

Aurora Fortitude Absolute Return Fund

ARSN 145 894 800

ANNUAL REPORT

For the year ended 30 June 2012

Contents	Page
Directors' Report	2
Auditor's Independence Report	5
Statement of Comprehensive Income	6
Balance sheet	7
Statement of Changes in Equity	8
Statement of Cash flows	9
Notes to the financial statements	10
Directors' declaration	29
Independent auditor's report to the unitholders	30

Directors' Report

The directors of Aurora Funds Management Limited (ABN 69 092 626 885), the responsible entity of Aurora Fortitude Absolute Return Fund ("the Fund"), present their report together with the financial report of the Fund and the auditors report, for the year ended 30 June 2012.

Principal activities

The principal activity of the Fund during the year was to invest its funds in accordance with the provisions of the Fund's Constitution and Product Disclosure Statement.

On 7th October 2010, the Fund released its first Product Disclosure Statement. The fund continued with its Investment Objectives to achieve a high rate of return, comprising both income and capital growth and to preserve the capital of the Fund. The Fund invests primarily in Australian equities and exchange traded derivatives.

The Fund did not have any employees during the year.

Directors

The following persons held office as directors of Aurora Funds Management Limited during the year or since the end of the year and up to the date of this report:

Alastair Davidson
 Richard Matthews
 Simon Lindsay
 John Corr
 Stuart Roe

Review and results of operations

During the 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 Constitution.

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

	Year Ended	
	30 June 2012	30 June 2011
	\$	\$
Operating profit/(loss) before finance costs attributable to unit holders	3,786,623	321,062
Distributions paid and payable	5,380,219	664,196
Distributions (cents per unit) 30 September	1.93	-
Distributions (cents per unit) 31 December	1.94	-
Distributions (cents per unit) 31 March	1.93	2.75
Distributions (cents per unit) 30 June	1.92	0.61

Significant changes in state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Fund that occurred during the financial year.

Matters subsequent to the end of the financial year

No matter or circumstance that has arisen since 30 June 2012 that has significantly affected, or may significantly affect:

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

Directors' Report (continued)

Likely developments and expected results of operations (continued)

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 responsible entity believes it would be likely to result in unreasonable prejudice to the Fund.

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 either the officers of Aurora Funds Management Limited or the auditors of the Fund. So long as the officers of Aurora Funds Management Limited act in accordance with the Fund Constitution and the Law, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund.

Indemnity of auditors

The auditors of the Fund are in no way indemnified out of the assets of the Fund.

Fees paid and interests held in the Fund by the responsible entity or its associates

Fees paid to the responsibility entity and its associates out of Fund property during the year are disclosed in Note 14 to the financial statements.

No fees were paid out of Fund property to the directors of the responsible entity during the year.

The number of interests in the Fund held by the responsible entity or its associates as at the end of the financial year are disclosed in Note 14 to the financial statements.

Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in Note 8 to the financial statements.

The value of the Fund's assets and liabilities is disclosed on the balance sheet and derived using the basis set out in Note 2 to the financial statements.

Environmental regulation

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

Fees Paid to the responsible entity and Investment Manager

Fees paid to the responsible entity and Investment Manager out of the Fund's assets during the year are as follows:

	Year Ended	
	30 June 2012	30 June 2011
	\$	\$
Management fee	974,151	222,423

Interests Held by the responsible entity and Directors

At the date of this report, the following units of the Fund held were held by the responsible entity or its associates or by Directors .

Director	Units	%
John Corr	235,853	0.279
Simon Lindsay	7,864	0.009

Remuneration report

The responsible entity of Aurora Fortitude Absolute Return Fund is Aurora Funds Management Limited. Key management personnel are the executive directors of Aurora Funds Management Limited. The key management remuneration disclosures required under AASB 124 are provided in the financial statements of the responsible entity.

Directors' report (continued)

Proceedings on behalf of Fund

No person has applied for leave of Court to bring proceedings on behalf of the Fund or intervene in any proceedings to which the Fund is a party for the purpose of taking responsibility on behalf of the Fund for all or any part of those proceedings. The Fund was not a party to any such proceedings during the year.

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

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



Steuart Roe

Director

Date: 20 September 2012



Auditor's Independence Declaration

As lead auditor for the audit of Aurora Fortitude Absolute Return Fund for the year ended 30 June 2012, 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 audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Aurora Fortitude Absolute Return Fund during the period.

A handwritten signature in black ink, appearing to read 'Joe Sheeran', written in a cursive style.

