

Aurora Absolute Return Fund

ARSN 110 303 430

**Annual Report
For the year ended 30 June 2016**

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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 report together with the financial statements of the Fund for the financial year ended 30 June 2016, and the auditor's report thereon.

Principal activities

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

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).

Directors

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

John Patton (appointed 30 June 2016)
Jim Hallam (appointed 30 June 2016)
Betty Poon (appointed 7 September 2015)
Antony Sormann (appointed 25 February 2016, resigned 30 June 2016)
James Schwarz (appointed 25 February 2016, resigned 30 June 2016)
John Corr (resigned 28 June 2016)
Simon Lindsay (resigned 15 June 2016)
Steuart Roe (resigned 7 September 2015)

Review and results of operations

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

Financial results for the year

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

	2016 \$'000	2015 \$'000
Operating profit/(loss) before finance costs attributable to unitholders	(1,182)	(332)
Distributions paid and payable	(763)	(1,382)
Distribution (cents per unit) 30 September quarter ended	1.45	1.54
Distribution (cents per unit) 31 December quarter ended	0.98	1.53
Distribution (cents per unit) 31 March quarter ended	0.95	0.99
Distribution (cents per unit) 30 June quarter ended	0.95	0.98

Directors' Report

Financial Position

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

	30 June 2016	30 June 2015
	\$	\$
At 30 June	0.932	0.967
High during period	0.980	1.060
Low during period	0.820	0.960

Reconciliation of net assets for unit pricing and financial reporting purposes

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

	2016	2015
	\$'000	\$'000
Net assets for unit pricing purposes (at Cum)	14,450	21,240
Distribution payable	(171)	(220)
Franking credits included in unit pricing	(23)	(284)
Net assets under Australian Accounting Standards	14,256	20,736

Information on underlying performance

The performance of the Fund is subject to the performance of the Fund's underlying 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 results of the Fund's operations will be affected by performance of investment markets in which the Master 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.

Significant changes in state of affairs

On 30 June 2016, Seventh Orion Pty Ltd as trustee for the Aurora Investments Unit Trust (Seventh Orion) acquired 100% of the ordinary shares of Aurora Funds Management Limited, being the Responsible Entity for Aurora Absolute Return Fund.

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.

Directors' Report

Matters subsequent to the end of the financial year

On 25 July 2016, the Responsible Entity announced the re-introduction of its on-market buyback program, effective 31 August 2016.

On 19 August 2016, the Responsible Entity made an ASX Announcement advising that it expected to recognise a non-cash impairment charge against the carrying value of the Antares Energy Limited Convertible Notes held by the Master Fund as at 30 June 2016.

Subsequent to year end, the Responsible Entity has received redemption requests totalling 1,796,813 units representing approximately 10.7% of the Fund.

On 21 September 2016, the Responsible Entity announced a notice of unitholders meeting that will take place on 31 October 2016.

Other than changes in investment strategy mentioned above, no matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect:

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

Indemnity and insurance of officers

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to either the officers of Aurora Funds Management Limited or the auditors of the Fund. So long as the officers of Aurora Funds Management Limited act in accordance with the Fund Constitution and the Law, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund.

Indemnity of auditors

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

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

There were no fees paid to the Responsible Entity and its associates out of Fund property during the year.

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 13 to the financial statements.

Interests in the Funds

The movement in units on issue in the Fund during the year is disclosed in Note 8 to 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 2 to the financial statements.

Environmental regulation

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

Directors' Report

Information on Directors

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

Jim Hallam (appointed 30 June 2016)

B Economics, Accounting, Non-Executive Director

Jim was appointed as Non-Executive Director of Aurora Funds Management Limited on 30 June 2016. 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.

John Patton (appointed 30 June 2016)

B Economics, Executive Director, Managing Director

John was appointed 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 modelling, restructuring and corporate advisory.

Other Directorships

John is also director of Keybridge Capital Limited and Metgasco Limited.

Betty Poon (appointed 7 September 2015)

B Bus Accounting, Executive Director, Company Secretary

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 Group, JP Morgan, Aviva Investors and Pitcher Partners.

Antony Sormann (appointed 25 February 2016, resigned 30 June 2016)

B Economics, Executive Director

Antony was appointed Executive Director of Aurora Funds Management Limited on 25 February 2016 and resigned on 30 June 2016. Antony has over 18 years' experience in investment banking and legal advisory services, including 9 years as a director of SLM Corporate Pty Ltd and 6 years working in the investment banking division of N.M. Rothschild & Sons (Australia) Limited of which 2 years were as an executive in the Rothschild Group's New York office.

Other Directorships

Antony is also director of Molopo Energy Limited.

James Schwarz (appointed 25 February 2016, resigned 30 June 2016)

James was appointed Executive Director of Aurora Funds Management Limited on 25 February 2016 and resigned on 30 June 2016. James has over 18 years' experience in merchant banking, corporate finance and private equity investment.

Directors' Report

Information on Directors (continued)

John Corr (resigned 27 June 2016)

B Comm, Executive Director, Chief Investment Officer

John was Executive Director of Aurora Funds Management Limited up until his resignation on 27 June 2016. John has over 29 years' experience in the financial markets. Prior to establishing Fortitude Capital Pty Ltd, he was a director at Citigroup Global Markets Australia. He worked in proprietary trading for 8 years, trading local and overseas equities and equity derivatives, and was responsible for the management and development of a team of equity proprietary traders. John was responsible for the overall portfolio and risk management of Aurora's various investment funds.

Other Directorships

John is also director of SIV Asset Management Limited.

