

Aurora Absolute Return Fund

ARSN 110 303 430

Interim financial report - for the half-year ended 31 December 2012

Contents

Directors' report	3
Auditor's independence declaration	6
Statement of comprehensive income	7
Balance Sheet	8
Statement of changes in equity	9
Statement of cash flows	10
Notes to the financial statements	11
Directors' declaration	14
Independent auditor's review report to the unitholders	15

This interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2012 and any public announcements made in respect of Aurora Absolute Return Fund during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

These financial statements cover the Aurora Absolute Return Fund as an individual entity.

The Responsible Entity of Aurora Absolute Return Fund is Aurora Funds Management Limited (ABN 69 092 626 885). The Responsible Entity's registered office is:

Level 2,350 George Street
Sydney, NSW 2000

Directors' report

The directors of Aurora Funds Management Limited (ABN 69 092 626 885), (the "Responsible Entity"), present their report together with the financial statements of Aurora Absolute Return Fund ("the Fund") for the half-year ended 31 December 2012.

Principal activities

The Fund invests into the unlisted Aurora Fortitude Absolute Return Fund (ARSN 145 894 800), the ('Master Fund') in accordance with the provisions of the Fund Constitution. The Master Fund seeks to meet the Investment Objective through using many different investment strategies that allow the Master Fund to have very little correlation to the Australian stock market. These strategies may include: long/short strategies, convergence trading, merger and acquisition trading, arbitrage opportunities, derivative strategies. The Master Fund may utilise leverage from time to time.

The Fund did not have any employees during the half-year.
There were no significant changes in the nature of the Fund's activities during the half-year.

Directors

The following held office as directors of the Responsible Entity throughout the half-year and up to the date of this report, unless otherwise indicated:

John Corr
Alastair Davidson
Simon Lindsay
Richard Matthews
Steuart Roe

Units on Issue

Units on issue in the Fund at half-year are set out below:

	31 December 2012 No.	30 June 2012 No.
Units on issue	<u>9,441,119</u>	<u>7,196,935</u>

Value of assets

The value of the Fund's assets and liabilities is disclosed on the Balance Sheet.

Review and results of operations

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

The investment policy of the Fund continues to be that detailed in the current product disclosure document and in accordance with the provisions of the governing documents of the Fund.

The method of valuation of the Fund's investment can have a significant impact on results.

Directors' report (continued)

Review and results of operations (continued)

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

	Half-year ended	
	31 December 2012	31 December 2011
Net operating profit/(loss)	\$ 131,474	\$ 192,561
<i>Distributions</i>		
Distribution- 31 December	152,695	121,586
Distribution- 30 September	180,978	117,366

A distribution of \$0.017 per unit (2011: \$0.0222 per unit) was declared and provided for at the end of the half-year. Distributions of \$0.039 per unit were paid during the half-year (2011: \$0.0444 per unit).

The performance of the fund is available through the recent performance reports available on our website. Consistent with our statements in the governing documents of the Fund, future performance is not guaranteed. Investors should exercise care in using past performance as a predictor of future performance.

Significant changes in state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Fund that occurred during the financial half-year.

Matters subsequent to the end of the financial half-year

No matter or circumstance has arisen since 31 December 2012 that has significantly affected, or may significantly affect:

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

Likely developments and expected results of operations

The Fund will continue 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.

Environmental regulation

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

Directors' report (continued)

Indemnity and insurance of officers

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to either the officers of Aurora Funds Management Limited or the auditor of the trust. So long as the officers of the Aurora Funds Management Limited act in accordance with the Fund Constitution and the Corporations Act 2001, the officers remain indemnified out of the assets of the Fund against any losses incurred while acting on behalf of the Fund. The auditors of the Fund are in no way indemnified out of the assets of the Fund.

Fees paid to 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 half-year are disclosed in the statement of comprehensive income.

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 page 6.

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



Stuart Roe
Director

Sydney
18 February 2013



Auditor's Independence Declaration

As lead auditor for the review of Aurora Absolute Return Fund for the half year ended 31 December 2012, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Aurora Absolute Return Fund during the period.

A handwritten signature in blue ink, appearing to read 'Joe Sheeran', is written over a light blue horizontal line.

Joe Sheeran
Partner
PricewaterhouseCoopers

Sydney
18 February 2013

Statement of comprehensive income

	Notes	Half-year ended	
		31 December 2012 \$	31 December 2011 \$
Income			
Interest income		5,426	1,834
Dividend and distribution income		320,801	234,311
Net losses on financial instruments held at fair value through profit or loss	3	(190,287)	(43,482)
Total net investment income		135,940	192,663
Expenses			
Other operating expenses		4,466	102
Total operating expenses		4,466	102
Operating profit for the half-year		131,474	192,561
Finance costs attributable to unitholders			
Distributions to unitholders	5	(333,673)	(238,952)
Decrease in net assets attributable to unitholders	4	202,199	46,391
Profit/(loss) for the half-year		-	-
Other comprehensive income for the half-year		-	-
Total comprehensive income for the half-year		-	-

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Balance Sheet

	Note	As at 31 December 2012 \$	30 June 2012 \$
Assets			
Cash and cash equivalents		249,389	645,445
Receivables		141,536	86,549
Due from brokers - receipts for securities sold		-	2,913,300
Financial assets held at fair value through profit or loss	6	9,321,753	4,200,847
Total assets		9,712,678	7,846,141
Liabilities			
Distributions payable		158,546	162,083
Other liabilities		3,521	1,816
Total liabilities (excluding net assets attributable to unitholders)		162,067	163,899
Net assets attributable to unitholders - liability	4	9,550,611	7,682,242

