



# Opportunity through diversity

## **ANNUAL REPORT 2019**

Litigation Capital Management Limited  
ACN 608 667 509

# LCM

EXPERIENCE COUNTS

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## About LCM

# Litigation Capital Management ("LCM") is a leading international provider of litigation financing solutions.

This includes single-case and portfolio; across class actions, commercial claims, claims arising out of insolvency and international arbitration. LCM has an unparalleled track record, driven by effective investment selection, active project management and robust risk management. Headquartered in Sydney, with offices in London, Singapore, Brisbane and Melbourne, LCM listed on AIM in December 2018, trading under the ticker LIT.

## Financial highlights

8-Year Portfolio IRR of

**80%**

8-Year Portfolio ROIC of

**135%**

FY19 Gross revenue A\$34.71M up

**17%**

Invested Capital A\$27.84M up

**90%**

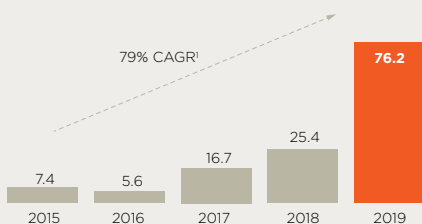
Funding applications received up

**235%**

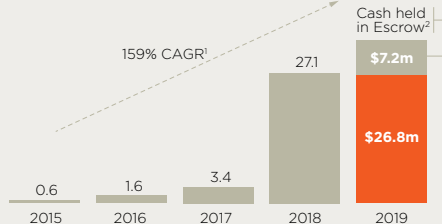
Statutory Profit Before Tax of

**A\$10.15m**

Total Equity (\$m)



Cash Generation (\$m)



Significant international expansion, establishing team in London to cover EMEA

Delisted from ASX and listed on AIM in December 2018

Established permanent office in Singapore to spearhead growth in Hong Kong and Asia

Cemented position as clear industry leader in corporate portfolio space

Conducting due diligence on 5 other corporate portfolio matters

Secured 2 corporate portfolio agreements, with global aviation firm; and building and construction firm

[www.lcmfinance.com](http://www.lcmfinance.com)

1 Compounding Annual Growth Rate (without consideration of note 2 below).  
 2 Revenue held in Escrow Account awaiting orders of the Court for distribution.  
 Note: Accounts prepared on historical basis, LCM does not adopt fair value accounting.

## Our Business at a Glance

### Experience counts



Delivering outstanding results for

**21 years**



**205**  
cases completed since inception



**87%**  
of funded litigation projects are profitable



8-year cumulative portfolio IRR of

**80%**

As litigation financiers, we finance the costs of disputes, in full or in part, for a share of the claim proceeds if the litigation or arbitration is successful.

#### Key client relationships

Having been in business for more than 20 years and far longer than the vast majority of our competitors, LCM has developed long-standing and deep relationships with referral sources, insolvency practitioners and law firms in the northern and southern hemispheres.

#### What we fund

- ▲ Commercial claims
- ▲ Class actions
- ▲ Insolvency
- ▲ International Arbitration
- ▲ Corporate portfolios
- ▲ Bilateral Investment Treaty claims
- ▲ Enforcement
- ▲ Law firm funding including portfolios



One of the first proponents of the litigation financing industry, which was first developed in Australia



Historically  
**95%**  
of funded litigation projects achieve a settlement



One of four global funders who are listed on public exchanges



A global leader in terms of completed investments

### Revenue Model

- ▲ Conservative, cash-based accounting policy
- ▲ Litigation contracts recognised at historical cost
- ▲ Commitment to transparency in financial reporting

### Geographic Footprint

- ▲ Head office in Sydney
- ▲ Other offices in London, Singapore, Melbourne and Brisbane
- ▲ Recently added UK team
- ▲ 20-member team, globally

## Why invest in LCM?

### Exciting Growth Opportunity

#### Litigation finance market is growing

- ▲ The total legal services market worldwide is valued at **US\$849bn** of which more than half is estimated to relate to disputes.
- ▲ Market penetration estimated to be between 3 and 7% in LCM's main markets of Australia and the UK

