

Aurora Absolute Return Fund
ARSN 110 303 430

Annual Report
For the year ended 30 June 2017

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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 annual report together with the financial statements of the Fund for the year ended 30 June 2017.

Principal activities

The Fund invests in the unlisted Aurora Fortitude Absolute Return Fund (ARSN 145 894 800) (the "Master Fund"), in accordance with the provisions of the Fund Constitution and the current Product Disclosure Statement ("PDS").

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.

The Fund is currently listed on the Australian Security Exchange (ASX: ABW).

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
Betty Poon
Jeffrey E. Schwarz (appointed 25 July 2017)
Jim Hallam (resigned 25 July 2017)

Units on issue

	2017	2016
At 30 June	9,502,689	16,782,332

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:

	2017	2016
	\$	\$
Operating profit before finance costs attributable to unitholders	(1,258,532)	(1,181,920)
Distributions paid and payable	(363,889)	(762,741)
Distribution (cents per unit) 30 September	0.85	1.45
Distribution (cents per unit) 31 December	0.84	0.98
Distribution (cents per unit) 31 March	0.83	0.95
Distribution (cents per unit) 30 June	0.82	0.95

Financial position

Net Tangible Assets (NTA) per unit as disclosed to the ASX are shown as follows:

	2017	2016
	\$	\$
At 30 June	0.692	0.856
High during period	0.930	0.980
Low during period	0.692	0.820

Directors' 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:

	2017 \$	2016 \$
Net assets for unit pricing purposes	6,662,990	14,450,146
Distribution payable	(88,405)	(170,705)
Franking credits included in unit pricing	-	(23,057)
Nets assets under Australian Accounting Standards	6,574,585	14,256,384

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.

Strategy and Future Outlook

The Fund invests in the Master Fund and 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 provides regular updates, including monthly NTA announcements, which can be found in the announcement section of the Australian Securities Exchange website.

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 performance of investment markets in which the Mater 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

Antares Energy Limited Convertible Notes

The Fund solely invests into the Aurora Fortitude Absolute Return Fund ("AFARF"). For the financial year ended 30 June 2017, AFARF has adopted significant judgements and estimates to fair value one of its underlying investments in the convertible notes of Antares Energy Limited (ASX: AZZG). The key sources of estimation uncertainty and fair value measurement in relation to AZZG are outlined in Notes 4 and 7.

Molopo Energy Limited

As at 30 June 2017, the Responsible Entity held shares in Molopo Energy Limited (ASX: MPO) that:

- Were subject to a potential divestiture order as a result of proceedings by the Takeovers Panel (which was subsequently confirmed on 10 July 2017);
- Were suspended from trading on the ASX at 30 June 2017; and
- May potentially be subject to a subsequent takeover offer by the Fund.

a. Background: Takeovers Panel

- On 11 April 2017, the Responsible Entity ("Aurora") received applications by the Australian Securities and Investments Commission ("ASIC") and Molopo Energy Limited ("Molopo") to the Takeovers Panel ("Panel") seeking declarations of unacceptable circumstances in relation to the Fund's acquisition of shares in Molopo on the basis of an alleged association with Keybridge Capital Limited ("Keybridge") in relation to Molopo;

Directors' Report

Significant changes in state of affairs (continued)

- On 31 May 2017, the Panel announced it had conducted proceedings and published a declaration. The Panel did not find that Aurora and Keybridge were associates in relation to Molopo, however, the Panel did consider that certain circumstances in relation to Aurora and Keybridge gave rise to unacceptable circumstances;
- On 2 June 2017, the Panel received applications from Molopo and Keybridge seeking a review of the Panel's decision;
- On 14 June 2017, the Panel made orders in relation to the Molopo proceedings as follows:
 - a) 39,540,910 Molopo shares held by Aurora (being the number acquired since 30 June 2016) to be vested in ASIC to be sold over a period of 6 months, with the proceeds (net of costs) to be returned to Aurora; and
 - b) Aurora to be restricted from voting no more than 5,088,921 MPO shares at the June 2017 MPO AGM;
- The orders regarding the vesting of 39,540,910 MPO shares in ASIC were stayed in light of the review applications;
- On 16 June 2017, Aurora made an application to the Panel seeking a review of the Panel's decision on orders in the Molopo proceedings;
- On 30 June 2017, the review Panel announced it had agreed with the initial Panel that certain actions in relation to Aurora and Keybridge gave rise to unacceptable circumstances in relation to the affairs of Molopo. The review Panel also considered that Aurora and Keybridge were associates in relation to Molopo and have contravened section 606 of the Corporations Act 2001 and the substantial shareholder notice provisions;
- On 10 July 2017, the review Panel made final orders in relation to the Molopo proceedings as follows:
 - a) 39,540,910 Molopo shares held by Aurora (being the number acquired since 10 August 2016) to be vested in ASIC to be sold over a period of 6 months, with the proceeds (net of costs) to be returned to Aurora;
 - b) Aurora and its associates may not acquire any further Molopo shares during the next six months; and
 - c) Aurora must make disclosure to Australian Securities Exchange, of its relevant interest in Molopo shares and its associate with Keybridge.

