

Aurora Fortitude Absolute Return Fund
ARSN 145 894 800

Annual Report
For the year ended 30 June 2019

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Director's Report

The directors of Aurora Funds Management Limited ("AFML") (ABN 69 092 626 885), in its capacity as the responsible entity of the Aurora Fortitude Absolute Return Fund ("the Fund"), present their annual report together with the financial statements of the Fund for the year ended 30 June 2019.

Principal activities

The Fund invests in accordance with the provisions of the Fund Constitution the current Product Disclosure Statement ("PDS") and Fund updates. The Fund primarily invests in Australian listed equities and exchange traded derivatives.

The Fund did not have any employees during the year.

There were no significant changes in the nature of the Fund's activities during the year.

Directors

The following persons held office as directors of Aurora Funds Management Limited during the year and up to the date of this report, unless otherwise stated:

John Patton
Victor Siciliano
Anthony Hartnell AM

Units on issue

	2019	2018
At 30 June	19,991,128	18,371,738

Review and results of operations

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

Financial results for the year

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

	2019 \$	2018 \$
Operating loss before finance costs attributable to unitholders	(1,159,628)	(4,693,382)
Distributions paid and payable to A-Class Unitholders	(118,431)	(422,729)
Distributions paid and payable to B-Class Unitholders	(5,500,000)	-
Distribution (cents per unit) 30 September	0.17	0.62
Distribution (cents per unit) 31 December	0.16	0.62
Distribution (cents per unit) 31 March	0.15	0.60
Distribution (cents per unit) 30 June	0.14	0.28

Director's Report

Reconciliation of net assets for unit pricing and financial reporting purposes

The key differences between net assets for unit pricing purposes and net assets as reported in the financial statements prepared under Accounting Australian Standards are outlined below:

	2019 \$	2018 \$
Net assets for unit pricing purposes	5,696,272	6,297,487
Difference between net assets for unit pricing purposes and bid/ask price held at fair value through profit or loss	-	-
Distribution payable	(54,961)	(51,642)
Other adjustments	-	-
Nets assets under Australian Accounting Standards	5,641,311	6,245,845

Information on Underlying Performance

The performance of the Fund is subject to the performance of the Fund's underlying investment portfolio. There has been no change to the investment strategy of the Fund during the year, and the Fund continues 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 and any fund updates.

Strategy and Future Outlook

The Fund is predominantly invested in listed equities, with a focus on Australian equity securities. This is expected to continue. As markets are subject to fluctuations, it is imprudent to provide a detailed outlook statement or statement of expected results of operations.

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

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

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

Significant changes in state of affairs

Creation of a Separate Unit Class

On 9 November 2018 a separate class offering was issued in order to pursue a special purpose investment opportunity. 5,680,000 B-Class units were issued for consideration of \$1.00 per unit.

Director's Report

Significant changes in state of affairs (continued)

RNY Property Trust (ASX: RNY)

As at 30 June 2019, the combined ownership of the units in RNY by entities for which AFML is the Responsible Entity is 80.96%. The Fund owns 1.58% of the units in RNY.

Over the last eighteen months AFML, in its capacity as the Investment Manager of RNY, has been actively working to value from its investment in RNY by negotiating with the US lender of the underlying five (5) US commercial properties held RNY, working with the property sub-manager to attract new tenants and working with various stakeholders to improve the properties.

On 8 February 2019, AFML successfully extended the senior loan with ACORE for a further one year term. CBRE have replaced Winthrop as property sub-manager of the properties.

For the year ended 30 June 2019, the Trust has adopted significant judgements and estimates to calculate the fair value of this investment. The key sources of estimation uncertainty and fair value measurement in relation to RNY are outlined in Notes 4 and 7.

Molopo Energy Limited

The Fund holds an investment in Molopo Energy Limited (ASX: MPO). For the year ended 30 June 2019, the Fund has adopted significant judgements and estimates as to the fair value of this investment. The key sources of estimation uncertainty and fair value measurement in relation to MPO are outlined in Notes 4 and 7.

Product Disclosure Statement

On 27 April 2017, the Fund's Product Disclosure Statement (PDS) was withdrawn for new off-market retail applications. The PDS is currently being updated and the Fund will re-commence accepting off-market retail applications once the PDS has been lodged with Australian Securities and Investments Commission.

In the opinion of the Directors, other than the matters already referred to in this report, 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

At 30 June 2019 the Fund has valued its investment in 8IP Emerging Companies Limited ("8EC") at \$0.765 per share. On 21 August 2019 the Fund received an initial Capital Distribution of \$0.52 per 8EC share. On 22 August 2019 the Fund sold its remaining holding in 8EC.

Other than the changes mentioned above, no other matters or circumstances have arisen since 30 June 2019 that have 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 future financial years.

Director's Report

Indemnity and insurance of Aurora Funds Management Limited

No insurance premiums have been paid for out of the assets of the Fund in relation 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.

Cost recovery and interests held in the Fund by the Responsible Entity or its associates

Costs recovered by the Responsible Entity and its associates out of Fund property during the year are disclosed in the Statement of Profit or Loss and Other Comprehensive Income.

No fees were paid out of Fund property to the Directors of the Responsible Entity during the year.

The number of units in the Fund held by the Responsible Entity or its associates at the end of the financial year are disclosed in Note 15 to the financial statements.

Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in Note 11 of the financial statements.

The values of the Fund's assets and liabilities are disclosed on the Statement of Financial Position and derived using the basis set out in Note 8 to Note 10 of 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.

Director's Report

Information on directors

The following persons were Directors of the Responsible Entity during the whole or part of the year and up to the date of this report.

