(AUSTRALIA) LTD

2010 ANNUAL REPORT

IMF IS THE LEADING LITIGATION FUNDER IN AUSTRALIA. WE WERE THE FIRST TO LIST ON THE AUSTRALIAN SECURITIES EXCHANGE. WE HAVE BUILT UP AN EXPERIENCED TEAM TO ENSURE THE STRONGEST CASES RECEIVE FUNDING AND ARE MANAGED TO FACILITATE THEIR SUCCESSFUL RESOLUTION.

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HIGHLIGHTS

FINANCIAL HIGHLIGHTS

NUMBER OF MAJOR CASES RESOLVED:

We resolved 7 major cases in 2010 including Sons of Gwalia and AWB. However, at year end we lost a case, Kingstream, which impacted the results. Net income from litigation funding was $18,718,276.

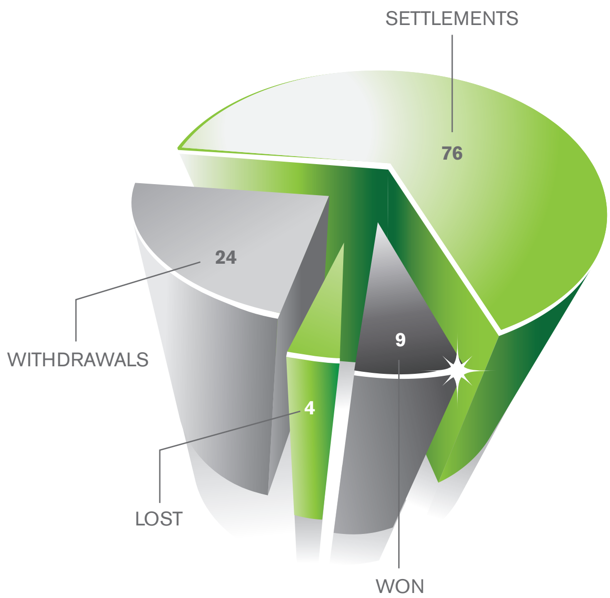
7 MAJOR CASES RESOLVED

$16.8 MILLION NET PROFIT BEFORE TAX

NET PROFIT :

IMF's profit was not as strong as 2009, reflecting the deferment of the resolution of major cases into subsequent years. However, IMF's portfolio of cases under management continued to improve. IMF is in a strong financial position moving forward and is capable of capitalising on opportunities to fund larger cases with larger potential returns.

IMF's pipeline of cases remains strong and this has been augmented with the entry into offshore markets including the United States and United Kingdom markets.



IMF'S TRACK RECORD

INVESTMENT PORTFOLIO

IMF's investment portfolio grew by 33% during 2010, from $1.057B to $1.403B.

$32.3 MILLION IN 2009

$40.5 MILLION IN INVESTMENTS

$64.8 MILLION IN 2009

$72.5 MILLION IN NET ASSETS

$43.0 MILLION IN CASH

GROWTH PROFILE

2010 CHAIRMAN'S REVIEW

THE 2010 YEAR WAS DISAPPOINTING IN TERMS OF PROFIT BUT NOT IN TERMS OF BUSINESS PROGRESS.

Timing issues in the year pushed a promising and valuable case, National Potato, into the next year despite our hopes and at the end of the year we lost a case, Kingstream, which we are appealing.

In August 2009 we also lost a case, which the market took badly. This year the market seemed less fazed by the loss which suggests to me, hopefully, that our business model and its idiosyncrasies are better understood these days.

Underlying the market's relatively sanguine acceptance of a year end result below originally forecast may be the growth in our 'book' during the year from $1,057m to $1,403m.

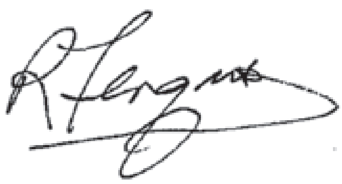
For some time the Managing Director, Hugh McLernon, has been emphasising the need to dramatically increase the size of the book and it is clear that is being achieved and it seems the market is in agreement that growing the book rather than year to year profits is the best indicator of the business health at IMF. That is certainly the way we see things from the inside.

During the year a big effort was put into marketing our business and pursuing overseas markets for opportunities. The Uniloc transaction while not strictly a result of that marketing, nevertheless is a US based matter that once announced created a surprising awareness of IMF in the US and thus a flow of proposals. Nothing has come from these as yet, mainly because of our tough due diligence process which is appropriately tougher for foreign jurisdictions, but we are greatly encouraged by the scale of opportunities in the US revealed by our trips and research.

The year also saw us launch our first serious matter, after many years of looking, in the UK market. Our bank fees case was also a breakthrough in the year as it moved into the 'retail' side of the market via the bundling of small claims against large defendants. While it is true that our class actions also have these characteristics, they in essence rely on institutional support for their viability. So to sign up, we have 200,000 bank and credit card accounts, which required an entirely different internet based business model which has worked well. We are hoping this opens up other avenues for 'retail' claims as there is no shortage of instances where individuals are disadvantaged by the small size of otherwise very good claims.

OUR BANK FEES CASE WAS ALSO A BREAKTHROUGH IN THE YEAR AS IT MOVED INTO THE 'RETAIL' SIDE OF THE MARKET VIA THE BUNDLING OF SMALL CLAIMS AGAINST LARGE DEFENDANTS.

So despite our result below that posted last year we remain optimistic for the business. It has been strengthened and broadened in the year and we look forward to future harvests but we will continue to need some forbearance on timing. At least our harvests are not perishable and nobody complains when, as we have done in the past, we land a big fish as this is the nature of our business.



ROB FERGUSON

2010 MANAGING DIRECTOR'S REPORT

I USED MY 2009 REPORT TO SIGNAL OUR MANAGEMENT PLANS TO INCREASE CASES UNDER MANAGEMENT FROM ONE TO TWO BILLION DOLLARS BY 30 JUNE 2011.

Our local market is producing easily enough good cases to allow this target to be achieved and we have the added advantage, over other funders, that our product is known and sought after in the UK and US markets.

To date we are half way towards our target and it is clear from the cases we are currently reviewing that the target is achievable by the target date.

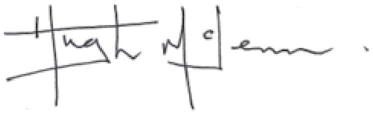
Our liquidity requirements travel almost in tandem with our growth so, as our growth accelerates, so does our need for liquidity. We have to hold $50m in cash moving up towards $75m as we get closer to $2bn of cases under management.

This liquidity requirement affects us in two major ways - firstly it inhibits our ability to pay dividends, even during profitable periods, and secondly it results in a quite lower overall return on equity and funds invested. Accordingly we will, during the course of this year, further investigate debt funding and will examine the utility of augmenting our capital and liquidity requirements with a series of funding trusts.

I believe we have reached the first serious inflection point in the history of litigation funding since IMF listed in 2001 which will result in the institution of the first truly international litigation funding operation. Over the coming months management will determine whether IMF becomes part of that global operation either on its own account or in conjunction with others.

In the meantime , despite hitting the Kingstream hurdle in the dying days of this financial year, we have made a profit and look forward to a fruitful 2011 financial year. We will not make a forecast this year unless and until it becomes reasonably apparent that our profit will rise or fall by the required amount from this year's result.

In recognition of our abovementioned liquidity requirements staff have not received any bonus this year and no final dividend will be declared to shareholders.



HUGH MCLERNON

Hugh McLernon
Managing Director

2010 DIRECTOR'S REPORT

The Directors of IMF (Australia) Limited ('IMF') submit their report for the year ended 30 June 2010.

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 the entire period unless otherwise stated.

NAMES, QUALIFICATIONS, EXPERIENCE AND SPECIAL RESPONSIBILITIES

ROBERT FERGUSON
(NON-EXECUTIVE CHAIRMAN)

Robert Ferguson was appointed Director and Chairman on 1 December 2004 and was Executive Chairman and Chief Executive Officer between 18 June 2007 and 18 March 2009. On 19 March 2009 he resumed his role as Non-Executive Chairman.

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

a. was a director of Westfield Holdings Ltd from 1994 to 2004;

b. was chairman and non-executive director of Vodafone Australia until November 2002;

c. was a director of Racing NSW from 2004 to 2009;

d. was chairman of MoneySwitch Limited, from 14 November 2005 to 18 February 2010. He continues as a non-executive director since 18 February 2010;

e. is deputy chair of the Sydney Institute, from April 1998;

f. is a director of the Lowy Institute, from April 2003;

g. has been chairman of GPT Group since 10 May 2010, and prior to this was a director and deputy chair from 25 May 2009; and

h. has been chairman of Primary Health Care since 1 July 2009.

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

Mr Ferguson is a member of the audit committee and remuneration committee.

DIRECTORS (CONTINUED)

HUGH MCLERNON
(MANAGING 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 has been an Executive Director of IMF since December 2001 and became the Managing Director on 18 March 2009.

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

JOHN WALKER
(EXECUTIVE 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 Deloitte Haskins and Sells (as it then was) prior to completing a Bachelor of Laws degree at Sydney University in 1986. Between 1987 and 1998, Mr Walker practiced as a commercial litigator in Sydney.

In 1998, Mr Walker created Insolvency Litigation Fund Pty Ltd ("ILF") and was the inaugural 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 was its Managing Director between December 2004 and June 2007.

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

John Walker
Executive Director

DIRECTORS (CONTINUED)

ALDEN HALSE
(NON-EXECUTIVE DIRECTOR)

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

Over the last 20 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 president of the Royal Automobile Club of WA (Inc);

c. is a non-executive director of Count Financial Ltd;

d. is chairman of RAC Insurance Pty Limited, Western Australia's largest home and motor insurer;

e. is chairman of the RAC Club Board; and

f. is a member of the board of the Australian Automobile Association.

Mr Halse is the Chairman of the audit committee and a member of the remuneration committee.

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

Alden Halse
Non-Executive Director

Michael Bowen
Non-Executive Director

Diane Jones
Chief Operating Officer

DIRECTORS (CONTINUED)

MICHAEL BOWEN
(NON-EXECUTIVE DIRECTOR)

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

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

b. supports the Managing Director on matters concerning the Corporations Law.

Mr Bowen is Chairman of the remuneration committee and a member of the audit committee.

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

a. Vietnam Industrial Investments Limited (appointed 18 October 2004, resigned 9 November 2007);

b. Medical Corporation Australasia Limited (appointed 18 October 2004);

c. TNG Limited (appointed 8 January 2004, resigned 11 November 2008); and

d. Batavia Mining Limited (appointed on 28 November 2008).

DIANE JONES
COMPANY SECRETARY, CHIEF OPERATING OFFICER AND CHIEF FINANCIAL OFFICER

Diane Jones has been the Company Secretary since 14 June 2006. She has been a member of the Institute of Chartered Accountants for over 20 years and holds a Masters of Business Administration and a 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. In March 2009, Ms Jones was promoted to IMF's Chief Operating Officer whilst retaining her role as Chief Financial Officer.

INTERESTS IN SHARES AND OPTIONS OF THE COMPANY

As at the date of this report, the interests of the directors in shares and options of the Company were:

	Number of ordinary shares	Number of options over ordinary shares
Robert Ferguson	2,500,000	-
Hugh McLernon	9,708,592	-
John Walker	7,074,537	-
Alden Halse	891,251	-
Michael Bowen	813,751	-
Total	**20,988,131**	**-**

Further details of the interests of the directors in the shares and options of the Company as at the date of this report are set out in the Directors' Report and note 27 to the financial statements.

DIVIDENDS

The Directors decided not to declare a final fully franked dividend for the 2010 financial year. An interim fully franked dividend for 2010 of 5.0 cents per share, totalling $6,102,000 was paid during 2010 with a payment date of 24 March 2010.

For the 2009 financial year the Company paid a final fully franked dividend of 10 cents per share, totalling $12,249,682, which was paid on 24 July 2009. This followed an interim fully franked dividend for 2009 of 5.0 cents per share, totalling $5,985,341, with a payment date of 11 February 2009.

The Directors have not declared a dividend policy. They have determined that the Company should distribute any surplus funds in excess of between $50,000,000 and $75,000,000, depending on the claim value of the portfolio, which has accumulated in the business, where franking credits are available and where the Directors do not form the view that there is a better use for IMF's cash.

CORPORATE INFORMATION

Corporate Structure

IMF (Australia) Ltd 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 Financial Redress Pty Ltd (formerly Insolvency Litigation Fund Pty Ltd).

Nature of Operations and Principal Activities

The principal activities of the consolidated entity during the financial year were the investigation, management and funding of 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:

CORPORATE INFORMATION (CONTINUED)

Portfolio report at 30 June 2010 where the budgeted fee per case to IMF is greater than $500,000 (i.e. major cases)

	Number of claims	Claim value	Percentage of claims > $500,000
Insolvency Claims	5	$77,000,000	6%
Commercial Claims involving single plaintiffs	8	$380,500,000	27%
Commercial Group Actions	20	$946,000,000	67%
Total claims where IMF's budgeted fee is more than $500,000	33	$1,403,500,000	100%

The maximum claim value of IMF's major cases increased in the year to 30 June 2010 from $1,057,000,000 to $1,403,500,000 The Company commenced 16 new major cases during the year, which have a maximum claim value at 30 June 2010 of $531,500,000.