Ian Steuart Roe (resigned 7 September 2015)

BSc MAppFin, Executive Director

Steuart was Executive Director of Aurora Funds Management Limited up until his resignation on 7 September 2015. Steuart was a founder of Sandringham Capital Pty Limited, a related company to the Responsible Entity until its sale to Keybridge Capital Limited. Steuart was Executive Director and Head of Equity Risk Management Products for UBS in Australasia. His responsibilities included the origination, structuring and distribution of equity derivative and cash products to corporate, financial intermediaries and retail clients. From 1992 to 2001 he worked for Citigroup (formerly Salomon Smith Barney and County NatWest) holding numerous roles including, Director and Head of Corporate and Retail Equity Derivative Products, Head of Equity Risk Management, Associate Director and Portfolio Manager Structured investments.

Other Directorships

Steuart is also director of SIV Asset Management Limited.

Simon Lindsay (resigned 14 June 2016)

B. BUS, Executive Director, Head of Distribution

Simon was Managing Director of Aurora Funds Management Limited up until his resignation on 14 June 2016. Simon was a founding director of Aurora Funds Management Limited and was responsible for the Australian and New Zealand distribution of Aurora Funds Management Limited products.

Other Directorships

Simon is also director of SIV Asset Management Limited.

Interests held by the Responsible Entity and Directors

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

Proceedings on behalf of Fund

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

Rounding of amounts to the nearest thousand dollars

The Fund is of a kind referred to in ASIC Corporations (Rounding in Financials/ Directors' Report) Instruments 2016/191, dated 24 March 2016, and in accordance with that Corporations Instruments, amounts in the Financial Report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Directors' Report

Auditor's independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 9.

The report is made in accordance with a resolution of the Directors.



John Patton

Managing Director

25 September 2016

The Board of Directors
Aurora Funds Management Limited
Level 4,
1 Alfred Street
Sydney NSW 2000

25 September 2016

Dear Sirs,

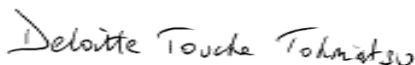
Aurora Absolute Return Fund

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Aurora Funds Management Limited, the Responsible Entity of Aurora Absolute Return Fund.

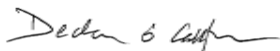
As lead audit partner for the audit of the financial statements of Aurora Absolute Return Fund for the financial year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Declan O'Callaghan
Partner
Chartered Accountants

Corporate Governance Statement

The Aurora Absolute Return Fund (the “Fund”) is a registered managed investment scheme under the *Corporations Act 2001* whose units are quoted and traded on the Australian Securities Exchange (ASX). The Fund is quoted on the ASX via the AQUA platform. Aurora Funds Management Limited (“Aurora”) is the Responsible Entity and Investment Manager of the Fund.

The Responsible Entity’s directors and management recognize the importance of good corporate governance. The Responsible Entity’s corporate governance framework, policies and practices are designed to ensure the effective management and operation of the Fund, and will remain under regular review.

The Corporate Governance Statement reports against the ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations (“ASX Recommendations”). To the extent that they are relevant to the Fund, the ASX Recommendations have been adopted by the Fund. Where, after due consideration, the Fund’s corporate governance practice departs from an ASX Recommendation, the Corporate Governance Statement will set out the reasons for departure.

1. Lay solid foundations for management and oversight

Role and responsibilities of the Board

The primary role of the Board of the Responsible Entity is to operate the Fund in accordance with the Constitution, the ASX listing rules and the *Corporations Act 2001*. The Board must ensure it acts in the best interests of unitholders and that the activities of the Trust are conducted in a proper and efficient manner.

Key responsibilities of the Board include:

- reviewing the performance of management, including the Portfolio Manager and the adequacy of resources allocated to Aurora;
- providing input into the final approval of management’s strategy and performance objectives for the Fund;
- reviewing and if appropriate approving significant transactions;
- reviewing the Fund’s policies and procedures;
- oversight and ensuring compliance with best practice corporate governance requirements;
- ensuring the risk management systems, including internal controls, operating systems and compliance processes, are operating efficiently and effectively; and
- establishing formal committees to assist such as the Compliance Committee.

Role of management

Management is responsible for all matters not specifically the responsibility of the Board and for implementing the strategy and performance objectives of the Fund and its day to day operations.

The Board has granted specific delegated authorities to management, including developing and implementing the Fund’s investment strategy, managing the risk and compliance framework, the day to day management and administration of the Fund and ensuring compliance with applicable laws and regulations. The Board oversees the activities of management and provides strategic guidance.

2. Structure the board to add value

The appointment of Directors of the Responsible Entity is governed by the Constitution and the *Corporations Act 2001*. The Board’s policy and procedure for the selection of Directors is included in the Board charter.

Corporate Governance Statement

2. Structure the board to add value (continued)

The Board currently comprises 3 directors: John Patton and Betty Poon as Executive Directors and Jim Hallam as Non-Executive Director. The independence obligations of the Board are fulfilled by the Compliance Committee. The Board considers all relevant circumstances in determining whether a Compliance Committee member is independent, including:

- units owned directly or indirectly by the committee member;
- employment by the Responsible Entity (or its associates) of the committee member (or a family member);
- business relationship between the Responsible Entity (or associates of the committee member (or a family member) or business entity associated with the committee member or with service providers in whom the committee member has an interest;
- any material contractual relationship with the Responsible Entity or its associates other than as a committee member; and
- any other interest or relationship (e.g. as a material supplier or customer) which could interfere with the committee member's ability to act in the best interests of the Responsible Entity.

The Compliance Committee operates under a Compliance Committee Charter, and is responsible for monitoring the Responsible Entity's compliance with the Compliance Plan and reporting any breaches to the Board and ASIC. It is also responsible for reviewing the operations of the Responsible Entity.