Name:	John Patton
Title:	Managing Director
Qualifications:	Bachelor of Economics (Accounting), Chartered Accountant, Graduate Diploma in Applied Finance and Investment
Experience and expertise:	John was appointed as Managing Director of Aurora Funds Management Limited on 30 June 2016. John was previously a partner with Ernst & Young in the Transactions Advisory Services division and has over 25 years of professional services and industry experience. John has extensive corporate finance credentials, having been involved in over 250 corporate transactions, including mergers & acquisitions, structuring, debt & equity raisings, IPO's, management buy-outs, valuations, due diligence, financial modelling, restructuring and corporate advisory.
Other current directorships:	Keybridge Capital Limited; Metgasco Ltd
Former directorships (in the last 3 years):	None
Special responsibilities:	Managing Director
Interests in units:	John Patton is a Director of Wairoa Nominees Pty Ltd. Wairoa Nominees Pty Ltd as trustee for Patton Family Trust holds 932,497.23 (2018: Nil) units in the Fund.

Name:	Victor Siciliano
Title:	Executive Director
Qualifications:	Bachelor of Business (Banking & Finance) and Master of Applied Finance (Investment Management) and is RG146 compliant.
Experience and expertise:	Victor was appointed as Executive Director of Aurora Funds Management Limited on 9 January 2018. Victor has over 9 years' equity market experience, most recently as portfolio manager of the HHY Fund at Keybridge Capital Limited. Prior to this, Victor was employed as an assistant portfolio manager at boutique fund manager Sterling Equity and as an investment advisor at Macquarie Group.
Other current directorships:	None
Former directorships (in the last 3 years):	None
Special responsibilities:	Investment Manager
Interests in units:	Victor Siciliano as trustee for the VS Family Trust holds 304,796.83 (2018: Nil) units in the Fund.

Director's Report

Information on directors (continued)

Name:	Anthony Hartnell AM
Title:	Non-Executive Director
Qualifications:	BEC LLB (Hons) (ANU), LLM (Highest Hons) (George Washington University)
Experience and expertise:	Anthony was appointed as Non-Executive Director of Aurora Funds Management Limited on 2 March 2018. Anthony has over 30 years of legal experience with expertise in Corporate and Commercial Law, particularly, regulatory issues, corporate financing, takeovers, trade practices and collective investments, with more recent emphasis on investigations and enforcement actions.
Other current directorships:	Molopo Energy Limited, Allegra Orthopaedics Limited and Parnell Pharmaceuticals Holdings Ltd.
Former directorships (in the last 3 years):	None
Special responsibilities:	Member of Compliance Committee, Chairman
Interests in units:	None

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorship of all other types of entities, unless otherwise stated.

Board and Committee meetings

Director

	Full Board		Compliance Committee	
	Held	Attended	Held	Attended
John Patton	17	17	4	4
Victor Siciliano	17	15	-	-
Anthony Hartnell AM	17	15	4	4

Held: represent the number of meetings held during the time the director held office.

Interests held by the Responsible Entity and Directors

The number of units in the Fund held by the Responsible Entity, their related parties and Directors at the date of this report are disclosed in Note 15 to the financial statements.

Proceedings on behalf of the Company

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.

Director's Report

Auditor's independence declaration

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

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

On behalf of the directors

A handwritten signature in black ink, appearing to read 'John Patton', with a stylized, flowing script.

John Patton
Managing Director
30 September 2019
Melbourne

Auditor's Independence Declaration

To the Directors of Aurora Funds Management Limited as the Responsible Entity of
Aurora Fortitude Absolute Return Fund

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of Aurora Fortitude Absolute Return Fund for the year ended 30 June 2019, 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.



Grant Thornton Audit Pty Ltd
Chartered Accountants



B A Mackenzie
Partner – Audit & Assurance

Melbourne, 30 September 2019

Financial Statement

Statement of profit or loss and other comprehensive income For the year ended 30 June 2019

	Note	2019 \$	2018 \$
Investment income			
Interest income		284,119	2,998
Loan establishment fees recharged		166,279	-
Dividend and distribution income		305,127	379,844
Net gains/(Losses) on foreign exchange		(3,942)	-
Net gains/(Losses) on financial instruments held at fair value through profit or loss		(1,072,557)	(4,181,228)
Other operating income		27,320	-
Total net investment income/(loss)		(293,654)	(3,798,386)
Expenses			
Management Fees	15	49,421	112,769
Recoverable costs of Responsible Entity	15	125,119	67,773
Recovery expenses	15	82,726	243,391
Administration costs		1,236	1,382
Other operating expenses	13	18,015	590
Legal costs		226,159	462,193
Interest expense		197,019	2,461
Loan establishment fees		166,279	-
Dividend expense		-	4,437
Total operating expenses		865,974	894,996
Operating profit/(loss) for the year		(1,159,628)	(4,693,382)
Finance costs attributable to unitholders			
Distributions to unitholders	12	(5,618,431)	(422,729)
Increase in net assets attributable to unitholders	11	6,778,059	5,116,111
Profit/(loss) for the year		-	-
Other comprehensive income for the year		-	-
Total comprehensive income for the year		-	-

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

Financial Statement

Statement of financial position As at 30 June 2019

	Note	2019 \$	2018 \$
Assets			
Cash and cash equivalents	8	4,636	904
Dividends receivable		17,652	49,252
Loans receivable	9	2,032,961	-
Interest receivable		274,060	-
Loan establishment fee receivable		166,279	-
Other receivables		10,776	196,663
Due from brokers - receipts for securities sold		-	22,030
Financial assets held at fair value through profit or loss	10	3,242,363	6,075,153
Total assets		5,748,727	6,344,002
Liabilities			
Distributions payable	12	54,961	51,643
Due to brokers - payable for securities purchased		-	20,016
Other payables		52,455	26,498
Total liabilities (excluding net assets attributable to unitholders)		107,416	98,157
Net assets attributable to unitholders – liability	11	5,641,311	6,245,845
Liabilities attributable to unitholders		(5,641,311)	(6,245,845)
Net assets		-	-

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

Financial Statement

Statement of changes in equity For the year ended 30 June 2019

	Note	2019 \$	2018 \$
Balance at the beginning of the financial year			
Profit/(loss) for the year		-	-
Other comprehensive income		-	-
Total comprehensive income		-	-
Transactions with unitholders in their capacity as unitholders		-	-
Total equity at the end of the financial year		-	-