An update on IMF's principal investments (with a claim value at or above $50,000,000) is as follows:

- The **ABC Learning** claim alleges that ABC Learning failed to disclose to the ASX information concerning its financial position. IMF also funded the administrators' examinations to determine whether the charge granted to the banking syndicate can be set aside and whether funding should be provided for proceedings against the ABC Learning directors and auditors. The decision in respect of both matters will be made this calendar year, with the success of either or both of these damages actions being added to the pool available for distribution to creditors (including shareholder claimants).
- The **Air Cargo** case is a price fixing claim against various airlines under Section 45 of the Trade Practices Act. An appeal against a decision to strike out the claim was successful and this case is proceeding in the Federal Court.
- Proceedings against **Centro Retail Limited ("CER")** and **Centro Properties Ltd ("CNP")** were filed on 9 May 2008. It is alleged that, between 7-9 August 2007 and 15 February 2008, CER and CNP misled the market and failed to keep it informed of information material to the price of their publicly traded securities. On 4 March 2010 the representative, Mr Kirby, applied to the Court to amend his claims in the CER and CNP proceedings to include claims against PricewaterhouseCoopers **("PwC")** and for additional claims to be brought against PricewaterhouseCoopers Securities Ltd in the CER proceedings. PwC was the auditor of the Centro group during the relevant period. The Court's decision in relation to the joinder applications is awaited and the proceedings are continuing in the Federal Court.
- The claim against the **Commonwealth of Australia** for misfeasance by the Therapeutic Goods Administration in relation to its management of the recall of products manufactured by Pan Pharmaceuticals is proceeding in the Federal Court. The respondents' strike-out application was successfully defended and the matter is now proceeding to mediation by Court direction. It is anticipated the mediation will take place before the end of calendar 2010.
- The **Great Southern** unitholders, funded by IMF, have been successful in obtaining Court orders for the production and inspection of insurance policies held by Great Southern for the relevant period. After an inspection of the policies a decision was made to pursue the application for leave to litigate against the company despite the fact that it is in liquidation. The Court has given leave to proceed and the writs have been served. All defendants have now lodged their defences and the litigation is proceeding on track, on time and on budget.

CORPORATE INFORMATION (CONTINUED)

- In the **National Potato** case, IMF is funding a client in an action in Pretoria, South Africa, against its auditors, PricewaterhouseCoopers. The trial has proceeded as expected and is expected to conclude in September 2010.
- The **Oz Minerals** shareholder claim was filed in late calendar 2009 and is presently the subject of a settlement process which may or may not succeed. If it does not, Oz Minerals has confirmed it will cross claim against its auditors.
- The **PIF Unitholders v KPMG** claim is against directors of the responsible entity of the MFS Premium Income Fund and partners of KPMG (auditors of the compliance plan) for alleged breaches of the Corporations Act. The unitholders are presently awaiting a decision on whether the Court will grant leave to amend the claim.
- The **Lehman** claim was initially an application to set aside Lehman Australia's Deed of Company Arrangement which was finally successful in the High Court of Australia earlier this year. The substantive proceeding has now been commenced by way of a class action with a mediation to be held in December.
- On 12 May 2010 IMF announced its intention to fund claims from bank customers to recover unfair exception fees deducted from their bank and credit card accounts over the last six years (the **Bank Fees** case). The claim involves up to twelve local and foreign banks. So far, the holders of over 200,000 bank and credit card accounts have registered with subsidiary Financial Redress to join these class actions.
- The **Uniloc** matter involves a series of cases that are being funded in the U.S. for the infringement of Uniloc's software activation patent. The main case involves a jury award of US$388M that Uniloc won against Microsoft which was subsequently overturned by the trial judge. An appeal against this judge's decision will be heard by the Federal Circuit on 7 September 2010. Other cases are also currently proceeding against a number of other defendants in Texas.

IMF continues to provide the ASX with a summary 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. IMF did not withdraw from any major investments during 2010. IMF also provides case updates on its website: www.imf.com.au.

Employees

At 30 June 2010, the consolidated entity employed 23 permanent staff, including the 2 executive directors, providing investigative, computer, accounting and management expertise (2009: 21 permanent staff).

OPERATING AND FINANCIAL REVIEW

Operating Results for the Financial Year

The following summary of operating results reflects the consolidated entity's performance for the year ended 30 June 2010:

	2010 $	2009 $	Change %
Total Income	21,655,041	38,755,104	(44%)
Operating profit after income tax	11,906,342	20,762,817	(42%)
Total shareholders' equity	72,535,656	64,776,124	12 %

Shareholder Returns

	2010	2009
Basic earnings per share (cents per share)	9.77	17.35
Diluted earnings per share (cents per share)	9.70	16.93
Return on assets % (NPAT/Total Assets)	12.90	20.03
Return on equity % (NPAT/Total Equity)	16.41	32.05
Net debt/equity ratio %	nil	nil

14 matters generated income during 2010, including 7 major cases where the Group generated fees greater than $500,000, underpinning the Group's profitability and shareholder returns.

The following summarises the major cases finalised during 2010:

Date commenced	Litigation contract's matter name	Total value included in investment portfolio report	Total Litigation contracts' income	Total Litigation contracts' expenses (including capitalised overheads)	Net gain on disposal of intangible asset
		$	$	$	$
Oct-04	Sons of Gwalia	45,000,000	14,162,737	(1,000,436)	13,162,301
Dec-06	AWB	60,000,000	16,509,881	(9,218,305)	7,291,576
Mar-06	Westpoint PIS	10,000,000	3,195,570	(1,719,595)	1,475,975
Apr-07	Peninsula Shipping	1,000,000	827,185	(1,043,703)	(216,518)
Nov-08	Opes	10,000,000	6,175,874	(5,632,656)	543,218
Mar-08	Westpoint Quantum	5,000,000	1,940,222	(876,924)	1,063,298
Nov-04	NEIB	10,000,000	1,956,755	(1,730,394)	226,361
		141,000,000	44,768,224	(21,222,013)	23,546,211
	Other matters*	500,000	1,303,379	(6,131,314)	(4,827,935)
		141,500,000	46,071,603	(27,353,327)	18,718,276

* Includes the costs of Kingstream which was written-off during 2010, a provision for adverse costs relating to the Kingstream matter of $2,006,487 and cases where the Group withdrew funding during 2010.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

The Group has finalised 113 investments since listing, with an average weighted investment period of 3.47 years (2009: 4.1 years) (unweighted the average investment period is 2.3 years). The Group has generated a gross return on every dollar invested of 2.85 times (excluding overheads). IMF has a target to reduce the time taken to complete cases to 2.5 years and to generate a gross return on every dollar invested of 3 times (excluding overheads).

The investment portfolio as at 30 June 2010 has a mixture of both mature and new investments, with 37% of the investment portfolio expected to finalise over the next 12 months. IMF is focused on replacing and growing the investment portfolio within its conservative investment protocols.

During the course of the year IMF again received numerous requests for litigation funding from outside Australia. IMF is funding one case in South Africa, one case in the United States of America, one case in the United Kingdom and one case in New Zealand.

IMF's share price closed at $1.58 per share on 30 June 2010 (2009: $1.84), a 14% decrease over the twelve month period. IMF entered the ASX top 300 companies on 20 March 2009, when its share price was $1.15. Since entering this index and up to 30 June 2010, IMF's share price has increased 37%, compared to the index movement of negative 12%.

Liquidity and Capital Resources

The consolidated cash flow statement illustrates that there was a decrease in cash and cash equivalents for the year ended 30 June 2010 of $18,247,552 (2009: increase of $9,596,886). Operating activities generated $2,233,367 of net cash outflows (2009: net cash inflows of $32,914,527), whilst financing cashflow used $16,508,619 (2009: net cash outflows of $23,384,085) principally as a result of the payment of dividends totalling $18,351,682.

Asset and Capital Structure

	2010 $	2009 $	Change %
Cash and short term deposits	42,990,254	61,237,806	(30%)
Total debt	-	-	0%
Net cash	**42,990,254**	**61,237,806**	**(30%)**
Total equity	**72,535,656**	**64,776,124**	**12%**
Gearing	Nil	Nil	0%

At 30 June 2008 the Board of Directors took the decision to repay the convertible notes early as part of its strategy to reduce surplus cash. The convertible notes were repaid on 3 July 2008. From 3 July 2008 the Group has had no debt.

Profile of Debts

The Group has no debt.

Shares Issued During the Year

During 2010 a total of 2,180,000 options were converted into shares, raising total capital of $2,844,000. (2009: During 2009 a total of 1,224,665 options were converted into shares, raising total capital of $999,443.).

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Capital Expenditure

There has been a decrease in capital expenditure during the year ended 30 June 2010 to $76,991 from $341,941 in the year ended 30 June 2009. The capital expenditure in 2010 mainly related to the purchase of new computer equipment.

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 eight years of operation IMF has lost only four cases out of 113 matters funded. 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.

Another 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 authorised management to identify options for raising capital to fund further expansion of IMF's business, if required.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Total equity increased 12% to $72,535,656 from $64,776,124. This was mainly as a result of the Group's increasing return to shareholders during 2010. There have been no significant changes in the state of affairs during this reporting period other than disclosed in this report.

SIGNIFICANT EVENTS AFTER BALANCE DATE

Intangible Assets

On 27 July 2010 the **AM Corporation** litigation was conditionally settled. The settlement will return $4,000,000 to the Group if the settlement is approved by the Court. This matter will generate a loss to the Group of $1,178,337 after taking into account capitalised overheads. This litigation in progress was written down to its recoverable amount as at 30 June 2010.

On 13 August 2010 the litigation funded by the Group between **Ceramic Fuel Cells Ltd** and Oakvale Capital Ltd was conditionally settled. It is estimated IMF will receive approximately $2.9 million and generate a profit after capitalised overheads of approximately $1.9 million (before tax).

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

As stated earlier, approximately 37% of the investment portfolio as at 30 June 2010 is expected to mature over the next 12 months. Accordingly, the directors consider that the Company will generate a strong level of profit in this period.

In addition, IMF expects there to be an increasing demand for its funding arising from the fallout from the recent tightening in credit and depressed worldwide economic cycle.

Competition, however, is expected to increase in the coming years as new entrants coming into the market, particularly from overseas, see litigation funding as an attractive counter-cyclical investment.

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

SHARE OPTIONS

Unissued Shares

As at the date of this report there were 830,000 unissued ordinary shares under options.

Shares Issued as a Result of the Exercise of Options

During the financial year, employees have exercised options to acquire 180,000 fully paid ordinary shares in IMF, with a weighted average exercise price (WAP) of $0.80 (2009: 1,224,665 with a WAP of $0.82). The directors exercised options to acquire 2,000,000 ordinary shares in IMF in 2010 with a WAP of $1.35 (2009: nil).

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year the Company has paid premiums in respect of a contract insuring all the directors of the Group against any legal costs incurred in defending proceedings for conduct involving:

a. breach of duty; or

b. contravention of sections 182 or 183 of the Corporations Act 2001, so far as may be permitted by section 199B of the Corporations Act 2001 and other laws.

The total amount of premium paid under the insurance contract referred to above and for professional indemnity cover was $247,107 (2009: $239,408, which covered the period 1 July 2008 to 30 September 2009).

REMUNERATION REPORT (AUDITED)

This Remuneration Report outlines the director and executive remuneration arrangements of the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report Key Management Personnel of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group, and includes the five executives in the parent and the Group receiving the highest remuneration.

REMUNERATION REPORT (AUDITED) (CONTINUED)

KEY MANAGEMENT PERSONNEL

Details of Key Management Personnel are:

(i) Directors

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

(ii) Executives

Diane Jones	Chief Operating Officer, Chief Financial Officer and Company Secretary
Clive Bowman	Executive Investment Manager
Charlie Gollow	Investment Manager

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

Remuneration Committee

The Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing remuneration arrangements for the Board and executives.

The Remuneration Committee assesses the appropriateness of the nature and amount of the emoluments of the directors and executive team on a periodic basis by reference to relevant employment market conditions, with the overall objective of ensuring the best stakeholder benefit from the Board and executive team.

Remuneration Philosophy

The performance of the Company depends upon the quality of its directors and executives. Accordingly, the Company must attract, motivate and retain highly skilled directors and executives.

The Company embodies the following principles in its remuneration framework:

- Determination of appropriate market rates for the fixed remuneration component; and
- Establish appropriate performance hurdles for the variable remuneration component.

Remuneration Structure

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct. The Company obtains assistance from remuneration experts in relation to setting its remuneration structure.

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

REMUNERATION REPORT (AUDITED) (CONTINUED)

Non-Executive Director Remuneration

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the non-executive directors. Non-executive directors' fees and payments totalling $218,500 (including superannuation), as disclosed in the following tables, were approved at the 2009 Annual General Meeting. At that meeting shareholders approved payments up to $300,000 to non-executive directors.

There are no retirement allowances for non-executive directors, nor do they participate in any incentive programs. Non-executive directors may, however, elect to have a portion of their remuneration paid into their personal superannuation plans.

Executive Remuneration

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 below.

Compensation consists of the following key elements:

- Fixed Compensation; and
- Variable Compensation.

Fixed Remuneration

Objective

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

REMUNERATION REPORT (AUDITED) (CONTINUED)

Executive Remuneration (continued)

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. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost to the Group.

Variable Remuneration

Objective

The objective of the variable compensation incentive is to reward executives in a manner that aligns this element of their compensation with the objectives and internal key performance indicators of the Company. The total potential incentive available is set at a level so as to provide sufficient incentive to the executive to achieve the operational targets and such that the cost to the Group is reasonable in the circumstances.

Structure

The short term executive incentive plan ("STI") was designed and implemented with the assistance of external remuneration consultants. This STI replaced the Employee Share Option Plan. All executives have the opportunity to qualify for participation in the STI when specified criteria are met. The Group has not implemented any long term incentive plans, although the Remuneration Committee may elect to make payments under the STI in the form of cash, options or shares.

The Group has pre-determined benchmarks that must be met in order to trigger payments under the STI. In summary, the benchmarks set by the Remuneration Committee for 2008 and 2009 were as follows:

- A minimum "hurdle" of net profit before tax must be achieved prior to any incentive being paid. From 2008 this hurdle was set at 20% of weighted net assets of the prior year.
- A fixed percentage of NPBT above this hurdle may be allocated to the incentive pool. From 2008 this was set at 35% (i.e. 35% of any NPBT over the hurdle may be allocated to the incentive pool).
- The incentive pool is capped at the total salaries paid to those employees eligible to participate (there is no individual cap within the pool) .
- Once the pool size is quantified, the Remuneration Committee determines the amount, if any, of the STI to be allocated to each executive following consideration of the individual employee's performance. Since 2008 the Remuneration Committee has not distributed the full amount of the total incentive pool available. Consistent with the Group's strategy to maintain liquidity, the Remuneration Committee has not awarded any bonus under the STI in 2010. The unallocated portion of prior years' incentive pools may be used in calculating future incentive pools at the discretion of the Remuneration Committee.
- Payments of amounts awarded to employees under the STI will be paid in the following reporting period, if the employee remains employed by the Group during the loyalty service period under the STI.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Executive Remuneration (continued)

The total allocation under the 2010 STI was $nil (2009: $3,565,000). The total allocation under the 2009 STI was accrued in the 2009 financial year and details of the actual payments made under the STI to key management personnel are set out in Table 1 on page 25.

