

# **IMF (AUSTRALIA) LTD**

**AUGUST 2003 PRESENTATION**

**BY**

**Alden Halse (Chairman)**

**and**

**Hugh McLemon (Managing Director)**

## **OBJECTIVES**

- History and Structures
- Business Model
- FY2002 & FY2003 Results
- Example of Matters Funded and Concluded
- FY 2004 Expectations
- Risks

# History and Structures

- October 2001 restructuring and re-listing
- Capital raised approx \$10m
- Name change
- Shares/options on issue
- Board: Halse / McLernon / Walker / Bowen
- Major shareholders: Hill / Pratt Group / McLernon / Walker

## October 2001 Restructuring and Re-Listing

1. Max Multimedia Limited floated on the ASX in January 2000.
2. By October 2001:
  - a. the company had 47M shares on issue;
  - b. all staff had been retrenched;
  - c. the great majority of contracts had been renegotiated and terminated;
  - d. the company had \$4.6M in cash;
  - e. the company had convertible notes on issue totalling \$2.6M;
  - f. the shares were trading at 4¢ and had about 4¢ cash asset backing.
3. Insolvency Management Pty Ltd (IMF Pty Ltd) was operating as a litigation funder in Sydney under John Walker.
4. The Danny Hill company Expectation Pty Ltd owned 50% of IMF Pty Ltd, Hugh McLernon owned 25% and John Walker owned 25%.
5. IMF Pty Ltd had about 80 cases in which it had invested about \$2.4 million.
6. Expectation had provided the finance to IMF Pty Ltd and was entitled to the first \$3 million coming back from those 80 cases.
7. Max Multimedia Limited agreed to buy all the shares in IMF Pty Ltd from Expectation, McLernon and Walker for \$1.5 million which purchase price was paid by the issue of 7.5M

shares at 20¢ per share which are in escrow until October 2003.

8. Max Multimedia consolidated its share capital on a five to one basis (ending up with 17M shares).
9. The company repaid the convertible note holders and was therefore left with about \$1.7 million, all of the shares in IMF Pty Ltd and no debt.

### Capital Raising

1. In October 2001 Montagu's acted as underwriters for a 2 for 1 rights issue to shareholders of Max Multimedia.
2. The issue was sub-underwritten by the major shareholders Expectation, Thorney, McLernon and Walker.
3. 36.4M shares were issued at 20¢ (raising \$7.3M).
4. The rights issue was fully subscribed.
5. In addition the company placed 12.5 million at 20¢ to raise \$2.5 million primarily to major shareholders.
6. The total raised was \$9.8M from the rights issue and the placement.

### Name Change

1. The initial name change was to take on the name under which the by then subsidiary company had been trading so that Max Multimedia Limited became Insolvency Management Fund Limited.
2. For the past six years or so the subsidiary and now the holding company has been known in the market and in public circles as "IMF".
3. It quickly became clear that the company had as many prospects in the non-insolvency arena as it did with insolvency practitioners and therefore we sought to escape from the description of "Insolvency" by changing the name of the company to IMF (Australia) Ltd.
4. As it happens we obtained the ASX ticker IMF and we also have the internet domain name IMF.
5. IMF carries on business through its wholly owned subsidiary which was originally known as Insolvency Managing Fund Pty Ltd but is now called Insolvency Litigation Fund Pty Ltd or ILF.

### Shares and Options on Issue

1. Ordinary shares on issue 66M (7.5M in escrow).
2. Executive options:

- a. Hugh McLernon 3,600,000 at 20¢ per share (exercisable by October 2004);
  - b. John Walker 1,800,000 at 20¢ per share (2004)
3. Non-Executive director options:
- a. Alden Halse - 450,000 at 30¢, 40¢ and 50¢;
  - b. Michael Bowen - 450,000 at 30¢, 40¢ and 50¢.
4. Deposit facility options:
- a. Expectation 7.5M at 20¢ (exercisable by 2006);
  - b. Hugh McLernon 2.75M at 20¢ (2006);
  - c. John Walker 2.85M at 20¢ (2006).
5. Because of the amounts which have been deposited pursuant to the deposit facility, the point in time at which the deposits were made and the likely time of exercise of those options the final fully diluted capital of the company is likely to be about 85 million ordinary shares.

#### Board Members

1. Alden Halse - Chairman:
  - a. Background of 30 years in accounting profession specialising in insolvency as a founding partner of Ferrier Hodgson in Western Australia;
  - b. Also on board of Count Financial and RAC.
  - c. Responsibilities:
    - i. product marketing;
    - ii. mentor to company secretary in relation to company accounts and company secretarial duties;
    - iii. audit committee.
2. Hugh McLernon - Managing Director:
  - a. 20 years legal practice as criminal prosecutor, barrister and partner at Clayton Utz;
  - b. 10 years experience in litigation funding;
  - c. 7 years experience as director for numerous listed companies.
  - d. Responsibilities:
    - i. overall performance of the company;

ii. in particular WA, SA and NT operations.