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

Financial Statement

Statement of cash flows For the year ended 30 June 2019

	Note	2019 \$	2018 \$
Cash flows from operating activities			
Proceeds from sale of financial instruments held at fair value through profit or loss		20,388,969	9,473,799
Payments for purchases of financial instruments held at fair value through profit or loss		(18,628,630)	(6,385,259)
Loans advanced		(2,036,973)	-
Loans received		-	-
Transaction costs on sale and purchase of financial instruments		(1,237)	(1,382)
Dividends and distributions received		306,403	439,946
Interest received		10,166	2,962
Insurance proceeds received		196,626	-
Other income		27,320	(4,437)
Interest paid		(197,020)	45,737
Management fees, recoverable costs of the Responsible Entity and recovery costs paid		(267,729)	(447,590)
GST received/(paid)		53,687	552
Loan establishment fee paid		(178,750)	-
Other operating expenses paid		(227,513)	(637,201)
Net cash inflow/(outflow) from operating activities	16(a)	(554,681)	2,487,127
Cash flows from financing activities			
Proceeds from applications by unitholders		6,173,525	31,790
Payments for redemptions by unitholders		-	(2,598,078)
Distributions paid		(5,615,112)	(534,949)
Net cash inflow/(outflow) from financing activities		558,413	(3,101,237)
Net increase/(decrease) in cash and cash equivalents		3,732	(614,110)
Cash and cash equivalents at the beginning of the year		904	615,014
Cash and cash equivalents at the end of the year	8	4,636	904
Non-cash financing activities	16(b)	8,890	31,790

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

Notes to Financial Statements

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Notes to Financial Statements

Note 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 Suite 613, Level 6, 370 St Kilda Road, Melbourne VIC 3004. The financial statements are presented in Australian currency.

It is recommended that these financial statements are considered together with the current PDS 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 2019 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

The principal activities of the Fund during the financial year were managing its investment strategy in accordance with the provision of the Fund Constitution, the Product Disclosure Statement and Fund updates.

The financial statements were authorised for issue by the directors of the Responsible Entity as at the date of the directors' report. The Directors of the Responsible Entity have the power to amend and reissue the financial statements.

Note 2. Adoption of new and revised Accounting Standards

New, revised or amending Accounting Standards and Interpretations adopted

The Fund has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The Fund applies, for the first time, AASB 15 Revenue from Contracts with Customers and AASB 9 Financial Instruments (2014). AASB 15 establishes a new revenue recognition model and changes the basis for determining whether revenue is to be recognised over time or at a point in time. This standard has had no material impact on the Fund's revenue recognition. AASB 9 introduces new classification and measurement requirements for financial assets, a forward-looking impairment model and revised hedge accounting requirements. The Fund's only material financial assets are its loans receivable, equity investments and its derivatives financial instruments. The equity investments and derivatives continue to be accounted for at fair value through profit or loss under AASB 9. Accordingly, the first-time application of AASB 9 to its equity investments and derivatives has not had a material impact on the Fund.

The Fund's loans receivable consists of loans to RNY Australia Operating Company LLC. In calculating ECLs for these loans, the Fund applies the low credit risk simplification. At every reporting date, the Fund evaluates whether the loans are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort.

Note 3. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Notes to Financial Statements

Note 3. Significant accounting policies (continued)

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

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

The Statement of Financial Position 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.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

Receivables

The Fund recognizes an allowance for Expected Credit Losses (ECLs) for all receivables not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Fund expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

Loan receivables are measured initially at fair value plus transaction costs and subsequently amortised using the effective interest rate method, less expected credit losses (ECLs) if any. For loan receivables, the Fund applies the low credit risk simplification. At every reporting date, the Fund evaluates whether the loan receivable is considered to have a low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Fund reassesses the internal credit rating of the loan receivable. In addition, the Fund considers that there has been a significant increase in credit risk when the contractual payments are more than 30 days overdue.

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 two business days. For amounts due from brokers, the Fund applies a simplified approach in calculating Expected Credit Losses (ECLs). Therefore, the Fund does not track changes in credit risk, but instead recognizes a loss allowance based at each reporting date.

Notes to Financial Statements

Note 3. Significant accounting policies (continued)

Payables

All expenses, including Responsible Entity's fees are recognised in the Statement of Profit or Loss and Other Comprehensive Income on an accrual basis. Unpaid amounts are recognised in the Statement of Financial Position as other payables.

Investment income

Interest income is recognised in profit or loss for all financial instruments that are not held at fair value through profit or loss using the effective interest method. Interest income on assets held at fair value through profit or loss is included in the net gains/(losses) on financial instruments. Other changes in fair value for such instruments are recorded in accordance with the policies described in Note 6.

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 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, transaction costs and all other premiums or discounts when it is probable that the economic benefit will flow to the Fund and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Dividend income is recognised on the ex-dividend date, inclusive of any related foreign withholding tax. The Fund currently incurs withholding tax imposed by certain countries on investment income. Such income is recorded net of withholding tax in the Statement of Profit or Loss and Other Comprehensive Income.

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.

Expenses

All expenses, including Responsible Entity's fees are recognised in the Statement of Profit or Loss and Other Comprehensive Income on an accrual basis.

Goods and Services Tax ('GST')

The GST incurred on the costs of various services provided to the Fund by third parties, have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits (RITCs) at a rate of 55% or 75%; hence management fees and other expenses have been recognised in the Statement of Profit or Loss and Other Comprehensive Income 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 Statement of Financial Position. Cash flows relating to GST are included in the statement of cash flows on a gross basis.

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 benefit of imputation credits and foreign tax paid is passed on to unitholders.

Notes to Financial Statements

Note 3. Significant accounting policies (continued)

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 funds 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 the Statement of Profit or Loss and Other Comprehensive Income.

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

Note 4. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements require management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Key sources of estimation uncertainty

1. Molopo Energy Limited (ASX: MPO)

As at 30 June 2019, the Fund held an investment in the ordinary shares of MPO, which was suspended from trading on the Australian Stock Exchange on 27 July 2017 and remains suspended as at the date of this report.

