IMF (Australia) Ltd

Annual Report

For The Year Ended
30 June 2006

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2006 CHAIRMAN'S REPORT

On behalf of the Board of Directors of IMF (Australia) Ltd (IMF), I am pleased to present this Annual Report in respect of the year ended 30 June 2006.

Last year, the opening line in my report was: 'The year has been mixed.' Again, I have to say it has been a mixed year but compared to last year there is greater reason for optimism about the year ahead.

Last year I talked about the challenges to our legitimacy that culminated in the Fostif decision, which, subject to how it would fare on appeal, heralded the death of maintenance and champerty in Australia.

We now know the results of that appeal and it does indeed write the obituary of maintenance and champerty.

It has been a long and largely useless life. The prohibition on maintenance and champerty goes back to medieval times and was developed to overcome oppression of the less powerful by the more powerful. In practice, it has had the reverse effect and as my fellow director, Hugh McLernon, notes in an exhaustive paper on the subject, as recently as 1787 Jeremy Bentham deplored usury's existence as well as that of maintenance and champerty. Bentham succeeded in getting rid of usury but failed on maintenance and champerty. Bentham's success cleared the way for the banking industry we see today but left us with laws and practices in litigation that hung on to their medieval heritage.

So now even arch foes of litigation funding are proclaiming that the cloud of uncertainty surrounding litigation funding has been lifted and that new areas of litigation funding will emerge. The gates are open

There still remains the issue of State regulation of the industry. IMF is already a regulated participant in the industry and encourages a regulatory approach with the caveat that regulation should be driven by attention to the needs of our clients, which at last count exceeded 16,000. We have had no complaint at all regarding the services we have delivered them.

Of course, it has been the professional defendants who have claimed we have abused process in regard to our clients. As one Judge has said:

> *"It is simply no business of the defendant to be taking up the cudgels on behalf of the funded litigants...…but in reality in its own interests."*

Let's hope the inevitable switching of cudgels by professional defendants to appeals to our regulators is met by the same level of scepticism as to their intentions.

So, the way is clear but we can't completely excuse our lack of successful case completions in 2005-2006 on the basis of legitimacy tests. As I indicated in my 2005 address, legitimacy claims were largely a thing of the past but delay and diversion, 'the bread and butter of defendants', is still available. 2005-2006 saw plenty of delay and diversion. In large part we believe those delays were a test of our business model rather than our legal legitimacy.

To meet that test we enhanced our funding this year by raising $14m in convertible notes. Such a relatively large fund raising, coming on top of previous fund raising and in the absence of significant tangible success, was upsetting to some shareholders. We understand their concerns over dilution but are certain the fund raising was correct and have seen, in the number of settlements in the last six months and in the wings, that the challenge to our business model has been rebuffed.

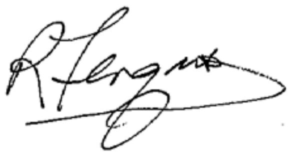
One of the consequences of our focus on enhancing our cash position in 2005-2006 was a slow down in new cases being accepted for funding as we focussed on the existing portfolio. That phase is also over and we are looking to expand our portfolio, but it should be acknowledged that our pipeline of cases coming to harvest in future years may be affected by that slow down.

2006 CHAIRMAN'S REPORT

As for the short to medium term outlook, we are very confident about the harvesting potential of quite a number of cases of substance. That said, the difficulty in achieving timely closure on cases is a frustration. The end of legitimacy and business model challenges should help enormously in shortening the excessively long average life of our cases but we are always going to have to live with unpredictability of income. This reality requires us to be judicious in building a portfolio that balances out the time factor.

So, to conclude, a mixed year, but hopefully next year I won't be excusing our failure to conclude. We have a very good portfolio, our testing period is over and we are starting to harvest some major cases. So, we look forward to this year with great confidence.

Yours sincerely,



ROBERT FERGUSON
Chairman

2006 DIRECTORS' REPORT

The directors of IMF (Australia) Ltd ("IMF") submit their report for the year ended 30 June 2006.

DIRECTORS

The names and details of the company's directors in office during the financial year and until the date of this report are noted below. Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Robert Ferguson
(Chairman)

Robert Ferguson was appointed director and Chairman on 1 December 2004.

Mr Ferguson graduated from Sydney University B.Ec (Hons). He commenced employment in 1971 with Bankers Trust Australia Ltd and was CEO between 1985 and 1999 and Chairman from 1999 to 2001. He was:

(a) a director of Westfield Holdings Ltd from 1994 to 2004; and

(b) Chairman and non-executive director of Vodafone Australia until November 2002.

He is a director of Racing, NSW, Deputy Chair of The Sydney Institute and a director of The Sydney Writers' Festival.

During the past three years he has not served as a director of listed companies other than noted above.

Alden Halse
(Non-Executive Director)

Alden Halse is a Chartered Accountant and has been a long-term principal of national chartered accountancy firm, Ferrier Hodgson.

Over the last 15 years he has lectured and written extensively in relation to directors' duties, corporate governance issues and corporate and personal insolvency issues.

Mr Halse:

(a) is an associate member of the Institute of Chartered Accountants, the Insolvency Practitioners Association of Australia and the Australian Institute of Company Directors;

(b) is a member of council and treasurer of the Royal Automobile Club of WA (Inc), and a non-executive director of ASX listed company, Count Financial Ltd; and

(c) is the Chairman of the audit committee.

During the past three years he has not served as a director of listed companies other than noted above.

Michael Bowen
(Non-Executive Director)

Michael Bowen graduated from the University of Western Australia with Bachelors of Law, Jurisprudence and Commerce. He has been admitted as a barrister and solicitor of the Supreme Court of Western Australia and is an Associate and Certified Practising Accountant of the Australian Society of Accountants.

Mr Bowen:

(a) is a partner of the law firm Hardy Bowen, practising primarily corporate, commercial and securities law with an emphasis on mergers, acquisitions, capital raisings and resources;

(b) supports the Managing Director on matters concerning Corporations Law; and

(c) is a member of the audit committee.

During the past three years he has also served as a director of the following listed companies:

- Vietnam Industrial Investments Limited (appointed 18 October 2004);
- Medical Corporation Australasia Limited (appointed 18 October 2004); and
- Tennant Creek Gold Limited (appointed 8 January 2004).

John Walker
(Managing Director)

John Walker obtained a Bachelor of Commerce degree from Melbourne University in 1981, with qualifications as an accountant and economist.

He then practiced accountancy with Delloitte Haskins and Sells (as it then was) prior to completing a Bachelor of Laws at Sydney University in 1986.

Between 1987 and 1998, Mr Walker practiced as a commercial litigator in Sydney, being a partner in a Sydney CBD firm from 1990.

In 1998, Mr Walker created Insolvency Litigation Fund Pty Ltd ("ILF") and was the initial Managing Director until the entity was purchased by IMF (Australia) Ltd in 2001. Since then, Mr Walker has been an executive director of IMF and its Managing Director since December 2004.

During the past three years he has not served as a director of other listed companies.

Hugh McLernon
(Executive Director)

Hugh McLernon is a lawyer by training. He holds a Bachelor of Laws degree from the University of Western Australia. After graduation he worked as a Crown Prosecutor for eight years and then as a barrister at the independent bar for a further nine years, before joining Clayton Utz for three years as the litigation partner.

In 1988, Mr McLernon retired from legal practice and introduced the secondary life insurance market into Australia. He also pioneered the financing of large-scale litigation through McLernon Group Limited.

From 1996 to 2001, Mr McLernon was the Managing Director of the Hill Group of companies which operates in the finance, mining, property, insurance and investment arenas of Australia.

Mr McLernon is a member of the audit committee.
During the past three years he has not served as a director of other listed companies.

COMPANY SECRETARY

Diane Jones (appointed 14 June 2006)

Diane Jones has been the company secretary since 14 June 2006. She has been a member of the Institute of Chartered Accountants for over 15 years and holds a Masters of Business Administration and Bachelor of Economics degree from the University of Sydney. After graduating Ms Jones spent ten years with a big four accounting firm before moving to a consulting and private equity firm as a consultant and their chief financial officer.

Jon McArthur (resigned 14 June 2006)

Jon McArthur commenced his employment with the company on 21 March June 2005 and became a casual employee from 10 July 2006. Prior to holding this position he held the role of chief financial officer and company secretary of WorldAudio Limited for two years. Mr McArthur has been a chartered accountant for over 14 years.

INTERESTS IN SHARES AND OPTIONS OF THE COMPANY

The interests of the directors in the shares and options of the company as at the date of this report are set out in note 23 and 25 to the financial statements.

DIVIDENDS

No dividend has been paid or recommended during the financial year or in the previous three financial years.

CORPORATE INFORMATION

Corporate Structure

IMF is a company limited by shares which is incorporated and domiciled in Australia. IMF has prepared a consolidated financial report incorporating the entity that it controlled during the financial year, being Insolvency Litigation Fund Pty Ltd (ILF).

Nature of Operations and Principal Activities

The principal activities of the consolidated entity during the financial year were investigation, management and funding litigation. The operations of the consolidated entity remain in accordance with IMF's business plan created in 2001 and are separated into three finite areas of business:

Portfolio Report at 30 June 2006 where the Budgeted IMF Fee is greater than $0.5 million

		Number of claims	Claim Value	Percentage of Claims > $0.5m
(i)	Insolvency Claims	12	$144m	15%
(ii)	Non-Insolvency Claims involving single plaintiffs (Commercial Claims)	12	$274m	29%
(iii)	Non-Insolvency Group Actions (Group Actions)	10	$526m	56%
Total claims where IMF's budgeted fee is greater than $0.5M		34	$944m	100%

From 2001, when all of the Group's investments were Insolvency Claims, there has been a consistent investment growth in Commercial Claims and, in particular, Group Actions. This growth is consistent with IMF's business plan that budgets a mature portfolio to have claim value attributable to each market as follows:

Insolvency Claims:	20 %
Commercial Claims:	15 %
Group Actions:	65 %

IMF's Investment Claim Value did not materially increase in the year to 30 June 2006 due to conservative investment protocols put in place until positive material cash flow was reasonably certain. IMF's expected settlement/judgment proceeds remains at about 50 to 60 percent of Investment Claim Value and IMF's average fees expressed as a percentage of the recovery remains at about 30 percent of settlement/judgment proceeds.

An update on IMF's principal investments is as follows:

- The **Aristocrat** claim is proceeding as a representative proceeding with closure of the class and expert evidence expected this year. The period in which the market is alleged to have been misled has been extended by eight months increasing the direct loss of IMF funded shareholders, calculated by reference to the difference between purchase price and sale price to in excess of $200 million. The consequential loss claim is likely to be calculated by reference to the average return likely to have been received on the direct loses from early 2003 to the date of the hearing, which given the amended pleading is now projected to commence in mid 2007.

- In the **Finance Broking** Case extensive negotiations have been carried out with the State of Western Australia and a formal offer to settle has been made by the plaintiffs and is being considered by the State. It is likely that this part of the claim will be settled and the action against the various solicitors involved in the Finance Broking matter will continue to trial if not settled in the meantime. The current claim against the State and the lawyers is approximately $120 million and the offer to settle with the state has been made at $30 million.

- In the **QPSX** matter the Defendant Ericsson has made eleventh hour amendments to its defence which will have the affect of extending the time before completion. IMF is protected from any cost blow out as it has limited its exposure to an agreed sum and that amount has already been paid.

- The **Sentinel** and **Mercury Rising** claims settled after 30 June 2006 on the basis that in addition to money received in prior years of $2.1 million, IMF received $9.4 million, including reimbursement of amounts paid of $5.4 million (refer to note 23 of the financial statements).

- The question whether shareholders who buy their shares on the market are creditors of a company under external control and entitled to rank equally with other creditors is the subject of a reserved decision of the High Court of Australia in **Sons of Gwalia**, which is expected to be handed down this calendar year. Further progress in the **ION** claim awaits this decision. The Full Court in **Concept Sports** found that shareholders who purchase their shares from the company may also sue the company as long as the company remains solvent. This proviso has also been placed in question in **Sons of Gwalia**.

- Telstra failed in its stay application against **Spatial's** claim based on maintenance and champerty and Autodesk also failed in its strike out application. Assuming the matter proceeds to trial, it is now likely to conclude at the end of 2007.

- IMF has agreed to fund four groups of actions in the **Westpoint** matters. Those actions will be in the form of class actions against various financial planners. Proceedings have only been funded against those planners who are of sufficient size to pay the judgment or who have adequate insurance. The total losses suffered by the clients of these four planning firms is about $30 million. IMF is also discussing the funding of actions against directors and auditors.

- In the **Wright** matter interlocutory skirmishes in relation to discovery are almost complete and experts have been briefed in relation to determining the quantum of the loss suffered by the Plaintiffs. This matter will likely go to trial in late 2007.

Court acceptance of litigation funding continued in the 2006 financial year and, in particular, IMF's funding, was not questioned in any applications by defendants. This material change will positively affect the duration of IMF's larger investments.

IMF intervened in the **Fostif** High Court of Australia proceeding to provide submissions on public interest factors associated with litigation funding. The High Court handed down its decision on 30 August 2006, the effect of which vindicated IMF's decision in 2001 to expand its business model from funding insolvency claims to commercial litigation not dependent upon the exercise of a statutory power of sale for its validity. This decision has enabled IMF to command a leadership position in an emerging market now not only accepted by the High Court of Australia, but also accepting of the litigation funders' role to be delegated authority from funded parties to provide instructions to their lawyers on their behalf. In other words, the High Court of Australia has accepted the funders' role as project manager of the litigious process as legitimate. This acceptance will bring much needed competitive tensions to the provision of legal services in litigation which will not only benefit funded parties, but also IMF.

IMF continues to implement a program of providing ASX with a list of the cases funded by IMF in which IMF's potential fee is greater than $500,000 per case (IMF's Investment Schedule). This Schedule is updated every three months and provides information on the current case list to shareholders and investors alike. None of these investments were abandoned or lost in the course of 2006.

Employees

IMF's investment committee of three is supported by 18 employees providing investigative, computer, accounting and management expertise. Other than executive directors, as at 30 June 2006, the consolidated entity employed 21 permanent staff (2005: 24 permanent). Although there has been a decrease in employee numbers due to the closure of the Melbourne office, it is expected that staff levels will grow given that the High Court of Australia's decision in **Fostif** accepted the legitimacy of IMF's role as project manager of litigation on behalf of claimants. IMF's business model will change to decrease the cost of its investments by employing people to provide non legal service functions involved in litigation projects at a cost less than law firms currently provide these services.

REVIEW & RESULTS OF OPERATIONS

As set out in last year's Managing Director's Report the company expects to finalise at least one major case per year in order for that case to underpin the financial results for the particular year.

The fact that no material cases were finalised during the 2006 financial year has led to a loss of $0.7 million for that period, following a loss of $4.1 million in 2005. The 2006 loss includes a prudential $0.2 million write down in debtors compared to a figure for 2005 of $0.6 million.

The investments referred to in IMF's Investment Schedule have an average investment period of about two and a half years, most of which are likely to come to fruition over the next year.

During the course of the year the company again received numerous requests for litigation funding from outside Australia. To date IMF has not accepted any of these requests.

IMF continues to monitor the position of litigation funding in the United Kingdom on the basis that it is the largest potential litigation funding market in the common law world. The company will make a final decision in respect of entry into the United Kingdom market once it has firmly established its operations in Australia.

IMF continues to investigate funds management models to finance future investments.

IMF's share price closed at $0.47 per share at 30 June 2006 (2005: $0.72).