3. John Walker - Director

- a. 10 years as a legal practitioner specialising in insolvency;
- b. 8 years running Insolvency Management Fund Pty Ltd as a litigation funder;
- c. Understudy to Hugh McLernon as MD;
- d. Responsibilities:
  - i. overseeing operations in NSW & QLD;
  - ii. budgets and case management systems;
  - iii. pro bono operations.

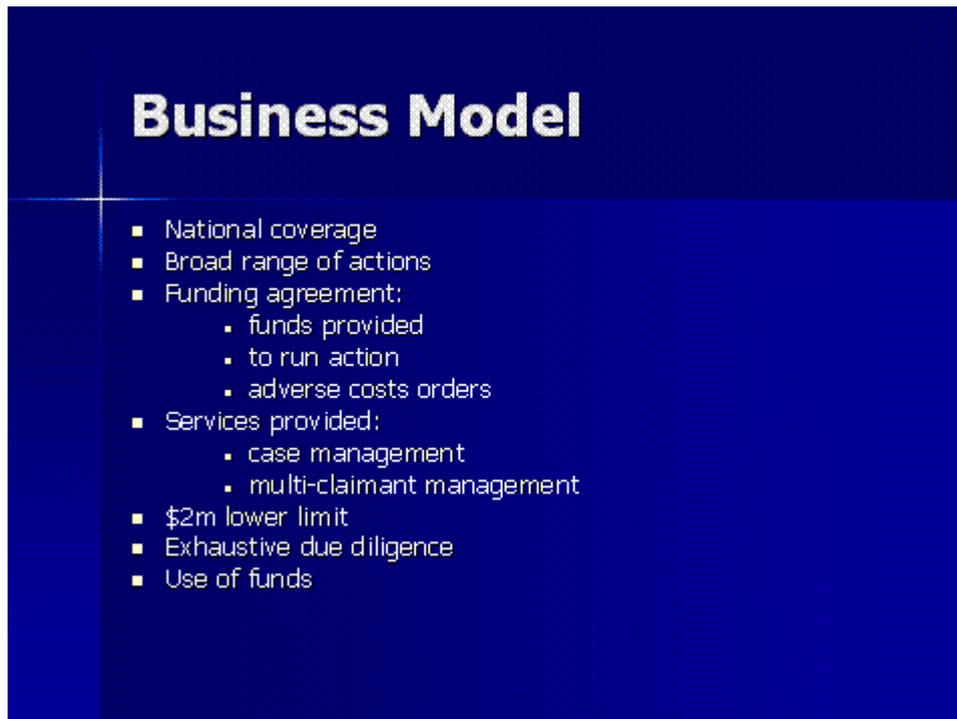
4. Michael Bowen - Non executive Director:

- a. Joint degrees in law and accounting;
- b. 15 years as partner at Clayton Utz specialising in corporation law;
- c. Now partner in specialist corporations law practice of Bowen Hardy.
- d. Responsibilities:
  - i. corporate advice throughout group;
  - ii. Mentoring MD on corporate strategy;
  - iii. chairman of audit committee.

### Major Shareholders

1. The five major founding shareholders are parties who have a good understanding of litigation funding.
2. On a fully diluted basis of 85 million shares the major shareholders are:
  - a. Expectation - 31%;
  - b. Hugh McLernon - 13.5%;
  - c. John Walker - 7.7%;
  - d. Thorney - 6%.
3. Because the raison d'etre of the company is not asset accumulation but rather dividend payment it is thought that, as market awareness increases, the shareholding of the company

will move towards institutions and fund managers.



## Business Model

- National coverage
- Broad range of actions
- Funding agreement:
  - funds provided
  - to run action
  - adverse costs orders
- Services provided:
  - case management
  - multi-claimant management
- \$2m lower limit
- Exhaustive due diligence
- Use of funds

### National Coverage

1. Litigation funding is a national business.
2. Such business takes place in the Supreme Court of each state and territory and in the Federal Court of Australia.
3. IMF currently funds litigation in each of those courts.
4. In order to establish a national operation IMF has offices in Sydney, Melbourne and Perth. Sydney is responsible for NSW, QLD and ACT. Melbourne is responsible for VIC and TAS and Perth is responsible for WA, SA and the NT.
5. IMF does not do any legal work. Executives of the company are required to give up their legal practising certificate upon joining the company. The business model is that IMF will have a close relationship with three or four legal firms in each state who will carry out a large part of the company's litigation. If a particular client requests a particular lawyer then, in most cases, that lawyer will be appointed.
6. In this way IMF will have the full services of 30 or so legal firms around Australia as independent contractors providing their services to the company on an agreed and discounted basis.
7. IMF has already achieved national coverage.
8. The company plans to expand its operations to NZ once all of its operations have been fully bedded down in Australia (about June 2004).

