

**Aurora Fortitude Absolute Return Fund**  
**ARSN 145 894 800**

**Annual Report**  
**For the year ended 30 June 2017**

# Contents

	Page
Directors' report	2
Auditor's independence declaration	9
Statement of profit or loss and other comprehensive income	10
Statement of financial position	11
Statement of changes in equity	12
Statement of cash flows	13
Notes to the financial statements	14
Directors' declaration	39
Independent auditor's report	40

# Directors' Report

The directors of Aurora Funds Management Limited (ABN 69 092 626 885), (the "Responsible Entity") of Aurora Fortitude Absolute Return Fund ("the Fund"), present their annual report together with the financial statements of the Fund for the year ended 30 June 2017.

## Principal activities

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

The Fund did not have any employees during the year.

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

## Directors

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

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

## Units on issue

	2017	2016
At 30 June	22,560,516	81,179,930

## 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	(2,451,285)	(4,606,417)
Distributions paid and payable	(821,980)	(2,908,825)
Distribution (cents per unit) 30 September	0.75	0.85
Distribution (cents per unit) 31 December	0.73	0.86
Distribution (cents per unit) 31 March	0.74	0.85
Distribution (cents per unit) 30 June	0.73	0.82

# 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	14,202,985	61,779,323
Difference between net assets for unit pricing purposes and bid/ask price held at fair value through profit or loss	(110,877)	(534,088)
Distribution payable	(163,863)	(669,247)
Other adjustments	-	(68,269)
Nets assets under Australian Accounting Standards	13,928,245	60,507,719

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

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

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

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

## Significant changes in state of affairs

### Antares Energy Limited Convertible Notes

The Fund holds an investment in Antares Energy Limited Convertible Notes (ASX: AZZG). For the year ended 30 June 2017, 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 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 a Fund update, the following redemption guidelines in the 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 6,603,341 units subject to redemption guidelines.

## General Meeting of Unitholders

On 30 June 2016, Providence Wealth Advisory Group Pty Ltd (Providence), acting on behalf of certain unitholders, requested a redemption of all of the investments of its investors and this request was processed on 9 September 2016. On 29 July 2016, notwithstanding their earlier redemption request, Aurora's Company Secretary received, by email, a request from Providence, acting on behalf of a group of unitholders, to convene a meeting under section 252B of the *Corporations Act 2001*.

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

# Directors' Report

## Significant changes in state of affairs (continued)

On 30 November 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. The cost associated with this general meeting was \$74,458 which was paid from the Fund.

### 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

### Takeover Bid for MPO

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.

### RNY Property Trust

The Fund holds 1.58% of the issued capital of RNY Property Trust ("RNY"). RNY share price at 30 June 2017 was \$0.03.

On 18 July 2017, RNY announced the results of the marketing of five of its properties encumbered by a loan, were materially below the 31 December 2016 valuations, which would result in an estimated NTA per unit of between \$0.01 - \$0.03. As a result, on 18 July 2017, RNY's share price fell sharply (-70%) to \$0.01.

On 20 July 2017, RNY announcement that they have received a notice from the Responsible Entity of the Aurora Property Buy-Write Income Trust requesting that RNY call a unitholder meeting pursuant to section 601FM(3) of the Corporations Act 2001 for the purpose of considering and voting on resolutions to remove the current responsible entity and appoint Aurora Funds Management Limited as responsible entity.

On 7 August 2017, RNY issued a Notice of Meeting and Explanatory Memorandum for a Unitholder meeting to consider and vote on the change in responsible entity to Aurora Funds Management Limited as well as its "Cash Distribution Strategy".

The Unitholder meeting is scheduled for 12 September 2017.

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.

# Directors' Report

## 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 "Management 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 16 to the financial statements.

## Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in Note 12 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 9 to Note 11 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:	<b>John Patton</b>
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:	<b>Betty Poon</b>
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 in 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 16 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, sweeping flourish at the end.

John Patton  
Managing Director  
31 August 2017  
Melbourne

The Board of Directors  
Aurora Funds Management Limited  
Level 6, Suite 613  
370 St Kilda Road  
Melbourne VIC 3004

31 August 2017

Dear Sirs,

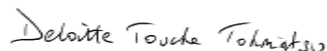
## **Aurora Fortitude Absolute Return Fund**

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 Fortitude Absolute Return Fund.

