

Aurora Absolute Return Fund

ARSN 110 303 430

ANNUAL REPORT

For the year ended 30 June 2012

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Corporate directory

Directors of Responsible Entity	John Corr B Comm Alastair Davidson B. Sc Economics (Hons) CA Richard Matthews B. Sc B.A. B.Ec MPA, Grad Dip App Fin Simon Lindsay B. BUS Ian Steuart Roe BSc MAppFin
Company Secretary	Richard Matthews B. Sc B.A. B.Ec MPA, Grad Dip App Fin
Principal Registered Office in Australia	Level 2, 350 George Street Sydney, NSW 2000 (02) 9080 2377
Share Register	Boardroom Limited Level 7, 207 Kent Street Sydney, NSW 2000
Auditor	PwC Darling Park Tower 2 201 Sussex Street Sydney, NSW 1171
Solicitors	Baker & McKenzie Level 27, AMP Centre 50 Bridge Street Sydney, NSW 2000
Stock exchange listings	Aurora Absolute Return Fund units are listed on the Australian Securities Exchange (ASX)
Website address	www.aurorafunds.com.au

Directors' report

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

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 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
Steuart 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	355,936	796,432
Distributions paid and payable	526,165	481,625
Distributions (cents per unit) 30 September	2.22	2.50
Distributions (cents per unit) 31 December	2.22	2.30
Distributions (cents per unit) 31 March	2.21	2.30
Distributions (cents per unit) 30 June	2.22	2.27

Financial Position

Net Tangible Assets per unit as disclosed to the ASX

Net Tangible Assets per unit as disclosed to the ASX (excluding distribution, but not accumulated imputation credits) are shown as follows:

	30 June 2012		30 June 2011	
	\$		\$	
At 30 June	1.107		1.132	
High during period	1.129		1.157	
Low during period	1.084		1.081	

Directors report (continued)

Significant changes in state of affairs

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 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 Trust in future financial years, or
- ii the results of those operations in future financial years, or
- iii the state of affairs of the Trust in future 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 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 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 11 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 11 to the financial statements.

Interests in the Fund

The movement in units on issue in the Fund during the period is disclosed in Note 7 of 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.

Directors report (continued)

Information on Directors

Directors

The following persons were directors during the year and were directors of the responsible entity during the whole or part of the period and up to the date of this report.

John Corr **B Comm**, *Executive Director, Chief Investment Officer, Age 49*

John is the Managing Director and founder of Fortitude Capital Pty Ltd. John has over 25 years experience in the financial markets. Prior to establishing Fortitude Capital, he was a director at Citigroup Global Markets Australia. He worked in proprietary trading for eight years, trading local and overseas equities and equity derivatives, and was responsible for the management and development of a team of equity proprietary traders. John is responsible for the overall portfolio and risk management of Fortitude's various investment funds.

Alastair Davidson **B.Sc Economics (Hons) CA**, *Executive Director, Head of Institutional Business, Age 54*

Alastair is a founding director of Aurora Funds Management Limited. He has over 28 years experience in senior executive roles in the United Kingdom, United States and Australian banking and financial services industries.

Prior to Aurora Funds Management Limited, Alastair was the Head of Investment Banking at Challenger International Limited. There, he was instrumental in developing investment products including hedge funds, hybrids, fixed interest, and venture capital. Previous to that he was co-head of the structured product group at Salomon Smith Barney (County NatWest) in Sydney, and specialised in equity derivative based investment products. Alastair is also a director of the ASX-listed company, Biotech Capital Limited.

Simon Lindsay **B. BUS**, *Executive Director, Head of Distribution, Age 41*

Simon is a founding director of AFML and is responsible for the Australian and New Zealand distribution of Aurora Funds Management Limited's products. He brings to the Company over 17 years experience in financial services, and has an extensive knowledge of the Australian financial planning market from his previous business development experience at both Challenger International Limited and Ord Minnett Limited.

Richard Matthews **B.Sc B.A. B.Ec MPA, Grad Dip App Fin**, *Executive Director, Chief Operating Officer and Company Secretary, Age 43*

Richard is a founding director of AFML. He has over 17 years experience in investment analysis, investment banking, and funds management. He is responsible for product establishment and administration, business administration, and compliance. Richard was formerly Senior Manager of Investment Banking (Equity Capital Markets) at Challenger International Limited, and an Associate Director of Challenger Beston Limited. He has significant experience in establishing and administering listed and unlisted investment schemes, equity capital market issues, equity swaps, and other specialised corporate structured products.

