Blue Sky Alternative Investments Limited ABN 73 136 866 236

Appendix 4D Half-year report
for the half-year ended 31 December 2018

The following information sets out the requirements of Appendix 4D, with the stipulated information either provided below or cross-referenced to the 2019 Interim Financial Report, which is attached.

1. Details of the reporting period and the prior corresponding period

Current period: 1 July 2018 to 31 December 2018

Prior corresponding period: 1 July 2017 to 31 December 2017

2. Results for announcement to the market

Key information	6 months to 31 December 2018 $'M	6 months to 31 December 2017 $'M	Movement $'M	Movement (%)	
Underlying results					
Total income	11.1	51.4	(40.9)	78%	Down
Net profit attributable to members	(25.7)	16.1	(41.8)	260%	Down
Net profit after tax	(25.7)	16.1	(41.8)	260%	Down
Statutory results					
Total income	15.9	42.3	(26.4)	62%	Down
Net profit attributable to members	(25.4)	9.8	(35.2)	359%	Down
Net profit after tax	(26.6)	8.5	(35.1)	413%	Down

Details of dividends

	6 months to 31 December 2018 $'000	6 months to 31 December 2017 $'000
Final dividends paid during the periods (fully franked)	-	15,719
Cents per share	-	23

3. Net tangible assets per share

Net tangible assets	As at 31 December 2018	As at 31 December 2017
Net tangible assets per share – underlying results[1]	$1.3036	$2.2335
Net tangible assets per share – statutory results[1]	$1.3379	$1.8257

[1] Under the Listing Rules NTA backing must be determined by deducting from total tangible assets all claims on those assets ranking ahead of the ordinary securities (i.e. all liabilities, preference shares, outside equity interest etc.).

4. Entities over which control has been gained or lost during the period

Refer to the 2019 Interim Financial Report attached:

4.1 Note 22 and Note 23 to the Interim Consolidated Financial Statements

5. Details of associates and joint ventures

Refer to the 2019 Interim Financial Report attached:

5.1 Note 21 to the Interim Consolidated Financial Statements

6. Accounting standards used by foreign entities

Not applicable

7. Audit

This report is based on the Interim Consolidated Financial Statements to which one of the following applies:

	The accounts have been audited. (refer attached interim financial report)	√	The accounts have been subject to review. (refer attached Interim Financial Report)
	The accounts are in the process of being audited or subject to review.		The accounts have not yet been audited or reviewed.

Signed: .... Date: 27 February 2019

Andrew Day

Executive Chair

Blue Sky Alternative Investments Limited

ABN 73 136 866 236

Interim Financial Report for the half-year ended 31 December 2018

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The Directors present their report, together with the Interim Financial Report of Blue Sky Alternative Investments Limited ('Company', 'parent entity', or 'Blue Sky') and the entities it controlled ('the Group') for the half-year ended 31 December 2018.

Directors

The names of the Company's Directors in office during the half-year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

John Kain	Non-Executive Director	Resigned: 27 February 2019
Timothy Wilson	Executive Director	Resigned: 10 December 2018
Philip Hennessy	Independent Non-Executive Director	Resigned: 10 December 2018
Kim Morison	Executive Director	Resigned: 10 December 2018
Andrew Day	Executive Chair	Appointed: 26 November 2018
Byron Beath	Non-Executive Director	Appointed: 7 December 2018
Hon. Cheryl Edwardes AM	Independent Non-Executive Director	Appointed: 10 December 2018
John McDonald	Independent Non-Executive Director	Appointed: 10 December 2018
Robert Kaye SC	Independent Non-Executive Director	Appointed: 10 December 2018

John Kain stood down as Chair on 26 November 2018.

Company secretary

The Company's joint company secretaries are Leyya Taylor and Jane Prior.

Principal activities

The Group's principal activities are the management of funds and investments across the three major alternative asset classes: Real Assets, Private Equity and Private Real Estate. The Group completed the exit of its hedge fund management business at 31 December 2018.

Operating and financial review

Financial performance and financial position – Underlying Results[1]

	Underlying Results		**Consolidated Group Results**[2]	
	1H FY19	1H FY18	1H FY19	1H FY18
Total income	\$11.1m	\$51.4m	\$15.9m	\$42.3m
Net profit/(loss) after tax[3]	(\$25.7m)	\$16.1m	(\$25.4m)	\$9.8m
Net tangible assets	\$101.3m	\$153.6m	\$104.0m	\$125.6m

[1] The Underlying Results are non-IFRS financial information and are based on all investments held by the Group in funds and fund related entities that it manages being accounted for at Fair Value through Profit and Loss under AASB 9 *Financial Instruments* using the same approach as outlined in AASB 13 *Fair Value Measurement* (rather than being consolidated or accounted for using the equity method). The non-IFRS financial information has been subject to review by the Group's auditor (Ernst & Young).

[2] The Consolidated Group Results reflect the Group's statutory results and are reviewed by Ernst & Young. These results include investments in a range of the Group's managed funds and fund related entities that have been consolidated or equity accounted in accordance with AASB 10 *Consolidated Financial Statements*.

[3] Excludes non-controlling interests where applicable.

Operating and financial review (cont'd)

Financial performance and financial position – Underlying Results (cont'd)

The Group continued its comprehensive business restructure during the first half of FY19 resulting in a decline in operating revenue as the business resets, the impact of the adoption of AASB 15 from 1 July 2018, including items outlined below and an underlying net profit/(loss) after tax ('NPAT') of ($25.7 million). This compares to $16.1 million net profit/(loss) after tax in the prior corresponding period.

The underlying 1H FY19 result was driven by abnormal items including:

- ($7.1 million) valuation adjustments to carrying values of balance sheet investments in funds, including student accommodation;
- ($7.8 million) impairments of working capital loans provided to various private equity and private real estate development funds;
- ($4.1 million) due to the reimbursement of certain investment trusts where legitimate third-party expenses were incorrectly recouped (as announced 28 September 2018);
- ($7.5 million) due to the restructuring costs including external service providers, staff redundancy, terminations, and retention incentives;
- $2.5 million due to the reversal of employee share option expenses incurred in prior periods, principally resulting from staff terminations in the first half; and
- $4.1 million due to the reversal of previously accrued performance fee bonuses payable to investment staff in future periods.

The Group focused on achieving a reset of its three core private market investments businesses: Real Assets; Private Equity and select opportunities in Private Real Estate as announced by the Board in May 2018.

After several years of rapid expansion, the Group suffered major disruption throughout 1H FY19 following a concerted and highly public activist short-seller campaign launched in March 2018. To address the resulting erosion of investor client confidence, the Group has implemented substantial improvements to its investment operations, governance structures and risk management disciplines, whilst remaining focused on delivering optimum risk-adjusted investment outcomes.

The Group’s earnings continued to be impacted by a period of consolidation and restructure. Rather than initiating new funds in 1H FY19, the Group’s investment professionals focused on delivering exits of existing investments and the disciplined deployment of existing funds and mandates. Eight funds were exited in the period, including all Retirement Living funds, a hedge fund, a Growth Capital fund and an Agriculture fund.

The Group has also focused on reducing its operating cost base. Material progress was made towards bringing fixed operating costs in line with recurring management fee revenues but further cost reductions are required. Staff head count was reduced by approximately 30% in the twelve months to December 2018.

The on-going restructure is designed to return the Group to profitability as swiftly as possible whilst retaining its key investment capability. The restructure is intended to reduce the Group’s historical reliance on irregular deal fees and performance fees.

As part of the intensive review and restructure, higher operating costs were necessarily incurred to engage a large number of external consultants and service providers including third-party valuers, tax advisers, auditors, legal counsels, public relations consultants, corporate advisers and other independent consultants (risk management). The costs of these services materially impacted earnings and cash during 1H FY19.

Oaktree

Following a limited, confidential and competitive process, the Board determined to strengthen the Group’s capital and liquidity position by engaging with a strategic partner, Oaktree Capital Management via a $50 million convertible note facility. As part of our governance processes the shareholders were required to consider and approve the conversion rights that accrue to Oaktree under the arrangement. The conversion was approved by shareholders at an AGM conducted on 19 November 2018.

Oaktree’s involvement with the business is designed to enable the Group to tap into the deep expertise and networks of a global leader in alternative asset management. Oaktree has actively assisted the Group to attract new high calibre Directors and executives; has provided reassurance to institutional clients following its own due diligence process; and contributed its knowledge and discipline as observers to the Group’s oversight and active management of investment positions.

At 31 December 2018, the Company was within all relevant lending covenant tests under the Oaktree facility, including those calculated quarterly. The Directors anticipate that covenants may not be met at 31 March 2019 as the restructuring of the Company continues through FY19. The Company is currently in discussions with Oaktree with a view to negotiating a variation and/or restructure of the covenants to Oaktree’s satisfaction.

Operating and financial review (cont'd)

Cash position

The Group's underlying cash position at 31 December 2018 was $54.8 million. This compares with $40.0 million as at 30 June 2018 including after the drawdown of the $50 million (net proceeds $47.7 million) facility with Oaktree.

The primary drivers of the cash position relate to abnormal, non-recurring operating cash outflows of $13.0 million (restructuring costs and reimbursements to certain investment trusts), balance sheet investments of $5.5 million (net of realisations $3.4 million), bridging loans of $12.6 million, working capital loans of $7.6 million and loan repayments received of $6.4 million.

Investments of $8.9 million were made during the period relating to direct investments which will be recovered when underlying projects are realised. Bridging finance loans of $12.6 million were issued during the period with proceeds expected to be returned to the Company within 12 months. Working capital loans of $7.6 million were issued to underlying portfolio investments which were under performing or required short term working capital. The Company provided for $3.4 million in relation to the working capital loans issued during the period.

