VENTURE CAPITAL OPPORTUNITIES FUND

INVESTING IN SQUARE PEG II

Annual Report

For the year ended 30 June 2023

(ARSN 625 636 473)

RESPONSIBLE ENTITY:

K2 ASSET MANAGEMENT LTD

(ABN 95 085 445 094) (AFSL 244 393)

Directory

FUND

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Directors' letter

Dear Unitholders,

It is a pleasure to provide you with the Venture Capital Opportunities Fund (**Fund**) Annual Report for the twelve-month period to 30 June 2023 (**FY23**).

INTRODUCTION FROM K2

K2 Asset Management Ltd (**K2**) is pleased to have been appointed as Responsible Entity (**RE**) of the Fund as of 4 July 2023, and looks forward to working with Unitholders. Unitholders are welcome to reach out to the Investor Relations team via email (vcof@k2am.com.au) or by calling +61 3 9691 6110.

FUND STRUCTURE

Units in the Fund are now fully paid, with the final investor instalment paid in 2022. The total amount paid per unit is $1.80.

The Fund has made total capital commitments of US$11.2 million to SPFII, representing an interest of 4.8% in SPFII. As at the end of June 2023, SPFII has invested (net drawn capital) 97.40% of the Fund's committed capital in sixteen early-stage technology businesses, having successfully exited from Puresec.

FINANCIAL PERFORMANCE

While there was no material change to the portfolio revaluation during the year ended 2023, the Fund recorded a A$1.6 million fair value gain, which was mostly derived from the effect of foreign exchange of A$1.1 million gain on the portfolio. This translated to a net profit of 14.26 cents per Unit. Since its inception in July 2018, the Fund has returned 20.4% per annum (IRR basis) or 1.91x TVPI (total value, including distributions received, to paid-in unitholder investment).

The Net Asset Value (NAV) of the Fund at 30 June 2023 was A$34.8 million, or $3.42 on a per Unit basis, with the NAV per Unit up 4.3% for the year (30 June 2022: $3.28 per Unit).

INVESTMENT ACTIVITY

As noted in prior reports to Unitholders, the portfolio is now fully invested. As such there have been no new investments made in the portfolio this year. Capital called from the Fund has been used for portfolio management and follow-on investment purposes. The investment management team at Square Peg Capital Pty Ltd (**Manager**) is focused on key business models and investment thematics and has invested, and will continue to invest, where the Manager sees potential for future value creation.

Over the course of FY23 SPFII made follow-on investments into four of the fifteen companies in the portfolio, including **Doctor Anywhere's** Series C1 funding round which raised US$38.8 million, **Stashaway's** Series D extension round, **Amber's** Series B extension round, and **Healthmatch's** Series C A$10 million round. Other activity of the Fund's portfolio companies included the second tranche of the Series D US$270 million capital raise for Kredivo, While SPFII did not participate in the second tranche, it was oversubscribed and at a valuation uplift, which the Fund adopted.

PORTFOLIO AND MARKET UPDATE

The year was again a challenging one, with geopolitical uncertainty, rising interest rates and high inflation all providing headwinds for the market. Average valuations in the venture capital (**VC**) market have begun to trend lower – a good thing for new investments – however there were no material revaluations in the portfolio and the Manager remains comfortable with the companies in the portfolio and their 30 June 2023 holding values.

VC market activity did begin to level off in Q2 2023, compared to the earlier quarter declines, signalling an increase in investment activity following the market pause following the US bank closures in the first few months of the year. Although investors have become more cautious amongst the economic uncertainty, AI startups appear to have bucked the trend with deal pace remaining steady having collectively raised US$15.5 billion in 2023 alone, according to Pitchbook.

As you may know, SPFII has made investments in technology, software and a number of AI businesses. The Manager remains focused on these business models where they have strong expertise and networks. As has been said in previous reports, the strong returns of the Fund are a reflection of the expertise of the Manager as they guide, grow and transform the underlying investments in changing market environments. The Fund's key contributors are performing well and remain well capitalised, leaving them in a position of strength to withstand the current macroeconomic environment.

OUTLOOK

The Manager does not expect to return much capital over the next 12 months, which is a function of valuations beginning to trend lower. Additionally, the Manager does not intend to "time" the market, but instead consistently looks to return capital to investors at the right time when the relevant portfolio companies reach the appropriate level of maturity and market conditions allow. In our view, this is an appropriately pragmatic view and is consistent with the broader private capital market outlook and we appreciate that the Manager is extremely cognisant of their responsibility with your capital.

We thank you for your support and look forward to updating you on the progress of the Fund through the 2024 Financial Year.

Yours faithfully,

Hollie Wight
Managing Director, Head of RE & Trustee Services

13 September 2023

Report to unitholders

MARKET REVIEW

Over FY2023, global equities (MSCI AC World Index) posted a total return of +20.4% (in AUD), with the second half of the financial year bolstering these returns as inflation began to wane. Interest rates appeared to be reaching their peak and the release of US economic data demonstrating resilient consumer spending and a strong labour market.

A large part of the strong global returns was the tech-sector in the US, with a handful of IT stocks leading the US. Australian equities underperformed global equities, however the ASX200 still returned +14.8% (AUD), largely driven by resource stock performance. That said, Australian tech-stocks, which are a rather minor weight on the index, saw a total return of just under 40% which was in line with their global peers.

Overall, VC markets appear to be returning to 'normal', however there has been a slowdown in the pace of investments of startups as well as some downward pressure on valuations. There is a reasonable prospect that valuations will fall further, as a general statement, however the individual impact of such a statement will vary enormously on a company-by-company basis. The Manager is comfortable with the companies that are within the portfolio are well capitalised and performing well. However they do not expect to return significant capital over the coming 12-months. The Manager continues to evaluate portfolio companies for long-term value, and when the relevant portfolio companies reach the appropriate level of maturity, assuming favourable market conditions allow, they will look to return capital to Unitholders.

This approach is reflected in the current valuation and has resulted in the portfolio value remaining roughly flat compared to FY2022. Pleasingly the Fund value has grown strongly since inception in 2018 and all underlying valuations are held at or above SPFII's initial investment.

OUTLOOK AND OPPORTUNITY

It goes without saying that generative AI has emerged as the next big thing in tech. The power of artificial intelligence has people both excited and somewhat nervous, with AI having the potential to be the most important innovation in human history. The extraordinary potential of these new technologies is undeniable, and the Manager is deeply engaged with AI and brings an open and curious mind to exploring the possibilities it brings.

The Managers engagement with AI is not new, with SPFII having made investments in AI-first business models using AI in a fundamental way, including portfolio companies specific to SPFII such as Deci.ai and Aidoc. As the Manager continues to assess AI-first businesses amidst the fervour, there are a number of fundamental technology and business model questions that they ask themselves:

— Is this a great business in its own right, regardless of its use of AI?

— Will AI unlock a new way to solve a problem that is 10x better than before?