Ian Steuart Roe **BSc MAppFin**, *Chairman and Managing Director, Age 45*

Prior to founding Sandringham Capital Pty Limited in 2005, Steuart was Executive Director and Head of Equity Risk Management Products for UBS in Australasia. His responsibilities included the origination, structuring and distribution of equity derivative and cash products to corporate, financial intermediaries and retail clients. From 1992 to 2001 he worked for Citigroup (formerly Salomon Smith Barney and County NatWest) holding numerous roles including, director and Head of Corporate and Retail Equity Derivative Products, Head of Equity Risk Management, Associate Director and Portfolio Manager Structured investments.

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	-	47,164

Directors' report (continued)

Interests Held by the Responsible Entity and Directors

There were no units of the Fund held by the Responsible Entity or its associates or by Directors at the date of this report.

Remuneration report

The responsible entity of Aurora 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.

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 7.

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



Stewart Roe

Director

Date: 20 September 2012



Auditor's Independence Declaration

As lead auditor for the audit of Aurora 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 Absolute Return Fund during the period.

A handwritten signature in black ink, appearing to read 'Joe Sheeran', written over a horizontal line.

Joe Sheeran
Partner
PricewaterhouseCoopers

Sydney
20 September 2012

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Statement of Comprehensive Income

	Notes	Year ended	
		30 June 2012	30 June 2011
		\$	\$
Investment income			
Interest income		7,139	70,660
Dividend and distribution income		447,829	77,655
Net gains/(losses) on financial instruments held at fair value through profit or loss	6	(98,818)	695,206
Other operating income		<u>-</u>	<u>16,687</u>
Total net investment income/(loss)		<u>356,150</u>	<u>860,208</u>
Expenses			
Management fees	11	-	47,164
Administration costs		-	12,368
Other operating expenses	4	<u>214</u>	<u>4,244</u>
Total operating expenses		<u>214</u>	<u>63,776</u>
Operating profit/(loss)		<u>355,936</u>	<u>796,432</u>
Finance costs attributable to unit holders			
Distributions to unit holders	8	(526,165)	(481,625)
(Increase)/decrease in net assets attributable to unit holders	7	<u>170,229</u>	<u>(314,807)</u>
Profit/(loss) for the year		-	-
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	
	Notes	30 June 2012	30 June 2011
		\$	\$
Assets			
Cash and cash equivalents	9	645,445	401,687
Due from brokers - receipts for securities sold		2,913,300	-
Receivables		86,549	39,172
Financial assets held at fair value through profit or loss	10	<u>4,200,847</u>	<u>5,887,849</u>
Total assets		<u>7,846,141</u>	<u>6,328,708</u>
Liabilities			
Distributions payable		162,083	126,801
Other liabilities		<u>1,816</u>	<u>5,278</u>
Total liabilities (excluding net assets attributable to unit holders)		<u>163,899</u>	<u>132,079</u>
Net assets attributable to unit holders - liability	7	<u>7,682,242</u>	<u>6,196,629</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	-	-
	<hr/>	<hr/>
Total comprehensive income	-	-
Transactions with equity holders in their capacity as equity holders	-	-
	<hr/>	<hr/>
Total equity at the end of the financial 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		175,144	12,141,752
Purchase of financial instruments		(1,500,260)	(13,065,288)
Amounts paid to brokers for futures commission		(5)	(2,480)
Dividends and distributions received		400,260	127,491
Interest received		6,739	69,304
Other Income		-	(40,129)
GST recovered		592	(599)
Management fee		-	(47,164)
Payment of other expenses		<u>(3,671)</u>	<u>(66,373)</u>
Net cash inflow/(outflow) from operating activities	12(a)	<u>(921,201)</u>	<u>(883,486)</u>
Cash flows from financing activities			
(Purchases)/sales of Trust Units		1,544,615	(441,561)
Proceeds from applications by unit holders		2,000	-
Payments for redemptions by unit holders		(28,608)	(85,571)
Distributions paid		<u>(353,048)</u>	<u>(374,529)</u>
Net cash inflow/(outflow) from financing activities		<u>1,164,959</u>	<u>(901,661)</u>
Net increase/(decrease) in cash and cash equivalents		243,758	(1,785,147)
Cash and cash equivalents at the beginning of the year		<u>401,687</u>	<u>2,186,834</u>
Cash and cash equivalents at the end of the year	9	<u>645,445</u>	<u>401,687</u>
Non-cash financing activities	12(b)		

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

Notes to the financial statements

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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 Securities Exchange ("ASX") on 10 July 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 2012 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001 and ASX listing rules.

