

Aurora Absolute Return Fund

Fund Update

Aurora Funds Management Limited ("Aurora"), in its capacity as the responsible entity for the Aurora Absolute Return Fund ("ABW"), provides the following important update.

Provision for Legal Fees

On 30 May 2019, the Supreme Court of New South Wales declared that the purported meeting held by Primary Securities Limited ("Primary") on 15 January 2019, and all of the resolutions purportedly passed at that meeting, was invalid and of no effect. Primary was also ordered to pay Aurora's costs, however the amount of costs to be reimbursed by Primary to Aurora has not yet been determined.

The legal costs incurred by Aurora amount to \$336,650.69. This amount has been included as a liability provision in the financial statements of ABW for the year ended 30 June 2019 in the Appendix 4E Preliminary Final Report released to the ASX on Friday 30 August 2019.

Effective from Monday 2 September 2019, this provision will be included in the calculation of the daily Net Asset Value of ABW.

Aurora will vigorously pursue the recovery of these legal fees from Primary, with the recoveries being booked to revenue as and when received.

In light of this position, all investors that had previously lodged Redemption Requests will now have the option of withdrawing their Redemption Request. This option remains open for the next 10 days from the date of this announcement. If no withdrawal request is received in this time, Aurora will process those Redemption Requests in line with previous announcements.

For all Redemption Requests received by Aurora after today, Aurora will process those Redemption Requests pursuant to its Constitution, Product Disclosure Statement and any Fund updates.

Aurora Fortitude Absolute Return Fund

Aurora Funds Management Limited ("Aurora") also provides an update in respect to the Aurora Fortitude Absolute Return Fund ("AFARF"), which directly impacts the Aurora Absolute Return Fund. Attached is a copy of the relevant announcement by AFARF.

Further information

If you have any queries or concerns, please contact us.

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Email: enquiries@aurorafunds.com.au

Aurora Fortitude Absolute Return Fund

Fund Update

Aurora Funds Management Limited ("Aurora"), in its capacity as the responsible entity for the Aurora Fortitude Absolute Return Fund ("AFARF"), provides the following important update.

Valuation of Aurora Property Buy-Write Income Trust

Previously, AFARF has valued its investment in the Aurora Property Buy-Write Income Trust ("AUP") based on the Net Asset Value ("NAV") of AUP.

With immediate effect, AFARF will now value its investment in AUP based on the most recent selling price in the primary active market in which the securities of AUP are traded.

As at 30 June 2019, the primary active market on which AUP securities are traded is the ASX. The most recent selling price of AUP units at 30 June 2019 on the ASX was \$1.75 per unit. This is the valuation that has been adopted in the financial statements of AFARF for the year ended 30 June 2019.

As at Friday 30 August 2019, the most recent selling price of AUP units on the ASX was \$2.10 per unit. This is the valuation that will be used in calculating the Net Asset Value of AFARF on Monday 2 September 2019. This represents a decrease of 44.7% in the valuation of AUP that was used in calculating the Net Asset Value of AFARF as at Friday 30 August 2019 of \$3.80 per unit.

Valuation of Molopo Energy Limited shares

As at 30 June 2019, AFARF held an investment in the ordinary shares of Molopo Energy Limited ("Molopo") (ASX: MPO), which was suspended from trading on the Australian Stock Exchange on 27 July 2017 and remains suspended as at the date of this update.

On 1 February 2019, Aurora announced that the fair value of the holding in Molopo had been reduced from 2.6 cents per share to 1.9 cents per share, based on material information which had come to light between 27 September 2018 and 1 February 2019.