Joe Sheeran
Partner
PricewaterhouseCoopers

Sydney
20 September 2012

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
T +61 2 8266 0000, F +61 2 8266 9999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

Statement of Comprehensive Income

	Notes	Year ended	
		30 June 2012	30 June 2011
		\$	\$
Investment income			
Interest income		1,164,127	322,603
Dividend and distribution income		4,138,923	553,785
Net gains/(losses) on financial instruments held at fair value through profit or loss	7	6,311,483	25,566
Other operating income	4	99,484	454,813
Total net investment income/(loss)		<u>11,714,017</u>	<u>1,356,767</u>
Expenses			
Responsible Entity fees	14	974,151	222,423
Administration costs		13,954	11,213
Other operating expenses	5	382,534	325,590
Dividend expenses		6,556,755	476,479
Total operating expenses		<u>7,927,394</u>	<u>1,035,705</u>
Operating profit/(loss)		<u>3,786,623</u>	<u>321,062</u>
Finance costs attributable to unit holders			
Distributions to unit holders	9	5,380,219	664,196
Increase/(decrease) in net assets attributable to unit holders	8	(1,593,596)	(343,134)
Profit/(loss) for the year		<u>-</u>	<u>-</u>
Other comprehensive income for the year		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u>-</u>	<u>-</u>

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

Balance sheet

		As at	
		30 June 2012	30 June 2011
	Notes	\$	\$
Assets			
Current assets			
Cash and cash equivalents	10	300,849	24,223,227
Receivables		603,166	49,372
Due from brokers - receivable for securities sold		42,652,888	18,363,193
Financial assets held at fair value through profit or loss	11	<u>103,833,187</u>	<u>34,392,311</u>
Total assets		<u>147,390,090</u>	<u>77,028,103</u>
Liabilities			
Current liabilities			
Futures margin account		3,594,820	-
Distributions payable		1,618,424	289,683
Due to brokers - payable for securities purchased		23,859,344	10,143,568
Financial liabilities held at fair value through profit and loss	12	34,908,586	20,416,850
Other liabilities		<u>3,051,786</u>	<u>517,222</u>
Total liabilities (excluding net assets attributable to unit holders)		<u>67,032,960</u>	<u>31,367,323</u>
Net assets attributable to unit holders - liabilities	8	<u>80,357,130</u>	<u>45,660,780</u>

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

Statement of Changes in Equity

	Year ended	
	30 June 2012	30 June 2011
	\$	\$
Total equity at the beginning of the year	-	-
Profit/(loss) for the year	-	-
Other comprehensive income for the year	-	-
Total comprehensive income for the year	-	-
Transactions with owners in their capacity as equity holders	-	-
Total equity at the end of the 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 year.

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

Statement of Cash Flows

	Notes	Year ended	
		30 June 2012	30 June 2011
		\$	\$
Cash flows from operating activities			
Proceeds from sale of financial instruments		1,773,570,502	723,615,807
Purchase of financial instruments		(1,832,782,078)	(741,009,891)
Amount paid to brokers for futures commission		-	(21,006)
Dividends and distributions received		(3,078,616)	553,785
Interest received		1,197,744	322,603
Other Income		99,484	452,114
Interest paid		(22,743)	(119,720)
Investment Management fee paid		(901,911)	(190,445)
Payment of other expenses		(751,348)	(250,757)
Net cash inflow/(outflow) from operating activities	15(a)	<u>(62,668,966)</u>	<u>(16,647,510)</u>
Cash flows from financing activities			
Proceeds from applications by unit holders		39,358,838	36,559,226
Payments for redemptions by unit holders		(1,347,104)	(2,262,976)
Distributions paid		(2,859,966)	(312,414)
Net cash inflow/(outflow) from financing activities		<u>35,151,768</u>	<u>33,983,836</u>
Net increase/(decrease) in cash and cash equivalents		<u>(27,517,198)</u>	<u>17,336,326</u>
Cash and cash equivalents at the beginning of the year		<u>24,223,227</u>	<u>6,886,901</u>
Cash and cash equivalents at the end of the year	10	<u>(3,293,971)</u>	<u>24,223,227</u>
Non-cash financing activities	15(b)	<u>-</u>	<u>-</u>

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

Notes to the financial statements

Contents

	Page	
1	General information	11
2	Summary of significant accounting policies	11
3	Financial risk management	16
4	Other operating income	21
5	Other operating expenses	21
6	Remuneration of auditors	22
7	Net gains/(losses) on financial instruments held at fair value through profit or loss	22
8	Net assets attributable to unit holders	22
9	Distributions to unit holders	23
10	Cash and cash equivalents	23
11	Financial assets held at fair value through profit or loss	24
12	Financial liabilities held at fair value through profit or loss	25
13	Derivative financial instruments	25
14	Related party transactions	26
15	Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities	28
16	Events occurring after the reporting period	28
17	Contingent assets and liabilities and commitment	28

1 General information

These financial statements cover Aurora Fortitude Absolute Return Fund ("the Fund") as an individual entity. The Fund commenced operations on 30 April 2006 and is domiciled in Australia.