— How does the business build a sustainable competitive advantage, particularly where there is heavy reliance on third-party foundation models?

— Can the business find a distribution angle over incumbents that can add AI to their existing products?

— How important are technological advantage and R&D to this business (relative to factors like product and go-to-market strategy), and how does that impact our perspective of the team and the space they compete in?

— Is this team the best positioned to build a generational business and navigate the quickly-shifting sands of the AI space?

While these questions are important for AI businesses, they too are applicable to general software businesses. While the acceleration of AI has received much hype and attention, the Manager is equally focussed on other core investment themes of fintech and SaaS (Software as a Service) and those that are tackling the existential climate challenge of our generation through technology. The answers to their list of questions will be obvious in hindsight, but are anything but obvious today, a fact that excites the Manager and helps them strive to be in the best position for the years ahead.

PORTFOLIO POSITIONING

The Manager has successfully constructed a portfolio of companies that employ technology to meet the requirements of new markets with more efficient and less costly operating models. The businesses are developing products, partnerships, and industry relationships that offer significant opportunities and contribute to building long-term defensibility of their market position.

SPFII has invested in sixteen early-stage technology businesses, having sold Puresec to Palo Alto Networks in FY2019. There were no new inclusions to the portfolio in FY2023, and the remaining capital of the Fund will be deployed to follow-on investments in existing portfolio companies in the future.

A summary of the fifteen investments in SPFII can be found below.

AIDOC

Aidoc is an Israeli technology company developing products that support and enhance the diagnostic power of radiologists, helping them expedite patient treatment and improve quality of care. Employing deep learning AI technology that identifies physical anomalies and flags the most urgent cases, Aidoc’s products assist radiologists to better prioritise life threatening cases and accelerate patient care.

Since it was founded in 2016, Aidoc’s solutions have now been deployed at more than 1,000 hospitals and medical centres, is utilised in seven of the ten top US hospitals, analyses 2 million patients each month, and is diversifying its portfolio, developing further AI platforms for use in the healthcare system. With increased pressure on health systems due to the provider labour shortage and rising costs, the need to provide more cost-effective quality care through earlier, faster treatment and more accurate interventions is imperative. Aidoc’s clinical AI improves clinician efficiency, decreases the length of stay, and reduces turnaround time to mitigate average hospital costs.

Following US Food and Drug Administration (**FDA**) approval of their first product in late 2018, Aidoc now has eleven clearances with more in the pipeline, and is the leading full-body imaging AI software.

AMBER

Amber is building an energy retailer with a differentiated business model and value proposition that aligns with customer interests, reducing electricity costs and increasing the use of clean renewable energy. Amber charges customers a flat fee of $19 per month for access to wholesale electricity. Amber is also developing a software platform to help its customers take greater advantage of cheaper, cleaner energy when it is available by automatically optimising their energy use. Amber has continued to see growth in its business despite a significantly disruptive period of high and volatile wholesale energy prices.

In October 2022 the company completed a Series B extension round, which will largely be used to further develop the start-up's solar battery and EV automation software. The Manager notes that Amber has limited cash runway and they are actively working with the company to employ operational mechanisms to extend the runway, including an expectation of beginning fundraising discussions in FY2024.

DECI.AI

Deci.AI was founded in 2019 and is based in Tel Aviv. Its team of deep learning experts are focussed on significantly reducing production-related bottlenecks across the AI lifecycle. Deci's end-to-end deep learning development platform helps AI developers build, optimize, and deploy AI models to any environment such as cloud, edge, and mobile. In May 2023, Deci announced that its deep learning development platform was selected as winner of the 2023 Edge AI and Vision Product of the Year Awards for "Best Edge AI Developer Tool." The awards recognize the innovation and excellence of the industry's leading technology companies that are enabling practical visual AI and computer vision.

Highlighting the addressable market and the potential for Deci, the company completed a series A funding round in October 2021 and Series B funding round in July 2022. Both rounds were led by global software investor Insight Partners, bringing Deci's total funding to US$55.1 million.

DEPUTY

Deputy has developed a Software as a Service (**SaaS**) product that assists organisations of any size, across multiple sectors, to effectively manage their rostered workforce. It enables staff to be simply, and even automatically, scheduled, based on stated preferences and availability. It acts as a system of engagement for rostered staff and employers to communicate and share information with each other. Deputy also links to other systems such as payroll and timesheets to automate manual processes.

During the FY, the company saw co-founder Ashik Ahmed step down as CEO to remain a Director on the Board, with the new CEO Silvija Martincevic – previously Chief Commercial Officer at Affirm – step in to oversee Deputy's growth strategy across the US and other countries.

Deputy's workforce management software is now used by over 340,000 workplaces, 1.3 million workers and in over 100 countries.

DOCTOR ANYWHERE

Doctor Anywhere is a regional tech-led healthcare company headquartered in Singapore. The company's mission is to improve healthcare outcomes across Southeast Asia. With a strong network of established healthcare providers and experienced doctors, Doctor Anywhere's digital platform enables users to manage their health easily and effectively through the Doctor Anywhere mobile app. Users can consult a licensed local doctor anytime, anywhere, and get medication delivered to their doorstep within hours. Medical history, health reports, and other documents are stored in-app for easy access. Doctor Anywhere has strong penetration in its domestic market, Singapore, and is gaining traction in Thailand and Vietnam.

In December 2022 the company completed its Series C1 funding round which was for the strategic acquisition of Singapore-listed specialist doctors group Asian Healthcare Specialists, completed in the same month. This acquisition is part of the company's long term growth strategy, enabling it to deliver more holistic healthcare and meet the rising demand for complex, specialised treatment across Southeast Asia.

HEALTHMATCH

HealthMatch's mission is to dramatically accelerate patient recruitment to clinical trials, allowing for faster and more efficient access to life-saving medication. By employing innovative technology, HealthMatch is able to match patients to clinical trials in a matter of minutes. By presenting simplified questions, one at a time, in a language that patients can understand, HealthMatch has experienced strong growth rates and the constraints and urgency experienced by pharmaceutical companies during the COVID-19 pandemic has provided a positive tailwind for the company.

Launched in 2017, the company is now being used by over one million patients worldwide and has made over 3.6 million matches to clinical trials spanning more than 300 conditions to date. The company completed a A$10 million Series C funding round in 2022, with the funds being used to further expand its team and platform reach across the United States. HealthMatch's US business has been a major contributor to its growth with the company recording average new user registrations of 100,000 patients per month since it launched there in October 2021.

KREDIVO *(FORMALLY KNOWN AS FINACCEL)*

Kredivo uses technology to extend credit to prime consumers in one of the most underpenetrated markets for credit, Indonesia. Its core product is a digital credit card and point-of-sale transaction engine that enables consumers to quickly and easily "buy now and pay later" on Indonesia's leading e-commerce sites. Kredivo is a market leader in the third party BNPL segment in Indonesia, covering all major ecommerce and offline channels in the country via its open loop network.

