1m
Returned Management fees	($9.5m)	-	($9.5m)
Transaction fees	$12.9m	($0.2m)	$12.7m
Returned transaction fees	($8.6m)	-	($8.6m)
Performance fees	$2.8m	-	$2.8m
Investment income	$4.8m	($24.6m)	($19.8m)
Share of loss of associates and joint ventures	($6.2m)	$1.1m	($5.1m)
Other income	$8.3m	($3.9m)	$4.4m
Total income	**$28.7m**	**($28.7m)**	**-**
Expenses			
Employee benefits	($35.7m)	$2.2m	($33.5m)
Fee rebates to BAF	($2.7m)	-	($2.7m)
External capital raising costs	($4.4m)	-	($4.4m)
External service providers	($7.6m)	$0.1m	($7.5m)
Travel and entertainment	($3.3m)	-	($3.3m)
Occupancy	($2.4m)	$0.1m	($2.3m)
Finance costs	($1.9m)	$0.2m	($1.7m)
Depreciation and amortisation	($0.6m)	$0.2m	($0.4m)
Provisions and impairments	($30.5m)	($1.0m)	($31.5m)
Other expenses	($16.6m)	$3.6m	($13.0m)
Total expenses	**($105.7m)**	**$5.4m**	**($100.3m)**
Loss before income tax	**($77.0m)**	**($23.3m)**	**($100.3m)**
Income tax benefit/(expense)	$9.4m	$5.3m	$14.7m
Loss after income tax for the period	**($67.6m)**	**($18.0m)**	**($85.6m)**
Loss is attributable to:			
Non-controlling interests	$3.0m	($3.0m)	-
Owners of Blue Sky Alternative Investments Limited	($70.6m)	($15.0m)	($85.6m)
	($67.6m)	**($18.0m)**	**($85.6m)**
Other comprehensive (loss)/income			
Items that may be reclassified subsequently to profit or loss			
Other comprehensive (loss)/income - net of tax	$1.0m	-	$1.0m
Total comprehensive (loss)/income	**($66.6m)**	**($18.0m)**	**($84.6m)**
Total comprehensive (loss)/income is attributable to:			
Non-controlling interests	$3.0m	($3.0m)	-
Owners of Blue Sky Alternative Investments Limited	($69.6m)	($15.0m)	($84.6m)
	($66.6m)	**($18.0m)**	**($84.6m)**

FY18: Reconciliation of Consolidated Statement of Financial Position with Underlying Results as at 30 June 2018

In AUD $Ms	Consolidated statement of financial position ('statutory results')	Impact where investments are consolidated or equity accounted rather than reported at fair value	Underlying results
Current assets			
Cash and cash equivalents	$40.9m	($0.9m)	$40.0m
Trade and other receivables	$43.4m	$3.0m	$46.4m
Inventory - residential developments	$1.1m	($1.1m)	-
Income tax receivable	$4.2m	-	$4.2m
Other assets	$3.4m	($0.6m)	$2.8m
Total current assets	**$93.0m**	**$0.4m**	**$93.4m**
Non-current assets			
Trade and other receivables	$49.7m	($8.0m)	$41.7m
Inventory - residential developments	$3.8m	($3.8m)	-
Financial assets held at fair value through profit and loss	$0.2m	$40.9m	$41.1m
Investment property– retirement villages	$112.2m	($112.2m)	-
Investments in associates and joint ventures	$46.3m	($26.6m)	$19.7m
Property, plant and equipment	$9.8m	($6.8m)	$3.0m
Intangible assets	$9.6m	($4.7m)	$4.9m
Total non-current assets	**$231.6m**	**($121.2m)**	**$110.4m**
Total assets	**$324.6m**	**($120.8m)**	**$203.8m**
Current liabilities			
Trade and other payables	$18.6m	($0.9m)	$17.7m
Borrowings	$6.2m	($5.5m)	$0.7m
Deferred revenue	$7.5m	($1.2m)	$6.3m
Employee benefits	$7.2m	($0.2m)	$7.0m
Resident loans – retirement villages	$23.5m	($23.5m)	-
Total current liabilities	**$63.0m**	**($31.3m)**	**$31.7m**
Non-current liabilities			
Deferred revenue	$1.0m	-	$1.0m
Employee benefits	$0.7m	-	$0.7m
Borrowings	$86.1m	($86.1m)	-
Other liabilities	$7.9m	-	$7.9m
Deferred tax liabilities	$1.1m	-	$1.1m
Provision for income tax	$4.1m	-	$4.1m
Total non-current liabilities	**$100.9m**	**($86.1m)**	**$14.8m**
Total liabilities	**$163.9m**	**($117.4m)**	**$46.5m**
Net assets	**$160.7m**	**($3.4m)**	**$157.3m**
Equity			
Contributed equity	$220.1m	-	$220.1m
Reserves	($2.6m)	-	($2.6m)
Accumulated (losses)/profits	($59.7m)	($0.5m)	($60.2m)
Total equity attributable to the owners of Blue Sky	**$157.8m**	**($0.5m)**	**$157.3m**
Non-controlling interests	$2.9m	($2.9m)	-
Total equity	**$160.7m**	**($3.4m)**	**$157.3m**