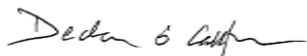
As lead audit partner for the audit of the financial statements of Aurora Fortitude Absolute Return Fund for the financial year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (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

# Financial Statement

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

	Note	2017 \$	2016 \$
<b>Investment Income</b>			
Interest income		232,117	1,177,465
Dividend and distribution income		782,986	5,569,238
Net gains/(Losses) on financial instruments held at fair value through profit or loss		(2,070,121)	(8,654,195)
Other operating income		30,358	82,800
<b>Total net investment income/(loss)</b>		<b>(1,024,660)</b>	<b>(1,824,692)</b>
<b>Expenses</b>			
Management fees	16	392,328	1,109,570
Performance fees	16	-	165,046
Recovery costs	16	479,120	169,381
Administration costs		91,350	105,034
Other operating expenses	14(a)	33,863	382,339
Takeover panel costs	14(b)	289,227	-
Unitholder meeting costs	14(c)	74,458	-
Interest expense		12,670	405,488
Dividend expense		53,609	444,867
<b>Total operating expenses</b>		<b>1,426,625</b>	<b>2,781,725</b>
<b>Operating profit/(loss) for the year</b>		<b>(2,451,285)</b>	<b>(4,606,417)</b>
<b>Finance costs attributable to unitholders</b>			
Distributions to unitholders	13	(821,980)	(2,908,825)
Decrease in net assets attributable to unitholders	12	3,273,265	7,515,242
<b>Profit/(loss) for the year</b>		<b>-</b>	<b>-</b>
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>

*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 \$
<b>Assets</b>			
Cash and cash equivalents	9	715,560	39,327,006
Dividends Receivable		79,031	131,165
Receivables		33,652	132,978
Due from brokers - receipts for securities sold		354,056	4,047,977
Financial assets held at fair value through profit or loss	10	13,355,015	30,604,835
<b>Total assets</b>		<b>14,537,314</b>	<b>74,243,961</b>
<b>Liabilities</b>			
Distributions payable	13	163,863	669,247
Due to brokers - payable for securities purchased		20	1,593,031
Futures margin account	9	100,546	1,735,674
Financial liabilities held at fair value through profit or loss	11	168,265	8,991,145
Other payables		176,375	747,145
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<b>609,069</b>	<b>13,736,242</b>
<b>Net assets attributable to unitholders – liability</b>	12	<b>13,928,245</b>	<b>60,507,719</b>
<b>Liabilities attributable to unitholders</b>		<b>(13,928,245)</b>	<b>(60,507,719)</b>
<b>Net assets</b>		<b>-</b>	<b>-</b>

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

*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 \$
<b>Cash flows from operating activities</b>			
Proceeds from sale of financial instruments held at fair value through profit or loss		195,762,558	1,394,684,768
Purchase of financial instruments held at fair value through profit or loss		(187,304,829)	(14,893,284)
Transaction costs on sale and purchase of financial instruments		-	-
Dividends and distributions received		835,120	6,648,638
Interest received		284,411	1,138,191
Other income		33,240	79,710
Interest paid		(12,670)	(554,405)
Investment management fee paid		(638,647)	(1,130,940)
Dividend expenses		(158,371)	(352,521)
GST received		27,571	-
Other operating expenses		(1,171,b)	(349,211)
<b>Net cash inflow/(outflow) from operating activities</b>	17(a)	7,657,199	108,673,070
<b>Cash flows from financing activities</b>			
Proceeds from applications by unitholders (excluding treasury units)		5,205,047	8,953,128
Payments for redemptions by unitholders (excluding treasury units)		(48,771,034)	(29,410,006)
Distributions paid		(1,067,530)	(2,232,799)
<b>Net cash (inflow)/outflow from financing activities</b>		(44,633,517)	(22,689,677)
<b>Net (decrease)/increase in cash and cash equivalents</b>		(36,976,318)	85,983,393
Cash and cash equivalents at the beginning of the year		37,591,332	(48,392,061)
<b>Cash and cash equivalents at the end of the year</b>	9	615,014	37,591,332
<b>Non-cash financing activities</b>	17(b)	259,834	894,644