The key sources of estimation uncertainty and fair value measurement in relation to MPO are outlined in Notes 4 and 7.

Liquidity Management

On 20 February 2017, the Responsible Entity announced, via an ASX announcement, a Fund update to the redemption guidelines in the Master Fund:

- Redemption requests will be considered and processed on a quarterly basis with the next redemption date schedule.
- As a general principle, the Fund will provide unitholder access to liquidity, in the form of redemptions, of up to 5% of the total funds under management ("**FUM**") in any given quarter. The Responsible Entity has reviewed Fund inflows / outflows and market peers and believes that a 5% benchmark is adequate for a Fund of this size.
- If aggregate redemptions exceed 5% of the total Fund FUM in the relevant quarter, then redemption requests will be deemed to be for a proportionately scaled back amount.
- Any unsatisfied portion of a redemption request will be carried over to the next redemption quarter(s). Unitholders will not be required to lodge a new redemption request form as the Responsible Entity will maintain a record of all redemption requests received in the prior quarter.

The next redemption date is scheduled for 30 September 2017. As at the date of this report, there are 2,895,560 units subject to redemption guidelines.

General Meeting of Unitholders

On 31 August 2016, the Responsible Entity received by email, a request from Michael Rigoni, R Stewart Pty Ltd (R Stewart Superfund A/C), and Mr Andrew Wallis and Mrs Jane Wallis (Rolvenden Super Fund A/C), together being the registered holders of more than 5% of the voting units in the Fund (requisitioning members), to convene a meeting under section 252B of the *Corporations Act 2001*. The cost associated with this general meeting was \$60,380 which was paid from the Fund.

Directors' Report

Significant changes in state of affairs (continued)

The general meeting was convened to consider resolutions to replace the Responsible Entity with Millinium Managers Limited and to wind up the Fund.

On 31 October 2016, the Responsible Entity announced the results of the general meeting of unitholders. As the resolutions were not carried, Aurora continues to act as the Responsible Entity.

Product Disclosure Statement

On 27 April 2017, the Trust's Product Disclosure Statement (PDS) was withdrawn for new off-market retail applications. The PDS is currently being updated and the Trust 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

Other than the changes mentioned above, no other matters or circumstances have arisen since 30 June 2017 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.

Indemnity and insurance of Aurora Funds Management Limited

No insurance premiums are 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.

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

Fees paid to the Responsible Entity and its associates out of Fund property during the year are disclosed in the Statement of Profit or Loss and Other Comprehensive Income as "Withdrawal fees".

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

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

Directors' Report

Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in Note 10 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 9 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.

Information about the directors

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

Name:	John Patton
Title:	Executive Director, Managing Director
Qualifications:	Bachelor of Economics, Chartered Accountant, Graduate Diploma in Applied Finance and Investment
Experience and expertise:	John was appointed as Executive Director and 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 modeling, restructuring and corporate advisory.
Other current directorships:	Keybridge Capital Limited; Metgasco Limited
Former directorships (in the last 3 years):	None
Special responsibilities:	Managing Director
Interests in units:	None
Name:	Betty Poon
Title:	Executive Director
Qualifications:	Bachelor of Business (Accounting), Chartered Accountant
Experience and expertise:	Betty was appointed Executive Director of Aurora Funds Management Limited on 7 September 2015. She joined Aurora Funds Management Limited in May 2013 as Chief Financial Officer and was appointed Company Secretary on 31 January 2014. Prior to joining Aurora, Betty held a number of senior finance roles at ANZ Banking Fund, JP Morgan, Aviva Investors and Pitcher Partners.
Other current directorships:	None
Former directorships (in the last 3 years):	None
Special responsibilities:	Member of Compliance Committee, Company Secretary
Interests in units:	None

Directors' Report

Information on directors (continued)

Name: Jeffrey E. Schwarz
Title: Non-Executive Director
Qualifications: BS Economics (Accounting), MBA Accounting and Finance
Experience and expertise: Jeffrey was appointed as Non-Executive Director of Aurora Funds Management Limited on 25 July 2017. Jeffrey was the co-founder of Metropolitan Capital Advisors, Inc., a New York-based money management firm. He served as its Chief Investment Officer from the firm's inception in 1992 until 2012. Jeffrey serves as the Co-Chairman of the Board of Bogen Corporations, a telecommunications equipment provider; and as the Co-Chairman of the Board of Bogen Communications International Inc., which is the ultimate corporate parent of Speech Design GmbH, a global provider of messaging services to telecom carriers. Jeffrey previously served as the Chairman of the Board of Molopo Energy Limited, an Australian Stock Exchange listed oil and gas exploration company and as a member of the Board of Directors of Cyberonics Inc., a NASDAQ listed medical device company

