

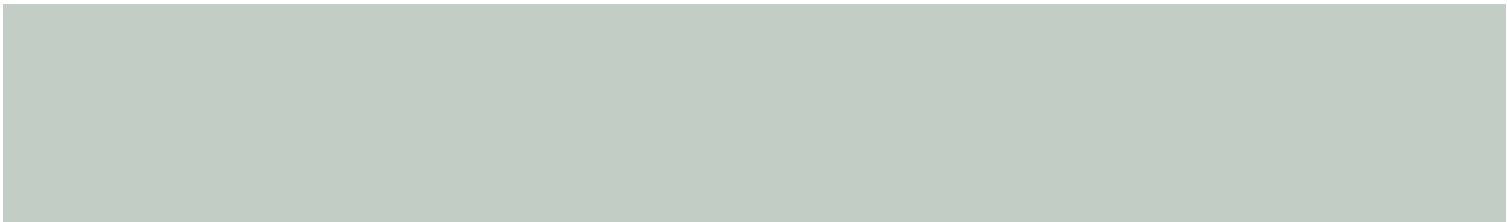


2010 ANNUAL REPORT

HILLCREST LITIGATION SERVICES LIMITED

ABN 63 060 094 742





CONTENTS

Company Particulars	2
Review of Operations and Activities	3
Corporate Governance Statement	6
Management Team	10
Directors' Report	11
Auditor's Independence Declaration	14
Financial Report	15
Directors' Declaration	35
Auditor's Report	36
Additional Information	38



DIRECTORS

Alan Van Noort (Chairman)
Ian Allen
Walter Martin

COMPANY SECRETARY

Ian Allen

REGISTERED OFFICE AND DOMICILE

Hillcrest Litigation Services Limited is a company limited by shares, incorporated and domiciled in Australia.

Its registered office is:
1 Colin Street
West Perth
Western Australia 6005

PO Box 587
West Perth
Western Australia 6872

Telephone: (08) 9324 3266
Facsimile: (08) 9324 3277
Website: www.hillcrestlitigation.com.au
Email: admin@hillcrestlitigation.com.au

SHARE REGISTRY

Computershare Investor Services Pty Limited
Level 2
Reserve Bank Building
45 St George’s Terrace
Perth Western Australia 6000

Telephone: (08) 9323 2000
Facsimile: (08) 9323 2033

AUDITORS

Ernst & Young

AUSTRALIAN STOCK EXCHANGE

ASX Code: HLS

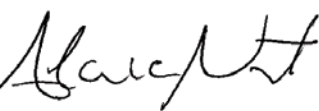
CHAIRMAN’S PERSPECTIVE

On behalf of the board of directors of Hillcrest Litigation Services Limited (“HLS”), I have pleasure in presenting this annual report to shareholders.

It is disappointing to report that HLS has recorded a loss of \$1,190,706 for the year following the profits of the preceding two years (\$1,523,332 in 2009 and \$1,028,123 in 2008).

The Company’s objectives and expectations for the forthcoming year are to capitalise on the foundations established and to become a leading provider of litigation funding and associated services in Australia.

I believe that we can look forward to the future with confidence and take this opportunity of thanking shareholders for their continued support.



Alan Van Noort
Chairman
Perth
26 August 2010



REVIEW OF OPERATIONS AND ACTIVITIES

The Company’s Litigation Funding Business

The principal activity undertaken during the year was the management of the Company’s litigation funding business. The essential nature of a litigation funding business is that the litigation funder provides funds to enable a party to meet the cost of pursuing a legal claim and, in return for assuming the funding obligations, the litigation funder becomes entitled to receive a percentage (typically 25% to 45%) of the amount ultimately recovered under the claim, whether by way of court judgment or an earlier agreed settlement.

The costs funded and paid by the litigation funder generally include the legal fees of its client party’s solicitors and barristers together with the disbursements or expenses (such as the costs of any requisite experts reports) relating to the litigation.

In addition, the litigation funder typically provides its client with an indemnity against an adverse costs order in the event that the claim is unsuccessful and provides security for the defendant’s costs (by way of bank guarantee or cash on deposit) if required by the Court.

No amount is received by the litigation funder if the claim is unsuccessful.

As such, litigation funding is applicable in situations where a person or a company:

- has a good legal claim but not the financial resources to pursue it; or
- cannot provide security to meet a security for costs order; or
- wishes to lay off some or all of the financial risk associated with litigation; or
- is concerned about being exposed to liability for the other side’s costs.

Review of Operations

Three cases from the Company’s portfolio of funded cases were resolved during the year; being the Roserve, Sanguine and Andony cases.

The Roserve case was settled on terms whereby the Company received a profit from the funding arrangement and was fully reimbursed with its funding costs incurred in the case.

The Company’s funded client was unsuccessful in the Sanguine case and, accordingly, the Company incurred a loss from the matter.

In late June 2010, the Federal Court published the first part of its judgment in the Andony case. The judgment records the Court’s findings of fact and conclusions on the law, most of which are in favour of the applicants (the trustees of the bankrupt estates of Andony), being HLS’s funded client. The

parties have been invited to make further submissions as to the appropriate final orders which should follow to enable the Court to publish the second part of its judgment. At this stage, whilst HLS’s funded client has been successful in the case, it is not possible to accurately quantify the amount that they will receive from the case and, hence, it is not possible to accurately quantify the return that HLS will receive from the case. Accordingly, HLS has not yet recorded a profit or a loss from the matter.

The Company’s current portfolio of funded cases

The Company presently has funding agreements for 4 cases, as listed in the table below. A brief description of each case follows the table.

The “Amount of Claim” shown for each case is the Company’s current best estimate of the amount recoverable by the client/ plaintiff, assuming that the litigation is wholly successful at trial. However, the amount that is ultimately recovered by the client/plaintiff in each case may be significantly different from the current estimate of the Amount of Claim for that case as stated in the table; particularly in circumstances where there is an agreed settlement between the parties to the litigation or where the litigation fails or is not wholly successful at trial.

Case Number	Case	Amount of Claim
1	MMFC	\$37,500,000
2	Gurtler	\$14,600,000
3	Gardner	\$1,500,000
4	Shields	\$1,000,000
	Total	\$54,600,000

Description of Cases

1. Manderson M&F Consulting –v- Incitec Pivot Limited

An action by MMFC alleging that IPL breached an obligation of confidence that it owed to MMFC by the unauthorised use and disclosure of a body of information relating to a methodology for structuring long term equipment leases known as Leasa (“Leasa Information”). MMFC is seeking, amongst other relief, an account of the profits made by IPL from the alleged unauthorised use of the Leasa Information.

2. Gurtler -v- Finance Now Pty Ltd, Patsan & Turnbull

An action against a company arising from the misappropriation of confidential information and against former directors of that company for breach of contract, breach of section 183 of the Corporations Act (improper use by a director of a corporation of the corporation’s information to gain a personal advantage), breach of confidence and breach of fiduciary duty.

3. Gardner Corporation Pty Ltd (In Liquidation)

A negligence action against a firm of solicitors.

4. Shields Media Pty Ltd (In Liquidation)

A negligence action against a firm of solicitors.



CORPORATE GOVERNANCE STATEMENT

A description of the Company's main corporate governance practices are set out below. Unless otherwise stated, these practices were in place for the entire financial year.