### Broad Range of Actions

1. There are some actions which will not be funded by IMF:
  - a. family law actions;
  - b. very personal actions such as defamation, personal injury;
  - c. actions for declarations, injunctions or other non-monetary verdicts.
2. IMF funds actions in both the insolvency and non-insolvency areas.
3. Within those two areas there is no other limit to the type of actions that can be funded.
4. In general terms the company has moved well away from having a large number of small cases to a business model of a smaller number of larger cases.
5. It is generally true to say that an action for \$200,000 may well cost as much and take as long as an action for \$2 million or \$20 million. The risk/reward ratio is, however, markedly different in each case.
6. The company does not fund cases below \$2 million of claim.

#### Funding Agreement

1. In Australian courts the losing party is generally required to pay the taxed costs of the winning party. (In this regard the Australian system is completely different from the American system which does not require an unsuccessful party to pay the costs of the successful party).
2. IMF pays the legal costs of the client and the court costs of the litigation.
3. In addition IMF indemnifies the client against an adverse cost order if the litigation is unsuccessful. Any unsuccessful litigation generally attracts a cost order of about 70% of the amount paid by IMF to the client's solicitors. (This is because the amount able to be recovered through court order is about two thirds of the amount actually charged by solicitors in Australia).
4. It is often the case that the courts will order a funded plaintiff to provide security for the defendant's costs. In these circumstances IMF obtains a bank guarantee which, of course, requires IMF to place on deposit an amount equal to the guarantee. This is not an extra cost but it is a cash flow factor.
5. In return after a successful settlement or judgment IMF is paid out the amount it has actually expended and then receives between 30% and 40% of the judgment.
6. In 10 years of litigation and hundreds of cases only two clients have attempted to avoid payment after a successful resolution to their litigation. Both clients ended up paying the full amount once they realised the error of their ways.
7. IMF settles a budget for each case with the solicitors and then undertakes to fund the action for that budgeted amount. If the solicitors go over the budget then, in the absence of agreement, they obtain the over budget amount from the settlement or judgment if and when the litigation is successful.
8. In this way IMF can budget for outgoings.

9. The company applies a formulae for its income budget which takes account of the following factors:
  - a. the number of cases on hand;
  - b. the number of cases that will be settled;
  - c. the number of cases that will be won and lost when taken right through the litigation process.
10. In general terms the company is currently on or about budget for:
  - a. expenses;
  - b. income;
  - c. employee growth;
  - d. premises;
  - e. matters on hand.

#### Services Provided

1. The company has on staff people who have the following expertise:
  - a. legal;
  - b. administrative;
  - c. accounting;
  - d. investigative.
2. Any business which simply provides funding for litigation is destined to fail. This is because the decision making, strategy and investigation and negotiation is left to the solicitors running the case. Solicitors are generally good at running cases through the courts but that is all.
3. Prior to accepting an offer to fund litigation IMF carries out a very thorough due diligence of the proposal.
4. More than 50% of all proposals are refused.
5. Under the supervision of the solicitors IMF investigators will often be responsible for gathering the evidence in relation to the particular case (the company carries appropriate licences for this work).
6. The first test applied by IMF is not whether the litigation will succeed, but rather will the defendant be able to pay once the litigation has been won.
7. The second question applied by IMF to all litigation funding opportunities is - "is it virtually certain that this litigation will be successful."
8. IMF oversees the activities of the solicitors and ensures that time lines, budgets and court

orders are met.

9. IMF executives will often be involved in the major strategic moves during the course of the litigation.
10. IMF reports to the client during the course of the litigation and takes instructions from the client on any major steps.
11. The decision as to settlement of the litigation always remains with the client.
12. The major clause of all funding agreements (which is our only non-negotiable term) is that IMF may withdraw from the litigation funding agreement at any time.

#### Use of Funds

1. Our budget requires a return on funds invested in cases of about 300%.
2. It is of course to the advantage of the company to have every available dollar invested in cases.
3. It is equally important to ensure that the cash flow is such that there is never any question as to the ability of the company to meet its financial commitments.
4. There is thus a very careful balance to be drawn and maintained between the amount of funds invested in cases and the amount of funds held in a liquid form.
5. The company is planning to have liquid cash assets of \$20 million by 30 December 2003. This will be a sufficient cash buffer during the development of the company over the next two years. Note that this is a plan not a forecast.
6. Growth within the company is constrained primarily by people rather than the amount of cases requiring funding or the amount of money required to fund them.
7. In order to achieve our quality control aims the company will not increase its personnel over the next 24 months. During this time the company can take on about three times the number of cases it is currently managing.
8. The company has announced that it will begin paying dividends once it has this \$20 million cash position.