Other current directorships: Bogen Communications International Inc
Former directorships (in the last 3 years): Molopo Energy Limited
Special responsibilities: None
Interests in units: None

Name: Jim Hallam
Title: Non-Executive Director
Qualifications: Bachelor of Economics (Accounting)
Experience and expertise: Jim was appointed as Non-Executive Director of Aurora Funds Management Limited on 30 June 2016 and resigned on 25 July 2017. Jim has over 20 years' finance and operational experience in Australian funds and investment management experience. Focused on building strong strategically important processes to create and support funds management, Jim's expertise in finance includes his role as CFO at Hastings Funds Management Limited from 1997 to 2006. Whilst at Hastings, funds under management grew from A\$500 million to A\$3,600 million, with investments being made in Australia, UK and the US for listed and unlisted funds. His experience spans a diverse range of businesses including toll roads, airports, electricity and gas transmission networks, water utilities, timber plantations, telecommunications, ports and stadiums.

Other current directorships: None
Former directorships (in the last 3 years): None
Special responsibilities: Member of Compliance Committee
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	43	43	-	-
Betty Poon	43	42	4	4
Jeffrey E. Schwarz	-	-	-	-
Jim Hallam	43	43	2*	2

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

* Jim Hallam was appointed to the Compliance Committee on 19 January 2017 and resigned on 25 August 2017.

Directors' Report

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 14 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.

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 flourish at the end.

John Patton
Managing Director
31 August 2017
Melbourne

Auditors' Independence Declaration

Financial Statement

Statement of profit or loss and other comprehensive income For the year ended 30 June 2017

	Note	2017 \$	2016 \$
Investment Income			
Interest income		1,193	3,055
Dividend and distribution income		284,661	671,978
Net losses on financial instruments held at fair value through profit or loss		(1,276,040)	(1,854,184)
Total net investment loss		(990,186)	(1,179,151)
Expenses			
Other operating expenses	12(a)	182,311	2,769
Unitholder meeting costs	12(b)	60,380	-
Withdrawal fees	14	25,655	-
Total operating expenses		268,346	2,769
Operating loss for the year		(1,258,532)	(1,181,920)
Finance costs attributable to unitholders			
Distributions to unitholders	11	(363,889)	(762,741)
Decrease in net assets attributable to unitholders	10	1,622,421	1,944,661
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 2017

	Note	2017 \$	2016 \$
Assets			
Cash and cash equivalents	8	1,344	84,463
Dividends Receivable		-	156,891
Receivables		5,839	105
Financial assets held at fair value through profit or loss	9	6,681,988	14,185,630
Total assets		6,689,171	14,427,089
Liabilities			
Distributions payable	11	88,405	170,705
Redemption payables		2,183	-
Other payables		23,998	-
Total liabilities (excluding net assets attributable to unitholders)		114,586	170,705
Net assets attributable to unitholders – liability	10	6,574,585	14,256,384
Liabilities attributable to unitholders		(6,574,585)	(14,256,384)
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 2017

	Note	2017 \$	2016 \$
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		-	-

Under Australian Accounting Standards, net assets attributable to unitholders are classified as liability rather than equity. As a result, there was no equity at the start or 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 2017

	Note	2017 \$	2016 \$
Cash flows from operating activities			
Proceeds from sale of financial instruments held at fair value through profit or loss		7,263,812	4,746,682
Purchase of financial instruments held at fair value through profit or loss		(1,036,210)	(560,928)
Dividends and distributions received		441,552	720,026
Interest received		1,264	3,401
GST recovered/(paid)		(5,805)	321
Legal and professional fees paid		(215,068)	-
Payments for redemption fees		(25,655)	-
Payments of other expenses		(3,625)	(2,855)
Net cash inflow from operating activities	15(a)	6,420,265	4,906,647
Cash flows from financing activities			
Proceeds from applications by unitholders		2,190,000	400
Payments for redemptions by unitholders		(6,920,847)	(4,058,289)
Payments for share buy backs		(1,374,827)	(948,736)
Distributions paid to unitholders		(397,710)	(738,331)
Net cash outflow from financing activities		(6,503,384)	(5,744,956)
Net decrease in cash and cash equivalents		(83,119)	(838,309)
Cash and cash equivalents at the beginning of the year		84,463	922,772
Cash and cash equivalents at the end of the year	8	1,344	84,463
Non-cash financing activities	15(b)	48,479	77,777

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 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 Suite 613, Level 6 St Kilda Road, Melbourne VIC 3000. The financial statements are presented in Australian currency.