A more detailed version of the policies and procedures in place are outlined in the Company's Corporate Governance Manual which has been made available on the Company's website at www.hillcrestlitigation.com.au

1. The Board of Directors and Management

Guiding Principle: Lay solid foundations for management and oversight

The board has adopted a formal statement of matters reserved to it that outlines the functions and responsibilities of the board. The board's key responsibilities include:

- Establish, monitor and modify the Company's corporate strategies;
- Ensure best practice corporate governance;
- Appointing and removing directors and management;
- Monitor performance of directors individually and employees;
- Monitor financial results and reporting;
- Approve decisions on allocating the Company's resources;
- Ensure risk management and internal control and reporting systems are appropriate and in place;
- Ensure the business is conducted ethically; and
- Ensure external disclosures to the market are timely and complete and appropriate considering price sensitive information.

The board is focused on protecting and enhancing medium to long term shareholder value and must conduct itself in accordance with the Constitution of the Company.

Directors review their individual responsibilities to ensure they are appropriate for the needs of the Company as a process of performance evaluation on an annual basis or as required.

Guiding Principle: Structure the board to add value

The board comprises two executive directors and one non-executive director.

The board regularly assesses the independence of its directors. One of the board directors, Mr. Martin, is non-executive and is considered independent as the Company is not aware of any circumstances of his involvement that would or would be seen to compromise his objectivity and independence.

The chairman of the Company is an executive director as well as the Chief Executive Officer and is not considered to be independent. The board believes the chairman maintains a clear responsibility to head the Company and the independence of the non-executive director is deemed to be sufficient to maintain the objectivity of the board in the context of the board's size.

The Company does not have a formally appointed nomination committee. The board considers the present directors are able to discharge the responsibilities of a director, having

regard to the law and the highest standards of governance. Should a vacancy exist, for whatever reason, or where it is considered that the board would benefit from the services of a new director, the board will select appropriate candidates with relevant qualifications, skills and experience.

The board believes that the degree of commitment and depth of experience and knowledge present in the board structure is appropriate to best serve the current needs of the Company and its shareholders.

To aid the board make decisions that are independent, the Company allows each director to seek individual external advice at the expense of the Company.

The qualifications and experience of each of the directors is detailed in the Management Team section of this annual report.

Guiding Principle: Encourage enhanced performance

A formalised committee to assess and control induction into the board of directors through a nomination committee is not established. The Company believes that the size of the board does not warrant such a committee. The directors believe that all the directors on the board have a firm understanding of the Company's financial, strategic, operational and risk management position.

The directors believe that their experience and drive to advance the Company is sufficient to lead the Company and identify weaknesses in management and practices.

The board of directors encourages continued education of all directors and employees to facilitate enhanced performance. The opportunity to update or enhance one's education is available to individuals at the Company's expense, upon request and approval.

The directors provide each other and employee's feedback through performance appraisals that are at a minimum annual or as required.

Guiding Principle: Remunerate fairly and responsibly

All directors receive a quarterly director's fee which is not linked to the volume of work performed. Fees paid to directors have superannuation contributions made as required by Commonwealth legislation.

Executive Share and Option Scheme Guidelines, IFSA Guidance Note provided by the Investment and Financial Services Association 2000 will be considered in any equity-based remuneration plan proposed.

Remuneration is reviewed annually or as required in conjunction with performance appraisals and evaluations. This process is performed by the board, as a formal remuneration committee is not deemed to be warranted due to the small number of directors and employees. The board set remuneration at their discretion that is at a competitive level to attract and retain the most qualified and experienced directors and staff available. Remuneration levels are not

directly linked to Company performance and the directors seek independent advice when appropriate before making decisions on remuneration.

Further information on directors' remuneration is outlined in the Directors Report.

2. Ethical and Responsible Decision Making

Guiding Principle: Promote ethical and responsible decision making

The board's policy is for the directors, management and staff to conduct themselves with the highest ethical standards. All directors and employees are expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

The Company has developed a Code of Conduct and Policy for Trading in the Company's securities, which applies to all directors and employees of the organisation and has been communicated to all directors and employees.

These policies will be reviewed from time to time to ensure the policy's effectiveness and relevance.

Guiding Principle: Recognise and manage risk

Due to the size of the Company and the number of directors, there is no formal risk management committee or audit committee established. The board recognises that due to the size of the Company, all directors and employees have responsibilities to recognise risks, bring them to the attention of the directors and actively apply controls to manage the risk. The Chairman (Alan Van Noort) and Company Secretary (Ian Allen) have certified to the board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control and which implements the policies adopted by the board and that the Company's risk management and internal compliance and control is operating efficiently and effectively in all material respects. The controls in place are appropriate for the current position of the Company.

The primary operating risk for the Company is the selection of cases to provide litigation funding to. To manage this risk effectively, all cases undergo a strict internal and external due diligence process before deciding to accept a client case and enter into a funding agreement. The due diligence process is ongoing through the life of the case and the Company has the option to withdraw from the agreement at any time should the evolving risks be unacceptable.

The Company's internal control system is reviewed from time to time to ensure it is appropriate and effective as the business develops and matures.

Guiding Principle: Recognise the legitimate interests of stakeholders

The Company's Code of Conduct documents the values and policies the board requires staff to adhere to, to compliment

its risk management practices and uphold the Company's reputation. The Company believes in social accountability and encourages its staff to recognise their responsibilities to the community. The Company and its staff, have a culture of supporting and donating time and resources to community events. The board encourages and applauds this commitment. The Company has held membership of the Banking and Financial Services Ombudsman Scheme from 1 July 2006. The Company has also been admitted to membership of the Financial Ombudsman Service effective from 1 July 2009. This protects the interests of all stakeholders by providing an independent authority to monitor and address any complaints made against the Company that are not able to be adequately addressed and resolved by the Company. This external and independent authority is designed to promote accountability and transparency of the Company in all dealings with all stakeholders.

3. Integrity of Financial Reporting

Guiding Principle: Safeguard integrity in financial reporting

The Chief Executive Officer (Alan Van Noort) and Chief Financial Officer (Ian Allen) have certified to the board that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and are in accordance with relevant accounting standards.

Due to the size and structure of the entity it is not considered appropriate to have a formal audit committee. The board, having the capacity to seek external independent and individual advice at the Company's expense, believes that this facility provides a sufficient mechanism for a director to gain assurance of the integrity of the financial statements of the Company and the independence and opinion of the external auditor.

4. Continuous Disclosures

Guiding Principle: Make timely and balanced disclosures

The Company complies with all requirements of the Australian Stock Exchange and the Corporations Act in relation to its continuous disclosure obligations. The Company Secretary has been nominated as the person responsible for communication with the Australian Stock Exchange.

The Company has an objective of honest and open disclosure of information in dealing with stakeholders, subject to appropriate commercial considerations associated with competitive and sensitive information.



CORPORATE GOVERNANCE STATEMENT

Such disclosure may, in appropriate circumstances, exceed statutory requirements.

The company has a formally adopted policy on releasing price sensitive information to the public. This policy instructs that all public statements are made through or approved by the directors.

5. Shareholders

Guiding Principle: Respect the rights of shareholders

The board of directors aims to ensure that the shareholders are informed of all major developments affecting the Company's state of affairs.

Information is communicated to shareholders as follows:

- the annual report is distributed to all shareholders. The board ensures that the annual report includes relevant information about the operations of the Company during the year, changes in the state of affairs of the Company and details of future developments, in addition to the other disclosures required by the Corporations Law.
- the half-year financial report contains summarised financial information and a review of the operations of the Company during the period. The half-year financial report is prepared in accordance with the requirements of applicable Accounting Standards and the Corporations Law and is lodged with the Australian Stock Exchange. The half-year financial report is sent to any shareholder who requests it.
- the quarterly report contains summarised cash flow financial information and details about the Company's activities during the quarter. The quarterly report is sent to any shareholder who requests it.
- proposed major changes in the Company which may impact on share ownership rights are submitted to a vote of shareholders.