Representing a significant step in their expansion, during the second half of the financial year, Kredivo completed the second tranche of its Series D capital raise at a valuation uplift. The round was oversubscribed – an achievement in the current market – raising US$270 million which was led by Japanese global bank Mizuho bank. Proceeds from the capital raise were used to finance the acquisition of an Indonesian listed bank and meet capital adequacy requirements. Kredivo is using the bank licence to launch a digital bank - known as Krom Bank Indonesia. This represents a significant step in Kredivo's strategic expansion beyond their flagship consumer credit offering to ultimately offer a wider variety of financial services and serve a larger total addressable market. Krom Bank Indonesia is on-track to launch early in FY2024.

NEARA

Founded in 2016 by ex-Google software engineer Daniel Danilatos, Neara uses artificial intelligence and machine learning to create a dynamic 'digital twin' - a virtual model of an infrastructure network. Neara's software can be used to design or redesign parts of the network, analyse potential risks, and manage physical assets with a sophisticated physics and engineering engine.

Neara is making complex analysis and design accessible at every level of the infrastructure industry and has recently expanded to include underground assets and vegetation management. In May 2022 Neara completed their Series B funding round, raising US$20 million to expand its global footprint and broaden platform functionality.

During FY2023, Essential Energy, one of Australia's largest electricity distributors, doubled their New South Wales network's available capacity using Neara's 3D interactive model.

NEURON

Neuron's vision is to develop new forms and formats of mobility to better connect urban centres while reducing the carbon footprint of existing modes of transport. Founded in 2016, Neuron Mobility is Southeast Asia's leading shared electric scooter service. It provides a sustainable short-distance mobility solution to connect neighbourhoods across the region. Neuron completed a Series B funding round in 2021 and the company continues to expand across Canada and Australia, with a focus on permit-based markets. During 2022, Neuron riders took 8 million trips and Neuron became the only micro mobility operator in every Australian state, as well as Canada's fastest growing operator.

During the first half of 2023, the company unveiled a new e-scooter model, the N4, which was first launched in Melbourne Australia. This scooter is custom-designed in house and is tougher and more durable, with a dual battery for better unit economics.

ONLOOP

OnLoop is an app for teams that combines reflection, feedback and learning to help everyone grow and extend their skill sets (and overcome blindspots). They're on a mission to build a less biased and more productive world through the deliberate day-to-day development of people. Onloop is a very early-stage investment and continues to build out their product. The Manager notes that Onloop has limited cash runway and they are actively working with the company to employ operational mechanisms to extend the runway, including an expectation of beginning fundraising discussions in FY2024.

Q-CTRL

Q-CTRL is an Australian company that provides software tools to improve the stability of quantum hardware. Australia is a centre of excellence for quantum computing and Michael Biercuk, the founder and CEO of Q-CTRL, is a global authority on the topic of quantum control.

Q-CTRL has over 8,000 users across its product portfolio and achieved over A$15 million in bookings between its quantum computing and quantum sensing divisions in 2022. With some of the most robust revenue in the industry and a track record of exceptional capital efficiency, this funding round will further expand Q-CTRL's healthy cash reserves as the team eyes new strategic initiatives. The company completed a Series B-1 fundraise of US$27.4 million in January 2023 (which SPFII did not participate in) and the company plans to use the funding to double down on its globally leading technology and product engineering and invest in sales and marketing capacity. The company anticipates growing its team from 80 to approximately 120 in 2023 across offices in Sydney, Los Angeles and Berlin.

STASHAWAY

StashAway is a digital wealth management platform based in Southeast Asia that personalises financial planning and portfolio management for investors. It makes investment strategies accessible to the mass affluent, leveraging technology and data, and providing consumers with access to a mobile investment platform that provides educational and wealth outcomes.

Since launching in 2017, StashAway has raised over US$74 million and expanded to serve investors across 5 regions, including Dubai since November 2020.

STERNUM

Sternum was founded in 2018 by a team of highly experienced research, development, and business leaders determined to significantly improve the security around the Internet of Things (IoT). The IoT market is growing at an astounding rate and so are attacks on IoT devices. Sternum is well positioned to be a global leader in IoT security with a focus on detecting vulnerabilities and real-time threat detection. The business has partnered with an Australian medical device company as well as several large global device manufacturers and continues to grow their team.

VOW

Vow is an Australian cultivated meat start-up. Vow's strategy is underpinned by a diverse library of stem cells collected from a wide range of animals and aims to build the technology to combine these different cells into brand new foods. Their ultimate goal is to create products which have superior taste and nutritional value. While their product is not yet on shelves, the company is making a name for itself, and during FY2023 Vow combined the soft cells of the woolly mammoth — which has been extinct for 5000 years — with fragments of DNA from an African elephant. It revealed the meatball at the Nemo Science Museum in the Netherlands as part of Amsterdam's Food Futurism event.

Vow completed their Series A fundraise in November 2022, raising US$49.2 million. The funding will go towards building its second factory as well as rolling out its first product, which it hopes to have in restaurants in the near term. The company also continues to work closely with food safety regulators in Australia and overseas markets.

ZELLER

Zeller is an Australian Fintech company which aims to provide small businesses with a complete and streamlined payment solution rather than needing to maintain a variety of relationships with a number of entities. Zeller aim to disrupt the financial services industry and take advantage of the big-four's "failure to evolve".

Zeller has established itself as a leader in payments, signing up over 30,000 businesses in less than two years, and in January 2023 Zeller announced new financial services products which more than doubled Zeller's addressable market opportunity to over 2.6 million businesses. Previously, Zeller's growth was driven by businesses accepting face-to-face payments with Zeller EFTPOS Terminal. Now, any business can sign up for a free, standalone transaction account and debit card to replace outdated solutions offered by Australia's traditional business banks. This includes a partnership with Officeworks to offer an industry-first distribution channel enabling customers to purchase Zeller Debit Card in store or online, aimed at small businesses to help them start, run and grow their business without even entering a bank branch.

Zeller completed their Series B funding round in March 2022 lifting the company valuation above A$1 billion.

INVESTOR REGISTRY

The Fund has provided regular investment updates to unitholders via email. Please contact the registry if you would like to receive these updates directly to your email inbox in future:

Registry:	Boardroom Pty Limited
Phone:	1300 737 760
Website:	https://www.boardroomlimited.com.au

Directors' report

The directors of K2 Asset Management Ltd (**K2**), the Responsible Entity of Venture Capital Opportunities Fund (**Fund**), present their report together with the annual financial statements of the Fund for the financial year ended 30 June 2023.

DIRECTORS

Effective 4 July 2023, K2 Asset Management Ltd replaced E&P Investments Limited as Responsible Entity of the Fund pursuant to an extraordinary resolution passed on 27 June 2023.