OPERATING RESULTS FOR THE FINANCIAL YEAR

The following summary of operating results reflect the consolidated entity's performance for the year ended 30 June 2006:

	2006 $	2005 $	Change %
Total Revenue	4,499,416	2,347,599	92%
Operating profit/loss after income tax	(694,287)	(4,064,223)	83%
Total shareholders' equity	40,120,452	36,730,874	9%
Shareholders Returns			
Basic loss per share (cents per share)	(0.733)	(4.836)	85%
Diluted loss per share (cents per share)	(0.733)	(4.836)	85%

LIQUIDITY AND CAPITAL RESOURCES

The consolidated cash flow statement illustrates that there was an increase in cash and cash equivalents in the year ended 30 June 2006 of $4,523,735 (2005: $6,009,428). The increase in cash inflow in comparison with the prior year is caused by a number of factors. Operating activities utilised $11,719,929 (2005: $10,293,566) of net cash outflows, which was offset by $16,316,440 (2005: $16,439,079) of net cash inflows generated by new capital and the issue of convertible notes.

Asset and Capital Structure

	2006 $	2005 $	Change %
Cash and short term deposits	20,824,039	16,300,304	28%
Debts:			
Interest bearing loans and borrowings	(4,060,614)	(3,748,452)	(8%)
Convertible notes	(12,814,480)	-	(100%)
Total Debt	(16,875,094)	(3,748,452)	(350%)
Net Cash	3,948,945	12,551,852	(69%)
Total equity	40,120,452	36,730,874	9%
Gearing	42%	10%	

The level of gearing in the Group is within the acceptable limits set by the directors.

Convertible notes issued during the year
On 30 January 2006 a total of 20,685,185 convertible notes were issued, raising total capital of $14,472,629 (excluding costs).

Shares issued during the year
During September 2005 a total of 3,550,000 shares were placed at $0.65 per share, raising total capital of $2,307,500.

Profile of Debts

The profile of the Group's debt finance is as follows:

	2006 $	2005 $	Change %
Current			
Interest bearing loans and borrowings	(4,060,614)	(3,748,452)	(8%)
Non current			
Convertible notes	(12,814,480)	-	(100%)
Total debt	(16,875,094)	(3,748,452)	(350%)

The Group's total debt has increased over the past year principally as a result of the convertible notes issue.

Capital expenditure

There has been a decrease in cash used to purchase plant and equipment during the year ended 30 June 2006 to $72,776 from $136,085 in the year ended 30 June 2005.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs during this reporting period other than disclosed in this report.

RISK MANAGEMENT

The major risk for the company will always be in the choice of cases to be funded. The extent of that risk can best be identified, from time to time, by reference to the fact that in the first five years of operation IMF has lost only two cases. The company has an Investment Protocol in relation to case selection and a rigorous Due Diligence Process which ensures that only cases with very good chances of success are accepted for funding.

The only other risk which needs constant management is liquidity. This principally involves holding a cash balance buffer and taking on new investments only in accordance with IMF's Investment Protocol. The Board of Directors has also authorised management to identify options for raising capital to fund further expansion of IMF's business.

SIGNIFICANT EVENTS AFTER BALANCE DATE

Please refer to note 23 of the financial statements.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

As stated earlier, the investments referred to in IMF's Investment Schedule have an average investment period of about two and a half years; most of which are likely to come to fruition over the next year. Accordingly, the directors consider that the company will return to profitability in this period.

The company has now had some five years as a listed litigation funder and expects to have at least two more years before any serious competition arises. By this time the company should have established its name and reputation as the leader in Australian litigation funding.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The consolidated entity's operations are not presently subject to significant environmental regulation under the laws of the Commonwealth and States.

SHARE OPTIONS

Details of options held as at the date of this report are set out in notes 16, 23 and 25 of the financial statements.

SHARES RELEASED FROM ESCROW

There are no shares held in escrow and no shares were released from escrow during the financial year ended 30 June 2006.

SHARES ISSUED AS A RESULT OF THE EXCERCISE OF OPTIONS

No options were exercised during the financial year ended 30 June 2006. Options exercised subsequent to 30 June 2006 are disclosed in note 23 to the financial statements.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

So far as may be permitted by the Law, the directors and officers are indemnified out of the funds of the company (to the extent that the director or officer is not otherwise indemnified) against all liability (including, without limitation, all legal expenses) incurred by the director or officer as a director or officer of the company and its wholly owned subsidiaries, without reliance upon insurance.

REMUNERATION REPORT

Directors assessed the appropriateness of the nature and amount of the emoluments of the directors and executive team by reference to relevant employment market conditions, with the overall objective of ensuring best stakeholder benefit from the Board and executive team.

There is currently no relationship between the emoluments and company performance.

Details of the nature and amount of each element of the emoluments of each director of the company for the financial year are set out below.

The company has adopted the fair value measurement provisions of AASB2 "Share-based Payment" for all options granted to directors and relevant executives. The fair value of such grants is being disclosed as part of director and executive emoluments on a straight-line basis over the vesting period.

Options granted as part of director and executive emoluments have been valued using a Black Scholes option pricing model, which takes account of factors including the option exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying share, current market price of the underlying share and the expected life of the option.

Non-Executive Directors Fees

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments were approved at the 2004 Annual General Meeting. The Chairman's remuneration is inclusive of committee fees.

REMUNERATION REPORT (CONTINUED)

Retirement Allowances for Directors

There are no retirement allowances for directors. Directors may, however, elect to have a portion of their remuneration paid into their personal superannuation plans.

Executive Pay

The parent entity aims to reward executives with a level and mix of compensation commensurate with their position and responsibilities within the following framework:

- reward executives for company and individual performance against targets set to appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link rewards with the internal strategic goals of the company; and
- ensure total compensation is competitive by market standards.

It is the Remuneration Committee's policy that employment contracts are entered into with all key management personnel. Details of these contracts are provided in note 25(b)(iv) of the financial statements.

Compensation consists of the following key elements:

- Fixed Compensation; and;
- Variable Compensation.

Fixed compensation is reviewed annually by the Remuneration Committee. The process consists of a review of companywide and individual performance, relevant comparative compensation in the market and internally and, where appropriate, external advice on policies and practices. Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans.

The objective of the variable compensation incentive is to reward executives in a manner that aligns this element of compensation with the objectives and internal key performance indicators of the company.

All directors and executives have the opportunity to qualify for participation in the Employee Share Incentive Plan which currently provide incentives where specified criteria are met.

Note 16 provides details of options granted under the Employee Share Incentive Plan.

Director Remuneration for the year ended 30 June 2006

30 June 2006	**Short-Term**		**Post Employ-ment - Super**	**Share Based Payment-Options**		**Total Perform-ance Related**
Directors	**Salary & Fees**	**Other**			**Total**	
Robert Ferguson	80,000	-	11,400	-	91,400	-
John Walker	550,000	-	12,139	225,262	787,401	28.61%
Hugh McLernon	550,000	-	12,139	225,262	787,401	28.61%
Alden Halse	40,000	-	3,600	-	43,600	-
Michael Bowen	43,669	-	-	-	43,669	-
Total	1,263,669	-	39,278	450,524	1,753,471	25.69%

2006 DIRECTORS' REPORT

Remuneration of the named executives who received the highest remuneration for the year ended 30 June 2006

30 June 2006	**Short-Term**		**Post**	**Share**		**Total**
Executives	**Salary & Fees**	**Other**	**Employ-ment - Super**	**Based Payment-Options**	**Total**	**Perform-ance Related**
Diane Jones (from 6 Jun 06)	-	-	-	-	-	-
Jon McArthur	185,081	-	12,139	-	219,183	10.02%
Clive Bowman	325,000	23,382	12,139	21,963	430,459	16.25%
Alastair Mackay	238,048	-	12,139	69,938	294,611	15.08%
Charlie Gollow	273,306	-	12,139	45,834	331,279	13.84%
Paul Rainford	195,411	-	12,139	19,955	227,505	2.77%
Total	1,216,846	23,382	60,695	202,114	1,503,037	20.04%

Options granted as part of remuneration for the year ended 30 June 2006

30 June 2006	**No of Options Vested**	**No of Options Granted**	**Grant Date**	**Fair value at grant date**	**Exercise price per option**	**First exercise Date**	**Expiry Date**
Directors							
John Walker	1,000,000	1,000,000	01-Jul-06	$0.36	$1.35	01-Jul-06	30-Jun-09
Hugh McLernon	1,000,000	1,000,000	01-Jul-06	$0.36	$1.35	01-Jul-06	30-Jun-09
Executives							
Jon McArthur	83,333	83,333	01-Jul-05	$0.24	$0.65	01-Jul-05	30-Jun-10
Jon McArthur	200,000	200,000	24-Mar-06	$0.18	$0.80	24-Mar-06	24-Mar-11
Clive Bowman	600,000	600,000	24-Mar-06	$0.18	$0.80	24-Mar-06	24-Mar-11
Alastair Mackay	100,000	100,000	24-Mar-06	$0.18	$0.80	24-Mar-06	24-Mar-11
Alastair Mackay	50,000	50,000	01-Jul-05	$0.48	$0.20	01-Jul-05	30-Jun-10
Charlie Gollow	250,000	250,000	24-Mar-06	$0.18	$0.80	24-Mar-06	24-Mar-11
Charlie Gollow	50,000	50,000	01-Jul-05	$0.48	$0.20	01-Jul-05	30-Jun-10
Paul Rainford	50,000	50,000	24-Mar-06	$0.18	$0.80	24-Mar-06	24-Mar-11
Total	3,383,333	3,383,333					

From 1 July 2004, options granted as part of senior management remuneration have been valued using the Black Scholes option pricing model, which takes account of factors including the option exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying share, current market price of the underlying share and the expected life of the option.

DIRECTORS' MEETINGS

The number of meetings of directors held during the periods under review and the number of meetings attended by each director were as follows:

	Meetings Attended	Audit Committee	Remuneration Committee
Total number of meetings held:	8	2	-
R Ferguson	8	-	-
A J Halse	6	2	-
M Bowen	8	2	-
J F Walker	8	-	-
H McLernon	8	2	-

Committee Membership

As at the date of this report, the company had an Audit Committee and a Remuneration Committee of the Board of Directors. Members acting on committees of the Board during the year were as follows:

Audit Committee	Remuneration Committee
A J Halse	A J Halse
M Bowen	M Bowen
H McLernon	

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest $1 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

Auditor's Independence Declaration

Ernst & Young, our auditors, have provided a written declaration to the directors in relation to their review of the Financial Report for the year ended 30 June 2006. This independence declaration can be found at page 16.

Non-Audit Services

The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due the following amounts for the provision of non-audit services:

Tax compliance services and other non audit services	$109,442

CORPORATE GOVERNANCE

The company has an extensive Corporate Governance Manual which includes a compliance program and complaint handling procedures which will enable the company to interact with its clients and the public in a consistent and transparent manner. The company’s corporate governance statement is noted on page 71 of this Annual Report.

Signed in accordance with a resolution of the directors.

John Walker
Managing Director

Sydney
29 September 2006

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Auditor's Independence Declaration to the Directors of IMF (Australia) Limited

In relation to our audit of the financial report of IMF (Australia) Limited for the financial year ended 30 June 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

G H Meyerowitz
Partner
Perth

29 September 2006

GHM:DA:IMF:075

INCOME STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	Note	Consolidated 2006 $	Consolidated 2005 $	IMF (Australia) Ltd 2006 $	IMF (Australia) Ltd 2005 $
Continuing Operations					
Finance Revenue	4(a)	897,094	822,116	878,959	765,636
Other income	4(b)	3,602,322	1,525,482	2,899,601	(13,514)
Total Income		4,499,416	2,347,598	3,778,560	752,122
Finance costs	4(c)	(1,236,711)	(308,318)	(1,235,030)	(299,443)
Bad debts written off		(235,127)	(596,829)	-	-
Depreciation expense	4(d)	(122,979)	(180,522)	(122,979)	(180,522)
Employee benefits expense	4(e)	(2,699,831)	(4,175,781)	(3,828,942)	(4,175,781)
Corporate and office expense	4(f)	(840,356)	(726,531)	(1,025,121)	(806,397)
Other expenses	4(g)	(197,761)	(563,947)	(312,552)	(508,502)
Loss before income tax		(833,349)	(4,204,330)	(2,746,064)	(5,218,523)
Income tax benefit/(expense)	5	139,062	140,106	529,959	3,732,108
Loss attributable to members of the parent	6	(694,287)	(4,064,223)	(2,216,105)	(1,486,415)

	Note	Consolidated 2006	Consolidated 2005
Earnings/(loss) per share (cents per share)			
Basic loss per share (cents per share)	6	(0.733)	(4.836)
Diluted loss per share (cents per share)	6	(0.733)	(4.836)

IMF (Australia) Ltd
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BALANCE SHEETS
AS AT 30 JUNE 2006

	Note	Consolidated 2006 $	Consolidated 2005 $	IMF (Australia) Ltd 2006 $	IMF (Australia) Ltd 2005 $
ASSETS					
Current Assets					
Cash and cash equivalents	8	20,824,039	16,300,304	20,912,909	15,862,931
Trade and other receivables	9	5,847,852	2,830,581	9,584,120	3,894,317
Other assets	10	76,856	245,569	76,836	243,171
Total Current Assets		26,748,747	19,376,454	30,573,865	20,000,419
Non-Current Assets					
Plant and equipment	11	241,103	331,441	241,103	328,616
Deferred tax assets	5	9,452,043	6,661,494	9,441,905	6,649,842
Available for sale investments	12	-	25,000	-	25,000
Intangible assets	13	32,865,988	24,002,052	11,322,431	7,271,877
Other financial asset	15	-	-	3,151,703	4,182,492
Total Non-Current Assets		42,559,134	31,019,987	24,157,142	18,457,827
TOTAL ASSETS		69,307,881	50,396,441	54,731,007	38,458,246
LIABILITIES					
Current Liabilities					
Trade and other payables	17	1,619,732	2,299,070	891,435	1,263,766
Interest-bearing loans and borrowings	18	4,060,614	3,748,452	4,060,614	3,748,452
Provisions	19	247,314	178,734	247,314	178,734
Total Current Liabilities		5,927,660	6,226,256	5,199,363	5,190,952
Non-Current Liabilities					
Provisions	19	210,139	216,761	210,139	216,761
Interest-bearing loans and borrowings	18	12,814,480	-	12,814,480	-
Deferred tax liabilities	5	10,235,150	7,222,550	3,772,083	2,183,350
Total Non-Current Liabilities		23,259,769	7,439,311	16,796,702	2,400,111
TOTAL LIABILITIES		29,187,429	13,665,567	21,996,065	7,591,063
NET ASSETS		**40,120,452**	**36,730,874**	**32,734,942**	**30,867,183**
EQUITY					
Contributed equity	20	30,487,579	28,180,079	30,487,579	28,180,079
Reserves	20	12,871,853	11,095,488	4,182,248	2,405,883
Retained earnings/(accumulated losses)	20	(3,238,980)	(2,544,693)	(1,934,885)	281,221
TOTAL EQUITY		**40,120,452**	**36,730,874**	**32,734,942**	**30,867,183**

CASH FLOWS STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	Note	Consolidated 2006 $	Consolidated 2005 $	IMF (Australia) Ltd 2006 $	IMF (Australia) Ltd 2005 $
Cash flows from operating activities					
Proceeds from litigation funding		6,110,239	4,703,224	4,086,176	7,546
Payments for litigation funding		(11,525,148)	(11,530,657)	(5,163,515)	-
Payments to suppliers and employees		(6,489,018)	(4,131,158)	(10,300,344)	(7,130,197)
Interest income		897,094	822,116	897,094	765,636
Interest paid		(713,096)	-	(713,096)	-
Income tax paid		-	(157,091)	-	(157,091)
Net cash (used in) / from operating activities	8	(11,719,929)	(10,293,566)	(11,193,685)	(6,514,106)
Cash flows from investing activities					
Purchase of plant and equipment		(72,776)	(136,085)	(72,776)	(136,085)
Net cash used in investing activities		(72,776)	(136,085)	(72,776)	(136,085)
Cash flows from financing activities					
Proceeds from issue of shares		2,307,500	16,799,500	2,307,500	16,799,500
Payment of share issue costs		-	(360,421)	-	(360,421)
Proceeds from issue of convertible notes		14,472,630	-	14,472,630	-
Payment of convertible note costs		(463,690)	-	(463,690)	-
Net cash flows from financing activities		16,316,440	16,439,079	16,316,440	16,439,079
Net increase in cash held		4,523,735	6,009,428	5,049,979	9,788,888
Cash at beginning of year		16,300,304	10,290,876	15,862,931	6,074,043
Cash at end of year	8	20,824,039	16,300,304	20,912,910	15,862,931

