

WALLACE ABSOLUTE RETURN LIMITED
ABN 58 100 854 788

Appendix 4E Statement
Preliminary Final Report

RESULTS FOR ANNOUNCEMENT TO THE MARKET
YEAR ENDED 30 JUNE 2009

All comparisons to the year ended 30 June 2008

2.1 Comparison to Prior Year

	Current Year 2009 \$	Up/Down	% change prior year
Revenue loss from ordinary activities	(46,652,483)	Down	-57.1%
Profit (Loss) before income tax attributable to members	(48,679,431)	Down	-38.2%
Net Profit/(Loss) after tax attributable to members	(59,601,460)	Down	-150.5%

2.2 Dividends (distributions)

No dividends were declared or paid during the year.

2.3. NTA Backing

	2009	2008
Net tangible asset backing per share (excluding tax asset)	\$0.06	\$0.63

2.4 Summary and comments

- Loss after tax of \$59.6 million for the year to 30 June 2009 compared to a loss after tax of \$23.8 million for the year to 30 June 2008.
- Net Tangible Assets per share fell to \$0.06 as at 30 June 2009 compared to \$0.63 as at 30 June 2008.
- Basic earnings per share was a loss of \$0.71 in the year to 30 June 2009 compared to a loss of \$0.28 for the year to 30 June 2008.
- Results due to downturn in stock market, impairment losses of \$41.6 million on unlisted securities and write-down of deferred tax assets.
- The portfolio of listed securities was converted to cash prior to 30 June 2009.

This report is based on the Financial Report which is in the process of being audited. The audit opinion may be qualified as there is insufficient information available to assess the value attributed to the investment in HAL Data Services Pty Limited.

All the documents comprise the information required by Listing Rule 4.3A

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2.5 Returns to shareholders (including distributions and buy backs)

No buybacks occurred and no dividends were paid or declared during the year.

2.6 Significant features of operating performance

Wallace Absolute Return Limited ("the Company") reports a loss after tax for the year to 30 June 2009 of \$59,601,460. The loss reflects the poor performance of equity investments in the Company's investment portfolio, a write-down of its investment in HAL Data Services Pty Limited and a write down of its deferred tax assets.

Following a number of breaches of the Management Agreement by Wallace Funds Management Pty Limited (the Manager) the Management Agreement was terminated on 26 March 2009.

The Company made a decision to move the portfolio to cash over the last quarter of the 2009 financial year because of its unsatisfactory composition with high concentration of positions in stocks with low liquidity. The decision to keep the portfolio in cash was two-fold, firstly to allow the Board to focus on endeavouring to maximise the value of the Company's unlisted investments, and secondly as a prudent measure to preserve capital in a global financial crisis and recession which may or may not be over.

2.7 Report on trends in performance

Global financial markets experienced significant volatility during the first half of the year, and this contributed to the poor investment returns on the Company's portfolio. However, the returns generated by the Manager on both the listed and unlisted securities significantly underperformed the market.

Decisions made by the Manager not to reduce positions in a volatile market, not to increase its hedging, maintaining highly concentrated positions in low liquidity stocks and Richard Wallace, without Board authority, significantly diminishing the financial position of the Company when he attempted to remediate the related party transaction in August 2008, all contributed to the poor returns for the year.

The Company remains cautious on the outlook for both debt and equity markets. There are a number of signs pointing to further uncertainty in equity markets and given the importance of preserving capital the Company is maintaining cash balances for the time being. Factors that the Board considers indicate further uncertainty in the equity markets include:

- Potential for further increases in unemployment rates;
- Impact of the reduction in global liquidity after stimuli packages wear off;
- Further instability in global property markets; and
- Higher interest rates as developed economies deal with potential inflation concerns.

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2.8 Report any factors which have affected the results during the reporting period or which are likely to affect results in the future, including those where the effect could not be quantified

HAL Data Services Pty Limited (HAL)

The Company has a significant investment in HAL which it is in the process of endeavoring to restructure. The execution of a loan note in August 2008 by the previous Managing Director, Richard Wallace, was unauthorised and entirely unsatisfactory and the Company is now trying to rectify its position in this regard. Negotiations with HAL have been ongoing for some time and the Company is yet to reach an agreement on the terms of a new loan facility agreement and security

As a result of the uncertainty around the final structure of its exposure to HAL, illiquid nature of its debt which has made comparable valuations very difficult and a probability of prolonged uncertain economic conditions the Board has not been able to obtain a further independent experts report on the present value of its investment in HAL.

Given this uncertainty and the inability of the Directors to find a comparable instrument with which to benchmark its valuation, the Directors have decided to carry the Company's investment in HAL at \$nil until either negotiations with HAL are completed and an independent valuation is obtained or the value of its investment has crystallised.

Damages claim against Richard Wallace and the Manager

The Company filed a claim in the Supreme Court of NSW on 13 July 2009 against Richard Wallace and his related entities and the Manager.