It is recommended that these financial statements are considered together with the current Product Disclosure Statement 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 2017 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 were managing its investment strategy in accordance with the provision of the Fund Constitution and the Product Disclosure Statement.

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.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Fund for the annual reporting period ended 30 June 2017. The Fund's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Fund, as set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. This standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. New simpler hedge accounting requirements are intended to more closely align with the risk management activities of the Fund. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognize an allowance.

The Fund intends to apply the standard from 1 July 2018 and is currently working through the financial statement impact of this new standard. The magnitude of the financial impacts on transition and on the comparative financial year is yet to be determined, as a result, at this time the Fund cannot make a reasonable quantitative estimate of the effects of the new standard.

Notes to Financial Statements

Note 2. Adoption of new and revised Accounting Standards (continued)

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standards is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer.

The Fund will adopt this standard from 1 July 2018. The changes in revenue recognition requirements in AASB 15 are not expected to have a significant impact on the timing and amount of revenue recorded in the financial statements, or result in significant additional disclosures.

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.

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

Receivables may include amounts for dividends, interest, trust distributions and securities sold where settlement has not yet occurred. Dividends and trust 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. Amounts are generally due for settlement within 30 days of being recorded as receivables.

Notes to Financial Statements

Note 3. Significant accounting policies (continued)

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised 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 may be impaired. 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 the Statement of Profit or Loss and Other Comprehensive Income 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 the Statement of Profit or Loss and Other Comprehensive Income.

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. 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.

Payables

All expenses, including Responsible Entity's fees and custodian fees are recognised in the Statement of Profit or Loss and Other Comprehensive Income on an accrual basis. Unpaid amount is 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. Trust distributions are recognised on an entitlements basis.

Notes to Financial Statements

Note 3. Significant accounting policies (continued)

Expenses

All expenses, including Responsible Entity's fees and custodian 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, custodial 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.

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.

Notes to Financial Statements

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

Key sources of estimation uncertainty

1. Antares Energy Limited Convertible Notes (ASX: AZZG)

As at 30 June 2017, the Fund solely invests in the Aurora Fortitude Absolute Return Fund (“AFARF”). As at 30 June 2017, AFARF (“the Master Fund”) held investments in Antares Energy Limited Convertible Notes (ASX: AZZG), which had been suspended from trading on the Australian Stock Exchange on 15 September 2015 and remain suspended as at the date of this report. The Fund has adopted significant judgements and estimates to fair value of this investment.

The key sources of estimation uncertainty and fair value measurement in relation to AZZG are outlined in Note 5 of the Fund’s Financial Report for the year ended 30 June 2016. At 30 June 2016, after careful consideration of all of the available information, the Fund’s management formed the view that the AZZG Notes should continue to be recognised at a nil value. In Management’s view, there has been no additional information available to the date of this report that would change this view as at 30 June 2017.

2. Molopo Energy Limited (ASX: MPO)

As at 30 June 2017, the Fund solely invests in the Aurora Fortitude Absolute Return Fund (“AFARF”). As at 30 June 2017, AFARF (“the Master Fund”) held shares in MPO that:

- Were subject to a potential divestiture order as a result of proceedings by the Takeovers Panel (which was subsequently confirmed on 10 July 2017);
- Were suspended from trading on the ASX at 30 June 2017; and
- May potentially be subject to a subsequent takeover offer by the Fund.

a. *Background: Takeovers Panel*

- On 11 April 2017, the Responsible Entity (“Aurora”) received applications by the Australian Securities and Investments Commission (“ASIC”) and Molopo Energy Limited (“Molopo”) to the Takeovers Panel (“Panel”) seeking declarations of unacceptable circumstances in relation to the Fund’s acquisition of shares in Molopo on the basis of an alleged association with Keybridge Capital Limited (“Keybridge”) in relation to Molopo;
- On 31 May 2017, the Panel announced it had conducted proceedings and published a declaration. The Panel did not find that Aurora and Keybridge were associates in relation to Molopo, however, the Panel did consider that certain circumstances in relation to Aurora and Keybridge gave rise to unacceptable circumstances;
- On 2 June 2017, the Panel received applications from Molopo and Keybridge seeking a review of the Panel’s decision;
- On 14 June 2017, the Panel made orders in relation to the Molopo proceedings as follows:
 - a) 39,540,910 Molopo shares held by the Responsible Entity (being the number acquired since 30 June 2016) to be vested in ASIC to be sold over a period of 6 months, with the proceeds (net of costs) to be returned to Aurora; and
 - b) Aurora to be restricted from voting no more than 5,088,921 MPO shares at the June 2017 MPO AGM;
- The orders regarding the vesting of 39,540,910 MPO shares in ASIC were stayed in light of the review applications;
- On 16 June 2017, Aurora made an application to the Panel seeking a review of the Panel’s decision on orders in the Molopo proceedings;
- On 30 June 2017, the review Panel announced it had agreed with the initial Panel that certain actions in relation to Aurora and Keybridge gave rise to unacceptable circumstances in relation to the affairs of Molopo. The review Panel also considered that Aurora and Keybridge were associates in relation to Molopo and have contravened section 606 of the Corporations Act 2001 and the substantial shareholder notice provisions;
- On 10 July 2017, the review Panel made final orders in relation to the Molopo proceedings as follows:
 - a) 39,540,910 Molopo shares held by Responsible Entity (being the number acquired since 10 August 2016) to be vested in ASIC to be sold over a period of 6 months, with the proceeds (net of costs) to be returned to Aurora;
 - b) Aurora and its associates may not acquire any further Molopo shares during the next six months; and
 - c) Aurora must make disclosure to Australian Securities Exchange, of its relevant interest in Molopo shares and its associate with Keybridge.