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STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2006

CONSOLIDATED	General Reserve $	Option Premium Reserve $	Convert-ible Notes Reserve $	Issued Capital $	Retained Earnings $	Total $
As at 1 July 2004	8,689,605	-	-	11,741,000	1,519,530	21,950,135
Loss in the period	-	-	-	-	(4,064,223)	(4,064,223)
Exercise of options	-	-	-	1,080,000	-	1,080,000
Issue of shares	-	-	-	15,719,500	-	15,719,500
Cost of share issue	-	-	-	(360,421)	-	(360,421)
Cost of share based payments	-	2,405,883	-	-	-	2,405,883
As at 30 June 2005	8,689,605	2,405,883	-	28,180,079	(2,544,693)	36,730,874
Loss in the period	-	-	-	-	(694,287)	(694,287)
Exercise of options	-	-	-	-	-	-
Issue of shares	-	-	-	2,307,500	-	2,307,500
Cost of share based payments	-	727,350	-	-	-	727,350
Convertible note reserve	-	-	1,405,913	-	-	1,405,913
Deferred tax liability relating to convertible notes	-	-	(356,898)	-	-	(356,898)
As at 30 June 2006	8,689,605	3,133,233	1,049,015	30,487,579	(3,238,980)	40,120,452
PARENT						
As at 1 July 2004	-	-	-	11,741,000	1,767,636	13,508,636
Loss in the period	-	-	-	-	(1,486,415)	(1,486,415)
Exercise of options	-	-	-	1,080,000	-	1,080,000
Issue of shares	-	-	-	15,719,500	-	15,719,500
Cost of share issue	-	-	-	(360,421)	-	(360,421)
Cost of share based payments	-	2,405,883	-	-	-	2,405,883
As at 30 June 2005	-	2,405,883	-	28,180,079	281,221	30,867,183
Loss in the period	-	-	-	-	(2,216,106)	(2,216,106)
Exercise of options	-	-	-	-	-	-
Issue of shares	-	-	-	2,307,500	-	2,307,500
Cost of share based payments	-	727,350	-	-	-	727,350
Convertible note reserve	-	-	1,405,913	-	-	1,405,913
Deferred tax liability relating to convertible notes	-	-	(356,898)	-	-	(356,898)
As at 30 June 2006	-	3,133,233	1,049,015	30,487,579	(1,934,885)	32,734,942

NOTE 1: CORPORATE INFORMATION

The financial report of IMF (Australia) Ltd (the Company) for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors on 12 September 2006.

IMF (Australia) Ltd is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian stock exchange. (ASX code: IMF)

The nature of the operations and principal activities of the Group are described in note 3.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis, except for available-for-sale investments, which have been measured at fair value.

b. Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

This is the first financial report prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly except for the adoption of AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement. The Company has adopted the exemption under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards from having to apply AASB 132 and AASB 139 to the comparative period.

The main adjustments necessary that would make the comparative financial statements comply with AASB 132 and AASB 139 are listed below. Similar adjustments were made at 1 July 2005 to restate the opening financial position of the company and the consolidated entity to a position consistent with the accounting policies specified in note 2:

(i) the measurement of financial assets designated as held -to-maturity and loans and receivables at amortised cost, rather than at cost in accordance with the superseded policy;

(ii) the measurement of financial liabilities at amortised cost, rather than at cost in accordance with superseded policy; and

(iii) the recognition of any current or deferred taxes in relation to the changes described above.

Reconciliations of AIFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in note 27.

Australian Accounting Standards recently issued or amended but not yet effective:

AASB Amend-ment	Affected Standard (s)	Nature of change to accounting policy	Application date of standard *	Application date for Group
2004-3	AASB 1 *First-time adoption of AIFRS* AASB 101 *Presentation of Financial Statements* AASB 124 *Related Party Disclosures*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 January 2006
2005-1	AASB 139 *Financial Instruments: Recognition and Measurement*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 January 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Statement of compliance (continued)

AASB Amend-ment	Affected Standard (s)	Nature of change to accounting policy	Application date of standard *	Application date for Group
2005-4	AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 1 *First-time adoption of AIFRS*, AASB 1023 *General insurance Contracts* and AASB 1038 *Life Insurance Contracts*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 January 2006
2005-5	AASB 1 *First-time adoption of AIFRS* and AASB 139 *Financial Instruments: Recognition and Measurement*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 January 2006
2005-6	AASB 3 *Business Combinations*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 January 2006
2005-9	AASB 4 *Insurance Contracts*, AASB 1023 *General insurance Contracts*, AASB 139 *Financial Instruments: Recognition and Measurement* and AASB 132 *Financial Instruments: Disclosure and Presentation*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 January 2006
2005-10	AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time adoption of AIFRS*, AASB 4 *Insurance Contracts*, AASB 1023 *General insurance Contracts* and AASB 1038 *Life Insurance Contracts*	No change to accounting policy required. Therefore no impact.	1 January 2007	1 January 2007
2006-1	AASB 121 *The Effects of Change in Foreign Currency Rates*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 January 2006

New or revised Standard/ UIG Affected Standard (s)	Nature of change to accounting policy	Application date of standard/ interpretation*	Application date for Group*
AASB 119 *Employee Benefits*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 January 2006
AASB 7 *Financial Instruments: Disclosures*	No change to accounting policy required. Therefore no impact.	1 January 2007	1 January 2007
UIG 4 *Determining whether an Arrangement contains a Lease*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 January 2006
UIG 5 *Rights to Interests in Decommissioning, Restoration and Environmental Rehabilitation Funds*	No change to accounting policy required. Therefore no impact.	1 January 2006	1 January 2006
UIG 6 *Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*	No change to accounting policy required. Therefore no impact.	1 December 2005	1 December 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Statement of compliance (continued)

New or revised Standard/ UIG Affected Standard (s)	**Nature of change to accounting policy**	**Application date of standard/ interpretation***	**Application date for Group***
UIG 7 *Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies*	No change to accounting policy required. Therefore no impact.	1 March 2006	1 March 2006
UIG 8 *Scope of AASB 2*	No change to accounting policy required. Therefore no impact.	1 May 2006	1 May 2006
UIG 9 *Reassessment of Embedded Derivatives*	No change to accounting policy required. Therefore no impact.	1 June 2006	1 June 2006

* Application date is for the annual reporting periods on or after the date shown in the above table.

The following amendments are not applicable to the Group and therefore have no impact.

AASB Amendment	Affected Standard(s)
2005-2	AASB 1023: *General Insurance Contracts*
2005-12	AASB 1038: *Life Insurance Contracts* and AASB 1023: *General Insurance Contracts*
2005-13	AAS 25: *Financial Reporting by Superannuation Plans*

c. Basis of consolidation

The consolidated financial statements comprise the financial statements of IMF (Australia) Limited and its subsidiary Insolvency Litigation Fund Pty Limited as at 30 June each year (the Group).

The financial statements of the subsidiary are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Investment in subsidiaries are measured at cost.

d. Significant accounting judgments, estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a Black-Scholes model, using the assumptions detailed in note 16.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Revenue recognition

Revenue is recognised to the extent that it is probable that the consolidated benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest income

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for interest income applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ended 30 June 2006

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipt through the expected life of the financial asset to the net carrying amount of the financial asset.

Accounting policies applicable for the year ended 30 June 2005

Revenue is recognised when the Group's right to receive payment is established.

f. Borrowing costs

Borrowing costs are recognised as an expense when incurred.

g. Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

h. Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less, which is readily convertible into cash on hand and are subject to an insignificant risk of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Trade and other receivables

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for trade and other receivables applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ended 30 June 2006

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

Accounting policies applicable for the year ended 30 June 2005

Trade receivables were recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts was made when collection of the full amount was no longer probable. Bad debts were written off as incurred.

j. Impairment of financial assets

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies applicable to the derecognition of financial assets and financial liabilities for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ended 30 June 2006

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Members of the tax consolidated group have not entered into a tax sharing/funding arrangement. Under UIG 1052: *Tax Consolidation Accounting* where a tax consolidated group has not entered into a tax sharing/funding arrangement, the assumption of current tax liabilities and tax losses by the parent entity is recognised as a contribution/distribution of the subsidiary's equity accounts. The group has applied the stand alone tax payer approach in determining the appropriate amount of current and deferred taxes to allocate to the members of the tax consolidated group.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l. Goods and Services tax

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the Australian Taxation Office ("ATO"), in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

l. Goods and Services tax (continued)

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the ATO are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the ATO.

m. Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Plant and equipment - over 5 to 15 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

(i) Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the income statement in the cost of sales line item.

(ii) Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n. Financial assets

The group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for investments and other financial assets applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ended 30 June 2006

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(ii) Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the preceding categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

Accounting policies applicable for the year ended 30 June 2005

Listed shares held for trading were carried at net market value. Changes in net market value were recognised as a revenue or expense in determining the net profit for the period.

All other non-current investments were carried at the lower of cost and recoverable amount.

Recoverable amount

Non-current financial assets measured using the cost basis were not carried at an amount above their recoverable amount, and when a carrying value exceeded this recoverable amount, the financial asset was written down to its recoverable amount. In determining recoverable amount, the expected net cash flows were not discounted to their present value.

o. Intangible assets

Litigation Contracts in Progress

Litigation Contracts In Progress represent future economic benefits controlled by the Group. As Litigation Contracts In Progress may be exchanged or sold, the Group is able to control the expected future economic benefit flowing from the Litigation Contracts In Progress. Accordingly, Litigation Contracts In Progress meet the definition of intangible assets.

Litigation Contracts In Progress are measured at cost on initial recognition. Litigation Contracts In Progress are not amortised as the assets are not available for use until the determination of a successful judgement, at which point the assets are realised.

Gains or losses arising from derecognition of Litigation Contracts in Progress are measured as the difference between the net disposed proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o. Intangible assets (continued)

The following specific asset recognition rules have been applied to Litigation Contracts In Progress:

(A) Actions still outstanding:

When litigation is outstanding and pending a decision, Litigation Contracts In Progress are carried at cost. Subsequent expenditure is capitalised when it meets all of the following criteria:

i. Demonstration of ability of the Group to complete the litigation so that the asset will be available for use and the benefits embodied in the asset will be realised;

ii. Demonstration that the asset will generate future economic benefits;

iii. Demonstration that the Group intends to complete the Litigation;

iv. Demonstration of the availability of adequate technical, financial and other resources to complete the Litigation; and

v. Ability to measure reliably the expenditure attributable to the intangible asset during the Litigation Contracts In Progress.

(B) Successful Judgment:

Where the Litigation has been decided in favour of the Group, this constitutes a derecognition of the intangible asset and accordingly a gain or loss is recognised in the income statement.

Any future costs relating to the defence of an appeal by the defendant are expensed as incurred.

(C) Unsuccessful Judgement:

Where a case is unsuccessful at trial, this is a trigger for impairment of the intangible asset and the asset is written down to its recoverable amount. If the company, having been unsuccessful at trial, appeals against the judgment, then future costs incurred by the company on the appeal process are expensed as incurred.

p. Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the greater of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p. Impairment of assets (continued)

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

q. Trade and other payables

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for trade and other payables applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ended 30 June 2006

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

Accounting policies applicable for the year ended 30 June 2005

Trade payables and other payables are carried at costs which is the fair value of the consideration to be paid in the future for goods and services rendered, whether or not billed to the consolidated entity.

r. Interest-bearing loans and borrowings

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for trade and other payables applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ended 30 June 2006

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised.

Accounting policies applicable for the year ended 30 June 2005

All loans were measured at the principal amount. Interest was recognised as an expense as it accrued.

s. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t. Employee leave benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

u. Share-based payment transactions

(i) Equity settled transactions

The Group provides benefits to employees (including senior executives) of the Group in the form of share-based payments, whereby employees render services in exchange for options over shares (equity-settled transactions).

There is currently a plan in place to provide these benefits:

- the Employee Share Option Plan (ESOP), which provides benefits to directors and staff.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black Scholes model, further details of which are given in note 16.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of IMF (Australia) Ltd (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of loss per share (see note 6).

(ii) Cash settled transactions

The Group does not provide cash settled share-based benefits to employees or senior executives.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

v. Convertible notes

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for convertible notes applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ended 30 June 2006

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs.

On issuance of the convertible notes, the fair value of the liability component is determined using an estimated market rate for an equivalent non-convertible bond and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time, is recognised as a finance cost.

The fair value of any derivative features embedded in the convertible notes other than the equity component are included in the liability component. Subsequent to initial recognition, these derivative features are measured at fair value with gains and loss recognised in profit and loss.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs.

Accounting policies applicable for the year ended 30 June 2005

The Group did not have any convertible notes in this period.

w. Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

x. Loss per share

Basic loss per share is calculated as net loss attributable to members of the parent, excluding any costs of servicing equity other than ordinary shares, divided by the weighted average number of ordinary shares outstanding during the financial year, adjusted for any bonus element in ordinary shares issued during the year.

Diluted loss per share is calculated as net loss attributable to members of the parent, adjusted for the after tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for nil consideration in relatio to dilutive potential ordinary shares.

y. Impact of adoption of AIFRS

The impacts of adopting AIFRS are outlined in detail in note 27.

NOTE 3: SEGMENT INFORMATION

The consolidated entity operates in one business segment, being the provision of litigation funding.

Geographically, the group operates in Australia only however the company is test marketing and investigating other markets including the UK, Singapore, New Zealand and Hong Kong.