# Financial Results FY 2002 & FY 2003

- FY 2002
  - loss of approx \$750k
  - 8 month period
  - set up costs expensed
- FY 2003
  - anticipated after tax profit approx \$8m
  - business model working
  - some major success in matters funded, as expected
- Capital reduction anticipated to quarantine pre-restructure losses
- Dividend policy

## Financial Year 2002

1. The company commenced operations in October 2001.
2. There were then about 80 small cases on hand with \$2.4 million invested in those cases and \$3 million owing to Expectation (Expectation was entitled to 133% of all monies advanced to IMF Pty Ltd during the course of its earlier operations and prior to its acquisition as a wholly owned subsidiary of IMF).
3. The initial months were spent establishing systems and communications, setting up the Perth office and recruiting the necessary personnel to build and grow the company.
4. The company operated for 8 months during the year to June 2002 and achieved a loss situation of \$750,000 primarily by virtue of successfully concluding the first major case taken on by the company against Chris Corrigan and the Patrick Corporation.
5. The settlement in that case effectively enabled us to offset a large amount of the set up costs and to return a modest loss, taking into account the fact that this was essentially a setting up period.
6. All monies paid out directly for legal cases were capitalised to the balance sheet as was a percentage of overheads. This is the practice of the company established in conjunction with Ernst & Young the company auditors.
7. As a case is finalised the capitalised amount is written off against the income.
8. Thus our three major balance sheet items are:
  - a. Cash;
  - b. Funds invested in cases;

- c. Funds owing from completed cases.

## Financial Year 2003

1. Completed cases - during the year we completed six major cases:
  - a. The tobacco retailers case - in this matter by 30 June we had collected about \$9 million out of a total of about \$14 million. Since 30 June we have collected a further \$2M and will collect the remaining \$3M over the next few months.
  - b. Whyalla Airlines - all monies have been collected;
  - c. ACTA - we are in the process of collecting \$2.3 million;
  - d. Ezishop - we have a judgment for \$800,000 which is currently under appeal by the unsuccessful defendant;
  - e. Ag.com - \$700,000 has already been collected;
  - f. Australian Mezzanine Finance - \$550,000 has been collected.
2. Lost Cases - during our first 20 months of operation we lost one case of any significance. We unsuccessfully appealed from the decision.
3. The total loss to IMF was about \$500,000.
4. Anticipated profit - the company has announced an anticipated profit of \$8 million to 30 June 2003. This profit may be higher after discussion with the auditors because the company has not included any of the result from the ACTA matter. If the company's entitlement under this action is included then the profit will be in the region of \$9.5 million.
5. Cash position - the company currently has cash at bank of about \$10 million. The company recently announced that it expected to have \$13 million cash on hand as at the end of September.
6. As set out above the company believes that it requires an amount of \$20 million cash to enable it to operate smoothly within the litigation funding market. The company's aim (although not its forecast) is to have \$20 million by 31 December 2003.

## Business Model

1. As part of our business model we have budgeted for nominated numbers of litigation funding agreements where the company is likely to spend between \$250,000 and \$3 million. We met that budget during the 2003 financial year and are well on our way to meeting it for the 2004 financial year.
2. The aim of having this spread is to ensure that the company cannot be damaged by three or four large losses.

3. Two very recent examples show the folly of not following this approach to litigation funding and simply funding one or a small number of large cases. The funders of the action between McConochie and the National Australia Bank found that they were backing a loser but had no other cases to off set that single loss. In the same way the GIO funding of the recent Emmanuel cases in Queensland lead GIO to a \$50 million loss which it cannot offset against other cases because it went for the one big hit.
4. During the first year of our operation we did not commit funds to any case in which our funding for that case was in excess of 20% of available funds.
5. That criteria has now been tightened to 10% ie.our largest case can only cause us a loss of 10% of our cash holdings.
6. In very general terms our underlying business model is that from every 10 ten cases:
  - i. We will withdraw from one;
  - ii. We will settle six;
  - iii. We will go to trial on three;
  - iv. From those three that go to trial we will win two and a half (win 5 out of 6) and lose one half (lose 1 out of 6).
7. As can be seen from this model we therefore expect to lose one and a half out of ten cases. This is very close to what actually happened during the 2003 financial year.