Appendix A - continued

FY18: Reconciliation of Consolidated Statement of Cash Flows with Underlying Results for the year ended 30 June 2018

In AUD $Ms	Consolidated statement of cash flows ('statutory results')	Impact where investments are consolidated rather than reported at fair value	Underlying results
Cash flows from operating activities			
Receipts from customers (inclusive of GST)	$46.1m	($9.7m)	$36.4m
Payments to suppliers and employees (inclusive of GST)	($75.0m)	$5.8m	($69.2m)
Interest received	$0.6m	-	$0.6m
Interest and other finance costs paid	($1.2m)	$0.1m	($1.1m)
Income taxes paid	($5.1m)	-	($5.1m)
Net cash used in operating activities	**($34.6m)**	**($3.8m)**	**($38.4m)**
Cash flows from investing activities			
Payments for equity investments	($28.5m)	($4.0m)	($32.5m)
Proceeds from disposal of equity investments (including distributions)	$6.7m	$0.1m	$6.8m
Payments for property, plant and equipment	($6.1m)	$5.9m	($0.2m)
Payments for investment property	($34.2m)	$34.2m	-
Payments for intangible assets (net of proceeds on disposal)	($0.6m)	$0.2m	($0.4m)
Bridging finance and loans to funds (net)	($38.7m)	($2.7m)	($41.4m)
Net cash used in investing activities	**($101.4m)**	**$33.7m**	**($67.7m)**
Cash flows from financing activities			
Proceeds from issue of shares	$101.9m	($0.1m)	$101.8m
Share issue transaction costs	($3.5m)	-	($3.5m)
Proceeds from borrowings	$75.9m	($40.5m)	$35.4m
Repayment of borrowings	($54.4m)	$11.1m	($43.3m)
Dividends paid	($16.0m)	$0.3m	($15.7m)
Net cash from financing activities	**$103.9m**	**($29.2m)**	**$74.7m**
Net decrease in cash and cash equivalents	**($32.1m)**	**$0.7m**	**($31.4m)**
Cash and cash equivalents at the beginning of the year	$72.2m	($1.6m)	$70.6m
Effects of exchange rate changes on cash and cash equivalents at the end of period	$0.8m	-	$0.8m
Cash and cash equivalents at the end of the year	**$40.9m**	**($0.9m)**	**$40.0m**

FY17: Reconciliation of Consolidated Statement of Profit or Loss with Underlying Results
for the year ended 30 June 2017