NOTE 4: REVENUES AND EXPENSES

		Consolidated		IMF (Australia) Ltd	
		2006	2005	2006	2005
		$	$	$	$
(a)	**Finance Revenue**				
	Bank interest received	897,094	822,116	878,959	765,636
		897,094	822,116	878,959	765,636
(b)	**Other income**				
	Litigation contracts in progress - settlements	7,662,554	3,307,756	4,871,596	7,548
	Litigation contracts in progress expenses	(4,566,042)	(1,782,274)	(2,376,492)	(21,062)
	Net gain on derecognition of intangible assets	3,096,512	1,525,482	2,495,104	(13,514)
	GST recoverable from prior periods	505,810	-	404,497	-
		3,602,322	1,525,482	2,899,601	(13,514)
(c)	**Finance costs**				
	Interest on related party loans	(312,162)	(288,164)	(312,162)	(288,164)
	Interest on convertible notes	(907,297)	-	(907,297)	-
	Other finance charges	(17,252)	(20,154)	(151,571)	(11,279)
		(1,236,711)	(308,318)	(1,235,030)	(299,443)
(d)	**Depreciation included in the income statement**				
	Depreciation	(122,979)	(180,522)	(122,979)	(180,522)
(e)	**Employee benefits expense**				
	Wages and salaries	(1,257,071)	(1,062,964)	(2,386,183)	(1,062,964)
	Superannuation expense	(340,674)	(290,018)	(340,674)	(290,018)
	Directors fees	(176,338)	(87,954)	(176,337)	(87,954)
	Payroll tax	(205,021)	(161,483)	(205,021)	(161,483)
	Long service leave provision	6,623	(167,479)	6,623	(167,479)
		(1,972,481)	(1,769,898)	(3,101,592)	(1,769,898)
	Share-based payments expense	(727,350)	(2,405,883)	(727,350)	(2,405,883)
	Total employee benefits expense	(2,699,831)	(4,175,781)	(3,828,942)	(4,175,781)
(f)	**Corporate and office expense**				
	Insurance expense	(101,855)	(93,958)	(101,855)	(93,958)
	Network expense	(163,159)	(145,625)	(163,159)	(145,625)
	Marketing expense	(56,964)	(60,371)	(57,464)	(44,146)
	Occupancy expense	(52,115)	(5,925)	(236,380)	(104,223)
	Professional fee expense	(325,829)	(173,934)	(325,829)	(173,934)
	Recruitment expense	(27,230)	(68,794)	(27,230)	(68,794)
	Telephone expense	(68,377)	(76,170)	(68,377)	(76,005)
	Travel expense	(44,827)	(101,754)	(44,827)	(99,712)
		(840,356)	(726,531)	(1,025,121)	(806,397)

NOTE 4: REVENUES AND EXPENSES (CONTINUED)

		Consolidated		IMF (Australia) Ltd	
		2006	2005	2006	2005
(g)	**Other expenses**	$	$	$	$
	ASX listing fees	(23,350)	(34,872)	(23,350)	(34,872)
	General expenses	(46,584)	(483,814)	(140,423)	(421,994)
	Postage, printing and stationary	(29,865)	(18,026)	(50,817)	(24,401)
	Repairs and maintenance	(8,261)	(8,397)	(8,261)	(8,397)
	Share registry costs	(16,871)	(14,944)	(16,871)	(14,944)
	Software supplies	(10,544)	(3,894)	(10,544)	(3,894)
	Net loss on disposal of plant and equipment	(37,286)	-	(37,286)	-
	Write-down of available for sale investments	(25,000)	-	(25,000)	-
		(197,761)	(563,947)	(312,552)	(508,502)

NOTE 5: INCOME TAX

The major components of income tax expense are:

	Consolidated 2006	Consolidated 2005	IMF (Australia) Ltd 2006	IMF (Australia) Ltd 2005
Income Statement				
Current income tax				
Current income tax expense/(benefit)	(2,537,737)	(3,939,855)	(1,664,219)	(4,920,755)
Adjustment in respect of current income tax of previous year	(34,344)	-	122,927	-
Deferred income tax				
Relating to origination and reversal of temporary differences	2,433,019	3,799,749	1,011,333	1,188,647
Income tax expense/(benefit) reported in the income statement	(139,062)	(140,106)	(529,959)	(3,732,108)
Statement of Recognised Income and Expense				
Deferred income tax related to items charged or credited directly to equity				
Compound financial instrument	(356,898)	-	(356,898)	-
Income tax expense reported in equity	(356,898)	-	(356,898)	-

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate as follows:

	Consolidated 2006	Consolidated 2005	IMF (Australia) Ltd 2006	IMF (Australia) Ltd 2005
Accounting profit before income tax	(833,349)	(4,204,330)	(2,746,064)	(5,218,523)
At the Group's statutory income tax rate of 30% (2005: 30%)	(250,005)	(1,261,299)	(823,819)	(1,565,557)
Adjustment in respect of current income tax of previous years:	(34,345)	-	122,927	-
Expenditure not allowable for income tax purposes	228,893	846,128	227,935	830,746
Income not assessable for income tax purposes	(33,215)	-	(3,836)	-
Tax effect of timing differences not brought to account in prior years	-	383,192	-	(2,524,574)
Other	(50,390)	(108,127)	(53,166)	(472,723)
Income tax expense reported in the income statement	(139,062)	(140,106)	(529,959)	(3,732,108)

NOTE 5: INCOME TAX (CONTINUED)

Deferred Income Tax

Deferred income tax at 30 June relates to the following:

	Balance Sheet		Income Statement	
CONSOLIDATED	**2006**	**2005**	**2006**	**2005**
Deferred tax liabilities	**$**	**$**	**$**	**$**
Intangibles	9,859,796	7,220,763	2,636,072	3,820,604
Prepayments	-	1,787	(1,787)	1,220
Expenditure deducted for income tax purposes	-	-	(1,197)	(1,747)
Compound financial instrument	375,354	-	(46,420)	-
	10,235.150	7,222,550	-	-
Deferred tax assets				
Depreciable assets	24,897	24,417	(829)	5,466
Provisions	149,935	133,060	(16,875)	(20,330)
Accrued expenditure deductible in future years	34,767	10,500	(26,400)	(2,850)
Losses available for offset against future taxable income	9,062,691	6,490,903	-	-
Expenditure deductible for income tax over time	179,753	2,614	(109,545)	(2,614)
Gross deferred income tax assets	9,452,043	6,661,494		
			2,433,019	3,799,749
PARENT				
Deferred tax liabilities				
Intangibles	3,396,729	2,181,563	1,213,766	1,200,859
Prepayments	-	1,787	(1,787)	1,220
Expenditure deducted for income tax purposes	-	-	(1,197)	(1,747)
Compound financial instrument	375,354	-	(46,420)	-
	3,772,083	2,183,350	-	-
Deferred tax assets				
Depreciable assets	24,897	27,176	1,931	(302)
Provisions	157,264	118,649	(38,615)	(5,919)
Accrued expenditure deductible in future years	17,300	10,500	(6,800)	(2,850)
Losses available for offset against future taxable income	9,062,691	6,490,903	-	-
Expenditure deductible for income tax over time	179,753	2,614	(109,545)	(2,614)
Gross deferred income tax assets	9,441,905	6,649,842		
			1,011,333	1,188,647

At 30 June 2006 there is no recognised or unrecognised deferred income tax liability (2005: nil) for tax purposes that would be payable on the unremitted earnings of the Group's subsidiaries., as the Group has no liability for additional taxation should such amounts be remitted.

Tax Consolidation

IMF (Australia) Ltd and its 100% owned subsidiary have formed a tax consolidated group with effect from 1 July 2002. IMF(Australia) Ltd is the head of the tax consolidated group.

In preparing the accounts for IMF (Australia) Ltd for the current year, the following amounts have been recognised as tax consolidation contribution adjustments:

	2006	**2005**
	$	**$**
Tax liabilities/losses recognised by the parent	1,005,789	1,435,548

NOTE 6: LOSS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent (after deducting interest on convertible notes) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	Consolidated	
	2006	**2005**
	$	**$**
Net loss attributable to ordinary equity holders of the parent from continuing operations	(694,287)	(4,064,223)
Net loss attributable to ordinary equity holders of the parent	(694,287)	(4,064,223)

	Number	
	2006	**2005**
Weighted average number of ordinary shares outstanding during the year used in calculation of basic loss per share	94,733,484	84,038,892
Adjusted weighted average number of potential ordinary shares outstanding during the year used in calculation of dilutive loss per share	94,733,484	84,038,892

The Group had 42,114,860 non-dilutive potential ordinary shares at 30 June 2006 (2005: 21,389,685)

The following transactions involving ordinary shares or potential ordinary shares have occurred between the reporting date and the date of these financial statements:

- On 1 July 2006 options totalling 83,333 were issued in accordance with the Employee Share Option Scheme.
- On 31 July 2006 the directors converted 6,813,868 options owned by the directors into ordinary shares.
- On 9 August 2006 Expectation Pty Limited converted 11,486,798 options owned by it into ordinary shares.

NOTE 7: DIVIDENDS PAID AND PROPOSED

There were no dividends paid or proposed during the 2005 or 2006 financial years.

NOTE 8: CASH AND CASH EQUIVALENTS

	Consolidated		**IMF (Australia) Ltd**	
	2006	**2005**	**2006**	**2005**
	$	**$**	**$**	**$**
Cash at bank	169,966	1,032,502	261,980	595,129
Short-term deposits	20,654,073	15,267,802	20,650,929	15,267,802
	20,824,039	16,300,304	20,912,909	15,862,931

NOTE 8: CASH AND CASH EQUIVALENTS (CONTINUED)

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

The fair value of cash and cash equivalents is $20,824,039 (2005: $16,300,304).

Bank Guarantees
Bank guarantees have been issued by the Group's bankers as security for leases over premises, banking facilities and as security for adverse costs orders for matters funded under litigation funding agreements. As at 30 June 2006 guarantees of $2,304,473 were outstanding (2005: $2,466,214). The guarantees are secured by an offset arrangement with a term deposit of $1,666,754 (2005: $3,634,250).

Reconciliation to Cash Flow Statement

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:

	Consolidated		IMF (Australia) Ltd	
	2006	2005	2006	2005
	$	$	$	$
Cash at banks and in hand	169,966	1,032,502	261,980	595,129
Short-term deposits	20,654,073	15,267,802	20,650,929	15,267,802
	20,824,039	16,300,304	20,912,909	15,862,931

	Consolidated 2006 $	Consolidated 2005 $	IMF (Australia) Ltd 2006 $	IMF (Australia) Ltd 2005 $
Reconciliation of loss after tax to net cash flow from operations				
Loss attributable to members of the parent	(694,287)	(4,064,223)	(2,216,105)	(1,486,415)
Loss from ordinary activities after income tax	(694,287)	(4,064,223)	(2,216,105)	(1,486,415)
Adjustments for:				
Depreciation	122,979	180,522	122,979	180,522
Interest accretion - convertible notes	211,453	-	211,453	-
Share options expensed	727,350	2,405,883	727,350	2,405,883
Other	(291,763)	-	(294,587)	-
Changes in assets and liabilities				
Decrease/(Increase) in receivables	(3,017,271)	1,990,766	(5,689,803)	(723,979)
Decrease/(Increase) in other current assets	168,713	(181,313)	166,335	(182,725)
Decrease/(Increase) in other financial assets	-	-	1,030,789	1,435,548
Decrease/(Increase) in deferred tax assets	(2,790,549)	(3,914,479)	(2,792,063)	(3,902,828)
Decrease/(Increase) in intangible assets	(8,863,936)	(11,530,657)	(4,050,554)	(4,002,861)
Increase /(Decrease) in trade creditors and accruals	(679,338)	905,878	(372,331)	887,891
Increase/(Decrease) in interest bearing loans and borrowings	312,162	288,165	312,162	288,165
Increase/(Decrease) in Provisions	68,580	(280,602)	68,580	(280,602)
Increase/(Decrease) in non current employee entitlements	(6,622)	129,207	(6,622)	129,207
Increase/(Decrease) in deferred tax liabilities	3,012,600	3,777,287	1,588,732	(1,261,912)
Net cash used in operating activities	(11,719,929)	(10,293,566)	(11,193,685)	(6,514,106)

NOTE 8: CASH AND CASH EQUIVALENTS (CONTINUED)

Disclosure of financing activities.

Refer to note 18.

Disclosure of non-cash financing and investing activities.

Refer to note 13 and note 14.

NOTE 9: TRADE AND OTHER RECEIVABLES

		Consolidated		IMF (Australia) Ltd	
		2006	2005	2006	2005
		$	$	$	$
Trade receivables	(i)	4,539,599	2,830,581	1,374,499	-
Allowance for doubtful debts		-	-	-	-
GST refund receivable	(ii)	949,368	-	747,824	-
GST unclaimed	(iii)	358,885	-	183,711	-
		5,847,852	2,830,581	2,306,034	-
Related party receivables		-	-	7,278,086	3,894,317
		5,847,852	2,830,581	9,584,120	3,894,317

(i) Trade receivables are non-interest bearing and generally on 30-90 day terms. Included in trade debtors is an amount of $1,689,366 (2005: $305,000) which is subject to appeal.

(ii) On 30 June 2006 the Group received a revised ruling from the Australian Taxation Office concerning its treatment of Goods and Services Tax ("GST"). This ruling has resulted in the Group making a claim for a refund of $949,368 as at 30 June 2006. $505,810 of this claim relates to periods prior to 30 June 2006.

(iii) As at 30 June 2006 the Group has identified $358,885 in unclaimed GST which was not yet been claimed from the ATO.

Details regarding the effective interest rate and credit risk of current receivables is disclosed in note 21.

NOTE 10: OTHER ASSETS

Prepayments	76,366	76,217	76,366	76,217
Income tax refund due	-	157,091	-	157,091
Other	490	12,261	470	9,863
	76,856	245,569	76,836	243,171

NOTE 11: PLANT AND EQUIPMENT

	Consolidated	IMF (Australia) Ltd
Year ended 30 June 2006	**$**	**$**
At 1 July 2005, net of accumulated depreciation and impairment	331,441	328,616
Additions	72,776	72,776
Disposals	(40,135)	(37,310)
Depreciation charge for the year	(122,979)	(122,979)
Net of accumulated depreciation and impairment	241,103	241,103
At 1 July 2005		
Cost or fair value	825,981	823,156
Accumulated depreciation and impairment	(494,540)	(494,540)
Net carrying amount	331,441	328,616
At 30 June 2006		
Cost or fair value	895,908	895,908
Accumulated depreciation and impairment	(654,805)	(654,805)
Net carrying amount	241,103	241,103
Year ended 30 June 2005		
At 1 July 2004, net of accumulated depreciation and impairment	375,878	373,053
Additions	136,085	136,085
Depreciation charge for the year	(180,522)	(180,522)
Net of accumulated depreciation and impairment	331,441	328,616
At 1 July 2004		
Cost or fair value	689,896	687,071
Accumulated depreciation and impairment	(314,018)	(314,018)
Net carrying amount	375,878	373,053
At 30 June 2005		
Cost or fair value	825,981	823,156
Accumulated depreciation and impairment	(494,540)	(494,540)
Net carrying amount	331,441	328,616

The useful life of the assets was estimated from 5 to 15 years for both 2005 and 2006.

NOTE 12: AVAILABLE FOR SALE INVESTMENTS

	Consolidated		IMF (Australia) Ltd	
	2006	2005	2006	2005
	$	$	$	$
Opening balance at 1 July 2005				
Unlisted shares – at fair value (2005: cost)	25,000	25,000	25,000	25,000
Net loss from fair value adjustment	(25,000)	-	(25,000)	-
Closing balance as at 30 June 2006	-	25,000	-	25,000

Available-for-sale investments consist of investments in ordinary shares in unlisted companies, and therefore have no fixed maturity date or coupon rate.

The fair value of the unlisted available-for-sale investments has been estimated using valuation techniques based on assumptions that are not supported by observable market prices or rates. Management believes the estimated fair values resulting from the valuation techniques and recorded in the balance sheet and the related changes in fair values recorded in the income statement are reasonable and the most appropriate at the balance sheet date.

NOTE 13: INTANGIBLE ASSETS

	Consolidated	IMF (Australia) Ltd
Litigation Contracts in Progress	$	$
At 1 July 2005		
Cost (gross carrying amount)	24,002,052	7,271,877
Accumulated amortisation and impairment	-	-
Net carrying amount	24,002,052	7,271,877
Year ended 30 June 2006		
At 1 July 2005, net of accumulated amortisation and impairment	24,002,052	7,271,877
Additions	11,525,148	5,162,377
Disposals	(2,661,212)	(1,111,823)
Impairment	-	-
At 30 June 2006, net of accumulated amortisation and impairment	32,865,988	11,322,431
At 30 June 2006		
Cost (gross carrying amount)	32,865,988	11,322,431
Accumulated amortisation and impairment	-	-
Net carrying amount	32,865,988	11,322,431
At 1 July 2004		
Cost (gross carrying amount)	12,471,395	3,269,016
Accumulated amortisation and impairment	-	-
Net carrying amount	12,471,395	3,269,016

NOTE 13: INTANGIBLE ASSETS (CONTINUED)

	Consolidated	Parent
	$	$
Year ended 30 June 2005		
At 1 July 2005, net of accumulated amortisation and impairment	12,471,395	3,269,016
Additions	11,530,657	4,002,861
Disposals	-	-
Impairment	-	-
At 30 June 2006, net of accumulated amortisation and impairment	24,002,052	7,271,877
At 30 June 2005		
Cost (gross carrying amount)	24,002,052	7,271,877
Accumulated amortisation and impairment	-	-
Net carrying amount	24,002,052	7,271,877

NOTE 14: IMPAIRMENT TESTING OF INTANGIBLE ASSETS

The recoverable amount of Litigation Contracts in Progress is determined based on a value in use calculation using cash flow projections based on financial budgets approved by management.

The following describes each key assumption on which management has based its cash flow projections when determining the value in use of Litigation Contracts in Progress:

- The estimated cost to complete a Litigation Contract in Progress is budgeted, based on estimates provided by the external legal advisors handling the litigation and the plaintiff in the litigation;

- The value to the Group once the Litigation Contracts in Progress is completed is estimated, based on the expected settlement amount of the litigation and the fees due to the Group under the litigation funding contract.