Compliance Committee Composition

The Compliance Committee for the Responsible Entity comprises:

- Mr David Lewis (external)
- Mr Mark Hancock (external) (resigned 29 July 2016)
- Ms Kim Rowe (external) (appointed 29 July 2016)

Mr David Lewis is a qualified actuary and has over 43 years' experience in financial services, predominantly in administration and consulting to fund management companies. David serves on the compliance committees of a number of Responsible Entities.

Mr Mark Hancock is a qualified actuary and has over 31 years' experience in the securities and funds management industry. Mark has significant applied research experience in Australian Equity markets accumulated from a variety of roles over a period of some 20 years. He was previously an equity portfolio manager with NRMA and MMI Insurance.

Ms Kim Rowe is a chartered accountant with over 20 years' experience in accounting, governance and risk management within the funds management industry. Kim has a Bachelor of Commerce from the University of Melbourne, is a member of Chartered Accountants Australia and New Zealand and is a member of the Australian Institute of Company Directors.

The external members of the Compliance Committee are nominated and remunerated by the Responsible Entity. The Committee is convened and serviced by Aurora's CFO, Betty Poon. The Compliance Committee Charter is available at Aurora's website www.aurorafunds.com.au.

The details of Aurora's directors during the financial year, including their respective skills, experience, relevant expertise and term of office, are set out on page 6 and 7.

3. Promote ethical and responsible decision making

Code of Conduct

Aurora has established a Code of Conduct which outlines the acceptable standards of behaviour and attitudes expected from staff. The purpose of this Code of Conduct is to:

- Articulate the high standards of honest, ethical and law-abiding behaviour that Aurora expects of its staff;
- Encourage the observance of those standards so as to protect and promote the interests of unitholders;
- Set out the responsibilities and accountabilities of Directors to report and investigate reports of unethical practices.

Corporate Governance Statement

3. Promote ethical and responsible decision making (continued)

Security Trading

Aurora has established a Security Trading Policy which applies to all staff, Directors and Officers. The aim of the policy is to ensure that public confidence is maintained in Aurora's employees and the trading of units in the Fund.

The Security Trading Policy prohibits trading in the Fund's units by persons in possession of non-public inside information and regulates trading during trading windows and blackouts.

Under the policy, staff, Directors and Officers must provide details of any trade of units in the Fund to the Company Secretary.

4. Safeguard integrity in financial reporting

In accordance with section 295A of the *Corporations Act 2001*, the Chief Executive Officer and Chief Financial Officer have declared in writing to the Board that the financial records of the Fund for the financial year have been properly maintained and the Trust's financial statements present a true and fair view of the financial position and performance and are in accordance with relevant accounting standards.

Deloitte Touche Tohmatsu is the current auditor for the Responsible Entity, the Fund and the Compliance Plan. The Board reviews the results of the external audit process of the Fund and the Compliance Plan to ensure:

- The Fund and Compliance auditor are appropriately qualified and legally eligible to act at all times;
- The terms of their appointment are appropriate and accord with the *Corporations Act 2001*; and
- The auditors have access to all relevant information as required.

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

As at the date of this statement, no board committees have been established by Aurora.

5. Make timely and balanced disclosure

As the Responsible Entity of an ASX quoted Fund, the Fund must comply with the continuous disclosure provisions of the ASX listing rules.

The Fund is required to immediately notify the ASX of any information concerning the Fund of which it is or becomes aware, which a reasonable person would expect to have a material effect on the price or value of units in the Fund.

The Managing Director and the Company Secretary have been appointed as the persons responsible for communicating with the ASX. These people are also responsible for ensuring compliance with the continuous disclosure requirements in the ASX listing rules.

6. Respect the rights of unitholders

The Fund has procedures in place to ensure that all unitholders have access to timely information concerning the operations of the Fund. The Managing Director and Company Secretary are the primarily responsible for ensuring communications with unitholders.

The Fund principally communicates with unitholders through its website, which contains the following information:

- Current and archived annual and half year financial statements;
- ASX announcements;
- Significant developments relating to the Fund; and
- Current and archived monthly performance reports.

Corporate Governance Statement

7. Recognise and manage risk

The Board and management recognise that having a well-developed system in place for risk management is an integral part of good management practice. Aurora actively promotes a culture of compliance and risk management awareness with the aim of ensuring all activities comply with laws, regulations, policies and procedures.

Aurora has designed and implemented a risk management and internal control process to manage its business risks and the business risks of the managed investment schemes that it operates.

Compliance Plan

The purpose of the compliance plan is to set out key processes, systems and measures the Responsibility Entity will apply to ensure compliance with:

- The Corporations Act;
- The Constitution of the Fund;
- Industry practice standards relevant to the Fund; and
- Internal policies and procedures.

The Compliance Plan describes the key obligations that the Responsible Entity must meet under the *Corporations Act 2001* and the Constitution of the Fund, the measures in place to comply with these obligations and how compliance with these measures is monitored.

In respect of the financial year end; the Board has received the following certifications:

- Certification from the Chief Executive Officer and Chief Financial Officer that the Fund's financial statements and notes represent a true and fair view of its financial position and performance, and comply with the requirements of the *Corporations Act 2001*, and Accounting Standards; and
- The risk management and internal compliance control systems are sound, appropriate, operating efficiently and effectively managing material business risks.

The Compliance Plan of the Fund is audited each year. The audit report, which is lodged with ASIC, includes an assessment on:

- Whether the procedures and controls set out in the Compliance Plan sufficiently address the requirements of the *Corporations Act 2001*; and
- If the controls and procedures described in the Compliance Plan have been in place and operating effectively over the financial year.

8. Remunerate fairly and responsibly

Members of the senior executive team of the Responsible Entity signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. The standard contract refers to a specific formal job description.