Notes to Financial Statements

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

b. Background: Trading Suspension

- On 29 May 2017 Molopo requested a trading halt pending an announcement of a strategic investment;
- On 31 May 2017 Molopo requested a trading suspension (after the Panel applications were made, but prior to the declaration of unacceptable circumstances). The trading halt was requested by Molopo on the basis that a strategic investment was being assessed;
- On 20 June 2017 Molopo advised that it had not progressed with the strategic transaction, but requested the trading halt be extended until the Panel process was completed;
- On 3 July 2017 Molopo resumed trading;
- On 25 July 2017 Molopo requested a trading halt pending the announcement of a strategic investment;
- On 27 July 2017 Aurora announced a conditional part cash part scrip takeover bid for Molopo at \$0.18 cents per share;
- On 27 July 2017 Molopo requested a trading suspension pending the announcement of details of the strategic investment which has been completed;
- On 22 August 2017 Molopo advised that it had reinvested \$8.75m in Orient FRC Ltd;
- On 24 August 2017 Aurora advised that it was considering the potential impact of this investment on the takeover bid.

c. Background: Takeover offer

- On 27 July 2017, the Fund announced a cash and/or script takeover bid for the Molopo Energy Limited. The Fund has offered to takeover 100% of the ordinary shares in Molopo at \$0.18 per share. Under the bid, Molopo shareholders will be able to elect to receive a portion of the bid consideration in cash (capped at \$5 million in total) or the equivalent value of units in the Fund;
- On 22 August 2017 Molopo advised that it had reinvested \$8.75m in Orient FRC Ltd, a potential defeating condition of the bid;
- On 24 August 2017 Aurora advised that it was considering the potential impact of this investment on the takeover bid.

d. Valuation considerations

- MPO was suspended from trading on the ASX at 30 June 2017, but resumed trading on 3 July 2017;
- The decision by the Takeover's Panel was known at the time of its resumption to trading on the 3 July 2017 and the subsequent trading that took place in MPO shares, so the effect of the divestment order would be largely 'priced in' from this time;
- MPO resumed trading on 3 July 2017 with no volume. On 4 July 2017, 87,543 shares were traded at \$0.12. Management is of the view it would be unreasonable to value MPO on the basis of \$10,505 shares traded on 3 July 2017;
- There has been trading in MPO shares between 4 July 2017 to 21 July 2017 ranging from \$0.12 to \$0.145 per share. Total volume during this period totaled 708,737 shares valued at \$95,570;
- The VWAP for the period from 4 July 2017 to 21 July 2017 is \$0.135. The VWAP is the volume weighted average price (calculated based on the sum of traded value divided by the sum of traded volume).
- Accordingly, for the purposes of 30 June 2017 financial statements, and after careful consideration of the available information, management has considered the range of possible values and determined that the fair value of Molopo can be reasonably estimated to be \$0.135 per share as at 30 June 2017.

Notes to 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 Fund operates in a single business and geographic 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.

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 focusses 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 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.

Notes to Financial Statements

Note 6. Financial Instruments (continued)

A sensitivity analysis was performed showing how the effect of a 10% increase (2016: 10%) and a 10% decrease (2016: 10%) in market prices would have increased/decreased the impact on operation profit/net assets attributable to unitholders as at 30 June 2017. 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 has no direct exposure to foreign currency and no sensitivity analysis was performed.

(iii) Cash flow and fair value interest rate risk

The Fund is exposed to cash flow interest rate 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 (2016: 100 basis point) and a 100 basis point decrease (2016: 100 basis point) 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 2017. The results of this analysis are disclosed in Note 6(b).