Group Performance

The objectives and philosophy of the Remuneration Committee are set to align the performance of the Group's executives with shareholders' wealth. The following graph shows the performance of the Group as measured by its share price:

The following is a summary of the Group's earnings per share (shown as cents per share) over the last five years.

	2006	2007	2008	2009	2010
Earnings per share (cents per share)	(0.73)	5.24	15.04	17.35	9.77
Diluted earnings per share (cents per share)	(0.73)	5.24	14.70	16.93	9.70

Employment Contracts

a. Hugh McLernon, Managing Director:

- new rolling 12 month contract commenced 1 July 2007;
- gross salary package of $850,000 pa plus super;
- salary to be reviewed annually, with the 2010 review determining no change to the salary; and
- notice period is 12 months.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Employment Contracts (continued)

b. John Walker, Executive Director:

- new rolling 12 month contract commenced 1 July 2007;
- gross salary package of $700,000 pa plus super;
- salary to be reviewed annually, with the 2010 review determining no change to the salary; and
- notice period is 12 months.

c. Diane Jones, Chief Operating Officer, Chief Financial Officer & Company Secretary:

- contract commenced 5 June 2006;
- gross salary package of $360,000 pa including super;
- contract to be reviewed annually with minimum CPI increases, with the 2010 review determining an increase in salary of 10%; and
- notice period is 3 months.

d. Clive Bowman, Executive Investment Manager:

- contract commenced 1 July 2001;
- gross salary package of $567,000 pa including super;
- contract to be reviewed annually with minimum CPI increases, with the 2010 review determining an increase in salary of 3%; and
- notice period by employee is 3 months and 6 months notice by the Company.

e. Charlie Gollow, Investment Manager:

- contract commenced 22 April 2003;
- gross salary package of $400,000 pa including super;
- contract to be reviewed annually with minimum CPI increases, with the 2010 review determining an increase of 14%; and
- notice period by employee is 3 months and 6 months notice by the Company.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Remuneration of Key Management Personnel

Table 1: Remuneration for the year ended 30 June 2010

2010	Salary & Fees	Short-term Bonus Paid[1]	Bonus Accrued[2]	Other[3]	Employment Super	Total	Performance Related	2010 Unpaid Bonus[2]
Directors								
Robert Ferguson	100,000	-	-	-	9,000	109,000	0%	-
Hugh McLernon	850,000	-	-	-	14,462	864,462	0%	-
John Walker	700,000	-	-	-	14,462	714,462	0%	-
Alden Halse	50,000	-	-	-	4,500	54,500	0%	-
Michael Bowen	55,000	-	-	-	-	55,000	0%	-
Executives								
Clive Bowman	535,538	-	-	-	14,462	550,000	0%	-
Charlie Gollow	335,538	-	-	-	14,462	350,000	0%	-
Diane Jones	310,538	-	-	-	14,462	325,000	0%	-
Total	2,936,614	-	-	-	85,810	3,022,424	0%	-

Table 2: Remuneration for the year ended 30 June 2009

2009	Salary & Fees	Short-term 2008 Bonus Paid[4]	2009 Bonus Accrued[1]	Other[3]	Employment Super	Total	Performance Related	2009 Unpaid Bonus[1]
Directors								
Robert Ferguson	382,315	-	-	-	13,569	395,884	0%	-
Hugh McLernon	700,000	1,000,000	500,000	-	13,745	2,213,745	68%	500,000
John Walker	700,000	595,000	750,000	-	13,745	2,058,745	66%	750,000
Alden Halse	50,000	-	-	-	4,500	54,500	0%	-
Michael Bowen	43,600	-	-	-	-	43,600	0%	-
Executives								
Clive Bowman	461,878	404,000	700,000	-	13,745	1,579,623	70%	700,000
Charlie Gollow	301,878	155,000	250,000	-	13,745	720,623	56%	250,000
Diane Jones	266,878	155,000	200,000	-	13,745	635,623	56%	200,000
Total	2,906,549	2,309,000	2,400,000	-	86,794	7,702,343	61%	2,400,000

1. The 2009 bonus was awarded by the Remuneration Committee on 25 June 2009 following the allocation of the 2009 incentive pool. This bonus was paid in the 2010 financial year. The Group believed that a constructive obligation to pay the 2010 bonus under the STI arose during the 2009 year due to the settlement of major cases early in the 2009 financial year. Accordingly, it was accrued in the 2009 year.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Remuneration of Key Management Personnel (continued)

2. The Remuneration Committee has not awarded any STI for the current financial year.
3. The professional indemnity insurance and directors and officers insurance premiums of $247,107 (2009: $239,408) have not been allocated to specific individuals as the Directors do not believe there is a reasonable basis for allocation. The 2009 disclosures have been adjusted accordingly.
4. The bonus awarded by the Remuneration Committee under the STI on 19 June 2008 was not considered a constructive obligation and accordingly no accrual was raised for this amount at 30 June 2008. It was paid in the 2009 financial year.

Compensation and Remuneration Options

No options were granted to key management personnel in 2010 or 2009.

There were no alterations to the terms and conditions attaching to options granted as remuneration since their grant date. There were no forfeitures during the period.

No options expired in 2010 or 2009.

Table 3: Shares issued on exercise of compensation options

	30 June 2010				30 June 2009			
	No of shares issued	Paid per share	Unpaid per share	Value of options excercised	No of shares issued	Paid per share	Unpaid per share	Value of options excercised
Directors								
Hugh McLernon	1,000,000	$1.35	-	1,800,000	-	-	-	-
John Walker	1,000,000	$1.35	-	1,800,000	-	-	-	-
Executives								
Clive Bowman	100,000	$0.80	-	180,000	254,094	$0.20	-	180,915
Clive Bowman	-	-	-	-	330,000	$1.35	-	30,360
Charlie Gollow	-	-	-	-	100,000	$0.20	-	71,200
Charlie Gollow	-	-	-	-	100,000	$1.35		9,200
Total	2,100,000	-	-	3,780,000	784,094	-	-	291,675

END OF REMUNERATION REPORT

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:	**5**	**2**	**2**
M Bowen	5	2	2
R Ferguson	5	2	2
A J Halse	5	2	1
H McLernon	5	-	-
J F Walker	5	-	-

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 (Chairman)	M Bowen (Chairman)
M Bowen	A J Halse
R Ferguson	R Ferguson

Rounding

The amounts contained in this report have been rounded to the nearest $1 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the Class Order applies.

Auditor's Independence Declaration

Ernst & Young, the Company's auditors, have provided a written declaration to the directors in relation to their review of the Financial Report for the year ended 30 June 2010. This independence declaration can be found at page 29.

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 $74,189 (2009: $120,597).

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 from page 85 of this Annual Report.

Signed in accordance with a resolution of the directors.

ROBERT FERGUSON
CHAIRMAN

HUGH MCLERNON
MANAGING DIRECTOR

Sydney 24 August 2010

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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 2010, 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
24 August 201 0

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated 2010 $	2009 $
Continuing Operations			
Revenue	6	1,919,379	3,640,612
Other income	7	19,735,662	35,114,492
Total Income		**21,655,041**	**38,755,104**
Finance costs	8(a)	(117,568)	(271,328)
Bad debts written off	13	(128,387)	(1,457,853)
Depreciation expense	8(b)	(217,194)	(171,235)
Employee benefits expense	8(c)	(1,875,535)	(3,071,272)
Corporate and office expense	8(d)	(1,928,482)	(1,910,657)
Other expenses	8(e)	(560,977)	(610,986)
Share of loss of joint venture entity	19	-	(551,902)
Loss on divestment of joint venture entity		-	(284,043)
Profit From Continuing Operations Before Income Tax		**16,826,898**	**30,425,828**
Income tax expense	9	(4,920,556)	(9,663,011)
Net Profit for the Period		**11,906,342**	**20,762,817**
Other Comprehensive Income			
Net fair value gains on available for sale financial assets		165,828	3,953
Income tax on items of other comprehensive income		(49,748)	-
Other comprehensive income for the period, net of tax		116,080	3,953
Total Comprehensive Income for the Period		**12,022,422**	**20,766,770**

Earnings per share attributable to the ordinary equity holders of the company (cents per share)

	Note	2010	2009
Basic profit (cents per share)	11	9.77	17.35
Diluted profit (cents per share)	11	9.70	16.93

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

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010

		Consolidated	
	Note	2010 $	2009 $
ASSETS			
Current Assets			
Cash and cash equivalents	12	42,990,254	61,237,806
Trade and other receivables	13	5,995,032	8,328,984
Other assets	14	311,301	198,758
Total Current Assets		**49,296,587**	**69,765,548**
Non-Current Assets			
Trade and other receivables	15	1,120,000	-
Plant and equipment	16	535,982	676,187
Financial assets	17	854,175	927,712
Intangible assets	18	40,487,439	32,275,955
Total Non-Current Assets		**42,997,596**	**33,879,854**
TOTAL ASSETS		**92,294,183**	**103,645,402**
LIABILITIES			
Current Liabilities			
Trade and other payables	21	5,833,691	8,651,067
Income tax (receivable)/payable		(359,590)	4,036,016
Provisions	22	2,385,777	4,121,957
Dividends payable		-	12,249,682
Total Current Liabilities		**7,859,878**	**29,058,722**
Non-Current Liabilities			
Provisions	22	544,583	511,109
Deferred income tax liabilities	9	11,354,066	9,299,447
Total Non-Current Liabilities		**11,898,649**	**9,810,556**
TOTAL LIABILITIES		**19,758,527**	**38,869,278**
NET ASSETS		**72,535,656**	**64,776,124**
EQUITY			
Contributed equity	23	40,514,450	38,671,387
Reserves	24	4,503,939	4,391,812
Retained earnings	24	27,517,267	21,712,925
TOTAL EQUITY		**72,535,656**	**64,776,124**

The above statement of financial position should be read in conjunction with the accompaying notes.

STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated 2010 $	Consolidated 2009 $
Cash Flows from Operating Activities			
Proceeds from litigation funding - settlements, fees and reimbursements		48,718,381	70,083,831
Payments for litigation funding, suppliers and employees		(45,234,358)	(33,497,721)
Interest income		1,584,766	3,741,990
Interest paid		-	(271,328)
Income tax paid		(7,302,156)	(7,142,245)
Net Cash Flows from/(used in) Operating Activities	25	**(2,233,367)**	**32,914,527**
Cash Flows from Investing Activities			
Purchase of plant and equipment		(76,991)	(341,941)
Contributions to jointly controlled entity		-	307,151
Purchase of financial asset		(554,693)	-
Receipts from available for sale investments		1,126,118	101,234
Net Cash Flows used in Investing Activities		**494,434**	**66,444**
Cash Flows from Financing Activities			
Proceeds from issue of shares		2,844,000	999,443
Dividends paid		(18,351,682)	(11,970,682)
Share buy-back		(1,000,937)	-
Repayment of convertible notes		-	(12,412,846)
Net Cash Flows from/(used in) Financing Activities		**(16,508,619)**	**(23,384,085)**
Net increase/(decrease) in cash and cash equivalents held		(18,247,552)	9,596,886
Cash and cash equivalents at beginning of year		61,237,806	51,640,920
Cash and Cash Equivalents at end of year		**42,990,254**	**61,237,806**

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2010

CONSOLIDATED	General reserve $	Option premium reserve $	Net unrealised gains reserve $	Convertible notes reserve $	Issued capital $	Retained earnings $	Total $
As at 1 July 2009	**-**	**3,403,720**	**3,953**	**984,139**	**38,671,387**	**21,712,925**	**64,776,124**
Profit for the period	-	-	-	-	-	11,906,342	11,906,342
Other comprehensive income	-	-	116,080	-	-	-	116,080
Total Comprehensive Income for the Period	**-**	**3,403,720**	**120,033**	**984,139**	**38,671,387**	**33,619,267**	**76,798,546**
Equity Transactions:	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	(6,102,000)	(6,102,000)
Dividend declared (unpaid)	-	-	-	-	-	-	-
Exercise of options	-	-	-	-	2,844,000	-	2,844,000
Share buy-back	-	-	-	-	(1,000,937)	-	(1,000,937)
Transfer of reserve upon sale of asset	-	-	(3,953)	-	-	-	(3,953)
As at 30 June 2010	**-**	**3,403,720**	**116,080**	**984,139**	**40,514,450**	**27,517,267**	**72,535,656**
As at 1 July 2008	**8,689,605**	**3,403,720**	**-**	**984,139**	**37,671,944**	**16,480,867**	**67,230,275**
Profit for the period	-	-	-	-	-	20,762,817	20,762,817
Other comprehensive income	-	-	3,953	-	-	-	3,953
Total Comprehensive Income for the Period	**8,689,605**	**3,403,720**	**3,953**	**984,139**	**37,671,944**	**37,243,684**	**87,997,045**
Equity Transactions:							
Dividend paid	-	-	-	-	-	(11,970,682)	(11,970,682)
Dividend declared (unpaid)	-	-	-	-	-	(12,249,682)	(12,249,682)
Exercise of options	-	-	-	-	999,443	-	999,443
Share buy-back	-	-	-	-	-	-	-
Transfer of reserve to retained earnings	(8,689,605)	-	-	-	-	8,689,605	-
As at 30 June 2009	**-**	**3,403,720**	**3,953**	**984,139**	**38,671,387**	**21,712,925**	**64,776,124**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: CORPORATE INFORMATION

The financial report of IMF (Australia) Ltd (the Company or the Parent) for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 24 August 2010.