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

# Notes to Financial Statements

## Contents

1	General information
2	Significant accounting policies
3	Other significant accounting policies
4	Critical accounting judgements, estimates and assumptions
5	Operating segments
6	Financial instruments
7	Fair value measurement
8	Derivative financial instruments
9	Cash and cash equivalents
10	Financial assets held at fair value through profit or loss
11	Financial liabilities held at fair value through profit or loss
12	Net assets attributable to unitholders
13	Distributions to unitholders
14	Expenses
15	Remuneration of auditors
16	Related party transactions
17	Reconciliation of profit to net cash inflow/(outflow) from operating activities
18	Events after the reporting period
19	Commitments
20	Contingent assets and liabilities

# Notes to Financial Statements

## **Note 1. General information**

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

The Responsible Entity of the Fund is Aurora Funds Management Limited (the "Responsible Entity"). The Responsible Entity's registered office is Suite 613, Level 6 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, Fund distributions and securities sold where settlement has not yet occurred. 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. 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. Fund 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 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 held shares in MPO valued at \$4,300,851 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 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).

# Notes to Financial Statements

## Note 6. Financial Instruments (continued)

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

	Floating interest rate	Fixed interest rate	Non interest bearing	Total
30 June 2017				
<b>Financial assets</b>	AUD	AUD	AUD	AUD
Cash and cash equivalents	715,560	-	-	715,560
Dividends receivable	-	-	79,031	79,031
Receivables	-	-	33,652	33,652
Due from brokers – receipt for securities sold	-	-	354,056	354,056
Financial assets held at fair value through profit or loss	-	-	13,355,015	13,355,015
<b>Financial liabilities</b>				
Futures margin account	(100,546)	-	-	(100,546)
Distribution payable	-	-	(163,863)	(163,863)
Due to brokers – receipts for securities bought	-	-	(20)	(20)
Financial liabilities held at fair value through profit or loss	-	-	(168,265)	(168,265)
Other payables	-	-	(176,375)	(176,375)
<b>Net exposure</b>	615,014	-	13,313,231	13,928,245

<b>Note 6. Financial Instruments (continued)</b>	Floating interest rate	Fixed interest rate	Non interest bearing	Total
30 June 2016				
<b>Financial assets</b>	AUD	AUD	AUD	AUD
Cash and cash equivalents	39,327,006	-	-	39,327,006
Dividends receivable	-	-	131,165	131,165
Receivables	-	-	132,978	132,978
Due from brokers – receipt for securities sold	-	-	4,047,977	4,047,977
Financial assets held at fair value through profit or loss	-	-	30,604,835	30,604,835
<b>Financial liabilities</b>				
Futures margin account	(1,735,674)	-	-	(1,735,674)
Distribution payable	-	-	(669,247)	(669,247)
Due to brokers – receipts for securities bought	-	-	(1,593,031)	(1,593,031)
Financial liabilities held at fair value through profit or loss	-	-	(8,991,145)	(8,991,145)
Other payables	-	-	(747,145)	(747,145)
<b>Net exposure</b>	37,591,332	-	22,916,387	60,507,719



# Notes to Financial Statements

## Note 6. Financial Instruments (continued)

### (b) Price risk and Interest rate risk

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

	Price Risk		Interest Rate Risk	
	Impact on operating profit/net assets attributable to unitholders			
	-10%	+10%	-100 bps	+100 bps
	\$	\$	\$	\$
30 June 2017	(1,318,675)	1,318,675	6,150	(6,150)
30 June 2016	(1,180,745)	1,180,745	(3,152)	3,152

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.

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

# Notes to Financial Statements

## Note 6. Financial Instruments (continued)

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

	2017 \$	2016 \$
<b>Rating</b>		
AA	82,123	38,793
A	-	39,288,213
BBB	633,437	-
<b>Total</b>	<b>715,560</b>	<b>39,327,006</b>
A		(1,735,674)
BBB	(100,546)	
<b>Total future margin account</b>	<b>(100,546)</b>	<b>(1,735,674)</b>

### (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 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 recommenced on 8 September 2016 until 31 December 2016. 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.