- The discount rate applied to the cash flow projections is the five year government bond rate at the beginning of the budgeted year, adjusted for uncertainty inherent in the asset and illiquidity.

NOTE 15: OTHER FINANCIAL ASSET

The consolidated financial statements include the financial statements of IMF (Australia) Ltd and the subsidiaries listed in the following table.

	Country of Incorporation	Percentage Owned 2006	Percentage Owned 2005	Investment 2006	Investment 2005
Name		%	%	$	$
Insolvency Litigation Fund Pty Ltd (formerly Insolvency Management Fund Pty Ltd)	Australia	100	100	3,151,703	4,182,492

The movement in the investment reflects a distribution from the subsidiary taking the transfer of tax losses from the subsidiary to the parent (refer to note 5.)

NOTE 16: SHARE BASED PAYMENT PLAN

The parent entity has an Employee Share Option Scheme where employees and directors' may be granted options over the shares in the capital of IMF (Australia) Ltd. The options are granted for nil consideration. The exercise price of the options is determined by the directors at the time the options are issued, in accordance with the Employee Share Option Scheme. The options vest in accordance with the terms and conditions of the Employee Share Option Scheme and the contractual life of the options is up to five years, or within 30 days of termination of employment.

The options are not quoted on the ASX and the granting of the options under the Employee Share Option Scheme does not entitle any option holder to any dividend or voting rights or any other rights held by a Shareholder, until exercise of the options. Each option entitles the option holder to one ordinary share in the parent entity on exercise. There are no cash settlement alternatives.

The expense recognised in the income statement in relation to share based payments in disclosed in note 3(u).

The following table illustrates the number and weighted average exercise prices (WAEP) of and movements in share options issued under the Employee Share Option Scheme during the year.

	2006 Number	**2006 WAEP**	**2005 Number**	**2005 WAEP**
Outstanding at the beginning of the year	4,683,995	$0.77	989,330	$0.20
Granted during the year	1,733,333	$0.75	3,694,665	$0.92
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	(1,010,000)	($0.96)	-	-
Outstanding at the end of the year	5,407,328	$0.73	4,683,995	$0.77

The outstanding balance as at 30 June 2006 is represented by:

Number of Options	**Exercise Price**	**Expiry Date**
444,665	$0.20	30-Jun-07
544,665	$0.20	30-Jun-08
544,665	$0.20	30-Jun-09
83,333	$0.65	30-Jun-10
300,000	$0.80	08-Jan-06
430,000	$0.80	17-Jan-08
730,000	$1.10	30-Jun-08
730,000	$1.35	30-Jun-09
100,000	$0.20	30-Jun-10
1,500,000	$0.80	24-Mar-11
5,407,328	$0.73	(weighted average exercise price)

The weighted average remaining contractual life for the share options outstanding under the Employee Share Option Scheme at 30 June 2006 is between 1 and 5 years (2005: 1 and 5 years).

The range of exercise prices for options outstanding at the end of the year was $0.20 to $1.35 (2005: $0.20 to $1.35).

The weighted average fair value of options granted during the year was $0.20 (2005: $0.36).

NOTE 16: SHARE BASED PAYMENT PLAN (CONTINUED)

The fair value of options granted under the Employee Share Option Scheme is estimated as at the date of grant using a Black-Scholes model taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the model used for the years ended 30 June 2005 and 30 June 2006:

	2006	2005
Dividend Yield	0%	0%
Expected Volatility	55%	55%
Risk-free interest rate	5.6%	4.8%
Expected life of option	5 years	5 years
Option exercise price	$0.75	$0.92
Share price at grant date	$0.47	$0.47

The expected life of the option is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of option granted were incorporated into the measurement of fair value.

NOTE 17: TRADE AND OTHER PAYABLES (CURRENT)

	Consolidated		IMF (Australia) Ltd	
	2006	2005	2006	2005
	$	$	$	$
Trade payables	1,395,302	2,006,881	667,005	971,577
Wage accruals	224,430	292,189	224,430	292,189
	1,619,732	2,299,070	891,435	1,263,766

Trade creditors are non-interest bearing and are normally settled on 30 day terms.

NOTE 18: INTEREST- BEARING LOANS AND BORROWINGS

Current				
Unsecured loan from key management personnel and other related parties (i)	4,060,614	3,748,452	4,060,614	3,748,452
	4,060,614	3,748,452	4,060,614	3,748,452
Non-current				
Convertible notes (ii)	12,814,480	-	12,814,480	-
	12,814,480	-	12,814,480	-

Details of the fair value of the Group's interest bearing liabilities are set our in note 21.

(i) On 3 August 2001, the parent entity, Expectation Pty Ltd, Legal Precedents Pty Ltd and Hugh McLernon entered into a deposit funding facility agreement. H McLernon was a director of Expectation Pty Ltd between 3 August 1992 and 13 July 2001, J Walker is a director and had a financial interest in Legal Precedents Pty Ltd. The details of the agreements are as follows:

- Expectation Pty Ltd agreed to make available to the Company up to $2,000,000 of the cash flow Expectation Pty Ltd was to receive pursuant to the Shareholders Deed;

NOTE 18: INTEREST- BEARING LOANS AND BORROWINGS (CONTINUED)

- Interest is payable on the funds deposited by Expectation Pty Ltd, Legal Precedents Pty Ltd and Mr McLernon at a rate of 8% per annum;
- The term of the facility is five (5) years; and
- Expectation Pty Ltd, Legal Precedents Pty Ltd and Mr McLernon may withdraw the funds they have deposited with the Company at any time on demand and these funds may be used by those parties to exercise their IMF Options within 7 days of those funds being withdrawn.

At 30 June 2006, $2,703,491 was owed to Expectation Pty Ltd, $695,616 to Legal Precedents Pty Ltd and $661,507 to Hugh McLernon. During the year $207,832 (2005: $191,855) interest was charged on the outstanding balance owed to Expectation Pty Ltd, $53,476 (2005: $49,365) to Legal Precedents Pty Ltd and $50,854 (2005: $46,944) to Hugh McLernon.

(ii) On 30 January 2006 the parent entity issued 20,685,185 convertible notes, raising total capital of $14,472,629 (excluding costs). Each convertible note has a nominal value of $0.70 and has the right to convert into one ordinary share.

The convertible notes are convertible at the option of the note-holder by 31 March 2010. The convertible notes are convertible at the option of the parent entity by 30 January 2008.

The convertible notes carry a coupon of 11.5% per annum, payable quarterly in arrears, with the first interest payment due on 30 June 2006.

The application of AASB 132 Financial Instruments: Disclosure and Presentation has resulted in $1,405,913 of these convertible notes being classified as equity (refer to note 20).

Set off of assets and liabilities:

The Group has established a legal right of set off with a bank enabling it to set off certain deposits with the bank against bank guarantees issued totalling $2,304,473 (2005: $2,466,214). The total of the bank guarantee facility is $3,000,000. The guarantee facility is secured by an offset arrangement against a term deposit of $1,666,754 (2005:$3,634,250).

NOTE 19: PROVISIONS

	Annual leave	Long service leave	Total
Consolidated	**$**	**$**	**$**
At 1 July 2005	178,734	216,761	395,495
Arising during the year	68,580		68,580
Utilised	-	(6,622)	(6,622)
At 30 June 2006	247,314	210,139	457,453
Current 2006	247,314	-	247,314
Non-current 2006	-	210,139	210,139
	247,314	210,139	457,453
Current 2005	178,734	-	178,734
Non-current 2005	-	216,761	216,761
	178,734	216,761	395,495

NOTE 19: PROVISIONS (CONTINUED)

	Annual leave	Long service leave	Total
Parent	**$**	**$**	**$**
At 1 July 2005	178,734	216,761	395,495
Arising during the year	68,580		68,580
Utilised	-	(6,622)	(6,622)
At 30 June 2006	247,314	210,139	457,453
Current 2006	247,314	-	247,314
Non-current 2006	-	210,139	210,139
	247,314	210,139	457,453
Current 2005	178,734	-	178,734
Non-current 2005	-	216,761	216,761
	178,734	216,761	395,495

NOTE 20: CONTRIBUTED EQUITY AND RESERVES

	IMF (Australia) Ltd	
	2006	**2005**
	$	**$**
Contributed equity		
Issued and fully paid ordinary shares	30,487,579	28,180,079

Movements in ordinary shares on issue during the financial year

	2006	2006
	Number	**$**
As at 1 July 2004	66,699,734	11,741,000
Share placement at 80c	10,033,750	8,027,000
Share placement at 85c	9,050,000	7,692,500
Exercise of options by directors at 20c	5,400,000	1,080,000
Costs of Share Issue	-	(360,421)
As at 1 July 2005	91,183,484	28,180,079
Share placement at 65c - 1 September 2005	3,550,000	2,307,500
As at 30 June 2006	94,733,484	30,487,579

NOTE 20: CONTRIBUTED EQUITY AND RESERVES (CONTINUED)

Share Options
At 30 June 2006, there were 35,503,008 (2005: 34,779,675) unissued ordinary shares in total in respect of which options were outstanding, as follows:

	2006	2005
Options - Expectation Pty Ltd (see note 18 and 22)	12,597,120	12,597,120
Director Options (see note 25)	17,498,560	17,498,560
Employee options (see note 16)	5,407,328	4,683,995
Options issued as at 30 June	**35,503,008**	**34,779,675**

Accumulated losses

Movements in retained earnings were as follows:

	Consolidated		IMF (Australia) Ltd	
	2006	2005	2006	2005
	$	$	$	$
Balance 1 July	(2,544,693)	1,519,531	281,221	1,767,636
Net loss for the year	(694,287)	(4,064,223)	(2,216,106)	(1,486,415)
Balance 30 June	(3,238,980)	(2,544,693)	(1,934,855)	281,221

Reserves

Movements in reserves were as follows:

	General reserve	Option premium reserve	Convertible Notes reserve	Total
Consolidated	$	$	$	$
At 1 July 2004	8,689,605	-	-	8,689,605
Share based payments	-	2,405,883	-	2,405,883
At 30 June 2005	8,689,605	2,405,883	-	11,095,488
Share based payments	-	727,350	-	727,350
Equity component – Convertible notes	-	-	1,405,913	1,405,913
Deferred tax liability relating to convertible notes	-	-	(356,898)	(356,898)
At 30 June 2006	8,689,605	3,133,233	1,049,015	12,871,853
Parent				
At 1 July 2004	-	-	-	-
Share based payments	-	2,405,883	-	2,405,883
At 30 June 2005	-	2,405,883	-	2,405,883
Share based payments	-	727,350	-	727,350
Equity component – Convertible notes	-	-	1,405,913	1,405,913
Deferred tax liability relating to convertible notes	-	-	(356,898)	(356,898)
At 30 June 2006	-	3,133,233	1,049,015	4,182,248

Nature and purpose of reserves

General reserve
The general reserve contains amounts of retained profits that have been set aside by directors so as not to be tainted by prior period losses. This reserve may be used to pay dividends after considering accumulated losses from subsequent years.

NOTE 20: CONTRIBUTED EQUITY AND RESERVES (CONTINUED)

Option premium reserve
This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration. Refer to note 16 for further details of these payments.

Convertible note reserve
This reserve is used to record the equity portion of the convertible notes, as required under AASB 132: *Financial Instruments: Disclosure and Presentation.*

NOTE 21: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and short-term deposits and convertible notes.

The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities which arise directly from its operations. It is and has been throughout the period under review, the Group's policy that no trading in financial instruments be undertaken. The main risks associated with the Group's financial instruments are cash flow interest rate risk and credit risk. The Boards reviews and agrees policies for managing these risks and they are summarised below.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Cash flow interest rate risk
The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate. The Group has managed this interest rate risk by issuing convertible notes with fixed coupon payments.

Commodity price risk

The Group's exposure to this risk is minimal.

Credit risk
The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount, net of any provisions for doubtful debts of those assets, as disclosed in the statement of financial position and notes to the financial statements.

The Group monitors the receivables balance on an ongoing basis with the result that the Group's exposure to bad debts is not significant. There are no significant concentrations of credit risk within the Group.

Liquidity risk
The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of loans, and convertible notes. At 30 June 2006 22% of the Group's debt will mature in less than one year.

Fair Values

The carrying amounts of financial assets and financial liabilities, both recognised and unrecognised, at balance date, approximate their aggregate net fair values. The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:

- *Cash and cash equivalents and short-term borrowings*: The Carrying amount approximates fair value because of their short-term to maturity.
- *Trade receivables and payables and short-term loans:* The Carrying amount approximates fair value.
- *Interest bearing loans and borrowings:* The Carrying amount approximates fair value.

NOTE 21: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest Rate Risk
The consolidated entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

Year ended 30 June 2006	**< 1 year**	**>1 year to < 4 years**	**>4 years to < 5 years**	**Total**	**Weighted Average Effective Interest Rate**
CONSOLIDATED	**$**	**$**	**$**	**$**	
Financial Assets					
Cash	20,824,039	-	-	20,824,039	5.5%
Investments	-	-	-	-	0.0%
Receivables - current	5,847,852	-	-	5,847,852	0.0%
Total Financial Assets	26,671,891	-	-	26,671,891	
Financial Liabilities					
Trade creditors	1,619,732	-	-	1,619,732	0.0%
Payable to directors & director related entities	1,357,123	-	-	1,357,123	8.0%
Loan - related party	2,703,491	-	-	2,703,491	8.0%
Convertible notes	-	-	12,814,480	12,814,480	11.5%
Total Financial Liabilities	5,680,346	-	12,814,480	18,494,826	
Year ended 30 June 2005					
CONSOLIDATED					
Financial Assets					
Cash	16,300,304	-	-	16,300,304	5.5%
Investments	25,000	-	-	25,000	0.0%
Receivables - current	2,830,581	-	-	2,830,581	0.0%
Total Financial Assets	19,155,885	-	-	19,155,885	
Financial Liabilities					
Trade creditors	2,299,070	-	-	2,299,070	0.0%
Payable to directors & director related entities	1,252,793	-	-	1,252,793	8.0%
Loan - related party	2,495,659	-	-	2,495,659	8.0%
Convertible notes	-	-	-	-	0.0%
Total Financial Liabilities	6,047,522	-	-	6,047,522	

NOTE 21: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Year ended 30 June 2006	**< 1 year**	**>1 year to < 4 years**	**>4 years to < 5 years**	**Total**	**Weighted Average Effective Interest Rate**
PARENT	**$**	**$**	**$**	**$**	
Financial Assets					
Cash	20,912,909	-	-	20,912,909	5.5%
Receivables - current	9,584,120	-	-	9,584,120	0.0%
Total Financial Assets	30,497,029	-	-	30,497,029	
Financial Liabilities					
Trade creditors	891,435	-	-	891,435	0.0%
Payable to directors & director related entities	1,357,123	-	-	1,357,123	8.0%
Loan - related party	2,703,491	-	-	2,703,491	8.0%
Convertible notes	-	-	12,814,480	12,814,480	11.5%
Total Financial Liabilities	4,952,049	-	12,814,480	17,766,529	
Year ended 30 June 2005					
PARENT					
Financial Assets					
Cash	15,862,931	-	-	15,862,931	5.5%
Investments	25,000	-	-	25,000	0.0%
Receivables - current	3,894,317	-	-	3,894,317	0.0%
Total Financial Assets	19,782,248	-	-	19,782,248	
Financial Liabilities					
Trade creditors	1,263,766	-	-	1,263,766	0.0%
Payable to directors & director related entities	1,252,793	-	-	1,252,793	8.0%
Loan - related party	2,495,659	-	-	2,495,659	8.0%
Convertible notes	-	-	-	-	0.0%
Total Financial Liabilities	5,012,218	-	-	5,012,218	

NOTE 22: RELATED PARTY DISCLOSURE

Loans from director related entities
The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year (for further information regarding these balances refer to note 18).