As previously advised, Aurora considers that the actions of the former Molopo directors have substantially and adversely affected the value of Molopo's assets. As such, Aurora has considered the carrying value of its investment in Molopo and has decided to further write the value of its investment down from 1.9 cents to 1.5 cents. The rationale for this decision is summarised below:

Notes to Financial Statements

Note 4. Critical accounting judgements, estimates and assumptions (continued)

Key sources of estimation uncertainty (continued)

1. Molopo Energy Limited (ASX: MPO) (continued)

- Based on the above, Aurora considers the appropriate carrying value of its investment in Molopo to be calculated as follows:
 - o cash reserves of \$12.3 million; less
 - o litigation provision of C\$8.6 million. In the audited Molopo financial statements for the year ended 31 December 2018 this provision was removed as a liability in the balance sheet and disclosed as a contingent liability. Given the uncertainty surrounding this liability, Aurora has not removed the liability from its valuation calculation.
 - o divided by 249,040,648 ordinary shares on issue;
 - o the total estimated value equates to a value of **1.5 cents per share**
- As more information is released by Molopo on the Drawbridge shareholding as well as the Canadian litigation, it may be appropriate for Aurora to revisit the carrying value of its Molopo investment.

In its Quarterly Activities Report at 30 June 2019, Molopo advised that it continues to vigorously pursue its claims in the Supreme Court of Victoria against the former directors of the Company. Aurora has also lodged a letter of demand with Molopo and will continue to vigorously pursue its claim to recover value that has been lost by the former directors of Molopo.

The fair value of Aurora's investment in Molopo is based on significant estimates and judgements adopted by management of Aurora based on all available information about Molopo as at the date of the 30 June 2019 financial report.

2. RNY Property Trust (ASX: RNY)

The Directors have determined to carry the Fund's investment in RNY Property Trust (RNY) at \$0.044 (being 4.4 cents) per unit at 30 June 2019. In reaching this position, the Directors considered the following factors:

- RNY units are thinly traded on the ASX, and were suspended from trading on 1 April 2019 due to the failure to lodge audited financial statements for the year. Historically, RNY have traded at a discount to the underlying net asset position.
- The unaudited net asset position of RNY is \$0.049 per unit, as advised by RNY to the ASX on 27 September 2019.

Having regard to the above factors, the Directors have determined a fair value of \$0.044 per unit in RNY.

On 2 July 2018, Huntley received confirmation from ASIC that its request for a variation of its Australian Financial Services Licence had been approved, thereby enabling Huntley to become the responsible entity of RNY, replacing RAML, effective immediately. Also, as at that date, Huntley appointed Aurora Funds Management Limited as the Investment Manager of RNY.

On 31 August 2018, Aurora Funds Management Limited, in its capacity as Investment Manager of RNY, successfully executed a Loan Modification deed with RNY's US lender, ACORE Capital, effectively curing the loan default that previously existed over the five commercial properties.

On 8 February 2019, Aurora agreed a one year senior loan extension with ACORE. CBRE also replaced Winthrop as the sub-manager for the RNY properties.

Notes to Financial Statements

Note 4. Critical accounting judgements, estimates and assumptions (continued)

Key sources of estimation uncertainty (continued)

For the majority of the Fund's other financial instruments, quoted market prices are readily available. However, there may be certain financial instruments, for example, over-the-counter derivatives or unquoted securities which are fair valued using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by experienced personnel of the Responsible Entity, independent of the team that created them. For more information on how fair value is calculated please see Note 6 to the financial statements.

Note 5. Operating segments

Identification of reportable operating segments

The Fund comprised the single business segment which operates solely in the business of investment management within Australia. While the Fund operates within Australia only (the geographical segment), the Fund may have asset exposures in different countries and across different industries.

Operating segment information

As the Trust operates in a single operating segment, these financial statements represent the required financial information of that segment.

Accounting policy for operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM') which has been identified as the Board of Directors. The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Notes to Financial Statements

Note 6. Financial Instruments

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.

Financial risk management

The Fund's activities expose it to a variety of financial risks which is reflected in the Fund's net gains/losses: market risk (including price risk, currency risk and interest rate 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 maximize the returns derived for the level of risk to which the Fund is exposed. 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 interest rate, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

(a) Market risk

(i) Price risk

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 any derivatives.

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 Statement of Financial Position 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.

A sensitivity analysis was performed showing how the effect of a 10% increase and a 10% decrease in market prices would have increased/decreased the impact on operation profit/net assets attributable to unitholders as at 30 June 2019. The results of this analysis are disclosed in Note 6(b).

(ii) Foreign exchange risk

Foreign exchange risk arises as the value of monetary securities denominated in other currencies will fluctuate due to changes in exchange rates.

The Fund's exposure to the risk of changes in foreign exchange rates relates primarily to the Fund's loans to, and interest income from, RNY Australia Operating Company LLC ("RAOC") which are denominated in \$USD. Refer to Note 9 for further information on the loans receivable from RAOC.

Notes to Financial Statements

Note 6. Financial Instruments (continued)

(a) Market risk (continued)

(ii) Foreign exchange risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in USD exchange rates, with all other variables held constant.

	Impact on operating profit/net assets attributable to unitholders	
	-5%	5%
	\$	\$
30 June 2019	(17,698)	17,698
30 June 2018	-	-

(iii) Interest rate risk

The Fund is exposed to interest rate risk on financial instruments with variable interest rates.

The Fund's interest-bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The risk is measured using sensitivity analysis. The only financial assets held by the Fund subject to interest rate risk are cash and cash equivalents.

The Fund has direct exposure to interest rate changes on the valuation and cash flows of its interest-bearing assets and liabilities. However, it may also be indirectly affected by the impact of interest rate changes on the earnings of certain companies in which the Fund invests and impact on the valuation of certain assets that use interest rates as input in their valuation model. Therefore, the sensitivity analysis may not fully indicate the total effect on the Fund's net assets attributable to unitholders of future movements in interest rates.

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 rates referenced to RBA cash rate.

A sensitivity analysis was performed showing how the effect of a 100 basis point increase and a 100 basis point decrease in interest rates on cash and cash equivalents would have increased/decreased the impact on operating profit/net assets attributable to unitholders as at 30 June 2019. The results of this analysis are disclosed in Note 6(b).