In AUD $Ms	Consolidated statement of comprehensive income ('statutory results')	Impact where investments are consolidated or equity accounted rather than reported at fair value	Underlying results
Income			
Management fees	$18.6m	$4.2m	$22.8m
Returned management fees	($0.9m)	-	($0.9m)
Transaction fees	$16.8m	-	$16.8m
Returned transaction fees	($1.1m)	-	($1.1m)
Performance fees	$22.3m	-	$22.3m
Investment income	$7.2m	$0.4m	$7.6m
Share of loss of associates and joint ventures	$8.1m	$1.3m	$9.4m
Other income	$13.4m	($5.3m)	$8.1m
Total income	**$84.4m**	**$0.6m**	**$85.0m**
Expenses			
Employee benefits	($26.5m)	$1.7m	($24.8m)
Fee rebates to BAF	($5.9m)	-	($5.9m)
External capital raising costs	($2.4m)	-	($2.4m)
External service providers	($2.9m)	$0.2m	($2.7m)
Travel and entertainment	($2.8m)	$0.1m	($2.7m)
Occupancy	($2.2m)	$0.2m	($2.0m)
Finance costs	($1.2m)	$0.2m	($1.0m)
Depreciation and amortisation	($1.4m)	$1.0m	($0.4m)
Provisions and impairments	-	-	-
Other expenses	($9.4m)	$3.8m	($5.6m)
Total expenses	**($54.7m)**	**$7.2m**	**($47.5m)**
Profit before income tax	**$29.7m**	**$7.8m**	**$37.5m**
Income tax benefit/(expense)	($9.0m)	($3.0m)	($12.0m)
Profit after income tax for the period	**$20.7m**	**$4.8m**	**$25.5m**
Profit attributable to:			
Non-controlling interests	$0.1m	($0.1m)	-
Owners of Blue Sky Alternative Investments Limited	$20.6m	$4.9m	$25.5m
	$20.7m	**$4.8m**	**$25.5m**
Other comprehensive income **Items that may be reclassified subsequently to profit or loss**			
Other comprehensive (loss)/income - net of tax	-	-	-
Total comprehensive (loss)/income	**$20.7m**	**$4.8m**	**$25.5m**
Total comprehensive (loss)/income is attributable to:			
Non-controlling interests	$0.1m	($0.1m)	-
Owners of Blue Sky Alternative Investments Limited	$20.6m	$4.9m	$25.5m
	$20.7m	**$4.8m**	**$25.5m**

Appendix A - continued

FY17: Reconciliation of Consolidated Statement of Financial Position with Underlying Results as at 30 June 2017

In AUD $Ms	Consolidated statement of financial position ('statutory results')	Impact where investments are consolidated or equity accounted rather than reported at fair value	Underlying results
Current assets			
Cash and cash equivalents	$72.2m	($1.6m)	$70.6m
Trade and other receivables	$38.4m	($0.4m)	$38.0m
Inventory - residential developments	$0.5m	($0.5m)	-
Other assets	$4.6m	-	$4.6m
Total current assets	**$115.7m**	**($2.5m)**	**$113.2m**
Non-current assets			
Trade and other receivables	$48.5m	$4.3m	$52.8m
Inventory - residential developments	$2.0m	($2.0m)	-
Financial assets held at fair value through profit and loss	-	$63.4m	$63.4m
Investment property – retirement villages	$54.9m	($54.9m)	-
Investments in associates and joint ventures	$51.6m	($40.1m)	$11.5m
Property, plant and equipment	$4.8m	($1.6m)	$3.2m
Intangible assets	$11.0m	($5.4m)	$5.6m
Total non-current assets	**$172.8m**	**($36.3m)**	**$136.5m**
Total assets	**$288.5m**	**($38.8m)**	**$249.7m**
Current liabilities			
Trade and other payables	$35.7m	$0.9m	$36.6m
Borrowings	$16.7m	($8.3m)	$8.4m
Deferred revenue	$9.1m	($0.7m)	$8.4m
Provision for income tax	$1.3m	-	$1.3m
Employee benefits	$4.4m	($0.1m)	$4.3m
Resident loans – retirement villages	$14.9m	($14.9m)	-
Total current liabilities	**$82.1m**	**($23.1m)**	**$59.0m**
Non-current liabilities			
Deferred revenue	$3.6m	$1.4m	$5.0m
Employee benefits	$0.5m	-	$0.5m
Borrowings	$37.2m	($37.2m)	-
Other liabilities	$12.8m	-	$12.8m
Deferred tax liabilities	$10.9m	$5.3m	$16.2m
Total non-current liabilities	**$65.0m**	**($30.5m)**	**$34.5m**
Total liabilities	**$147.1m**	**($53.6m)**	**$93.5m**
Net assets	**$141.4m**	**$14.8m**	**$156.2m**
Equity			
Contributed equity	$120.6m	-	$120.6m
Reserves	($5.6m)	-	($5.6m)
Accumulated (losses)/profits	$26.7m	$14.5m	$41.2m
Total equity attributable to the owners of Blue Sky	**$141.7m**	**$14.5m**	**$156.2m**
Non-controlling interests	($0.3m)	$0.3m	-
Total equity	**$141.4m**	**$14.8m**	**$156.2m**