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 2017				
Financial assets	AUD	AUD	AUD	AUD
Cash and cash equivalents	1,344	-	-	1,344
Dividend receivables	-	-	-	-
Receivables	-	-	5,839	5,839
Financial assets held at fair value through profit or loss	-	-	6,681,988	6,681,988
Financial liabilities				
Distribution payable	-	-	(88,405)	(88,405)
Redemptions payable	-	-	(2,183)	(2,183)
Other payables	-	-	(23,998)	(23,998)
Net exposure	1,344	-	6,573,241	6,574,585

Notes to Financial Statements

Note 6. Financial Instruments (continued)

	Floating interest rate	Fixed interest rate	Non interest bearing	Total
30 June 2016				
Financial assets	AUD	AUD	AUD	AUD
Cash and cash equivalents	84,463	-	-	84,463
Dividend receivables	-	-	156,891	156,891
Receivables	-	-	105	105
Financial assets held at fair value through profit or loss	-	-	14,185,630	14,185,630
Financial liabilities				
Distribution payable	-	-	(170,705)	(170,705)
Financial liabilities held at fair value through profit or loss	-	-	-	-
Redemptions payable	-	-	-	-
Other payables	-	-	-	-
Net exposure	84,463	-	14,171,921	14,256,384

(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			
	-10%	+10%	-100 bps	+100 bps
	\$	\$	\$	\$
30 June 2017	(668,199)	668,199	(13)	13
30 June 2016	(1,418,563)	1,418,563	(845)	845

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 counterpart will default on its contractual obligations resulting in financial loss to the due.

The main concentration of credit risk to which the Fund is exposed arises from cash and cash equivalents 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.

Notes to Financial Statements

Note 6. Financial Instruments (continued)

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 2017 (2016: nil).

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 main concentration of credit risk to which the Fund is exposed arises from cash and cash equivalents.

The Fund has a material credit risk exposure to the banks (Westpac and Interactive Brokers) that hold the Fund's cash assets at 30 June 2017.

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

	2017 \$	2016 \$
Rating		
AA	1,344	14,883
A	-	69,580
Total	1,344	84,463

(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 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 of a daily basis, and the Board of Directors reviews it on a quarterly basis.

(iii) 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 invests directly into the Master Fund which 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.

Notes to Financial Statements

Note 6. Financial Instruments (continued)

From 1 January 2017, the Responsible Entity announced that redemption requests will be processed on a quarterly basis, with the first redemption date being 31 March 2017. 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.

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 2017	Less than 1 month	1-6 months	6-12 months	1-2 years	Total
Liabilities					
Distribution payable	88,405	-	-	-	88,405
Redemption payable	2,183	-	-	-	2,183
Other payables	23,998	-	-	-	23,998
Net assets attributable to unitholders	-	6,574,585	-	-	6,574,585
Contractual cash flows (excluding gross settled derivatives)	114,586	6,574,585	-	-	6,689,171
30 June 2016	Less than 1 month	1-6 months	6-12 months	1-2 years	Total
Liabilities					
Distribution payable	170,705	-	-	-	170,705
Redemption payable	-	-	-	-	-
Other payables	-	-	-	-	-
Net assets attributable to unitholders	-	14,256,384	-	-	14,256,384
Contractual cash flows (excluding gross settled derivatives)	170,705	14,256,384	-	-	14,427,089

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 set out in note 2 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.

Notes to Financial Statements

Note 7. Fair value measurement (continued)

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.

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 2017				
Financial assets				
Financial assets designated at fair value through profit or loss:				
Unlisted unit trusts	-	6,681,988	-	6,681,988
Total financial assets	-	6,681,988	-	6,681,988
30 June 2016				
Financial assets				
Financial assets designated at fair value through profit or loss:				
Unlisted unit trusts	-	14,185,630	-	14,185,630
Total financial assets	-	14,185,630	-	14,185,630

Transfers between levels

There were no transfers between levels during the financial year (2016: Nil).

Notes to Financial Statements

Note 7. Fair value measurement (continued)

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.

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.

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

	2017	2016
	\$	\$
Cash at bank	1,344	84,463
Total cash and cash equivalents	1,344	84,463

Accounting policy for cash and cash equivalents

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

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. Financial assets held at fair value through profit or loss

	2017 \$	2016 \$
Designated at fair value through profit or loss		
Unlisted unit trusts	6,681,988	14,185,630
Total financial assets held at fair value through profit or loss	6,681,988	14,185,630

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

Note 10. Net assets attributable to unitholders

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

	2017 No.	2016 No.	2017 \$	2016 \$
Opening balance	16,782,332	21,443,405	14,256,384	20,736,201
Applications	2,591,065	411	2,190,000	400
Redemptions	(8,250,776)	(3,752,520)	(6,923,030)	(3,664,597)
Buy backs	(1,678,233)	(989,252)	(1,374,827)	(948,736)
Units issued upon reinvestment of distributions	58,301	80,288	48,479	77,777
Decrease in net assets attributable to unitholders	-	-	(1,622,421)	(1,944,661)
Closing balance	9,502,689	16,782,332	6,574,585	14,256,384

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 and redemptions for units can be conducted on the ASX platform (on market) or by using the current PDS (off market).

