

Aurora Absolute Return Fund

ARSN 110 303 430

Interim financial statements - for the half-year ended 31 December 2011

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This interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2011 and any public announcements made in respect of Aurora Absolute Return Fund during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

These financial statements cover the Aurora Absolute Return Fund as an individual entity.

The Responsible Entity of Aurora Absolute Return Fund is Aurora Funds Management Limited (ABN 69 092 626 885). The Responsible Entity's registered office is:

Level 2,350 George Street
Sydney, NSW 2000

Directors' Report

The directors of Aurora Funds Management Limited (ABN 69 092 626 885), (the "Responsible Entity"), present their report together with the financial statements of Aurora Absolute Return Fund ("the Fund") for the half-year ended 31 December 2011.

Principal activities

On 1 March 2011, the Fund changed its investment strategy and commenced investing into the unlisted Aurora Fortitude Absolute Return Fund (ARSN 145 894 800), the 'Master Fund' in accordance with the provisions of the Fund Constitution. The Master Fund seeks to meet the Investment Objective through using many different investment strategies that allow the Master Fund to have very little correlation to the Australian stock market. These strategies may include: long/short strategies, convergence trading, merger and acquisition trading, arbitrage opportunities, derivative strategies. The Master Fund may utilise leverage from time to time.

The Fund did not have any employees during the half-year.
There were no significant changes in the nature of the Fund's activities during the half-year.

Directors

The following held office as directors of the Responsible Entity throughout the half-year and up to the date of this report, unless otherwise indicated:

John Corr
Alastair Davidson
Simon Lindsay
Richard Matthews
Steuart Roe

Units on Issue

Units on issue in the Fund at half-year are set out below:

	31 December 2011	30 June 2011
	No.	No.
Units on issue	5,845,344	5,796,006

Value of assets

The value of the Fund's assets and liabilities is disclosed on the statement of financial position.

Review and results of operations

During the half-year, the Fund continued to invest in accordance with target asset allocations as set out in the governing documents of the Fund and in accordance with the provisions of the Fund's Constitution.

The investment policy of the Fund continues to be that detailed in the current product disclosure document and in accordance with the provisions of the governing documents of the Fund.
The method of valuation of the Fund's investment can have a significant impact on results.

Directors' Report (continued)

Review and results of operations (continued)

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

	Half-year ended	
	31 December 2011	31 December 2010
Net operating profit/(loss)	\$ 192,561	697,099
<i>Distributions</i>		
Distribution- 31 December	121,586	125,415
Distribution- 30 September	117,366	152,781

A distribution of \$0.0222 per unit (2010: \$0.023 per unit) was declared and provided for at the end of the half-year. Distributions of \$0.0444 per unit were paid during the half-year (2010: \$0.048 per unit).

The performance of the fund is available through the recent performance reports available on our website. Consistent with our statements in the governing documents of the Fund, future performance is not guaranteed. Investors should exercise care in using past performance as a predictor of future performance.

Significant changes in state of affairs

Fortitude Capital Pty Limited, Sandringham Capital Pty Limited and Aurora Funds Management Limited have been acquired on 9 July 2010 by Aurora Funds Limited (an ASX listed entity). Fortitude Capital Pty Limited became the Investment manager of the Fund on 1st February 2011. In the opinion of the directors, there were no other significant changes in the state of affairs of the Fund that occurred during the financial year.

Matters subsequent to the end of the financial half-year

No matter or circumstance has arisen since 31 December 2011 that has significantly affected, or may significantly affect:

- (i) the operations of the Fund in future financial half-years, or
- (ii) the results of those operations in future financial half-years, or
- (iii) the state of affairs of the Fund in future financial half-years.

Likely developments and expected results of operations

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and in accordance with the provisions of the Fund's Constitution.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Further information on likely developments in the operations of the Fund and the expected results of those operations have not been included in this report because the manager believes it would be likely to result in unreasonable prejudice to the Fund.

Environmental regulation

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

Directors' Report (continued)

Indemnity and insurance of officers

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to the manager or the auditor. So long as the officers of the manager act in accordance with the Fund Trust Deed and the Corporations Act 2001, the officers remain indemnified out of the assets of the Fund against any losses incurred while acting on behalf of the Fund. The auditors of the Fund are in no way indemnified out of the assets of the Fund.