The principal activities of the Fund during the financial year was to invest into the Aurora Fortitude Absolute Return Fund (the 'Master Fund').

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 may make 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 (continued)

(b) Financial instruments (continued)

(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 unitholders' 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 fair 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 unitholders 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.

(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.

2 Summary of significant accounting policies (continued)

(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.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

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 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 unitholders are presently entitled to the income of the Fund.

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

(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 and for equities 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.

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.

2 Summary of significant accounting policies (continued)

(q) Use of estimates (continued)

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) 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 of the responsible entity.

(t) Comparative figures

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

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 program 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 may use 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 invests directly into the unlisted Aurora Fortitude Absolute Return Fund (ARSN 145 894 800, APIR Code: AFM0005AU, the "Master Fund").

The Master Fund aims to achieve absolute returns (i.e. positive returns in both rising and falling equity markets) by using a number of different investment strategies that allow the Master Fund to have very little correlation to the stock market index. The focus on 'absolute returns' differs from traditional funds in that the Master Fund aims to produce returns regardless of equity market conditions.

Once an investment decision is made, the implementation of the trade is conducted in parallel with an active focus on risk management. Risk management techniques are employed at the position level, the strategy level and the overall portfolio level.

The Fund is exposed to equity securities and derivative securities price risk through investments made with the underlying fund. This arises from investments which were held by the Master 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.

A sensitivity analysis of 10 per cent has been selected as this is considered reasonable given the current level of market price fluctuation. A 10 per cent increase in market price would increase the market value of the total portfolio at 30 June 2012 by \$420,084 (2011 - \$145,760). A 10 per cent decrease in market price would decrease the market value of the total portfolio by \$420,084 (2011 - \$117,703).

(ii) Foreign exchange risk

The Fund has no direct exposure to foreign exchange risk.

(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, therefore no sensitivity analysis on valuations has been performed. If interest rates had been 1 per cent higher or lower based on year end balance, interest earned would be \$6,454 (2011 - \$4,017) higher or lower. A similar analysis on interest expense would have changed interest expense by plus or minus \$nil (2011 - \$nil) for the reporting period.

3 Financial risk management (continued)

(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 (credit rating A), 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 was no overdraft position as at 30 June 2012.

Certain assets of the Fund will be held by the Custodian in segregated accounts together with assets deposited by it on behalf of other customers of the Custodian or Prime Broker. Such assets will not be mixed with the property of the Custodian or the Prime Broker and should not be available to third party creditors of the Custodian or Prime Broker in the event of insolvency of the Custodian or Prime Broker (as the case may be). However, the assets of the Fund held by a Custodian will be subject to a charge to secure the Fund's obligations to the Prime Broker.

The Fund invests directly into the unlisted Aurora Fortitude Absolute Return Fund (ARSN 145 894 800, APIR Code: AFM0005AU, the "Master Fund").

(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 value of the derivatives failing to move in line with the underlying asset, potential illiquidity of, or inability to get set in, the derivative, the Master 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 Master 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 A 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.

3 Financial risk management (continued)

(b) Credit risk (continued)

An analysis of exposures by rating is set out in the table below:

Cash at Bank and short term bank deposits	Year ended	
	30 June 2012	30 June 2011
Rating	\$	\$
A	637,896	368,973
AA	<u>7,549</u>	<u>32,714</u>
Total	<u>645,445</u>	<u>401,687</u>

(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.

(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 monthly 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.

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 21 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.

3 Financial risk management (continued)

(c) Liquidity risk (continued)

As at 30 June 2012	Less than 1 month	1-6 months	6-12 months	1-2 years	Total
	\$	\$	\$	\$	\$
Liabilities					
Distributions payable	162,083	-	-	-	162,083
Payables	-	1,816	-	-	1,816
Net assets attributable to unit holders	7,682,242	1,816	-	-	7,684,058
Contractual cash flows (excluding gross settled derivatives)	7,844,325	-	-	-	7,844,325
At 30 June 2011					
Liabilities					
Distributions payable	126,801	-	-	-	126,801
Payables	5,278	-	-	-	5,278
Net assets attributable to unit holders	6,196,629	-	-	-	6,196,629
Contractual cash flows (excluding gross settled derivatives)	6,328,708	-	-	-	6,328,708

(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.