The damages claim seeks to recoup losses sustained by the Company as a result of:

- Breaches of contractual and fiduciary obligations and misleading and deceptive conduct by the Manager;
- Breaches of contractual and fiduciary obligations, breaches of directors duties and misleading and deceptive conduct by Richard Wallace; and
- Involvement of Lease Company of Australia Limited, Lease Investments Pty Limited and Amrav Pty Limited which are companies related to Richard Wallace in the breaches and conduct of the Manager and Richard Wallace.

The damages relate to losses suffered with regard to the Company's investment in Lease Company of Australia, Lease Investments, HAL and recoupment of legal expenses incurred. The Company will keep shareholders updated on any material developments in this matter.

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Statutory Demand by the Manager

On or about 12 May 2009, the Manager served a statutory demand on the Company for an amount of \$228,014.62. Among other things, that amount is purported to be in relation to management fees owing under the Management Agreement between the Company and the Manager. The Company considers that the statutory demand is without merit, and notes that the Manager owes moneys to it (including in relation to proceedings concerning breaches of the Management Agreement in the Supreme Court of NSW) which are in excess of this demand.



Michael Birch
Managing Director

Date: 31 August 2009

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INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2009

	Note	2009 \$	2008 \$
Proceeds from the sale of investments		30,421,387	400,454,058
Cost of investments sold		(36,421,939)	(424,886,090)
Unrealised profit / (loss) on investments		-	(15,411,679)
Other revenue from ordinary activities	2	111,970	1,493,896
Dividend income		196,981	4,641,644
Interest income		4,162,103	4,415,515
Impairment loss on investments	8	(41,632,174)	-
Brokerage and other investment costs		(23,724)	(409,449)
Depreciation and amortisation expenses		(8,309)	(7,907)
Administration expenses	3	(163,983)	(913,626)
Borrowing costs		(195,204)	(3,924,944)
Doubtful debts expense – interest receivable	7	(3,518,120)	
Legal fees		(398,484)	(59,908)
Other expenses from ordinary activities		(1,209,935)	(619,244)
(Loss) before income tax (expense) / benefit		(48,679,431)	(35,227,734)
Income tax (expense) / benefit	4	(10,922,029)	11,437,455
Profit / (Loss) attributable to members		(59,601,460)	(23,790,279)
Basic (loss)/earnings per share (cents per share)	5	(70.45)	(27.62)
Diluted (loss)/earnings per share (cents per share)	5	(70.45)	(27.62)

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BALANCE SHEET AS AT 30 JUNE 2009

	Note	2009 \$	2008 \$
ASSETS			
Cash and cash equivalents	6	5,798,505	471,363
Trade and other receivables	7	18,709	2,555,199
Current tax asset	4	-	778,519
Financial assets - held for trading	8a	-	25,681,817
Financial assets - available for sale	8b	-	14,601,135
Financial assets - loans and receivables	8c	-	26,122,866
Other assets	9	15,717	10,599
Deferred tax assets	4	-	10,672,226
Plant and equipment	10	1,545	7,736
TOTAL ASSETS		5,834,476	80,901,460
LIABILITIES			
Cash and cash equivalents	6	-	13,316,241
Trade and other payables	11	333,508	1,534,574
Current tax liabilities	12	597,462	-
Deferred tax liabilities	12	-	347,659
Financial liabilities	8	-	1,198,020
TOTAL LIABILITIES		930,970	16,396,494
NET ASSETS		4,903,506	64,504,966
EQUITY			
Issued Capital	13	89,491,831	89,491,831
Accumulated Losses	14	(84,588,325)	(24,986,865)
TOTAL EQUITY		4,903,506	64,504,966

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STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2009

	Notes	Issued Capital	Retained Earnings (Accumulated Losses)	Total Equity
		\$	\$	\$
At 1 July 2007		92,245,819	(1,196,586)	91,049,233
Loss for the period		-	(23,790,279)	(23,790,279)
Dividend paid	15	-	-	-
On market share buy-back		(2,753,988)	-	(2,753,988)
At 30 June 2008		89,491,831	(24,986,865)	64,504,966
At 1 July 2008		89,491,831	(24,986,865)	64,504,966
Loss for the period		-	(59,601,460)	(59,601,460)
Dividend paid	15	-	-	-
At 30 June 2009		89,491,831	(84,588,325)	4,903,506

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CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2009