Notes to Financial Statements

Note 6. Financial Instruments (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

The table below summarises the Fund's exposure to interest rate risks. It includes the Fund's assets and liabilities at fair value, categorised by the earlier of contractual repricing or maturity dates.

	Floating interest rate	Fixed interest rate	Non interest bearing	Total
30 June 2019				
Financial assets	AUD	AUD	AUD	AUD
Cash and cash equivalents	4,636	-	-	4,636
Dividends receivable	-	-	17,652	17,652
Loans receivable		2,032,961		2,032,961
Interest receivable			274,060	274,060
Loan establishment fee receivable			166,279	166,279
Other receivables	-	-	10,776	10,776
Due from brokers - receipts for securities sold			-	-
Financial assets held at fair value through profit or loss	-	-	3,242,363	3,242,363
Financial liabilities				
Distribution payable	-	-	(54,961)	(54,961)
Due to brokers - receipts for securities bought	-	-	-	-
Financial liabilities held at fair value through profit or loss	-	-	(52,455)	(52,455)
Other payables	-	-	-	-
Net exposure	4,636	2,032,961	3,603,714	5,641,311

	Floating interest rate	Fixed interest rate	Non interest bearing	Total
30 June 2018				
Financial assets	AUD	AUD	AUD	AUD
Cash and cash equivalents	904	-	-	904
Dividends receivable			49,252	49,252
Loans receivable	-	-	-	-
Interest receivable	-	-	-	-
Loan establishment fee receivable	-	-	-	-
Other receivables	-	-	196,663	196,663
Due from brokers - receipts for securities sold	-	-	22,030	22,030
Financial assets held at fair value through profit or loss	-	-	6,075,153	6,075,153
Financial liabilities				
Distribution payable	-	-	(51,643)	(51,643)
Due to brokers - receipts for securities bought	-	-	(20,016)	(20,016)
Financial liabilities held at fair value through profit or loss	-	-	(26,498)	(26,498)
Other payables	-	-	-	-
Net exposure	904	-	6,244,941	6,245,845

Notes to Financial Statements

Note 6. Financial Instruments (continued)

(b) Price risk and Interest rate risk

The following table summarises the sensitivity of the Fund's operating profit and net assets attributable to unitholders to the price risk and interest rate risk. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates, foreign exchange rates and historical market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of and/or correlation between the performance of the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables should not be used to predict future variations in the risk variables.

	Price Risk		Interest Rate Risk	
	Impact on operating profit/net assets attributable to unitholders			
	unitholders			
	-10%	10%	-100 bps	+100 bps
	\$	\$	\$	\$
30 June 2019	(324,236)	324,236	(46)	46
30 June 2018	(607,515)	607,515	(9)	9

In determining the impact of an increase/decrease in net assets attributable to unitholders arising from market risk, the Responsible Entity has considered prior period and expected future movements of the portfolio information in order to determine a reasonably possible shift in assumptions.

(c) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Fund.

The main concentration of credit risk to which the Fund is exposed arises from cash and cash equivalents, amounts due from the loans receivable, and amounts due from other receivables.

Concentrations of credit risk are minimised primarily by:

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

The Fund has a prime brokerage agreement with Interactive Brokers, 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 2019 (2018: nil).

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

The Fund has a material credit risk exposure to the party from whom loans and interest are receivable (RNY Australia Operating Company LLC) at 30 June 2019.

Notes to Financial Statements

Note 6. Financial Instruments (continued)

(c) Credit risk (continued)

The Fund has a credit risk exposure to the banks (Westpac and Interactive Brokers) that hold the Fund's cash assets at 30 June 2019.

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

	2019 \$	2018 \$
Rating		
AA (Westpac Bank)	129	523
BBB (Interactive Brokers)	4,507	381
BBB (RNY Australia Operating Company LLC)	2,032,961	-
Total	2,037,597	904

(i) 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.

(ii) Cash and cash equivalents

The exposure to credit risk for cash and cash equivalents is considered low as all counterparties have a rating of BBB or higher. In accordance with the Fund's Constitution, the investment manager monitors the Fund's credit position on a daily basis, and the Board of Directors reviews it on a quarterly basis.

(iii) Loans and interest receivable

The exposure to credit risk for loans and interest receivable is considered low given the net asset position of RNY Australia Operating Company LLC.

(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.

(d) 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 was exposed to daily cash redemptions of redeemable units up until February 2016. From February 2016 to August 2016, daily applications and redemptions were suspended by the Responsible Entity. Daily cash redemptions re-commenced on 8 September 2016 until 31 December 2016. From 1 January 2017, the Responsible Entity announced that redemption will be processed on a quarterly basis, with the first redemption date being 31 March 2017.

The Fund was also exposed to daily margin calls on derivatives. It therefore primarily holds investments that are traded in an active market and can be readily disposed. However, the Fund holds an investment in Molopo Energy Limited which are to be vested in ASIC to sell over a period of 6 months. 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.

Notes to Financial Statements

Note 6. Financial Instruments (continued)

(d) Liquidity risk (continued)

The investment manager monitors liquidity on a daily basis. Compliance with the Fund's policy is reported to the Board on a monthly basis.

The table below 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.