All documents that are released publicly are made available on the Company's Internet web site located at <http://www.hillcrestlitigation.com.au>. The website provides a function to allow all shareholders and general members of the community to lodge queries to be addressed by the Company and provides a forum for constructive feedback for shareholders and potential investors on the quality of the information provided through the website. The Company welcomes feedback and queries through any forum.

The board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals. Important issues are presented to the shareholders as single resolutions. The shareholders are requested to vote on the appointment and aggregate remuneration of directors, the granting of options and shares to directors and changes to the constitution. Copies of the constitution are available to any shareholder who requests it.

The Company's auditors Ernst & Young are required to attend

the Annual General Meeting and make themselves available to answer shareholder questions regarding the conduct of the audit and the preparation and content of the auditors report.

COMPLIANCE SUMMARY

The board is aware of all the Best Practice Recommendations to which the Company currently does not comply. The board considers this to be practical when taking into account the current size, level of funding and level of activity of the Company. The Board embraces Corporate Governance and is actively reviewing the Company's current Corporate Governance compliance to adopt as many recommendations as is practical. The board acknowledges that this will be a progressive and ongoing process, adjusted as the business develops and matures.

The Company's compliance with the ASX Best Practice Recommendations can be best summarised in the following table:

ASX Corporate Governance Principles - Recommendations		Compliance	Section
1.1	Formalise and disclose the functions reserved to the board and those delegated to management.	✓	1
1.2	Disclose process for evaluating the performance of senior executives.	✓	1
1.3	Provide the information indicated in the Guide to reporting on Principle 1.	✓	1
2.1	A majority of the board should be independent directors.	✗	1
2.2	The chair should be an independent director.	✗	1
2.3	The roles of chair and CEO should not be exercised by the same individual.	✗	1
2.4	The board should establish a nomination committee.	✗	1
2.5	Disclose the process for evaluating the performance of the board and individual directors.	✓	1
2.6	Provide the information indicated in the Guide to reporting on Principle 2.	✓	1
3.1	Establish and disclose a code of conduct as to: - the practices necessary to maintain confidence in the Company's integrity, - the practices necessary to take into account the Company's legal obligations and the reasonable expectations of shareholders and - The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	✓	2
3.2	Disclose the policy concerning trading Company securities by directors, officer and employees.	✓	2
3.3	Provide the information indicated in the Guide to reporting on Principle 3.	✓	2
4.1	The board should establish an audit committee.	✗	3
4.2	Structure the audit committee so that it consists of only non-executive directors; a majority of independent directors; an independent chair, who is not the chair of the board and at least 3 members.	✗	3
4.3	The audit committee should have a formal charter.	✗	3
4.4	Provide the information indicated in the Guide to reporting on Principle 4.	✗	3
5.1	Establish and disclose written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance.	✓	4
5.2	Provide the information indicated in the Guide to reporting on Principle 5.	✓	4
6.1	Design and disclose a communications policy to promote effective communication with shareholders and encourage effective participation at general meetings.	✓	5
6.2	Provide the information indicated in the Guide to reporting on Principle 6.	✓	5
7.1	Establish and disclose policies on risk oversight and management.	✓	2
7.2	Management to design and implement the risk management and internal control system to manage risk and report to the board whether those risks are being managed effectively. The board should disclose that management has reported to it as required.	✓	2
7.3	The board should disclose whether it has received assurance from the CEO and CFO that the declaration 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 aspects.	✓	2
7.4	Provide the information indicated in the Guide to reporting on Principle 7.	✓	2
8.1	The board should establish a remuneration committee.	✗	1
8.2	Clearly distinguish the structure of non-executive directors' remuneration from that of executives.	✓	1
8.3	Provide the information indicated in the Guide to reporting on Principle 8.	✓	1



THE BOARD OF DIRECTORS



Alan R Van Noort
B.Juris LLB (Age 53) – Chairman and Executive Director
Mr Alan Van Noort (appointed 1998) is a Barrister and Solicitor who was admitted to practice in the Supreme Court of Western Australia in 1979. From 1979 to 1991, Mr Van Noort practised law in Perth, Western Australia, specialising in the areas of mining law, public company law, mergers and acquisitions and shareholders rights. Since 1991, Mr Van Noort has been involved in the management and administration of publicly listed companies.
Mr Van Noort has not held any other directorship in publicly listed companies in the last 3 years.



Ian D Allen
B.Com CA (SA) CA (Age 58) – Executive Director and Company Secretary
Mr Ian Allen (appointed 2001) is a Chartered Accountant. He has previous experience in senior finance positions in the United Kingdom, Hong Kong, South Africa, Egypt, and Australia. Mr Allen has worked for multinationals; ERG Limited, Inchcape PLC, Dowell Schlumberger Inc., Brambles Ltd and Ernst & Young.
In the past three years, Mr Allen has held a directorship with Repcol Limited (Resigned January 2008).



Walter A C Martin
Dip. Legal Studies (Age 69) – Non-executive Director
Mr Wally Martin (appointed 2003) has had extensive experience at senior management level in both the Government and private enterprise sectors for over 25 years with particular emphasis in the mining industry. Mr Martin was the foundation Vice President of the Association of Mining and Exploration Companies of WA and has, since 1979, been actively involved in the private sector of the mining industry as a director of a number of public listed mining entities.
Mr Martin is also the Managing Director of Strategic Minerals Corporation NL.
Mr Martin has not held any other directorships in publicly listed companies in the last 3 years other than that above.

CORPORATE STAFF



Tim J Hinton
B.Bus CA – Corporate Accountant
Mr Hinton is a Chartered Accountant. He holds a Bachelor of Business degree and possesses experience gained through roles in public practice and commercial entities within Australia and the United Kingdom.

The directors submit their report together with the financial report of Hillcrest Litigation Services Limited (“the Company”) for the year ended 30 June 2010 and the auditor’s report thereon.

DIRECTORS
The following persons were directors of the Company during the whole of the financial year and up to the date of this report:

- Mr Alan Van Noort
- Mr Ian Allen
- Mr Walter Martin

Details of the directors are included on page 10 of this annual report and form part of this report.

DIRECTORS’ MEETINGS
The number of directors’ meetings and the number of meetings attended by each of the directors of the Company during the financial year are:

Director	Number of meetings held during the time the Director held office	Number of meetings attended
A R Van Noort	10	10
I D Allen	10	10
W A C Martin	10	10

PRINCIPAL ACTIVITIES
The principal activity of the Company during the course of the year was the conduct of a litigation funding business.

RESULTS AND DIVIDENDS
The operating loss of the Company after income tax for the year was \$1,190,706 (2009 profit: \$1,523,332).
The operating and financial review of the Company is discussed in the “Review of Operations and Activities” commencing on page 3.
The directors do not recommend that a dividend be paid. Since the end of the previous financial year, no dividend has been paid.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS
Total equity decreased from \$5,385,620 to \$4,194,914 due to the net loss attributable to the Company’s members for the year of \$1,190,706.

ENVIRONMENTAL REGULATIONS
Cuprifex (a former wholly owned subsidiary) previously held mining tenements in Queensland. As a result of the surrendering of those tenements, the Company recognised a rehabilitation provision equal to \$50,000 in December

1999. Hillcrest also lodged a security deposit of \$50,000 in December 1999 with the Department of Mines and Energy. As the possibility of any claim being made is now considered to be so remote, the value of this provision and the corresponding security deposit have now been derecognised, refer notes 10 and 17.
The Company is not aware of any matter which requires disclosure with respect to any significant environmental regulation in respect of its operating activities.