FY17: Reconciliation of Consolidated Statement of Cash Flows with Underlying Results
for the year ended 30 June 2017

In AUD $Ms	Consolidated statement of cash flows ('statutory results')	Impact where investments are consolidated rather than reported at fair value	Underlying results
Cash flows from operating activities			
Receipts from customers (inclusive of GST)	$65.8m	$5.8m	$71.6m
Payments to suppliers and employees (inclusive of GST)	($54.8m)	$5.0m	($49.8m)
Interest received	$2.4m	-	$2.4m
Interest and other finance costs paid	($1.1m)	$0.2m	($0.9m)
Income taxes paid	($3.9m)	$0.1m	($3.8m)
Net cash from operating activities	**$8.4m**	**$11.1m**	**$19.5m**
Cash flows from investing activities			
Payments for equity investments	($11.0m)	($1.1m)	($12.1m)
Proceeds from disposal of equity investments (including distributions)	$27.6m	($9.9m)	$17.7m
Payments for property, plant and equipment	($0.4m)	$0.3m	($0.1m)
Payments for investment property	($28.3m)	$28.3m	-
Payments for intangible assets (net of proceeds on disposal)	$0.7m	($0.9m)	($0.2m)
Bridging finance and loans to funds (net)	($7.3m)	($0.2m)	($7.5m)
Net cash used in investing activities	**($18.7m)**	**$16.5m**	**($2.2m)**
Cash flows from financing activities			
Proceeds from issue of shares	$1.0m	-	$1.0m
Share issue transaction costs	($0.2m)	-	($0.2m)
Proceeds from borrowings	$71.9m	($38.5m)	$33.4m
Repayment of borrowings	($37.6m)	$4.6m	($33.0m)
Dividends paid	($16.4m)	$5.6m	($10.8m)
Net cash from/(used in) financing activities	**$18.7m**	**($28.3m)**	**($9.6m)**
Net increase in cash and cash equivalents	**$8.4m**	**($0.7m)**	**$7.7m**
Cash and cash equivalents at the beginning of the year	$63.8m	($0.9m)	$62.9m
Effects of exchange rate changes on cash and cash equivalents at the end of period	-	-	-
Cash and cash equivalents at the end of the year	**$72.2m**	**($1.6m)**	**$70.6m**

Appendix B

Estimate of cumulative impact on Statement of Financial Position (underlying results)

The Group has formed a preliminary view on the impacts of AASB 15 on the statement of financial position (underlying results). The estimated impact of applying AASB 15 on a modified retrospective basis is shown below:

In AUD $Ms	Balance at 30 June 2018	Estimated impact (underlying results)	Restated balance at 1 July 2018
Assets			
Current assets			
Cash and cash equivalents	$40.0m	-	$40.0m
Trade and other receivables	$46.4m	($1.1m)	$45.3m
Income tax receivable	$4.2m	-	$4.2m
Other assets	$2.8m	$0.2m	$3.0m
Total current assets	**$93.4m**	**($0.9m)**	**$92.5m**
Non-current assets			
Trade and other receivables	$41.7m	($19.9m)	$21.8m
Financial assets held at fair value through profit or loss	$41.1m	-	$41.1m
Investments in associates and joint ventures	$19.7m	($5.8m)	$13.9m
Property, plant and equipment	$3.0m	-	$3.0m
Intangible assets	$4.9m	-	$4.9m
Total non-current assets	**$110.4m**	**($25.7m)**	**$84.7m**
Total assets	**$203.8m**	**($26.6m)**	**$177.2m**
Liabilities			
Current liabilities			
Trade and other payables	$17.7m	-	$17.7m
Borrowings	$0.7m	-	$0.7m
Deferred revenue	$6.3m	$0.5m	$6.8m
Employee benefits	$7.0m	-	$7.0m
Total current liabilities	**$31.7m**	**$0.5m**	**$32.2m**
Non-current liabilities			
Deferred revenue	$1.0m	-	$1.0m
Employee benefits	$0.7m	-	$0.7m
Other liabilities	$7.9m	($5.0m)	$2.9m
Deferred tax liabilities	$1.1m	($1.1m)	-
Provision for income tax	$4.1m	-	$4.1m
Total non-current liabilities	**$14.8m**	**($6.1m)**	**$8.7m**
Total liabilities	**$46.5m**	**($5.6m)**	**$40.9m**
Net assets	**$157.3m**	**($21.0m)**	**$136.3m**

