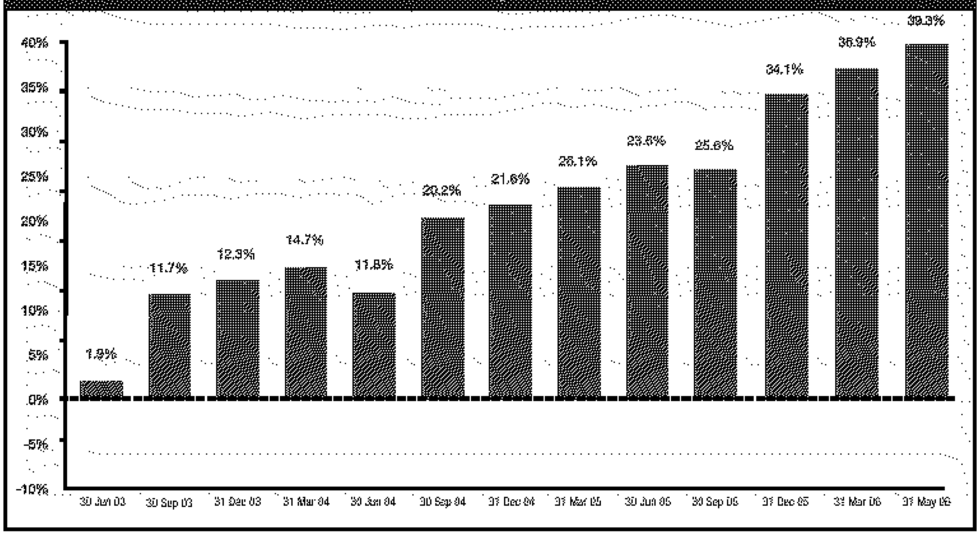
Wallace Absolute Return Limited

May 2006

Trading Highlights

	BEFORE TAX	AFTER TAX
□ Month ended 31 May 2006	1.63%	1.08%
□ Last Three Months	4.07%	3.19%
□ Last Six Months	6.73%	5.48%
□ Last Twelve Months	11.28%	9.24%
□ Annualised Return Since Inception	10.18%	8.52%
□ Date of Inception	28 January 2003	
□ End of Month Asset Value per share	$1.0377	$1.0223
□ End of Month Share Price	$1.01	$1.01
□ WAB share price premium / (discount)	(2.67)%	(1.20)%
□ WAB Stock Turnover in May 2006	1,320,078	

Before Tax Cumulative Quarterly Return



Fund Characteristics

Number of stocks held:	61
% in the ASX 300:	85.9%
% in the top five positions:	36.8%
% in convertibles:	0%

Largest 10 Positions: ANZ, BNB, CBA, FMG, MBL, NAB, PGN, SGB, WBC, WPL

How to invest in the Company

- Investors wishing to invest in Wallace Absolute Return Ltd can apply through the prospectus or by purchasing shares directly on the Australian Stock Exchange (ASX). The ASX code is WAB and shares can be purchased on the ASX by your professional adviser or through wrap accounts. The prospectus can either be downloaded from the website www.wallacefunds.com.au or mailed out upon request.

Contact Details

- To contact Wallace Absolute Return Limited, please call the office on (02) 9230 0422 or email us at wallace@wallacefunds.com.au.

Website Information

- More information can be found on the website, www.wallacefunds.com.au including the weekly returns of WAB, information about the Manager and tutorials on some of the trading strategies used.

Market Commentary

The WAB Net Asset Value increased by 1.63% before tax and 1.08% after tax in May 2006. Over the same period the S&P/ASX300 Accumulation Index fell 4.74% highlighting the low correlation between the returns of WAB and the Australian equity market.

May 2006 was one of the most volatile months for Australian stocks for many years. WAB benefited from its diversified portfolio and option holdings to produce a very satisfactory positive result for the month. Not surprisingly there were a number of large positive and negative contributors to the portfolio. Positive contributors included SEK (+15.9% for the month), ZFX (+15.2%), BNB (+9.4%) and FMG (-14.9%). Negative contributors included RIN (-12.74%), OXR (-12.0%), MBL (-10.4%) and CSL (-10.75%).

The wild ranges in the prices of commodities and resource stocks vindicated the reduction in resource stock exposures over the preceding months. The current lower prices seem, in the opinion of the investment manager, Wallace Funds Management (WFM), to more accurately reflect the broader macro-economic risks which are causing central banks both domestically and overseas to further tighten monetary policy.

WFM believes corporate activity is likely to remain strong although the failure of a rival bid for PRK to materialise and the withdrawal of the Snowy Hydro share float are perhaps early indications that activity levels may have peaked.

Once again investors are welcomed to the website www.wallacefunds.com.au and to our office at Level 19, 68 Pitt St, Sydney NSW 2000.