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of changes in equity

	As at	
	31 December	30 June
	2012	2012
	\$	\$
Total equity at the beginning of the half-year	-	-
Profit/(loss) for the half-year	-	-
Other comprehensive income	-	-
Total comprehensive income	-	-
Transactions with equity holders in their capacity as equity holders	-	-
Total equity at the end of the financial half-year	-	-

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

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

Statement of cash flows

	Half-year ended	
	31 December 2012	31 December 2011
Notes	\$	\$
Cash flows from operating activities		
Proceeds from sale of financial instruments	2,913,300	97,600
Purchase of financial instruments	(5,311,194)	-
Dividends and distributions received	273,566	-
Interest received	7,181	2,742
GST recovered	31	591
Payment of other expenses	(4,503)	(3,564)
Net cash (outflow)/inflow from operating activities	(2,121,619)	97,369
Cash flows from financing activities		
Units (purchased) and sold by Fund	349,695	(171,310)
Proceeds from applications by unitholders	1,817,193	-
Payments for redemptions by unitholders	(165,305)	(16,981)
Distributions paid	(276,020)	(167,433)
Net cash inflow/(outflow) from financing activities	1,725,563	(355,724)
Net decrease in cash and cash equivalents	(396,056)	(258,355)
Cash and cash equivalents at the beginning of the half-year	645,445	401,687
Cash and cash equivalents at the end of the half-year	249,389	143,332

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

Notes to the financial statements

1 General information

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

This interim report ended 31 December 2012 has been prepared in accordance with accounting standard AASB 134 *Interim Financial Reporting* and the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2012 and any public announcements made in respect of the Fund during the half-year period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Operation and principal activities

The principal activities of the Fund during the financial year were establishing its investment strategy in equities and index derivatives in accordance with the provisions of the Fund Constitution and the Product Disclosure Statement.

Registered office

The registered office of the Fund is at:
Level 2
350 George Street
Sydney NSW 2000.

The financial statements were authorised for issue by the directors on 18 February 2013. The directors of the company have the power to amend and reissue the financial statements.

2 New accounting standards and interpretations

Other new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for the current reporting period. These are not expected to have any material impact on the funds financial reporting in subsequent periods.

3 Net gains/(losses) on financial instruments held at fair value through profit or loss

Net gains/(losses) recognised in relation to financial assets and financial liabilities held at fair value through profit or loss:

	Half-year ended	
	31 December 2012	31 December 2011
	\$	\$
Financial assets		
Net realised gains on financial assets held at fair value through profit or loss	-	2,754
Net unrealised losses on financial assets held at fair value through profit or loss	(190,287)	(46,236)
Total net losses on financial instruments held at fair value through profit or loss	<u>(190,287)</u>	<u>(43,482)</u>

Notes to the financial statements (continued)

4 Net assets attributable to unitholders

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

	Half-year ended			
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	Number	Number	\$	\$
Opening balance - including treasury units	7,196,935	5,796,006		
Treasury units	(108,748)	(408,689)		
Opening balance - excluding treasury units	7,088,187	5,387,317	7,682,242	6,196,629
Applications	1,768,340	-	1,817,193	-
Redemptions	(268,471)	(15,086)	(165,305)	(16,981)
Units issued upon reinvestment of distributions	63,719	64,424	68,985	71,556
Units purchased and (sold) by Fund	340,298	45,214	349,695	(171,310)
Decrease in net assets attributable to unitholders			(202,199)	(46,391)
Closing balance - excluding treasury units	8,992,073	5,481,869	9,550,611	6,033,503
Treasury units	449,046	363,475		
Closing balance - including treasury units	9,441,119	5,845,344		

As stipulated within the Fund's 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.

5 Distributions to unitholders

Timing of distributions

The distributions for the half-year were as follows:

	Half-year ended			
	31 December 2012	31 December 2011	31 December 2011	31 December 2011
	\$	CPU	\$	CPU
Distributions paid and payable				
September interim	180,978	2.20	117,366	2.22
December interim	152,695	1.70	121,586	2.22
Total distributions	333,673		238,952	

Distributions payable in the Balance Sheet includes distributions payable from prior periods.

Notes to the financial statements (continued)

6 Financial assets held at fair value through profit or loss

	As at	
	31 December 2012	30 June 2012
	\$	\$
Designated at fair value through profit or loss		
Unlisted unit trusts	9,321,753	4,200,847
Total financial assets held at fair value through profit or loss	9,321,753	4,200,847
Comprising:		
Unlisted unit trusts		
Units in Australian unit trusts	9,321,753	4,200,847
Total financial assets held at fair value through profit or loss	9,321,753	4,200,847

7 Segment information

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

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

8 Contingent assets, liabilities and commitments

There are no outstanding contingent assets and liabilities or commitments as at 31 December 2012 (30 June 2012: Nil).

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 7 to 13 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Fund's financial position as at 31 December 2012 and of its performance for the financial half-year ended on that date; and
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

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



Stuart Roe
Director

Sydney
18 February 2013



Independent auditor's review report to the members of Aurora Absolute Return Fund

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Aurora Absolute Return Fund (the 'Fund'), which comprises the balance sheet as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of Aurora Funds Management Limited, the responsible entity of the Fund are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Fund's financial position as at 31 December 2012 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Aurora Absolute Return Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Aurora Absolute Return Fund is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the Fund's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers' in a cursive script.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to be 'Joe Sheeran', written in a cursive style.

Joe Sheeran
Partner

Sydney
18 February 2013