	Note	2009 \$	2008 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Proceeds from the sale of investments		28,428,698	472,187,143
Dividends received		820,217	4,330,175
Interest received		1,160,902	4,455,453
Other receipts from customers		111,970	1,493,896
Payments for investments purchased		(10,616,369)	(435,514,943)
Payments to suppliers and employees		(1,843,233)	(1,615,592)
Borrowing costs		(195,203)	(3,924,944)
Income tax refund/(paid)		778,519	-
Net cash provided by operating activities	16b.	18,645,501	41,411,188
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for property, plant and equipment		(2,118)	"
Net cash used in investing activities		(2,118)	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Share buy-back		-	(2,753,988)
Net cash provided (used) by financing activities		-	(2,753,988)
Net increase in cash held		18,643,383	38,657,200
Cash at the beginning of the financial year		(12,844,878)	(51,502,078)
Cash at the end of the financial year	16a.	5,798,505	(12,844,878)

WALLACE ABSOLUTE RETURN LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

Wallace Absolute Return Limited ("the Company") is a listed public company, incorporated and domiciled in Australia. The financial report of the Company complies with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

Reporting Basis and Conventions

The financial report has been prepared on an accrual basis and is based on historical costs modified by the revaluation of selected non current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

A. Income tax

The charge for current income tax expense/(benefit) is based on the profit/(loss) for the year adjusted for any non assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and in anticipation that the Company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

B. Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the Australian Taxation Office ("ATO").

i. Trading Income

Profits and losses realised from the sale of investments and unrealised gains and losses are included in the Income Statement in the year they are incurred. Realised and unrealised profits and losses on trading derivative instruments are reflected in the Income Statement (refer to Note 1D).

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Revenue recognition (cont)

ii. Dividend Income

Dividends and distributions are brought to account on the date that the shares or units are traded ex-dividend.

iii. Interest Income

Interest income is recognised as it accrues, taking into account the effective yield on the associated financial asset.

iv. Other Income

Other income is recognised when the right to receive the revenue has been established.

C. Cash and cash equivalents

For the purpose of the Cashflow Statement, cash includes cash on hand and at call deposits with banks or financial institutions net of bank overdrafts, and investments in money market instruments maturing within less than two months.

D. Financial Instruments

Recognition and Initial Measurement

Financial Instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention. This is the date the Company commits itself to either the purchase or sale of the asset. Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Classification and Subsequent Measurement

i. Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

iii. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Financial Instruments (cont.)

iv. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

v. Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Amortised cost is calculated as:

- a. the amount at which the financial asset or financial liability is measured at initial recognition;
- b. less principal repayments;
- c. plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and
- d. less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

Derivative instruments

Derivative financial instruments held by the Company are traded in a less active market. The use of settlement price provided by recognised exchanges is a valuation technique commonly used by market participants to price derivative instruments and it has been demonstrated to provide reliable estimates of prices obtained in actual market transactions. An appropriate measure of fair value is the use of a valuation technique which includes using recent arm's length market transactions between knowledgeable and willing parties, discounted cashflow analysis and option pricing models.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Plant and equipment

Each class of plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment of value. Depreciation is calculated on a straight line basis over the useful life of the asset commencing from the time the asset is held ready for use.

The useful lives used for each class of depreciable assets are:

Computer equipment	4 years
Furniture	5 years

F. Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that the asset may be impaired. A financial asset is considered impaired if the evidence indicates one or more events have had a negative effect on the estimated future cash inflows of that asset.

Individually significant financial assets are tested for impairment separately. The remaining financial assets are assessed on a group basis based on credit risk.

An impairment loss on loans and receivables is calculated as the difference between its carrying amount and either its fair value or the present value of the estimated future cash flows. An impairment loss on an available-for-sale financial asset is calculated by reference to its fair value.

Impairment losses are recognised in the income statement.

G. Impairment of non-financial 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 value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

H. Foreign currency transactions and balances

Foreign currency transactions during the year are converted to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling at that date. The gains and losses from conversion of assets and liabilities, whether realised or unrealised, are included in the Income Statement from ordinary activities as they arise.

WALLACE ABSOLUTE RETURN LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Critical accounting estimates and judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data.

The directors have adopted a conservative approach and valued the investment in HAL Data Services Pty Limited ("HAL") at \$nil for the following reasons:

- the collectability of interest on the debt investment is doubtful;
- no security on the debt investment; and
- unresolved negotiations regarding restructuring and obtaining security for the debt investment.

Apart from the above there are no estimates or judgments that have a material impact on the financial results of the Company for the year ended 30 June 2009.

J. Goods and services tax (GST)

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 Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Receivables and payables in the Balance Sheet are shown inclusive of GST. The net amount of tax recoverable from, or payable to the ATO is included within other assets or other liabilities.

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

L. Segment reporting

The financial report is for the entity Wallace Absolute Return Limited. Wallace Absolute Return Limited is a publicly listed Company limited by shares, incorporated and domiciled in Australia. The Company is engaged in investment activities, conducted primarily in Australia.

M. Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

N. Comparative Figures

When required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

O. New Accounting Standards for Application in Future Periods

The Australian Accounting Standards Board has issued new, revised and amended standards and interpretations that have mandatory application dates for future reporting periods. The Company has decided against early adoption of these standards.