IMF (Australia) Ltd (ABN 45 067 298 088) is a company incorporated in Australia and limited by shares that are publicly traded on the Australian Securities Exchange (ASX code: IMF).

The nature of the operations and principal activities of the Group are described in note 5.

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 and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for available for sale and held for trading investments which have been measured at fair value.

The financial report is presented in Australian dollars.

The amounts contained within this report have been rounded to the nearest $1 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/100.

b. Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board.

c. New accounting standards and interpretations

The Group has adopted all of the new and revised standards and interpretations issued by the Australian Accounting Standards Board (“AASB”) that are relevant to the operations of the Group and effective for the periods beginning on or after 1 July 2009. The adoption of these standards had no impact on the financial position or performance of the Group. The accounting policies adopted are consistent with those of the previous financial year except as follows:

New Accounting Standards and Interpretations

(i) Changes in accounting policy and disclosures.

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2009.

- AASB 3 Business Combinations (revised 2008) effective 1 July 2009
- AASB 7 Financial Instruments: Disclosures effective 1 January 2009
- AASB 8 Operating Segments effective 1 January 2009
- AASB 101 Presentation of Financial Statements (revised 2007) effective 1 January 2009
- AASB 127 Consolidated and Separate Financial Statements (revised 2008) effective 1 July 2009

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards and Interpretations (continued)

- AASB 2008-1 Amendments to Australian Accounting Standards - Share-based Payments: Vesting Conditions and Cancellations effective 1 January 2009
- AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project effective 1 January 2009
- AASB 2008-7 Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate effective 1 January 2009
- AASB 2009-6 Amendments to Australian Accounting Standards operative for periods beginning on or after 1 January 2009 that end on or after 30 June 2009

AASB 3 Business Combinations (revised 2008)

AASB 3 (revised 2008) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interests (previously "minority interests"), the accounting for transaction costs, the initial recognition and subsequent measurement of contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period when an acquisition occurs and future reported results. The change in accounting policy was applied prospectively and had no material impact on earnings per share.

AASB 7 Financial Instruments: Disclosures

The amended Standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to all financial instruments recognised and measured at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management.

The fair value measurement disclosures are presented in note 4. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in note 3.

AASB 8 Operating Segments

AASB 8 replaced AASB 114 *Segment Reporting* upon its effective date. The Group concluded that the operating segments determined in accordance with AASB 8 are the same as the business segments previously identified under AASB 114. AASB 8 disclosures are shown in note 5, including the related revised comparative information.

AASB 101 Presentation of Financial Statements

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present both statements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AASB 127 Consolidated and Separate Financial Statements (revised 2008)

AASB 127 (revised 2008) requires that a change in the ownership interest of a subsidiary (without a change in control) is to be accounted for as a transaction with owners in their capacity as owners. Therefore such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss in the statement of comprehensive income. Furthermore the revised Standard changes the accounting for losses incurred by a partially owned subsidiary as well as the loss of control of a subsidiary. The changes in AASB 3 (revised 2008) and AASB 127 (revised 2008) will affect future acquisitions, changes in, and loss of control of, subsidiaries and transactions with non-controlling interests.

The change in accounting policy was applied prospectively and had no material impact on earnings per share.

AASB 2008-7 Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

The amendments delete the reference to the “cost method” making the distinction between pre and post acquisition profits no longer relevant. All dividends received are now recognised in profit or loss rather than having to be split between a reduction in the investment and profit and loss. However the receipt of such dividends requires an entity to consider whether there is an indicator of impairment of the investment in that subsidiary. The receipt of dividends by IMF (Australia) Ltd during the year did not impact the recoverability of the investment in the subsidiary (see note 33).

The amendments further clarify cases or reorganisations where a new parent is inserted above an existing parent of the group. It states that the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. The adoption of these amendments did not have any impact on the financial position or the performance of the Group.

Annual Improvements Project

In May 2008 and April 2009 the AASB issued omnibus of amendments to its Standards as part of the Annual Improvements Project, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions and application dates for each amendment. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in AASB 5. The disclosure requirements of other Accounting Standards only apply if specifically required for such non-current assets or discontinued operations. As a result of this amendment, the Group amended its disclosures in note 17.

- AASB 8 *Operating Segments*: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group’s chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in note 5.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. New accounting standards and interpretations (continued)

- AASB 101 *Presentation of Financial Statements*: assets and liabilities classified as held for trading in accordance with AASB 139 *Financial Instruments: Recognition and Measurement* are not automatically classified as current in the statement of financial position. The Group amended its accounting policy accordingly and analysed whether management's expectation of the period of realisation of financial assets and liabilities is in accordance with AASB 101. This did not result in any re-classification of financial instruments between current and non-current in the statement of statement of financial position.

- AASB 116 *Property, Plant and Equipment:* replace the term "net selling price" with "fair value less costs to sell". The Group amended its accounting policy accordingly, which did not result in any change in the financial position.

- AASB 128 *Investment in Associates*: an investment in an associate is a single asset for the purpose of conducting the impairment test, including any reversal of impairment. Any impairment is not separately allocated to the goodwill included in the investment balance. Any impairment is reversed if the recoverable amount of the associate increases. The Group has amended its impairment accounting policy accordingly. The amendment had no impact on the Group's financial position or performance. The Group has amended its impairment accounting policy accordingly.

- AASB 136 *Impairment of Assets*: when discounted cash flows are used to estimate "fair value less cost to sell" additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate "value in use". The Group has amended its disclosures accordingly in note 4. The amendment also clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in AASB 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

- AASB 138 *Intangible Assets*: expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service. This amendment has no impact on the Group because it does not enter into such promotional activities.

Other amendments resulting from the Annual Improvements Project to the following Standards did not have any impact on the accounting policies, financial position or performance of the Group:

- AASB 2 *Share-based Payment*
- AASB 108 *Accounting Policies, Change in Accounting Estimates and Error*
- AASB 110 *Events after the Reporting Period*
- AASB 117 *Leases*
- AASB 118 *Revenue*
- AASB 119 *Employee Benefits*
- AASB 131 *Interests in Joint Ventures*
- AASB 138 *Intangible Assets*

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. New accounting standards and interpretations (continued)

(ii) Accounting Standards and Interpretations issued but not yet effective.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2010 are outlined in the table below. The impact of these new standards and interpretations has not been assessed.

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting except for the following: The amendment to AASB 117 removes the specific guidance on classifying land as a lease so that only the general guidance remains. Assessing land leases based on the general criteria may result in more land leases being classified as finance leases and if so, the type of asset which is to be recorded (intangible vs. property, plant and equipment) needs to be determined. The amendment to AASB 101 stipulates that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification. The amendment to AASB 107 explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities. The amendment to AASB 118 provides additional guidance to determine whether an entity is acting as a principal or as an agent. The features indicating an entity is acting as a principal are whether the entity: • has primary responsibility for providing the goods or service; • has inventory risk; • has discretion in establishing prices; • bears the credit risk. The amendment to AASB 136 clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment, as defined in IFRS 8 before aggregation for reporting purposes. The main change to AASB 139 clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract. The other changes clarify the scope exemption for business combination contracts and provide clarification in relation to accounting for cash flow hedges.	1 January 2010	1 July 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. New accounting standards and interpretations (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2009-8	Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]	This Standard makes amendments to Australian Accounting Standard AASB 2 *Share-based Payment* and supersedes Interpretation 8 *Scope of AASB 2* and Interpretation 11 *AASB 2 – Group and Treasury Share Transactions.* The amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments clarify the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.	1 January 2010	1 July 2010
AASB 2009-9	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards.*	The amendments address the retrospective application of IFRSs to particular situations and are aimed at ensuring that entities applying IFRSs will not face undue cost or effort in the transition process. Specifically, the amendments: • exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets • exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4 *Determining whether an Arrangement contains a Lease* when the application of their national accounting requirements produced the same result.	1 January 2010	1 July 2010
AASB 2009-10	Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]	The amendment provides relief to entities that issue rights in a currency other than their functional currency, from treating the rights as derivatives with fair value changes recorded in profit or loss. Such rights will now be classified as equity instruments when certain conditions are met.	1 January 2010	1 July 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. New accounting standards and interpretations (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement). These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below. a. Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria. b. AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. c. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.	1 January 2013	1 July 2013
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes: • two categories for financial assets being amortised cost or fair value • removal of the requirement to separate embedded derivatives in financial assets • strict requirements to determine which financial assets can be classified as amortised cost or fair value. Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows • an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition • reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes • changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income	1 January 2013	1 July 2013

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. New accounting standards and interpretations (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 124 (Revised)	Related Party Disclosures (December 2009)	The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including: a. the definition now identifies a subsidiary and an associate with the same investor as related parties of each other; b. entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and c. the definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other. A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.	1 January 2011	1 July 2011
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. In particular, it amends AASB 8 *Operating Segments* to require an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. It also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB.	1 January 2011	1 July 2011
AASB 2009-13	Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1]	This amendment to AASB 1 allows a first-time adopter to apply the transitional provisions in Interpretation 19 as identified in AASB 1048.	1 July 2010	1 July 2010
AASB 2009-14	Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	These amendments arise from the issuance of Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14). The requirements of IFRIC 14 meant that some entities that were subject to minimum funding requirements could not treat any surplus in a defined benefit pension plan as an economic benefit. The amendment requires entities to treat the benefit of such an early payment as a pension asset. Subsequently, the remaining surplus in the plan, if any, is subject to the same analysis as if no prepayment had been made.	1 January 2011	1 July 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. New accounting standards and interpretations (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2010-1	Amendments to Australian Accounting Standards - Limited Exemption from Comparative AASB 7 Disclosures for First-time Adopters	First-time adopters of Australian Accounting Standards are permitted to use the same transition provisions permitted for existing preparers of financial statements prepared in accordance with Australian Accounting Standards that are included in AASB 2009-2.	1 July 2010	1 July 2010
AASB 1053	Application of Tiers of Australian Accounting Standards	This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements: a. Tier 1: Australian Accounting Standards; and b. Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements. Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements. The following entities apply Tier 1 requirements in preparing general purpose financial statements: a. for-profit entities in the private sector that have public accountability (as defined in this Standard); and b. the Australian Government and State, Territory and Local Governments. The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements: a. for-profit private sector entities that do not have public accountability; b. all not-for-profit private sector entities; and c. public sector entities other than the Australian Government and State, Territory and Local Governments.	1 July 2013	1 July 2013
AASB 2010-2	Amendments to Australian Accounting Standards arising from reduced disclosure requirements	This Standard gives effect to Australian Accounting Standards – Reduced Disclosure Requirements. AASB 1053 provides further information regarding the differential reporting framework and the two tiers of reporting requirements for preparing general purpose financial statements.	1 July 2013	1 July 2013

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. New accounting standards and interpretations (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2010-3	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]	Limits the scope of the measurement choices of non-controlling interest at proportionate share of net assets in the event of liquidation. Other components of NCI are measured at fair value. Requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses. Clarifies that contingent consideration from a business combination that occurred before the effective date of AASB 3 Revised is not restated. Eliminates the requirement to restate financial statements for a reporting period when significant influence or joint control is lost and the reporting entity accounts for the remaining investment under AASB 139. This includes the effect on accumulated foreign exchange differences on such investments.	1 July 2010	1 July 2010
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments. Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions Clarify that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.	1 January 2011	1 July 2011
Interpretation 19	Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are "consideration paid" in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability. The interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment.	1 July 2010	1 July 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Basis of consolidation

The consolidated financial statements comprise the financial statements of IMF (Australia) Ltd ("the Company" or "Parent") and its subsidiary Financial Redress Pty Limited (formerly Insolvency Litigation Fund Pty Limited) ("the Group") as at 30 June each year.

The financial statements of the subsidiary are prepared for the same reporting period as the 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.

The investment in the subsidiary of the Company is measured at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate income statement of the parent entity, and do not impact the recorded cost of the investment.

e. Foreign currency

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate ruling at the balance sheet date. Gains and losses arising from these transactions are recognised in the income statement.

f. Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less, that are readily convertible to known amounts of cash on hand and which are subject to an insignificant risk of changes in value.

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

g. Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised initially at fair value less an allowance for any uncollectible amounts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An impairment loss is recognised when there is objective evidence that the Group will not be able to collect the debt. Financial difficulties of the debtor and loss of cases on appeal are considered to be objective evidence of impairment.

h. Investments and other financial assets

Investments and financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are categorised as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Designation is re-evaluated at the end of each financial year end, but there are restrictions on reclassifying to other categories.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Investments and other financial assets **(continued)**

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.

Recognition and derecognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial asset has expired or been transferred.

(i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Gains or losses on financial assets held for trading are recognised in profit or loss and the related assets are classified as current assets in the balance sheet.

(ii) Loans and receivables

Loans and receivables including loan notes and loans to key management personnel 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.

(iii) Available-for-sale securities

Available-for-sale investments are those non-derivative financial assets, principally equity securities, that are designated as available for sale or are not classified as any of the preceding categories. After initial recognition available-for-sale 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.

The fair value of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair values are determined using valuation techniques. Such valuation techniques include: using recent arms length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing parts is incurred. All other repairs and maintenance are recognised in profit or loss as incurred.

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.

Derecognition

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

j. 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 asset 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 the Income Statement.

Capitalised leased 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. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

k. 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 meets the definition of intangible assets.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Intangible assets (continued)

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 judgment or settlement, 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.

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 determination, 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 determined in favour of the Group or a positive settlement has been agreed, 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 Judgment:

Where the litigation 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 are expensed as incurred.

l. Trade and other payables

Trade payables and other payables are carried at amortised cost. Due to their short term nature they are not discounted. They 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. The amounts are unsecured and are usually paid within 30 days of recognition.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m. Interest-bearing loans and borrowings

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. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loan and borrowings.

The borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

n. Provisions and employee benefits

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.