NTA

Net tangible assets ('NTA') decreased from $152.4 million at 30 June 2018 to $101.3 million at 31 December 2018 (or $1.30 per share) incorporating an unfavourable $25.1 million net impact from the adoption of AASB 15, from 1 July 2018, principally in respect of the reversal of accrued performance fees.

The reduction was principally driven by abnormal items as the business resets following a period of disruption.

Fee Earning Assets Under Management ('FEAUM')

The Group managed $3.0 billion in fee-earning Assets Under Management ('FEAUM') as at 31 December 2018 down from $3.4 billion at 30 June 2018 mostly resulting from the closure of the hedge fund business and sale of the retirement living portfolio. For comparison, fee-earning AUM stood at $3.9 billion at 31 December 2017.

The Group's reporting of its fee-earning AUM has been consistent throughout its time as a publicly listed Group. Prior to its IPO, the Company was required to issue a supplementary prospectus specifically defining AUM to include for Private Real Estate funds, the gross realisable value ('GRV') of the Fund meaning the estimated end value of the properties in each project the Group's Private Real Estate division manages. GRV is the most appropriate measure of AUM in the context of Private Real Estate because the fees charged by Private Real Estate for each project are set by reference to the estimated GRV of that project. For all other Funds (Private Equity and Real Assets) AUM was defined as debt and equity capital committed to that Fund.

The Group's Real Assets division continued to expand its FEAUM with on-going deployment in water entitlements, farmland and agricultural supply chain infrastructure investments on behalf of institutional and sophisticated investors. The Strategic Australian Agriculture Fund declared a final close as at 31 December 2018. As at that date, Real Assets managed $1.2 billion in fee-earning AUM, up 18% from $991 million at 30 June 2018.

Since December 2017, Real Assets has assisted a large Canadian pension fund to deploy capital across a variety of agricultural investments under a strategic management agreement. From 31 March 2019, given the rapid scale of deployment achieved, the pension fund intends to manage those investments directly with its local operating partners. Post the termination of the strategic agreement, Real Assets expects to continue to manage over $900 million in water entitlements and agricultural assets. The impact of the termination of the strategic partnership will trigger a realisation of the Group's associated co-investment ($5.3 million).

The Group's Private Real Estate division significantly reduced its FEAUM over the period down 45% to $728 million through the exit of its Retirement Living Funds ($331 million) and the exit of several residential development projects ($229 million). The majority of the current Private Real Estate portfolio comprises Student Accommodation investments, representing 83% of FEAUM for the division.

The Group's Private Equity division consolidated its investment portfolio during 1H FY19 and focused on exiting smaller long-standing investments. Total FEAUM reduced 8% to $502 million in growth capital and venture capital investments.

The US business increased its FEAUM by 16% to $549 million AUD equivalent at 31 December 2018 mostly attributed to additional capital invested in existing Manhattan commercial real estate development projects managed by Cove Property Group. Post balance date in February 2019, the Cove partners agreed to a management buy-out of the Group's 38% share of the joint venture. This will not affect the economic returns to the Group's expected profits from the existing two developments, located at 101 Greenwich and 441 Ninth Avenue, which remain under management and not slated for exits within the next 12 months.

The closure of the hedge fund business unit resulted in a remaining $64 million reduction to the Group's FEAUM at 31 December 2018.

Operating and financial review (cont'd)

Fee Earning Assets Under Management (‘FEAUM’) (cont'd)

The Group’s FEAUM comprises a mix of institutional, sophisticated and retail investors (via the Blue Sky Alternatives Access Fund or ‘BAF’). Institutional capital increased as proportion of FEAUM from 40% at December 2017 to approximately 60% by December 2018 reflecting the Group’s increasing focus on larger investor clients and institutional mandates.

The Group’s business was built with the support of wholesale, sophisticated investors such as family offices and high net worth individuals. The Group will continue to target this segment with a range of institutional grade offerings in private equity and real assets.

Considering the length of investment involved in private markets, a subset of our institutional funds and mandates typically require co-investment of alignment capital from the Group’s balance sheet. During 1H FY19, the Group’s balance sheet invested $8.9 million into funds that we manage. The Group now holds a total of $51.3 million of co-investments across 23 separate funds, two operating business and two joint ventures.

Investment performance

The Group remains focused on achieving compelling risk-adjusted returns for our investors, largely by investing long-term capital in private markets. The Group has delivered realised investor returns of 18.3% per annum (net of fees) over the last five years via the exit of 35 closed ended funds and the hedge fund business. The Group’s aggregate overall annualised net of fees returns have reduced from 15.0% in 1H FY18 to 12.9% 1H FY19 reflecting changing market conditions and a comprehensive valuation review of each underlying investment.[4]

A majority of the Group’s investments are classified as growth capital investments: to develop real estate projects; expand or redevelop farmland and agricultural enterprises; and support the transition and growth of private companies. These investments typically require long-term capital. By their nature, the Group’s private market investments do not necessarily generate an income yield in their initial years as any surplus capital is usually reinvested to fund growth objectives, nor are those underlying companies or projects necessarily profitable until they achieve the scale of growth projected under each investment case. That scale may not be achieved for several years - hence the need for patient, long-term capital in closed-end investment vehicles. The Group’s investment management track record is therefore best judged on its exits; not on a single point in time valuation of an underlying private market investment part-way through its development horizon.

[4] Investor returns are equity weighted, pre-tax and net of fees as at 31 December 2018. Realised returns include returns on open-ended funds (i.e. where investors have redemption rights). Returns realised over the last 5 years include funds that have been fully or partially exited during the 5 years preceding 31 December 2018. Past performance is not a reliable indicator of future performance.

Governance

A new Board of Directors comprising a majority of non-executive directors was appointed in November and December 2018. A new Chief Financial Officer, Elizabeth Walker, commenced mid-January 2019 and a new Chief Risk Officer, Andrew Werro, commenced in August 2018 (and was appointed to the role permanently in January 2019).

In early 2018, the Board resolved to move to have a majority of independent directors, which has now been achieved with the appointment of John McDonald, Robert Kaye SC, Hon. Cheryl Edwardes AM and John Kain’s decision to step down as a director having successfully facilitated the transition to the new Board. Andrew Day is presently Executive Chairman pending the appointment of a new CEO; and Byron Beath is Oaktree’s nominated representative to the Board.

Strategy

The Company had reason to revisit its business strategy through 1H FY19 as it sought to reset and re-gain the trust of its investor clients. The Company intends to become a preferred partner in investing in private markets offering superior risk adjusted returns to investors through a principled, distinctive and disciplined approach. The Company is focused on earning the right to grow its AUM by delivering on superior investment performance by investing in alternative assets. Alternative investments are increasingly sought as a diversification from traditional equity market investments.

Blue Sky Alternatives Access Fund

A wholly-owned subsidiary of the Company is the investment manager of the Blue Sky Alternatives Access Fund Limited (ASX: BAF) (‘BAF’), which was established in 2014 as a listed investment company investing exclusively in the Group’s managed investments across each asset class.

On 18 October 2018, the Company agreed to support a transition of the management of BAF’s operations and investment portfolio to an entity majority owned by Pinnacle Investment Management Group Limited (ASX: PNI) (‘Pinnacle’). The parties entered into agreements which were to be effected by 31 December 2018 subject to a shareholder vote at an Extraordinary General Meeting scheduled for 13 December 2018, following which the Group would continue to earn management fees and performance fees on the Group’s managed funds invested in by BAF, but would no longer incur the costs involved in the ongoing management of BAF (the ‘Pinnacle Proposal’).

The Pinnacle Proposal followed discussions with BAF’s Board as to the positioning of BAF, and the costs and strategic alignment of BAF with the Group’s future business model. Under the Pinnacle Proposal it was intended that BAF would allocate capital to a range of underlying fund managers and alternative investment strategies, including funds managed by the Group.

Operating and financial review (cont'd)

Blue Sky Alternatives Access Fund (continued)

Shortly after the announcement of the above proposal, BAF received a proposal from Wilson Asset Management ('WAM') to be appointed as BAF's new manager ('the WAM Proposal'). BAF referred the WAM Proposal to the Group. The Group and BAF confirmed to WAM that they were not able to consider any other proposal until the existing agreements were no longer effective. The Group subsequently informed WAM and BAF that it would not preclude BAF from engaging further with WAM subject to (i) BAF shareholders not approving the vote at the EGM or (ii) the BAF Board advising that it was in receipt of a superior proposal and seeking to discontinue the existing agreements; and provided that WAM gave an irrevocable undertaking to the Group to comply with certain restrictions with respect to its management of the existing Group-managed components of BAF's portfolio.

Subsequently, each of the BAF Directors who stood for re-election at the BAF AGM on 29 November 2018 did not receive sufficient votes supporting their re-election and, as a result, there was a re-composition of BAF's Board. On the same day, Pinnacle withdrew its proposal and the existing agreements lapsed on 31 December 2018. Since that time, the newly composed BAF Board and the Group have engaged in a process to consider WAM's proposal. The key issue for the Group with any new manager for BAF is to ensure that the interest of unit holders in the Group's managed funds are protected.

FY19 guidance

The Directors have not previously provided earnings guidance for the full FY19 year, and do not intend to do so. However, we note: (i) given the ongoing structural reset of the business and further work to be done to align the cost base with recurring management fee revenues, we do anticipate further one-off restructuring costs to be incurred in 2H FY19; and (ii) given a number of possible fund exits and the current and continued expected performance of our Water Fund and associated water investment mandates, the Group anticipates a proportion of full year revenue may be derived from performance fees realised at 30 June 2019. With the adoption of AASB 15, performance fees are not recognised until they are regarded as highly probable.