30 June 2019	Less than 1 month	1-6 months	6-12 months	1-2 years	Total
Liabilities					
Distribution payable	54,961	-	-	-	54,961
Due to brokers - payments for securities purchased	-	-	-	-	-
Other payables	52,455	-	-	-	52,455
Net assets attributable to unitholders	-	5,641,311	-	-	5,641,311
Contractual cash flows (excluding gross settled derivatives)	107,416	5,641,311	-	-	5,748,727

(d) Liquidity risk (continued)

30 June 2018	Less than 1 month	1-6 months	6-12 months	1-2 years	Total
Liabilities					
Distribution payable	51,643	-	-	-	51,643
Due to brokers - payments for securities purchased	20,016	-	-	-	20,016
Other payables	26,498	-	-	-	26,498
Net assets attributable to unitholders	-	6,245,845	-	-	6,245,845
Contractual cash flows (excluding gross settled derivatives)	98,157	6,245,845	-	-	6,344,002

30 June 2019	Less than 1 month	1-6 months	6-12 months	1-2 years	Total
Net settled derivatives					
Australian traded options	-	-	-	-	-
Australian share price index futures	-	-	-	-	-
Australian traded warrants	-	-	-	-	-
Total net settled derivatives	-	-	-	-	-

30 June 2018	Less than 1 month	1-6 months	6-12 months	1-2 years	Total
Net settled derivatives					
Australian traded options	-	10,964	-	-	10,964
Australian share price index futures	-	-	-	-	-
Australian traded warrants	-	-	-	-	-
Total net settled derivatives	-	10,964	-	-	10,964

Notes to Financial Statements

Note 6. Financial Instruments (continued)

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Note 7. Fair value measurement

The Fund measures and recognises the following assets and liabilities at fair value on a recurring basis through profit or loss (FVTPL).

AASB 13 requires disclosure of fair value measurements by level of the following fair value hierarchy:

Fair value hierarchy

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

(i) Fair value in an active market (level 1)

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 period without any deduction for estimated future selling costs.

The Fund values its investments in accordance with the accounting policies within this note to the financial statements. 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 (level 2 and level 3)

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models, volume weighted average prices or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions.

Notes to Financial Statements

Note 7. Fair value measurement (continued)

For other pricing models, inputs are based on market data at the end of the reporting period. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions. The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Fund holds.

The following tables detail the Fund's assets and liabilities, measured or disclosed at fair value, using a three-level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

	Level 1	Level 2	Level 3	Total
30 June 2019	\$	\$	\$	\$
Financial assets				
Financial assets held for trading:				
Derivatives	-	-	-	-
Financial assets designated at fair value through profit or loss:				
Equity securities	2,581,581	-	660,782	3,242,363
Total financial assets	2,581,581	-	660,782	3,242,363
Financial liabilities				
Financial liabilities held for trading:				
Derivatives	-	-	-	-
Financial liabilities designated at fair value through profit or loss:				
Equity securities	-	-	-	-
Total financial liabilities	-	-	-	-
30 June 2018	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading:				
Derivatives	10,964	-	-	10,964
Financial assets designated at fair value through profit or loss:				
Equity securities	5,181,836	-	882,353	6,064,189
Total financial assets	5,192,800	-	882,353	6,075,153
Financial liabilities				
Financial liabilities held for trading:				
Derivatives	-	-	-	-
Financial liabilities designated at fair value through profit or loss:				
Equity securities	-	-	-	-
Total financial liabilities	-	-	-	-

Notes to Financial Statements

Note 7. Fair value measurement (continued)

The Fund's investment in Aurora Property Buy-Write Income Trust is valued at the last traded price on the ASX at 30 June 2019 (being \$1.75 per unit). Aurora notes the Net Asset Value of Aurora Property Buy-Write Income Trust at 30 June 2019 is \$6.195 per unit based on the audited financial statements of Aurora Property Buy-Write Income Trust.

Refer to Note 4 for further information on how the fair value of the Level 3 investments has been determined.

Transfers between levels

There have been no transfers between levels for the year ended 30 June 2019 (30 June 2018: two transfers). Please refer to Note 4 for relevant information.

Valuation techniques for fair value measurements

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Reconciliation of level 2 fair values

Financial assets measured using significant unobservable inputs (level 2) are shown below:

	2019 \$	2018 \$
Opening Balance	-	4,300,851
Transfers in/(out) of level 2	-	(4,300,851)
Change in value of financial asset held at fair value through profit or loss	-	-
Closing Balance	-	-

Reconciliation of level 3 fair values

Financial assets measured using significant unobservable inputs (level 3) are shown below:

	2019 \$	2018 \$
Opening Balance	882,353	-
Transfers in/(out) of level 3	-	4,300,851
Change in value of financial asset held at fair value through profit or loss	(221,571)	(3,418,498)
Closing Balance	660,782	882,353

Accounting policy for fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assume that the transaction will take place either: in the principal market; or in the absence of a principal market; in the most advantageous market.

Notes to Financial Statements

Note 7. Fair value measurement (continued)

Accounting policy for fair value measurement (continued)

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison where applicable, with external sources of data.

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

Note 8. Cash and cash equivalents

	2019 \$	2018 \$
Cash at bank	4,636	904
Total cash and cash equivalents	4,636	904

Accounting policy for cash and cash equivalents

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

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

Notes to Financial Statements

Note 9. Loans receivable

	2019 \$	2018 \$
Loans receivable from RNY Australia Operating Company LLC:		
AUD\$1,500,000 repayable on 30 days notice. Interest charged at 22% p.a. to 1 May 2019, 12% p.a. from 1 June 2019	1,500,000	-
AUD\$109,000 repayable on 30 days notice. Interest charged at 12% p.a.	109,000	
USD\$77,000 repayable on 30 days notice. Interest charged at 12% p.a.	109,635	
USD\$24,480 repayable on 30 days notice. Interest charged at 12% p.a.	34,855	-
AUD\$70,000 repayable on 30 days notice. Interest charged at 12% p.a.	70,000	-
USD\$147,118.24 repayable on 30 days notice. Interest charged at 12% p.a.	209,471	-
Total loans receivable	2,032,961	-

Note 10. Financial assets held at fair value through profit or loss

	2019 \$	2018 \$
Equity securities		
Listed Australian equity securities	3,242,363	6,064,189
Total equity securities	3,242,363	6,064,189
Derivatives		
Exchange traded options	-	10,964
Total derivatives	-	10,964
Total financial assets held at fair value through profit or loss	3,242,363	6,075,153

An overview of the risk exposure relating to financial assets held at fair value through profit or loss is included in Note 6.

Notes to Financial Statements

Note 11. Net assets attributable to unitholders

On 9 November 2018 a separate class offering was issued in order to pursue a special purpose investment opportunity. 5,680,000 B-Class units were issued for consideration of \$1.00 per unit.