#### Capital Reduction

1. The 2003 profit can either be offset against existing losses for accounting purposes or those losses can be written off and the capital reduced accordingly.
2. If the profits are offset against the losses then those profits will not be available for distribution by way of dividends.
3. If, on the other hand, the losses are written off and the capital reduced then the profits will be available by way of dividends into the future.
4. This is important from a timing point of view so far as dividends are concerned. If the company waits to pay dividends out of profits upon which tax has already been paid then it will obviously have to wait until after 30 June 2004 and in normal circumstances until some time around September 2004.
5. If on the other hand it is clear by December 2003 that the company is in a position to pay dividends (because it has got to its \$20 million cash position) then it would be sensible to prepare for that event by writing off losses and thereby leaving the 2003 and early 2004 profit to be the subject of a dividend.
6. The company is currently taking legal, accounting and taxation advice in relation to this matter and an announcement will be made in time for the matter to be considered by shareholders at the upcoming general meeting.

## Dividend Policy

1. 1. The company needs to retain sufficient money to:
  - i. Pay overheads which are currently running at about \$3 million per year; and
  - ii. Fund the actions on hand with a good safety cash buffer.
2. Once this position is achieved there is simply no point in holding further cash and it is the intention of the company to pay special dividends from time to time if and when the company is successful in a particular piece or pieces of litigation.
3. Depending upon events the initial dividends may be unfranked (here we will talk with shareholders to determine whether they would rather receive unfranked dividends or wait in order to receive franked dividends).
4. On the basis that the market generally values cash at bank at below dollar value we see this policy as being positive from a share market point of view.
5. Within a year or so we should get to a point where the market is more easily able to rate us on a price/earnings basis.
6. A number of shareholders have raised the question as to whether IMF's business should be seen as "lumpy". When the company is fully into stride during the next one or two years it will be have between 30 and 50 cases settling or going to trial each year. Settlements and judgments will be spread throughout the year just as they have been in the first year of operation. We do not believe that this represents a lumpy business.

## Examples of Matters Funded and Concluded

- Tobacco Retailers:
  - 8000 retailers
  - Tobacco excise
  - Philip Morris / British & American Tobacco
  - Approx \$60m
  - Successful settlement
- Whyalla Airlines:
  - families of 8 victims
  - Lycoming, engine manufacturer
  - USA jurisdiction
  - Successful settlement

## Examples of Matters Funded and Concluded (Con'd)

- Patrick Corporation:
  - Wharf dispute
  - Ex-soldiers
  - Successful settlement
- NSW Supermarkets:
  - Outback Bourke
  - Arson / not arson?
  - Investigative skills
  - Successful settlement
- Ag.Com
- Australian Mezzanine Finance

### Tobacco Retailers

1. In this matter the deal was brought to us by a third party who had been battling the tobacco companies for five years or so and had already taken the matter to the High Court.
2. We negotiated a deal with that third party based upon IMF receiving a success fee of 30% to fund an action in the Supreme Court of New South Wales on behalf of each of the 8,000 retailers against British American Tobacco and Philip Morris.
3. It was a major administrative task to sign up all of the 8,000 individual retailers to a litigation funding agreement. We employed about 150 canvassers to go out into the market place, meet with the retailers and get them signed up.
4. The proceedings were commenced in the Supreme Court and were due to come to trial.
5. In the few days before the trial commenced we settled with Philip Morris. The settlement was for 100% of the amounts owing.
6. The hearing proceeded and was finalised. We thought that it had gone very well and it appears that British American also thought it went very well because they then settled with us after the hearing finished but before the Judge delivered his judgment. On this occasion British American settled for 105% of the amount owing.
7. In order to ensure that the settlements did in fact occur we agreed to drop our percentage back from 30% to about 20%.
8. Since the settlement we have been involved in an extremely complex and time consuming administrative procedure of matching the 8,000 clients against the records of the two tobacco companies and agreeing in each case the amount owing to those clients.
9. As the clients are paid we are paid our 20%.
10. So far we have received about \$11 million in commission and expect to get around \$14

million.

11. This is about \$1 million below our original estimations of \$15 million when we started the administrative procedure.
12. This case taught us an enormous amount about how to organise very large numbers of plaintiffs in an efficient and timely way. It also taught us the importance of regular communication. We have honed our multiple plaintiff procedures as a result of our experience with this very large case.

### Whyalla Airlines

1. In this case a twin engine aeroplane went down in Spencer Gulf with eight people on board, all of whom perished.
2. Everyone (including Australia's air safety people) rushed to blame the pilot who was a young man without years of experience in this type of flying.
3. We were approached by the families of the victims to fund their litigation.
4. Our due diligence strongly suggested to us that the cause of the crash was actually metal fatigue in the crankshaft of one of the engines.
5. We decided to take the litigation to America and issued proceedings against Lycoming in Pennsylvania.
6. The thinking was that families of deceased persons had a better chance of obtaining a serious judgment in the US than they did in Australia.
7. We also paid to have the engine flown to the US where the pistons and the crankshafts were tested for metal fatigue.
8. We settled with Lycoming and each family received about \$1 million.
9. IMF received about \$1 million by way of fees and we also received repayment of our funding of \$600,000.
10. Our return on this case was lower than normal because we offset a great majority of our risk by entering into an agreement with solicitors in the US who took up the case on a contingency basis. We reduced our fee to 12% but we had no downside.