#### Financial strength and infrastructure to support rapid growth

- ▲ Five offices established across the globe
- ▲ Strong balance sheet

#### Establishing new sector opportunities within the industry

- ▲ Advancing the business line of corporate portfolio funding
- ▲ Pilot programme targeting smaller claims in the insolvency market
- ▲ Continue to increase work in international arbitration

#### Potential to enter new geographies

- ▲ Monitoring opportunities in alternative jurisdictions closely, including North America

#### Funding commitments made underpin future returns

- ▲ A\$27.84m deployed on litigation investments in FY19

## Disciplined Risk Appetite

### An asset class largely uncorrelated to macroeconomic trends

- ▲ Returns are largely unaffected by economic risk, political risks and financial market risk
- ▲ Significant market sectors are countercyclical with demand increasing in times of uncertainty

### Extensive experience with a strong track record

- ▲ Founded in 1998 as one of the first proponents of the litigation financing industry globally
- ▲ **87%** of historic litigation projects have been successful

### Strict investment discipline

- ▲ Only circa 3% of applications satisfy LCM's rigorous due diligence selection process
- ▲ Strict project selection process has underpinned a strong cumulative portfolio ROIC of 135% and portfolio IRR of 80% over the past 8 years

### Conservative accounting model

- ▲ Cash-based policy
- ▲ Litigation investments recognised at historical cost
- ▲ Commitment to transparency in financial reporting

## What is Litigation Finance?

### What is Litigation Finance?

Litigation financing, or dispute financing, is the process by which an external source of capital (a litigation financier) pays the legal fees of a party to a dispute (usually the Claimant/Plaintiff) in return for repayment of that investment and a return, on success. The financial products now offered by litigation financiers in connection with disputes are many and varied.

It is a growing alternative asset class with returns determined by the skill of selecting and managing profitable dispute-based investments.

Over the last 10 years, there has been significant growth in the industry and expansion beyond insolvency claims to commercial claims, class actions and arbitration in an increasing number of jurisdictions. As part of our expansion into the UK and wider EMEA region, LCM is promoting the evolution and growth of the business into a broad-based corporate finance offering, adding the ability to finance corporate clients by a portfolio approach as well as the single-case funding that has been the origin of the business in Australia. The diversification from providing a finance model that is exclusive to litigation, to a broader dispute finance model, is further proof of LCM's ambitions for growth and our market differentiation.

### A typical LCM litigation financing agreement:

#### LCM...

...meets all of the costs of the dispute. These costs generally include:

Solicitors'  
fees

Barristers'  
fees

Liquidators'  
fees

Charges of  
independent experts

Court  
fees

and/or

...may provide an indemnity to its client(s) in respect of any costs orders that might be made against them in favour of the defendant, in the event that their litigation is unsuccessful.



#### In exchange, LCM...

...receives either a multiple of Invested Capital or a percentage of the gross proceeds of any award or settlement of the dispute (Recovery), such percentage is generally between 15% and 40%, depending on the level of financing provided

...is reimbursed for all of the capital invested to finance the dispute

LCM retains the right to terminate the financing agreement at any stage by providing written notice to its funded party, following which LCM will cease to be liable for any costs or adverse costs orders rising in respect of the period following termination.

Under this model, the success of a Litigation Project is measured by LCM's ability to facilitate a cost-effective solution for its clients.



## What LCM funds

### Commercial claims

Single or multi-party commercial claims such as breach of contract, negligence and misrepresentation.

### Class actions

Representative proceedings including shareholder claims, product liability, investment claims and event-based claims.

### Insolvency

Claims arising out of insolvencies, including unfair preferences, insolvent trading, and other claims brought by liquidators.

### International arbitration

Disputes including commercial, institutional and ad hoc arbitrations arising out of contractual disputes, enforcement of arbitral awards under New York Convention.

### Corporate portfolios

Portfolio funding allows funders to finance multiple cases with reduced risk. The financing is usually with the corporation that is directly involved in the various disputes.