The Fund was also exposed to daily margin calls on derivatives. It therefore primarily holds investment that are traded in an active market and can be readily disposed. However, the Fund holds an investment in Molopo Energy Limited which are to be vested in ASIC to sell over a period of 6 months. As a result, the Fund may not be able to quickly liquidate its investments in these instruments at an amount close to their fair value to meet its liquidity requirements.

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

# Notes to Financial Statements

## Note 6. Financial Instruments (continued)

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
<b>Liabilities</b>					
Futures margin account	100,546	-	-	-	100,546
Distribution payable	163,863	-	-	-	163,863
Due to brokers – payments for securities purchased	20	-	-	-	20
Financial liabilities held at fair value through profit or loss	168,265	-	-	-	168,265
Other payables	176,375	-	-	-	176,375
Net assets attributable to unitholders	-	13,928,245	-	-	13,928,245
<b>Contractual cash flows (excluding gross settled derivatives)</b>	<b>609,069</b>	<b>13,928,245</b>	<b>-</b>	<b>-</b>	<b>14,537,314</b>

30 June 2016	Less than 1 month	1-6 months	6-12 months	1-2 years	Total
<b>Liabilities</b>					
Futures margin account	1,735,674	-	-	-	1,735,674
Distribution payable	669,247	-	-	-	669,247
Due to brokers – payments for securities purchased	1,593,031	-	-	-	1,593,031
Financial liabilities held at fair value through profit or loss	8,991,145	-	-	-	8,991,145
Other payables	747,145	-	-	-	747,145
Net assets attributable to unitholders	-	60,507,719	-	-	60,507,719
<b>Contractual cash flows (excluding gross settled derivatives)</b>	<b>13,736,242</b>	<b>60,507,719</b>	<b>-</b>	<b>-</b>	<b>74,243,961</b>

30 June 2017	Less than 1 month	1-6 months	6-12 months	1-2 years	Total
<b>Net settled derivatives</b>					
Australian traded options	-	980,646	-	-	980,646
Australian share price index futures	-	21,275	-	-	21,275
Australian traded warrants	-	521,971	-	-	521,971
<b>Total net settled derivatives</b>	<b>-</b>	<b>1,523,892</b>	<b>-</b>	<b>-</b>	<b>1,523,892</b>

30 June 2016	Less than 1 month	1-6 months	6-12 months	1-2 years	Total
<b>Net settled derivatives</b>					
Australian traded options	-	592,773	-	-	592,773
Australian share price index futures	-	(15,253)	-	-	(15,253)
Australian traded warrants	-	1,920	-	-	1,920
<b>Total net settled derivatives</b>	<b>-</b>	<b>579,440</b>	<b>-</b>	<b>-</b>	<b>579,440</b>

### Offsetting of financial assets and liabilities

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

# Notes to Financial Statements

## 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.

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 price 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.

# Notes to Financial Statements

## Note 7. Fair value measurement (continued)

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	\$	\$	\$	\$
<b>Financial assets</b>				
Financial assets held for trading:				
Derivatives	1,502,617	-	-	1,502,617
Financial assets designated at fair value through profit or loss:				
Equity securities	7,551,547	4,300,851	-	11,852,398
<b>Total financial assets</b>	<b>9,054,164</b>	<b>4,300,851</b>	<b>-</b>	<b>13,355,015</b>
<b>Financial liabilities</b>				
Financial liabilities held for trading:				
Derivatives	(21,275)	-	-	(21,275)
Financial liabilities designated at fair value through profit or loss:				
Equity securities	189,540	-	-	189,540
<b>Total financial liabilities</b>	<b>168,265</b>	<b>-</b>	<b>-</b>	<b>168,265</b>
<b>30 June 2016</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Financial assets</b>				
Financial assets held for trading:				
Derivatives	653,919	-	-	653,919
Financial assets designated at fair value through profit or loss:				
Equity securities	29,950,916	-	-	29,950,916
<b>Total financial assets</b>	<b>30,604,835</b>	<b>-</b>	<b>-</b>	<b>30,604,835</b>
<b>Financial liabilities</b>				
Financial liabilities held for trading:				
Derivatives	74,769	-	-	74,769
Financial liabilities designated at fair value through profit or loss:				
Equity securities	8,916,376	-	-	8,916,376
<b>Total financial liabilities</b>	<b>8,991,145</b>	<b>-</b>	<b>-</b>	<b>8,991,145</b>