### Patrick Corporation

1. In this matter the soldiers who had been taken to Dubai and trained as wharf labourers issued proceedings against Patrick Corporation for false and misleading conduct. The men allege that they had actually been recruited as a strike breaking force.
2. The proceedings had already been commenced but were terribly bogged down and going nowhere.

3. We undertook to fund the litigation but also to manage it and to run the strategy and settlement parts of the litigation.
4. A series of settlement meetings with Corrigan and his representatives resulted in a settlement which was acceptable to the soldiers.
5. IMF received its funds of about \$500,000 and a profit of \$1.5 million.

#### New South Wales Supermarkets

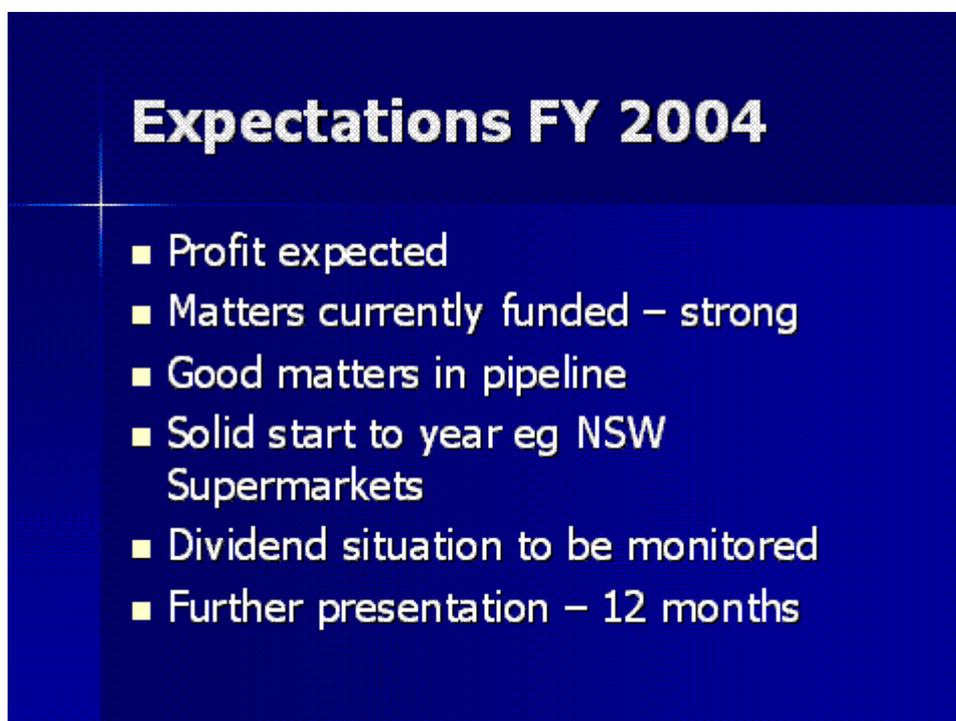
1. In this case the client had been charged with arson. It was alleged that he had burnt down supermarket premises in Bourke owned by a company associated with his family.
2. The client had been acquitted at trial but the insurance company refused to pay out under the policy alleging arson.
3. In addition, there were questions as to whether the insurance broker had properly affected insurance on behalf of the owner of the building.
4. This case is a very good example of the investigative ability of the company. Our senior investigator Paul Rainford spent numerous hours at Bourke investigating the circumstances of the fire and reinterviewing witnesses who had given evidence at the criminal trial. In addition Mr Rainford located witnesses who had not been called at the original hearing.
5. As a result of his work it became abundantly clear that whoever had lit the fire, it was not IMF's client.
6. As a result of this extra evidence we were able to effect a settlement of the proceedings.
7. IMF had paid \$350,000 towards the legal costs of the proceedings and received those monies back plus a fee of \$1.3 million (note that the fee referred to in our release of 10 July 2003 refers to \$1.085. This was the fee as at that date but the final fee is actually closer to \$1.3million).

#### Ag.com

1. This was an action by the liquidator of a dot com company against Accenture who had given the company start up advice.
2. IMF funded the liquidator for proceedings against Accenture.
3. The company assisted with the settlement negotiations and settlement occurred very quickly after proceedings had been commenced.
4. IMF expended about \$150,000 and received fees of \$600,000 plus repayment of the amount expended.