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.

3 Financial risk management (continued)

(e) Fair value hierarchy

(i) 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). 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 designated at fair value through profit or loss:				
Unlisted unit trusts	-	4,200,847	-	4,200,847
Total	-	4,200,847	-	4,200,847
As at 30 June 2011	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets				
Financial assets designated at fair value through profit or loss:				
Unlisted unit trusts	-	5,887,849	-	5,887,849
Total	-	5,887,849	-	5,887,849

4 Other operating expenses

	Year ended	
	30 June 2012 \$	30 June 2011 \$
Bank, prime broker and brokerage charges	209	1,764
Other expenses	5	2,480
	<u>214</u>	<u>4,244</u>

5 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 of the Fund:

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

6 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	(41,683)	239,965
Net unrealised gain/(loss) on financial assets at fair value through profit or loss	(57,135)	455,241
Total net gains/(losses) on financial instruments held at fair value through profit or loss	(98,818)	695,206

7 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 - 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	1,801	-	2,000	-
Redemptions	(25,563)	(78,433)	(28,608)	(85,571)
Units issued upon reinvestment of distributions	124,691	127,733	137,835	141,149
Units (purchased) and sold by Fund	1,599,941	(610,290)	1,544,615	(441,561)
Increase/(decrease) in net assets attributable to unit holders			(170,229)	314,807
Closing balance - excluding treasury units	7,088,187	5,387,317	7,682,242	6,196,629
Treasury units	108,748	408,689		
Closing balance - including treasury units	7,196,935	5,796,006		

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.

7 Net assets attributable to unitholders (continued)

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.

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.

8 Distributions to unit holders

The distributions for the year were as follows:

	Year ended			
	30 June 2012		30 June 2011	
	\$	CPU	\$	CPU
Distributions paid	370,704	6.65	354,824	7.10
Distribution payable	<u>155,461</u>	2.22	<u>126,801</u>	2.27
Total distributions	<u>526,165</u>		<u>481,625</u>	

9 Cash & cash equivalents

	As at	
	30 June 2012	30 June 2011
	\$	\$
Cash at bank	<u>645,445</u>	<u>401,687</u>
Total	<u>645,445</u>	<u>401,687</u>

10 Financial assets held at fair value through profit or loss

	As at	
	30 June 2012	30 June 2011
	Fair value	Fair value
	\$	\$
Designated at fair value through profit or loss		
Unlisted unit trusts	4,200,847	5,887,849
Total designated at fair value through profit or loss	4,200,847	5,887,849
Total financial assets held at fair value through profit or loss	4,200,847	5,887,849
Comprising:		
Unlisted unit trusts		
Units in Australian trusts	4,200,847	5,887,849
Total unit trusts	4,200,847	5,887,849
Total financial assets held at fair value through profit or loss	4,200,847	5,887,849

11 Related party transactions

Responsible entity

The responsible entity of Aurora 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
 Steuart Roe

(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.

11 Related party transactions (continued)

Related party unit holdings

There were no direct or indirect interest of the Fund held by the Responsible Entity or its associates or by Directors during the year or prior year.

Investments in Funds that are related parties

The Fund held 5.24% of Aurora Fortitude Absolute Return Fund at 30 June 2012 (2011 - 12.85%). Both the Fund and Aurora Fortitude Absolute Return Fund have the same responsible entity.

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

For the year ended 30 June 2012, in accordance with the Fund Constitution, the Management fee payable to the investment manager is 1.23% (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 \$nil (2011 - \$47,164).

For the year ended 30 June 2012, in accordance with the Fund Constitution, the responsible entity received a total fee of 0.3075% (inclusive of GST, net of RITC) per annum of expense recovery, which totalled \$nil (2011 - \$nil) for the year.

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 Fund to the responsible entity / Investment Manager	-	47,164

12 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	(170,229)	314,807
Distributions to unit holders	526,165	481,625
Proceeds from sale of financial instruments held at fair value through profit or loss	175,144	12,141,752
Purchase of financial instruments held at fair value through profit or loss	(1,500,260)	(13,065,288)
Net (gains)/losses on financial instruments held at fair value through profit or loss	98,818	(695,206)
Net change in receivables	(47,377)	(8,935)
Net change in payables	(3,462)	(52,241)
Net cash inflow/(outflow) from operating activities	(921,201)	(883,486)
(b) Non-cash financing activities		
During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan	137,835	141,149

As described in note 2(j), income not distributed is included in net assets attributable to unitholders. The change in this amount each year (as reported in (a) above) represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable.