The following persons held office as directors of the Responsible Entity during or since the end of the financial year and up to the date of this report:

E&P Investments Limited (resigned effective 4 July 2023)

- Stuart Nisbett
- Warwick Keneally
- Peter Shear

K2 Asset Management Ltd (appointed effective 4 July 2023)

- Campbell Neal
- Hollie Wight
- George Boubouras
- Neil Sheather

Directors were in office since the start of the financial year to the date of this report unless otherwise stated.

PRINCIPAL ACTIVITIES

The Fund is an unlisted managed investment scheme registered in Australia. The registered office and principal place of business of the Responsible Entity of the Fund is located at Level 32, 101 Collins Street, Melbourne, Victoria 3000.

The principal activity of the Fund during the year was investing in technology and disruptive companies in the venture capital stage of development focused predominantly in Australia, Israel, and South-East Asia, through its interest in Square Peg Fund II (**SPFII**).

There were no significant changes in the nature of this activity during the year.

REVIEW AND RESULTS OF OPERATIONS

The profit for the Fund after providing for income tax amounted to $1,452,913 (2022: $6,675,324).

The key components of this result included a $1,599,340 fair value movement gain (2022: $6,790,314 gain) on the Fund's investment in SPFII. As at 30 June 2023, the Fund had net assets of $34,837,733 (2022: $33,384,820) representing $3.42 per unit (2022: $3.28 per unit).

The Fund had a basic and diluted earnings per unit of 14.26 cents for the year ended 30 June 2023 (2022: 65.53 cents per unit).

The Fund has invested in SPFII which, in turn, invests in technology and disruptive companies in the venture capital stage of development. SPFII received total commitments of US$234.5 million, and is invested in 15 early stage technology businesses with 1 complete exit as at 30 June 2023. Net drawdown requests made by the underlying companies since inception to the end of the year totalled US$237.7 million (or 97.4% of total capital commitments).

The Fund has made total capital commitments of US$11.2 million to SPFII, representing an interest of 4.8%. The Fund's proportionate share of the total capital called as at 30 June 2023 was US$10.9 million (or $16.4 million).

EVENTS SUBSEQUENT TO THE REPORTING PERIOD

Effective 4 July 2023, K2 Asset Management Ltd replaced E&P Investments Limited as Responsible Entity of the Fund pursuant to an extraordinary resolution passed on 27 June 2023. From this date, the Responsible Entity fee was reduced to 0.075% per annum of the gross assets of the Fund payable to K2 Asset Management Ltd and there was no other change in the fee structure for the Fund. No other changes to the Fund's structure or investment strategy were expected from the change of the Responsible Entity.

On 26 July 2023, SPFII made its twenty-third capital call of US$291,279. The capital call was paid on 31 July 2023. SPFII has called 100% of capital after this capital call.

No other matter or circumstance has arisen since 30 June 2023 that has significantly affected, or may significantly affect the Fund's operations, the results of those operations, or the Fund's state of affairs in future financial years.

FUTURE DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Information on likely developments in the operations of the Fund and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Fund.

ENVIRONMENTAL REGULATION

The Fund is not subject to any significant environmental regulation under Australian Commonwealth or State law.

OTHER RELEVANT INFORMATION

The following lists other relevant information required under the *Corporations Act 2001*:

— details of fees paid to the Responsible Entity during the financial year – refer to note 16 to the financial statements

— the Responsible Entity did not hold any interests in the Fund at the end of the financial year

— details of issued interests in the Fund during the financial year - refer to note 11 to the financial statements

FUND ASSETS

The value of the Fund's assets is disclosed in the statement of financial position and derived using the basis set out in note 3 to the financial statements.

OPTIONS

No options were granted over issued or unissued units in the Fund during, or since the end of, the year.

INDEMNITY AND INSURANCE

Under the Fund's constitution, the Responsible Entity, including its officers and employees, is indemnified out of the Fund's assets for any loss, damage, expense or other liability incurred by it in properly performing or exercising any of its powers, duties or rights in relation to the Fund.

Insurance premiums have been paid, during or since the end of the financial year, for all of the directors of the Responsible Entity of the Fund. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

No indemnities have been given or insurance premiums paid, during or since the end of, the financial year, for the auditor of the Fund.

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 immediately after this directors' report.

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

On behalf of the directors

Hollie Wight
Director of K2 Asset Management Ltd

13 September 2023

Auditor's Independence Declaration

Deloitte.

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

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13 September 2023

The Board of Directors
K2 Asset Management Ltd

As Responsible Entity for
Venture Capital Opportunities Fund
Level 32, 101 Collins Street
Melbourne VIC 3000

Dear Board Members

Auditor's Independence Declaration to Venture Capital Opportunities Fund

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of the Responsible Entity of Venture Capital Opportunities Fund.

As lead audit partner for the audit of the financial statements of the Venture Capital Opportunities Fund for the year ended 30 June 2023, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Weng W Ching
Partner
Chartered Accountants

Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2023

	NOTE	2023 $	2022 $
Investment income			
Interest income		52,520	1,740
Foreign exchange gain		27,894	74,692
Fair value movements of equity investments	9	1,599,340	6,790,314
Expenses			
Management and administration fees	16	(208,264)	(191,422)
Other expenses		(18,577)	-
Profit before income tax expense		**1,452,913**	**6,675,324**
Income tax expense		-	-
Profit after income tax expense for the year		**1,452,913**	**6,675,324**
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		**1,452,913**	**6,675,324**
		CENTS	CENTS
Basic earnings per unit	6	14.26	65.53
Diluted earnings per unit	6	14.26	65.53

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Statement of Financial Position

AS AT 30 JUNE 2023

	NOTE	2023 $	2022 $
Assets			
Cash and cash equivalents	7	2,131,121	3,575,259
Receivables	8	9,851	6,078
Other financial assets	9	32,732,938	30,458,486
Total assets		**34,873,910**	**34,039,823**
Liabilities			
Trade and other payables	10	36,177	655,003
Total liabiities		**36,177**	**655,003**
Net assets		**34,837,733**	**33,384,820**
Equity			
Issued capital	11	18,043,870	18,043,870
Retained earnings		16,793,863	15,340,950
Total equity		**34,837,733**	**33,384,820**

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

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2023

	ISSUED CAPITAL $	RETAINED EARNINGS $	TOTAL EQUITY $
Balance at 1 July 2021	**14,987,853**	**8,665,626**	**23,653,479**
Profit after income tax expense for the year	-	6,675,324	6,675,324
Other comprehensive income for the year, net of tax	-	-	-
Total comprehensive income for the year	**-**	**6,675,324**	**6,675,324**
Transactions with unitholders in their capacity as unitholders:			
Issued capital (note 11)	3,056,017	-	3,056,017
Balance at 30 June 2022	**18,043,870**	**15,340,950**	**33,384,820**

	ISSUED CAPITAL $	RETAINED EARNINGS $	TOTAL EQUITY $
Balance at 1 July 2022	**18,043,870**	**15,340,950**	**33,384,820**
Profit after income tax expense for the year	-	1,452,913	1,452,913
Other comprehensive income for the year, net of tax	-	-	-
Total comprehensive income for the year	**-**	**1,452,913**	**1,452,913**
Balance at 30 June 2023	**18,043,870**	**16,793,863**	**34,837,733**