#### Australian Mezzanine Finance

1. In this matter the parties had negotiated a joint venture with Australian Mezzanine Finance to purchase and float a major radiography business originally known as the Victorian Imaging Group.
2. AMF had gone its own way and successfully floated the business without our client's involvement.
3. The client sued for damages. IMF did not agree to pay any legal fees but it did agree to provide an adverse cost cover. This did not involve any funds being paid out by IMF but rather an undertaking by IMF that it would meet any adverse cost order if the client lost the proceedings against Australian Mezzanine Finance.
4. In the event the matter was settled and IMF received its fee of \$550,000.
5. These last two matters have not been reported upon to ASX because they fell below the limit of \$1 million at which we report successes.



#### Profit Expected

1. It is very difficult to forecast future profit. On the other hand we can say something about the cases which we have on hand and which we expect to be concluded within the next 12 months.
2. There are currently cases in place which should be finalised during this financial year which, if successful, would be sufficient to give rise to our budget income figure of \$21 million for 2004.
3. If this figure is achieved then the budgeted gross profit is about \$17.5 million.
4. If this gross profit is achieved then that would give rise to a net profit of about \$14 million.
5. Our budgeting is done on two year cycles so those figures are budgeted for in each of the next

two years but may be lumped more into the second year depending upon the timing of settlements and judgments (ie.a total gross profit of \$35M for the next two years and a total net of \$28M).

6. It is important that we emphasise that these are not forecasts are they are simply budgeted figures for each of the next two years.
7. One or two serious losses or delays would put a big dent in the figures.

#### Matters Currently Funded

1. IMF currently has a book of cases, some of which have been up to three years in gestation.
2. Attached is a list of the cases currently being funded by IMF with a very rough assessment of the amount of the claim.
3. IMF's arrangement is for a share of the final result, somewhere between 30% and 40% for each case.

#### Cases in the Pipeline

1. IMF is constantly receiving matters for evaluation. At any time we have six to 10 cases under consideration. At the present moment we have six cases where we are either continuing with our due diligence or have made an offer of funding which has not yet been accepted.
2. By way of example we are considering funding an action by a multitude of travel agents against the major banks who reversed their credit card payments when Ansett collapsed and cost the travel agents about \$75 million.
3. We are also considering funding an action by the residents of Yarloop in Western Australia who reside next to the Alcoa aluminium refinery and whose lives have been blighted by that experience.
4. We are doing due diligence on an application for funding by the convertible note holders in Normans Wine against the auditor of the company.

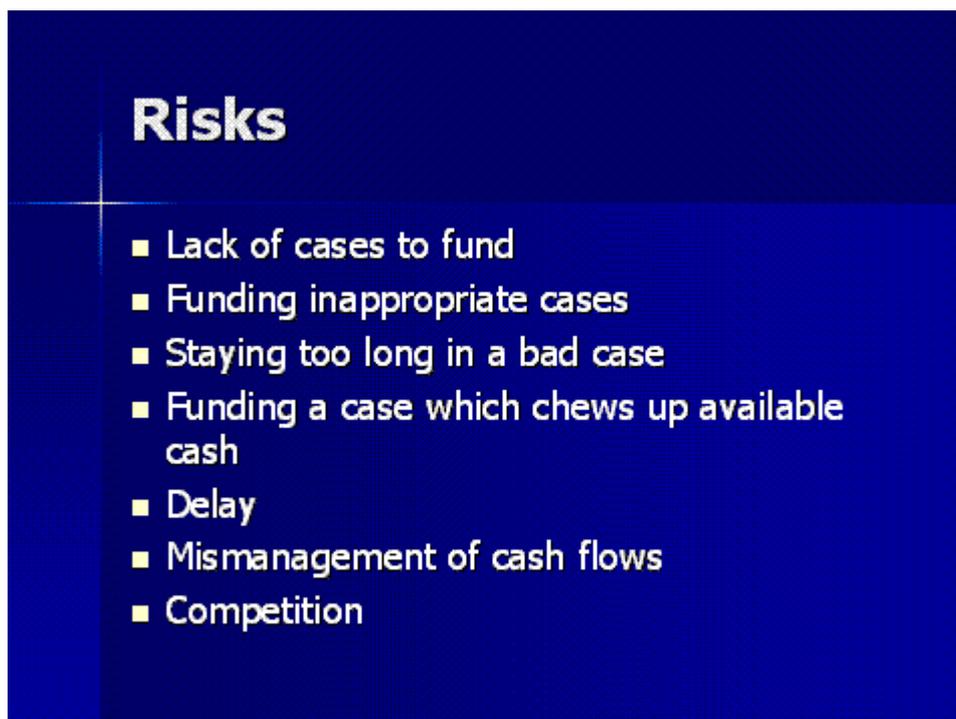
#### Solid Start to Year

1. On 10 July the company announced the settlement of the New South Wales Supermarket case referred to above.
2. Although the matter was in the throes of settlement as at 30 June the Board has decided not to revalue the amount invested in the case as at that date and to leave the matter to be brought to account in the 2004 financial year. The Board believes that a consistent policy of not revealing cases upwards will ensure a conservative statement of the company's intangible assets in the form of funded cases.
3. In addition, the Sentinel case is well underway against Financial Wisdom which is a subsidiary

of the Commonwealth Bank. That case is being conducted in the Supreme Court of Victoria.