Fees paid to and interests held in the Fund by the Responsible Entity or its associates

Fees paid to the Responsible Entity and its associates out of Fund property during the half-year are disclosed in the statement of comprehensive income.

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 6.

This report is made in accordance with a resolution of the directors.



Stewart Roe
Director

Sydney
24 February 2012



Auditor's Independence Declaration

As lead auditor for the review of Aurora Absolute Return Fund for the half-year ended 31 December 2011, I declare that 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.

A handwritten signature in black ink, appearing to read 'AJ Wilson', with a long horizontal flourish extending to the right.

AJ Wilson
Partner

Sydney
24 February 2012

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Statement of comprehensive income

		31 December 2011 \$	31 December 2010 \$
Investment income			
Interest income		1,834	35,041
Dividend and distribution income		234,311	186,237
Net gains/(losses) on financial instruments held at fair value through profit or loss	4	(43,482)	510,609
Other operating income		-	16,686
Total net investment income/(loss)		192,663	748,573
Expenses			
Management fee		-	40,076
Administration costs		-	10,253
Other operating expenses	3	102	1,145
Total operating expenses		102	51,474
Operating profit/(loss) for the half-year		192,561	697,099
Finance costs attributable to unit holders			
Distributions to unit holders	6	(238,952)	(278,196)
(Increase)/decrease in net assets attributable to unit holders	5	46,391	(418,903)
Profit/(loss) for the half-year		-	-
Other comprehensive income for the half-year		-	-
Total comprehensive income for the half-year		-	-

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

Some accounts in prior period comparatives were subject to a change as detailed in Note 13.

Balance Sheet

		As at	
		31 December	30 June
	Note	2011	2011
		\$	\$
Assets			
Cash and cash equivalents	7	143,332	401,687
Receivables	8	119,133	39,172
Financial assets held at fair value through profit or loss	9	5,899,618	5,887,849
Total assets		6,162,083	6,328,708
Liabilities			
Distributions payable		121,586	126,801
Other liabilities	10	6,994	5,278
Total liabilities (excluding net assets attributable to unit holders)		128,580	132,079
Net assets attributable to unit holders- liability	5	6,033,503	6,196,629

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of changes in equity

	As at	
	31 December	30 June
	2011	2011
	\$	\$
Total equity at the beginning of the half-year		
Profit/(loss) for the half-year	-	-
Other comprehensive income	-	-
Total comprehensive income	-	-
Transactions with equity holders in their capacity as equity holders	-	-
Total equity at the end of the financial half-year	-	-

Under Australian Accounting Standards, net assets attributable to unit holders are classified as a liability rather than equity. As a result there was no equity at the start or end of the half-year.

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

Statement of cash flows

	31 December 2011	31 December 2010
Notes	\$	\$
Cash flows from operating activities		
Proceeds from sale of financial instruments	97,600	4,461,554
Purchase of financial instruments	-	(3,789,901)
Dividends and distributions received	-	48,868
Interest received	2,742	32,194
Other Income	-	5,248
GST recovered/(paid)	591	(10,883)
Management fee	-	(41,445)
Payment of other expenses	(3,564)	(11,398)
	97,369	694,237
Cash flows from financing activities		
Units (purchased) and sold by Fund	(171,310)	(426,241)
Proceeds from applications by unit holders	-	74,775
Payments for redemptions by unit holders	(16,981)	(65,286)
Distributions paid	(167,433)	(283,264)
	(355,724)	(700,016)
Net cash inflow/(outflow) from operating activities	97,369	694,237
Net cash inflow/(outflow) from financing activities	(355,724)	(700,016)
Net increase/(decrease) in cash and cash equivalents	(258,355)	(5,779)
Cash and cash equivalents at the beginning of the half-year	401,687	1,412,923
Cash and cash equivalents at the end of the half-year	143,332	1,407,144

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

Some accounts in prior period comparatives were subject to a change as detailed in Note 13.

Notes to the Financial Statements

1 General information

These financial statements cover Aurora Absolute Return Fund ("the Fund") as an individual entity. The Fund commenced operations on 4 July 2006 and was admitted to the Australian Stock Exchange "ASX" on 10 July 2006 and is domiciled in Australia.