❖ ❖ ❖

Financial performance and financial position - Statutory Results

The Group holds balance sheet investments in a range of the funds and fund related entities that it manages, primarily as alignment capital where it has invested alongside institutional investors in underlying funds. Given that the Group 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, the Group is required under the accounting standards to consolidate or account for these funds using the equity method rather than recording them at fair value. This approach is required under the AASB 10 *Consolidated Financial Statements* ('AASB 10').

In accordance with AASB 10, six funds are consolidated into the Group's 1H FY19 Interim Financial Report and a further 20 funds and two joint ventures are accounted for using the equity method in accordance with AASB 128 *Investments in Associates and Joint Ventures* ('AASB 128').

This accounting treatment has a range of impacts, including:

- In the Group's statutory financial results, management and other fees that are paid to the Group are eliminated upon consolidation and as such do not appear in the consolidated results of the Group. The interim consolidated results include the revenue and expenses from funds that have been consolidated;
- For those funds that are required to be consolidated, units owned by the Group in funds are eliminated upon consolidation and the assets and liabilities of those funds (that are held by the fund on behalf of investors in those funds) appear on the consolidated Group's interim statement of financial position; and
- For funds 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 the Group in those funds - appears in the interim consolidated results of the Group.

Given that AASB 10 has these impacts on the Group's statutory results, the business is managed on a day to day basis using exactly the same approach that is presented in its underlying results. In the Group's underlying results, all balance sheet investments in funds and fund related entities that it manages 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 the Group's 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).

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

Operating and financial review (cont'd)

Financial performance and financial position - Statutory Results (continued)

In relation to the Group's statutory results, in 1H FY19 the Group reported $15.9 million (1H FY18: $42.3 million) in revenue and a loss attributable to members of $25.4 million (1H FY18: $9.8 million NPAT). While there is a divergence from the Group's underlying result, as noted previously these statutory results exclude items such as management, performance and other fees earned by the Group from funds eliminated upon consolidation as required under AASB 10. In addition, they include the revenue and expenses from funds the Group has invested in and is deemed to control. For example, the statutory results include the revenue and expenses associated with the operation of management and letting rights. All of these revenue and expense items are attributable to the unitholders of funds managed by the Group, rather than the Group itself.

The Group's statutory net tangible assets ('NTA') at 31 December 2018 was $104.0 million, down from $151.1 million at 30 June 2018. The decrease includes a $25.1 million adjustment due to AASB 15. These statutory results exclude the value of investments the Group has made in funds 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 includes the assets and liabilities of those funds and fund related entities that have been consolidated in accordance with AASB 10.

Comparative tables that reconcile the Group's statutory results with the Group's underlying results have been provided (starting at page 36).

Rounding

The amounts contained in this report and in the interim consolidated financial statements have been rounded to the nearest $1,000 (unless otherwise stated) under the option available to the Group under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Group 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 7.

On behalf of the Directors

Andrew Day
Executive Chair

Brisbane
27 February 2019

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

As lead auditor for the review of the half-year financial report of Blue Sky Alternative Investments Limited for the half-year ended 31 December 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 review; and

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

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

Ernst & Young

Ernst & Young

Mike Reid
Partner
27 February 2019

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Interim Financial Report

General information

The Interim 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 interim consolidated financial statements are presented in Australian dollars, which is the Company’s functional and presentation currency.

The Interim Financial Report consists of the interim financial statements, notes to the interim 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 Interim 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 Interim Financial Report.

Blue Sky Alternative Investments Limited
Interim Consolidated Statement of Comprehensive Income
For the half-year ended 31 December 2018

	Notes	Half-year ended 31 December 2018 $'000	31 December 2017 $'000
Revenue			
Operating revenue	3	18,451	36,977
Share of profit of associates and joint ventures		1,100	3,236
Net gain/(loss) on financial assets held at fair value through profit or loss	20	(5,288)	-
Other income	4	1,618	2,042
Expenses			
Employee benefits		(7,970)	(15,797)
Occupancy		(1,353)	(1,121)
External service providers		(3,664)	(2,512)
Provisions and impairments	5	(10,476)	-
Consultancy		(5,032)	(632)
Marketing		(1,063)	(971)
Administrative		(4,965)	(449)
Travel and entertainment		(709)	(1,479)
Other expenses	6	(5,209)	(7,349)
Depreciation and amortisation		(329)	(240)
Finance costs		(1,324)	(550)
Profit/(loss) before income tax from continuing operations		(26,213)	11,155
Income tax expense	9	-	(2,365)
Profit/(loss) for the period from continuing operations		**(26,213)**	**8,790**
Discontinued operations			
Loss after tax for the year from discontinued operations	23	(423)	(266)
Profit/(loss) for the period		**(26,636)**	**8,524**
Profit/(Loss) is attributable to:			
Non-controlling interests		(1,200)	(1,292)
Owners of Blue Sky Alternative Investments Limited		(25,436)	9,816
		(26,636)	**8,524**
		Cents	**Cents**
Earnings per share			
Basic (loss)/earnings per share	7	(32.73)	14.35
Diluted (loss)/earnings per share	7	(32.73)	14.08
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations, net of tax		1,752	-
Total comprehensive income/(loss)		**(24,884)**	**8,524**
Total comprehensive income is attributable to:			
Non-controlling interests		(1,200)	(1,292)
Owners of Blue Sky Alternative Investments Limited		(23,684)	9,816
		(24,884)	**8,524**

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

Blue Sky Alternative Investments Limited
Interim Consolidated Statement of Financial Position
As at 31 December 2018

	Notes	As at 31 December 2018 $'000	30 June 2018 $'000
Assets			
Current assets			
Cash and cash equivalents		55,051	40,922
Trade and other receivables	10	32,595	43,384
Contract assets		1,158	-
Inventory - residential developments	11	5,027	1,120
Income tax receivable		25	4,175
Other assets		3,589	3,403
Total current assets		97,445	93,004
Non-current assets			
Trade and other receivables	10	18,471	49,737
Contract assets		578	-
Inventory - residential developments	11	-	3,800
Investment property - retirement villages	12	-	112,170
Investments in associates and joint ventures	21	47,094	46,301
Property, plant and equipment	13	9,561	9,768
Intangible assets	14	6,706	9,591
Financial assets held at fair value through profit or loss	20	19,228	226
Biological assets		845	-
Total non-current assets		102,483	231,593
Total assets		**199,928**	**324,597**
Liabilities			
Current liabilities			
Trade and other payables	15	13,441	18,602
Deferred revenue	16	7,039	7,506
Borrowings	18	4,148	6,179
Provision for income tax		4,129	-
Employee benefits		5,286	7,216
Resident loans - retirement villages	17	-	23,515
Total current liabilities		34,043	63,018
Non-current liabilities			
Deferred revenue	16	1,009	1,035
Employee benefits		319	4,141
Borrowings	18	48,856	86,138
Financial liabilities at fair value through profit or loss	20	3,525	-
Other liabilities		1,501	4,422
Deferred tax liabilities		-	1,031
Provision for income tax		-	4,129
Total non-current liabilities		55,210	100,896
Total liabilities		**89,253**	**163,914**
Net assets		**110,675**	**160,683**
Equity			
Contributed equity		220,381	220,058
Reserves		(3,338)	(2,614)
Accumulated losses		(110,239)	(59,701)
Total equity, attributable to the owners of Blue Sky Alternative Investments Limited		**106,804**	**157,743**
Non-controlling interests		3,871	2,940
Total equity		**110,675**	**160,683**

The above Interim Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Blue Sky Alternative Investments Limited
Interim Consolidated Statement of Changes in Equity
For the half-year ended 31 December 2018

	Notes	Contributed equity $'000	Reserves $'000	Accumulated profits/ (losses) $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 July 2017		**120,613**	**(5,547)**	**26,664**	**(293)**	**141,437**
(Loss)/profit after income tax for the year		-	-	9,816	(1,292)	8,524
Other comprehensive (loss)/income for the year, net of tax		-	-	-	-	-
Total comprehensive income for the half-year		-	-	9,816	(1,292)	8,524
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs		1,617	-	-	-	1,617
Employee share option reserve		-	1,117	-	-	1,117
Increase/(decrease) in non-controlling interests		-	-	-	11	11
Dividends	19	-	-	(15,719)	(268)	(15,987)
Balance at 31 December 2017		**122,230**	**(4,430)**	**20,761**	**(1,842)**	**136,719**
Balance at 1 July 2018		**220,058**	**(2,614)**	**(59,701)**	**2,940**	**160,683**
Opening retained earnings adjustment due to adoption of new accounting standards		-	-	(25,102)	-	(25,102)
Adjusted balance at 1 July 2018		**220,058**	**(2,614)**	**(84,803)**	**2,940**	**135,581**
(Loss)/profit after income tax for the year		-	-	(25,436)	(1,200)	(26,636)
Other comprehensive (loss)/income for the year, net of tax		-	1,752	-	-	1,752
Total comprehensive income for the half-year		-	1,752	(25,436)	(1,200)	(24,884)
Transactions with owners in their capacity as owners:						
Employee share option reserve		-	(2,476)	-	-	(2,476)
Increase/(decrease) in non-controlling interests		-	-	-	2,131	2,131
Investment science consideration		323	-	-	-	323
Balance at 31 December 2018		**220,381**	**(3,338)**	**(110,239)**	**3,871**	**110,675**