On market

Unitholders may instruct their stockbroker or financial adviser to purchase or sell units on the ASX platform.

Off Market

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.

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 Fund FUM in the relevant quarter. The next redemption date is scheduled for 30 September 2017. As at the date of this report, there are 2,895,560 units subject to redemption guidelines.

Notes to Financial Statements

Note 11. Distribution to unitholders

The distributions for the year were as follows:

	2017 \$	2017 CPU	2016 \$	2016 CPU
Distributions paid	197,562	2.52	592,036	3.38
Distributions payable (30 June 2017 quarter)	77,922	0.82	159,432	0.95
Other distributions payable from previous quarters	88,405		11,273	
Total distributions	363,889	3.34	762,741	4.33

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. 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.

Note 12. Expenses

(a) Other operating expenses

	2017 \$	2016 \$
Other operating expenses	182,311	2,769
Total other operating expenses	182,311	2,769

The Fund announced via a fund update that effective 8 August 2016, Aurora Funds Management Limited may begin charging all of its normal operating expenses to the Fund in accordance with the Constitution.

(b) Unitholder meeting costs

	2017 \$	2016 \$
Unitholder meeting costs	60,380	-
Total unitholder meeting costs	60,380	-

The Fund incurred certain costs in respect of the general meeting called by Michael Rigoni, R Stewart Pty Ltd (R Stewart Superfund A/C), and Mr Andrew Wallis and Mrs Jane Wallis (Rolvenden Super Fund A/C), together being the registered holders of more than 5% of the voting units in the Fund (requisitioning members), including legal fees, registry costs, printing, postage, room hire and independent chairman costs.

Notes to Financial Statements

Note 13. 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 Deloitte Touche Tohmatsu (2016: Deloitte Touche Tohmatsu). The Responsible Entity is responsible for paying this remuneration of auditor on behalf of the Fund.

	2017 \$	2016 \$
Audit and other assurance services		
Audit and review of financial statements	25,025	17,338
Audit of compliance plan	5,133	2,000
Total remuneration for audit and other assurance services	30,158	19,338
Taxation services		
Tax compliance services	13,100	3,000
Total remuneration for tax services	13,100	3,000
Total remuneration of Deloitte Touche Tohmatsu	43,258	22,338

Note 14. Related party transactions

Responsible Entity

The Responsible Entity of Aurora Absolute Return Fund is Aurora Funds Management Limited. In the period to 30 June 2017, Aurora Funds Management Limited acquired units in Aurora Absolute Return Fund, as set out below.

Key management personnel unitholdings

No key management personnel of Aurora Absolute Return Fund held units in the Fund.

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

The interests in the Fund held by the Responsible Entity are shown as follows:

30 June 2017	No. of units held opening	No. of units held closing	Fair value of investment	Interest held	No. of units acquired	No. of units disposed	Distributions paid/payable by the Fund
Aurora Funds Management Limited	-	357,181	\$247,026	3.76%	651,195	294,014	\$8,894

30 June 2016

Aurora Funds Management Limited	-	-	-	-	-	-	-
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Notes to Financial Statements

Note 14. Related party transactions (continued)

Other related party information

Seventh Orion

Seventh Orion Pty Ltd as Trustee for the Aurora Investments Unit Trust (Seventh Orion) owns 100% of the ordinary shares of Aurora Funds Management Limited, being the Responsible Entity of Aurora Dividend Income Trust.

Seventh Orion Pty Ltd is 50% owned by John Patton, the Managing 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 interests in the Fund held by the Master Fund are shown as follows:

30 June 2017	No. of units held opening	No. of units held closing	Fair value of investment	Interest held	No. of units acquired	No. of units disposed	Distributions paid/payable by the Fund
Aurora Fortitude Absolute Return Fund	19,030,897	10,613,844	\$6,681,988	47.05%	1,436,528	9,853,581	\$354,966

30 June 2016

Aurora Fortitude Absolute Return Fund	23,936,583	19,030,897	\$14,186,000	23.44%	660,604	5,565,290	\$671,978
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Responsible entity's/manager's fees and other transactions

Under the terms of the Fund Updates released on 31 August 2016 and 7 November 2016, the Responsible Entity is entitled to receive withdrawal fees, calculated by reference to the redemption proceeds at 1.85%. The withdrawal fee was removed effective January 2017 and the Fund reverted to liquidity requirements contained in its Constitution, which is consistent with the *Corporations Act 2001*.