AASB 101: Presentation of Financial Statements, AASB 2007-8: Amendments to Australian Accounting Standards arising from AASB 101, and AASB 2007-10: Further Amendments to Australian Accounting Standards arising from AASB 101 (all applicable to annual reporting periods commencing from 1 January 2009). The revised AASB 101 and amendments supersede the previous AASB 101 and redefines the composition of financial statements including the inclusion of a statement of comprehensive income. There will be no measurement or recognition impact on the Company. If an entity has made a prior period adjustment or reclassification, a third balance sheet as at the beginning of the comparative period will be required.

There are no other impending changes that will have a material impact on the financial statements of the Company.

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FOR THE YEAR ENDED 30 JUNE 2009

	Notes	2009 \$	2008 \$
NOTE 2 - REVENUE			
Other revenue from ordinary activities consists of the following:			
Sundry income		1,690	-
Foreign exchange gain		110,280	-
Underwriting income		-	1,493,896
		111,970	1,493,896

NOTE 3 – PROFIT /(LOSS) FROM ORDINARY ACTIVITIES

Profit /(loss) from ordinary activities before income tax expense has been determined after:

a. Administration expenses

Management fee	18	163,983	913,626
Performance fee	18	-	-
		163,983	913,626

b. Auditor's remuneration

Auditing or reviewing the financial report		89,210	50,900
Other services provided by related practice of auditor		12,559	28,472
		101,769	79,372

NOTE 4 - TAXATION

a. Income tax expense

The components of tax expense comprise:

- Current tax (includes reversal of deferred tax balances)	10,922,029	-
- Deferred tax	-	(11,443,777)
Benefit from previously recognised temporary difference/tax loss used to reduce current tax expense		
- Under/over provision from previous years	-	6,322
	10,922,029	(11,437,455)

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

	Notes	2009 \$	2008 \$
NOTE 4 – TAXATION (Continued)			
<i>b. Current and deferred tax balances</i>			
Assets			
- Deferred tax assets		-	10,672,226
- Income tax		-	778,519
		-	11,450,745
Liabilities			
- Current tax liability	12	597,462	-
- Deferred tax liability	12	-	347,659
<i>c. Numerical reconciliation of current income tax expense prima facie tax payable</i>			
(Loss)/profit for the year before tax		(48,679,431)	(35,227,734)
Tax at the Australian tax rate of 30%		(14,603,829)	(10,568,320)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:			
- Imputation credits		176,131	307,014
- Under(over) provision for income tax, prior year		-	152,768
- Tax effect on investment in HAL not recognised		12,489,652	-
- Derecognition of deferred tax asset/liability		10,324,567	-
- Temporary differences (incl excess franking credits converted to losses)		2,535,508	(1,023,381)
Current income tax expense /(benefit)		10,922,029	(11,437,455)
<i>d. Dividend franking account</i>			
30% franking credits available to the shareholders of the Company for subsequent financial years		(597,462)	4,926

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

- i. franking credits that will arise from the payment of the current tax liability;
- ii. franking debits that will arise from the payment of dividends recognised as a liability at the year-end;
- iii. franking credits that will arise from the receipt of dividends recognised as receivables at the year-end; and
- iv. franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

Franking deficit tax of \$597,462 for the year ended 30 June 2009 was forwarded to the Australian Taxation Office on 26 August 2009.

A deferred tax asset of \$24,869,652 has not been recognised.

WALLACE ABSOLUTE RETURN LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

	2009 \$	2008 \$
NOTE 5 – EARNINGS PER SHARE		
<i>a. Reconciliation of (loss) earnings to net profit / (loss)</i>		
Net profit / (loss)	(59,601,460)	(23,790,279)
Loss used in calculation of basic earnings per share	(59,601,460)	(23,790,279)
<i>b. Weighted average number of shares</i>		
	No.	No.
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic and diluted (loss) earnings per share	84,455,052	86,126,332

NOTE 6 – CASH AND CASH EQUIVALENTS

Cash at bank	5,798,505	471,363
Prime broker finance facility	-	(13,316,241)
	5,798,505	(12,844,878)

Cash balances not available for use:

A cash balance of \$20,000 (2008: \$20,000) held in a term deposit is not available for use by the Company at the reporting date due to the amount being a performance bond, lodged to satisfy the requirements of the Company's Australian Financial Services License. A term deposit of \$25,810 is also held as part of the Company's ASX listing requirements,

Terms and conditions:

The weighted average interest rate for cash and cash equivalents as at 30 June 2009 was 1.84% (2008: 6.84%).

The weighted average interest rate for prime broker finance facility as at 30 June 2008 was 7.85%.