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

Blue Sky Alternative Investments Limited
Interim Consolidated Statement of Cash Flows
For the half-year ended 31 December 2018

	Notes	Half-year ended 31 December 2018 $'000	Half-year ended 31 December 2017 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		26,818	43,809
Payments to suppliers and employees (inclusive of GST)		(41,027)	(33,432)
		(14,209)	10,377
Interest received		90	1,043
Interest and other finance costs paid		(359)	(554)
Income taxes received/(paid)		4,149	(2,236)
Net cash from/(used in) operating activities		**(10,329)**	**8,630**
Cash flows from investing activities			
Payments for equity investments		(7,477)	(10,775)
Proceeds from equity investments (disposals and distributions)		385	4,633
Payments for property, plant and equipment		(1,474)	(331)
Payments for investment property		(2,181)	(8,304)
Payments for acquisition, net of cash acquired	22	(1,408)	-
Proceeds from sale of discontinued operations, net of cash disposed	23	2,790	-
Payments for intangible assets (net of proceeds on disposal)		(34)	(101)
Bridging finance and loans to funds (net)		(13,398)	(7,275)
Net cash used in investing activities		**(22,797)**	**(22,153)**
Cash flows from financing activities			
Proceeds from issue of shares		124	1,694
Share issue transaction costs		-	(58)
Proceeds from borrowings (net of borrowing costs)		49,740	30,510
Repayment of borrowings		(2,770)	(23,560)
Dividends paid		-	(15,987)
Net cash from/(used in) financing activities		**47,094**	**(7,401)**
Net increase/(decrease) in cash and cash equivalents		**13,968**	**(20,924)**
Effects of exchange rate changes on cash and cash equivalents at the end of the period		161	-
Cash and cash equivalents at the beginning of the half-year		40,922	72,187
Cash and cash equivalents at the end of the half-year		**55,051**	**51,263**

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

Section 1: About this Report

1 Significant accounting policies

Basis of preparation

These interim consolidated financial statements for the half-year ended 31 December 2018 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

These interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Australian Securities Exchange Listing Rules*.

Going Concern

The 31 December 2018 interim financial report has been prepared on the going concern basis that assumes the continuity of normal business activities and the realisation of assets and discharge of its liabilities as and when they fall due, in the ordinary course of business.

As described in Note 18 Borrowings, the Group has a convertible loan note payable to Oaktree Capital Management (Oaktree) which contain specific covenants to be complied with. At 31 December 2018, the Company was within all relevant lending covenant tests under the Oaktree facility, including those calculated quarterly. The Directors anticipate that covenants may not be met at 31 March 2019 as the restructuring of the Company continues through FY19. The Company is currently in discussions with Oaktree with a view to negotiating a variation and/or restructure of the covenants to Oaktree's satisfaction.

In the event of a covenant breach, the loan notes would become due and payable on demand, and if called, the Group may be unable to repay the loan. Were this to occur, there is material uncertainty as to whether the Group will be able to continue as a going concern and consequently, whether it will realise its assets and extinguish its liabilities as and when they fall due in the ordinary course of business and at the amounts stated in this financial report.

No adjustment has been made to the amounts and classification of recorded assets and liabilities should the Group be unable to continue as a going concern.

New and revised accounting policies adopted by the Group

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial report for the year ended 30 June 2018 unless otherwise mentioned. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 July 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Revenue Recognition - Management fees

Management fees for ongoing management services are charged on a regular basis and recognised as revenue as services are provided over time under the input method. Management fees are typically fixed upon inception and disclosed within the fund constituent documents.

Management fees include development management fees in relation to real estate development projects. Development management fees for real estate projects are recognised evenly over time as the development services are provided, typically over the construction period of the project.

Revenue Recognition - Performance fees

Performance fees are recognised when the financial outcomes in relation to funds or mandates managed by Blue Sky can be reliably measured. The Group's entitlement to a performance fee is dependent on outperforming certain hurdle rates within the respective fund constituent documents. Performance fees are reliably measured when the risk of reversal is no longer highly probable, typically when the assets of the fund have been contracted for sale or have been realised.

Financial assets held at fair value through profit or loss

At initial recognition, the Group measures financial assets at its fair value and are classified as subsequently measured at amortised cost or fair value through profit or loss. The classification of financial assets at initial recognition is dependent on contractual cash flow characteristics and the Group's business model for managing them.

1 Significant accounting policies (cont'd)

Estimated credit losses

The Group recognises a provision for impairments based on the expected credit loss ('ECL') for all trade receivables and other receivables and contract assets. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

Biological assets

Biological assets are comprised of livestock (dairy cattle) and are measured at fair value less costs to sell, with any changes recognised in profit or loss. Costs to sell include all costs that would be necessary to sell the assets, including freight and direct selling costs.

The fair value of biological assets is based on its present location and condition. The Group determines whether an active or other effective market exists for a biological asset in its present location and condition. The quoted price in that market is the appropriate basis for determining the fair value of that asset. If an active market does not exist then the directors use one of the following valuation methods, when available, in determining fair value:

- The most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the end of the reporting period; or
- Market prices, in markets accessible to the entity, for similar assets with adjustments to reflect differences.

2 New and amended accounting standards adopted by the Group

The Group applied AASB 15 *Revenue from Contracts with Customers* and AASB 9 *Financial Instruments* from 1 July 2018. The nature and effect of these changes are disclosed below.

AASB 15 Revenue from Contracts with Customers

AASB 15 establishes the 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. The newly adopted standard determines the recognition criteria of revenue under a 5-step model. Under the new revenue recognition model the customer is typically defined as a Blue Sky fund, fund related entity or the investor. The Group's performance obligations are generally the management services provided to the customer. Where the customer is a Blue Sky Fund or fund related entity, an additional performance obligation over the establishment of the investment vehicle is identified. Transaction prices under the five step model are typically reflected in the constituent documents of the Blue Sky Fund, fund related entity or through an equivalent contractual agreement between the Group and the customer.

AASB 15 replaces the previous revenue recognition guidance in AASB 118 *Revenue* and AASB 111 *Constructions Contracts* and related interpretations. AASB 15 is a significant change from the previous revenue requirements and involves more judgement around estimates. In adopting this standard the Group has elected to apply the modified retrospective approach and applied the changes to contracts that were not completed as at 1 July 2018.

The impacts of adopting AASB 15 are summarised in the table below.

<table>
<tr><th>Item</th><th>Application</th><th>Impact on 1 July 2018 opening balances</th></tr>
<tr><td>Performance fees</td><td>Performance fees will be recognised when the risk of reversal is no longer highly probable. The most significant impact of this is the timing of performance fee revenue recognition for closed-ended funds. The timing of cash flows to Blue Sky remains unchanged.</td><td rowspan="3">• Trade and other receivables decreased by $23.4m ($4.1m in current, $19.3m in non-current)
• Contract assets increased by $2.1m
• Other assets increased by $0.2m
• Investments accounted for using the equity method decreased by $7.4m
• Trade and other payables decreased by $2.7m
• Deferred revenue increased by $0.5m ($0.6m in current and -$0.1m in non-current)
• Other non-current liabilities decreased by $0.2m
• Deferred tax liabilities decreased by $1.0m</td></tr>
<tr><td>Management fees</td><td>Development management fees in relation to real estate development projects will be recognised evenly over the expected development lifecycle, using an input method. The timing of cash flows to Blue Sky remains unchanged.</td></tr>
<tr><td>Contract assets</td><td>Contract assets generally reflect development management fees where we are contractually entitled to a receivable but have yet invoiced for the amount.</td></tr>
</table>

2 New and amended accounting standards adopted by the Group (cont'd)

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 previous categories of financial assets were replaced with two measurement categories: fair value and amortised costs. The measurement of financial assets and liabilities is dependent on the contractual cash flow characteristics and the Group's business model for managing them.

AASB 9 also includes a new expected credit loss model for the calculation of impairment on financial assets and hedge accounting. The Group has applied the general test to assess for any expected credit losses under AASB 9, there is a consideration around the probability of default upon initial recognition of the asset. The adoption of the expected credit loss model did not have a material impact to the Group.

At 30 June 2018, the borrowings held in the Group's subsidiary Aura were measured at amortised costs. On 1 July 2018, the contractual cash flow characteristics for these borrowings were linked to the profitability of each development and therefore required to be measured at fair value in accordance with AASB 9. This is on the basis that the financial asset does not meet cash flows representing solely payments of principle and interest. As a result, a reclassification between borrowings and financial liabilities held at fair value through profit or loss was reflected in the opening balance on 1 July 2018. There was no impact to opening retained earnings as the amortised costs at 30 June 2018 reflected the fair value as at that date.

At 30 June 2018, preference shares held in Blue sky funds or fund related entities were measured at amortised cost. On 1 July 2018, the contractual cash flow characteristics for these receivables were determined to be measured at fair value under AASB 9 as the cash flows were linked to the realisation of equity held in the Blue Sky fund or fund related entity. As a result, a reclassification between non-current trade and other receivables and financial assets held at fair value through profit or loss was reflected in the opening balance on 1 July 2018. There was no impact to opening retained earnings as the amortised costs at 30 June 2018 reflected the fair value as at that date.

2 New and amended accounting standards adopted by the Group (cont'd)

Impact from new and amended accounting standards adopted by the Group

The Group has elected to apply the modified retrospective approach. A summary of the impact is summarised below.