Notes to Financial Statements

Note 14. Related party transactions (continued)

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

	2017 \$	2016 \$
Withdrawal fees for the year paid/payable by the Fund to the Responsible Entity	25,655	-
Other expenses for the year paid/payable by the Fund to the Responsible Entity	-	-
Aggregate amount payable to the Responsible Entity for management fees at the end of the reporting period	-	-

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

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

	2017 \$	2016 \$
(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	(1,622,421)	(1,944,661)
Distribution to unitholders	363,889	762,741
Proceeds from sale of financial instruments held at fair value through profit or loss	7,263,812	4,746,682
Purchase of financial instruments held at fair value through profit or loss	(1,036,210)	(560,928)
Net losses/(gains) on financial instruments held at fair value through profit or loss	1,276,040	1,854,184
Net change in receivables	151,157	48,715
Net change in payables	23,998	(86)
Net cash inflow/(outflow) from operating activities	6,420,265	4,906,647

	2017 \$	2016 \$
(b) Non-cash financing activities		
During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan	48,479	77,777

Note 16. Events after the reporting period

Other than the events mentioned in the Directors' Report, 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 2017 or on the results and cash flows of the Fund for the year ended on that date.

Note 17. Commitments

There were no commitments for the expenditure as at 30 June 2017 (2016: Nil).

Note 18. Contingent assets and liabilities

There were no contingent assets and liabilities as at 30 June 2017 (2016: Nil).

Directors' 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 flourish underneath.

John Patton
Managing Director
31 August 2017

Additional Information

The additional information required by Australian Stock Exchange Limited Listing Rules and not disclosed anywhere in the report.

Investments

As at 30 June 2017, the Fund held the following investments:

Aurora Fortitude Absolute Return Fund

Investment Transactions

The total number of contract notes that were issued for transactions in securities during the financial year was 21.

The total brokerage paid on these contract notes was nil.

Unitholder Information

The unitholder information set out below was applicable as at 25 August 2017.

Distribution of holdings

	Total holders	Units	Percentage of issued units
1 – 1,000	62	12,305	0.14
1,001 – 5,000	110	296,578	3.27
5,001 – 10,000	68	487,723	5.38
10,001 – 100,000	176	5,185,948	57.23
100,001 and over	18	3,079,844	33.98
Total	434	9,062,398	100

The names of the twenty largest unitholders of ordinary units are listed below:

	Number of units held	Percentage of issued units
1 MR MICHAEL RIGONI	450,124	4.97
2 AURORA FUNDS MANAGEMENT LIMITED	357,181	3.94
3 NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	236,720	2.61
4 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	214,762	2.37
5 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – GSCO ECA	186,750	2.06
6 MR TIM SANDEMAN STAERMOSE	175,019	1.93
7 MRS DIANA BEATRICE MACKEN	147,987	1.63
8 MR CHOR LENG TAN	147,912	1.63
9 MR WILLIAM STUART MILLAR	140,000	1.54
10 LAYBEN PTY LIMITED <O'MALLEY FAMILY FUND A/C>	139,645	1.54
11 MR MURRAY WILLIAM BROWN	130,561	1.44
12 CITICORP NOMINEES PTY LIMITED	128,073	1.41
13 PEPLON NOMINEES PTY LTD	125,342	1.38
14 JIMMY PONG PTY LTD	120,216	1.33
15 A & G SICILIANO SUPERANNUATION PTY LTD <A & G SICILANO S/F A/C>	116,560	1.29
16 SECCO NOMINEES PTY LTD <SEPTIMUS SUPER FUND A/C>	113,069	1.25
17 BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	112,335	1.24
18 MR ALBERT JOHN SCOTT	107,282	1.18
19 SOLANO INVESTMENT LLC	103,000	1.14
20 MR STUART ALAN SCHMOLLING + MRS JOAN CHRISTINA SCHMOLLING	97,000	1.07
Total held by top twenty holders	3,349,538	36.95

Corporate Directory

Directors of Responsible Entity	John Patton - <i>Managing Director</i> Betty Poon - <i>Executive Director</i> Jeffrey Schwarz – <i>Non-Executive Director</i>
Company Secretary	Betty Poon
Registered Office	Suite 613, Level 6, No 370 St Kilda Road Melbourne, VIC 3004
Share Register	Registry Direct Level 6, 2 Russell Street Melbourne, VIC 3000
Auditor and Taxation Advisor	Deloitte Touche Tohmatsu Grosvenor Place 225 George Street Sydney, NSW 2000
Solicitors	Norton Gledhill Level 23, 459 Collins Street Melbourne, VIC 3000
Stock Exchange Listing	Aurora Absolute Return Fund units are listed on the Australian Securities Exchange (ASX code: ABW)
Website:	www.aurorafunds.com.au
Corporate governance statement	Aurora Funds Management's Corporate Governance Statement can be found on its website: http://www.aurorafunds.com.au/wp-content/uploads/Corporate-Governance-Statement.pdf