NOTE 7 – TRADE AND OTHER RECEIVABLES

Trade debtors	-	1,217,482
GST receivable	-	178,854
Interest Receivable – Notes, Debentures and Bonds	3,528,661	527,460
Less Provision for Doubtful Debts	(3,518,119)	-
Dividends receivable	8,167	631,403
	18,709	2,555,199

Terms and conditions

Trade debtors relate to unsettled trades. They are non-interest bearing and are secured by the Australian Securities Exchange - National Guarantee Fund. They are settled within 3 days of the sale being executed.

Interest on HAL Data Services Pty Limited (HAL) semi-annual notes remains unpaid for 12 months and the directors' consider that in the context of the unresolved negotiations with HAL its recoverability is impaired.

WALLACE ABSOLUTE RETURN LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

	Notes	2009 \$	2008 \$
NOTE 8 – FINANCIAL ASSETS AND LIABILITIES			
Investments			
Total market value of investments held long	8a/8c.	-	66,405,818
Total market value of investments held short	8b.	-	(1,198,020)
		-	65,207,798
<i>a. Market value of listed investments held for trading:</i>			
Long positions			
Shares		-	25,665,842
Options		-	-
Other derivatives		-	15,975
		-	25,681,817
Short positions			
Shares		-	(1,198,020)
Options		-	-
		-	(1,198,020)
		-	24,483,797
<i>b. Market value of investments in unlisted corporations available for sale :</i>			
Shares		-	4,601,135
Redeemable Preference shares		-	10,000,000
		-	14,601,135
<i>c. Market value of investments in loans and securities :</i>			
Unsecured notes		-	-
Debentures and notes		-	26,122,866
		-	26,122,866

The directors are unable to establish whether the investment in HAL Data Services Pty Limited (HAL) at cost of \$41,632,174 is recoverable at 30 June 2009.

The directors have adopted a conservative approach and valued the investment in HAL Data Services Pty Limited ("HAL") at \$nil for the following reasons:

- the collectability of interest on the debt investment is doubtful;
- no security on the debt investment; and
- unresolved negotiations regarding restructuring and obtaining security for the debt investment.

NOTE 9 – OTHER ASSETS

Prepayments	15,717	10,599
	15,717	10,599

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	Notes	2009 \$	2008 \$
NOTE 10 – PLANT AND EQUIPMENT			
Computer equipment and furniture - at cost		41,647	53,392
Less accumulated depreciation		(40,102)	(45,656)
		1,545	7,736
<i>Movements in carrying amounts</i>			
Movement in carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year:			
Balance at the beginning of the year		7,736	15,643
Additions		2,118	-
Depreciation expense		(8,309)	(7,907)
Carrying amount at the end of the year		1,545	7,736

NOTE 11 – TRADE AND OTHER PAYABLES

Trade creditors		132,338	1,274,983
Accrued expenses		201,170	45,966
Amounts payable to director-related parties	18a.	-	213,625
		333,508	1,534,574

Terms and conditions

Trade creditors as at 30 June 2009 represent distributions payable to shareholders as yet unclaimed. The prior year trade creditors relates to unsettled trades. They were non-interest bearing and unsecured. They were settled within 3 days of the purchase being executed.

Amounts payable to director-related parties relate to management and performance fees payable to the past Manager, Wallace Funds Management Limited, pursuant to the Management Agreement made with the Company.

Accrued expenses are settled within the terms of payment offered, which is usually within 30 days.

No interest is applicable to the above account balances.

NOTE 12 – CURRENT TAX LIABILITIES

CURRENT

Income Tax Payable		597,462	-
		597,462	-

DEFERRED

Deferred tax liabilities comprise the tax estimated on:

Other temporary differences		-	347,659
		-	347,659

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	Notes	2009 \$	2008 \$
NOTE 13 – ISSUED CAPITAL			
<i>Issued and paid-up capital</i>			
84,455,052 (2008: 84,455,052) fully-paid ordinary shares issued		89,491,831	89,491,831
<i>Fully-paid ordinary shares</i>			
Balance at the beginning of the reporting period		89,491,831	92,245,819
Nil (2008: 3,589,735) shares bought back from on market share buy-back		-	(2,726,053)
Share issue costs net of tax		-	(27,935)
Balance at the end of the reporting period		89,491,831	89,491,831

a. Options

No options have been issued by the Company during the financial year. At balance date the number of options over ordinary shares in the Company was nil.

b. Ordinary Shares

Ordinary shares participate in the dividends and the proceeds on winding up of the Company in proportion to the number of shares held. In the event of winding up of the Company, ordinary shareholders rank after unsecured creditors.

At shareholder meetings a shareholder is entitled to vote on a show of hands and when a poll is called is entitled to one vote for each ordinary share held.

c. Capital Management

Management controls the capital of the Company in order to maintain a good debt to equity ratio, endeavour to provide the shareholders with adequate returns and ensure that the Company can fund its operations and continue as a going concern.

The Company's debt and capital includes ordinary share capital, and financial liabilities, supported by financial assets

There are no externally imposed capital requirements.