On 24 July 2019, Molopo released its Quarterly Cash Flow Statement for the quarter ended 30 June 2019. Based on the information contained in this Quarterly Cash Flow Statement, Aurora has reassessed the carrying value of its investment in Molopo and has decided to further write the value of its investment down from 1.9 cents to 1.5 cents. The rationale for this decision is summarised below:

Current Directors resolved that they do not consider the oil & gas exploration and production assets held by Drawbridge to have any value and accordingly Molopo's investment through Orient was impaired to Nil

- Today, Molopo's primary assets comprise its cash reserves and its investment in Drawbridge. Molopo has advised that its cash reserves at 30 June 2019 amounted to \$12.3 million, and its current directors have resolved that they do not consider the oil & gas exploration and production assets held by

Drawbridge to have any value and accordingly have impaired Molopo's investment through Orient to Nil. Given the structure of the Drawbridge investment, whereby Molopo only holds B class shares in a foreign private company with no voting rights and only a limited ability to appoint a director, Aurora concurs that it is difficult to ascribe any value to this investment – based on the information that has been released to date. As such, for the purpose of valuing its investment in Molopo, Aurora continues to place nil value on the Drawbridge investment.

- Molopo's primary liability relates to a long-standing legal action in Canada concerning the Company and Molopo Energy Canada Ltd ("MECL"), a wholly owned subsidiary of the Company. As the financial statements for the half-year ended 30 June 2019 have not yet been released by Molopo, the annual audited financial statements for the year ended 31 December 2018 remain the most recent financial statements released by Molopo, which were released by Molopo on 7 May 2019. In those financial statements, the long standing provision of A\$8.6 million has been removed, with the following commentary being provided:

In March 2011, MECL was served with a statement of claim by a former joint venture partner (3105682 Nova Scotia ULC) "310 ULC" claiming MECL breached various agreements relating to the relevant joint venture, including breach of fiduciary duties, trust and good faith. 310 ULC has sought declarations, accountings, damages of 25% revenue, C\$35.0 (A\$35.9) million general damages, C\$1.0 (A\$1.0) million punitive and aggravated damages, interest, GST and indemnity costs.

Subsequent to the filing of the statement of defence, the Company undertook an extensive examination of the transactions that gave rise to the amounts in dispute. This examination resulted in the Company applying a provision in the accounts in 2012 of a net C\$5.0 (A\$5.1) million. In early 2013, the JV Partner settled a counterclaim by making a payment of C\$3.4 (A\$3.5) million to the Company, at which time the Company increased the provision to C\$8.4 (A\$8.6) million.

During the current reporting period the Directors have reconsidered the circumstances that gave rise to recognition of the provision. A significant amount of time has passed since the provision was brought to account with limited progress on the claim. The Directors have reviewed the current status of the claims as provided by its lawyers and based upon this status update, the time elapsed and the limited progress made in the proceedings, they have taken the view that the amount of the provision can no longer be reliably measured, and therefore no longer meets the recognition criteria for a liability. Based on these findings, the Directors have reversed the provision and fully disclosed the claims as a contingent liability.

- Molopo currently has 249,040,648 ordinary shares on issue;
- Based on the above, Aurora considers the appropriate carrying value of its investment in Molopo to be 1.5 cents, calculated as follows:
 - cash reserves of \$12.3 million; less
 - litigation liability of \$8.6 million. In the Molopo financial statements for the year ended 31 December 2018 the legal provision has been removed as a liability in the balance sheet and disclosed as a contingent liability. For the purpose of this valuation, Aurora has used the previous estimate as a proxy for the liability;
 - divided by 249,040,648 ordinary shares on issue; which
 - equates to a value of 1.5 cents per share.

- As more information is released by Molopo on the Drawbridge investment as well as the Canadian litigation, it may be appropriate for Aurora to revisit the carrying value of its Molopo investment.

The fair value of the Molopo Investment is based on significant estimates and judgements adopted by the Board of Aurora based on all available information about Molopo as at the current date.

The Aurora Board considered the range of possible values and determined that the fair value of the Molopo investment held by the Fund should now be valued at 1.5 cents.

Aurora continues to pursue avenues to recover value that has been lost by the former directors of Molopo.

Redemption Requests

In light of the decision to write down the value of the investments in Molopo and AUP, all investors that had previously lodged Redemption Requests will now have the option of withdrawing their Redemption Request. This option remains open for the next 10 days from the date of this announcement. If no withdrawal request is received in this time, Aurora will process those Redemption Requests in line with previous announcements.

For all Redemption Requests received by Aurora after today, Aurora will process those Redemption Requests pursuant to its Constitution, Product Disclosure Statement and any Fund updates.