The Board is responsible for the review of the performance of the Board and senior management. The review of the managing director is carried out, and approved by, the Board. The performance of senior management (that is, those who report directly to the Managing Director) is reviewed at the end of each financial year by the Executive Directors.

At the review:

- (a) performance objectives and development plans are set (having regard to both the corporate goals set by the Board and individual performance goals) for the forthcoming financial year; and
- (b) individual performance is assessed against last year's performance objectives and the amount of "at risk" remuneration to be paid and securities to be granted under the parent entity's incentive plan is determined by reference to that individual's performance.

Financial Statements

Statement of Profit or Loss and Other Comprehensive Income For the year ended 30 June 2016

	Notes	2016 \$'000	2015 \$'000
Income			
Interest income		3	10
Dividend and distribution income		672	1,352
Net losses on financial instruments held at fair value through profit or loss		(1,854)	(1,687)
Total net investment income		(1,179)	(325)
Expenses			
Other operating expenses	6	3	7
Total operating expenses		3	7
Operating loss for the year		(1,182)	(332)
Finance costs attributable to unitholders			
Distributions to unitholders	9	(763)	(1,382)
Decrease in net assets attributable to unitholders	8	1,945	1,714
Profit/(loss) for the year		-	-
Other comprehensive income for the year		-	-
Total comprehensive income for the year		-	-

The above Statement of Profit of Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Financial Statements

Statement of Financial Position

As at 30 June 2016

	Notes	2016 \$'000	2015 \$'000
Assets			
Cash and cash equivalents	10	84	923
Receivables		157	206
Financial assets held at fair value through profit or loss	11	14,186	20,226
Total assets		14,427	21,354
Liabilities			
Distribution payable		171	220
Other liabilities	12	-	398
Total liabilities (excluding net assets attributable to unitholders)		171	618
Net assets attributable to unitholders - liability	8	14,256	20,736
Liability attributable to unitholders		(14,256)	(20,736)
Net assets		-	-

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Financial Statements

Statement of Changes in Equity

For the year ended 30 June 2016

	Notes	2016 \$'000	2015 \$'000
Balance at the beginning of the financial year		-	-
Profit/(loss) for the year		-	-
Other comprehensive income		-	-
Total comprehensive income		-	-
Transactions with equity holders in their capacity as equity holders		-	-
Total equity at the end of the financial year		-	-

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

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Financial Statements

Statement of Cash Flows

For the year ended 30 June 2016

	Notes	2016 \$'000	2015 \$'000
Cash flows from operating activities			
Proceeds from sale of financial instruments		4,747	9,200
Purchase of financial instruments		(561)	(7,957)
Dividends and distributions received		720	1,505
Interest received		3	11
GST recovered		-	-
Payment of other expenses		(3)	(7)
Net cash outflow from operating activities	14 (a)	4,906	2,753
Cash flows from financing activities			
Proceeds from applications by unit holders		-	401
Payments for redemptions by unit holders		(4,058)	(8,339)
Payments from share buy-back		(949)	-
Proceeds from redemption of treasury units		-	(525)
Payments for application of treasury units		-	6,365
Distributions paid		(738)	(1,009)
Net cash inflow from financing activities		(5,745)	(3,108)
Net (decrease)/increase in cash and cash equivalents		(839)	(355)
Cash and cash equivalents at the beginning of the year	10	923	1,279
Cash and cash equivalents at the end of the year		84	923
Non-cash financing activities	14 (b)	78	139

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

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Notes to the Financial Statements

1. General information

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

The Responsible Entity of the Fund is Aurora Funds Management Limited (the "Responsible Entity"). The Responsible Entity's registered office is Level 4, 1 Alfred Street, Sydney, NSW 2000. The financial statements are presented in Australian currency.

It is recommended that these financial statements are considered together with the current product disclosure document and in accordance with the provisions of the governing documents of the Fund, and any public announcements made by the Fund during the year ended 30 June 2016 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 as at the date of the directors' report. The Directors of the Responsible Entity have the power to amend and reissue the financial statements.

2. Summary of significant accounting policies

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

(a) Basis of preparation

Statement of compliance

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Accounting Standards Board and the *Corporations Act 2001* in Australia. Aurora Absolute Return Fund is a for-profit unit trust for the purpose of preparing the financial statements.

The financial statements are 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.

Compliance with International Financial Reporting Standard

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

Notes to the Financial Statements

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

New and amended standards adopted by the Fund

The Fund has adopted all the new and revised Standards and interpretations issued by the Australian Accounting Standards Board ("AASB") that are relevant to the operations and effective for the financial year:

AASB 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality'

This amendment completes the withdrawal of references to AASB 1031 in all Australian Accounting Standards and Interpretations, allowing that Standard to effectively be withdrawn.

The adoption of AASB 1031 does not have any material impact on the disclosures or the amounts recognised in the Trust's financial statements.

(b) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting period and have not been early adopted by the Fund as disclosed in the table below.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	30 June 2019
AASB 15 'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15', AASB 2015-8 'Amendments to Australian Accounting Standards – Effective date of AASB 15'	1 January 2018	30 June 2019
AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'	1 January 2016	30 June 2017
AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'	1 January 2016	30 June 2017
AASB 2015-5 'Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception'	1 January 2016	30 June 2017
AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	1 January 2017	30 June 2018

The Fund has not yet assessed the potential impact of these standards.

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

Notes to the Financial Statements

2. Summary of significant accounting policies (continued)

(c) Financial instruments

(i) Classification

The Fund's investments are classified as at fair value through profit or loss. They comprise of financial assets designated at fair value through profit or loss. Performances are evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's constitution is for the Responsible Entity to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

(ii) Recognition/derecognition

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

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

(iii) Measurement

Financial assets held at fair value through profit or loss

At initial recognition, the Fund measures a financial asset at its fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the Statement of Profit or Loss and Other Comprehensive Income.

Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the Statement of Profit or Loss and Other Comprehensive Income within net gains/(losses) on financial instruments held at fair value through profit or loss in the period in which they arise.

The fair value of financial assets that are not traded in an active market are determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques used include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making.

Further details on how the fair value of financial instruments is determined are disclosed in Note 4.

(d) Net assets attributable to unitholders

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.

(e) Cash and cash equivalents

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

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

Notes to the Financial Statements

2. Summary of significant accounting policies (continued)

(f) 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 2(c).

The effective interest method is the method of calculating the amortised cost of a financial asset and of allocating the interest income 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.

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 gross of withholding tax in the Statement of Profit or Loss and Other Comprehensive Income.

Fund distributions are recognised on an entitlements basis.

(g) 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 accruals basis.

(h) Income tax

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

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

(i) Distributions

The Fund distributes its distributable income in accordance with the Fund's Constitution, to unitholders by cash or reinvestment. The distributions are recognised in profit or loss as finance costs attributable to unitholders.

(j) Increase/decrease in net asset attributable to unitholders

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.

(k) Foreign currency translation

(i) *Functional and presentation currency*

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

Notes to the Financial Statements

2. Summary of significant accounting policies (continued)

(l) Due from/to brokers

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

(m) Receivables

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

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. 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.

(n) Payables

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

As the Fund has a contractual obligation to distribute its distributable income, a separate distribution payable is recognised in the Statement of Financial Position as at the end of each reporting period where this amount remains unpaid as at the end of the reporting period.

(o) Applications and redemptions

Applications and redemptions for units can be conducted on the ASX 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 market.

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.

Notes to the Financial Statements

2. Summary of significant accounting policies (continued)

(p) 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 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.

(q) Use of estimates

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

The Fund solely invests in an unlisted unit trust which is recorded at the redemption value per unit as reported by the investment managers of this Fund. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel of the Responsible Entity, independent of the area that created them.

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

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

(r) Segment information

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

The chief operating decision maker, who is responsible for allocating resources and assessing performance, has been identified as the Board of Directors of the Responsible Entity ("The Board").

3. 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 maximise the returns derived for the level of risk to which the Fund is exposed. The Fund uses derivative financial instruments to moderate and create certain risk exposures. Financial risk management is carried out by the investment management department of the Responsible Entity under policies approved by the Board of Directors of the Responsible Entity.

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

Notes to the Financial Statements

3. Financial risk management (continued)

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

The Fund is exposed to equity securities and derivative securities price risk through investments made within the Master Fund.

This arises from investments which were held by the Master Fund for which prices in the future are uncertain. Investments are classified in the 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.

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

A sensitivity analysis was performed showing how the effect of a 10% increase (2015: 10%) and a 10% decrease (2015: 10%) in market prices would have increased/decreased the impact on operating profit/net assets attributable to unitholders as at 30 June 2016. The results of this analysis are disclosed in Note 3(b).

(ii) 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 asset held by the Fund subject to interest rate risk is 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 Master 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 (2015: 100 basis point) and a 100 basis point decrease (2015: 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 2016. The results of this analysis are disclosed in Note 3(b).

Notes to the Financial Statements

3. Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest 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 \$'000	Fixed interest rate \$'000	Non interest bearing \$'000	Total \$'000
2016				
Financial Assets				
Cash and cash equivalents	84	-	-	84
Receivables	-	-	157	157
Financial assets held at fair value through profit or loss	-	-	14,186	14,186
Financial Liabilities				
Distribution payable	-	-	(171)	(171)
Other liabilities	-	-	-	-
Net exposure	84	-	14,172	14,256

	Floating interest rate \$'000	Fixed interest rate \$'000	Non interest bearing \$'000	Total \$'000
2015				
Financial Assets				
Cash and cash equivalents	923	-	-	923
Receivables	-	-	206	206
Financial assets held at fair value through profit or loss	-	-	20,226	20,226
Financial Liabilities				
Distribution payable	-	-	(220)	(220)
Other liabilities	-	-	(398)	(398)
Net exposure	923	-	19,813	20,736

(b) Summarised sensitivity analysis

The following tables summarise the sensitivity of the Fund's operating profit and net assets attributable to unitholders to 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, historical correlation of the Fund's investments with the relevant benchmark and 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
2016	(1,419)	1,419	(1)	1
2015	(2,023)	2,023	(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.

Notes to the Financial Statements

3. Financial risk management (continued)

(c) Credit risk

The Fund is exposed to credit risk which is the risk that the counterparty will be unable to pay amounts in full when they fall 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 that transactions are undertaken with a large number of counterparties.

The Fund has a prime brokerage agreement with UBS, the Fund's prime broker, and some of the Fund's assets will be pledged as collateral for amounts drawn under the overdraft facility. There was no overdraft position as at 30 June 2016 (2015: \$nil).

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

The Fund also has material credit risk exposure in their cash assets held by UBS and Westpac at 30 June 2016.

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

	2016 \$'000	2015 \$'000
Rating		
A	70	238
AA	14	685
Total	84	923

(i) Cash and cash equivalents

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

In accordance with the Fund's Constitution, the investment manager monitors the Fund's credit position on a daily basis, and the Responsible Entity reviews it on a quarterly basis.

(ii) Other

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

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 to February 2016. From February to August 2016, daily application and redemptions were suspended by the Responsible Entity.

Notes to the Financial Statements

3. Financial risk management (continued)

(d) Liquidity risk (continued)

The Fund invests directly into the Master Fund which has daily applications and redemptions. Investments in unlisted unit trust expose the Fund to the risk that the Responsible Entity or manager of those trusts may be unwilling or unable to fulfil the redemption requests within the timeframe requested by the Fund. 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.