The responsible entity of the Fund is Aurora Funds Management Limited ("the responsible entity"). The responsible entity's registered office is Level 2, 350 George Street Sydney, NSW 2000. The financial statements are presented in the Australian currency.

It is recommended that these financial statements are considered together with the current product disclosure document and in accordance with the provisions of the governing documents of the Fund, and any public announcements made by the Fund during the year ended 30 June 2011 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

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.

The financial statements were authorised for issue by the directors on 20 September 2012. The directors of the responsible entity have the power to amend and reissue the financial statements.

2 Summary of significant accounting policies

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

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001* in Australia.

The financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The balance sheet is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current. All balances are expected to be recovered or settled within twelve months, except for investments in financial assets and net assets attributable to unitholders. The amount expected to be recovered or settled within twelve months after the end of each reporting period cannot be reliably determined.

Compliance with International Financial Reporting Standards

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

(b) Financial Instruments

(i) Classification

The Fund's investments are classified as at fair value through profit or loss. They comprise:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are expected to be settled within 12 months, otherwise they are classified as non-current.

The Fund makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions. Short sales are classified as financial liabilities at fair value through profit or loss.

2 Summary of significant accounting policies

(b) Financial instruments

(ii) Recognition/derecognition

The Fund recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(iii) Measurement

Financial assets and liabilities held at fair value through profit or loss

At initial recognition, the Fund measures a financial asset at its fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

The fair value of financial assets and liabilities traded in active markets is subsequently based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market price used for financial assets held by the Fund is the current bid price and the quoted market price for financial liabilities is the current asking price.

The fair value of financial assets and liabilities that are not traded in an active market are determined using valuation techniques. Accordingly, there may be a difference between the fair value at initial recognition and amounts determined using a valuation technique. If such a difference exists, the Fund recognises the difference in profit or loss to reflect a change in factors, including time, that market participants would consider in setting a price.

Further details on how the fair values of financial instruments are determined are disclosed in note 3(e).

Loans and receivables

Loan assets are measured initially at fair value plus transaction costs and subsequently amortised using the effective interest rate method, less impairment losses if any. Such assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment.

If evidence of impairment exists, an impairment loss is recognised in profit or loss as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through profit or loss.

(c) Net assets attributable to unit holders

Units are redeemable at the unit holders' option and are classified as financial liabilities as the Fund is required to distribute its taxable income. The units can be put back to the Fund at any time for cash based on the redemption price. The value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the reporting period if the unit holders exercised their right to redeem units in the Fund.

(d) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, 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 from the date of acquisition that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in the balance sheet.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Fund's main income generating activity.

2 Summary of significant accounting policies (continued)

(e) Margin accounts

Margin accounts comprise cash held as collateral for derivative transactions and short sales. The cash is held by the broker and is only available to meet margin calls.

(f) Investment income

Interest income on deposits held at call with banks is recognised as the interest accrues daily during each interest period and is payable in arrears on each interest payment date. Interest is accrued at the reporting date from the time of last payment.

Dividend income is recognised on the ex-dividend date with any related foreign withholding tax recorded as an expense. The Fund currently incurs withholding tax imposed by certain countries on investment income. Such income is recorded gross of withholding tax in profit or loss.

Dividends declared on securities sold short are recorded as a dividend expense on the ex-dividend date.

Fund distributions are recognised on an entitlements basis.

(g) Expenses

All expenses, including responsible entity's fees and custodian fees, are recognised in profit or loss on an accruals basis.

(h) Income tax

Under current legislation, the Fund is not subject to income tax as unit holders are presently entitled to the income of the Fund.

The benefits of any imputation credits and foreign tax paid are passed on to unit holders.

(i) Distributions

In accordance with the Fund Constitution, the Fund distributes income adjusted for amounts determined by the responsible entity, to unitholders by cash or reinvestment. The distributions are recognised in profit or loss as finance costs attributable to unitholders.

(j) Increase/decrease in net assets attributable to unit holders

Income not distributed is included in net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognised in profit or loss as finance costs.

(k) Foreign currency translation

(i) Functional and presentation currency

Items included in the Fund's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Australian dollar, which reflects the currency of the economy in which the Fund competes for capital and is regulated. The Australian dollar is also the Fund's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined. Translation differences on assets and liabilities carried at fair value are reported in the Statement of Comprehensive Income on a net basis within net gains/(losses) on financial instruments held at fair value through profit or loss.

2 Summary of significant accounting policies (continued)

(l) Due from/to brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the year. Trades are recorded on trade date for equities and normally settled within three business days. A provision for impairment of amounts due from brokers is established when there is objective evidence that the Fund will not be able to collect all amounts due from the relevant broker. Indicators that the amount due from brokers is impaired include significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation and default in payments.