#### Further Presentation

1. The company would like to make a presentation such as this each 12 months to those brokers who believe it will be of assistance to their operations.
2. It is also our intention to place the details of this briefing on the IMF web site ([www.imf.com.au](http://www.imf.com.au)) for the general information of shareholders and the investing public.



#### Lack of Cases to Fund

1. The history of the human race shows that the last two creatures left alive on this planet will be a cockroach and a litigator. It is highly improbable that the supply of funding opportunities will dry up.
2. In fact, a large number of cases which are funded by IMF would not have seen the light of day, so, in effect, IMF is, on many occasions creating litigation (by enabling litigants to have their day in court when they would otherwise be denied that opportunity).

#### Funding Inappropriate Cases

1. Apart from the strong due diligence process IMF also employs a collegiate approach to the acceptance of funding opportunities.
2. A fortnightly discussion is held in relation to due diligence cases and a veto by any state leader or his supernumerary means that the funding opportunity in question will not be accepted.

## Staying Too Long in a Bad Case

1. Some cases which are appropriate for funding turn out to be less than appropriate as further facts emerge.
2. IMF has made provision in all of its funding agreements which enables it to cease funding at any point in time. If this occurs then IMF has to pay the costs to the date of its departure but no more.
3. Cases are kept constantly under review and are discussed at the fortnightly conference referred to above.

## Funding a Case which Chews up Available Cash

1. As mentioned above we are now at a point where no case will be accepted in the normal run of things if that case will take up more than 10% of available cash.
2. In the near future we will start looking at much larger cases but will generally either insure the funding or joint venture that funding with other parties.

## Delay

1. Serious delay in a large number of cases can cause distortion to the budget and problems with cash flow.
2. A major role adopted by IMF is to persuade the lawyers in charge of each case to stick to their own time limits and to ensure that delay does not become the problem either for their clients or for IMF. This is in part why IMF has moved to a model of taking on a smaller number of larger cases.

## Mismanagement of Cash Flows

1. The worst possible event for a litigation funder is that the funder is not able to immediately meet a demand for payment by the solicitors retained by the funder or by the other side.
2. Proper management of cash flow is therefore of paramount importance. This is the reason why the company has decided to seek a very solid cash buffer of \$20 million prior to dividend distribution.

## Competition

1. There is currently little or no competition for IMF in the market in which it operates. There is no doubt that competition will emerge. IMF has budgeted for and expects competition at some

point after 2005.

2. IMF believes that the next two major funders into the industry will fail because they will not have the advantages gained by IMF over more than a decade of litigation funding.
3. While those companies are failing however they will no doubt attract some cases which would otherwise have been funded by IMF. It may be of course (as is so often the case) that IMF will pick up those opportunities from the failed funders.

#### LIST OF CURRENT CASES

4. Sentinel - \$20 million (Supreme Court of Victoria trial currently underway)
5. Geneva Finance - \$20 million (Supreme Court of Western Australia trial 2004)
6. Pilbara Manganese - \$6 million (Supreme Court of Western Australia trial early 2004)
7. Coplex Resources NL - \$20 million (Supreme Court of Western Australia)
8. Finance Broking case - \$90 million (Supreme Court of Western Australia)
9. Cobar Mines - \$5 million (New South Wales)
10. Nomad Services - \$5 million (New South Wales)
11. Mercury Rising - \$20 million (Supreme Court of Victoria)
12. Barron Films - \$2 million (Western Australia)
13. Simplex - \$1.2 million (Queensland)
14. Marsden Partners - \$12 million (Supreme Court of Western Australia)
15. Ord Minnett - \$20 million (Supreme Court of Western Australia)
16. Kingsheath - \$5 million (Supreme Court of New South Wales)
17. Doran Constructions - \$4 million (trial August 2003)
18. Henry & Edward - \$4 million (Victoria - settlement negotiations under way)
19. Shifern - \$3 million (Queensland)
20. Meadow Springs - \$10 million (Western Australia)
21. Irlmond - \$3 million (Victoria)
22. Pan Pharmaceuticals - \$50 million (New South Wales)
23. Basuki - \$4 million (Supreme Court of Western Australia - settlement negotiations under way)