### Transfers between levels

There has been one transfer between levels for the year ended 30 June 2016 (30 June 2015: one transfer). Please refer to Note 4 for relevant information.

### Valuation techniques for fair value measurements

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

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

# Notes to Financial Statements

## Note 7. Fair value measurement (continued)

### Reconciliation of level 2 fair values

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

	2017 \$	2016 \$
<b>Opening balance</b>		
Transfers in/(out) of level 2	4,300,851	-
Change in value of financial asset held at fair value through profit or loss	-	-
<b>Closing balance</b>	4,300,851	-

### Reconciliation of level 3 fair values

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

	2017 \$	2016 \$
<b>Opening balance</b>		
Transfers in/(out) of level 3	-	5,572,985
Change in value of financial asset held at fair value through profit or loss	-	(5,572,985)
<b>Closing balance</b>	-	-

#### *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.

# Notes to Financial Statements

## Note 8. Derivative financial instruments

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

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

- hedging to protect an asset or liability of the Fund against a fluctuation in market values or to reduce volatility
- a substitution for trading of physical securities
- adjusting asset exposures within the parameters set in the investment strategy, and adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.

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

The Fund holds the following derivative instruments:

### (a) Equity swaps

An equity swap is a financial derivative contract (a swap) where a set of future cash flows are agreed to be exchanged between two counterparties at set dates in the future. The two cash flows are usually referred to as "legs" of the swap; one of these "legs" is usually pegged to a floating rate. The other leg of the swap is based on the performance of either a share of stock or a stock market index. Most equity swaps involve a floating leg versus an equity leg, although some exist with two equity legs. An equity swap involves a notional principal, a specified tenor and predetermined payment intervals. Equity swaps are typically traded by Delta One trading desks.

### (b) Options

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

### (c) Warrants

A warrant is a contractual arrangement under which the issuer grants the holder the right to purchase securities (usually equity) from the issuer at a specific price within a certain time frame. Warrants held by the Fund are exchange traded.

# Notes to Financial Statements

## Note 8. Derivative financial instruments (continued)

The table below details the Fund's derivative financial instruments at year end.

	Contractual/ notional \$	Fair values Assets \$	Liabilities \$
30 June 2017			
<b>Australian exchange traded derivatives</b>			
Australian share price index futures	1,857,200	-	(21,275)
Exchange traded options	-	980,646	-
Exchange traded warrants	199,182	521,971	-
<b>Total Australian exchange traded derivatives</b>	<b>2,056,382</b>	<b>1,502,617</b>	<b>(21,275)</b>

	Contractual/ notional \$	Fair values Assets \$	Liabilities \$
30 June 2016			
<b>Australian exchange traded derivatives</b>			
Australian share price index futures	1,294,000	-	15,253
Exchange traded options	25,397,865	592,773	-
Exchange traded forwards	-	59,226	59,516
Exchange traded warrants	240	1,920	-
<b>Total Australian exchange traded derivatives</b>	<b>26,692,105</b>	<b>653,919</b>	<b>74,769</b>

Refer to Note 6 for further information on financial instruments.

Refer to Note 7 for further information on fair value measurement.