When the Group expects some or all of the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date using a discounted cash flow methodology. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

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. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o. Share-based payment transactions

(i) Equity-settled transactions

Previously, the Company had an Employee Share Option Plan ("ESOP"), which provided benefits to directors and employees in the form of share based payments. During 2007 the Company implemented a short term incentive plan ("STI"), which replaced the ESOP, and which may also, at the discretion of the Remuneration Committee, provide benefits to employees in the form of share based payments.

The cost of equity-settled transactions with employees (for awards granted after 7 November 2002 that were unvested at 1 January 2005) 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.

In valuing equity-settled transactions, no account is taken of any vesting 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 (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the Statement of Comprehensive Income is the product of (i) the grant date fair value of the award; (ii) the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and (iii) the expired portion of the vesting period.

The charge to the Statement of Comprehensive Income for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding credit to equity.

Equity-settled awards granted by IMF (Australia) Ltd to employees of subsidiaries are recognised in the parent's separate financial statements as an additional investment in the subsidiary with a corresponding credit to equity. These amounts are eliminated through consolidation. As a result, the expenses recognised by IMF (Australia) Ltd in relation to equity-settled awards only represents the expense associated with grants to employees of the parent. The expense recognised by the Group is the total expense associated with all such awards.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o. Share-based payment transactions (continued)

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and an 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 diluted earnings per share.

(ii) Cash-settled transactions

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

p. Convertible notes

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. Interest on the liability component of the instruments is recognised as an expense in the Income Statement.

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 losses 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.

q. 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.

r. Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

r. Revenue recognition (continued)

(i) Interest income

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.

(ii) Dividends

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

s. Income tax and other taxes

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 based on the current period's taxable income. 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s. Income tax and other taxes (continued)

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.

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.

Members of the tax consolidated group have not entered into a tax sharing/funding agreement. Under UIG 1052: Tax Consolidation Accounting, where a tax consolidated group has not entered into a tax sharing/funding agreement, 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 group allocation tax payer approach in determining the appropriate amount of current and deferred taxes to allocate to the members of the tax consolidated group.

Other taxes

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 taxation authority, 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 taxation authority is included as part of receivables or payables in the Balance Sheet.

Cash flows are included in the Statement of Cash Flows 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 taxation authority is classified as part of operating cash flows.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t. Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares outstanding during the financial year, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of interest dividends and associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenue or expenses during the period that would result from dilution of potential ordinary shares;

divided by the weighted average number of shares and dilutive shares, adjusted for any bonus element.

NOTE 3: FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Group's principal financial instruments comprise cash and short-term deposits, receivables and payables.

The Group manages its exposure to key financial risks, including interest rate risk and currency risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rates, currencies and assessments of market forecasts for interest rates and foreign currencies. Aging analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

Risk Exposures and Responses

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash holdings with a floating interest rate. The Group has previously managed its long term interest rate risk by issuing convertible notes with fixed coupon payments. However, the Group called for the early redemption of its convertible notes on 30 June 2008, and thus since the repayment of the convertible notes on 3 July 2008, the Group has no debt.

NOTE 3: FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

At balance date the Group had the following financial assets exposed to Australian variable interest rate risk:

	Consolidated	
	2010 $	2009 $
Financial Assets		
Cash and cash equivalents	42,990,254	61,237,806
Net exposure	**42,990,254**	**61,237,806**

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to expected interest rate movements and the Group's future cash requirements, potential renewals of existing positions, alternative financing, and the mix of fixed and variable interest rates.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date.

At 30 June 2010, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgment of reasonably possible movements:

	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2010 $	2009 $	2010 $	2009 $
+1.0% (100 basis points) (2009: +1.5%)	95,969	273,046	95,969	273,046
-1.0% (100 basis points) (2009: -1.5%)	(105,566)	(273,046)	(105,566)	(273,046)

The change to the sensitivity from 2009 reflects the decrease in the volatility of interest rates during the year.

Credit Risk

Credit risk arises from the financial assets of the Group, which comprises cash and cash equivalents and receivables. The Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

There are no significant concentrations of credit risk within the Group. The Group's deposits are spread amongst a number of financial institutions to minimise the risk of default of counterparties, all of whom have been pre-approved by the Board, have AAA+ credit ratings and are subject to the prudential regulation of the Reserve Bank of Australia.

The Group assesses the defendants in the matters funded by the Group prior to entering into any agreement to provide funding. Wherever possible the Group ensures that security for settlement sums is provided.

NOTE 3: FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

Risk Exposures and Responses (continued)

Liquidity Risk

The liquidity position of the Group is managed to ensure sufficient liquid funds are available to meet our financial commitments in a timely and cost effective manner.

Management continually reviews the Group's liquidity position, including the preparation of cash flow forecasts, to determine the forecast liquidity position and maintain appropriate liquidity levels. All financial liabilities of the Group are current and within 30 days.

The maturity profile of the Group's financial assets and liabilities based on contractual maturity on an undiscounted basis are:

2010	< 6 months $	6-12 months $	1-5 years $	>5 years $	Total $
Financial Liabilities					
Trade and other payables	5,833,691	-	-	-	5,833,691
	5,833,691	**-**	**-**	**-**	**5,833,691**
2009					
Financial Liabilities					
Trade and other payables	8,651,067	-	-	-	8,651,067
	8,651,067	**-**	**-**	**-**	**8,651,067**

Fair Value

The methods for estimating fair value are outlined in the relevant notes to the financial statements. The carrying amounts of financial assets and liabilities of the Group approximates their fair values.

Foreign Exchange Risk

The Group is funding five cases outside Australia. The investment in these cases and the subsequent income generated by these cases are subject to exchange rate movements. The Group has managed this risk by ensuring that it has sufficient levels of the foreign currency available to cover the total expected investment in the case. The exposure to foreign exchange risk is not considered to be material.

Equity Price Risk

The Group has investments in companies which are listed on the Australian Securities Exchange and the London Stock Exchange. The value of these investments fluctuate with equity price movements. The Group manages this risk by monitoring its investments on a regular basis. The exposure to equity price risk is not considered to be material.

NOTE 4: SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statement requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgments and estimates in relation to assets, liabilities, contingent liabilities, revenues, and expenses. Management bases its judgments on historical experience and on other factors it believes to be reasonable under the circumstances, the results of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgments, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

(i) Significant accounting judgments

Impairment of non-financial assets other than goodwill

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. This includes an assessment of each individual litigation contract in progress as to whether it is likely to be successful, the cost and timing to completion and the ability of the defendant to pay upon completion. If an impairment trigger exists the recoverable amount of the asset is determined. This involves value in use calculations, which incorporate a number of key estimates and assumptions.

Classification of and valuation of investments

The Group has decided to classify certain investments in listed securities as 'available-for-sale' or held for trading investments and movements in fair value are recognised directly in equity or in the income statement. The fair value of listed shares has been determined by reference to published price quotations in an active market.

Taxation

The Group's accounting policy for taxation requires management's judgment as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgment is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from un-recouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future income, operating costs, capital expenditure, dividends and other capital management transactions. Judgments and assumptions are also required about the application of income tax legislation. These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax asset and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

NOTE 4: SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

(i) Significant accounting judgments (continued)

Provision for adverse costs

The Group raises a provision for adverse costs when it has lost a matter which it has funded and no appeal of that decision is to be made. When a matter is lost and an appeal made, the Group raises a provision if the judgment at first instance is not stayed pending the outcome of the appeal. The provision raised is the Group's best estimate of the amount of adverse costs it will have to remit following consultation with external advisors.

(ii) Significant accounting estimates and assumptions

Impairment of intangibles with indefinite useful lives

The Group determines whether intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units, using a value in use discounted cash flow methodology, to which the intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of intangibles with indefinite useful lives are discussed in note 18.

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. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Long service leave provision

As discussed in note 2, the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at balance date. In determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience for plant and equipment.
In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary. Depreciation charges are included in note 8 and note 16.

NOTE 5: SEGMENT INFORMATION

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 2. The Group has identified its operating segments based upon the internal management reporting that is used by the executive management team (the chief operating decision maker) in assessing performance and allocating resources. The Group's operating segments have been identified based on how the financial and operating results of the Group are monitored and presented internally.

As the Group provides only one service, being litigation funding, it has one operating segment.

Geographically, the Group operates in Australia only. During the year the Group funded one matter in South Africa , two matters in the United States, one matter in the United Kingdom and one matter in New Zealand. None of these investments have generated any material income to date. The Group continues to investigate other markets and has identified the following markets outside of Australia as being favourable to litigation funding: the United Kingdom, the United States, Singapore, Hong Kong, Canada, South Africa and New Zealand.

The Group does not have any single external customer who contributed more than 10% of the Group's revenue.

NOTE 6: REVENUE

	Consolidated	
	2010 $	2009 $
Revenue		
Bank interest received and accrued	1,919,379	3,640,612
	1,919,379	3,640,612

NOTE 7: OTHER INCOME

	Consolidated	
	2010 $	2009 $
Other income		
Litigation contracts in progress - settlements	46,071,603	63,152,883
Litigation contracts in progress expenses	(22,678,799)	(21,854,680)
Litigation contracts in progress - written-off[1]	(4,674,528)	(6,178,561)
Net gain on disposal of intangible assets	18,718,276	35,119,642
GST recoverable/(written-off) from prior periods[2]	680,713	(138,736)
Profit on sale of shares	296,870	6,271
Other income	39,803	127,315
	19,735,662	35,114,492

[1] Included in this balance are costs related to cases not pursued by the Group due to the cases not meeting the Group's required rate of return and any adverse costs provisions raised when a litigation contract in progress has been written-off due to it being lost.

[2] The GST recoverable/(written-off) from prior periods relates to an over accrual of GST payable from previous years.

NOTE 8: EXPENSES

	Consolidated 2010 $	Consolidated 2009 $
(a) Finance costs		
Interest expense	-	(74,982)
Other finance charges	(117,568)	(196,346)
	(117,568)	(271,328)
(b) Depreciation included in the income statement		
Depreciation	(217,194)	(171,235)
(c) Employee benefits expense		
Wages and salaries	(616,217)	(1,862,920)
Superannuation expense	(545,047)	(650,672)
Directors fees	(205,000)	(90,506)
Payroll tax	(475,797)	(419,496)
Long service leave provision	(33,474)	(47,678)
Total employee benefits expense	(1,875,535)	(3,071,272)
(d) Corporate and office expense		
Insurance expense	(836,957)	(925,259)
Network expense	(198,814)	(218,276)
Marketing expense	(277,587)	(149,117)
Occupancy expense	(21,509)	(20,253)
Professional fee expense	(407,520)	(419,744)
Recruitment expense	(15,774)	(36,356)
Telephone expense	(94,651)	(72,818)
Travel expense	(75,670)	(68,834)
	(1,928,482)	(1,910,657)
(e) Other expenses		
ASX listing fees	(63,204)	(36,049)
General expenses	(205,037)	(206,309)
Postage, printing and stationary	(43,006)	(41,788)
Repairs and maintenance	(25,455)	(28,628)
Share registry costs	(69,861)	(44,613)
Software supplies	(10,456)	(7,289)
Unrealised foreign exchange loss	(145,977)	(7,747)
Net fair value profit/(loss) on shares held for trading	2,019	(238,563)
	(560,977)	(610,986)

NOTE 9: INCOME TAX

	Consolidated	
	2010 $	2009 $
(a) Income tax expense		
The major components of income tax expense are:		
Income Statement		
Current income tax		
Current income tax charge	2,929,309	8,830,233
Adjustment in respect of current income tax expense of previous year	(13,624)	(383,389)
Deferred income tax		
Relating to origination and reversal of temporary differences	2,029,094	619,868
Adjustment in respect of current income tax of previous year	(24,223)	596,299
Income tax expense reported in the income statement	4,920,556	9,663,011
(b) Amounts charged or credited directly to equity		
Current income tax related to items charged or credited directly to equity	49,748	-
Income tax expense reported in equity	49,748	-
(c) Numerical reconciliation between aggregate tax		
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:		
Accounting profit before income tax	16,826,898	30,425,828
At the Group's statutory income tax rate of 30% (2009: 30%)	5,048,070	9,127,749
Adjustment in respect of income tax of previous years	(37,847)	212,910
Expenditure not allowable for income tax purposes	-	322,352
Income not assessable for income tax purposes - capital gain	(89,667)	-
Income tax expense reported in the consolidated income statement	4,920,556	9,663,011

NOTE 9: INCOME TAX (CONTINUED)

(d) Recognised deferred tax assets and liabilities

	Balance Sheet		Income Statement	
	2010 $	2009 $	2010 $	2009 $
Deferred income tax at 30 June relates to the following:				
CONSOLIDATED				
(i) Deferred income tax liabilities				
Intangibles	12,146,232	9,700,356	2,445,876	1,263,340
Prepayments	-	-	-	(671)
Expenditure deducted for income tax purposes	-	-	-	(852,150)
Convertible notes	-	-	-	308,267
Available for sale assets	49,748	-	-	-
Accrued interest	164,083	63,699	100,384	63,699
Gross deferred income tax liabilities	12,360,063	9,764,055		
(ii) Deferred income tax assets				
Depreciable assets	58,024	51,370	(6,654)	(14,880)
Accruals and provisions	947,973	385,417	(562,556)	397,918
Expenditure deductible for income tax over time	-	27,821	27,821	50,644
Gross deferred income tax assets	1,005,997	464,608		
Deferred income tax expense			2,004,871	1,216,167
Net deferred income tax liabilities	**11,354,066**	**9,299,447**		

(e) Unrecognised temporary differences

At 30 June 2010 the Group had no unrecognised temporary differences.