EVENTS SUBSEQUENT TO BALANCE DATE
There has not arisen in the interval between the end of the financial year and the date these financial statements were approved, any item, transaction or event of a material and or unusual nature likely, in the opinion of the directors of the Company, to affect the operations and reported results of the Company.

LIKELY DEVELOPMENTS
Information on likely developments in the operations of the Company and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Company.

REMUNERATION REPORT (AUDITED)
This remuneration report outlines the director remuneration arrangements of the Company in accordance with the requirements of the Corporations Act 2001 and its regulations. For the purposes of this report, key management personnel represents the Company’s executive directors, non-executive director and corporate accountant.

Principles used to determine the nature and amount of remuneration
Objective
The Board seeks to set aggregate compensation at a level that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

Structure
The amount of aggregate compensation sought to be approved by shareholders and the manner in which it is apportioned amongst the directors is reviewed annually. The board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process. The overall level of executive reward takes into account the performance of the Company over a number of years.



DIRECTORS' REPORT

Average executive remuneration has been maintained in accordance with industry standards. The remuneration of key management personnel does not include any performance bonuses and is not based on any performance measures.

The following is a summary of the Company's share price and earnings per share over the last five years:

	2006	2007	2008	2009	2010
Share price in cents	20.0	14.0	8.0	10.0	6.0
Earnings per share in cents	(0.82)	(2.34)	1.85	2.59	(2.02)

Directors' Fees

The Company's constitution provides that directors shall be paid fees as remuneration for their services as directors provided that the maximum aggregate amount so paid does not exceed the amount set by shareholders in general meeting. Shareholders set the maximum aggregate amount that may be paid to directors as remuneration for their services as directors at \$300,000 per annum at the Company's AGM held on 18 November 2009 (the maximum previously being \$150,000 per annum as set by shareholders at a general meeting held on 6 February 2006).

The Board's present policy is that non-executive directors be paid \$55,000 per annum plus superannuation in accordance with statutory rates as remuneration for their services as directors and that executive directors be paid \$35,000 per annum plus superannuation in accordance with statutory rates as remuneration for their services as directors. Accordingly, Mr Walter Martin, being a non-executive director, was paid \$55,000 plus superannuation in accordance with statutory rates for his services as a director and Messrs Alan Van Noort and Ian Allen, being executive directors, were each paid \$35,000 plus superannuation in accordance with statutory rates for their services as a director.

	Fixed					Total \$
	Short term				Post Employment	
	Salary \$	Directors' Fees \$	Insurance Premiums \$	Annual Leave Entitlements Paid Out \$	Superannuation \$	
2010						
A R Van Noort	350,000	35,000	5,597	-	34,650	425,247
I D Allen	280,000	35,000	5,597	-	28,350	348,947
W A C Martin	-	55,000	5,597	-	4,950	65,547
T J Hinton	136,138	-	-	-	12,252	148,390
Total	766,138	125,000	16,791	-	80,202	988,131

No options were granted to directors during the financial year as part of remuneration.

Executive Director Employment Contracts

Remuneration and other terms of employment for the executive directors are formalised in on-going employment contracts. The major provisions of these contracts are as follows:

Mr Alan Van Noort:

- From 1 July 2008, base salary is \$350,000 per annum (previously \$250,000) plus superannuation in accordance with the statutory rates.
- Insurance cover provided under Directors and Officers Liability and Corporate Travel policies.
- A period of one month's notice upon termination.

Mr Ian Allen:

- From 1 July 2008, base salary is \$280,000 per annum (previously \$225,000) plus superannuation in accordance with the statutory rates.
- Insurance cover provided under Directors and Officers Liability and Corporate Travel policies.
- A period of one month's notice upon termination.

Other Employment Contracts

Remuneration and other terms of employment for the corporate accountant are formalised in an on-going employment contract. The major provisions of this contract are as follows:

- From 10 December 2009, base salary is \$140,377 per annum plus superannuation in accordance with statutory rates and
- A period of one month's notice upon termination.

Details of the remuneration of the key management personnel of Hillcrest Litigation Services Limited, including their related entities, are set out in the following table:

	Fixed					Total \$
	Short term				Post Employment	
	Salary \$	Directors' Fees \$	Insurance Premiums \$	Annual Leave Entitlements Paid Out \$	Superannuation \$	
2009						
A R Van Noort	350,000	35,000	6,264	52,503	39,375	483,142
I D Allen	280,000	35,000	6,264	-	28,350	349,614
W A C Martin	-	41,889	6,264	-	3,770	51,923
T J Hinton	125,688	-	-	-	11,312	137,000
Total	755,688	111,889	18,792	52,503	82,807	1,021,679

DIRECTORS' INTERESTS

The relevant interest of each director in the share capital of the Company, as notified to the ASX, at the date of this report is as follows:

Director	Ordinary Shares
A R Van Noort	13,864,353
I D Allen	11,633,572
W A C Martin	74,446

INDEMNIFICATION AND INSURANCE OF OFFICERS

Since the end of the previous financial year the Company has paid insurance premiums of \$16,791 (2009: \$18,792) in respect of Directors' and Officers' liability insurance for current and past directors and officers. Insurance does not indemnify the Directors and Officers where there is conduct involving a lack of good faith.

NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company are important.

Details of the amounts paid (net of GST) or payable to the auditor (Ernst & Young) for audit and non-audit services provided during the course of the year are set out below:

	2010 \$	2009 \$
Audit Services		
Audit of financial reports under the Corporations Act 2001	40,588	39,000
Review of the financial reports under the Corporations Act 2001	12,582	12,150
Total remuneration for audit services	53,170	51,150
Non-Audit Services		
Tax Compliance Services	-	-
Total remuneration for non-audit services	-	-
Total remuneration paid to Ernst & Young Australian firm	53,170	51,150

The board of directors has considered the provision of non-audit services and is satisfied that the services are compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed by the board of directors to ensure they do not impact the impartiality and objectivity of the auditor.

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 14 and forms part of this report.

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



Alan Van Noort
Chairman
Perth
26 August 2010





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Auditor’s Independence Declaration to the Directors of Hillcrest Litigation Services Limited

In relation to our audit of the financial report of Hillcrest Litigation Services 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
26 August 2010

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010

	Notes	2010 \$	2009 \$
Net gain on settlement of litigation contracts	3	5,450	2,763,749
Interest revenue	3	94,864	78,353
Total Income		100,314	2,842,102
General and administrative expenses		24,222	61,866
Occupancy expenses		53,761	38,719
Corporate expenses		215,348	192,134
Employee expenses	4	997,060	1,025,360
Other expenses		629	691
Total Expenses		1,291,020	1,318,770
(Loss)/profit before income tax expense		(1,190,706)	1,523,332
Income tax expense	7	-	-
Net (Loss)/profit attributable to members of Hillcrest Litigation Services Limited		(1,190,706)	1,523,332
Other comprehensive income net of tax		-	-
Total comprehensive income attributable to members of Hillcrest Litigation Services Limited		(1,190,706)	1,523,332
(Loss)/profit per share – cents per share			
Basic (loss)/profit for the year	5	(2.02)	2.59
Diluted (loss)/profit for the year	5	(2.02)	2.59