13 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.

14 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 8 to 27 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.



Stewart Roe

Director

Date: 20 September 2012

Corporate Governance Statement

Corporate Structure

The Aurora Absolute Return Fund (the "Fund") is a registered Managed investment scheme under the Corporations Act 2001, and Aurora Funds Management Limited ("Aurora") is the Responsible Entity of the Fund.

A Responsible Entity (the "RE") of a scheme must perform the duties detailed in the Constitution of the Fund and those regulated by the Corporations Act. The duties of the RE include, amongst other things:

- Acting honestly
- Exercising a duty of care and diligence
- Act in the best interest of unit holders
- Treat unit holders equally where they hold the same class
- Treat unit holders fairly where they hold different classes
- Make sure the Fund property is valued at regular intervals
- Ensure that all payments from the Fund are in accordance with the Constitution
- Report any breaches that may have a material adverse impact on the interests of unit holders
- Make sure that information acquired through being the RE is not used to gain advantage for the RE or used to harm the interests of unit holders.

The Board

The Board of Aurora Funds Management Limited is responsible for ensuring that the best corporate governance standards are applied. The names of the directors are set out in the Director's Report above. None of the directors are independent as all have an equity interest, either directly or indirectly, in the shares of Aurora. These directors each have a number of years of experience in the Funds management industry, the duties of the RE and in the Fund. The independence obligations of the Board are fulfilled by the Compliance Committee, which is detailed below.

The RE has an established code of conduct which covers Directors and staff, and is available at Aurora's website at www.aurorafunds.com.au. This code of conduct, together with the Compliance Committee Charter, also covers Aurora's compliance with legal obligations and the interest of other stakeholders.

In addition, the RE operates the Fund as a scheme under the Corporations Act and therefore the RE must comply with the Compliance Plan lodged with ASIC prior to units in the Fund being issued. The Corporate Governance of the Fund is regulated by the Compliance Committee, which must have a majority of independent members. The Compliance Committee operate under a Compliance Committee charter, and is responsible for monitoring the RE's compliance with the Compliance Plan and reporting any breaches to the Board of the RE and ASIC. It is also responsible for reviewing the operations on the RE.

The Compliance Committee

The Compliance Committee for the RE comprises:

- Mr Richard Matthews
- Mr David Lewis (external)
- Mr Mark Hancock (external)

Mr David Lewis is a qualified actuary and has over 39 years experience in financial services, predominantly in administration and consulting to Fund management companies. David serves on the compliance committees of a number of Responsible Entities.

Mr Mark Hancock is a qualified actuary and has over 27 years experience in the securities and funds management industry. Mark has significant applied research experience in Australian Equity markets accumulated from a variety of roles over a period of some 19 years. He was previously an equity portfolio manager with NRMA and MMI Insurance.

The external members of the Compliance Committee are nominated and remunerated by the RE. The committee is convened and serviced by Aurora's COO, Richard Matthews. The Compliance Committee Charter is available at Aurora's website www.aurorafunds.com.au.

The Chair of the Compliance Committee rotates amongst the three members. Meetings are held quarterly and all members have access

- to the books and records and any other relevant information on the Fund and the RE, including all the staff of the RE
- The auditors of the RE
- The auditors of the Fund and
- The auditor of the Compliance Plan

Financial Reporting

The auditor of the Compliance Plan must be different from the auditor of the RE and the Fund and both report independently to the Compliance Committee. The CEO and COO provide written sign off to the board and the compliance committee on the veracity of the financial reporting systems and the risk management procedures outlined below.

The RE Board reviews the results of the of the external audit process of the Fund and the Compliance Plan to ensure:

- That the Compliance Plan and Fund auditor are appropriately qualified, and legally eligible to act at all times
- That the terms of their appointment are appropriate and accord with the Corporations Act
- That the auditors have access to all relevant information as required
- That the auditors conduct all enquiries and provide all reports as required by the Corporations Act

The external auditors are invited to attend board and compliance meetings where financial reports and compliance plan audits are discussed.