	Consolidated		**IMF (Australia) Ltd**	
	2006	**2005**	**2006**	**2005**
	$	**$**	**$**	**$**
Amounts owed to related parties refer to note 18.	(4,060,614)	(3,748,452)	(4,060,614)	(3,748,452)
Amounts receivable from related parties (refer to note 9)	-	-	7,278,086	3,894,317
	(4,060,614)	(3,748,452)	3,217,472	145,865

NOTE 23: EVENTS AFTER THE BALANCE SHEET DATE

1. Options issued and converted

The following options were issued on 1 July 2006:

	Number of options	Grant date	Vesting date	Expiry date	Exercise price
Total	83,333	1 July 2006	1 July 2006	30 June 2011	$0.47

The options were issued to employees in accordance with employment contracts an in accordance with the terms and conditions of the Employee Options Share Scheme.

On 31 July 2006 the loans and accrued interest due to Legal Precedents Pty Ltd and Hugh McLernon were repaid and the options available to those parties pursuant to the Shareholders Deed were exercised.

On 9 August 2006 the loan and accrued interest due to Expectation Pty Ltd was repaid and the options available to it pursuant to the Shareholders Deed were excercised.

Accordingly, as at 9 August 2006 there were 16,690,661 unissued ordinary shares in total in respect of which options were outstanding, as follows:

	09-Aug-06	30-Jun-06	30-Jun-05
Options - Expectation Pty Ltd	-	12,597,120	12,597,120
Director Options	11,200,000	17,498,560	17,498,560
Employee options (see note 16)	5,490,661	5,407,328	4,683,995
Options issued	**16,690,661**	**35,503,008**	**34,779,675**

2. Contributed equity

Accordingly, as at 9 August 2006 there were 34,151,312 ordinary shares on issue, as follows:

Movements in ordinary shares on issue during the financial year

	Consolidated		IMF (Australia) Ltd	
	Number	**$**	**Number**	**$**
As at 30 June 2006	94,733,484	30,487,579	94,733,484	30,487,579
Exercise of options by directors at 20c	6,813,868	1,366,373	6,813,868	1,366,373
Exercise of options by Expectation Pty Limited at 20c	11,486,798	2,297,360	11,486,798	2,297,360
As at 9 August 2006	113,034,150	34,151,312	113,034,150	34,151,312

3. Intangible assets

On 31 August 2006 the Group settled the litigation with Financial Wisdom Limited, one of its major Litigation Contracts in Progress. The results of the settlement are confidential, however, the settlement will result in at least $6.4 million being received by the Group in the financial year ended 30 June 2007. This Litigation Contract in Progress was included in Intangible assets at 30 June 2006 for a total of $4.4 million. (Note: these funds are in addition to $2 million already received in this matter.)

On 21 August 2006 the Group settled the litigation known as Mercury Rising, one of its major Litigation Contracts in Progress. The results of the settlement are confidential, however, the settlement will result in at least $3.0 million being received by the Group in the financial year ended 30 June 2007. This Litigation Contract in Progress was included in Intangible assets at 30 June 2006 for a total of $2.5 million.

NOTE 24: AUDITORS REMUNERATION

The auditor of IMF (Australia) Ltd is Ernst & Young.

Amounts received or due and receivable by Ernst & Young for:

	Consolidated		IMF (Australia) Ltd	
	2006	2005	2006	2005
	$	$	$	$
an audit or review of the financial report of the entity and any other entity in the consolidated group	115,412	46,660	115,412	46,660
Other services in relation to the entity and any other entity in the consolidated group				
- tax compliance, including GST submissions	102,419	105,679	102,419	105,679
- other non audit services	7,023	105,679	7,023	105,679
	224,854	258,018	224,854	258,018

NOTE 25: DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Key Management Personnel

(i) Directors

Robert Ferguson	Chairman (non-executive)
John Walker	Managing Director
Hugh McLernon	Director (executive)
Alden Halse	Director (non - executive)
Michael Bowen	Director (non - executive)

(ii) Executives

Diane Jones	Chief Financial Officer and Company Secretary - appointed 14 June 2006.
Jon McArthur	Chief Financial Officer and Company Secretary - resigned 14 June 2006
Clive Bowman	Senior Manager
Alastair Mackay	Senior Manager
Charlie Gollow	Senior Manager
Paul Rainford	Senior Investigator

There were no other changes to key management personnel after reporting date and the date the financial report was authorised for issue.

(b) Compensation of Key Management Personnel
(i) Compensation Policy

The performance of the Group depends upon the quality of its directors and executives. To prosper, the Group must attract, motivate and retain highly skilled directors and executives.

(A) Remuneration Committee
The Remuneration Committee of the Board of Directors of the parent entity is responsible for determining and reviewing compensation arrangements for the directors, the chief executive officer and all other key management personnel.

The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

NOTE 25: DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

(b) Compensation of Key Management Personnel (continued)

(B) Compensation Structure
In accordance with best practice corporate governance, the structure of non-executive and executive compensation is separate and distinct.

(C) Non-Executive Director Compensation

Objective

The Board seeks to aggregate compensation at a level that provides the company with the ability to attract and retain directors who have the capacity and experience to lead the company in its achievement of its objectives at a cost commensurate with performance.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate compensation of non-executive directors shall be determined from time to time at a general meeting. An amount not exceeding the amount determined is then divided between the directors, as agreed. The latest determination was at the Annual General Meeting held on 11 November 2005 when shareholders approved the remuneration report contained within the Annual Report for the year ended 30 June 2005.

Each director receives a fee for being a director of the parent entity. No additional fees are paid for serving on any committees.

Non-executive directors have long been encouraged by the Board to hold shares in the parent entity (purchased by the director on market). It is considered good governance for directors to have a stake in the company on whose board they sit.

The compensation of non-executive directors for the period ending 30 June 2006 is detailed in note 25(b)(ii).

(D) Executive Compensation

Objective

The parent entity aims to reward executives with a level and mix of compensation commensurate with their position and responsibilities within the following framework:

- reward executives for company and individual performance against targets set to appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link rewards with the internal strategic goals of the company; and
- ensure total compensation is competitive by market standards.

Structure

It is the Remuneration Committee's policy that employment contracts are entered into with all key management personnel. Details of these contracts are provided in note 25(b)(iv).

Compensation consists of the following key elements:

- Fixed Compensation; and
- Variable Compensation.

NOTE 25: DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

(b) Compensation of Key Management Personnel (continued)

(E) Fixed Compensation

Objective

Fixed compensation is reviewed annually by the Remuneration Committee. The process consists of a review of companywide and individual performance, relevant comparative compensation in the market and internally and, where appropriate, external advice on policies and practices.

Structure

Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans.

(F) Variable Compensation

Objective

The objective of the variable compensation incentive is to reward executives in a manner that aligns this element of compensation with the objectives and internal key performance indicators of the company.

Structure

All directors and executives have the opportunity to qualify for participation in the Employee Share Incentive Plan which currently provide incentives where specified criteria are met.

Note 16 provides details of options granted under the Employee Share Incentive Plan.

(ii) Compensation of Key Management Personnel for the year ended 30 June 2006

30 June 2006	**Short-Term**		**Post Employ-ment - Super**	**Share Based Payment - Options**		**Total Perform-ance Related**
Directors	**Salary & Fees**	**Other**			**Total**	
Robert Ferguson	80,000	-	11,400	-	91,400	-
John Walker	550,000	-	12,139	225,262	787,401	28.61%
Hugh McLernon	550,000	-	12,139	225,262	787,401	28.61%
Alden Halse	40,000	-	3,600	-	43,600	-
Michael Bowen	43,669	-	-	-	43,669	-
Executives						
Diane Jones (from 6 Jun 06)	-	-	-	-	-	-
Jon McArthur (from 21 Mar 05)	185,081	-	12,139	21,963	219,183	10.02%
Clive Bowman	325,000	23,382	12,139	69,938	430,459	16.25%
Alastair Mackay	238,048	-	12,139	44,424	294,611	15.08%
Charlie Gollow	273,306	-	12,139	45,834	331,279	13.84%
Paul Rainford	195,411	-	12,139	19,955	227,505	8.77
Total	2,480,515	23,382	99,973	652,638	3,256,508	20.04%

NOTE 25: DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

(b) Compensation of Key Management Personnel (continued)

30 June 2005	**Short-Term**					
	Salary & Fees	**Other**	**Post Employ-ment - Super**	**Share Based Payment - Options**	**Total**	**Total Perform-ance Related**
Directors						
Robert Ferguson	46,667	-	-	-	46,667	-
John Walker	532,509	-	10,739	835,001	1,378,249	60.58%
Hugh McLernon	550,000	-	10,739	835,001	1,395,740	59.82%
Alden Halse	33,750	-	3,038	-	36,788	-
Michael Bowen	33,750	-	3,038	-	36,788	-
Executives						
Diane Jones (from 6 Jun 06)	-	-	-	-	-	-
Jon McArthur (from 21 Mar 05)	46,087	-	2,896	-	48,983	-
Clive Bowman	324,999	9,100	10,739	225,830	570,668	39.57%
Alastair Mackay	240,102	-	10,739	68,354	319,195	21.41%
Charlie Gollow	190,103	-	10,739	68,354	269,196	25.39%
Paul Rainford	240,051	-	10,000	68,354	318,405	21.47%
Total	2,238,018	9,100	72,667	2,100,894	4,420,679	47.52%

Group totals for 2005 are not the same as disclosed in the 2005 report, as different individuals and different components for remuneration were disclosed in the 2005 financial year.

(iii) Compensation by Category: Key Management Personnel

	Consolidated		**IMF (Australia) Ltd**	
	2006	**2005**	**2006**	**2005**
	$	**$**	**$**	**$**
Short-Term	2,503,897	2,247,118	2,503,897	2,247,118
Post-Employment - Superannuation	99,973	72,667	99,973	72,667
Share Based Payment	652,638	2,100,894	652,638	2,100,894
	3,256,508	4,420,679	3,256,508	4,420,679

NOTE 25: DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

(b) Compensation of Key Management Personnel (continued)

(iv) Contract for Services

It is the Remuneration Committee's policy that employment agreements shall be entered into with all key management personnel. The key terms of the present contracts are detailed below:

(A) John Walker, Managing Director:
- contract commenced 1 July 2004 and expires 30 June 2007;
- gross salary package $550,000 pa plus super;
- contract to be reviewed annually; and
- notice period by employee is 3 months (after 31 March 2007) and 1 year notice by the company.

(B) Hugh McLernon, Executive Director:
- contract commenced 1 July 2004 and expires 30 June 2007;
- gross salary package $550,000 pa plus super;
- contract to be reviewed annually; and
- notice period by employee is 3 months (after 31 March 2007) and 1 year notice by the company.

(C) Diane Jones, Chief Financial Officer & Company Secretary:
- contract commenced 5 June 2006 and expires 30 June 2007;
- appointed Company Secretary on 14 June 2006;
- gross salary package $240,000 pa including super;
- contract to be reviewed annually with minimum CPI increases; and
- notice period is 3 months.

(D) Jon McArthur, Chief Financial Officer & Company Secretary
- Resigned as Chief Financial Officer and Company Secretary on 14 June 2006;
- gross salary package $200,000 pa including super; and
- employment has been on a casual basis from 10 July 2006

(E) Clive Bowman, Senior Manager
- contract commenced 1 July 2001, duration unlimited;
- gross salary package $353,936 pa including super, from 1 July 2006;
- contract to be reviewed annually with minimum CPI increases; and
- notice period by employee is 3 months and 6 months notice by the company.

(F) Alastair Mackay, Senior Manager
- contract commenced 28 April 2003, duration unlimited;
- gross salary package $262,440 pa including super, from 1 July 2006;
- contract to be reviewed annually with minimum CPI increases; and
- notice period by employee is 3 months and 6 months notice by the company.

(G) Charlie Gollow, Senior Manager
- contract commenced 22 April 2003, duration unlimited;
- gross salary package $262,440 pa including super, from 1 July 2006;
- contract to be reviewed annually with minimum CPI increases; and
- notice period by employee is 3 months and 6 months notice by the company.

NOTE 25: DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

(b) Compensation of Key Management Personnel (continued)

(iv) Contract for Services (continued)

(H) Paul Rainford, Senior Investigator

- contract commenced 6 August 2001, duration unlimited;
- gross salary package $207,570 pa including super, from 1 July 2006;
- contract to be reviewed annually with minimum CPI increases; and
- notice period by employee is 3 months and 6 months notice by the company.

(c) Compensation options: Granted and vested during the year

During the financial year options were granted as equity compensation benefits under the Employee Share Incentive Plan to certain key management personnel as disclosed above. No share options have been granted to the Directors under this Plan. The Options issued to the Directors were issued as part of their remuneration contracts and were disclosed at the annual general meeting of shareholders.

All Options were issued free of charge. Each option entitles the holder to subscribe for one fully paid ordinary share in the entity at the exercise price of the option. The contractual life of each option granted is up to five years. There are no cash settlement alternatives. For further details relating to the options issued under the Employee Share Incentive Plan, refer to note 16.

Terms and Conditions for each Grant

Directors							
John Walker	1,000,000	1,000,000	01-Jul-06	$0.36	$1.35	01-Jul-06	30-Jun-09
Hugh McLernon	1,000,000	1,000,000	01-Jul-06	$0.36	$1.35	01-Jul-06	30-Jun-09
Executives							
Jon McArthur	83,333	83,333	01-Jul-05	$0.24	$0.65	01-Jul-05	30-Jun-10
Jon McArthur	200,000	200,000	24-Mar-06	$0.18	$0.80	24-Mar-06	24-Mar-11
Clive Bowman	600,000	600,000	24-Mar-06	$0.18	$0.80	24-Mar-06	24-Mar-11
Alastair Mackay	100,000	100,000	24-Mar-06	$0.18	$0.80	24-Mar-06	24-Mar-11
Alastair Mackay	50,000	50,000	01-Jul-05	$0.48	$0.20	01-Jul-05	30-Jun-10
Charlie Gollow	250,000	250,000	24-Mar-06	$0.18	$0.80	24-Mar-06	24-Mar-11
Charlie Gollow	50,000	50,000	01-Jul-05	$0.48	$0.20	01-Jul-05	30-Jun-10
Paul Rainford	50,000	50,000	24-Mar-06	$0.18	$0.80	24-Mar-06	24-Mar-11
Total	3,383,333	3,383,333					

NOTE 25: DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

(c) Compensation options: Granted and vested during the year (continued)

30 June 2005	Vested	Granted	Grant Date	Fair Value per option at grant date	Exercise price per option	First exercise Date	Expiry Date
Directors							
John Walker	2,900,000	2,900,000	01-Jul-04	$0.35	$0.80	01-Jul-04	30-Jun-07
John Walker	2,000,000	2,000,000	01-Jul-04	$0.36	$1.10	01-Jul-05	30-Jun-08
Hugh McLernon	1,100,000	1,100,000	01-Jul-04	$0.35	$0.80	01-Jul-04	30-Jun-07
Hugh McLernon	2,000,000	2,000,000	01-Jul-04	$0.36	$1.10	01-Jul-05	30-Jun-08
Alden Halse	150,000	150,000	01-Jul-04	$0.35	$0.80	01-Jul-04	30-Jun-07
Michael Bowen	150,000	150,000	01-Jul-04	$0.35	$0.80	01-Jul-04	30-Jun-07
Executives							
Clive Bowman	254,094	254,094	01-Jul-04	$0.48	$0.20	01-Jul-04	30-Jun-09
Clive Bowman	330,000	330,000	18-Jan-05	$0.33	$0.80	18-Jan-05	17-Jan-08
Clive Bowman	330,000	330,000	18-Jan-05	$0.26	$1.10	01-Jul-05	30-Jun-08
Clive Bowman	330,000	330,000	18-Jan-05	$0.28	$1.35	01-Jul-06	30-Jun-09
Alastair Mackay	50,000	50,000	01-Jul-04	$0.48	$0.20	01-Jul-05	30-Jun-09
Alastair Mackay	100,000	100,000	18-Jan-05	$0.33	$0.80	18-Jan-05	17-Jan-08
Alastair Mackay	100,000	100,000	18-Jan-05	$0.26	$1.10	01-Jul-05	30-Jun-08
Alastair Mackay	100,000	100,000	18-Jan-05	$0.28	$1.35	01-Jul-06	30-Jun-09
Charlie Gollow	50,000	50,000	01-Jul-04	$0.48	$0.20	01-Jul-04	30-Jun-09
Charlie Gollow	100,000	100,000	18-Jan-05	$0.33	$0.80	18-Jan-05	17-Jan-08
Charlie Gollow	100,000	100,000	18-Jan-05	$0.26	$1.10	01-Jul-05	30-Jun-08
Charlie Gollow	100,000	100,000	18-Jan-05	$0.28	$1.35	01-Jul-06	30-Jun-09
Paul Rainford	100,000	100,000	18-Jan-05	$0.33	$0.80	18-Jan-05	17-Jan-08
Paul Rainford	100,000	100,000	18-Jan-05	$0.26	$1.10	01-Jul-05	30-Jun-08
Paul Rainford	100,000	100,000	18-Jan-05	$0.28	$1.35	01-Jul-06	30-Jun-09
Total	10,544,094	10,544,494					