NOTE 10: DIVIDENDS PAID AND PROPOSED

	Consolidated	
	2010 $	2009 $
(a) Recognised amounts:		
Declared and paid during the year		
Dividends on ordinary shares		
2010: Interim 5.0 cents per share (2009: Interim 5.0 cents per share)	6,102,000	5,985,341
2010: Nil (2009: Final 10.0 cents per share)	-	12,249,682
	6,102,000	18,235,023
(b) Unrecognised amounts:		
Dividends on ordinary shares		
2009: Nil unrecognised	-	-
2010: Nil unrecognised	-	-
	-	-

NOTE 10: DIVIDENDS PAID AND PROPOSED (CONTINUED)

No final dividend has been declared in respect of the current financial year. In 2009, a final dividend of 10.0 cents per share was paid with respect to the year ended 30 June 2009. The record date for this dividend was 10 July 2009 and the shares traded ex-dividend on 6 July 2009. Payment of this dividend was made on 24 July 2009. This dividend was recognised as a liability in 2009, see note 24.

	IMF (Australia) Ltd	
(c) Franking credit balance	**2010 $**	**2009 $**
The amount of franking credits for the subsequent financial year are:		
- Franking account balance as at the end of the financial year at 30%	1,000,311	148,199
- Franking debits that will arise from the payment of interim dividends during the year	(2,615,142)	(5,130,292)
- Franking credits that arose from the payment of income tax payable during the financial year	3,275,272	7,196,252
- Franking credits that will arise from the (refund)/payment of income tax (receivable)/ payable as at the end of the financial year	(359,590)	4,036,016
	1,300,851	6,250,175
Impact of franking debits that will arise from the payment of recommended final dividend	-	(5,249,864)
	1,300,851	1,000,311

(d) Tax rates

The tax rate at which paid dividends have been franked is 30% (2009: 30%).

NOTE 11: EARNINGS 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:

(a) Earnings used in calculating earnings per share

	Consolidated	
	2010 $	**2009 $**
For basic earnings per share		
Net profit attributable to ordinary equity holders of the Parent	11,906,342	20,762,817
For diluted earnings per share		
Net profit from continuing operations attributable to ordinary equity holders of the Parent	11,906,342	20,762,817
Net profit attributable to ordinary equity holders	11,906,342	20,762,817

NOTE 11: EARNINGS PER SHARE (CONTINUED)

(b) Weighted average number of shares

	Number	
	2010	2009
Weighted average number of ordinary shares outstanding for basic earnings per share	121,870,324	119,654,973
Effect of dilution:		
Share options	830,000	3,010,000
Weighted average number of ordinary shares adjusted for the effect of dilution	122,700,342	122,664,973

There are no instruments (e.g. share options) excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future because they are anti-dilutive for either of the periods presented.

There have been 2,180,000 options exercised since 30 June 2009. Accordingly at the date of this report there were 121,870,324 shares on issue and 830,000 options over un-issued ordinary shares.

(c) Information on the classification of securities

(i) Options
Options granted to employees (including key management personnel) as described in note 23, note 24 and note 27, are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent they are dilutive. These options have not been included in the determination of basic earnings per share.

NOTE 12: CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	Consolidated	
	2010 $	2009 $
Cash at bank	9,463,598	7,249,163
Short-term deposits	33,526,656	53,988,643
	42,990,254	61,237,806

Cash at bank earns interest at floating rates based on daily bank deposit rates. The carrying amounts of cash and cash equivalents represent fair value.

Short-term deposits are made for varying periods of between one day and twenty-four months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The Group's 24 month term deposit can be withdrawn with one day's notice without penalty, hence it has been included as a current asset.

NOTE 12: CURRENT ASSETS - CASH AND CASH EQUIVALENTS (CONTINUED)

Reconciliation to Statement of Cash Flows

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

	Consolidated	
	2010 $	**2009 $**
Cash at bank	9,463,598	7,249,163
Short-term deposits	33,526,656	53,988,643
	42,990,254	61,237,806

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 2010 guarantees of $1,173,996 were outstanding (2009: $1,066,794). The guarantees are secured by an offset arrangement with a term deposit of $7,092,156 (2009: $6,001,000).

Set off of assets and liabilities:

The Group has established a legal right of set off with two banks enabling it to set off certain deposits with the bank against bank guarantees issued totalling $1,173,996 (2009: $1,066,794). The total of the bank guarantee facilities is $6,785,000. The guarantee facility is secured by an offset arrangement against a term deposit of $7,092,156 (2009: $6,001,000).

NOTE 13: CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

		Consolidated	
		2010 $	**2009 $**
Trade receivables	(i)	5,448,089	8,000,822
GST refund receivable	(ii)	-	115,832
Interest receivable	(iii)	546,943	212,330
		5,995,032	8,328,984

i. Trade receivables are non-interest bearing and generally on 30-90 day terms. There is no amount included in trade debtors which is subject to appeal (2009: nil).

ii. The Australian Taxation Office ("ATO") completed its audit of the Group's claim for a refund of Goods and Services Tax ("GST") and has determined the Group is entitled to a refund of $115,832. This refund was applied by the ATO against the Group's GST liabilities during the financial year.

iii. Interest receivable is payable upon the maturity of the Group's short term deposits (between 30 and 90 days).

NOTE 13: CURRENT ASSETS - TRADE AND OTHER RECEIVABLES (CONTINUED)

At 30 June, the aging analysis of trade and other receivables is as follows:

	0-30 days $	31-90 days $	91-180 days[1] $	+180 days[1] $	Total $
2010 Consolidated	4,983,144	-	-	1,011,888	5,995,032
2009 Consolidated	6,409,878	-	3,558	1,915,548	8,328,984

[1] These amounts are past due but not impaired.

During the year the Group wrote-off receivables totalling $128,387 (2009: $1,457,853).

(a) Fair value and credit risk

Due to the nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables. Receivables greater than 180 days are expected to be received within the following six months.

NOTE 14: CURRENT ASSETS - OTHER ASSETS

	Consolidated	
	2010 $	2009 $
Prepayments	306,874	194,331
Other	4,427	4,427
	311,301	198,758

NOTE 15: NON CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

		Consolidated	
		2010 $	2009 $
Trade receivables	(i)	1,120,000	-
		1,120,000	-

i. Non-current trade receivables are non-interest bearing and occur as a result of settlements with a repayment plan greater than 12 months. There is no amount included in trade debtors which is subject to appeal (2009: nil).

NOTE 16: NON CURRENT ASSETS - PLANT AND EQUIPMENT

(a) Reconciliation of carrying amounts at the beginning and end of the period

	Consolidated
	Plant and Equipment $
Year ended 30 June 2010	
Balance as at 1 July 2009, net of accumulated depreciation	676,187
Additions	76,989
Depreciation charge for the year	(217,194)
At 30 June 2010, net of accumulated depreciation	535,982
Balance as at 1 July 2009, net of accumulated depreciation	
Cost	1,493,200
Accumulated depreciation	(817,013)
Net carrying amount	676,187
Balance as at 30 June 2010, net of accumulated depreciation	
Cost	1,570,189
Accumulated depreciation	(1,034,207)
Net carrying amount	535,982
Year ended 30 June 2009	
Balance as at 1 July 2008, net of accumulated depreciation	505,481
Additions	341,941
Depreciation charge for the year	(171,235)
At 30 June 2009, net of accumulated depreciation	676,187
Balance as at 1 July 2008	
Cost	1,439,499
Accumulated depreciation	(934,018)
Net carrying amount	505,481
Balance as at 30 June 2009, net of accumulated depreciation	
Cost	1,493,200
Accumulated depreciation	(817,013)
Net carrying amount	676,187

The useful life of the assets was estimated between 5 to 15 years for both 2009 and 2010.

NOTE 17: NON-CURRENT ASSETS – FINANCIAL ASSETS

	Consolidated	
	2010 **$**	**2009** **$**
At fair value		
Shares - Australian listed - available-for-sale	758,326	822,260
Shares - United Kingdom listed - held for trading	95,849	105,452
Closing balance as at 30 June	854,175	927,712

(a) Listed shares

The fair value of listed financial assets has been determined directly by reference to published price quotations in an active market.

NOTE 18: INTANGIBLE ASSETS

(a) Reconciliation of carrying amounts at the beginning and end of the period

	Consolidated $
Balance as at 1 July 2009	
Cost (gross carrying amount)	32,275,955
Accumulated amortisation and impairment	-
Net carrying amount	32,275,955
Year ended 30 June 2010	
Balance as at 1 July 2009, net of accumulated amortisation and impairment	32,275,955
Additions	33,959,270
Disposals	(22,678,798)
Write-down of Litigation Contracts In Progress	(3,068,988)
At 30 June 2010, net of accumulated amortisation and impairment	40,487,439
Balance as at 1 July 2008	
Cost (gross carrying amount)	28,123,388
Accumulated amortisation and impairment	-
Net carrying amount	28,123,388
Year ended 30 June 2009	
Balance as at 1 July 2008, net of accumulated amortisation and impairment	28,123,388
Additions	32,185,808
Disposals	(21,854,680)
Write-down of Litigation Contracts In Progress	(6,178,561)
At 30 June 2009, net of accumulated amortisation and impairment	32,275,955

NOTE 18: INTANGIBLE ASSETS (CONTINUED)

(b) Description of Group's intangible assets

Intangible assets consist of Litigation Contracts In Progress. The carrying value of Litigation Contracts In Progress includes the capitalisation of external costs of funding the litigation, such as solicitors' fees, counsels' fees and experts' fees, as well as the capitalisation of certain directly attributable internal costs of managing the litigation, such as certain wages, occupancy costs and other out of pocket expenses. The capitalised wages in 2010 equated to approximately 81% of the total salary costs (2009: 75%). The other internal capitalised expenses equated to approximately 27% of overhead costs (2009: 18%).

The carrying value of Litigation Contracts In Progress can be summarised as follows:

	Consolidated	
	2010 $	2009 $
Capitalised External Costs	31,641,501	21,593,995
Capitalised Internal Costs	8,845,938	10,681,960
Balance at 30 June	40,487,439	32,275,955

(c) Write-off of intangible assets

The carrying amount of Litigation Contracts In Progress is written off when the Group decides not to pursue cases that do not meet the Group's required rate of return.

(d) Impairment testing of intangible assets

The recoverable amount of each of the 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 of the Litigation Contracts In Progress, once 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 based on the Group's weighted average cost of capital, which resulted in a discount rate of 13.5% (2009: 13.5%).

Any reasonable changes in the key assumptions to the cash flow projections would not result in the carrying value of intangible assets exceeding its recoverable amount.

NOTE 19: NON-CURRENT ASSETS – INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

The Group withdrew from its joint venture entity Claims Funding International plc ("CFI") during 2009.

(a) Investment details

	Consolidated	
	2010 $	2009 $
Claims Funding International plc	-	-
	-	-

(b) Movement in the carrying amount of the Group's investments:

	Consolidated	
	2010 $	2009 $
As at 1 July	-	973,435
Initial investment	-	-
Share of profit/(loss) after income tax	-	(551,902)
Return of Equity	-	(137,490)
Foreign exchange gain/(loss)	-	-
Loss on divestment of CFI	-	(284,043)
At 30 June	-	-

(c) Summarised financial information

The following table summarises the financial information relating to the Group's investments accounted for using the equity method:

	Consolidated	
Extract from the joint venture entity's balance sheets	2010 $	2009 $
Current assets	-	-
Non-current assets	-	-
	-	-
Current liabilities	-	-
Non-current liabilities	-	-
	-	-
Net assets	-	-
Share of net assets	**-**	**-**
Extract from the joint venture entity's income statements		
Revenue	-	23,688
Net Profit/(loss)	-	(1,103,804)
Share of net profit/(loss)	-	(551,902)

NOTE 20: NON-CURRENT ASSETS – INVESTMENTS IN SUBSIDIARY

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

Name	Country of Incorporation	Percentage Owned 2010 %	Percentage Owned 2009 %	Investment 2010 $	Investment 2009 $
Financial Redress Pty Ltd (formerly Insolvency Litigation Fund Pty Ltd)	Australia	100	100	15,024,510	14,704,144

The movement in the investment reflects a tax consolidation adjustment to the parent entity's investment in the subsidiary as a result of the transfer of the subsidiary's income tax liability to the parent entity (refer to note 33).

NOTE 21: CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	Consolidated 2010 $	Consolidated 2009 $
Trade payables[1]	5,589,108	8,415,830
Wage accruals	244,583	235,237
Carrying amount of trade and other payables	5,833,691	8,651,067

[1] Trade payables are non-interest bearing and are normally settled on 30 day terms.

NOTE 22: CURRENT AND NON-CURRENT LIABILITIES – PROVISIONS

	Consolidated 2010 $	Consolidated 2009 $
Current		
Annual Leave	379,290	276,957
Adverse costs	2,006,487	280,000
Bonus	-	3,565,000
	2,385,777	4,121,957
Non-Current		
Long service leave	544,583	511,109
	544,583	511,109

NOTE 22: CURRENT AND NON-CURRENT LIABILITIES – PROVISIONS (CONTINUED)

(a) Movement in provisions

Consolidated	Adverse costs $	Annual leave $	Employee bonus $	Long service leave $	Total $
At 1 July 2009	280,000	276,957	3,565,000	511,109	4,633,066
Arising during the year	2,006,487	393,964	-	33,474	2,433,925
Utilised	(280,000)	(291,631)	(3,565,000)	-	(4,136,631)
At 30 June 2010	2,006,487	379,290	-	544,583	2,930,360
Current 2010	2,006,487	379,290	-	-	2,385,777
Non-current 2010	-	-	-	544,583	544,583
	2,006,487	379,290	-	544,583	2,930,360
Current 2009	280,000	276,957	3,565,000	-	4,121,957
Non-current 2009	-	-	-	511,109	511,109
	280,000	276,957	3,565,000	511,109	4,633,066

(b) Nature and timing of provisions

Adverse costs

At 30 June 2009 the Group had raised a provision of $280,000 in respect of its adverse costs obligation in the Concept Equity matter. These costs were paid during the financial year. At 30 June 2010 the Group raised a provision of $2,006,487 in respect of its possible adverse costs obligation in the Kingsteam matter, which is being appealed.

Annual leave and long service leave

Refer to note 2 for the relevant accounting policy and discussion of significant estimations and assumptions applied in the measurement of this provision.