## Note 9. Cash and cash equivalents

	2017 \$	2016 \$
Cash at bank	715,560	39,327,006
Futures margin account	(100,546)	(1,735,674)
<b>Total cash and cash equivalents</b>	<b>615,014</b>	<b>37,591,332</b>

### Accounting policy for cash and cash equivalents

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

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

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



# Notes to Financial Statements

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

	2017 \$	2016 \$
<b>Equity securities</b>		
Listed Australian equity securities	11,852,398	29,950,916
<b>Total equity securities</b>	11,852,398	29,950,916
<b>Derivatives</b>		
Exchange traded options	980,646	592,773
Exchange traded forwards	-	59,226
Exchange traded warrants	521,971	1,920
<b>Total derivatives</b>	1,502,617	653,919
<b>Total financial assets held at fair value through profit or loss</b>	13,355,015	30,604,835

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

## Note 11. Financial liabilities held at fair value through to profit or loss

	2017 \$	2016 \$
<b>Equity securities</b>		
Listed Australian equity securities	189,540	8,916,376
<b>Total equity securities</b>	189,540	8,916,376
<b>Derivatives</b>		
Exchange traded forwards	-	59,516
Exchange traded warrants	(21,275)	15,253
<b>Total derivatives</b>	(21,275)	74,769
<b>Total financial liabilities held at fair value through profit or loss</b>	168,265	8,991,145

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

# Notes to Financial Statements

## Note 12. 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 \$
<b>Opening balance</b>	81,179,930	103,694,227	60,507,719	87,113,449
Applications	7,086,348	10,504,726	5,205,047	8,953,014
Redemptions	(66,060,102)	(34,077,181)	(48,771,090)	(28,938,146)
Units issued upon reinvestment of distributions	354,340	1,058,158	259,834	894,644
Increase/(decrease) in net assets attributable to unitholders	-	-	(3,273,265)	(7,515,242)
<b>Closing balance</b>	<b>22,560,516</b>	<b>81,179,930</b>	<b>13,928,245</b>	<b>60,507,719</b>

As stipulated within the Fund Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund.

### *Accounting policy for net assets attributable to unitholders*

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund.

Redemptions from the Fund are recorded gross of any exit fees payable after the cancellation of units redeemed.

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

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 6,603,341 units subject to redemption guidelines.

# Notes to Financial Statements

## Note 13. Distribution to unitholders

The distributions for the year were as follows:

	2017 \$	2017 CPU	2016 \$	2016 CPU
Distributions paid	658,117	2.22	2,239,578	2.56
Distributions payable (30 June 2017 quarter)	163,863	0.73	669,247	0.82
<b>Total distributions</b>	<b>821,980</b>	<b>2.95</b>	<b>2,908,825</b>	<b>3.38</b>

### 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 14. Expenses

### (a) Other operating expenses

	2017 \$	2016 \$
Bank, prime broker and brokerage fees	35,423	216,531
Trade commissions	(780)	8,773
Professional fee expenses	-	119,000
General fund expenses	(780)	38,035
<b>Total other operating expenses</b>	<b>33,863</b>	<b>382,339</b>

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.

### Note 14. Expenses (continued)

### (b) Takeover panel costs

	2017 \$	2016 \$
Takeover panel costs	289,227	-
<b>Total takeover panel costs</b>	<b>289,227</b>	<b>-</b>

The Trust incurred legal costs in relation to the Takeover Panel proceedings of Molopo Energy Limited.

### (c) Unitholder meeting costs

	2017 \$	2016 \$
Unitholder meeting costs	74,458	-
<b>Total unitholder meeting costs</b>	<b>74,458</b>	<b>-</b>

The Fund incurred legal costs in relation to the general meeting called by Providence Wealth Advisory Group Pty Ltd.

# Notes to Financial Statements

## Note 15. 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 \$
<b>Audit and other assurance services</b>		
Audit and review of financial statements	17,233	32,638
Audit of compliance plan	5,133	2,000
<b>Total remuneration for audit and other assurance services</b>	<b>22,366</b>	<b>34,638</b>
<b>Taxation services</b>		
Tax compliance services	16,017	7,200
<b>Total remuneration for tax services</b>	<b>16,017</b>	<b>7,200</b>
<b>Total remuneration of Deloitte Touche Tohmatsu</b>	<b>38,383</b>	<b>41,838</b>

## Note 16. Related party transactions

### *Responsible Entity*

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

### *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 other management investment schemes also managed 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 Absolute Return Fund	19,030,897	10,613,844	\$6,601,811	47.05%	1,436,528	9,853,581	\$357,807