Public Disclosure

The Board believes that market sensitive information should be released as quickly as possible and has policies in place to ensure that the Fund meets its disclosure obligations under the ASX Listing Rules.

Rights of Unit holders

The Constitution of the Fund and the Corporations Act governs the rights of unit holders, including their rights to the income and assets of the Fund. The RE is not required to hold an annual general meeting of unit holders, however a meeting may be called by unit holders with at least 5% of the votes that may be cast on a resolution or by 100 unit holders who are entitled to vote.

The RE runs an extensive website that provides all publically available information to unit holders that ensures compliance with the general principles of "good reporting" and compliance with our statutory obligations, under Corporations Act, ASIC, and ASX regulations.

Risk Management and Oversight

The RE manages risks in the Fund through the following methods:

- Appointment of an appropriately qualified external asset manager, reviewed quarterly
- Appointment of appropriately qualified service providers, such as registry, administration and custody
- Compliance with all of ASIC's and ASX's policies and guidelines
- Recording and reporting complaints by unit holders

The Compliance Committee meets to review all external service providers on a quarterly basis. The board of the RE reviews the management contracts of external managers and investment advisers, which are publically available contracts. Key terms are disclosed in the current Product Disclosure Statement which is available at www.aurorafunds.com.au, as well as summarised in this Annual Report.

Corporate Governance Practices of Aurora and the Fund

The Fund and Aurora have complied with all the Corporate Governance Principles as at 30 June 2012, except where stated below.

Recommendation 8.1: Process for the performance evaluation of the board and compliance committee members
Aurora does not have a formal process to evaluate the performance of board or compliance committee members. All executive directors and staff are required to complete a minimum amount of continuing professional development each year, which is reviewed by the board each year.

Unit holder Information

The following unit holder information set out below was applicable as at 30 June 2012

Distribution of holdings	Number of unit holders
1 - 1,000	45
1,001 - 5,000	185
5,001 - 10,000	129
10,001 - 100,000	163
100,001 and over	8
Total	<hr/> 530

Top 20 Unit holders

The names of the largest twenty unit holders in the Fund as at 30 June 2012 are listed below:

Name	Number held	Percentage of total
MR MICHAEL RIGONI	591,600	8.220
UBS NOMINEES PTY LTD	224,460	3.119
MR MICHAEL EDWARD SEXTON & MRS KATHERINE MARY SEXTON <SEPTIMUS SUPER FUND A/C>	130,800	1.817
HSBC CUSTODY NOMS ACF OASIS <GAC MCLLELAND PTY LTD A/C>	130,500	1.813
HSBC CUSTODY NOMS ACF OASIS <D & S LYON PTY LTD A/C>	126,300	1.755
MOANAKALA (AUST) PTY LTD	120,000	1.667
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD A/C>	116,200	1.615
BRADMA FINANCE BVI LIMITED	106,168	1.475
MR PETER ROSS CALLAWAY	100,000	1.389
E-TECH CAPITAL PTY LTD <ASF SUPER FUND A/C>	100,000	1.389
IDAMENEO (NO 79) NOMINEES PTY LIMITED	100,000	1.389
MR ROBERT JOHN WILSON <WILSON PSHIP A LTD PSHIP A/C>	90,000	1.251
MARPEK PTY LTD <MARION SUPERANNUATION A/C>	73,168	1.017
BT PORTFOLIO SERVICES LIMITED <M L RILEY SUPER FUND A/C>	71,000	0.987
GALCO INVESTMENTS PTY LTD <BRIAN DAVID SEXTON FAM A/C>	70,800	0.984
BT PORTFOLIO SERVICES LIMITED <EBSARY FAMILY S/F A/C>	62,500	0.868
AVANTEOS INVESTMENTS LTD <GREECE FAM SUPER FUND A/C> A/C>	60,000	0.834
BT PORTFOLIO SERVICES LIMITED <JONATHAN CHARLES GRAY A/C>	56,334	0.783
	56,070	0.779
Total	2,485,900	34.540

This information is summarised from registry information received by the Responsible Entity.



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

Report on the financial report

We have audited the accompanying financial report of Aurora 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*.

PricewaterhouseCoopers, ABN 52 780 433 757
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Auditor's opinion

In our opinion:

- (a) the financial report of Aurora 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', written in a cursive style.

Joe Sheeran
Partner

Sydney
20 September 2012