(m) Receivables

Receivables may include amounts for dividends, interest and Fund distributions. Dividends and Fund distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each reporting period from the time of last payment in accordance with the policy set out in note 2(f) above. Amounts are generally received within 30 days of being recorded as receivables.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired where appropriate investigations have been performed. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable 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 other expenses in profit or loss.

(n) Payables

Payables include liabilities and accrued expenses owing by the Fund which are unpaid as at the end of the reporting period.

The distribution amount payable to unitholders as at the end of each reporting period is recognised separately in the balance sheet when unitholders are presently entitled to the distributable income under the Fund Constitution.

(o) Applications and redemptions

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

(p) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as custodial services and investment management fees have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC) at a rate of 75%; hence investment management fees, custodial fees and other expenses have been recognised in profit or loss net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the balance sheet. Cash flows relating to GST are included in the statement of cash flows on a gross basis.

(q) Use of estimates

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

2 Summary of significant accounting policies (continued)

(q) Use of estimates (continued)

For the majority of the Fund's financial instruments, quoted market prices are readily available. However, certain financial instruments, for example over-the-counter derivatives or unquoted securities, are fair valued using valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel of the responsible entity, independent of the area that created them.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

For certain other financial instruments, including amounts due from/to brokers and payables, the carrying amounts approximate fair value due to the short-term nature of these financial instruments.

(r) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The directors' assessment of the impact of these new standards (to the extent relevant to the Fund) and interpretations is set out below:

- (i) AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010 Amendment to Australia Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013*).

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption.

AASB 9 permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not traded.

The Fund has not yet decided when to adopt AASB 9. Management does not expect this will have a significant impact on the Fund's financial statements as the Fund does not hold any available-for-sale investments.

* In December 2011, the IASB delayed the application date of IFRS 9 to 1 January 2015. The AASB is expected to make an equivalent amendment to AASB 9 in due course.

- (ii) AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013).

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. Application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Fund does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(s) Comparative figures

Where necessary, comparative figures have been reclassified to conform with changes in presentation in these financial statements.

(t) Segment information

The Fund is organized 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.

3 Financial risk management

The Fund's activities expose it to a variety of financial risks, market risk (including price risk), credit risk and liquidity risk.

The Fund's overall risk management programme focuses on ensuring compliance with the Fund's Product Disclosure Statement and seeks to maximise the returns derived for the level of risk to which the Fund is exposed. The Fund uses derivative financial instruments to moderate and create certain risk exposures. Financial risk management is carried out by the investment management department of the responsible entity under policies approved by the Board of Directors of the responsible entity (the Board).

The Fund uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of price risks and ratings analysis for credit risk.

(a) Market risk

(i) Price risk

The Fund is exposed to equity securities and derivative securities price risk. This arises from investments held by the Fund for which prices in the future are uncertain. Investments are classified in the balance sheet as at fair value through profit or loss. All securities investments present a risk of loss of capital. Except for equities sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from equities sold short can be unlimited.

Price risk is the risk that the value of the Fund's investment portfolio will fluctuate as a result of changes in market prices. This risk is managed by the responsible entity through ensuring that all activities are transacted in accordance with mandates, overall investment strategy and within approved limits. Market price risk analysis is conducted regularly by the investment manager on a total portfolio basis, which includes the effect of derivatives.

Management's best estimate of the effect on profit for the year before distributions due to a reasonably possible change in equity indices, as represented by the ASX200 index, with all other variables held constant is indicated in the table below. A market neutral approach with a derivative overlay allows the Fund to profit from extreme market movements.

There is no sensitivity effect on other comprehensive income. In practice the actual trading results may differ from the sensitivity analysis below and the difference could be material.

The sensitivity is based on the volatility of change in the ASX200 index over the last 10 years.

Index	Change in equity price Increase/ (decrease) %	2012	2011
		Effect on net profit for the year	Effect on net profit for the year
		Increase/(decrease)	Increase/(decrease)
		\$	\$
ASX 200	10/10	2,058,383/229,765	1,056,425/848,020

(ii) Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Fund may invest in assets denominated in currencies other than its reporting currency, the Australian dollars. Consequently, the Fund is exposed to risks that the exchange rate of the Australian dollars relative to other currencies may change in a manner, which has an adverse effect on the reported value of that portion of the Fund's assets which is denominated in currencies other than the Australian dollars.

Substantially all of the Fund's investments are expected to be Australian dollars denominated and therefore may only expose the unitholders to minimal currency risk. As at 30 June 2012 and 30 June 2011, the Fund has minimal financial assets and liabilities denominated in other currencies and held nearly all of its financial instruments in Australian dollars. Exposure to currency risk at year end is considered to be immaterial.

3 Financial risk management (continued)

(a) Market risk (continued)

(iii) Cash flow and fair value interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. There is no significant direct interest rate risk in the Fund as the Fund does not hold interest rate sensitive financial instruments. The interest rates on deposits at bank and on bank overdrafts are both floating rates referenced to the RBA cash rate.