	Balance at 30 June 2018 $'000	AASB 15 impact $'000	AASB 9 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	(4,118)	-	39,266
Contract assets	-	2,116	-	2,116
Inventory - residential developments	1,120	-	-	1,120
Income tax receivable	4,175	-	-	4,175
Other assets	3,403	175	-	3,578
Total current assets	93,004	(1,827)	-	91,177
Non-current assets				
Trade and other receivables	49,737	(19,256)	(8,092)	22,389
Inventory - residential developments	3,800	-	-	3,800
Financial assets at fair value through profit or loss	226	-	8,092	8,318
Investment property - retirement villages	112,170	-	-	112,170
Investments in associates and joint ventures	46,301	(7,380)	-	38,921
Property, plant and equipment	9,768	-	-	9,768
Intangible assets	9,591	-	-	9,591
Total non-current assets	231,593	(26,636)	-	204,957
Total assets	**324,597**	**(28,463)**	**-**	**296,134**
Liabilities				
Current liabilities				
Trade and other payables	18,602	(2,683)	-	15,919
Borrowings	6,179	-	-	6,179
Deferred revenue	7,506	630	-	8,136
Employee benefits	7,216	-	-	7,216
Resident loans - retirement villages	23,515	-	-	23,515
Total current liabilities	63,018	(2,053)	-	60,965
Non-current liabilities				
Deferred revenue	1,035	(125)	-	910
Employee benefits	4,141	-	-	4,141
Borrowings	86,138	-	(64,527)	21,611
Financial liabilities at fair value through profit or loss	-	-	64,527	64,527
Other liabilities	4,422	(152)	-	4,270
Deferred tax liabilities	1,031	(1,031)	-	-
Provision for income tax	4,129	-	-	4,129
Total non-current liabilities	100,896	(1,308)	-	99,588
Total liabilities	**163,914**	**(3,361)**	**-**	**160,553**
Net assets	**160,683**	**(25,102)**	**-**	**135,581**

Section 2: Results for the Period

3 Operating revenue

	Half-year ended 31 December 2018	Half-year ended 31 December 2017
Revenue from contracts with customers	**$'000**	**$'000**
Point in time operating revenue		
Transaction fees	237	-
Sales commissions	(18)	-
	219	-
Over time operating revenue		
Management fees	14,068	-
Performance fees	306	-
Responsible entity and trustee fees	647	-
Management and letting rights income	921	-
Other revenue	2,290	-
	18,232	-
Total revenue from contracts with customers	**18,451**	**-**

	Half-year ended 31 December 2018	Half-year ended 31 December 2017
	$'000	**$'000**
Revenue		
Management fees	-	11,773
Performance fees	-	10,150
Responsible entity and trustee fees	-	496
Management and letting rights income	-	957
Transaction fees	-	11,912
Sales commissions	-	260
Other revenue	-	1,429
Total revenue	**-**	**36,977**
Total operating revenue[1]	**18,451**	**36,977**

[1] Total revenue from Blue Sky managed funds for the half-year ended 31 December 2018 was $14,521k (31 December 2017: $33,447k).

4 Other income

	Half-year ended 31 December 2018	Half-year ended 31 December 2017
	$'000	**$'000**
Gain on sale of the discontinued operations (Note 23)	563	-
Other	781	1,723
Leaseback income	274	319
Total other income	**1,618**	**2,042**

5 Provisions and impairments

	Half-year ended 31 December 2018 $'000	Half-year ended 31 December 2017 $'000
Provisions - Loans[1]	5,672	-
Provisions - Other	688	-
Amounts written off - Loans and other	351	-
Impairments - Goodwill[2]	836	-
Impairments - Other[3]	2,929	-
Total provisions and impairments	**10,476**	**-**

[1] Impairments - Loans relate to amounts provided for Blue Sky funds or fund related entities where loans have been assessed as under performing or non performing during the period.
[2] Impairments - Goodwill relates solely to SAC 9 goodwill (refer to Note 22).
[3] Impairments - Other relates to impairment in Management rights of $1.7m, impairment in inventory of $0.3m and impairment of equity accounted investments of $0.9m.

6 Other expenses

	Half-year ended 31 December 2018 $'000	Half-year ended 31 December 2017 $'000
Fee rebate expenses to BAF	(1,620)	(2,958)
External capital raising costs for funds	(633)	(1,838)
Insurance	(691)	(321)
Management and letting rights expenses	(1,021)	(1,001)
Net gain/(loss) on financial liabilities held at fair value through profit or loss	-	-
Other	(562)	(1,231)
Farming costs	(682)	-
Total other expenses	**(5,209)**	**(7,349)**

7 Earnings per share ('EPS')

	Half-year ended 31 December 2018 $'000	Half-year ended 31 December 2017 $'000
Net profit/(loss) attributable to ordinary equity holders of the Parent	(25,436)	9,816

	'000	'000
Number of shares		
Weighted average number of ordinary shares used in calculating basic earnings per share	77,712	68,403
Weighted average number of ordinary shares and ordinary shares under option used in calculating diluted earnings per share	77,712	69,712
Statutory EPS (cents)	**(32.73)**	**14.35**
Diluted statutory EPS (cents)	**(32.73)**	**14.08**

The conversion option on the Oaktree convertible note was anti-dilutive for the half year ended 31 December 2018 due to the Group being loss making.

8 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 wholly owned subsidiaries of the Group.

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 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.

Types of products and services

The principal products and services of the core operating segment is Alternative Asset Management.

Half-year ended 31 December 2018	**Core segment**	**Non-core segment**	**Adjustments and eliminations**	**Consolidated**
	$'000	**$'000**	**$'000**	**$'000**
Operating revenue	16,648	1,991	(188)	18,451
Depreciation and amortisation	(258)	(71)	-	(329)
Impairment - goodwill	-	(836)	-	(836)
Impairment - other	(892)	(2,037)	-	(2,929)
Share of profit/(loss) of associates and joint ventures	1,100	-	-	1,100
Segment profit/(loss)	(19,283)	(7,823)	893	(26,213)
Half-year ended 31 December 2017				
Operating revenue	38,204	1,285	(2,512)	36,977
Depreciation and amortisation	(167)	(73)	-	(240)
Share of profit/(loss) of associates and joint ventures	3,236	-	-	3,236
Segment profit/(loss)	13,309	(102)	(2,052)	11,155
As at 31 December 2018				
Total assets	194,407	13,951	(8,430)	199,928
Total liabilities	82,283	13,650	(6,680)	89,253
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

9 Income tax expense

The income tax expense for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities. The major components of income tax expense are detailed below.

	Half-year ended	
	31 December 2018	**31 December 2017**
	$'000	**$'000**
(Loss)/profit before income tax	(26,213)	11,155
Tax at the Australian tax rate of 30%	7,863	(3,347)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenses	488	(90)
Non-assessable income	(126)	(2)
Deferred tax balances not brought to account	(8,225)	(24)
Sundry items	-	14
Effect of foreign tax rate	-	1,084
Income tax (benefit)/expense	**-**	**(2,365)**
Income tax expense in profit and loss	-	(2,365)
Income tax attributable to discontinued operations	-	114
	-	(2,251)
Represented by:		
Current tax	-	(1,417)
Deferred tax	-	(834)
Aggregate income tax expense	**-**	**(2,251)**

The effective income tax rate for the period is nil as a result of not bringing to account deferred tax assets in relation to tax losses and deductible temporary differences for the Group.

Section 3: Operating Assets and Liabilities

10 Trade and other receivables

	As at					
	31 December 2018			30 June 2018		
	Gross	Provisions and impairments	Net	Gross	Provisions and impairments	Net
	$'000	$'000	$'000	$'000	$'000	$'000
Current						
Trade receivables	1,446	(29)	1,417	1,233	(139)	1,094
Other receivables	12,955	(3,885)	9,070	9,905	(7,394)	2,511
Performance fees receivables	1,438	-	1,438	8,331	-	8,331
Receivables from Blue Sky managed funds [1]	29,808	(9,138)	20,670	40,355	(8,907)	31,448
Total current trade and other receivables	**45,647**	**(13,052)**	**32,595**	**59,824**	**(16,440)**	**43,384**

	As at					
	31 December 2018			30 June 2018		
	Gross	Provisions and impairments	Net	Gross	Provisions and impairments	Net
	$'000	$'000	$'000	$'000	$'000	$'000
Non-current						
Performance fees receivable	3,871	(242)	3,629	25,020	-	25,020
Receivables from Blue Sky managed funds[1]	21,531	(6,689)	14,842	32,565	(7,848)	24,717
Other receivables	6,465	(6,465)	-	-	-	-
Total non-current trade and other receivables	**31,867**	**(13,396)**	**18,471**	**57,585**	**(7,848)**	**49,737**

[1] This balance is primarily 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. Refer to Note 2 for the provisions and impairment accounting policy and Note 5 for provisions and impairments recorded during the period.

11 Inventory

	As at	
	31 December 2018	30 June 2018
	$'000	$'000
Current		
Cost of land acquisition	4,595	470
Development work in progress	2,788	2,753
Interest capitalised	231	212
Impairments	(2,587)	(2,315)
Total current inventory	**5,027**	**1,120**

	As at	
	31 December 2018	30 June 2018
	$'000	$'000
Non-current		
Cost of land acquisition	-	3,800
Total non-current inventory	**-**	**3,800**

12 Investment property – retirement villages

	As at	
	31 December 2018	**30 June 2018**
	$'000	**$'000**
At fair value		
Balance at the beginning of the year - Aura	112,170	54,917
Acquisition of development land - Aura	-	9,413
Capitalised subsequent expenditure - Aura	2,166	47,100
Unrealised gain/(loss) in fair value of investment properties - Aura[1]	248	4,893
Disposals of investment Properties - Aura	(114,584)	(4,153)
Balance at the end of the year	-	112,170

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

The investment property assets above related 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. Aura was disposed of on 19 October 2018, refer to Note 23.