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

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

The table 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.

	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	1-2 years \$'000	Total \$'000
2016					
Distribution payable	171	-	-	-	171
Other liabilities	-	-	-	-	-
Net assets attributable to unitholders	-	14,256	-	-	14,256
Contractual cashflows (excluding gross settled derivatives)	171	14,256	-	-	14,427

	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	1-2 years \$'000	Total \$'000
2015					
Distribution payable	220	-	-	-	220
Other liabilities	397	1	-	-	398
Net assets attributable to unitholders	20,736	-	-	-	20,736
Contractual cashflows (excluding gross settled derivatives)	21,353	1	-	-	21,354

4. Fair value measurement

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

The Fund has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period.

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

Notes to the Financial Statements

4. Fair value measurement (continued)

(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.

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.

The Fund values its investments in accordance with the accounting policies set out in Note 2. The Fund held \$nil level 1 financial asset or liability at fair value at 30 June 2016 (2015: \$nil).

(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 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 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.

Investments in other unlisted unit trusts are recorded at the redemption value per unit as reported by the investment managers of such funds. As at 30 June 2016, the Fund had \$14,186,000 (2015: \$20,226,000) financial instruments in level 2.

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

Recognised fair value measurements

The following table presents the Fund's assets and liabilities measured and recognised at fair value for the year ended 30 June 2016 and 30 June 2015:

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
2016				
Financial assets				
Financial assets designated at fair value through profit or loss:				
Unlisted unit trusts	-	14,186	-	14,186
Total	-	14,186	-	14,186
2015				
Financial assets				
Financial assets designated at fair value through profit or loss:				
Unlisted unit trusts	-	20,226	-	20,226
Total	-	20,226	-	20,226

Notes to the Financial Statements

4. Fair value measurement (continued)

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities and certain listed unit trusts.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include certain listed equities, certain listed unit trusts, and over-the-counter derivatives. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded. Level 3 instruments include corporate debt securities. As observable prices are not available for these securities, the Responsible Entity has used valuation techniques to derive fair value.

Transfers between levels

There have been no transfers between levels for the year ended 30 June 2016 and 30 June 2015.

5. Use of estimates and judgements

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The Fund solely invests in to the Aurora Fortitude Absolute Return Fund ("AFARF"). As at 30 June 2016, 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.

In February 2016, Aurora made the decision to freeze applications and redemptions in the Master Fund, on the basis that it could not accurately determine a value for the AZZG Notes.

For the purposes of the June 2016 year-end financial statements, and after careful consideration of all of the available information, Aurora has formed the view that the AZZG Notes should be recognised at a nil value.

In forming this view, Aurora has relied on the following information:

- On 8 April 2016, Antares Energy Limited ("Antares") issued a notice of resumed meeting of noteholders (to be held on 29 April 2016) to, amongst other things, extend the reset date of the AZZG Notes to 31 March 2017 and amend the next interest payment date to 30 April 2017. This meeting did not proceed.
- On 29 April 2016, Antares appointed Bryan Kevin Hughes and Daniel Johannes Bredenkamp of Pitcher Partners as Joint and Several Administrators.
- On 10 May 2016, following a resolution passed at the first meeting of creditors, Quentin James Olde and Michael Joseph Ryan of FTI Consulting replaced Bryan Kevin Hughes and Daniel Johannes Bredenkamp of Pitcher Partners as Joint and Several Administrators of Antares.

Notes to the Financial Statements

5. Use of estimates and judgements (continued)

Key sources of estimation uncertainty (continued)

- As part of the 30 June 2016 year end procedures, Aurora engaged an external independent valuer in the US, South Texas Reservoir Alliance LLC (STXRA), to perform an independent valuation of the underlying assets of Antares, being Northern Star and Big Star (STXRA conducted a similar valuation for the purposes of Aurora's 31 December 2015 financial statements). In summarising the STXRA valuation, the following observations are relevant:
 - STXRA reviewed, in the course of its analysis, both recent market transactions and public land records to provide both a liquidation and transactional evaluation of the assets;
 - The Administrator of Antares, FTI Consulting, made an ASX Announcement on 30 August 2016 calling for Expressions of Interest. In that Announcement, the Administrator advised that circa 5,000 acres of leased land had expired, leaving circa 15,900 acres;
 - STXRA indicated that "there is a trend in the E&P industry right now to only focus on core acreage and this leasehold is not considered core in the Midland basin so the number of potential purchasers for this asset are pretty limited";
 - STXRA provided a valuation range of between USD\$985,000 (representing 2X the lower end of the Liquidation value) to USD\$12,312,500 (representing 5X the upper end of the Liquidation value) (being AUD\$1,279,055 to AUD\$15,988,183). The face value of the AZZG Notes is AUD\$47.5 million;
 - STXRA concluded that Antares, given its financial situation and inaction on its leases, would probably tend more towards lower end of liquidation pricing;
 - STXRA also noted that "due to Antares lease position falling apart and the recent lower price per acre metrics, it appears that this asset will tend to the lower values";
 - The STXRA valuation range excludes any other liabilities and costs that need to be satisfied by the Administrator;
 - The Master Fund holds circa 11.0% of the AZZG Notes;
 - Antares has been trying to sell the asset for a number of years, with no sale forthcoming; and
 - The external valuation is based on the value of the acreage, so any costs of administration would need to be paid first.

In addition to the STXRA valuation, Aurora management had regard to confidential information and reports provided by the Administrators.

The fair value of the AZZG Notes is based on significant estimates and judgements adopted by management of Aurora based on the prevailing market conditions and all available information about Antares as at the date of this report.