FINANCIAL REPORT

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

	Notes	2010 \$	2009 \$
ASSETS			
Current Assets			
Cash and cash equivalents	9	951,054	900,532
Term deposits	10	900,000	450,000
Trade and other receivables	11	1,010,736	2,831,041
Prepayments	12	3,337	4,346
Litigation contracts	13	1,110,463	955,227
Total Current Assets		3,975,590	5,141,146
Non-current Assets			
Term deposits	10	115,777	-
Litigation contracts	13	541,190	762,897
Available for sale financial assets	14	1,050	1,050
Plant and equipment	15	2,884	5,949
Total Non-current Assets		660,901	769,896
TOTAL ASSETS		4,636,491	5,911,042
LIABILITIES			
Current Liabilities			
Trade and other payables	16	364,885	424,449
Provisions	17	48,079	75,222
Total Current Liabilities		412,964	499,671
Non-current Liabilities			
Provisions	17	28,613	25,751
Total Non-current Liabilities		28,613	25,751
TOTAL LIABILITIES		441,577	525,422
NET ASSETS		4,194,914	5,385,620
EQUITY			
Issued capital	18	18,990,540	18,990,540
Accumulated losses	19	(14,795,626)	(13,604,920)
TOTAL EQUITY		4,194,914	5,385,620

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2010

	Notes	2010 \$	2009 \$
Cash flows from operating activities			
Payments to suppliers and employees		(1,529,050)	(1,434,368)
Interest received		83,081	72,369
Proceeds from settlement of litigation contracts		3,113,806	1,483,553
Payments for litigation contracts		(1,051,538)	(850,630)
Transfers to term deposits – bank guarantees	10	(565,777)	-
Transfers from term deposits – bank guarantees	10	-	325,000
Net operating cash flows	23	50,522	(404,076)
Cash flows from investing activities			
Payments for plant and equipment	15	-	(4,219)
Net investing cash flows		-	(4,219)
Cash flows from financing activities			
Proceeds from director loan		500,000	300,000
Repayment of director loan		(500,000)	(300,000)
Net financing cash flows		-	-
Net increase/(decrease) in cash held		50,522	(408,295)
Cash at the beginning of the year		900,532	1,308,827
Cash at the end of the year	9	951,054	900,532



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

	Issued Capital	Accumulated Losses	Total Equity
	\$	\$	\$
At 1 July 2008	18,990,540	(15,128,252)	3,862,288
Profit for the year	-	1,523,332	1,523,332
Other comprehensive income	-	-	-
Total comprehensive income for the year	18,990,540	(13,604,920)	5,385,620
At 30 June 2009	18,990,540	(13,604,920)	5,385,620
Loss for the year	-	(1,190,706)	(1,190,706)
Other comprehensive income	-	-	-
Total comprehensive income for the year	18,990,540	(14,795,626)	4,194,914
At 30 June 2010	18,990,540	(14,795,626)	4,194,914

1 Corporate Information

The financial report of Hillcrest Litigation Services Limited for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 26 August 2010.

Hillcrest Litigation Services Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

The nature of operations and principal activities of the Company are described in the Review of Operations and Activities and the Directors Report.

2 Statement of significant accounting policies

(a) Basis of accounting

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. It has also been prepared on the basis of historical costs, except for available for sale financial assets that have been measured at fair value.

The financial report is presented in Australian Dollars.

(b) Statement of compliance

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 30 June 2010.

These are outlined in the table below:

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard	Application date for Company
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	No change	1 January 2010	1 July 2010
AASB 2009-9	Amendments to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> .	No change	1 January 2010	1 July 2010
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]	No change	1 January 2013	1 July 2013
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]	No change	1 January 2011	1 July 2011
AASB 2009-13	Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1]	No change	1 July 2010	1 July 2010
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]	No change	1 July 2010	1 July 2010
Interpretation 19	Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	No change	1 July 2010	1 July 2010



NOTES TO THE FINANCIAL STATEMENTS

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard	Application date for Company
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]	No change	1 January 2011	1 July 2011
AASB 124 (Revised)	Related Party Disclosures (December 2009)	No change	1 January 2011	1 July 2011
AASB 9	Financial Instruments	No change	1 January 2013	1 July 2013

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 the 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 to be presented in note 20. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in note 20.

AASB 8 Operating Segments

AASB 8 replaced AASB 114 Segment Reporting upon its effective date. The Company 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 8.

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 the 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 Company has elected to present one statement.

(c) Income tax

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

substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance 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 where the deferred income tax liability 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 or loss nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences 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 assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary differences 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; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement. Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities that relate to the same taxable entity and the same taxation authority.

(d) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated with the amount of GST included.

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

Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(e) 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 Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest revenue

Interest revenue is recognised as it accrues (using the effective interest method, which is the rate that discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

(f) Trade and Other Receivables

Trade receivables, which generally have 30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible monies. An allowance for doubtful debts is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off when identified.

(g) Litigation Contracts

Litigation contracts in progress represent future economic benefits controlled by the Company. As litigation contracts in progress may be exchanged or sold, the Company is able to control the expected future economic benefits flowing from the litigation contracts in progress. Accordingly the litigation contracts in progress meet the definition of an intangible asset.

Litigation contracts in progress are measured at cost on initial recognition. Litigation contracts in progress are not amortised as the assets are not available for use until the determination of a successful judgement at which point they are realised. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised. These intangibles are tested for impairment biannually either individually or at the cash-generating unit level. The following specific asset recognition rules have been applied to the litigation contracts in progress intangible asset:

i) Action still outstanding

Where litigation is outstanding and pending a decision, the intangible asset is carried at cost. Subsequent expenditure is capitalised when it meets all of the following criteria:

- Demonstration of the feasibility of completing the litigation so that it will be available for use and the benefits embodied in the asset will be realised;
- Demonstration that the asset will generate future economic benefits;
- The Company intends to complete funding the litigation in progress;
- Demonstration of the availability of adequate technical, financial and other resources to complete the litigation in progress; and
- Ability to measure reliably the expenditure attributable to the intangible asset during the litigation contracts in progress.



NOTES TO THE FINANCIAL STATEMENTS

ii) Successful judgment

Where the case has been decided in favour of the Company's client, 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 will be expensed as incurred.

iii) Unsuccessful Judgment

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

(h) Recoverable amount of assets

At each reporting date, the Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing its use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(i) Investments

After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or losses previously reported in equity is recognised in profit or loss. The fair value of investments that are actively traded in organised financial markets is 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 value is determined using valuation techniques. Such techniques include using recent arm's 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.

(j) Plant and equipment

Plant and equipment is measured at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight line basis over the expected useful life of the assets as follows:

Plant and equipment 2.5 – 10 years

The carrying value of plant and equipment is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate independent cash inflows, the recoverable amount is determined for the cash generating unit to which it belongs. If any indication exists and where the carrying value exceeds the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

(k) Trade and Other Payables

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

(l) Employee benefits

Wages, salaries and annual leave

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

Superannuation plans

The Company contributes to numerous defined contribution superannuation plans. Contributions made to the superannuation plans are recognised as an expense as they are made.

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 using the projected unit credit method. 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.

(m) Provisions

A provision is recognised when a legal or constructive obligation exists as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The time value of money is not material to the currently recognised provisions and they are not discounted to expected future cash flows at a pre-tax rate.

(n) Earnings per share

Basic earnings per share

Basic earnings per share is determined by dividing net loss or profit after income tax attributable to members of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic loss or profit per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for nil consideration in relation to dilutive potential ordinary shares.

(o) Cash and cash equivalents

For purposes of the cash flow statement, cash and cash equivalents includes deposits at call with financial institutions and other highly liquid investments with original maturity of three months or less, which is readily convertible to cash on hand and are subject to an insignificant risk of changes in value.

(p) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised and subsequently measured at the fair value of the consideration received.

Borrowing costs

Borrowings costs are recognised as an expense when incurred.