At the date of disposal, the fair value of investment properties was determined using the discounted cash flow valuation method. These valuations were based on forecasted cash flows using resident contracts and the current market value of individual retirement units.

Estimates of fair value are prepared by management and are independently reviewed annually by qualified experts where material.

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% (30 June 2018: 13.4% to 15.6%);
- Property price growth rates of 3% in the medium term and 3% in the long term (30 June 2018: 3%);
- Average subsequent tenure period of 10 years for independent living units (30 June 2018: 10 years); and
- Aggregate current market value of individual retirement units of $26,838,846 as at the date of disposal (30 June 2018: $26,599,717).

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). Increasing assumptions made about the discount rate and average tenure period would reduce the fair value of the retirement villages (and vice-versa).

13 Property, plant and equipment

	As at	
	31 December 2018	**30 June 2018**
	$'000	**$'000**
Non - current		
Land and buildings - at cost	1,619	1,621
Less: Accumulated impairment	(255)	-
Less: Accumulated depreciation	(238)	(221)
	1,126	1,400
Plant and equipment - at cost	5,973	5,449
Less: Accumulated depreciation	(30)	(85)
	5,943	5,364
Motor vehicles - at cost	74	111
Less: Accumulated depreciation	(24)	(48)
	50	63
Office equipment - at cost	1,380	1,807
Less: Accumulated depreciation	(824)	(951)
	556	856

13 Property, plant and equipment (cont'd)

Leased asset - fit out	3,313	3,313
Less: Accumulated depreciation	(1,427)	(1,234)
	1,886	2,079
Office equipment – under lease	-	120
Less: Accumulated depreciation	-	(114)
	-	6
Total property, plant and equipment	**9,561**	**9,768**

14 Intangible assets

	As at	
	31 December 2018	**30 June 2018**
	$'000	**$'000**
Non-current		
Goodwill - at cost	8,104	8,368
Less: Accumulated impairment (Refer Note 5)	(3,852)	(3,016)
	4,252	5,352
Management rights - at cost	3,938	3,938
Less: Accumulated amortisation	(558)	(507)
Less: Accumulated impairment (Refer Note 5)	(1,508)	-
	1,872	3,431
Software - at cost	1,369	1,276
Less: Accumulated amortisation	(819)	(672)
	550	604
Other - at cost	137	330
Less: Accumulated amortisation	(105)	(126)
	32	204
Total intangible assets	**6,706**	**9,591**

15 Trade and other payables

	As at	
	31 December 2018	**30 June 2018**
	$'000	**$'000**
Current		
Trade payables	2,269	1,680
Other payables	419	624
Accrued expenses	2,620	3,190
Lease incentive liability	387	387
Payables to Blue Sky managed funds[1]	7,746	12,721
Total current trade and other payables	**13,441**	**18,602**

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

16 Deferred revenue

	As at	
	31 December 2018	**30 June 2018**
	$'000	**$'000**
Current		
Unearned income	7,039	6,298
Unearned deferred management fees - Aura	-	1,208
Total current deferred revenue	**7,039**	**7,506**
Non-current		
Unearned income	1,009	1,035
Total non-current deferred revenue	**1,009**	**1,035**

17 Resident loans – retirement villages

	As at	
	31 December 2018	**30 June 2018**
	$'000	**$'000**
Opening balance	23,515	14,849
Deferred management fees	(267)	(576)
Unrealised gain/(loss) in fair value of resident loans	(166)	265
Net cash receipts on resident departures and arrivals	3,987	8,977
Extinguished resident loans	(27,069)	-
Closing balance	**-**	**23,515**

The resident loan liabilities above related 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. Aura was disposed of on 19 October 2018, refer to Note 23.

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. A capital growth rate assumption of 3% (30 June 2018: 3%) was used when determining the aggregate market value of occupied retirement units of $26,838,846 as at the date of disposal (30 June 2018: $26,599,717).

Section 4: Capital and Financial Risk Management

The Group's activities expose it to a variety of financial risks, for example market risk (including interest rate risk), credit risk (including counter party 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.

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.

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.

18 Borrowings

	As at	
	31 December 2018	**30 June 2018**
	$'000	**$'000**
Current		
Bank loans - Aura	-	2,625
Other borrowings	1,329	973
Bank loans - Wellington Road 2	2,203	2,000
Bank loans - Sunday Ridge Group	362	581
Bank loans - Riverside gardens	254	-
Total current borrowings	**4,148**	**6,179**
Non-current		
Bank loans - Management Rights Income Fund 2	2,328	2,388
Bank loans - Aura	-	19,223
Oaktree convertible note[1]	44,454	-
Other borrowings - Development loans[2]	-	64,527
Bank Loans - Sunday Ridge Group	2,074	-
Total non-current borrowings	**48,856**	**86,138**

1. Oaktree Convertible Note

On 8 November 2018, Oaktree Capital Management L.P. (Oaktree) invested $50 million via a 7-year senior secured convertible loan note facility. The Oaktree facility contains a number of financial covenants (for the Blue Sky Group and not its underlying funds) tested quarterly including i) minimum cash balance ii) minimum recurring cash EBITDA iii) minimum net tangible assets and iv) maximum annual capex. Oaktree will have the right to convert the amount owing under the facility into equity in the Group, capped at 30%, of BLA shares on issue. The conversion price upon issue was $1.87. The facility is presented in the balance sheet as follows:

	31 December 2018	**31 December 2017**
	$'000	**$'000**
Face value of the notes issued	50,000	-
Establishment costs	(2,774)	-
Fair value of Oaktree conversion rights	(3,525)	-
	43,701	**-**
Interest expense	1,116	-
Interest paid	(363)	-
	44,454	**-**

Interest expense is calculated by applying the effective interest rate of 17.2%

At 31 December 2018, the fair value approximates carrying value.

18 Borrowings (cont'd)

2. Other borrowings - Development loans

Other borrowings - Development loans relate to borrowings from a number of Blue Sky Retirement Living Funds that are managed by the Group, in accordance with 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 Retirement 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. During the period, the Group disposed of these development loans through a sale to an offshore institutional investor.

19 Dividends

	Half-year ended	
	31 December 2018	**31 December 2017**
	$'000	**$'000**
Cash dividends to the equity holders of Blue Sky		
Dividends on ordinary shares declared and paid:		
No dividend was paid in relation to the 2018 financial year (2017 financial year: 23.0 cents fully franked per share)	-	15,719

20 Fair value measurement

The table below presents the financial assets (by class) measured and recognised at fair value according to the fair value hierarchy. The different levels have been 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.

Half year ended 31 December 2018	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets				
Financial assets held at fair value through profit or loss (FVTPL)	-	-	19,228	19,228
Financial liabilities				
Resident loan obligations at fair value through profit or loss	-	-	-	-
Oaktree conversion rights	-	-	3,525	3,525

Year ended 30 June 2018	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets				
Financial assets held at fair value through profit or loss (FVTPL)	-	-	-	-
Financial liabilities				
Resident loan obligations at fair value through profit or loss	-	-	23,515	23,515

(i) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- the fair value of unlisted equity investments in going concern enterprises (such as venture capital-style investments) is determined using a capitalisation of earnings or revenue methodology, having regard to observable comparable transactions or quoted prices for similar enterprises.

20 Fair value measurement (cont'd)

(ii) Level 3 valuation process

Where no active market exists for a particular asset or liability, the Group uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions, unit pricing based on the net asset value of the funds invested in, discounted cash flow analysis, earnings or revenue multiple approach, option pricing models and other valuation techniques, based on market conditions and risks existing at reporting date. In doing so, fair value is estimated using a valuation technique that makes maximum use of observable market inputs and places minimal reliance upon entity-specific inputs.

(iii) Description of significant unobservable inputs to valuation

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at 31 December 2018 and 30 June 2018 are as shown below.

Financial assets

Sector	Valuation technique	Significant unobservable inputs	Range (weighted average)[1]	Sensitivity of the input to fair value
Other	Discounted Cash Flow (DCF)	Discount rate	31 December 2018: 28 - 30 %	1% (30 June 2018: N/A) increase / (decrease) in the range of discount rates used would result in an increase / (decrease) of $0.
			(30 June 2018: N/A)	(30 June 2018: N/A)
Student Accommodation	Discounted Cash Flow (DCF)	Discount rate	31 December 2018: 9 - 12 %	1% (30 June 2018: N/A) increase / (decrease) in the range of discount rates used would result in an increase / (decrease) of $1.2m.
			(30 June 2018: N/A)	(30 June 2018: N/A)
	Market approach[2]	Net asset value	31 December 2018: $0.5 million - $1.5 million	10% (30 June 2018: N/A) increase / (decrease) in the value of net assets would result in an increase / (decrease) of $0.1m.
			(30 June 2018: N/A)	(30 June 2018: N/A)

[1] The ranges presented reflect a range in which the weighted average of unobservable inputs falls. Accordingly, the actual unobservable input for each asset or investment in the category may fall outside these ranges.
[2] Market approach technique reflects an acquisition made during the period and the purchase price has been deemed to be the significant input.