There are no financial instruments held whose value at the reporting date are sensitive to interest rates, no sensitivity analysis on valuations has been performed. Based on year end balance, if the interest rates had been 1% higher or lower for the entire reporting period, interest earned would be \$30,084 (2011 - \$242,232) higher or lower.

(b) Credit risk

The Fund is exposed to counterparty credit risk on cash and cash equivalents and amounts due from brokers.

Credit risk is the risk that a counterparty will fail to perform contractual obligations, either in whole or in part, under a contract. Concentrations of credit risk are minimised primarily by:

- ensuring counterparties, together with the respective credit limits, are approved, and
- ensuring that transactions are undertaken with a large number of counterparties.

The Fund has a prime brokerage agreement with UBS, the Fund's prime broker, and some of the Fund's assets will be pledged as collateral for amounts drawn under the overdraft facility.

There were no significant concentrations of credit risk to counterparties at 30 June 2012. No individual investment exceeded ten percent of the net assets attributable to unit holders at 30 June 2012. The Fund only has a material credit risk exposure to the bank that holds the Fund's cash assets at 30 June 2012.

(i) Derivative financial instruments

The value of derivative investments is linked to the value of an underlying asset (or an interest rate, share index or some other reference point) and can be highly volatile. While derivatives offer the opportunity for higher gains for a smaller initial cash outlay, they can also result in significant losses, sometimes significantly in excess of the amount invested to obtain the derivative. Risks associated with using these tools might include the values of the derivative failing to move in line with the underlying asset, potential illiquidity of, or inability to get set in, the derivative, the Fund not being able to meet payment obligations as they arise, and counterparty risk (this is where the counterparty to the derivative contract cannot meet its obligations under the contract). Using derivatives may not provide the desired returns or protection from loss, and may increase losses. We aim to keep derivative risk to a minimum by constantly monitoring the Fund's use of derivatives, and by only entering into derivative contracts with reputable counterparties.

(ii) Settlement of securities transactions

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered low, as delivery of securities sold is only made once the broker has received payment. Payment is made once purchase on the securities have been received by the broker. The trade will fail if either party fails to meet its obligations.

(iii) Cash and cash equivalents

The exposure to credit risk for cash and cash equivalents is low as all counterparties have a rating of AA or higher.

In accordance with the Fund's policy, the investment manager monitors the Fund's credit position on a daily basis, and the Board of Directors reviews it on a quarterly basis.

(iv) Other

The Fund is not materially exposed to credit risk on other financial assets.

The maximum exposure to credit risk at the end of each reporting period is the carrying amount of the financial assets. None of these assets are impaired nor past due but not impaired.

3 Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund is exposed to daily cash redemptions of redeemable units and daily margin calls on derivatives. It therefore primarily holds investments that are traded in an active market and can be readily disposed. Only a limited proportion of its assets are held in investments not actively traded on a stock exchange.

The majority of the Fund's listed securities are considered readily realisable, as they are listed on the Australian Securities Exchange.

The Fund may, from time to time, invest in derivative contracts traded over the counter, which are not traded in an organised market and may be illiquid. As a result, the Fund may not be able to quickly liquidate its investments in these instruments at an amount close to their fair value to meet its liquidity requirements or to respond to specific events such as deterioration in the creditworthiness of any particular issuer or counterparty. No over-the-counter derivative contracts were held at year end.

The Investment manager has the responsibility to manage the financial liabilities of the Fund which includes settling trade liabilities, upcoming distributions and monthly redemptions.

Compliance with the Fund's policy is reported to the Board on a monthly basis.

In order to manage the Fund's overall liquidity, the responsible entity has the discretion to reject an application for units and to defer or adjust a redemption of units if the exercise of such discretion is in the best interests of unitholders.

Units are redeemed on demand at the unitholder's option. However, the Board of Directors does not envisage that the contractual maturity disclosed in the table below will be representative of the actual cash outflows, as holders of these instruments typically retain them for the medium to long term.

The table on page 19 analyses the Fund's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period. The amounts in the table are the contractual undiscounted cash flows.