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

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2023

	NOTE	2023 $	2022 $
Cash flows from operating activities			
Interest income received		49,548	685
Net payments to suppliers		(209,331)	(189,721)
Net cash used in operating activities	17	**(159,783)**	**(189,036)**
Cash flows from investing activities			
Payments for investments		(1,305,265)	(3,096,383)
Net cash used in investing activities		**(1,305,265)**	**(3,096,383)**
Cash flows from financing activities			
Proceeds from capital call instalment	11	-	3,078,586
Net cash from financing activities		**-**	**3,078,586**
Net decrease in cash and cash equivalents		(1,465,048)	(206,833)
Cash and cash equivalents at the beginning of the financial year		3,575,259	3,670,753
Effects of exchange rate changes on cash and cash equivalents		20,910	111,339
Cash and cash equivalents at the end of the financial year	7	**2,131,121**	**3,575,259**

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2023

1. GENERAL INFORMATION

Venture Capital Opportunities Fund (**Fund**) is a managed investment scheme registered and domiciled in Australia. The investment objective of the Fund is to invest in technology and disruptive companies in the venture capital stage of development predominantly in Australia, Israel and South-East Asia, through its interest in Square Peg Fund II (**SPFII**) which comprises of interest in Square Peg Australia 2018, LP (**LP**) as a limited partner and Square Peg Global 2018 Trust (**Trust**) as an ordinary unitholder (together, **Square Peg Fund II** or **SPFII**).

The financial statements were authorised for issue, in accordance with a resolution of directors, on 13 September 2023. The directors have the power to amend and reissue the financial statements.

2. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

The Fund has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (**AASB**) that are relevant to its operations and effective for the current full year. The impact of the adoption is not material to the Fund's financial report in the current or future reporting periods and on foreseeable future transactions.

ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

New standards, amendments to standards and interpretations that are effective for annual reporting periods beginning on or after 1 July 2023 have not been early adopted in preparing these financial statements. There are no standards that are not yet effective and that are expected to have a material impact on the Fund.

3. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements have been prepared on an accrual basis and are based on historical cost, except for the revaluation of financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars unless otherwise noted.

STATEMENT OF COMPLIANCE

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards issued by the AASB and the *Corporations Act 2001*. Compliance with Australian Accounting Standards ensures the financial statements and notes to the financial statements of the Fund comply with the International Financial Reporting Standards (**IFRS**) issued by the International Accounting Standards Board (**IASB**).

The following accounting policies have been adopted in the preparation and presentation of the financial report.

FOREIGN CURRENCIES

The functional and presentation currency of the Fund is Australian dollars. This is based on an assessment that the primary economic environment in which the Fund operates is Australia.

Transactions in foreign currencies are initially recorded in Australian dollars by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies that are outstanding at the reporting date are retranslated at the rate of exchange ruling at the Statement of Financial Position date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences arising on translation are recognised in profit or loss in the period in which they arise.

INVESTMENT INCOME

Interest income

Interest income is recognised in profit or loss using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Net change in fair value of investments

Realised and unrealised gains and losses on investments measured at fair value through profit or loss are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

TAXES

Income tax

Under current Australian income tax laws, the Fund is not liable to pay Australian income tax provided it is not a public trading trust and its distributable income for each income year is fully distributed to unitholders, by way of cash or reinvestment.

Goods and Services Tax (GST)

Revenues, expenses, and assets are recognised net of the amount of GST, except to the extent the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the unrecoverable GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Where fees are stated to be exclusive of GST and GST is payable on any fee, the fee will be increased by an amount equal to the GST payable. Cash flows are presented in the Statement of Cash Flows on a gross basis.

The Fund qualifies for reduced input tax credits at a minimum rate of 55%.

CASH AND CASH EQUIVALENTS

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

RECEIVABLES

Receivables include distributions receivable, reduced input tax credit receivable and other receivables. Amounts are generally received within 30 days of being accrued for. Receivable amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Fund shall measure the loss allowance on receivables at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition.

The amount of the impairment loss is recognised in profit or loss within other operating expenses. When receivables for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the other operating expenses in profit or loss.

FINANCIAL INSTRUMENTS

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the Fund becomes a party to the contractual provisions of the instrument.

Financial assets

When financial assets are recognised initially, they are measured at fair value plus, in the case of financial assets not at fair value through profit and loss, directly attributable transaction costs.

Financial assets are subsequently measured at amortised cost using the effective interest rate method only if the following conditions are met, otherwise they are measured at fair value:

— Where a financial asset is held within a business model for the objective to collect contractual cash flows; and

— Contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The interest held by the Fund in SPFII does not meet the conditions to satisfy subsequent measurement at amortised cost, and is therefore measured on an ongoing basis at fair value through profit or loss.

Financial liabilities

Financial liabilities are classified as derivative and non-derivative instruments as appropriate. The Fund determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value. Non-derivative instruments are subsequently measured at amortised cost using the effective interest rate method. Derivative liabilities are subsequently measured at fair value.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are discharged or cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in the principal (or most advantageous) market at balance date under current market conditions. Valuation techniques are applied to determine the fair value for all unlisted securities and securities in markets that are not active. The interest in SPFII held by the Fund is valued using a 'proportionate' value method based on the proportion of the total net asset value (determined on a fair value basis) of SPFII in which the Fund has an interest at each balance date, translated at the applicable balance date foreign exchange rate. Gains and losses arising from changes in the fair value of interest in SPFII are presented in the Statement of Profit or Loss and Other Comprehensive Income within fair value movements of equity investments in the period in which they arise.

Impairment

The Fund recognises a loss allowance for expected credit losses (**ECL**) on financial assets that are measured at amortised cost. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Fund recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Fund measures the loss allowance for that financial instrument at an amount equal to twelve-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, twelve-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within twelve months after the reporting date.

No impairment assessment is performed in respect of the interest in SPFII, where fair value changes are recorded in profit or loss.

ISSUED CAPITAL

Ordinary units

Ordinary units are classified as equity. Issued capital is recognised at the fair value of the consideration received by the Fund. Incremental costs directly attributable to the issue of the ordinary units are recognised as a deduction from equity.

EARNINGS PER UNIT

Basic earnings per unit is calculated by dividing the profit or loss attributable to unitholders by the weighted average number of units outstanding during the financial period. Diluted earnings per unit is the same as there are no potential dilutive ordinary units.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of the Fund's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Accounting policies which are subject to significant accounting estimates and judgements include fair value determination of the interest held by the Fund in SPFII (refer to note 9 (iv)).

4. OPERATING SEGMENT

The Fund operates a single reportable segment, that being the business of investing in technology and disruptive companies in the venture capital stage of development through its interest in SPFII.