Aurora management considered the range of possible values and determined that the fair value of the AZZG Notes held by the Trust should be nil as at 30 June 2016.

6. Other operating expenses

	2016 \$'000	2015 \$'000
Bank, prime broker and brokerage fees	3	7

Notes to the Financial Statements

7. Remuneration of auditors

During the year the following fees were paid or payable by the Responsible Entity on behalf of the Fund for services provided by the auditor of the Fund. The auditor of the Fund is Deloitte Touche Tohmatsu (2015: Deloitte Touche Tohmatsu). The Responsible Entity is responsible for payment on behalf of the Fund.

	2016	2015
	\$	\$
Audit and other assurance services		
Audit and review of financial statements	17	13
Audit of the compliance plan	2	4
Total remuneration for audit and other assurance services	19	17
Taxation services		
Tax compliance services	3	3
Total remuneration for tax services	3	3
Total remuneration of Deloitte Touche Tohmatsu	22	20

8. Net assets attributable to unitholders

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

	2016	2015	2016	2015
	No. '000	No. '000	\$'000	\$'000
Opening balance - excluding treasury units	21,443	23,740		
Applications	1	12,068		
Redemptions	(4,742)	(14,503)		
Units issued upon reinvestment of distributions	80	138		
Closing balance - excluding treasury units	16,782	21,443		
Opening balance - treasury units	-	1,136		
Applications	-	515		
Redemptions	-	(6,175)		
Creation of treasury units	-	4,800		
Cancellation of treasury units	-	(276)		
Closing balance - treasury units	-	-		
Opening balance - including treasury units	21,443	24,876	20,736	24,410
Applications	1	12,583	0	6,765
Redemptions	(3,753)	(20,678)	(3,664)	(8,864)
Buy-backs	(989)	-	(949)	-
Units issued upon reinvestment of distributions	80	138	78	139
Creation of treasury units	-	4,800	-	-
Cancellation of treasury units	-	(276)	-	-
Decrease in net assets attributable to unitholders	-	-	(1,945)	(1,714)
Closing balance - including treasury units	16,782	21,443	14,256	20,736

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

Notes to the Financial Statements

8. Net assets attributable to unitholders (continued)

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. The Fund was exposed to daily cash redemptions of redeemable units up to February 2016. From February to August 2016, daily application and redemptions were suspended 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 redemption of units if the exercise of such discretion is in the best interests of unitholders.

9. Distributions to unitholders

The distributions for the year were as follows:

	2016		2015	
	\$'000	CPU	\$'000	CPU
Distributions paid	592	3.38	1,163	4.06
Distributions payable	159	0.95	210	0.98
Other distributions payable from previous quarters	12		9	
Total distributions	763		1,382	

10. Cash and cash equivalents

	2016	2015
	\$'000	No. '000
Cash at bank	84	923
Total	84	923

11. Financial assets held at fair value through profit or loss

	2016	2015
	\$'000	\$'000
Designated at fair value through profit or loss		
Unlisted unit trusts	14,186	20,226
Total financial assets held at fair value through profit or loss	14,186	20,226
Comprising:		
Unlisted unit trusts		
Units in Australian unit trusts	14,186	20,226
Total financial assets held at fair value through profit or loss	14,186	20,226

An overview of the risk exposure relating to financial assets at fair value through profit or loss is included in Note 4.

12. Other liabilities

	2016	2015
	\$'000	\$'000
Redemption payable	-	394
Broker fees payable	-	0
Withholding tax payable	-	5
Total other liabilities	-	398

Notes to the Financial Statements

13. Related party transactions

Responsible Entity

The Responsible Entity of Aurora Absolute Return Fund is Aurora Funds Management Limited.

Other transactions within the Fund

During the previous financial year, the Fund transferred the unit registry functions to Registry Direct which is owned by one of the resigned directors of the Responsible Entity, Steuart Roe. Fees paid to Registry Direct were directly paid by the Responsible Entity and not reimbursed by the Fund. The transactions between Registry Direct and the Responsible Entity are detailed below:

	2016	2015
	\$	\$
Fees paid to Registry Direct by the Responsible Entity on behalf of ABW	24,029	29,358

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

Other related party information

On 30 June 2016, Seventh Orion Pty Ltd as trustee for the Aurora Investments Unit Trust (Seventh Orion) acquired 100% of the ordinary shares of Aurora Funds Management Limited, being the Responsible Entity of Aurora Absolute Return Fund.

The sole owner of Seventh Orion Pty Ltd is John Patton, the Managing Director of Aurora Funds Management Limited.

John Patton was appointed Non-executive director of Keybridge Capital Limited on 10 August 2016.

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 unit holdings

During the previous financial year, the Trust purchased and sold units in itself as part of its Treasury Unit trading activities. Details of the Trust's investments in itself and other investment schemes which are managed by the Responsible Entity are set out below:

30 June 2016	No. units held Opening	No. units held Closing	Fair value of Investment	Interest held	No of units acquired	No. of units disposed	Distributions paid/payable by the Trust (\$)
Aurora Absolute Return Fund	-	-	-	0.00%	-	-	-
Aurora Fortitude Absolute Return Fund	23,935,583	19,030,897	14,186,000	23.44%	660,604	5,565,290	671,978

30 June 2015	No. units held Opening	No. units held closing	Fair value of investment	Interest held	No of units acquired	No. of units disposed	Distributions paid/payable by the Trust (\$)
Aurora Absolute Return Fund	1,136,121	-	-	0.00%	5,314,627	6,450,748	6,617
Aurora Fortitude Absolute Return Fund	25,721,191	23,935,583	20,225,568	23.08%	8,901,848	10,687,456	1,504,905

Notes to the Financial Statements

13. Related party transactions (continued)

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

The Fund paid \$nil management fees to the Responsible Entity (2015: \$nil). Management fees are charged to the Master Fund as it bears the fees and expenses relating to management and performance fees. These are reflected in the net asset value of the Master Fund and therefore carried into the performance of this Fund.