At 30 June 2012	Less than 1 month	1-6 months	6-12 months	1-2 years	Total
	\$	\$	\$	\$	\$
Liabilities					
Distributions payable	1,618,424	-	-	-	1,618,424
Financial liabilities at fair value through profit or loss	34,908,586	-	-	-	34,908,586
Due to brokers	23,859,344	-	-	-	23,859,344
Payables	3,051,786	-	-	-	3,051,786
Net assets attributable to unit holders	80,357,130	-	-	-	80,357,130
Contractual cash flows (excluding gross settled derivatives)	143,795,270	-	-	-	143,795,270

3 Financial risk management (continued)

(c) Liquidity risk (continued)

At 30 June 2011	Less than 1 month	1-6 months	6-12 months	1-2 years	Total
	\$	\$	\$	\$	\$
Liabilities					
Distributions payable	289,683	-	-	-	289,683
Financial liabilities at fair value through profit or loss	20,416,850	-	-	-	20,416,850
Due to brokers	10,143,568	-	-	-	10,143,568
Payables	517,222	-	-	-	517,222
Net assets attributable to unit holders	45,660,780	-	-	-	45,660,780
Contractual cash flows (excluding gross settled derivatives)	77,028,103	-	-	-	77,028,103

The table below analyses the Fund's net settled derivative financial instruments for which the contractual maturities are considered important to understanding of the timing of cash flows based on the Fund's investment strategy.

At 30 June 2012	Less than 1 month	1-6 months	6-12 months	1-2 years
	\$	\$	\$	\$
Net settled derivatives				
Australian traded options	-	705,067	-	-
Australian share price index futures	-	(24,250)	-	-
At 30 June 2011	Less than 1 month	1-6 months	6-12 months	1-2 years
	\$	\$	\$	\$
Net settled derivatives				
Australian traded options	-	2,806,386	-	-
Australian share price index futures	-	(6,450)	-	-

(d) Fair value estimation

The carrying amounts of the Fund's assets and liabilities at the end of each reporting year approximate their fair values.

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in profit or loss.

(i) Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting year without any deduction for estimated future selling costs.

The Fund values its investments in accordance with the accounting policies set out in note 2. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

The quoted market price used for financial assets held by the Fund is the current bid price; the appropriate quoted market price for financial liabilities is the current asking price. When the Fund holds derivatives with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies this bid or asking price to the net open position, as appropriate.

3 Financial risk management (continued)

(d) Fair value estimation (continued)

(i) Fair value in an active market (continued)

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

(ii) Fair value in an inactive or unquoted market

Investments in other unlisted unit Funds are recorded at the redemption value per unit as reported by the investment managers of such Funds.

The carrying value less impairment provision of other receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Fund for similar financial instruments.

(e) Fair value hierarchy

Classification of financial assets and financial liabilities

The Fund classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels: Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1), 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 2) and Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes "observable" requires significant judgement by the responsible entity. The responsible entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The tables below set out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2012 and 30 June 2011.

As at 30 June 2012	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets				
Financial assets held for trading:				
Derivatives	1,271,880	-	-	1,271,880
Financial assets designated at fair value through profit or loss:				
Equity securities	102,561,307	-	-	102,561,307
Convertible notes	-	-	-	-
Total	103,833,187	-	-	103,833,187
Financial liabilities				
Financial liabilities held for trading:				
Equity securities sold short	34,366,023	-	-	34,366,023
Derivatives	542,563	-	-	542,563
Total	34,908,586	-	-	34,908,586

3 Financial risk management (continued)

(e) Fair value hierarchy (continued)

As at 30 June 2011	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets				
Financial assets held for trading:				
Derivatives	3,034,869	-	-	3,034,869
Financial assets designated at fair value through profit or loss:				
Equity securities	30,590,442	-	-	30,590,442
Convertible notes	-	767,000	-	767,000
Total	33,625,311	767,000	-	34,392,311
Financial liabilities				
Financial liabilities held for trading:				
Equity securities sold short	20,181,917	-	-	20,181,917
Derivatives	234,933	-	-	234,933
Total	20,416,850	-	-	20,416,850

4 Other operating income

	Year ended	
	30 June 2012 \$	30 June 2011 \$
Other corporate actions	74,729	227,798
Sub underwriting fees	24,755	163,163
Special dividends	-	46,397
GST income	-	17,455
	99,484	454,813

5 Other operating expenses

	Year ended	
	30 June 2012 \$	30 June 2011 \$
Bank, prime broker and brokerage charges	329,620	178,146
Interest expense	22,743	119,720
Futures commission	-	21,006
Other expenses	30,171	6,718
	382,534	325,590

6 Remuneration of auditors

During the year the following fees were paid or payable by the responsible entity on behalf of the Fund for services provided by the auditor for the Fund:

	Year ended	
	30 June 2012	30 June 2011
	\$	\$
Audit and other assurance services		
Audit and review of financial statements	9,142	12,310
Audit of the compliance plan	1,428	1,399
Total remuneration for audit and other assurance services	10,570	13,709
Taxation services		
Tax compliance services	4,900	3,400
Total remuneration for tax services	4,900	3,400
Total remuneration of PwC	15,470	17,109

7 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:

	Year ended	
	30 June 2012	30 June 2011
	\$	\$
Financial assets		
Net realised gain/(loss) on financial assets at fair value through profit or loss	6,549,279	(282,433)
Net unrealised gain/(loss) on financial assets held at fair value through profit or loss	(237,796)	307,999
Total net gains/(losses) on financial instruments held at fair value through profit or loss	6,311,483	25,566