The Responsible Entity of the Fund is the Chief Operating Decision Maker (**CODM**) for the purpose of resource allocation and assessing performance of the operating segment.

Revenue, profit or loss, assets, liabilities and other financial information reported and monitored by the CODM of the single identified segment are reflected in the financial statements and notes to the financial statements of the Fund.

5. DISTRIBUTIONS

There were no distributions paid, recommended or declared during the current or previous financial year.

6. EARNINGS PER UNIT

	2023 $	2022 $
Profit after income tax	1,452,913	6,675,324
	NUMBER	**NUMBER**
Weighted average number of ordinary units used in calculating basic earnings per unit	10,186,723	10,186,723
Weighted average number of ordinary units used in calculating diluted earnings per unit	10,186,723	10,186,723
	CENTS	**CENTS**
Basic earnings per unit	14.26	65.53
Diluted earnings per unit	14.26	65.53

7. CASH AND CASH EQUIVALENTS

	2023 $	2022 $
Cash at bank	2,131,121	3,575,259

The exposure to interest rate risk and a sensitivity analysis is disclosed in note 12 to the financial statements.

8. RECEIVABLES

	2023 $	2022 $
Interest receivable	6,095	1,092
GST receivable	3,756	2,955
Receivable from unitholders	-	2,031
	9,851	**6,078**

There are no balances included in receivables that contain assets that are impaired. All receivables are non-interest bearing and are generally receivable on 30 day terms. No receivable amounts are overdue. The receivables are recorded at carrying amounts that are reasonable approximations of fair value.

9. OTHER FINANCIAL ASSETS

(I) EQUITY INVESTMENT CONSTITUTING INTEREST IN SQUARE PEG FUND II - AT FAIR VALUE:

	2023 $	2022 $
Square Peg Global 2018 Trust	27,865,632	26,148,119
Square Peg Australia 2018 LP	4,867,306	4,310,367
Square Peg Fund II	**32,732,938**	**30,458,486**

(II) RECONCILIATION

	SQUARE PEG GLOBAL 2018 TRUST $	SQUARE PEG AUSTRALIA 2018 LP $	TOTAL $
Balance at 1 July 2021	**14,086,318**	**5,884,981**	**19,971,299**
Capital invested – at cost	2,932,450	764,423	3,696,873
Movement in fair value through profit or loss*	5,342,348	1,447,966	6,790,314
Interfund transfer	3,787,003	(3,787,003)	-
Balance at 30 June 2022	**26,148,119**	**4,310,367**	**30,458,486**
Capital invested – at cost	555,217	119,896	675,113
Movement in fair value through profit or loss*	1,162,296	437,043	1,599,339
Balance at 30 June 2023	**27,865,632**	**4,867,306**	**32,732,938**

*Included in the 'movement in fair value' amount of $1,599,340 (2022: $6,790,314) is an unrealised foreign exchange translation gain component of $1,108,404 (2022: $2,152,613 gain). This amount is also net of the Fund's 4.8% share of management fees paid by SPFII to Square Peg Capital (manager of SPFII), totalling US$228,752(2022: US$221,247), and the estimated performance fee of US$2,726,127(2022: US$2,464,656).

(III) FUND'S INTEREST IN ASSETS AND LIABILITIES OF SQUARE PEG FUND II

The 4.8% economic interest held by the Fund is not represented by voting rights or other power vested in the Fund to make decisions relating to the assets and liabilities of Square Peg Fund II, which comprises of investments in Square Peg 2018, LP (**LP**) as a limited partner and Square Peg Global 2018 Trust (**Trust**) as an ordinary unitholder. The General Partner of the LP and Trustee of the Trust have delegated all management functions of SPFII to the manager of SPFII, including selecting and managing the investments of SPFII.

(IV) VALUATION

Valuation technique adopted

The fair value of the Fund's interest in the SPFII is determined using a 'proportionate' value method based on the Fund's 4.8% interest held in the total net asset value of SPFII.

SPFII holds investments predominantly in early stage venture capital companies which are recognised on an ongoing basis at fair value.

The fair value of the Fund's interest in SPFII is therefore ultimately based on the market valuation techniques adopted by SPFII in the measurement of their underlying unlisted equity investments based on market conditions existing at balance date. The fair value is also subject to foreign exchange translation impacts arising from translating the USD denominated interest in SPFII to AUD at each balance date. Refer to note 12(a) for Market Risk sensitivity analysis.

Investment risks

As noted above, SPFII holds investments predominantly in early stage venture capital companies. Because of the absence of any liquid trading market for these types of investments, it may take longer to liquidate these investments than would be the case for marketable securities and accordingly the value obtained on realisation may differ materially to the estimated fair values at balance date. Valuation techniques used by SPFII include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity specific inputs. As such, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material. These differences would directly impact the value of the interest held by the Fund in SPFII.

(V) CAPITAL COMMITMENTS

As at 30 June 2023, the Fund has made capital commitments totalling US$11.2 million to SPFII, of which US$10.9 million has been called at balance date.

As at 30 June 2023, the Fund has uncalled capital commitments of US$0.3 million (or $0.4 million) outstanding to SPFII. The capital commitments can be called at any time in the future.

The uncalled capital commitments referred to above were converted at the AUD:USD year-end exchange rate of 0.6664.

10. TRADE AND OTHER PAYABLES

	2023 $	2022 $
Trade payables	36,177	17,866
Other payables	-	637,137
	36,177	**655,003**

Refer to note 12 for further information on financial instruments.

The average credit period for trade creditors is generally 30 days. No interest is charged on trade creditors from the date of the invoice. The Fund has risk management policies in place to ensure invoices are paid within credit terms.

11. ISSUED CAPITAL

	2023 UNITS	2022 UNITS	2023 $	2022 $
Ordinary units – fully paid	**10,186,723**	10,186,723	**18,043,870**	18,043,870

ORDINARY UNITS – FULLY PAID

All issued units are fully paid. The holders of ordinary units are entitled to one vote per unit at meetings of the Fund and are entitled to receive distributions declared from time to time by the Responsible Entity.

There were no movements in issued capital during the full-year.

CAPITAL MANAGEMENT

The Fund manages its capital to ensure it will be able to continue as a going concern while maximising the return to unitholders. The capital structure of the Fund consists of issued capital amounting to $18,043,870. The Fund is not subject to any externally imposed capital requirements.

12. FINANCIAL INSTRUMENTS

FINANCIAL RISK MANAGEMENT OBJECTIVES

The Fund is exposed to the following risks from its use of financial instruments:

- market risk (foreign exchange risk, market price risk and interest rate risk)
- credit risk
- liquidity risk.

The Responsible Entity has overall responsibility for the establishment and oversight of the risk management framework, including developing and monitoring risk management policies.

A) MARKET RISK

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, such as foreign exchange rates, interest rates and equity prices. The Fund is primarily exposed to market risks arising from fluctuations in market price risk, foreign currency and interest rates. Refer to note 9(iv) for further details of risks relating to equity prices.