(q) Significant accounting judgments, estimates and assumptions

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

Impairment of Litigation Contracts

The Company determines whether litigation contracts are impaired at least on an annual basis. This requires an estimation of the recoverable amount of each litigation contract on an individual contract basis using cash flow projections as at 30 June 2010 based on financial budgets approved by senior management that cover the period of the contract. The risk adjusted pre-tax discount rate applied to the cash flow projections is 6.0% (2009: 5.0%) (refer note 13).

(r) 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 proceeds.

(s) Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as the lease income. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.



NOTES TO THE FINANCIAL STATEMENTS

	2010 \$	2009 \$
3 Income		
Net gain on settlement of litigation contracts	5,450	2,763,749
Interest revenue	94,864	78,353
Total income	100,314	2,842,102
4 Expenses		
Employee Benefits:		
Employee wages and salaries	791,858	830,664
Superannuation costs	80,202	82,807
Directors fees	125,000	111,889
	997,060	1,025,360
Depreciation	3,065	4,240
Operating lease payments	50,011	35,319
5 Earnings per share		
Basic earnings per share amounts are calculated by dividing net loss or profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.		
Diluted earnings per share amounts are calculated by dividing the net loss or profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of dilutive options).		
Earnings reconciliation		
Basic (losses)/profits	(1,190,706)	1,523,332
Diluted (losses)/profits	(1,190,706)	1,523,332
	Number	Number
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share.	58,881,522	58,881,522
6 Auditors' remuneration		
Statutory Audit and Review	53,170	51,150
Total fees paid to Ernst & Young	53,170	51,150

	2010 \$	2009 \$
7 Taxation		
The major components of income tax expense are:		
Income Statement		
Current income tax		
Current income tax charge	2,044	10,540
Deferred income tax		
Relating to origination and reversal of temporary differences	363,998	433,953
Non recognition of tax balances	(363,998)	(433,953)
Utilisation of previous year tax losses	(2,044)	(10,540)
Income tax expense reported in the income statement	-	-
Statement of Changes in Equity		
There are no current or deferred income tax balances relating to the Statement of Changes in Equity.		
Reconciliation from accounting (loss)/profit to tax (loss)/profit is as follows:		
Accounting (loss)/profit	(1,190,706)	1,523,332
Income tax at 30% (2009: 30%)	(357,212)	457,000
Expenditure not allowable for tax purposes	1,134	1,471
Other deductible amounts not recognised in profit and loss statement	(5,876)	(13,978)
Non recognition of deferred tax balances	363,998	(433,953)
Utilisation of previous year tax losses	(2,044)	(10,540)
Income tax expense reported in the income statement	-	-
Deferred income tax		
Deferred income tax at year end relates to the following:		

	Balance Sheet		Income Statement	
	2010 \$	2009 \$	2010 \$	2009 \$
Deferred tax liabilities				
Accrued revenue income	293,315	645,746	(352,431)	641,651
Prepaid expenses	448	577	(129)	(6)
Deferred litigation expenses	495,496	515,437	(19,941)	(204,175)
Previous year adjustment	-	-	-	-
DTA used to offset DTL	(789,259)	(1,161,760)	372,501	(437,470)
	-	-	-	-



NOTES TO THE FINANCIAL STATEMENTS

	Balance Sheet		Income Statement	
	2010	2009	2010	2009
	\$	\$	\$	\$
7 Taxation (continued)				
Deferred tax assets				
Losses available to offset against future taxable income	1,499,062	1,501,109	2,044	10,540
Accelerated depreciation and write off for accounting purposes	1,759	2,781	1,022	1,226
Equity raising costs	51	5,927	5,876	13,978
Blackhole expenditure deductible over 5 years	1,213	559	(654)	812
Accrued expenses	15,900	16,673	773	11,094
Provisions	28,135	35,498	7,363	(7,627)
Provision for diminution	-	-	-	999
DTA used to offset DTL	(789,259)	(1,161,760)	(372,501)	437,470
Gross deferred income tax assets not brought to account	(756,861)	(400,787)	356,077	(468,492)
Deferred tax income / (expense)	-	-	-	-

At 30 June 2010 Hillcrest Litigation Services Limited has \$4,319,941 (2009: \$4,326,766) of tax losses and \$676,931 (2009: \$676,931) of capital losses that are available indefinitely for offset against future taxable profits and taxable capital gains respectively of the Company provided the rules for recoupment are satisfied in the future income year.

8 Segment Reporting

Geographical segments

The Company operates in only one geographical segment being Australia.

Business segments and customers

The Company operates in only one business segment being litigation funding that involves the conduct of a litigation funding business. The Company's customers are all private clients, specific information is disclosed within the Review of Operations and Activities.

	2010	2009
	\$	\$
9 Cash and cash equivalents		
Cash at bank and on hand	951,054	900,532
10 Term deposits		
Current		
Term deposits – bank guarantees	900,000	450,000
Non-current		
Term deposits – bank guarantees	115,777	-

The above balances represent term deposits supporting bank guarantees totalling \$1,015,777 (2009: \$400,000) that have been provided for litigation funding of specific cases. Last year the balance also included a \$50,000 term deposit which was set aside in December 1999 as security against the rehabilitation of tenements in the name of the previous wholly owned subsidiary. As the possibility of any claim being made is now considered to be so remote, the value of this term deposit and the corresponding provision have now been derecognised, refer note 17.

	2010	2009
	\$	\$
11 Trade and Other Receivables		
Accrued revenue	963,751	2,574,333
Interest receivable	13,969	2,184
GST refundable	33,016	254,524
	1,010,736	2,831,041
12 Prepayments		
Prepayments	3,337	4,346
13 Litigation contracts		
Current	1,110,463	955,227
Non Current	541,190	762,897
	1,651,653	1,718,124
Opening balance	1,718,124	2,398,707
Additions	1,051,538	850,630
Written off (a)	(206,440)	(192,133)
Recovered upon settlement	(911,569)	(1,339,080)
Closing balance	1,651,653	1,718,124

Litigation contracts in progress are not amortised as the assets are not available for use until the determination of a successful judgement at which point it is realised. Litigation contracts are reviewed for impairment half-yearly by the board of directors.

(a) At 30 June 2010 and 30 June 2009, certain individual litigation contracts that were previously capitalised were written off due to the contracts being discontinued or having resulted in an unsuccessful judgment.

The recoverable amount of litigation contracts is their value in use calculated using cash flow projections and applying a discount rate of 6.0% (2009: 5.0%).

14 Available for sale financial assets

At fair value	1,050	1,050
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Available for sale financial assets consist of investments in listed ordinary shares, and therefore have no fixed maturity date or coupon rate.



NOTES TO THE FINANCIAL STATEMENTS

	2010 \$	2009 \$
15 Plant and equipment		
Plant and equipment		
At cost	19,645	19,645
Accumulated depreciation	(16,761)	(13,696)
	<u>2,884</u>	<u>5,949</u>
Reconciliations of the carrying amounts for plant & equipment are set out below:		
Carrying amount at beginning of year	5,949	6,661
Additions	-	4,219
Disposals and write offs	-	(3,896)
Depreciation eliminated on disposal	-	3,205
Depreciation (note 4)	(3,065)	(4,240)
Carrying amount at end of year	<u>2,884</u>	<u>5,949</u>
16 Trade and other payables		
Trade creditors	250,686	304,674
Other creditors and accruals	114,199	119,775
	<u>364,885</u>	<u>424,449</u>
Trade and other creditors are non interest bearing and are normally settled on a 60 day term. Information regarding the effective interest rate of current payables is set out in note 20.		
17 Provisions		
Current		
Employee benefits	48,079	25,222
Rehabilitation (a)	-	50,000
	<u>48,079</u>	<u>75,222</u>
Non-current		
Employee benefits	<u>28,613</u>	<u>25,751</u>
(a) Rehabilitation		
Provision was made in December 1999 for the estimated rehabilitation work that may be required in respect of a mining lease held by a previously held subsidiary that has since been deregistered. As the possibility of any claim being made is now considered to be so remote, the value of this provision and the corresponding term deposit have now been derecognised.		