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

A-Class Units	2019 No.	2018 No.	2019 \$	2018 \$
Opening balance	18,371,738	22,560,516	6,245,845	13,928,245
Applications	1,591,098	-	430,710	-
Redemptions	-	(4,262,593)	-	(2,598,078)
Units issued upon reinvestment of distributions	28,292	73,815	8,890	31,790
Increase/(decrease) in net assets attributable to unitholders	-	-	(1,790,886)	(5,116,111)
Closing balance	19,991,128	18,371,738	4,894,559	6,245,845
B-Class Units	2019 No.	2018 No.	2019 \$	2018 \$
Opening balance	-	-	-	-
Applications	5,680,000	-	5,733,925	-
Redemptions	-	-	-	-
Units issued upon reinvestment of distributions	-	-	-	-
Increase/(decrease) in net assets attributable to unitholders	-	-	(4,987,173)	-
Closing balance	5,680,000	-	746,752	-
Total Units	2019 No.	2018 No.	2019 \$	2018 \$
Opening balance	18,371,738	22,560,516	6,245,845	13,928,245
Applications	7,271,098	-	6,164,635	-
Redemptions	-	(4,262,593)	-	(2,598,078)
Units issued upon reinvestment of distributions	28,292	73,815	8,890	31,790
Increase/(decrease) in net assets attributable to unitholders	-	-	(6,778,059)	(5,116,111)
Closing balance	25,671,128	18,371,738	5,641,311	6,245,845

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.

Accounting policy for net assets attributable to unitholders

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.

Unit redemption prices are determined by reference to the net assets for the Fund, divided by the number of units on issue.

Notes to Financial Statements

Note 11. Net assets attributable to unitholders (continued)

Accounting policy for net assets attributable to unitholders (continued)

Units are redeemable at the unitholders' option; however, applications and redemptions may be suspended by the Responsible Entity if it is in the best interests of the unitholders. The units are classified as financial liabilities as the Fund is required to distribute its distributable 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 unitholders exercised their right to redeem units in the Fund.

The Fund is subject to redemption guidelines where redemption requests are processed and paid on a quarterly basis (up to a maximum of a total of 5% of the Funds Under Management ("FUM") of the Fund in the relevant quarter).

Note 12. Distribution to unitholders

The distributions for the year were as follows:

	2019 \$	2019 CPU	2018 \$	2018 CPU
Distribution to A-Class unitholders				
Distributions paid	63,470	0.48	371,086	1.84
Distributions payable	54,961	0.14	51,643	0.28
Total distributions	118,431	0.62	422,729	2.12

	2019 \$	2019 CPU	2018 \$	2018 CPU
Distribution to B-Class unitholders				
Distributions paid	5,500,000	96.83	-	-
Distributions payable	-	-	-	-
Total distributions	5,500,000	96.83	-	-

	2019 \$	2019 CPU	2018 \$	2018 CPU
Total distribution to unitholders				
Distributions paid	5,563,470	97.31	371,086	1.84
Distributions payable	54,961	0.14	51,643	0.28
Total distributions	5,618,431	97.45	422,729	2.12

Accounting policy for distribution to unitholders

The Fund distributes its distributable income in accordance with the Fund Constitution, to unitholders by cash or reinvestment. The distributions are recognised in profit or loss as finance costs attributable to unitholders. The unpaid amount is recognised in the Statement of Financial Position.

Income not distributed is included in net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognised in the Statement of Profit or Loss and Other Comprehensive Income as finance costs.

Notes to Financial Statements

Note 13. Other operating expenses

	2019 \$	2018 \$
Travel expenses	2,772	-
Write off of non-recoverable GST	7,143	-
Brokerage on futures margin account	7,989	434
Other operating expenses	111	156
Total other operating expenses	18,015	590

The Fund announced via a fund update that effective 8 August 2017, Aurora Funds Management Limited may begin charging all its normal operating expenses to the Fund in accordance with the Constitution.

Note 14. Remuneration of auditors

During the financial 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. The auditor of the Fund is Grant Thornton. The previous auditor of the Trust was Deloitte Australia. The Responsible Entity is responsible for paying this remuneration of auditor on behalf of the Fund.

	2019 \$	2018 \$
Audit and other assurance services		
Audit and review of financial statements (Deloitte Australia)	-	33,733
Audit and review of financial statements (Grant Thornton)	13,835	9,023
Audit of compliance plan (Grant Thornton)	4,692	-
Total remuneration for audit and other assurance services	18,527	42,756
Taxation services		
Tax compliance services (Grant Thornton)	4,779	2,500
Tax compliance services (Deloitte Australia)	-	53,350
Total remuneration for tax services	4,779	55,850
Total remuneration of auditors	23,306	98,606

Note 15. Related party transactions

Responsible Entity

The Responsible Entity of Aurora Fortitude Absolute Return Fund is Aurora Funds Management Limited. In the period to 30 June 2019, Aurora Funds Management Limited acquired units in Aurora Absolute Return Fund, as set out below.

Key management personnel unitholdings

As at 30 June 2019, Wairoa Nominees Pty Ltd as trustee for Patton Family Trust holds 932,497.23 (2018: Nil) units in Aurora Fortitude Absolute Return Fund. John Patton is Managing Director of Aurora Funds Management Limited.

As at 30 June 2019, Victor Siciliano as trustee for the VS Family Trust holds 304,796.83 (2018: Nil) units in Aurora Fortitude Absolute Return Fund. Victor Siciliano is Executive Director of Aurora Funds Management Limited.

Notes to Financial Statements

Note 15. Related party transactions (continued)

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.

Related party unitholdings

Aurora Funds Management Limited holds 10,259 units (30 June 2018: Nil units) in the Fund, the fair value of which is \$2,953 (30 June 2018: \$Nil). Distributions of \$4,556 (30 June 2018: \$Nil) were paid/payable by the Fund to Aurora Funds Management Limited.