NOTE 23: CONTRIBUTED EQUITY

	Consolidated 2010 $	Consolidated 2009 $
Contributed equity		
Issued and fully paid ordinary shares	40,514,450	38,671,387

NOTE 23: CONTRIBUTED EQUITY (CONTINUED)

(a) Ordinary shares

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

	Number	$
Movements in ordinary shares on issue		
As at 30 June 2008	119,162,154	37,671,944
Exercise of employee options	1,224,665	999,443
As at 30 June 2009	120,386,819	38,671,387
Exercise of employee options	2,180,000	2,844,000
Share buy-back	(696,477)	(1,000,937)
As at 30 June 2010	121,870,342	40,514,450

(b) Share options

At 30 June 2010, there were 830,000 (2009: 3,010,000) unissued ordinary shares in total in respect of which options were outstanding, as follows:

	2010	2009
Director Options (see note 27)	-	2,000,000
Employee options (see note 28)	830,000	1,010,000
Options issued as at 30 June	830,000	3,010,000

(c) Capital management

When managing capital, Management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the Group.

The earnings of the Group are lumpy and this is forecast to continue into the future. Management's policy is to pay dividends to shareholders from earnings if they can be fully franked and where there is capital surplus to the needs of the business. The Group has been able to pay franked dividends from 1 July 2008.

At 30 June 2009 Management determined that the Group had cash surplus to its requirements at that time. Management reduced this surplus cash between 2009 and 2010 through a mixture of paying fully franked dividends and through implementing an on-market buy-back.

At 30 June 2010 the cash balance of the Group is below its preferred level of $50 million. Management believe that its retained cash should increase to $75 million as the Group's portfolio grows to $2 billion.

The Group is not subject to any externally imposed capital requirements.

NOTE 24: RETAINED EARNINGS AND RESERVES

(a) Movement in retained earnings were as follows:

	Consolidated	
	2010 $	2009 $
Balance 1 July	21,712,925	16,480,867
Net profit for the year	11,906,342	20,762,817
Dividend paid	(6,102,000)	(11,970,682)
Dividend accrued - unpaid	-	(12,249,682)
Transfer of general reserve	-	8,689,605
Balance 30 June	27,517,267	21,712,925

(b) Movement in reserves were as follows:

Consolidated	General Reserve $	Option Premium Reserve $	Net unrealised gains reserve $	Convertible Notes Reserve $	Total Reserves $
At 1 July 2008	8,689,605	3,403,720	-	984,139	13,077,464
At 30 June 2009	-	3,403,720	3,953	984,139	4,391,812
Share revalution	-	-	112,127	-	112,127
At 30 June 2010	-	3,403,720	116,080	984,139	4,503,939

(c) Nature and purpose of reserves

(i) General reserve

The general reserve contained amounts of retained profits that were set aside by directors so as not to be tainted by prior period losses. This reserve may be used to pay dividends after considering losses from subsequent years and was transferred to retained earnings on 31 December 2008.

(ii) Option premium reserve

This reserve is used to record the value of equity benefits provided to employees and directors, including key management personnel, as part of their remuneration. Refer to note 28 for further details of these payments.

(iii) Net unrealised gains reserve

This reserve is used to record the unrealised gain on available for sale investments.

(iv) Convertible note reserve

This reserve is used to record the equity portion of the convertible notes.

NOTE 25: CASH FLOW STATEMENT RECONCILIATION

	Consolidated	
	2010 $	2009 $
(a) Reconciliation of net profit after tax to net cash flows from operations		
Net profit/(loss) attributable to members of the parent	11,906,342	20,762,817
Adjustments for:		
Depreciation	217,194	171,235
Dividend from financial asset investment (non-cash)	(37,764)	-
Loss recognised on remeasurement to fair value	(2,019)	238,563
Loss on divestment of joint venture entity	-	284,043
Share of loss of joint venture	-	551,902
Net loss on foreign exchange	-	7,747
Profit on sale of shares	(296,870)	(6,271)
Other	643	210,726
Changes in assets and liabilities		-
Decrease/(Increase) in receivables	1,213,952	5,703,079
Decrease/(Increase) in other current assets and financial assets	(112,543)	(182,107)
Decrease/(Increase) in intangible assets	(8,211,484)	(4,152,567)
Increase/(Decrease) in trade creditors and accruals	(2,817,377)	3,784,455
Increase/(Decrease) in provisions	(1,702,706)	3,027,270
Increase/(Decrease) in deferred tax liabilities	2,004,871	1,216,168
Increase/(Decrease) in current income tax liability	(4,395,606)	1,297,467
Net cash from/(used in) operating activities	(2,233,367)	32,914,527

(b) Disclosure of financing facilities

Refer to note 12.

NOTE 26: RELATED PARTY DISCLOSURE

Transactions with director related entities

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year.

	Consolidated	
	2010 $	2009 $
Transactions with related parties	15,057	6,476

During the year the Group obtained legal advice from Hardy Bowen, a legal firm associated with director Michael Bowen. The legal advice was obtained at normal market prices.

NOTE 27: KEY MANAGEMENT PERSONNEL

(a) Details of Key Management Personnel

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

(b) Compensation of Key Management Personnel

	Consolidated	
	2010 $	2009 $
Short-term employee benefits	2,936,614	2,906,549
Post-employment benefits	85,810	86,794
Share Based Payment/Bonuses[1]	-	4,709,000
	3,022,424	7,702,343

[1] There were no share based payments/bonus accrued for the year ended 30 June 2010. The amount referred to in the current year reflects the payment of the 2009 bonus which was accrued in 2009. The amount referred to in 2009 reflects the 2008 bonus paid in 2009 and the 2009 bonus which was accrued in 2009. See the Remuneration Report at pages 19 to 26.

(c) Option holdings of Key Management Personnel (Consolidated)

	Balance 01-Jul-09	Granted as Remuneration	Options Exercised	Balance 30-Jun-10	Vested at 30 June 2010 Total	Exercisable	Not Vested/ Exercisable
Directors							
Robert Ferguson	-	-	-	-	-	-	-
Hugh McLernon	1,000,000	-	(1,000,000)	-	-	-	-
John Walker	1,000,000	-	(1,000,000)	-	-	-	-
Alden Halse	-	-	-	-	-	-	-
Michael Bowen	-	-	-	-	-	-	-
Executives							
Clive Bowman	600,000	-	(100,000)	500,000	-	500,000	-
Charlie Gollow	250,000	-	-	250,000	-	250,000	-
Diane Jones	-	-	-	-	-	-	-
Total	2,850,000	-	(2,100,000)	750,000	-	750,000	-

NOTE 27: KEY MANAGEMENT PERSONNEL (CONTINUED)

(c) Option holdings of Key Management Personnel (Consolidated) (continued)

	Balance 01-Jul-08	Granted as Remuneration	Options Exercised	Balance 30-Jun-09	Vested at 30 June 2009 Total	Vested at 30 June 2009 Exercisable	Not Vested/ Exercisable
Directors							
Robert Ferguson	-	-	-	-	-	-	-
Hugh McLernon	1,000,000	-	-	1,000,000	1,000,000	1,000,000	-
John Walker	1,000,000	-	-	1,000,000	1,000,000	1,000,000	-
Alden Halse	-	-	-	-	-	-	-
Michael Bowen	-	-	-	-	-	-	-
Executives							
Clive Bowman	1,184,094	-	(584,094)	600,000	600,000	600,000	-
Charlie Gollow	450,000	-	(200,000)	250,000	250,000	250,000	-
Diane Jones	-	-	-	-	-	-	-
Total	3,634,094	-	(784,094)	2,850,000	2,850,000	2,850,000	-

(d) Shareholdings of Key Management Personnel

	Balance 30-Jun-09	Received as Remuneration	Options Exercised	Net Change Other	Balance 30-Jun-10
Directors					
Robert Ferguson	2,500,000	-	-	-	2,500,000
Hugh McLernon	10,713,798	-	1,000,000	(2,005,206)	9,708,592
John Walker	6,966,831	-	1,000,000	(892,294)	7,074,537
Alden Halse	891,251	-	-	-	891,251
Michael Bowen	813,751	-	-	-	813,751
Executives					
Clive Bowman	743,307	-	100,000	(148,347)	694,960
Charlie Gollow	210,000	-	-	-	210,000
Diane Jones	20,000	-	-	-	20,000
Total	22,858,938	-	2,100,000	(3,045,847)	21,913,091

NOTE 27: KEY MANAGEMENT PERSONNEL (CONTINUED)

(d) Shareholdings of Key Management Personnel (continued)

	Balance 30-Jun-08	Received as Remuneration	Options Exercised	Net Change Other	Balance 30-Jun-09
Directors					
Robert Ferguson	2,500,000	-	-	-	2,500,000
Hugh McLernon	10,713,798	-	-	-	10,713,798
John Walker	6,966,831	-	-	-	6,966,831
Alden Halse	891,251	-	-	-	891,251
Michael Bowen	813,751	-	-	-	813,751
Executives					
Clive Bowman	618,314	-	584,094	(459,101)	743,307
Charlie Gollow	110,000	-	200,000	(100,000)	210,000
Diane Jones	20,000	-	-	-	20,000
Total	22,633,945	-	784,094	(559,101)	22,858,938

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 arm's length.

(e) Loans to Key Management Personnel

There have been no loans provided to key management personnel in 2010 (2009: nil).

NOTE 28: SHARE-BASED PAYMENT PLAN

(a) Recognised share-based payment expenses

There were no options issued to employees during the year, and the last time options were issued to employees was 1 July 2006.

(b) Types of share-based payment plans

In 2007 the Company implemented a STI, which replaced the Employee Share Option Plan ("ESOP"), and which may also, at the discretion of the Remuneration Committee, provide benefits to employees in the form of share based payments. Previously, the Company had an ESOP, which provided benefits to directors and employees in the form of share based payments.

The options are not quoted on the ASX and the granting of the options under the ESOP 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.

NOTE 28: SHARE-BASED PAYMENT PLAN (CONTINUED)

(c) Summaries of options

The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, share options issued during the year.

The outstanding balance as at 30 June is represented by:

	2010 Number	2010 WAEP	2009 Number	2009 WAEP
Outstanding at the beginning of the year	3,010,000	$1.16	4,234,665	$1.08
Granted during the year	-	-	-	-
Exercised during the year	(2,180,000)	$1.30	(1,224,665)	$0.82
Expired during the year	-		-	-
Outstanding at the end of the year	830,000	$0.80	3,010,000	$1.16

The outstanding balance as at 30 June 2010 is represented by:

	Number of Options	Exercise Price	Grant Date	Expiry Date
Employee Options	830,000	$0.80	24-Mar-06	24-Mar-11
	830,000	$0.80	(WAEP)	

(d) Weighted average remaining contractual life

The weighted average remaining contractual life for the share options outstanding under the previous ESOP at 30 June 2010 is 1 year (2009: 1 and 2 years).

(e) Range of exercise prices

The exercise price for options outstanding at the end of the year was $0.80 (2009: range between $0.80 to $1.35).

(f) Weighted average fair value

No options were granted during 2009 or 2010.

NOTE 29: COMMITMENTS AND CONTINGENCIES

(a) Operating lease commitments – Group as lessee

The Group has entered into commercial leases for its premises. These leases have a life of between 1 and 4 years with renewal options 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	
	2010 $	**2009 $**
Within one year	503,687	411,251
After one year but no more than five years	941,437	1,130,138
After more than five years	-	-
Total minimum lease payments	1,445,124	1,541,389

(b) Remuneration commitments

	Consolidated	
	2010 $	**2009 $**
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	2,889,704	6,297,183
After one year but no more than five years	-	-
	2,889,704	6,297,183

Amounts disclosed as remuneration commitments include commitments arising from the service contracts of, and bonuses payable to, directors and executives referred to in the Remuneration Report of the Directors' Report that are not recognised as liabilities and are not included in the compensation of key management personnel.

NOTE 30: ECONOMIC DEPENDENCY

IMF (Australia) Ltd is not economically dependent on any other entity.

NOTE 31: EVENTS AFTER THE BALANCE SHEET DATE

1. Intangible assets

On 27 July 2010 the **AM Corporation** litigation was conditionally settled. The settlement will return $4,000,000 to the Group if the settlement is approved by the Court. This matter will generate a loss to the Group of approximately $1,178,337 after taking into account capitalised overheads. This litigation was written down to its recoverable amount as at 30 June 2010.

On 13 August 2010 the litigation funded by the Group between **Ceramic Fuel Cells Ltd** and Oakvale Capital Ltd was conditionally settled. It is estimated IMF will receive approximately $2.9 million and generate a profit after capitalised overheads of approximately $1.9 million (before tax).

NOTE 32: AUDITORS' REMUNERATION

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

	Consolidated 2010 $	2009 $
Amounts received or due and receivable by Ernst & Young for:		
An audit or review of the financial report of the entity and any other entity in the consolidated group	158,807	144,500
Other services in relation to the entity and any other entity in the consolidated group		
Tax compliance, including capital return submission	74,189	120,597
	232,996	265,097

NOTE 33: PARENT ENTITY INFORMATION

	2010 $	2009 $
Information relating to IMF (Australia) Ltd:		
Current assets	48,482,476	67,145,511
Total assets	102,106,068	109,770,275
Current liabilities	(29,981,487)	(48,380,292)
Total liabilities	(40,560,592)	(56,360,880)
Net assets	**61,545,476**	**53,409,395**
Issued capital	40,514,450	38,671,387
Retained earnings	16,527,087	10,346,196
Option premium reserve	3,403,720	3,403,720
Convertible note reserve	984,139	984,139
Net unrealised gains reserve	116,080	3,953
Total shareholders' equity	**61,545,476**	**53,409,395**
Profit or loss of the parent entity	12,282,891	15,789,519
Total comprehensive income of the parent entity	12,398,971	15,793,472

The parent entity has not entered into any guarantees with its subsidiary.

Details of the contingent liabilities of the parent entity are contained in note 29. There are no contingent liabilities of the subsidiary.

Details of the contractual commitments of the parent entity are contained in note 29. There are no contractual commitments of the subsidiary.

Tax consolidation

(i) Members of the tax consolidated group

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.