Movements in provisions

There was no other movement in provisions during the financial year, other than employee benefits.

	2010 \$	2009 \$	2010 Shares	2009 Shares
18 Contributed equity				
Issued and paid-up share capital				
58,881,522 (2009: 58,881,522)				
ordinary shares, fully paid	<u>18,990,540</u>	<u>18,990,540</u>	<u>58,881,522</u>	<u>58,881,522</u>
(a) Movements in ordinary share capital				
There were no movements in ordinary share capital during the year.				
Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.				
On a show of hands every holder of ordinary shares present at a meeting or by proxy is entitled to one vote and upon a poll each share is entitled to one vote.				
(b) Capital management				
When managing capital, which is defined as contributed equity, management's objective is to ensure that the Company 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 to the Company and take advantage of favourable costs of capital or high returns on assets.				
Management has no current plans to alter the Company's existing capital structure. The Company is not subject to any externally imposed capital requirements.				

	2010 \$	2009 \$
19 Accumulated losses		
Accumulated losses at beginning of year	(13,604,920)	(15,128,252)
Net (loss)/profit attributable to members	<u>(1,190,706)</u>	<u>1,523,332</u>
Accumulated losses at end of year	<u>(14,795,626)</u>	<u>(13,604,920)</u>



NOTES TO THE FINANCIAL STATEMENTS

20 Financial instruments disclosure

Financial Risk Management

The Company's main risks arising from the financial instruments are interest rate risk, liquidity risk and credit risk. The board has no formal risk management committee due to the size of the Company and the number of directors, however the board does recognise that all directors and employees have a responsibility to recognise risks and actively apply controls to manage the risk. All controls in place are considered appropriate for the current position of the Company.

Interest Rate Risk

The Company's exposure to interest rate risk is related to its cash holdings with a variable interest rate. The Company constantly reviews its interest rate exposure and consideration is given to expected interest rate movements and future cash requirements.

Liquidity Risk

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of term

deposits. The management team continually reviews the Company's liquidity position, including the preparation of cash flow forecasts, to determine the forecast liquidity position and maintain appropriate liquidity levels.

Credit Risk

The Company's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of the financial assets of the Company, which comprises cash and cash equivalents and trade and other receivables. The Company assesses the defendants in the cases funded prior to entering into any agreement to provide funding.

(a) Interest rate risk

Interest rate risk exposures

The Company's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

	Notes	Weighted average interest rate %	Floating Interest rate \$	Fixed Interest rate \$	Non interest bearing \$	Total \$
2010						
<i>Financial Assets</i>						
Cash at bank	9	3.73 %	951,054	-	-	951,054
Interest bearing deposits	10	4.31 %	-	1,115,777	-	1,115,777
Available for sale investments	14		-	-	1,050	1,050
Trade and other receivables	11		-	-	1,010,736	1,010,736
			951,054	1,115,777	1,011,786	3,078,617
<i>Financial Liabilities</i>						
Trade and other payables	16		-	-	364,885	364,885
NET FINANCIAL ASSETS/(LIABILITIES)			951,054	1,115,777	646,901	2,713,732
2009						
<i>Financial Assets</i>						
Cash at bank	9	4.43 %	900,532	-	-	900,532
Interest bearing deposits	10	6.22 %	-	450,000	-	450,000
Available for sale investments	14		-	-	1,050	1,050
Trade and other receivables	11		-	-	2,831,041	2,831,041
			900,532	450,000	2,832,091	4,182,623
<i>Financial Liabilities</i>						
Trade and other payables	16		-	-	424,449	424,449
NET FINANCIAL ASSETS/(LIABILITIES)			900,532	450,000	2,407,642	3,758,174

	2010		2009	
	Carrying amount \$	Net fair value \$	Carrying Amount \$	Net fair Value \$

Recognised financial instruments

The carrying amounts and net fair values of financial assets and liabilities as at the reporting date are as follows:

Financial assets

Cash assets	951,054	951,054	1,350,532	1,350,532
Interest bearing deposits	1,115,777	1,115,777	450,000	450,000
Trade and other receivables	1,010,736	1,010,736	2,831,041	2,831,041
Available for sale investments (a)	1,050	1,050	1,050	1,050

Financial liabilities

Trade and other payables	364,885	364,885	424,449	424,449
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Cash assets and listed shares in other corporations are readily traded on organised markets in a standardised form. All other financial assets and liabilities are not readily traded on organised markets in a standardised form.

(a) The Company uses method Level 1 – the fair value is calculated using quoted prices in active markets.

(b) Liquidity risk

During 2008, the Company negotiated a funding facility from NAB in the amount of \$1,165,000 which was used to provide a bank guarantee for Rand 7,560,000 in the NPC case. As security for the Company's obligations under the funding facility, the Company's executive directors Alan van Noort and Ian Allen provided NAB with security in the form of registered mortgages over real property.

The funding agreement for the NPC case was terminated in February 2009. Upon termination, the Company remains liable to pay any taxed costs payable by NPC to any defendant arising or incurred during the term of the agreement. Any such liability would only occur should the NPC be unsuccessful in the proceedings and be the subject of an adverse costs order.

The funding facility from NAB and the associated bank guarantee will remain in force until the completion of the NPC case.

(c) Credit risk

The credit risk on financial assets of the Company is generally the carrying amount recognised on the balance sheet.

(d) Sensitivity analysis

The following table summarises the sensitivity of the Company's financial assets and liabilities to interest rate risk. Had the relevant variables, as illustrated in the tables, moved, with all other variables held constant, post tax profit/loss and equity would have been affected as shown. This analysis has been performed with consideration of expected interest rate movements in Australia, recognition of minimal use of debt funding and the Company's relationship with its bankers.



NOTES TO THE FINANCIAL STATEMENTS

	Carrying amount \$	Interest rate risk - 1%		Interest rate risk + 1%	
		Profit/loss \$	Equity \$	Profit/loss \$	Equity \$
2010					
<i>Financial assets</i>					
Cash assets	951,054	(9,511)	(9,511)	9,511	9,511
Interest bearing deposits	1,115,777	(11,158)	(11,158)	11,158	11,158
Total increase/(decrease)		(20,669)	(20,669)	20,669	20,669
2009					
<i>Financial assets</i>					
Cash assets	900,532	(9,005)	(9,005)	9,005	9,005
Interest bearing deposits	450,000	(4,500)	(4,500)	4,500	4,500
Total increase/(decrease)		(13,505)	(13,505)	13,505	13,505

	2010 \$	2009 \$
21 Commitments		
On 19 June 2009 the Company agreed to enter into a property lease with a lease term of 36 months from 1 November 2009. Future minimum lease payments not provided for in the financial statements and payable are as follows:		
Not later than one year	47,300	41,477
Later than one year but not later than five	70,715	118,015

22 Contingent liabilities

Indemnities

Indemnities have been provided to directors and certain executive officers of the Company in respect of liabilities to third parties arising from their positions, except where the liability arises out of conduct involving a lack of good faith. No monetary limit applies to these agreements and there are no known obligations outstanding at 30 June 2010.