Supplementary Information

The following information is current as at 30 September 2018:

a. Distribution of Shareholders

Holding	Ordinary Shares
1 - 1,000	1,096,556
1,001 - 5,000	7,469,109
5,001 - 10,000	6,675,477
10,001 - 100,000	20,816,853
100,001 and over	41,653,532
	77,711,527

b. There are 709 holders of less than a marketable parcel of ordinary shares

c. The names of the substantial shareholders listed in the Company's register are:

Name	Number of Ordinary Fully Paid Shares	% of Issued Ordinary Capital Held
J P MORGAN NOMINEES AUSTRALIA LIMITED	8,792,908	11.3%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	7,837,964	10.1%
BLUE DOG GROUP PTY LIMITED	4,400,000	5.7%

d. Voting Rights

The voting rights attached to each class of equity security are as follows:

Ordinary shares

- Each ordinary share is entitled to one vote when a poll is call, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

Supplementary Information - continued

e. 20 Largest Shareholders – Ordinary Shares

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
J P MORGAN NOMINEES AUSTRALIA LIMITED	8,792,908	11.31
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	7,837,964	10.09
BLUE DOG GROUP PTY LIMITED	4,400,000	5.66
NATIONAL NOMINEES LIMITED	2,543,666	3.27
BNP PARIBAS NOMINEES PTY LTD	2,035,268	2.62
PHENOMENON HOLDINGS PTY LTD	1,555,480	2.00
CITICORP NOMINEES PTY LIMITED	1,252,729	1.61
GEOMAR SUPERANNUATION PTY LTD	1,090,000	1.40
EMERALD HILL HOLDINGS PTY LTD	1,016,583	1.31
MR KIM SCOTT MORISON	859,376	1.11
MR ANDREW FRANK CHAMPION	650,000	0.84
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	590,324	0.76
DOCHART HOLDINGS PTY LIMITED	501,118	0.64
STEENHUISEN SUPER PTY LTD	493,506	0.64
ACCA INTERNATIONAL PTY LTD	408,000	0.53
MURRELL AAA PTY LTD	350,000	0.45
BT PORTFOLIO SERVICES LIMITED	294,775	0.38
HIBBS NOMINEES PTY LTD	271,771	0.35
CAFQUE PTY LTD	254,982	0.33
RNAJ PTY LTD	250,000	0.32
ASI PAMPLONA PTY LIMITED	250,000	0.32

f. Use of Cash

For the period 1 July 2017 to 30 June 2018, the Company and its controlled entities used its cash in a manner consistent with its business objectives.

Corporate Directory

The following information is current as at 30 September 2018:

DIRECTORS

John Kain
Timothy Wilson
Philip Hennessy
Kim Morison

JOINT COMPANY SECRETARIES

Jane Prior
Leyya Taylor

REGISTERED OFFICE

Level 46
111 Eagle Street
Brisbane QLD 4000

SHARE REGISTRY

Link Market Services Limited
Level 21, 10 Eagle Street
Brisbane QLD 4000

AUDITOR

Ernst & Young
111 Eagle Street
Brisbane QLD 4000

STOCK EXCHANGE LISTINGS

Blue Sky Alternative Investments Limited shares are listed on the Australian Securities Exchange.

WEBSITE

www.blueskyfunds.com.au

Blue Sky Alternative Investments Limited

www.blueskyfunds.com.au