Management effectively manages the Company's capital by assessing the group's financial risks and adjusting its capital structure in response to changes in these risks and in the market.

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	Notes	2009 \$	2008 \$
NOTE 14 – RETAINED EARNINGS / (ACCUMULATED LOSSES)			
(Accumulated losses) at the beginning of the financial year		(24,986,865)	(1,196,586)
Net profit / (loss) attributable to members of the entity		(59,601,460)	(23,790,279)
(Accumulated losses) at the end of the financial year		(84,588,325)	(24,986,865)

NOTE 15 - DIVIDENDS

There were no dividends paid during the year ended 30 June 2009 (2008 - \$Nil).

WALLACE ABSOLUTE RETURN LIMITED
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	Notes	2009 \$	2008 \$
NOTE 16 – CASH FLOW INFORMATION			
<i>a. Reconciliation of cash</i>			
Cash at the end of the financial year as shown in the Cash flow Statement is reconciled to the related items in the Balance Sheet as follows:			
Cash at bank	6	5,798,505	471,363
Prime broking finance facility - secured	6,16c	-	(13,316,241)
		5,798,505	(12,844,878)
<i>b. Reconciliation of cash flow from operations with loss from ordinary activities after income tax</i>			
Loss from ordinary activities after income tax		(59,601,460)	(23,790,279)
Non-cash flows in profit from ordinary activities			
Depreciation		8,309	7,907
Unrealised (profit)/loss on investments		-	15,411,679
Changes in assets and liabilities:			
Decrease /(Increase) in trade debtors		1,913,255	3,199,852
Decrease /(Increase) in sundry debtors		623,236	(448,288)
Decrease /(Increase) in investments		65,207,798	68,888,845
Decrease /(Increase) in other assets		773,401	1,255,633
Increase/(Decrease) in trade creditors		-	(1,047,853)
(Decrease)/Increase in other payables and accruals		(1,201,067)	(10,628,853)
Increase/(Decrease) in income tax payable		10,922,029	(11,453,971)
Cash flows from operating activities		18,645,501	41,411,188
<i>c. Credit stand-by arrangements and loan facilities</i>			
Prime broking finance facility		-	4,027,580
Amount utilised		-	-
Unutilised prime broking finance facility		-	4,027,580

The prime broking finance facility with UBS Australia Limited was secured by a fixed and floating charge over the Company's assets, in accordance with the Prime Brokerage Agreement dated 20 January 2003. The facility was terminated effective 27 February 2009. No replacement prime broker has been appointed.

The secured finance facility had a weighted average interest rate as at the 30 June 2009 of nil% (2008: 7.85%).

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	Notes	2009 \$	2008 \$
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NOTE 17 – FINANCIAL RISK MANAGEMENT

Overview

The Company has exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's exposure to each of the above risks, the Board's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

The Board of Directors oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

The Company manages and monitors its credit risk, liquidity risk and market risk through the use of investment guidelines approved by the Board of Directors ("Board"), which provides limits and targets on investment activities. Reports are provided to the Board on investment/liquidity activities.

a. Credit Risk

The carrying amount of the Company's financial assets represents the maximum credit exposure. The Company's maximum exposure to credit risk at reporting date was:

Cash and cash equivalents	5,798,505	471,363
Trade and other receivables	18,709	2,555,199
Financial assets - held for trading	-	25,681,817
Financial assets - available for sale	-	14,601,135
Financial assets - loans and receivables	-	26,122,866
Other financial assets	15,717	10,599
Total	5,832,931	69,442,979

Impairment losses

Interest on the investments in HAL Data Services Pty Limited form part of Trade and Other Receivables and are past due and impairment losses of \$3,518,119 were recognised during the year. Apart from this amount none of the Company's receivables are past due.

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's trade and other receivables.

The Company's exposure to Trade and Other Receivables credit risk is influenced mainly by the individual characteristics of each party.

The Company limits its exposure to investment credit risk on cash by investing the majority of cash \$5,575,637 (96%) in liquid securities with Macquarie Cash Management Trust and Westpac Banking Corporation Limited. Given the high credit ratings of both institutions management does not expect any counterparty to fail to meet its obligations.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

NOTE 17 – FINANCIAL RISK MANAGEMENT (continued)

Credit Risk for derivative financial instruments arises from the potential failure by counterparties to the contract to meet their obligations. As all derivative contracts are transacted through recognised exchanges, credit risk associated with these contracts is considered minimal.

b. Liquidity Risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

30 June 2009

	Balance Sheet	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years	More than 5 years
	\$	\$	\$	\$	\$	\$	\$
Non-derivative financial liabilities							
Short-sale investments	-	-	-	-	-	-	-
Trade and other payables	333,508	(333,508)	(333,508)	-	-	-	-
Prime broker finance facility	-	-	-	-	-	-	-
Derivative financial liabilities	-	-	-	-	-	-	-
	333,508	(333,508)	(333,508)	-	-	-	-