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

	2016 \$'000	2015 \$'000
(a) Reconciliation of profit to net cash inflow/(outflow) from operating activities		
Profit for the year		-
Increase/(decrease) in net assets attributable to unitholders	(1,945)	(1,714)
Distributions to unitholders	763	1,382
Proceeds from sale of financial instruments held at fair value through profit or loss	4,747	9,200
Purchase of financial instruments held at fair value through profit or loss	(561)	(7,957)
Net losses on financial instruments held at fair value through profit or loss	1,854	1,687
Net change in receivables	48	153
Net cash outflow from operating activities	4,906	2,752
(b) Non-cash financing activities		
During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan	78	139

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

15. Commitments

There were no commitments for expenditure at 30 June 2016 (2015: nil)

16. Contingent assets and liabilities

There were no contingent assets and liabilities at 30 June 2016 (2015: nil).

17. Events occurring after reporting period

On 25 July 2016, the Responsible Entity announced the re-introduction of its on-market buyback program, effective 31 August 2016.

On 19 August 2016, the Responsible Entity made an ASX Announcement advising that it expected to recognize a non-cash impairment charge against the carrying value of the Antares Energy Limited Convertible Notes held by the Master Fund as at 30 June 2016.

Notes to the Financial Statements

17. Events occurring after reporting period (continued)

Subsequent to year end, the Responsible Entity has received redemption requests totalling 1,796,813 units representing approximately 10.7% of the Fund.

On 21 September 2016, the Responsible Entity announced a notice of unitholders meeting that will take place on 31 October 2016.

Directors' Declaration

The Directors of the Responsible Entity declare that:

- (a) in the Directors' opinion, there are reasonable grounds to believe that the scheme will be able to its debts as and when they become due and payable;
- (b) in the Directors' opinion, the attached financial statements the attached financial statements are in compliance with International Financial Reporting Standards, as noted in note 2(a) 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 an giving a true and fair view of the financial position and performance of the scheme; and
- (d) the Directors have been given the declarations required by s.295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the Directors of the Responsible Entity made pursuant to s.295(5) of the *Corporations Act 2001*.

On behalf of the Responsible Entity, Aurora Funds Management Limited



John Patton

Managing Director

25 September 2016

Independent Auditor's Report to the Unitholders of Aurora Absolute Return Fund

We have audited the accompanying financial report of Aurora Absolute Return Fund ("the Fund"), which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Fund as set out on pages 14 to 37.

Directors' Responsibility for the Financial Report

The directors of the Responsible Entity, Aurora Funds Management Limited, 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 Note 2, the directors of the Responsible Entity also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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


Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Responsible Entity, would be in the same terms if given to the directors as at the time of this auditor's report.

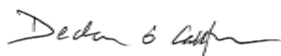
Opinion

In our opinion:

- (a) the financial report of Aurora Absolute Return Fund is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Fund's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.



DELOITTE TOUCHE TOHMATSU



Declan O'Callaghan
Partner
Chartered Accountants

Sydney, 25 September 2016

Additional information

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

Investment Portfolio

As at 30 June 2016, the Fund had the following investment:

- 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 following unit holder information set out below was applicable as at 22 September 2016.

Distribution holdings	Number of unitholders
1 - 1,000	57
1,001 - 5,000	122
5,001 - 10,000	80
10,001 -100,000	312
100,001 and over	17
Total	588

Top 20 Unit holders

The names of the largest twenty unit holders in the Fund as at 22 September 2016 are listed below:

Holder Name	Number of units held	Percentage of total
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	675,059	4.5
NATIONAL NOMINEES LIMITED	669,401	4.47
MR MICHAEL RIGONI	591,600	3.95
MR MURRAY WILLIAM BROWN	200,000	1.33
MRS DIANA BEATRICE MACKEN	194,500	1.3
R STEWART PTY LTD	186,287	1.24
COATES HALL INVESTMENTS PTY LTD	141,890	0.95
PALM AVENUE INVESTMENTS PTY LIMITED	141,126	0.94
MR ALBERT JOHN SCOTT	141,000	0.94
BOND STREET CUSTODIANS LIMITED	140,845	0.94
BOND STREET CUSTODIANS LIMITED	140,000	0.93
MR WILLIAM STUART MILLAR	140,000	0.93
LAYBEN PTY LIMITED	139,645	0.93
SECCO NOMINEES PTY LTD	130,800	0.87
GAMBLE HARTWELL PTY LTD	120,000	0.8
COLIN HINGSTON & ASSOCIATES PTY LIMITED	111,900	0.75
MS NICOLA ANN BALL + MRS JUDITH ANN THOMPSON	102,170	0.68
K & F JONES PTY LTD	100,000	0.67
FIREFLY SUPER PTY LTD	100,000	0.67
MR DANIEL VACLAV NOVAK	100,000	0.67
Total	4,266,223	28.46

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

Corporate Directory

Directors of Responsible Entity	Jim Hallam John Patton Betty Poon
Company Secretary	Betty Poon
Registered Office	Level 4, 1 Alfred Street Sydney, NSW 2000
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	<u>To 30 June 2016</u> Baker & McKenzie Level 27, AMP Centre 50 Bridge Street Sydney, NSW 2000
Solicitors	<u>From 1 July 2016</u> Atanaskovic Hartnell Atanaskovic Hartnell House 75-78 Elizabeth Street Sydney, NSW 2000
Securities Exchange Listing	Australian Securities Exchange (ASX) ASX Code: (ABW)
Website	http://www.aurorafunds.com.au