Aurora Absolute Return Fund holds 8,701,218 units (30 June 2018: 8,701,218 units) in the Fund, the fair value of which is \$2,504,940 (30 June 2018: \$2,958,414). Distributions of \$4,350 (30 June 2018: \$276,030) were paid/payable by the Fund to Aurora Absolute Return Fund.

Other related party information

Aurora Corporate

Aurora Corporate Pty Ltd (formerly Seventh Orion Pty Ltd) as Trustee for the Aurora Investments Unit Trust (Aurora Corporate) owns 100% of the ordinary shares of Aurora Funds Management Limited, being the Responsible Entity of Aurora Fortitude Absolute Return Fund.

Aurora Corporate Pty Ltd (formerly Seventh Orion Pty Ltd) is 50% owned by John Patton, the Managing Director of Aurora Funds Management Limited, and 50% owned by Victor Siciliano, an Executive Director of Aurora Funds Management Limited.

Directorships

Mr John Patton was appointed to the Boards of the following listed entities held by other managed investment schemes also managed by the Responsible Entity:

- Mr Patton was appointed to the Board of Keybridge Capital Limited as a Non-Executive Director on 10 August 2016 and was subsequently appointed to the role of Executive Chairman on 13 October 2016; and
- Mr Patton was appointed to the Board of Metgasco Limited as a Non-Executive Director on 19 September 2016.

Investments

The Fund holds Nil units (30 June 2018: Nil units) in Aurora Dividend Income Trust, the fair value of which is \$Nil (30 June 2018: \$Nil). Distributions of \$Nil (30 June 2018: \$22,598) were paid/payable by the Fund to Aurora Dividend Income Trust.

The Fund holds 1,412,951 units (30 June 2018: 1,412,951 units) in Aurora Global Income Trust, the fair value of which is \$211,660 (30 June 2018: \$336,141). Distributions of \$5,652 (30 June 2018: \$52,893) were paid/payable by the Fund to Aurora Global Income Trust.

The Fund holds 454,044 units (30 June 2018: 389,044 units) in Aurora Property Buy-Write Income Trust, the fair value of which is \$794,577 (30 June 2018: \$1,341,190). Distributions of \$64,111 (30 June 2018: \$170,799) were paid/payable by the Fund to Property Buy-Write Income Trust.

Notes to Financial Statements

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

Under the terms of the Fund Constitution, the Responsible Entity is entitled to receive fees, calculated by reference to the average daily net assets (excluding net assets attributable to unitholders) of the Fund as follows:

- Management fee payable to the Responsible Entity is 1.49% (including GST) per annum;
- Performance fee of 20.50% (including GST) per annum is applied to the total excess between the Total Unit Holder Return (TUR) and the RBA Cash Rate plus 1% daily. Performance fees are payable half-yearly.

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:

	2019 \$	2018 \$
Management fees for the year paid/payable by the Fund to the Responsible Entity	49,421	112,769
Recoverable costs of Responsible Entity for the year paid/payable by the Fund to the Responsible Entity	125,119	67,773
Other expenses for the year paid/payable by the Fund to the Responsible Entity	82,726	243,391
Balance owing to the Responsible Entity at the end of the reporting period	27,693	26,266

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

Note 16. Reconciliation of profit to net cash inflow/(outflow) from operating activities

	2019 \$	2018 \$
(a) Reconciliation of (loss)/profit to net cash inflow from operating activities		
Profit/(loss) for the year	-	-
(Decrease)/increase in net assets attributable to unitholders	(6,778,059)	(5,116,111)
Distribution to unitholders	5,618,430	422,729
(Net Payments)/Proceeds from purchase or sale of financial instruments held at fair value through profit or loss	20,389,914	9,473,799
Purchase of financial instruments held at fair value through profit or loss	(18,627,666)	(6,385,259)
Net losses/(gains) on financial instruments held at fair value through profit or loss	1,072,557	4,181,228
Net change in other receivables	(2,255,813)	60,618
Net change in payables	25,957	(149,877)
Net cash inflow/(outflow) from operating activities	(554,681)	2,487,127

Notes to Financial Statements

Note 16. Reconciliation of profit to net cash inflow/(outflow) from operating activities (continued)

	2019 \$	2018 \$
(b) Non-cash financing activities		
During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan	8,890	31,790

Note 17. Events after the reporting period

At 30 June 2019 the Fund has valued its investment in 8IP Emerging Companies Limited ("8EC") at \$0.765 per share. On 21 August 2019 the Fund received an initial Capital Distribution of \$0.52 per 8EC share. On 22 August 2019 the Fund sold its remaining holding in 8EC.

Other than the above, 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 Statement of Financial Position as at 30 June 2019 or on the results and cash flows of the Fund for the year ended on that date.

Note 18. Commitments

There were no commitments for the expenditure as at 30 June 2019 (2018: Nil).

Note 19. Contingent assets and liabilities

There were no contingent assets and liabilities as at 30 June 2019 (2018: Nil).

Director's Declaration

The Directors of the Responsible Entity declare that:

- (a) In the directors' opinion, there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable;
- (b) In the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards as stated in Note 2 to the financial statements;
- (c) In the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Fund; and
- (d) The directors have been given the declarations of the Responsible Entity made pursuant to s295(5) of the *Corporations Act 2001*.

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

On behalf of the Responsible Entity, Aurora Fund Management Limited.

A handwritten signature in black ink, appearing to read 'John Patton', with a stylized, flowing script.

John Patton
Managing Director
30 September 2019

Independent Auditor's Report

To the Unitholders of Aurora Fortitude Absolute Return Fund

Report on the audit of the financial report

Opinion

We have audited the financial report of Aurora Fortitude Absolute Return Fund (the Fund), which comprises the statement of financial position as at 30 June 2019, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

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

- a Giving a true and fair view of the Fund's financial position as at 30 June 2019 and of its performance for the year ended on that date; and
- b Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

Information other than the financial report and auditor's report thereon

The Directors of the Responsible Entity (the "Directors") are responsible for the other information. The other information comprises the information included in the Fund's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.



Grant Thornton Audit Pty Ltd
Chartered Accountants



B A Mackenzie
Partner – Audit & Assurance

Melbourne, 30 September 2019