This general purpose financial report for the interim half-year ended 31 December 2011 has been prepared in accordance with accounting standard AASB 134 *Interim Financial Reporting* and the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2010 and any public announcements made in respect of the Fund during the half-year period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Operation and principal activities

The principal activities of the Fund during the financial year was establishing its investment strategy in equities and index derivatives in accordance with the provision of the Fund Constitution and the Product Disclosure Statement.

Registered office

The registered office of the Fund is at

Level 2
350 George Street
Sydney NSW 2000.

The financial statements were authorised for issue by the directors on 24 February 2012. The directors of the company have the power to amend and reissue the financial statements.

2 New accounting standards and interpretations

Other new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for the current reporting period. These are not expected to have any material impact on the funds financial reporting in subsequent periods.

3 Other Operating Expenses

	31 December 2011	31 December 2010
	\$	\$
Bank, prime broker and brokerage charges	99	-
Futures commission	-	1,145
Other expenses	3	-
	102	1,145

Notes to the Financial Statements (continued)

4 Net gains/(losses) on financial instruments held at fair value through profit or loss

Net gains/(losses) recognised in relation to financial assets and financial liabilities held at fair value through profit or loss:

	Half-year ended	
	31 December 2011	31 December 2010
Financial assets	\$	\$
Net realised gain/(loss) on financial assets at fair value through profit or loss	2,754	110,349
Net unrealised gain/(loss) on financial assets held at fair value through profit or loss	(46,236)	400,260
Total net gain/(loss) on financial instruments held at fair value through profit or loss	<u>(43,482)</u>	<u>510,609</u>

5 Net assets attributable to unitholders

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

	Half-year ended			
	31 December 2011 Number	31 December 2010 Number	31 December 2011 \$	31 December 2010 \$
Opening balance - including treasury units	5,796,006	7,346,706		
Treasury units	(408,689)	(1,398,399)		
Opening balance - excluding treasury units	5,387,317	5,948,307	6,196,629	6,267,805
Applications	-	69,130	-	74,775
Redemptions	(15,086)	(460,534)	(16,981)	(513,567)
Units issued upon reinvestment of distributions	64,424	-	71,556	-
Units (purchased) and sold by Fund	45,214	(381,800)	(171,310)	(426,241)
Increase/(decrease) in net assets attributable to unit holders			(46,391)	418,903
Closing balance - excluding treasury units	5,481,869	5,175,103	6,033,503	5,821,675
Treasury units	363,475	780,199		
Closing balance - including treasury units	<u>5,845,344</u>	<u>5,955,302</u>		

As stipulated within the Fund's Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

Some accounts in prior period comparatives were subject to a change as detailed in Note 13.

The following rights and benefits are attached to the units on issue:

Voting

Voting is by a show of hands, unless a poll is demanded. The Corporations Act governs who can demand a poll and the value of each vote required to pass a resolution. The chair of the meeting has no casting vote.

Notes to the Financial Statements (continued)

5 Net assets attributable to unitholders (continued)

Transfer

The Unit holders may transfer units using any form acceptable to the manager

Distributions

The Fund intends to distribute all its distributable income each year to Unit holders.

Distributions Re-investment Plan

The Fund has established a Distribution Re-investment Plan (DRIP) for all distribution. The DRIP enables Unit holders to re-invest all or part of the distributions payable on their Units in additional units.

Redemptions

An investor may ask to exit the Fund at any time. When an investor exits the Fund, the investment manager redeems the investor's relevant units. Units can only be redeemed at the exit price. Subject to the Corporations Act and the listing rules if the listing rules apply, while the manager is not obliged to give effect to a redemption request, it may redeem some or all of the units which are the subject of the request.

Winding up

After paying or making allowances for all the anticipated liabilities, subject to the rights and obligations attaching to any class, the net proceeds must be distributed pro rata to investors according to the number of units they hold at termination.

Capital risk management

The Fund considers its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders.

Daily applications and redemptions are reviewed relative to the liquidity of the Fund's underlying assets on a daily basis by the Responsible Entity. Under the terms of the Fund's constitution, the Responsible Entity has the discretion to reject an application for unit and to defer or adjust a redemption of units if the exercise of such discretion is in the best interests of unitholders.