30 June 2008

	Balance Sheet	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years	More than 5 years
	\$	\$	\$	\$	\$	\$	\$
Non-derivative financial liabilities							
Short-sale investments	1,198,020	(1,198,020)	(1,198,020)	-	-	-	-
Trade and other payables	1,534,474	(1,534,474)	(1,534,474)	-	-	-	-
Prime broker finance facility	13,316,241	(13,316,241)	(13,316,241)	-	-	-	-
Derivative financial liabilities	-	-	-	-	-	-	-
	16,048,735	(16,048,735)	(16,048,735)	-	-	-	-

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically, the Company ensures that it maintains at all times, levels equivalent to normal operating expenditure for at least one month to meet expected operational expenses including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 17 – FINANCIAL RISK MANAGEMENT (cont.)

Liquidity risk represents the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company's major cash outflows are the purchase of securities and payment of operating expenses, the levels of which are managed by the Board. The Company's inward cash flows depend upon the level of sales of securities, dividends, interest received and any exercise of options that may be on issue.

The Company monitors its cashflow requirements by reference to known transactions to be paid or received.

The Company holds a portion of its portfolio in cash and securities sufficient to ensure that it has cash available to meet all payments..

c. Market Risk

Market risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market place.

By its nature, as an investment Company that invests in tradeable securities, the Company will always be subject to market risk as it invests its capital in securities which are not risk free as the market price of these securities can fluctuate.

The Company has investment guidelines which place limits on the composition of the Investment portfolio.

d. Net Fair Values

The carrying amounts of financial instruments on the Balance Sheet approximate their net fair values.

e. Sensitivity Analysis

The Company has performed sensitivity analysis relating to its exposure to interest rate risk and price risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

Interest Rate Sensitivity Analysis

At 30 June 2009, the effect on profit/(loss) and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

Change in loss after tax		
- Increase in interest rate by 100 basis points	15,992	(335,796)
- Decrease in interest rate by 100 basis points	(15,992)	335,796
Change in equity		
- Increase in interest rate by 100 basis points	15,992	(335,796)
- Decrease in interest rate by 100 basis points	15,992	335,796

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	Notes	2009 \$	2008 \$
NOTE 18 – RELATED PARTY TRANSACTIONS			
<i>a. Director's transactions with the Company</i>			
i) The Company paid a fee for management services in relation to its investment portfolio to Wallace Funds Management Limited ("WFM"), a Company controlled by Mr. Richard Wallace, a former director of the Company. As at 30 June 2009 Mr. Michael Birch held 10% of the issued capital in WFM. Mr Birch ceased to be an employee of WFM on 30 June 2008 and resigned as a Director of WFM on 28 July 2008.			
During the year, the following amounts were paid to WFM (in accordance with the Management Agreement disclosed in Note 11):			
Management fees – WFM	3	163,983	700,001
Performance fees – WFM	3	-	-
		163,983	700,001
ii) The amounts due and payable at balance date to Wallace Funds Management Limited in accordance with the Management Agreement disclosed in Note 11 were:			
Management fees	3	-	213,625
Performance fees	3	-	-
	11	-	213,625
<i>b. Related party transactions</i>			
The Company invested in the securities or other financial instruments of entities managed by the former Manager or entities controlled by and of which Mr. Richard Wallace, a former Director of the Company was also a Director.			
(i) The carrying value of such investments, which are included in investments on the Balance Sheet (refer note 8c) are summarised as follows:			
Redeemable preference shares in Lease Investments Pty Ltd		-	10,000,000
Lease Company of Australia Limited secured notes		-	7,930,865
		-	17,930,865

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NOTES TO THE FINANCIAL STATEMENTS
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	Notes	2009 \$	2008 \$
NOTE 18 – RELATED PARTY TRANSACTIONS (cont)			
(ii) Interest received from such investments are as follows:			
Redeemable preference shares in Lease Investments Pty Ltd	-		1,000,000
Lease Company of Australia Limited secured notes	-		1,009,848
	-		2,009,848
(iii) Interest receivable from such investments are as follows:			
Redeemable preference shares in Lease Investments Pty Ltd	-		250,000
Lease Company of Australia Limited secured notes	-		219,848
	-		469,848

c. Key management personnel

Information regarding individual directors' and executives' compensation and equity ownership disclosures is set out below:

Directors' Remuneration

Names	Short term benefits		Post employment benefits		TOTAL	
	Cash salary & fees		Superannuation			
	2008 \$	2009 \$	2008 \$	2009 \$	2008 \$	2009 \$
Directors						
Mr. K Barry (Chairman)	-	-	76,300	76,300	76,300	76,300
Mr. A Liddle (Non-executive Director)	40,000	40,205	3,600	3,600	43,600	40,205
Mr. M Birch (CEO & Executive Director)	-	215,549	-	-	-	215,549
Mr. R Wallace (former Managing Director)	-	-	-	-	-	-
Total Remuneration:	40,000	255,754	79,900	79,900	119,900	255,754