NOTE 25: DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

(d) Option holdings of Key Management Personnel

30 June 2006	Balance 01-Jul-05	Received as Remuneration	Options Exercised	Balance 30-Jun-06	Vested at 30 June 2005 Total	Vested at 30 June 2005 Exercisable	Not Vested
Directors							
Robert Ferguson	-	-	-	-	-	-	-
John Walker	8,049,280	1,000,000	-	9,049,280	9,049,280	9,049,280	-
Hugh McLernon	6,249,280	1,000,000	-	7,249,280	7,249,280	7,249,280	-
Alden Halse	600,000	-	-	600,000	600,000	600,000	-
Michael Bowen	600,000	-	-	600,000	600,000	600,000	-
Executives	-	-	-	-	-	-	-
Diane Jones	-	-	-	-	-	-	-
Jon McArthur	-	283,333	-	283,333	283,333	283,333	-
Clive Bowman	1,752,282	600,000	-	2,352,282	2,352,282	2,352,282	330,000
Alastair Mackay	400,000	150,000	-	550,000	450,000	450,000	100,000
Charlie Gollow	400,000	300,000	-	750,000	600,000	600,000	100,000
Paul Rainford	871,713	50,000	-	921,713	821,713	821,713	100,000
Total	18,922,555	3,383,333	-	22,355,888	22,005,888	22,005,888	630,000

30 June 2005	Balance 01-Jul-04	Received as Remuneration	Options Exercised	Balance 30-Jun-05	Vested at 30 June 2005 Total	Vested at 30 June 2005 Exercisable	Not Vested
Directors							
Robert Ferguson	-	-	-	-	-	-	-
John Walker	4,949,280	4,900,000	(1,800,000)	8,049,280	8,049,280	8,049,280	-
Hugh McLernon	6,749,280	3,100,000	(3,600,000)	6,249,280	6,249,280	6,249,280	-
Alden Halse	450,000	150,000	-	600,000	600,000	600,000	-
Michael Bowen	450,000	150,000	-	600,000	600,000	600,000	-
Executives	-	-	-	-	-	-	-
Diane Jones	-	-	-	-	-	-	-
Jon McArthur	-	-	-	-	-	-	-
Clive Bowman	508,188	1,244,094	-	1,752,282	1,092,282	1,092,282	660,000
Alastair Mackay	50,000	350,000	-	400,000	350,000	350,000	50,000
Charlie Gollow	50,000	350,000	-	400,000	350,000	350,000	50,000
Paul Rainford	571,713	300,000	-	871,713	671,713	671,713	200,000
Total	13,778,461	10,544,094	(5,400,000)	18,922,555	17,962,555	17, 962,555	960,000

NOTE 25: DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

(d) Option holdings of Key Management Personnel (continued)

Director Options

At 30 June 2006, there were 17,498,560 director options remaining over ordinary shares as follows:

	2006 number of options	2006 weighted average exercise price	2005 number of options	2005 weighted average exercise price
Balance at beginning of year	15,498,560	$0.61	12,598,560	$0.21
- granted	2,000,000	$1.35	8,300,000	$0.94
- exercised	-	$0.00	(5,400,000)	0.20
Balance at end of year	17,498,560	$0.69	15,498,560	$0.61
Exercisable at end of year	17,498,560	$0.69	15,498,560	$0.61

Options held at the end of the reporting period

The following table summarises information about options held by directors as at 30 June 2006:

Number	Grant Date	Vesting date	Expiry Date	weighted average exercise price
3,149,280	13-Sep-01	13-Sep-01	13-Sep-06	$0.20
3,149,280	13-Sep-01	13-Sep-01	13-Sep-06	$0.20
300,000	31-Jan-03	31-Jan-03	30-Jan-08	$0.30
300,000	31-Jan-03	31-Jan-03	30-Jan-08	$0.40
300,000	31-Jan-03	31-Jan-03	30-Jan-08	$0.50
4,000,000	01-Jul-04	01-Jul-04	30-Jun-07	$0.80
300,000	01-Jul-04	01-Jul-04	30-Jun-07	$0.80
4,000,000	01-Jul-05	01-Jul-05	30-Jun-08	$1.10
2,000,000	01-Jul-06	01-Jul-06	30-Jun-09	$1.35
17,498,560				$0.69

NOTE 25: DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

(e) Shareholdings of Key Management Personnel

Shares held in IMF (Australia) Ltd

30 June 2006	Balance 1-Jul-05	Received as Remuneration	Options Exercised	Net Change Other	Balance 30-Jun-06
Directors					
Robert Ferguson	2,500,000	-	-	-	2,500,000
John Walker	4,051,250	-	-	-	4,051,250
Hugh McLernon	7,086,611	-	-	-	7,086,611
Alden Halse	591,251			-	591,251
Michael Bowen	513,751	-	-	-	513,751
		-	-	-	-
Executives				-	-
Diane Jones	-	-	-	-	-
Jon McArthur	-	-	-	-	-
Clive Bowman	843,750	-	-	-	843,750
Alastair Mackay	-	-	-	-	-
Charlie Gollow	60,000	-	-	-	60,000
Paul Rainford	50,000	-	-	-	50,000
Total	15,696,613	-	-	-	15,696,613

30 June 2005	Balance 1-Jul-04	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30-Jun-05	
Directors						
Robert Ferguson	2,500,000	-	-	-	2,500,000	
John Walker	2,245,000	-	1,800,000	6,250	4,051,250	*
Hugh McLernon	3,635,361	-	3,600,000	(148,750)	7,086,611	* **
Alden Halse	585,001			6,250	591,251	
Michael Bowen	507,501	-	-	6,250	513,751	*
Executives				-	-	
Diane Jones	-	-	-	-	-	
Jon McArthur	-	-	-	-	-	
Clive Bowman	833,596	-	-	10,154	843,750	***
Alastair Mackay	-	-	-	-	-	
Charlie Gollow	60,000	-	-	-	60,000	
Paul Rainford	100,000	-	-	(50,000)	50,000	
Total	10,466,459	-	5,400,000	(169,846)	15,696,613	

* share purchase plan Sep 04 acquired 6,250 shares
** 155,000 shares sold during the period
*** 10,154 shares purchased during the period

NOTE 25: DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

(e) Shareholdings of Key Management Personnel (continued)

All equity transactions with key management personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the group would have adopted if dealing at arms length.

(f) Other transactions and balances with Key Management Personnel

On 3 August 2001, the parent entity, Expectation Pty Ltd, Legal Precedents Pty Ltd and Hugh McLernon entered into a deposit funding facility agreement. Refer to note 18 for further details.

NOTE 26: COMMITMENTS AND CONTINGENCIES

Operating lease commitments – Group as lessee

The Group has entered into commercial leases for its premises. These leases have an average life of between 1 and 3 years with a renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	Consolidated		IMF (Australia) Ltd	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Within one year	322,272	262,259	322,272	262,259
After one year but no more than five years	378,777	384,786	378,777	384,786
More than five years	-	-	-	-
	701,049	647,045	701,049	647,045

Remuneration commitments

	Consolidated		IMF (Australia) Ltd	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities payable:				
Within one year	1,340,000	1,300,000	1,340,000	1,300,000
After one year but no more than five years	-	1,300,000	-	1,300,000
More than five years	-	-	-	-
	1,340,000	2,600,000	1,340,000	2,600,000

Amounts disclosed as remuneration commitments include commitments arising from the service contracts of directors and executives referred to in note 25 that are not recognised as liabilities and are not included in the directors' or executives' remuneration.

NOTE 27: TRANSITION TO AIFRS

For all periods up to and including the year ended 30 June 2005, the Group prepared its financial statements in accordance with Australian generally accepted accounting practice (AGAAP). These financial statements for the year ended 30 June 2006 are the first the Group is required to prepare in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS).

Accordingly, the Group has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in note 2. In preparing these financial statements, the Group has started from an opening balance sheet as at 1 July 2004, the Group's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1: *First time adoption of AIFRS*.

This note explains the principal adjustments made by the Group in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

1 Exemptions applied

AASB 1 allows first-time adopters certain exemptions from the general requirement to apply AIFRS retrospectively.

The Group has taken the following exemptions:

- Comparative information for financial instruments is prepared in accordance with AGAAP and the Company and Group have adopted AASB 132: *Financial Instruments: Disclosure and Presentatio*n and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005.

- AASB 2 *Share-based payments* has not been applied to any equity instruments granted on or before 7 November 2002, nor has it been applied to equity instruments granted after 7 November 2002 that vested before 1 January 2005.

2 Explanation of material adjustments to the cash flow statement

There are no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under previous AGAAP.

NOTE 27: TRANSITION TO AIFRS (CONTINUED)

3 Impact of adopting AIFRS

Balance Sheet reflecting reconciliation of adjustments to AIFRS as at 30 June 2004

	Note	Consolidated AGAAP $	Consolidated AIFRS Impact	Consolidated AIFRS $	IMF (Australia) Ltd AGAAP $	IMF (Australia) Ltd AIFRS Impact	IMF (Australia) Ltd AIFRS $
ASSETS							
Current Assets							
Cash and cash equivalents		10,290,876	-	10,290,876	6,074,043	-	6,074,043
Trade and other receivables		4,821,347	-	4,821,347	3,170,338	-	3,170,338
Litigation contracts in progress	a	7,793,352	(7,793,352)	-	2,818,386	(2,818,386)	-
Other financial assets		64,256	-	64,256	60,446	-	60,446
Total Current Assets		22,969,831	(7,793,352)	15,176,479	12,123,213	(2,818,386)	9,304,827
Non-Current Assets							
Plant and equipment		375,878	-	375,878	373,053	-	373,053
Deferred tax assets	c	2,747,014	-	2,747,014	2,747,014	(49,014)	2,698,000
Available for sale investments		25,000	-	25,000	25,000	-	25,000
Other financial asset	c	-	-	-	1,500,000	4,118,040	5,618,040
Litigation contracts in progress	a	4,678,043	(4,678,043)	-	450,630	(450,630)	-
Intangible assets	a	-	12,471,395	12,471,395	-	3,269,016	3,269,016
Total Non-Current Assets		7,825,935	7,793,352	15,619,287	5,095,697	6,887,412	11,983,109
TOTAL ASSETS		30,795,766	-	30,795,766	17,218,910	4,069,026	21,287,936
LIABILITIES							
Current Liabilities							
Trade and other payables		1,393,192	-	1,393,192	375,875	-	375,875
Interest-bearing liabilities		3,460,287	-	3,460,287	3,460,287	-	3,460,287
Provisions		459,336	-	459,336	459,336	-	459,336
Total Current Liabilities		5,312,815	-	5,312,815	4,295,498	-	4,295,498
Non-Current Liabilities							
Provisions		87,554	-	87,554	87,554	-	87,554
Interest-bearing liabilities		-	-	-	-	-	-
Deferred tax liabilities	c	3,445,262	-	3,445,262	3,445,262	(49,014)	3,396,248
Total Non-Current Liabilities		3,532,816	-	3,532,816	3,532,816	(49,014)	3,483,802
TOTAL LIABILITIES		8,845,631	-	8,845,631	7,828,314	-	7,779,300
NET ASSETS		**21,950,135**	**-**	**21,950,135**	**9,390,596**	**4,118,040**	**13,508,636**
EQUITY							
Contributed equity		11,741,000	-	11,741,000	11,741,000	-	11,741,000
Reserves		8,689,605	-	8,689,605	-	-	-
Retained earnings	c	1,519,530	-	1,519,530	(2,350,404)	4,118,040	1,767,636
TOTAL EQUITY		**21,950,135**	**-**	**21,950,135**	**9,390,596**	**4,118,040**	**13,508,636**

NOTE 27: TRANSITION TO AIFRS (CONTINUED)

3 Impact of adopting AIFRS (continued)
Balance Sheet reflecting reconciliation of adjustments to AIFRS as at 30 June 2005

	Note	Consolidated			IMF (Australia) Ltd		
		AGAAP	AIFRS Impact	AIFRS	AGAAP	AIFRS Impact	AIFRS
		$		$	$		$
ASSETS							
Current Assets							
Cash and cash equivalents		16,300,304	-	16,300,304	15,862,931	-	15,862,931
Trade and other receivables		2,830,581	-	2,830,581	3,894,317	-	3,894,317
Litigation contracts in progress	a	8,999,779	(8,999,779)	-	2,040,350	(2,040,350)	-
Other financial assets		245,569	-	245,569	243,171	-	243,171
Total Current Assets		28,376,233	(8,999,779)	19,376,454	22,040,769	(2,040,350)	20,000,419
Non-Current Assets							
Plant and equipment		331,441	-	331,441	328,616	-	328,616
Deferred tax assets		6,661,494	-	6,661,494	6,661,494	(11,652)	6,649,842
Available for sale investments		25,000	-	25,000	25,000	-	25,000
Other financial asset	c	-	-	-	1,500,000	2,682,492	4,182,492
Litigation contracts in progress	a	15,002,273	(15,002,273)	-	5,231,527	(5,231,527)	-
Intangible assets	a	-	24,002,052	24,002,052	-	7,271,877	7,271,877
Total Non-Current Assets		22,020,208	8,999,779	31,019,987	13,746,637	4,711,190	18,457,827
TOTAL ASSETS		50,396,441	-	50,396,441	35,787,406	2,670,840	38,458,246
LIABILITIES							
Current Liabilities							
Trade and other payables		2,299,070	-	2,299,070	1,263,766	-	1,263,766
Interest-bearing liabilities		3,748,452	-	3,748,452	3,748,452	-	3,748,452
Provisions		178,734	-	178,734	178,734	-	178,734
Total Current Liabilities		6,226,256	-	6,226,256	5,190,952	-	5,190,952
Non-Current Liabilities							
Provisions		216,761	-	216,761	216,761	-	216,761
Interest-bearing liabilities		-	-	-	-	-	-
Deferred tax liabilities		7,222,550	-	7,222,550	7,222,550	(5,039,200)	2,183,350
Total Non-Current Liabilities		7,439,311	-	7,439,311	7,439,311	(5,039,200)	2,400,111
TOTAL LIABILITIES		13,665,567	-	13,665,567	12,630,263	(5,039,200)	7,591,063
NET ASSETS		**36,730,874**	**-**	**36,730,874**	**23,157,143**	**7,710,040**	**30,867,183**
EQUITY							
Contributed equity		28,180,079	-	28,180,079	28,180,079	-	28,180,079
Reserves	b	8,689,605	2,405,883	11,095,488	-	2,405,883	2,405,883
Retained earnings	b,c	(138,810)	(2,405,883)	(2,544,693)	(5,022,937)	5,304,157	281,220
TOTAL EQUITY		**36,730,874**	**-**	**36,730,874**	**23,157,143**	**7,710,040**	**30,867,183**

NOTE 27: TRANSITION TO AIFRS (CONTINUED)

3 Impact of adopting AIFRS (continued)
Income Statement reflecting reconciliation of adjustments to AIFRS as at 30 June 2005

		Consolidated			IMF (Australia) Ltd		
	Note		AIFRS			AIFRS	
		AGAAP	Impact	AIFRS	AGAAP	Impact	AIFRS
		$	$	$	$	$	$
Continuing Operations							
Finance Revenue		822,116	-	822,116	765,636	-	765,636
Other income		1,525,482	-	1,525,482	(13,514)	-	(13,514)
Total Income		2,347,598	-	2,347,598	752,122	-	752,122
Finance costs		(308,318)	-	(308,318)	(299,443)	-	(299,443)
Bad debts written off		(596,829)	-	(596,829)	-	-	-
Depreciation		(180,522)	-	(180,522)	(180,522)	-	(180,522)
Employee benefits expense	b	(1,769,897)	(2,405,883)	(4,175,780)	(1,769,897)	(2,405,883)	(4,175,781)
Impairment of non-current assets		-	-	-	-	-	-
Corporate and office expense		(726,531)	-	(726,531)	(806,397)	-	(806,397)
Other expenses		(563,947)	-	(563,947)	(508,502)	-	(508,502)
Loss before income tax		(1,798,447)	(2,405,883)	(4,204,330)	(2,812,640)	(2,405,883)	(5,218,523)
Income tax benefit/(expense)	c	140,107	-	140,107	140,107	3,592,001	3,732,108
Loss attributable to members of the parent		(1,658,340)	(2,405,883)	(4,064,223)	(2,672,533)	(1,186,118)	(1,486,415)

NOTE 27: TRANSITION TO AIFRS (CONTINUED)

3 Impact of adopting AIFRS (continued)

Outlined below are the areas impacted upon adoption of AIFRIS, including the financial impact on equity and profit.