8 Net assets attributable to unitholders

Movements in number of units and net assets attributable to unit holders during the year were as follows:

	Year ended			
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
	No.	No.	\$	\$
Opening balance	47,114,454	11,747,007	45,660,780	11,369,993
Applications	40,441,636	36,740,123	39,358,838	36,559,226
Redemptions	(4,390,034)	(1,719,396)	(4,260,404)	(2,262,976)
Units issued upon reinvestment of distributions	1,232,384	346,720	1,191,512	337,671
Increase/(decrease) in net assets attributable to unit holders			(1,593,596)	(343,134)
Closing balance	84,398,440	47,114,454	80,357,130	45,660,780

As stipulated within the Fund 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

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.

Transfer

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

8 Net assets attributable to unitholders (continued)

Distributions

The Fund will 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 distributions. 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 to unitholders 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 constitution, the responsible entity has the discretion to reject an application for units and to defer or adjust a redemption of units if the exercise of such discretion is in the best interests of unitholders.

9 Distributions to unit holders

The distributions for the year were as follows:

	Year ended			
	30 June 2012		30 June 2011	
	\$	CPU	\$	CPU
Distributions paid	3,761,795	5.82	374,513	2.75
Distribution payable	1,618,424	1.92	289,683	0.61
Total distributions	5,380,219	7.74	664,196	3.36

10 Cash and cash equivalents

	As at	
	30 June 2012	30 June 2011
	\$	\$
Cash at bank	300,849	333,629
AUD Futures margin account	(3,594,820)	23,889,598
Total	(3,293,971)	24,223,227

11 Financial assets held at fair value through profit or loss

	As at	
	30 June 2012	30 June 2011
	Fair value	Fair value
	\$	\$
Held for trading		
Derivatives (note 13)	1,271,880	3,034,869
Total held for trading	1,271,880	3,034,869
Designated at fair value through profit or loss		
Equity securities	102,561,307	31,357,442
Total designated at fair value through profit or loss	102,561,307	31,357,442
Total financial assets held at fair value through profit or loss	103,833,187	34,392,311
Comprising:		
Derivatives		
Exchange traded options	1,271,880	3,034,869
Total derivatives	1,271,880	3,034,869
Equity securities		
Australian equity securities	102,561,307	30,590,442
Convertible notes	-	767,000
Total equity securities	102,561,307	31,357,442
Total financial assets held at fair value through profit or loss	103,833,187	34,392,311

12 Financial liabilities held at fair value through profit or loss

	As at	
	30 June 2012	30 June 2011
	Fair value	Fair value
	\$	\$
Held for trading		
Derivatives (note 13)	<u>542,563</u>	234,933
Total held for trading	<u>542,563</u>	234,933
Designated at fair value through profit or loss		
Equity securities	<u>34,366,023</u>	20,181,917
Total designated at fair value through profit or loss	<u>34,366,023</u>	20,181,917
Total financial liabilities held at fair value through profit or loss	<u>34,908,586</u>	20,416,850
Comprising:		
Derivatives		
Australian exchange traded options	566,813	228,483
Australian share price index futures	<u>(24,250)</u>	6,450
Total derivatives	<u>542,563</u>	234,933
Equity securities		
Australian equity securities	<u>34,366,023</u>	20,181,917
Total Equity securities	<u>34,366,023</u>	20,181,917
Total financial liabilities held at fair value through profit or loss	<u>34,908,586</u>	20,416,850

13 Derivative financial instruments

In the normal course the Fund may enter into transactions in various derivative financial instruments with certain risks. A derivative is a financial instrument or other contract which is settled at a future date and whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

Derivative transactions include a wide assortment of instruments, such as futures and options. Derivatives are considered to be part of the investment process. The use of derivatives is an essential part of the Fund's portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- hedging to protect an asset or liability of the Fund against a fluctuation in market values or to reduce volatility.
- a substitution for trading of physical securities.
- adjusting asset exposures within the parameters in the investment strategy.

While derivatives are used for trading purposes, they are not used to gear (leverage) a portfolio. Gearing a portfolio would occur if the level of exposure to the markets exceeds the underlying value of the Fund.

13 Derivative financial instruments (continued)

The Fund holds the following derivative instruments:

(a) Futures

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organized market. The futures contracts are organized by cash or marketable securities. Changes in futures contracts' values are usually settled net daily with the exchange. Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates at a future date at a specified price, established in an organized financial market.

(b) Options

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future securities price risk. Options held by the Fund are exchange-traded. The Fund may be exposed to credit risk on purchased options to the extent of their carrying amount, which is their fair value. Options are settled on a gross basis.