### 30 June 2016

Aurora Absolute Return Fund	23,935,583	19,030,897	\$14,186,000	23.44%	660,604	5,565,290	\$671,978
--------------------------------	------------	------------	--------------	--------	---------	-----------	-----------

# Notes to Financial Statements

## Note 16. 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. The Fund holds an investment in Keybridge Capital Limited of \$1,548,474 (2016: \$Nil); and
- Mr Patton was appointed to the Board of Metgasco Limited as a Non-Executive Director on 19 September 2016. The Fund holds an investment in Metgasco Limited of \$165,465 (2016: \$87,018)

### *Investments*

The Fund holds the following investments schemes which are also managed by the Responsible Entity.

<b>30 June 2017</b>	<b>No. of units held opening</b>	<b>No. of units held closing</b>	<b>Fair value of investment</b>	<b>Interest held</b>	<b>No. of units acquired</b>	<b>No. of units disposed</b>	<b>Distributions paid/payable by the Fund</b>
Aurora Dividend Income Trust	-	1,015,258	\$642,963	6.46%	1,015,258	-	\$57,507
Aurora Global Income Trust	-	1,378,988	\$883,104	19.87%	1,378,988	-	\$63,571
Aurora Property Buy Write Income Trust	-	544,442	\$2,535,956	23.35%	544,442	-	\$170,799

#### **30 June 2016**

Aurora Dividend Income Trust	-	-	-	-	-	-	-
Aurora Global Income Trust	-	-	-	-	-	-	-
Aurora Property Buy Write Income Trust	-	-	-	-	-	-	-

# Notes to Financial Statements

## Note 16. Related party transactions (continued)

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

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

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

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

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

	2017 \$	2016 \$
Management fees for the year paid/payable by the Fund to the Responsible Entity	392,328	1,109,570
Performance fees for the year paid/payable by the Fund to the Responsible Entity	-	165,046
Recovery costs for the year paid/payable by the Fund to the Responsible Entity	479,120	169,381
Aggregate amount payable to the Responsible Entity for management fees at the end of the reporting period	19,006	265,325

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

## Note 17. Reconciliation of profit to net cash inflow/(outflow) from operating activities

	2017 \$	2016 \$
<b>(a) Reconciliation of (loss)/profit to net cash inflow from operating activities</b>		
Profit/(loss) for the year	-	-
Decrease in net assets attributable to unitholders	(3,273,265)	(7,515,242)
Distribution to unitholders	821,980	2,908,825
Proceeds from sale of financial instruments held at fair value through profit or loss	195,762,558	1,394,684,768
Purchase of financial instruments held at fair value through profit or loss	(187,304,829)	(1,291,491,160)
Net losses on financial instruments held at fair value through profit or loss	2,070,121	8,654,195
Net change in dividend receivables	52,134	-
Net change in receivables	99,326	1,035,125
Net change in payables	(570,826)	396,559
Net cash inflow from operating activities	7,657,199	108,673,070
	<b>2017 \$</b>	<b>2016 \$</b>
<b>(b) Non-cash financing activities</b>		
During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan	259,834	894,644

# Notes to Financial Statements

## **Note 18. 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 19. Commitments**

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

## **Note 20. 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, sweeping underline.

John Patton  
Managing Director  
31 August 2017



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

### **Report on the Audit of the Financial Report**

#### *Opinion*

We have audited the financial report of Aurora Fortitude Absolute Return Fund (the "Fund") which comprises the statement of financial position as at 30 June 2017, 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 then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the 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 2017 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### *Basis for Opinion*

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

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Aurora Funds Management Limited (the "Responsible Entity"), would be in the same terms if given to the directors as at the time of this auditor's report.

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

#### *Other Information*

The directors of the Responsible Entity (the "Directors") are responsible for the other information. The other information comprises the information included in the Fund's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

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

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

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

## *Responsibilities of the Directors for the Financial Report*

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

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

## *Auditor's Responsibilities for the Audit of the Financial Report*

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.



We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A handwritten signature in cursive script that reads "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

A handwritten signature in cursive script that reads "Declan O'Callaghan".

Declan O'Callaghan  
Partner  
Chartered Accountants  
Sydney, 31 August 2017