WALLACE ABSOLUTE RETURN LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 18 – RELATED PARTY TRANSACTIONS (cont)

Directors' Shareholding

The movement during the year in the number of ordinary shares held, directly or indirectly, by each of the directors, including their related parties, is as follows:

2009

Directors	Balance 1 July 2008	Net Change	Balance 30 June 2009
Mr. Kenneth Barry	54,724	-	54,724
Mr. Alan Liddle	23,467	-	23,467
Mr. Michael Birch *	-	-	143,350
Mr. Richard Wallace **	46,144	-	-
	<u>124,335</u>	<u>-</u>	<u>267,685</u>

* shares held prior to being appointed a director on 3 February 2009.

** shares held prior to ceasing as a director on 19 December 2008.

2008

Directors	Balance 1 July 2007	Net Change	Balance 30 June 2008
Mr. Kenneth Barry	54,724	-	54,724
Mr. Alan Liddle	23,467	-	23,467
Mr. Richard Wallace	1,986,144	(1,940,000)	46,144
	<u>2,064,335</u>	<u>(1,940,000)</u>	<u>124,335</u>

NOTE 19 – EVENTS SUBSEQUENT TO BALANCE DATE

ASX Announcements

The company has made the following ASX announcements since 30 June 2009:

3 July 2009

Investment in HAL Data Services Pty Limited

On May 19, 2009 the Company announced that it and HAL had signed a conditional term sheet providing for a process that may result in the restructure of the debt securities which the company holds. The discussions between the company and HAL are continuing and may result in extension of the maturity date of the debt, amendment of the basis on which interest is payable and the conversion of all or part of the debt into an equity investment in HAL at maturity. The company remains of the view that the value able to be realised from its investment in HAL may be less than stated in the Company's most recent half year accounts. The company will make further announcements when the negotiations with HAL are completed,

**WALLACE ABSOLUTE RETURN LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009**

NOTE 19 – EVENTS SUBSEQUENT TO BALANCE DATE (cont.)

15 July 2009

Proceedings Against Former Managing Director

On 13 July 2009, the Company commenced a proceeding in the Supreme Court of NSW against its former managing director, Richard Wallace and three of his related entities and former funds manager Wallace Funds Management Pty Ltd for damages caused by their breaches of the Management Agreement (which was terminated on 26 March 2009 as announced by the Company on 27 March 2009) and breaches of their fiduciary obligations to the Company. The damages claimed by the Company are likely to be substantial.

On the same day, the Company commenced a second proceeding against Richard Wallace and Wallace Funds Management Pty Ltd seeking the prompt return of its property, including some of its records*.

The Company will make further announcements as the proceedings progress.

*Some, but not all, of these items have been recently returned to the company.

20 August 2009

Appointment of Managing Director

Wallace Absolute Return Limited advises the appointment of Mr Michael Birch as the Managing Director effective 20 August 2009.

Mr Birch has been Chief Executive Officer and Company Secretary of Wallace Absolute Return Limited since 4 December 2008 and a Director since 3 February 2009.

27 August 2009

Investment in HAL Data Services Pty Limited

On 3 July 2009, the Company announced that the discussions between it and HAL Data Services Pty Limited (HAL) were continuing in relation to the restructuring of the debt securities held by the Company in HAL. In that announcement, the Company confirmed its previously announced view that the value able to be realised from its investment in HAL may be less than stated in the Company's half year accounts for the period ending 31 December 2008. This investment is currently carried in the Company's accounts at \$18,000,000 based upon a valuation obtained from an independent valuer, which was the subject of a release to the ASX on 16 February 2009 (see also the Company's further announcement of 19 May 2009).

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NOTE 19 – EVENTS SUBSEQUENT TO BALANCE DATE (cont.)

Despite protracted negotiations, and the fact that those negotiations are continuing, the Company is not in a position to assess the likelihood of being able to conclude a restructuring of the debt securities held by the Company in HAL. The Company is in the process of finalising its financial statements for the financial year ended 30 June 2009, and in consultation with the Company's auditors, will make a final decision on the value to be ascribed to the HAL debt securities based on all information available at the time those financial statements are signed. However, having regard to the status of the negotiations with HAL and the information currently available to the Directors, the present value of the HAL investment is unlikely to exceed \$5m and may be zero.

Apart from the above there has been no material event subsequent to balance date that would significantly affect the financial statements of the Company.

NOTE 20 – COMPANY DETAILS

The registered office and principal place of business of the Company is:
Wallace Absolute Return Limited
Executive Centre
Level 33
Australia Square
264-278 George Street
Sydney NSW 2000