Financial liabilities

Sector	Valuation technique	Significant unobservable inputs	Range (weighted average)[1]	Sensitivity of the input to fair value
Other	Discounted cash flow (DCF)	Discount rate	31 December 2018: 17 - 19%	1% (30 June 2018: N/A) increase / (decrease) in the range of the discount rates used would result in an increase / (decrease) of $1.5m.
			(30 June 2018: N/A)	(30 June 2018: N/A)

20 Fair value measurement (cont'd)

(iii) Description of significant unobservable inputs to valuation (cont'd)

Reconciliation of recurring fair value measurements categorised within Level 3 of the fair value hierarchy:

	Financial assets held at FVTPL $'000	Financial liabilities held at FVTPL $'000	Resident loans at FVTPL $'000	Other borrowings - Development loans $'000	Total
As at 1 July 2018	226	-	(23,515)	-	(23,289)
Subsequently reclassified due to adoption of new accounting standards	8,092	-	-	(64,527)	(56,435)
Remeasurement recognised in profit or loss	(5,288)	-	433	-	(4,855)
Purchases	16,198	(3,525)	(3,987)	-	8,686
Disposals	-	-	27,069	64,527	91,596
As at 31 December 2018	19,228	(3,525)	-	-	15,703

	Financial assets held at FVTPL $'000	Resident loans at FVTPL $'000	Total $'000
As at 1 July 2017	-	(14,849)	(14,849)
Remeasurement recognised in profit or loss	-	311	311
Purchases	226	(8,977)	(8,751)
Disposals	-	-	-
As at 30 June 2018	226	(23,515)	(23,289)

There were no transfers between Level 1 and Level 2 fair value measurements during the period, and no transfers into or out of Level 3 fair value measurements during the six months ended 31 December 2018. The fair value decrease during the period on financial instruments categorised within Level 3 was $4,855k (2018: $311k).

Section 5: Group Structure

21 Investments in associates and joint ventures

	As at 31 December 2018	As at 30 June 2018
	$'000	$'000
Non-current		
Blue Sky Private Equity Vinomofo Fund	4,089	4,130
Blue Sky Private Equity Retirement Village Fund	-	181
Blue Sky Strategic Australian Agriculture Fund	6,738	4,888
Blue Sky Student Accommodation Funds[1]	12,724	8,978
Cove Operating Company LLC[2]	1,577	7,593
Student Quarters Blue Sky GP LLC	11,180	12,154
Other investments accounted for using the equity method	10,786	8,377
Total investments accounted for using the equity method	**47,094**	**46,301**

[1] Blue Sky holds an equity interest in SAC 2,3,5,6,7 and Kensington Property Trust.
[2] The adoption of AASB 15 resulted in a $5.7m decrease to the opening carrying value of Cove Operating Company LLC. Refer to Note 2.

22 Business combinations

Blue Sky Student Accommodation Fund 9 (SAC 9)

SAC 9 was established to develop a purpose built student accommodation project in Perth's CBD. The Group acquired 10% of additional units and voting interests in SAC 9 during the period. As a result, the Group's equity interest in the trust increased from 29% to 39%.

In accordance with AASB 10, Blue Sky is deemed to have controlled SAC 9 from 3 August 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. As a result, Blue Sky is required to consolidate the assets, liabilities and results of SAC 9 from the date of acquisition.

The following table summarises the acquisition date fair values of identifiable net assets of SAC 9:

	As at Fair value recognised on acquisition
	$'000
Assets	
Cash	2
Investments in associates & joint ventures	4,995
Other assets	151
Trade receivables	822
Total assets	**5,970**
Liabilities	
Trade payables	11
Total liabilities	11
Total identifiable net assets at fair value	5,959
Non-controlling interest measured at fair value	(3,640)
Goodwill arising on acquisition (Note 5)	836
Purchase consideration transferred	**3,155**
Made up of:	
Carrying value of existing investment held at 30 June 2018	1,745
Cash consideration transferred during the period	1,410
Total consideration transferred	**3,155**

Net cash paid upon acquisition was $1,408,164 and the Group recognised an impairment of $836,282 for the half-year ended 31 December 2018.

23 Discontinued operations

On 24 August 2018, the Group publicly announced the decision of its Board of Directors to sell its 50% interest in Aura to an offshore institutional investor. The sale completed on 19 October 2018. The results of Aura for the period when control ceased are presented below:

	Half-year ended	
	31 December 2018	31 December 2017
	$'000	$'000
Revenue	707	1,025
Expenses	(1,128)	(1,404)
Gross profit	(421)	(379)
Finance costs	(2)	(1)
Impairment loss recognised on the remeasurement to fair value less costs to distribute	-	-
Profit/(loss) before tax from discontinued operations	(423)	(380)
Tax benefit:		
Related to current pre-tax profit/(loss)	-	114
Post-tax profit/(loss) of discontinued operations	**(423)**	**(266)**
Gain on sale of the discontinued operations	563	-
Attributable tax expense	-	-
Post-tax gain on the sale of discontinued operations	563	-
Profit/(loss) for the year from discontinued operations	**140**	**(266)**

For the half-year ended 31 December 2018, profit relates to activity from 1 July 2018 to 19 October 2018.

The net cash flows generated from the sale of Aura are as follows:

	Half-year ended	
	31 December 2018	31 December 2017
	$'000	$'000
Cash received from sale of the discontinued operations	2,963	-
Cash sold as a part of discontinued operations	(173)	-
Net cash inflow on date of disposal	**2,790**	**-**

The net cash flows generated/(incurred) by Aura are, as follows:

	Half-year ended	
	31 December 2018	31 December 2017
	$'000	$'000
Operating	3,415	(1,196)
Investing	(1,860)	(8,538)
Financing	(2,243)	8,864
Net cash (outflow)	**(688)**	**(870)**

Earnings per share:		
Basic, profit/(loss) for the year from discontinued operation	-	-
Diluted, profit/(loss) for the year from discontinued operation	-	-

Section 6: Other

24 Share-based payments

For the period ended 31 December 2018, 4,965,691 options were on issue to senior executives and staff under the Blue Sky Alternative Investments Limited Share Option Plan. The fair value at grant date is estimated using a binomial pricing model, taking into account the terms and conditions upon which they were granted. The information below lists the inputs during the period to the models used for the period ended 31 December 2018:

	Issue 1
Dividend yield (%)	0.00%
Expected volatility (%)	32.50%
Risk-free interest rate (%)	2.33%
Expected life of options (years)	5.00
Weighted average strike price ($)	$1.58
Model used	Binomial

The weighted average fair value of options granted during the six month period was $97,337 (31 December 2017: $391,885).

For the half-year ended 31 December 2018, the Group has recognised $2,475,510 reversal of share based payments expense in the statement of profit or loss (31 December 2017: $1,116,821 expense).

25 Events occurring subsequent to the reporting date

Cove Property Group sale

On 22 January 2019, Blue Sky entered into an agreement to sell its 38% interest in Cove Property Group (‘Cove’) to the principals of Cove.

Blue Sky will not participate in any future Cove projects but will retain its right to share in profits from Cove’s existing commercial real estate projects in New York, namely 441 Ninth Avenue and 101 Greenwich (formerly 2 Rector Street). As such, there was no impact to the carrying value of Blue Sky’s investment in Cove on Blue Sky’s financial statements at 31 December 2018.

Termination of Canadian Pension Fund’s strategic agreement

On 13 February 2019, Blue Sky announced that it agreed to terminate its strategic agreement with Canada’s Public Sector Pension Investment Board (‘PSP Investments’) effective 31 March 2019.

The impact of the termination of the strategic partnership will trigger realisation of associated BLA co-investment.

No other matter or circumstance has arisen since the end of the period that has significantly affected or may significantly affect the operations of the Group, the result of those operations or the state of affairs of the Group in subsequent financial years.

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

1. the interim consolidated financial statements and notes, as set out on pages 9 to 32, are in accordance with the *Corporations Act 2001* and:

   (a) comply with Australian Accounting Standard AASB 134 *Interim Financial Reporting* as stated in accounting policy Note 1 to the interim consolidated financial statements, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   (b) give a true and fair view of the Group's financial position as at 31 December 2018 and of the performance for the half-year ended on that date;

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

On behalf of the Directors

Andrew Day
Executive Chair

27 February 2019
Brisbane

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Independent auditor's review report to the members of Blue Sky Alternative Investments Limited

Report on the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of Blue Sky Alternative Investments Limited (the Company) and its subsidiaries (collectively the Group), which comprises the interim consolidated statement of financial position as at 31 December 2018, the interim consolidated statement of comprehensive income, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not 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 31 December 2018 and of its consolidated financial performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Emphasis of Matter – Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the half-year financial report, which describes the principal conditions that raise doubt about the Group's ability to continue as a going concern. These events or conditions indicate that a material uncertainty exists in respect of the Group's ability to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the half-year financial report. The half-year financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the entity not continue as a going concern. Our conclusion is not modified in respect of this matter.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2018 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Mike Reid
Partner
Brisbane
27 February 2019