				IMPACT	
Ref	**Item**	**AGAAP**	**AIFRS**	**Consolidated**	**Parent**
a	Intangible assets (i)	Litigation contracts in progress were classified as work in progress.	Under AASB 138 Intangible Assets, Litigation contracts in progress are classified as an intangible asset. Therefore the Liigation contracts in progress have been reclassified from work in progress to Intangible assets	*Equity at Transition: Decrease to current asset – work in progress and non-current asset – work in progress and increase to intangible asset of $12,471,395. Net effect is zero.* *Equity at 30 June 2005: Decrease to current asset – work in progress and non-current asset – work in progress and increase to intangible asset of $24,002,352. Net effect is zero.* *Profit for 30 June 2005: No effect.*	*Equity at Transition: Decrease to current asset – work in progress and non-current asset – work in progress and increase to intangible asset of $3,269,016. Net effect is zero.* *Equity at 30 June 2005: Decrease to current asset – work in progress and non-current asset – work in progress and increase to intangible asset of $7,271,877. Net effect is zero.* *Profit for 30 June 2005: No effect.*
B	Share based payments	Share-based payments were no required to be expensed.	AASB 2: Share-based Payments requires entities to recognise an expense in relation to shares, options and other equity instruments provided to employees (including directors). These share-based payment transactions must be fair value at grant date and recognised as an expense in profit or loss evenly over the vesting period. An adjustment was required to recognise share based payments granted after 7 November 2002 and vesting after 1 January 2005.	*Equity at Transition: No effect.* *Equity at 30 June 2005: Decrease to retained earnings and increase to employee equity benefits reserve of $2,405,883. Net effect is zero.* *Profit for 30 June 2005: Decrease to profit of $2,405,883.*	*Equity at Transition: No effect.* *Equity at 30 June 2005: Decrease to retained earnings and increase to employee equity benefits reserve of $2,405,883. Net effect is zero.* *Profit for 30 June 2005: Decrease to profit of $2,405,883.*

NOTE 27: TRANSITION TO AIFRS (CONTINUED)

3 Impact of adopting AIFRS (continued)

c	Tax consol-idation	Under UIG 52: Tax Consolidation, all tax balances were recognised by the parent.	Adjustments are required to the parent entity financial information from the AIFRS transition date of 1 July 2004 in accordance with UIG Interpretation 1052. Under UIG 1052, the head entity in a tax consolidated group assumes the current tax liability and any deferred tax assets arising from tax losses and other unused tax credits of the subsidiaries in the tax consolidated group. Deferred tax balances of the subsidiaries in the tax consolidated group are not assumed by the parent entity. The group allocates the tax balances for the period using the stand alone taxpayer method. Members of the tax consolidated group have not entered into a tax sharing/funding agreement. Under UIG 1052, where a tax consolidated group has not entered into a tax sharing agreement, the assumption of current liabilities and losses is recognised as a contribution or distribution of the subsidiary's equity accounts.	*Equity at 30 June 2005: No effect.* *Profit for 30 June 2005: No effect.*	*Equity at transition: Increase to non-current asset – Other financial asset and decrease to retained earnings of $4,118,040. Net effect is zero.* *Decrease in non-current assets-deferred tax assets and in non-current liabilities-deferred tax liabilities of $49,014. Net effect is zero.* *Equity at 30 June 2005: Increase to non-current asset – Other financial asset of $2,682,492, decrease to non-current asset – deferred tax assets of $11,652, decrease in non-current liabilities – deferred tax liabilities of $5,039,200 and decrease to retained earnings of $7,710,040. Net effect is zero.* *Profit for 30 June 2005: Increase in income tax benefit of $3,592,001.*

4 Change in accounting policy

The Group has amended the accounting policy for intangible assets – litigation in progress, as reported in the half year accounts for the period ended 31 December 2005. The previous accounting policy stipulated that cases subject to an appeal process will not be derecognised as intangible asset and that the costs towards defending the appeal will continue to be capitalised until the appeal is won.

The new accounting policy as disclosed in note 2(o) to the financial statement states that successful cases will be derecognised as intangible assets and the costs of defending the appeal are expensed as incurred. The directors believe that the new accounting policy will improve the relevance and reliability of the financial statement and better reflect the outcome of the Group's operations.

NOTE 27: TRANSITION TO AIFRS (CONTINUED)

4 Change in accounting policy (continued)

The impact of this change in accounting policy is not considered to be material and the new policy has been applied retrospectively from the AIFRS transition date.

5 Impact of adopting AASB 132: Financial Instruments: Disclosure and Presentation and AASB 139: Financial Instruments: Recognition and Measurement

The Group has elected to apply the option available under AASB 1 of the adopting AASB 132 and AASB 139 from 1 July 2005. The impact of adopting AASB 132 and AASB 139 at 1 July 2005 is not material.

2006 DIRECTORS' DECLARATION

In the opinion of the directors:

1 a The financial statements and notes of the consolidated financial entity are in accordance with the Corporations Act 2001 including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of the performance for the year ended on that date; and

(ii) complying with Accounting Standards and the Corporations Regulations 2001; and

b There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

2 This declaration has been made after receiving the declarations required to be made to the directors in accordance with sections 295A of the Corporations Act 2001 for the financial period ended 30 June 2006.

Robert Ferguson
Chairman & Director

John Walker
Managing Director

Dated this 29th day of September 2006

ERNST & YOUNG

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Australia

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Independent audit report to members of IMF (Australia) Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for IMF (Australia) Limited (the company) and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report and the remuneration disclosures. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Independence

We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion

In our opinion:

the financial report of IMF (Australia) Limited is in accordance with:

(a) the Corporations Act 2001, including:

 (i) giving a true and fair view of the financial position of IMF (Australia) Limited at 30 June 2006 and the performance of IMF (Australia) Limited and the consolidated entity for the year ended on that date; and

 (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

G H Meyerowitz
Partner
Perth
29 September 2006

GHM:DA:IMF:074

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of IMF is responsible for the corporate governance of the consolidated entity. Its purpose is to guide and monitor the business and affairs of IMF on behalf of the shareholders by whom the Board was elected and is accountable to.

To ensure the Board can discharge its responsibilities it has adopted the following guidelines for the nomination and selection of Directors and for the operation of the Board.

Composition of the Board

The composition of the Board is broadly in accordance with the following principles and guidelines:

- The Board should comprise of at least four directors, at least half of which are non-executive directors;
- The chairperson should be a non-executive director;
- The Board should comprise directors with an appropriate range of qualifications and expertise; and
- The Board shall meet regularly and follow usual meeting procedures and guidelines to ensure directors are made aware of, and have necessary, information to participate in informed discussions of agenda items.

The directors in office at the date of this report are:

Name	Position
R Ferguson	Chairman, Non-Executive Director
J Walker	Managing Director
H McLernon	Executive Director
A Halse	Non-Executive Director
M Bowen	Non-Executive Director

Remuneration Committee

The company has a formal remuneration committee which meets as and when required to discuss the service agreements of the key executives.

Audit Committee

The company has a formal audit committee which meets at least three times per year. Meetings are held between the audit committee and the external auditor to discuss the findings of the half year review and the year end audit.

Internal Control

The company's financial management procedures provide for the separation of functional responsibilities for purchasing, invoicing and payment processes.

Board Responsibilities

As the Board acts on behalf of, and is accountable to, shareholders, the Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to manage those risks.

Monitoring of the Board's Performance and Communication to Shareholders

In order to ensure that the Board continues to discharge its responsibilities in an appropriate manner, the performance of directors is to be reviewed annually by the chairperson.

The Board of Directors aims to ensure that shareholders are informed of all information necessary to assess the performance of the directors. Information is communicated to shareholders through:

- the annual report which is distributed to all shareholders;
- the half yearly report circulated to the Australian Stock Exchange Limited and the Australian Securities Investment Commission; and
- the annual general meeting and other meetings so called to obtain approval of Board action as appropriate.

SHAREHOLDER INFORMATION

(a) Distribution of Shareholders as at 19 September 2006

Shares	No. of Ordinary Shareholders
1 - 1,000	284
1,001 - 5,000	286
5,001 - 10,000	159
10,001 - 100,000	415
100,001 - and over	85
	1229

(b) Marketable Parcels

As at 19 September 2006, the number of shareholdings held in less than marketable parcels is 233.

(c) Substantial Shareholders

The names of the substantial shareholders listed in the company's register as at 31 August 2006 are:

Shareholder	No. of Ordinary Shares	% of issued capital
ANZ Nominees Limited	12,361,519	10.93%
Expectation Pty Limited	11,486,798	10.16%
Hugh McLernon (and McLernon Group Superannuation Pty Limited)	10,264,331	9.08%
National Nominees Limited	9,743,128	8.62%
Legal Precedents Pty Ltd	6,745,537	5.97%
Redsummer Pty Ltd	6,475,802	5.73%

(d) Voting Rights

The voting rights attached to each class of equity security are as follows:

Ordinary Shares

Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

SHAREHOLDER INFORMATION

(e) Options as at 31 August 2006 - unquoted

Class of option	No. on issue	Exercise price	Expiry Date
IMFAM	444,665	0.20	30-Jun-07
IMFAA	300,000	0.30	30-Jun-08
IMFAA	300,000	0.40	30-Jun-08
IMFAA	300,000	0.50	30-Jan-08
IMFAQ	444,665	0.20	30-Jun-08
IMFAZ	100,000	0.20	30-Jun-08
IMFAB	444,665	0.20	30-Jun-09
IMFAC	100,000	0.20	30-Jun-09
IMFEX1	4,000,000	0.80	1-Jul-07
IMFEX2	4,000,000	1.10	1-Jul-08
IMFEX3	2,000,000	1.35	1-Jul-09
Employee options	300,000	0.80	8-Jan-06
Employee options	730,000	0.80	17-Jan-08
Employee options	730,000	1.10	30-Jun-08
Employee options	730,000	1.35	30-Jun-09
Employee options	100,000	0.20	30-Jun-10
Employee options	83,333	0.65	30-Jun-10
Employee options	1,500,000	0.80	24-Mar-11
Employee options	83,333	0.47	1-Jun-11
	16,690,661		

(f) Securities subject to escrow

There are no securities subject to escrow.

SHAREHOLDER INFORMATION

(g) 20 Largest Shareholders - Ordinary Shares as at 6 September 2005

	Ordinary Shares	No. of shares	% held of Issued Ord Capital
1	ANZ NOMINEES LIMITED	12,361,519	10.93%
2	EXPECTATION PTY LIMITED	11,486,798	10.16%
3	NATIONAL NOMINEES LIMITED	9,743,128	8.62%
4	REDSUMMER PTY LTD	6,745,802	5.73%
5	MR HUGH MCLERNON	5,334,250	4.72%
6	LEGAL PRECEDENTS PTY LIMITED	4,939,287	4.37%
7	MCLERNON GROUP SUPERANNUATION PTY LTD	4,930,081	4.36%
8	INVIA CUSTODIAN PTY LIMITED	4,143,389	3.67%
9	NATIONAL NOMINEES LIMITED EQUIP SUPER ACCOUNT	3,604,527	3.19%
10	INVIA CUSTODIAN PTY LIMITED 5456 A/C	2,665,000	2.39%
11	MR ROBERT ALEXANDER FERGUSON	2,500,000	2.21%
12	J P MORGAN NOMINEES AUSTRALIA LIMITED	2,121,536	1.88%
13	CITICORP NOMINEES PTY LIMITED	1,814,002	1.60%
14	MR JOHN WALKER	1,806,250	1.60%
15	UBS NOMINEES PTY LTD	1,432,878	1.22%
16	CLASSICIST PTY LIMITED	969,600	0.86%
17	ARK PROMOTIONS PTY LIMITED	750,000	0.66%
18	WARRAWI INVESTMENTS PTY LIMITED	733,800	0.65%
19	BOTANIBAY PTY LIMITED	670,000	0.59%
20	KATANA CAPITAL LIMITED	668,000	0.66%
	Totals	79,419,847	0.70%

SHAREHOLDER INFORMATION

Terms and conditions of Ordinary Shares

Ordinary shares have the right to receive dividends and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of, and amounts paid up on, shares held.

Each ordinary share entitles the holder to one vote, either in person or by proxy, at a general meeting of the company.

(h) Statement pursuant to Listing Rule 4.10.19

The total proceeds raised under the Prospectus dated 1 March 2002 and Supplementary Prospectus have been applied or will be applied in accordance with and consistent with the business objectives stated therein.

(i) The name of the Company Secretary is Diane Lesley Jones.

(j) The address of the principal registered office of the company is Level 5, 32 Martin Place, Sydney NSW 2000.

(k) The share register is held at Computershare Investor Services Pty Ltd, Level 2, 45 ST Georges Terrace, Perth, WA 6000.

(l) Stock Exchange Listing

Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the Australian Stock Exchange Limited.

CORPORATE INFORMATION

This annual report covers both IMF (Australia) Ltd as an individual entity and the consolidated entity comprising IMF (Australia) Ltd and its subsidiary. The Group's functional and presentation currency is AUD ($).

A description of the Group's operations and of its principle activities is included in the review of operations and activities in the directors' report on pages 5 to 16. The directors' report is not part of the financial report.

Directors
Robert Ferguson (Chairman)
John Walker (Managing Director)
Hugh McLernon (Executive Director)
Alden Halse (Non-Executive Director)
Michael Bowen (Non-Executive Director)

Company Secretary
Diane Jones (from 28 June 2006)

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Solicitors
Steinepreis Paganin
Level 14, Chancery House
37 St Georges Terrace
Perth, Western Australia 6000

Share Registry
Computer Share Registry
Level 2, Reserve Bank Building
45 St Georges Terrace
Perth, Western Australia 6000
Phone: 1300 557 010

Auditors
Ernst & Young
The Ernst & Young Building
11 Mounts Bay Road
Perth, Western Australia 6000

Bankers
HSBC Bank Ltd
188/190 St Georges Terrace
Perth, Western Australia 6000

The company is listed on the Australian Stock Exchange, with Perth, Australia as its home exchange. Its ASX code is “IMF” and its shares were trading as at the date of this report.