Foreign exchange risk

Foreign exchange risk arises on financial instruments that are denominated in a foreign currency. Foreign exchange rate movements will impact on the Australian dollar value of the Fund's financial assets and liabilities denominated in a currency that is not the Fund's functional currency.

The Fund is exposed to USD foreign exchange risk through its USD denominated cash balances, its investment activities and income derived from these activities.

The table below details the carrying amounts of the Fund's foreign exchange risk as at the end of the reporting period. This represents the Australian dollar exposure, converted at an exchange rate of 0.6664.

	2023 $	2022 $
Cash and cash equivalents	438,204	1,722,425
Receivables	7	8
Other financial assets (equity investments)	**32,732,938**	**30,458,486**
	33,171,149	**32,180,919**

Sensitivity analysis

The effect of the foreign exchange risk relating to equity investments (investment in SPFII) is recorded in profit or loss as part of the overall fair value movement in the investment (refer to note 9(ii)). The effect of foreign exchange risk relating to cash and cash equivalents is recorded in profit or loss as a foreign exchange gain or loss.

The Fund considers a 10% movement in the AUD against USD as at 30 June 2023 (2022: 10%) to be a reasonable possibility at the end of the reporting period. The impact of the strengthening and weakening of AUD against USD in profit or loss and equity is shown by the amounts below as it relates to cash and cash equivalents, receivables and equity investments. This analysis assumes that all other variables remain constant.

	AUD STRENGTHENED			AUD WEAKENED		
	% CHANGE	EFFECT ON PROFIT BEFORE TAX	EFFECT ON EQUITY	% CHANGE	EFFECT ON PROFIT BEFORE TAX	EFFECT ON EQUITY
2023						
Cash and cash equivalents	10%	(39,837)	(39,837)	(10%)	48,689	48,689
Receivables	10%	1	1	(10%)	(1)	(1)
Equity investments	10%	(2,975,722)	(2,975,722)	(10%)	3,636,993	3,636,993
		(3,015,558)	**(3,015,558)**		**3,685,681**	**3,685,681**

	AUD STRENGTHENED			AUD WEAKENED		
	% CHANGE	EFFECT ON PROFIT BEFORE TAX	EFFECT ON EQUITY	% CHANGE	EFFECT ON PROFIT BEFORE TAX	EFFECT ON EQUITY
2022						
Cash and cash equivalents	10%	(156,584)	(156,584)	(10%)	191,381	191,381
Receivables	10%	(1)	(1)	(10%)	1	1
Equity investments	10%	(2,768,953)	(2,768,953)	(10%)	3,384,276	3,384,276
		(2,925,538)	**(2,925,538)**		**3,575,658**	**3,575,658**

Market price risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to individual investments or factors affecting all instruments traded in the market.

Sensitivity analysis

The Fund considers a 10% increase or decrease to be a reasonably possible change in market prices at the reporting date. The sensitivity analysis below reflects the Fund's proportionate exposure to market price risk of the underlying equity investments of SPFII excluding any foreign exchange impact. The impact of a 10% movement in market prices (excluding foreign exchange impact) on profit or loss and equity is shown in the table below:

	AVERAGE PRICE INCREASE			AVERAGE PRICE DECREASE		
	% CHANGE	EFFECT ON PROFIT BEFORE TAX	EFFECT ON EQUITY	% CHANGE	EFFECT ON PROFIT BEFORE TAX	EFFECT ON EQUITY
2023						
Equity investments	10%	**3,273,294**	**3,273,294**	(10%)	**(3,273,294)**	**(3,273,294)**
2022						
Equity investments	10%	**3,045,849**	**3,045,849**	(10%)	**(3,045,849)**	**(3,045,849)**

Interest rate risk

The Fund is exposed to interest rate risk on its variable rate bank deposits. The Fund currently does not hedge against this exposure.

Sensitivity analysis

The Fund considers a 100 basis point (2022: 200 basis point) increase or decrease to be a reasonably possible change in interest rates in an environment of tightening monetary policy. The impact of a 100 basis point movement in interest rates on profit or loss and equity is shown in the table below.

	BASIS POINTS INCREASE			BASIS POINTS DECREASE		
	% CHANGE	EFFECT ON PROFIT BEFORE TAX	EFFECT ON EQUITY	% CHANGE	EFFECT ON PROFIT BEFORE TAX	EFFECT ON EQUITY
2023						
Variable rate bank deposits	100	**21,311**	**21,311**	(100)	**(21,311)**	**(21,311)**
2022						
Variable rate bank deposits	200	**71,505**	**71,505**	(200)	**(71,505)**	**(71,505)**

B) CREDIT RISK

Credit risk is the risk that contracting parties to a financial instrument will cause a financial loss for the Fund by failing to discharge an obligation. The Fund manages credit risk by ensuring deposits are made with reputable financial institutions with investment grade credit ratings.

The carrying amount of financial assets that represents the maximum credit risk exposure at the end of reporting period are detailed below:

	2023 $	2022 $
Summary of exposure		
Cash and cash equivalents	2,131,121	3,575,259
Interest receivable	6,095	1,092
GST receivable	3,756	2,955
Receivable from unitholders	-	2,031
	2,140,972	**3,581,337**

C) LIQUIDITY RISK

Liquidity risk is the risk that the Fund will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Fund's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation.

The Fund's liquidity primarily comprises cash at bank totalling $2,131,121 at 30 June 2023. It is held to cover the Fund's day-to-day running costs and expenditures and to fund its capital commitments to SPFII which total $437,093 at balance date.

The following is the contractual maturity of financial liabilities and capital commitments. The table has been drawn based on the undiscounted cash flows of liabilities based on the earliest date on which the Fund can be required to settle the liability.

2023	LESS THAN 12 MONTHS	AT CALL	REMAINING CONTRACTUAL MATURITIES
Non-derivatives			
Non-interest bearing			
Trade and other payables	36,177	-	36,177
Capital commitments	-	437,093	437,093
Total non-derivatives	**36,177**	**437,093**	**473,270**

2022	LESS THAN 12 MONTHS	AT CALL	REMAINING CONTRACTUAL MATURITIES
Non-derivatives			
Non-interest bearing			
Trade and other payables	655,003	-	655,003
Capital commitments	-	1,084,346	1,084,346
Total non-derivatives	**655,003**	**1,084,346**	**1,739,349**

13. FAIR VALUE MEASUREMENT

FAIR VALUE

The fair value of financial assets and financial liabilities approximate their carrying values at the reporting date.