The Funds's derivative financial instruments at year-end are detailed below:

30 June 2012	Fair Values Contract / notional \$	Assets \$	Liabilities \$
<i>Australian exchange traded derivatives</i>			
Australian share price index futures	8,114,000	-	(24,250)
Exchange traded options	1,929,169	1,271,880	566,813
30 June 2011	Fair Values Contract / notional \$	Assets \$	Liabilities \$
<i>Australian exchange traded derivatives</i>			
Australian share price index futures	27,348	-	6,450
Exchange traded options	1,412,808	3,034,869	228,483

Risk exposures and fair value measurements

Information about the Fund's exposure to credit risk and the methods and assumptions used in determining fair values is provided in note 3 to the financial statements. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of derivative financial instruments disclosed above.

14 Related party transactions

Responsible entity

The responsible entity of Aurora Fortitude Absolute Return Fund is Aurora Funds Management Limited.

(a) Key management personnel

Directors

The names of persons who were executives or directors of Aurora Funds Management Limited at any time during the financial period were as follows:

Alastair Davidson
Richard Matthews
Simon Lindsay
John Corr
Stuart Roe

14 Related party transactions

Responsible entity (continued)

(b) Other key management personnel

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

Key management personnel compensation

Key management personnel are paid by Aurora Funds Management Limited. Payments made from the Fund to Aurora Funds Management Limited do not include any amounts directly attributable to the compensation of key management personnel.

Key management personnel loan disclosures

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

Other transactions within the Fund

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Fund during the financial year and there were no material contracts involving key management personnel's interests existing at year end.

Related party unit holdings

At the date of this report, the following units of the Fund held were held by the responsible entity or its associates or by Directors.

Director	Units	%
John Corr	235,853	0.279
Simon Lindsay	7,864	0.009

Responsible entity's/manager's fees and other transactions

For the year ended 30 June 2012, in accordance with the Fund Constitution, the investment fee payable to the investment manager is 1.5375% (GST inclusive, net of RITC) per annum of the Fund's Net asset value. This amount is calculated monthly and paid by the Fund at the end of each quarter, amounting to \$974,151 (2011 - \$214,368).

A performance fee of 20.50% (GST Inclusive, net of RITC) per annum is applied to the total excess between the Total Unit Holder Return (TUR) and the S&P ASX 200 Accumulation Index and will be applied from 1 July 2011. A performance fee of \$nil was payable for the year (2011 - \$8,055).

All expenses in connection with the preparation of accounting records and the maintenance of the unit register are reimbursed in accordance with the Fund Constitution.

The transactions during the year and amounts payable at year end between the Fund and the responsible entity were as follows:

	30 June 2012	30 June 2011
	\$	\$
Management fees for the year paid by the trust to the responsible entity/investment manager	974,151	222,423

No amounts were paid by the Fund directly to the key management personnel of Aurora Funds Management Limited.

15 Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

	Year ended	
	30 June 2012	30 June 2011
	\$	\$
(a) Reconciliation of profit to net cash inflow/(outflow) from operating activities		
Profit for the year	-	-
Increase/(decrease) in net assets attributable to unit holders	(1,593,596)	(343,134)
Distributions to unit holders	5,380,219	664,196
Proceeds from sale of financial instruments held at fair value through profit or loss	1,773,570,502	723,615,807
Purchase of financial instruments held at fair value through profit or loss	(1,832,782,078)	(741,009,891)
Net (gains)/losses on financial instruments held at fair value through profit or loss	(6,311,483)	(25,566)
Net change in receivables	(18,916,987)	(2,699)
Net change in payables	(378,736)	453,777
Net cash inflow/(outflow) from operating activities	(81,032,159)	(16,647,510)
(b) Non-cash financing activities		
During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan	<u>1,191,512</u>	<u>337,671</u>

16 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Fund disclosed in the balance sheet as at 30 June 2012 or on the results and cash flows of the Fund for the year ended on that date.

17 Contingent assets and liabilities and commitments

There were no contingent assets and liabilities at 30 June 2012 (2011 – nil).

Directors' declaration

In the opinion of the directors:

- (a) the audited financial statements and notes set out on pages 6 to 28 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
 - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2012 and of its performance for the financial year ended on that date,
- (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 and
- (c) Note 2(a) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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



Steuart Roe

Director

Date: 20 September 2012



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

Report on the financial report

We have audited the accompanying financial report of Aurora Fortitude Absolute Return Fund (the Fund), which comprises the balance sheet as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of Aurora Funds Management Limited, the responsible entity, 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 is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

Independence

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



Auditor's opinion

In our opinion:

- (a) the financial report of Aurora Fortitude Absolute Return Fund is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the fund's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the fund's financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

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

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to be 'Joe Sheeran'.

Joe Sheeran
Partner

Sydney
20 September 2012