1H FY19 Reconciliation of Statutory Results with Underlying Results

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**
Revenue			
Management fees	$14.1m	-	$14.1m
Transaction fees	$0.2m	-	$0.2m
Performance fees	$0.3m	-	$0.3m
Investment income	-$4.7m	$2.6m	-$7.3m
Share of profit/(loss) of associates and joint ventures	$1.1m	$0.4m	$0.7m
Other income	$4.9m	$1.8m	$3.1m
Total revenue	**$15.9m**	**$4.8m**	**$11.1m**
Expenses			
Employee benefits	-$8.0m	-$0.5m	-$7.5m
Fee rebates to BAF	-$1.6m	-	-$1.6m
External capital raising costs	-$0.6m	-	-$0.6m
External service providers	-$3.7m	-$0.1m	-$3.6m
Travel and entertainment	-$0.7m	-	-$0.7m
Occupancy	-$1.4m	-$0.1m	-$1.3m
Finance costs	-$1.3m	-$0.1m	-$1.2m
Depreciation and amortisation	-$0.3m	-	-$0.3m
Provisions and impairments	-$10.5m	-$2.7m	-$7.8m
Other expenses	-$14.0m	-$1.8m	-$12.2m
Total expenses	**-$42.1m**	**-$5.3m**	**-$36.8m**
Profit/(loss) before income tax	**-$26.2m**	**-$0.5m**	**-$25.7m**
Profit/(loss) after income tax for the period	**-$26.2m**	**-$0.5m**	**-$25.7m**
Discontinued operations			
Loss after tax for the year from discontinued operations	-$0.4m	-$0.4m	-
Profit/(loss) for the period	**-$26.6m**	**-$0.9m**	**-$25.7m**
Profit is attributable to:			
Non-controlling interests	-$1.2m	-$1.2m	-
Owners of Blue Sky Alternative Investments Limited	-$25.4m	$0.3m	-$25.7m
	-$26.6m	**-$0.9m**	**-$25.7m**

1H FY19 Reconciliation of Statutory Results with Underlying Results

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	$55.1m	-$0.3m	$54.8m
Trade and other receivables	$32.6m	$4.9m	$37.5m
Inventory - residential developments	$5.0m	-$5.0m	-
Contract assets	$1.2m	-	$1.2m
Other assets	$3.5m	-$0.3m	$3.2m
Total current assets	**$97.4m**	**-$0.7m**	**$96.7m**
Non-current assets			
Trade and other receivables	$18.5m	-$0.1m	$18.4m
Investments in associates and joint ventures	$47.1m	-$34.3m	$12.8m
Property, plant and equipment	$9.6m	-$7.1m	$2.5m
Intangible assets	$6.7m	-$1.9m	$4.8m
Financial assets held at fair value through profit or loss	$19.2m	$33.5m	$52.7m
Biological assets	$0.8m	-$0.8m	-
Contract assets	$0.6m	-	$0.6m
Total non-current assets	**$102.5m**	**-$10.7m**	**$91.8m**
Total assets	**$199.9m**	**-$11.4m**	**$188.5m**
Current liabilities			
Trade and other payables	$13.5m	$0.2m	$13.7m
Borrowings	$4.1m	-$2.8m	$1.3m
Deferred revenue	$7.0m	$0.2m	$7.2m
Provision for Income tax	$4.1m	-	$4.1m
Employee benefits	$5.3m	-	$5.3m
Total current liabilities	**$34.0m**	**-$2.4m**	**$31.6m**
Non-current liabilities			
Deferred revenue	$1.0m	-	$1.0m
Employee benefits	$0.3m	-	$0.3m
Borrowings	$48.9m	-$4.4m	$44.5m
Financial liabilities held at fair value through profit or loss	$3.5m	-	$3.5m
Other liabilities	$1.5m	-	$1.5m
Non-current liabilities	**$55.2m**	**-$4.4m**	**$50.8m**
Total liabilities	**$89.2m**	**-$6.8m**	**$82.4m**
Net assets	**$110.7m**	**-$4.6m**	**$106.1m**
Equity			
Contributed equity	$220.4m	-	$220.4m
Reserves	-$3.3m	-	-$3.3m
Accumulated (losses)/Profits	-$110.3m	-$0.6m	-$110.9m
Total equity attributable to the owners of Blue Sky	**$106.8m**	**-$0.6m**	**$106.2m**
Non-controlling interests	$3.9m	-$3.9m	-
Total equity	**$110.7m**	**-$4.5m**	**$106.2m**

1H FY19 Reconciliation of Statutory Results with Underlying Results

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)	$26.8m	-$7.6m	$19.2m
Payments to suppliers and employees (inclusive of GST)	-$41.0m	$4.0m	-$37.0m
Interest received	$0.1m	-	$0.1m
Interest and other finance costs paid	-$0.3m	$0.1m	-$0.2m
Income taxes paid	$4.1m	-	$4.1m
Net cash from operating activities	**-$10.3m**	**-$3.5m**	**-$13.8m**
Cash flows from investing activities			
Payments for equity investments	-$7.5m	-$1.4m	-$8.9m
Proceeds from equity investments (including distributions)	$0.4m	-	$0.4m
Payments for property, plant and equipment	-$1.5m	$1.5m	-
Payments for investment property	-$2.2m	$2.2m	-
Payments for acquisition, net of cash acquired	-$1.4m	$1.4m	-
Proceeds from sale of discontinued operations, net of cash disposed	$2.8m	$0.2m	$3.0m
Payments for intangible assets (net of proceeds on disposal)	$0.0m	$0.0m	$0.0m
Bridging finance and loans to funds (net)	-$13.4m	-$0.4m	-$13.8m
Net cash used in investing activities	**-$22.8m**	**$3.5m**	**-$19.3m**
Cash flows from financing activities			
Proceeds from issue of shares	$0.1m	-$0.1m	-
Share issue transaction costs	-	-	-
Proceeds from borrowings	$49.7m	-$2.0m	$47.7m
Repayment of borrowings	-$2.7m	$2.7m	-
Dividends paid	-	-	-
Net cash used in financing activities	**$47.1m**	**$0.6m**	**$47.7m**
Net decrease in cash and cash equivalents	**$14.0m**	**$0.6m**	**$14.6m**
Effects of exchange rate changes on cash and cash equivalents at the end of the period	$0.2m	-	$0.2m
Cash and cash equivalents at the beginning of the half-year	$40.9m	-$0.9m	$40.0m
Cash and cash equivalents at the end of the half-year	**$55.1m**	**-$0.3m**	**$54.8m**

1H FY18: Reconciliation of Statutory Results with Underlying Results

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**
Revenue			
Management fees	$11.8m	-$2.2m	$14.0m
Transaction fees	$11.9m	-	$11.9m
Performance fees	$10.2m	-	$10.2m
Investment income	-	-$10.2m	$10.2m
Share of profit/(loss) of associates and joint ventures	$3.2m	$1.9m	$1.3m
Other income	$5.2m	$1.4m	$3.8m
Total revenue	**$42.3m**	**-$9.1m**	**$51.4m**
Expenses			
Employee benefits	-$15.8m	-$0.2m	-$15.6m
Fee rebates to BAF	-$3.0m	-	-$3.0m
External capital raising costs	-$1.8m	-	-$1.8m
External service providers	-$2.5m	-	-$2.5m
Travel and entertainment	-$1.5m	-	-$1.5m
Occupancy	-$1.1m	-	-$1.1m
Finance costs	-$0.5m	-	-$0.5m
Depreciation and amortisation	-$0.2m	-	-$0.2m
Other expenses	-$4.7m	-$1.1m	-$3.6m
Total expenses	**-$31.1m**	**-$1.3m**	**-$29.8m**
Profit before income tax	**$11.2m**	**-$10.4m**	**$21.6m**
Income tax benefit/(expense)	-$2.4m	$3.1m	-$5.5m
Profit after income tax for the period	**$8.8m**	**-$7.3m**	**$16.1m**
Discontinued operations			
Loss after tax for the year from discontinued operations	-$0.3m	-$0.3m	-
Profit/(loss) for the period	**$8.5m**	**-$7.6m**	**$16.1m**
Non-controlling interests	-$1.3m	-$1.3m	-
Owners of Blue Sky Alternative Investments Limited	$9.8m	-$6.3m	$16.1m
	$8.5m	**-$7.6m**	**$16.1m**

Full year FY18: Reconciliation of Statutory Results with Underlying Results

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	-
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
Financial assets held at fair value through profit or loss	$0.2m	$40.9m	$41.1m
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**

1H FY18: Reconciliation of Statutory Results with Underlying Results

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)	$43.8m	-$1.2m	$42.6m
Payments to suppliers and employees (inclusive of GST)	-$33.4m	$2.8m	-$30.6m
Interest received	$1.0m	-	$1.0m
Interest and other finance costs paid	-$0.6m	$0.1m	-$0.5m
Income taxes paid	-$2.2m	-	-$2.2m
Net cash from operating activities	**$8.6m**	**$1.7m**	**$10.3m**
Cash flows from investing activities			
Payments for equity investments	-$10.8m	-$0.5m	-$11.3m
Proceeds from equity investments (including distributions)	$4.6m	$0.1m	$4.7m
Payments for property, plant and equipment	-$0.3m	-	-$0.3m
Payments for investment property	-$8.3m	$8.3m	-
Payments for intangible assets (net of proceeds on disposal)	-$0.1m	-	-$0.1m
Bridging finance and loans to funds (net)	-$7.2m	-$0.1m	-$7.3m
Net cash used in investing activities	**-$22.1m**	**$7.8m**	**-$14.3m**
Cash flows from financing activities			
Proceeds from issue of shares	$1.7m	-	$1.7m
Share issue transaction costs	-$0.1m	-	-$0.1m
Proceeds from borrowings	$30.5m	-$13.9m	$16.6m
Repayment of borrowings	-$23.5m	$5.4m	-$18.1m
Dividends paid	-$16.0m	$0.3m	-$15.7m
Net cash from/(used in) financing activities	**-$7.4m**	**-$8.2m**	**-$15.6m**
Net decrease in cash and cash equivalents	**-$20.9m**	**$1.3m**	**-$19.6m**
Cash and cash equivalents at the beginning of the half-year	$72.2m	-$1.6m	$70.6m
Cash and cash equivalents at the end of the half-year	**$51.3m**	**-$0.3m**	**$51.0m**