The table below analyses recurring fair value measurements for financial assets and financial liabilities. The fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to the valuation techniques used. The different levels are defined as follows:

— **Level 1:** Quoted prices (unadjusted) in active markets for identical financial assets or liabilities

— **Level 2:** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

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

2023	LEVEL 1 $	LEVEL 2 $	LEVEL 3 $	TOTAL $
Financial assets carried at fair value				
Other financial assets – equity investment constituting interest in Square Peg Fund II	-	-	32,732,938	32,732,938
Total assets	**-**	**-**	**32,732,938**	**32,732,938**

2022	LEVEL 1 $	LEVEL 2 $	LEVEL 3 $	TOTAL $
Financial assets carried at fair value				
Other financial assets – equity investment constituting interest in Square Peg Fund II	-	-	30,458,486	30,458,486
Total assets	**-**	**-**	**30,458,486**	**30,458,486**

The Fund recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the transfer has occurred. There were no transfers between levels during the financial year.

Details of the determination of level 3 fair value measurements including the valuation technique adopted and the key underlying unobservable inputs used are set out in note 9.

The Fund has continued to follow its established policies and process (as set out in this note) in managing risk and determining the fair value of the financial assets and liabilities as at the reporting date. No changes were required to the principles used in applying the fair value measurement hierarchy to financial assets and liabilities held, with each asset and liability continuing to be classified in a manner which reflects the significance and observability of the inputs used in the valuation.

14. CONTINGENT LIABILITIES

The directors of the Responsible Entity are not aware of any potential liabilities or claims against the Fund as at balance date.

15. CAPITAL COMMITMENTS

Other than the capital commitments disclosed in note 9(v) to the financial statements, the Fund does not have any other capital commitments outstanding for the financial year ended 30 June 2023..

16. RELATED PARTY DISCLOSURES

Parties are considered to be related to the Fund if they have the ability, directly or indirectly, to control or exercise significant influence over the Fund in making financial and operating disclosures. Related parties may be individual or other entities.

The Responsible Entity of the Fund during the year ended 30 June 2023 was E&P Investments Limited.

Effective 4 July 2023, K2 Asset Management Ltd replaced E&P Investments Limited as Responsible Entity of the Fund. Please refer to the Directors' Report and note 19 for details.

KEY MANAGEMENT PERSONNEL

Stuart Nisbett, Warwick Keneally and Peter Shear are directors of the Responsible Entity of the Fund, E&P Investments Limited, and are deemed to be key management personnel during the year and until 4 July 2023.

The key management personnel do not receive compensation from the Fund or from the Responsible Entity directly for their management function performed for the Fund.

As at 30 June 2023, details of directors who hold units for their own benefit or who have an interest in holdings through a third party and the total number of such units held are listed as follows:

	2023 $	2022 $
Warwick Keneally	**2,500**	**2,500**

Stuart Nisbett and Peter Shear did not hold units in the Fund as at 30 June 2023 (2022: nil).

RELATED PARTY INVESTMENTS IN THE SCHEME

The Responsible Entity or its associates does not hold any investments in the scheme.

RESPONSIBLE ENTITY SERVICES

a) Responsible Entity and Administration fees

The Responsible Entity's duties include establishing the compliance plan and procedures and monitoring against regulatory and legislative requirements, the issuance of disclosure documents, the appointment and monitoring of external service providers to the Fund and overall administration of the Fund. As Responsible Entity, E&P Investments Limited charges a fee of 0.58% per annum (exclusive of GST) of the gross asset value of the Fund, representing a Responsible Entity fee of 0.08% (exclusive of GST) per annum and an Administration fee of 0.50% per annum (exclusive of GST).

Total Responsible Entity and Administration fees paid or payable to the Responsible Entity for the year ended 30 June 2023 were $200,014 (2022: $183,179), exclusive of GST, and included in management and administration fees in profit or loss.

b) Fund administration fee

Australian Fund Accounting Services Pty Limited, a related party of the Responsible Entity, provides fund administration services to the Fund under an agreement with the Responsible Entity. These services include net asset valuation, management accounting, statutory reporting, capital management and taxation. The Responsible Entity has agreed to bear the cost of the fund administration services and, as such, there were no fund administration fees paid out of the assets of the Fund.

17. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH USED IN OPERATING ACTIVITIES

	2023 $	2022 $
Profit after income tax expense for the year	1,452,913	6,675,324
Adjustments for		
Fair value movements of equity investments	(1,599,340)	(6,790,314)
Net foreign exchange loss	(27,894)	(74,692)
Change in operating assets and liabiities		
(Increase) in receivables (excluding receivables from unitholders)	(3,773)	(2,470)
Increase in payables (excluding other payables)	18,311	3,116
Net cash used in operating activities	**(159,783)**	**(186,036)**

18. REMUNERATION OF AUDITORS

During the financial year, the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu, the auditor of the Fund:

	2023 $	2022 $
Audit services - Deloitte Touche Tohmatsu		
Audit or review of the financial statements	**33,640**	**31,500**

E&P Investments Limited, the Responsible Entity of the Fund, has agreed to bear the cost of the audit for the reporting period.

19. EVENTS AFTER THE REPORTING PERIOD

Effective 4 July 2023, K2 Asset Management Ltd replaced E&P Investments Limited as Responsible Entity of the Fund pursuant to an extraordinary resolution passed on 27 June 2023. From this date, the Responsible Entity fee was reduced to 0.075% per annum of the gross assets of the Fund payable to K2 Asset Management Ltd and there was no other change in the fee structure for the Fund. No other changes to the Fund's structure or investment strategy were expected from the change of the Responsible Entity.

On 26 July 2023, SPFII made its twenty-third capital call of US$291,279. The capital call was paid on 31 July 2023. SPFII has called 100% of capital after this capital call.

No other matter or circumstance has arisen since 30 June 2023 that has significantly affected, or may significantly affect the Fund's operations, the results of those operations, or the Fund's state of affairs in future financial years.

Directors' Declaration

The directors of the Responsible Entity declare that, in the directors' opinion:

the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and the *Corporations Regulations 2001*;

— the attached financial statements are in compliance with International Financial Reporting Standards as stated in the notes to the financial statements;

— the attached financial statements and notes give a true and fair view of the Fund's financial position as at 30 June 2023 and of its performance for the financial year ended on that date; and

— there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 295(5) of the *Corporations Act 2001*.

On behalf of the directors of the Responsible Entity

Hollie Wight
Director of K2 Asset Management Ltd

13 September 2023

Independent Auditor's Report

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Independent Auditor's Report to the unitholders of Venture Capital Opportunities Fund

Opinion

We have audited the financial report of Venture Capital Opportunities Fund (the "Fund") which comprises the statement of financial position as at 30 June 2023, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information, and the directors' declaration.

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

- Giving a true and fair view of the Fund's financial position as at 30 June 2023 and of its financial performance for the year then ended; and
- Complying with Australian Accounting Standards and the *Corporations Regulations 2001.*

Basis for Opinion

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

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of K2 Asset Management Ltd, the Responsible Entity of the Fund ("the directors"), would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Fund's annual report for the year ended 30 June 2023, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

Deloitte.

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Weng W Ching
Partner
Chartered Accountants

Sydney, 13 September 2023

VENTURE CAPITAL OPPORTUNITIES FUND
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