6 Distributions to unit holders

Timing of Distributions

The distributions for the half-year were as follows:

	31 December 2011		31 December 2010	
	\$	CPU	\$	CPU
Distributions paid and payable				
September interim	117,366	2.22	152,781	2.50
December interim	121,586	2.22	125,415	2.30
	<hr/>		<hr/>	
Total distributions	238,952		278,196	

Distributions payable in the statement of financial position includes distributions payable from prior periods.

Notes to the Financial Statements (continued)

7 Cash and cash equivalents

	31 December 2011	30 June 2011
	\$	\$
Cash at bank	143,332	401,687
Total	143,332	401,687

8 Receivables

	As at	
	31 December 2011	30 June 2011
	\$	\$
Dividends and distributions receivable	118,677	37,218
Interest receivable	448	1,356
GST receivables	8	599
Total	119,133	39,172

9 Financial assets held at fair value through profit or loss

	As at	
	31 December 2011	30 June 2011
	\$	\$
Designated at fair value through profit or loss		
Unlisted unit trusts	5,899,618	5,877,849
Total financial assets held at fair value through profit or loss	5,899,618	5,877,549
Comprising:		
Unlisted unit trusts		
Units in Australian unit trusts	5,899,618	5,887,849
Total financial assets held at fair value through profit or loss	5,899,618	5,887,849

10 Other liabilities

	As at	
	31 December 2011	30 June 2011
	\$	\$
Other payables	6,994	5,278
Total	6,994	5,278

Notes to the Financial Statements (continued)

11 Segment information

The Fund is organised into one main business segment which operates solely in the business of investment management within Australia. While the Fund operates from Australia only (the geographical segment), the Fund may have asset exposures in different countries and across different industries.

The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of Directors.

12 Contingent assets and liabilities and commitments

There are no outstanding contingent assets and liabilities or commitments as at 31 December 2011 (30 June 2011: Nil).

13 Revision of comparative information and variation from prior period reports

In the financial statements for the period ending 31 December 2010, the Trust held treasury units in the Trust. In the period ending 30 June 2011 the directors identified that a gain or loss on the treasury units should not be recognised in profit and loss and the holdings in itself should not be recognised in the balance sheet. This has been corrected in the 2011 Financial Statements by restating each of the effected financial statement line items for the prior period as follows:

	31 December 2010 \$	Increase/ (decrease) \$	31 December 2010 (Restated) \$
Balance Sheet (extract)			
Net assets attributable to unitholders - Liabilities	6,707,201	(885,526)	5,821,675
Statement of Comprehensive Income (extract)			
Dividend and distribution income	201,423	(15,186)	186,237
Net gains/(losses) on financial instruments held at fair value through profit or loss	601,767	(91,158)	510,609
Distributions to unitholders	(293,382)	15,186	(278,196)
Increase/(decrease) in net assets attributable to unitholders	(510,061)	91,158	(418,903)
Statement of Cash Flows (extract)			
Proceeds from sale of financial instruments	5,629,641	(1,168,087)	4,461,554
Purchase of financial instruments	(4,291,029)	501,128	(3,789,901)
Distributions and dividends received	64,054	(15,186)	48,868
Units (purchased) and sold by Fund	-	(426,241)	(426,241)
Payments for redemptions by unit	(1,158,486)	1,093,200	(65,286)
Distributions paid	(298,450)	15,186	(283,264)

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 15 are in accordance with the *Corporations Act 2001*, including:
- (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Fund's financial position as at 31 December 2011 and of its performance for the financial half-year ended on that date; and
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



Steuart Roe
Director

Sydney
24 February 2012



Independent auditor's review report to the members of Aurora Absolute Return Fund

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Aurora Absolute Return Fund (the 'Fund'), which comprises the balance sheet as at 31 December 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Aurora Absolute Return Fund.

Directors' responsibility for the half-year financial report

The directors of Aurora Funds Management Limited, the responsible entity of the Fund are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such 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, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Fund's financial position as at 31 December 2011 and its 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 Aurora Absolute Return Fund, 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*.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Aurora Absolute Return Fund is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the Fund's financial position as at 31 December 2011 and of its 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*.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive script.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to be 'AJ Wilson', written in a cursive style.

AJ Wilson
Partner

Sydney
24 February 2012