	2010 \$	2009 \$
23 Note to the statement of cash flows		
Reconciliation of (loss)/profit from ordinary activities after income tax to net operating cash flows		
(Loss)/profit from ordinary activities after income tax	(1,190,706)	1,523,332
Items classified as investing/financing activities:		
Loss on sale of plant and equipment	-	691
Non-cash items:		
Litigation contracts written off	206,441	192,133
Depreciation	3,065	4,240
Change in assets and liabilities:		
(Increase)/decrease in term deposits	(565,777)	325,000
(Increase)/decrease in prepayments	1,009	(218)
(Increase)/decrease in debtors	1,853,320	(2,562,868)
(Increase)/decrease in litigation contracts	(139,969)	488,450
(Increase)/decrease in GST recoverable	(33,016)	(254,524)
Increase/(decrease) in trade and other payables	(59,564)	93,175
Increase/(decrease) in GST payable	-	(235,960)
Increase/(decrease) in provisions	(24,281)	22,473
Net cash (used in)/from operating activities	50,522	(404,076)

24 Related parties

The names of each person holding the position of director of Hillcrest Litigation Services Limited during the financial year are Messrs A R Van Noort, I D Allen and W A C Martin. Apart from the details disclosed in this note, no director has entered into a material contract with the Company since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end.

Compensation for key management personnel

Short term employee benefits	771,791	813,184
Post employment benefits	67,950	71,495
Total compensation	839,741	884,679

Transactions of directors and director related entities concerning shares

Aggregate number of shares and share options of the Company held directly, indirectly or beneficially by directors of the Company or their director-related entities at year end are set out below:

	2010 Number held ordinary shares	2009 Number held ordinary shares
A R Van Noort	13,864,353	12,204,807
I D Allen	11,556,738	11,056,738
W A C Martin	74,446	74,446



24 Related parties (continued)

The movement in each directors holding is outlined in the table below.

2010		1 July 2009	Shares Purchased	30 June 2010
A R Van Noort	Ordinary Shares	12,204,807	1,659,546	13,864,353
I D Allen	Ordinary Shares	11,056,738	500,000	11,556,738
W A C Martin	Ordinary Shares	74,446	-	74,446

2009		1 July 2008	Shares Purchased	30 June 2009
A R Van Noort	Ordinary Shares	12,104,807	100,000	12,204,807
I D Allen	Ordinary Shares	10,956,738	100,000	11,056,738
W A C Martin	Ordinary Shares	74,446	-	74,446

Other Transactions with directors and director related entities

During the year, the Company borrowed \$500,000 from Ian Allen at an interest rate of 5.1% per annum. The loan was on commercial terms and was fully repaid at year end. Related borrowing costs paid by the Company totalled \$629.

During 2008, the Company negotiated a funding facility from NAB in the amount of \$1,165,000 which was used to provide a bank guarantee for Rand 7,560,000 in the NPC case. As security for the Company’s obligations under the funding facility, the Company’s executive directors Alan Van Noort and Ian Allen provided NAB with security in the form of registered mortgages over real property.

The funding agreement for the NPC case was terminated in February 2009. Upon termination, the Company remains liable to pay any taxed costs payable by NPC to any defendant arising or incurred during the term of the agreement. Any such liability would only occur should the NPC be unsuccessful in the proceedings and be the subject of an adverse costs order.

The funding facility from NAB, the associated bank guarantee and the security provided by the executive directors will remain in force until the completion of the NPC case.

There were no other transactions with directors or director related entities.

	2010 \$	2009 \$
25 Employee benefits		
Provision for employee entitlements		
Current (note 17)	48,079	25,222
Non-current (note 17)	28,613	25,751
Employee numbers		
Number of employees at year end	3	3

26 Events subsequent to balance date

There has not arisen in the interval between the end of the financial year and the date these financial statements were approved, any item, transaction or event of a material and or unusual nature likely, in the opinion of the directors of the Company, to affect the operations and reported results of the Company

The directors of Hillcrest Litigation Services Limited declare that the financial statements and notes set out in pages 15 to 34:

- (a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the financial position of the Company as at 30 June 2010 and of the performance of the Company, as represented by the results of its operations and its cash flows, for the year ended on that date.

In the directors' opinion

- a. the financial statements and notes are in accordance with the Corporations Act 2001; and
- b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- c. The financial statements and notes also comply with the International Financial Reporting Standards as disclosed in note 2.

The directors have received declarations from the Chief Executive Officer and Chief Financial Officer as required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors:



Alan Van Noort
Chairman
Perth
26 August 2010



AUDITOR'S REPORT



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Independent auditor's report to the members of Hillcrest Litigation Services Limited

Report on the Financial Report

We have audited the accompanying financial report of Hillcrest Litigation Services 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.

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 and International Standards on Auditing. 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.



Auditor's Opinion

In our opinion:

- the financial report of Hillcrest Litigation Services Limited is in accordance with the *Corporations Act 2001*, including:
 - giving a true and fair view of the financial position of Hillcrest Litigation Services Limited at 30 June 2010 and of its performance for the year ended on that date; and
 - complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- 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 11 to 13 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 Hillcrest Litigation Services Limited for the year ended 30 June 2010 complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

G H Meyerowitz
Partner
Perth
26 August 2010

Liability limited by a scheme approved under Professional Standards Legislation



ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange and not disclosed elsewhere in this report is set out below. The information is current as at 20 August 2010.

Substantial shareholders:

Name	Number of ordinary shares held	% of total issued capital
Lomp Pty Ltd	13,297,023	22.58
Lanzerac Nominees Pty Ltd	11,256,738	19.12
SA Capital Funds Management Ltd	6,070,834	10.31

Voting rights

Ordinary Shares

At meetings of members or classes of members each member entitled to vote may vote in person or by proxy or attorney and on a show of hands every person present who is a member has one vote, and on a poll every person present in person or by proxy or attorney has one vote for each ordinary share held..

On-market buy-back

There is no current on-market buy-back.

Distribution of ordinary fully paid shares in the Company is as follows:

Spread of holdings			Number of holdings	Number of units	% of total issued capital
1	-	1,000	70	32,682	0.06
1,001	-	5,000	231	739,778	1.26
5,001	-	10,000	131	991,875	1.68
10,001	-	100,000	215	7,654,120	13.00
100,001	-	& over	56	49,463,067	84.00
			703	58,881,522	100.00

The number of shareholders holding less than a marketable parcel is 0.

Twenty largest shareholders as at 20 August 2010

Name		Number of ordinary shares held	% of total issued capital
1.	Lomp Pty Ltd	9,000,002	15.28
2.	SA Capital Funds Management Ltd	6,490,834	11.02
3.	Lanzerac Nominees Pty Ltd	5,500,966	9.34
4.	Avanoor Pty Ltd	4,779,386	8.11
5.	Protea Holdings Pty Ltd	4,695,890	7.98
6.	Darman Pty Ltd	2,331,428	3.96
7.	Tyler Enterprises Pty Ltd	1,856,669	3.15
8.	I Allen	1,436,716	2.44
9.	TJ & AM Tyler	760,000	1.29
10.	R Allen	742,280	1.26
11.	H Petch	721,334	1.23
12.	A Petch	721,333	1.23
13.	M Petch	721,333	1.23
14.	Pinewood Asset Pty Ltd	674,446	1.15
15.	G Critchley	600,000	1.02
16.	S Goodheart	508,500	0.86
17.	Uranus Investments Pty Ltd	502,103	0.85
18.	W Callaghan	500,002	0.85
19.	R Court	499,965	0.85
20.	Lab Investments (WA) Pty Ltd	472,500	0.80
		43,515,687	73.90