NOTE 33: PARENT ENTITY INFORMATION (CONTINUED)

Tax consolidation (continued)

(ii) Tax effect accounting by members of the tax consolidated group

Members of the tax consolidated group have not entered into a tax sharing/funding agreement. Under UIG 1052: Tax Consolidation Accounting, where a tax consolidated group has not entered into a tax sharing/funding agreement, 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 group allocation tax payer approach in determining the appropriate amount of current and deferred taxes to allocate to the members of the tax consolidated group.

Tax consolidation contributions/(distributions)

IMF (Australia) Ltd has recognised the following amounts as tax-consolidation contribution adjustments:

	IMF (Australia) Ltd	
	2010 **$**	**2009** **$**
Total increase in tax liability and cost of investment in subsidiary of IMF (Australia) Ltd	320,366	5,196,368

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of IMF (Australia) Ltd, I state that:

In the opinion of the directors:

a. the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;

b. the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2;

c. there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable; and

d. this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2010.

On behalf of the Board

ROBERT FERGUSON
Non-Executive Chairman

HUGH MCLERNON
Managing Director

Dated this 24th day of August 2010

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Independent audit report to members of IMF (Australia) Limited

Report on the Financial Report

We have audited the accompanying financial report of IMF (Australia) Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

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

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

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

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. The 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.

ERNST & YOUNG

Auditor's Opinion

In our opinion:

1. the financial report of IMF (Australia) Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position at 30 June 201 0 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001* .

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 19 to 26 of the directors' report for the year ended 30 June 2010 . The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of IMF (Australia) Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

G H Meyerowitz
Partner
Perth
24 August 2010

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of IMF (Australia) Ltd ("IMF") is responsible for the corporate governance of the Group. The Board guides and monitors the business and affairs of IMF on behalf of the shareholders by whom they are elected and to whom they are accountable. The following table is a summary of the ASX Corporate Governance Principles and Recommendations and the Group's compliance with these guidelines.

	Recommendation	**Comply Yes / No**
1.1	Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.	Yes
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1	Yes
2.1	A majority of the Board should be independent directors.	No
2.2	The chair should be an independent director.	No
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	Yes
2.4	The Board should establish a nomination committee.	No
2.5	Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors.	Yes
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	Yes
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to:	
	• the practices necessary to maintain confidence in the Company's integrity;	Yes
	• the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders;	Yes
	• the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Yes
3.2	Companies should establish a policy concerning trading in Company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.	Yes
3.3	Companies should provide the information indicated in the Guide to reporting on Principle 3.	Yes
4.1	The Board should establish an audit committee.	Yes
4.2	The audit committee should be structured so that it:	
	• consists of only non-executive directors:	Yes
	• consists of a majority of independent directors;	Yes
	• is chaired by an independent chair, who is not chair of the Board;	Yes
	• has at least three members.	Yes
4.3	The audit committee should have a formal charter.	Yes
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	Yes

	Recommendation	Comply Yes / No
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	Yes
6.1	Companies should design and disclose a communication policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	Yes
6.3	Request the external auditor to attend the annual general meeting and be available to answer the shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.	Yes
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes
7.2	The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	Yes
7.3	The Board should disclose whether it has received assurance from the Chief Executive Officer and the Chief Financial Officer that the declaration provided in accordance with Section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to reporting risks.	Yes
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	Yes
8.1	The Company should establish a remuneration committee.	Yes
8.2	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of directors' and senior executives'.	Yes
8.3	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Yes

IMF (Australia) Ltd's corporate governance practices were in place throughout the year ended 30 June 2010.

Various corporate governance practices are discussed within this statement. For further information on corporate governance policies adopted by IMF (Australia) Ltd refer to our website **www.imf.com.au**.

Board Functions

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 adequately manage those risks.

To ensure that the Board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of directors and for the operation of the Board.

The responsibility for the operation and administration of the Company is delegated, by the Board, to the Managing Director and the executive management team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the Managing Director and the executive management team.

Whilst at all times the Board retains full responsibility for guiding and monitoring the Company, in discharging its stewardship it makes use of sub-committees. Specialist committees are able to focus on a particular responsibility and provide informed feedback to the Board.

To this end the Board has established the following committees:

- Audit; and
- Remuneration.

The roles and responsibilities of these committees are discussed in this Corporate Governance Statement.

The Board is responsible for ensuring that Management's objectives and activities are aligned with the expectations and risk identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved including:

- Board approval of a strategic plan designed to meet stakeholders' needs and manage business risk;
- ongoing development of the strategic plan and approving initiatives and strategies designed to ensure the continued growth and success of the Group; and
- implementation of budgets by Management and monitoring progress against budget – via the establishment and reporting of both financial and non financial key performance indicators.

Other functions reserved to the Board include:

- approval of the annual and half-yearly financial reports;
- approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- ensuring that any significant risks that arise are identified, assessed, appropriately managed and monitored; and
- reporting to shareholders.

Structure of the Board

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Directors' Report. Directors of IMF (Australia) Ltd are considered to be independent when they are independent of Management and free from any business of other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

From 18 June 2007 to 18 March 2009 the Chairperson was not independent and there was not a majority of independent directors, following the appointment of Rob Ferguson as Executive Chairman and Chief Executive Officer. Although Rob Ferguson has now reverted to his former role of Chairman and Hugh McLernon has become the Company's Managing Director, the ASX Corporate Governance Principles and Recommendations indicates Mr Ferguson is not independent.

The Board believes that the individuals on the Board can, and do, make independent judgments in the best interests of the Group on all relevant issues, notwithstanding that the Chairperson is not an independent director and a majority of the Board are not independent directors. Further, the directors are able to obtain independent advice at the expense of the Group.

In the context of director independence, 'materiality' is considered from both the Group and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors that point to the actual ability of the director in question to shape the direction of the Group.

In accordance with the definition of independence above, and the materiality thresholds set, the following directors of IMF (Australia) Ltd are considered to be independent:

Name	Position
Alden Halse	Non-Executive Director
Michael Bowen	Non-Executive Director

There are procedures in place, agreed by the Board, to enable directors in furtherance of their duties to seek independent professional advice at the Company's expense.

The position held by each director in office at the date of this report is as follows:

Name	Position
Robert Ferguson	Non-Executive Chairman
Hugh McLernon	Managing Director
John Walker	Executive Director
Alden Halse	Non-Executive Director
Michael Bowen	Non-Executive Director

For additional details regarding Board appointments, please refer to our website.

Trading Policy

Under the Company's Securities Trading Policy, an executive or director must not trade in any securities of the Company at any time when they are in possession of unpublished, price-sensitive information in relation to those securities.

Before commencing to trade, an executive must first obtain the approval of the Company Secretary to do so and a director must first obtain approval of the Chairman.

Only in exceptional circumstances will approval be forthcoming outside of the period which is four weeks after:

- one day following the announcement of the half-yearly and full year results as the case may be;
- one day following the holding of the Annual General Meeting; and
- one day after any other form of earnings forecast update is given to the market.

As required by the ASX Listing Rules, the Company notifies the ASX of any transaction conducted by directors in the securities of the Company.

Audit Committee

The Board has established an Audit Committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the Group. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operations key performance indicators. The Board has delegated responsibility for establishing and maintaining a framework of internal control and ethical standards to the Audit Committee.

The Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the Audit Committee are non-executive directors.

The members of the Audit Committee during the year were:

Alden Halse (Chairman)

Michael Bowen

Robert Ferguson

For details on the number of meetings of the Audit Committee held during the year and the attendees at those meetings, refer to the Directors' Report.

Risk

The Board determines the Company's risk profile and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. The Company's process of risk management and internal compliance and control includes:

Risk (continued)

- establishing the Company's goals and objectives, and implementing and monitoring strategies and policies to achieve these goals and objectives;
- continuously identifying and measuring risks that might impact upon the achievement of the Company's goals and objectives, and monitoring the environment for emerging factors and trends that affect these risks;
- formulating risk management strategies to manage identified risks, and designing and implementing appropriate risk management policies and internal controls; and
- monitoring the performance of, and continuously improving the effectiveness of, risk management systems and internal compliance and controls, including an annual assessment of the effectiveness of risk management and internal compliance and control.

To this end, comprehensive practices are in place that are directed towards achieving the following objectives:

- effectiveness and efficiency in the use of the Company's resources;
- compliance with applicable laws and regulations; and
- preparation of reliable published financial information.

The Board oversees an annual assessment of the effectiveness of risk management and internal compliance and control. The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to Management. Management is required by the Board to assess risk management and associated internal compliance and control procedures and report back on the efficiency and effectiveness of the Group's risk management.

Managing Director and Chief Financial Officer Certification

The Managing Director and Chief Financial Officer have provided a written statement to the Board that:

- their view provided on the Company's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the Board; and
- that the Company's risk management and internal compliance and control system is operating effectively in all material respects.

Performance

The performance of the Board and key executives is reviewed regularly against both measurable and qualitative indicators. The performance criteria against which directors and executives are assessed are aligned with the financial and non-financial objectives of IMF (Australia) Ltd.

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.

Performance (continued)

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 Securities Exchange and the Australian Securities & Investments Commission; and
- the Annual General Meeting and other shareholder meetings so called to obtain approval of Board action as appropriate.

Remuneration

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Remuneration Committee links the nature and amount of executive directors' and officers' remuneration to the Company's financial and operational performance. The expected outcomes of the remuneration structure are:

- retention and motivation of key executives;
- attraction of high quality management to the Company; and
- performance incentives that allow executives to share in the success of IMF (Australia) Ltd.

For a full discussion of the Company's remuneration philosophy and framework and the remuneration received by directors and executives in the current period please refer to the Remuneration Report, which is contained within the Directors' Report.

There is no scheme to provide retirement benefits to non-executive directors.

The Board is responsible for determining and reviewing compensation arrangements for the directors themselves and the Managing Director and executive team. The Board has established a Remuneration Committee, comprising two non-executive directors and an executive director. Members of the Remuneration Committee throughout the year were:

Michael Bowen (Chairman)

Alden Halse

Robert Ferguson

For details on the number of meetings of the Remuneration Committee held during the year and the attendees at those meetings, refer to the Directors' Report.

SHAREHOLDER INFORMATION

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows. The information is current as at 19 August 2010.

(a) Distribution of Shareholders

Ordinary Share Capital

121,870,342 fully paid ordinary shares are held by 2,980 individual shareholders. All issued ordinary shares carry one vote per share and carry the right to dividends.

Options

830,000 options are held by 6 individual option holders. Options do not carry a right to vote.

The number of shareholders by size of holding, in each class are:

	Fully Paid Ordinary Shares	Options
1-1,000	310,080	-
1,001 - 5,000	2,907,188	-
5,001 -10,000	4,659,083	-
10,001 - 100,000	21,358,152	80,000
100,001 - and over	92,635,839	750,000
	121,870,342	830,000

(b) Substantial Shareholders

The names of the substantial shareholders listed in the Company's register as at 19 August 2010 are:

Shareholder	No. of Ordinary Shares	% of issued capital
Acorn Capital Limited	17,379,080	14.26%
Hugh McLernon, McLernon Group Superannuation Pty Limited, Christine McLernon, Toronto Holdings Pty Limited and Capital Consulting Pty Limited	9,708,592	7.98%
Warrakirri Asset Management Pty Limited	7,707,545	6.32%
John Walker, Legal Precedents Pty Limited, Mary Walker, Don Walker, Margaret Walker and Caroline Walker	7,074,537	5.80%
	41,869,754	34.36%

(c) 20 Largest Holders of Quoted Equity Securities as at 19 August 2010

Ordinary Shares		Number of ordinary shares	% of issued capital
1	National Nominees Limited	15,880,531	13.03%
2	ANZ Nominees Limited	13,937,272	11.44%
3	J P Morgan Nominees Australia Limited	7,621,840	6.25%
4	McLernon Group Superannuation Pty Limited	4,855,081	3.98%
5	Legal Precedents Pty Limited	4,814,287	3.95%
6	Redsummer Pty Ltd	4,342,600	3.56%
7	Mr Robert Alexander Ferguson	2,500,000	2.05%
8	Mr Hugh McLernon	2,417,125	1.98%
9	HSBC Custody Nominees (Australia) Limited - A/C 2	2,208,054	1.81%
10	Mr Hugh McLernon	2,176,125	1.79%
11	Citicorp Nominees Pty Limited	1,866,340	1.53%
12	John Walker	1,806,250	1.48%
13	Bond Street Custodians Limited	1,474,492	1.21%
14	Escor Investments Pty Limited	1,118,572	0.92%
15	Citicorp Nominees Pty Limited	943,981	0.77%
16	HSBC Custody Nominees (Australia) Limited	898,727	0.74%
17	Botanibay Pty Limited	850,000	0.70%
18	Equity Trustees Limited <SGH PI Smaller Co's Fund>	722,669	0.59%
19	Sup Ja Shin	672,792	0.55%
20	Mr Dennis Banks and Mrs Janine Banks	650,089	0.53%
		71,756,827	58.88%

(d) Options as at 19 August 2010 – unquoted

Class of option	Number	Exercise price	Expiry date
Employee options	830,000	0.80	24-Mar-11
	830,000		

(e) Securities subject to escrow

There are no securities subject to escrow.

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 9 to 28. The Directors' Report is not part of the financial report.

DIRECTORS

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

COMPANY SECRETARY

Diane Jones

PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

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SOLICITORS

HARDY BOWEN
Level 1, 28 Ord Street
West Perth, Western Australia 6005

SHARE REGISTRY

COMPUTER SHARE REGISTRY
GPO Box 2975
MELBOURNE VIC 3001
Phone: 1300 557 010

AUDITORS

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

BANKERS

NATIONAL AUSTRALIA BANK LIMITED
255 George Street
Sydney NSW 2000

MACQUARIE BANK LIMITED
1 Shelley Street
Sydney, NSW, 2000

The Company is listed on the Australian Securities Exchange with Sydney, Australia as its home exchange. Its ASX code is "IMF" and its shares were trading as at the date of this report.

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IMF

(AUSTRALIA) LTD

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