### Bilateral Investment Treaty claims

The purpose of BITs is to encourage foreign investment. Whilst proceedings in this sector can take longer than commercial disputes and are less frequently resolved through negotiation, they reflect LCM's growing portfolio diversification.

### Enforcement

The enforcement of judgments or arbitral awards across multiple jurisdictions. The enforcement of judgments is a significant problem for corporates and law firms who are missing out on millions of dollars' worth of recoveries.

### Law firm funding including portfolios

The provision of funding directly to the law firm and sharing in contingent outcomes, including the funding of portfolios of contingent claims through a single law firm.

## Chairman's Letter



***Just as our strong track record of past performance has been underpinned by rigorous selection criteria and a disciplined approach to litigation funding, our cautious approach to international expansion and new market segments will ensure sustainable growth well into the future."***

**Jonathan Moulds**

Non-Executive Chairman

Dear shareholders,

**It is a pleasure to be writing my first statement as Chairman of LCM, and the first as a constituent of the Alternative Investment Market (AIM) of the London Stock Exchange. At the time of my appointment as Chairman in March 2019, I said it was a privilege to a part of one of the litigation finance sector's most established and exciting players, and that remains the case, particularly as our growth strategy continues to evolve and we identify a number of new opportunities.**

In a year that has been marred by the significant turbulence experienced by a number of key players in the industry, it has been a strong and transformative year for LCM. Landmarks achieved by LCM this year include the establishment of a London office following the integration of a highly-experienced, six-member team led by Nick Rowles-Davies, as well as the launch of a new office in Singapore to reach the burgeoning litigation finance markets in that jurisdiction and also in Hong Kong. We also concluded the delisting from the ASX to list on the London Stock Exchange, successfully raising circa A\$35 million (£20 million) of equity, another important step forward for LCM.

In support of its expansion, LCM made a series of key appointments, most notably that of Nick Rowles-Davies as Executive Vice Chairman. Nick, alongside Patrick Moloney, is viewed as a pioneer in the litigation finance industry.

**It is the robustness of the company's processes which make the company exceptional.**

The London office, which was established less than a year ago, has already made significant strides into the corporate portfolio market; a market which was identified as a key growth area when LCM moved its share listing to London. The Board is particularly pleased with the progress in this area and believes that LCM is now arguably the global leader in this disputes funding product.

Whilst undertaking a significant period of investment and substantial operational expansion, LCM continues to deliver a strong performance across its portfolio of litigation projects, reporting a cumulative ROIC since FY 2012 of 135% (including losses) and a portfolio IRR of 80% (including losses) in the same period. These figures are unparalleled within the sector. One of the key drivers behind these metrics is the disciplined focus LCM maintains for its due diligence and project selection, despite seeing a 235% increase in the number of applications for funding it received. Of the 419 applications received this year, only 3% were converted into investments that became part of LCM's portfolio.

During 2019, the industry in which we operate has faced challenges as a result of, what we believe, are justified concerns about the accounting practices adopted and governance mechanisms applied at other litigation funders. These factors have negatively impacted share price performance and investor confidence across the entire sector. Investors critically need to be in a position to assess and have appropriate transparency on the companies they invest in. There is an onus on every company, no matter the industry it operates in, to ensure that they help to facilitate this.

LCM has always provided investors with the disclosure and transparency they need to assess the underlying performance of the business. As a Board, we are strongly committed to ensuring that this remains the case and will

continue to advocate for practices that we are confident will drive long-term growth and profitability while providing investors with this relevant level of transparency and detail.

For clarity, the reported financial performance of LCM is actual realised performance. There is no fair value component to our revenue line, and therefore no component of our revenue line which is yet to be earned. This has and continues to be a significant differentiator with much of the competition.

As a reputable funder, we believe our UK listing was an important milestone for LCM as it provides important access to international capital markets and a more diverse investor base to support our future growth plans. Our own growth is, of course, evidence that litigation finance is a fast-growing asset class that is quickly becoming not only a key service for law firms and corporates, but also a permanent feature of the alternative finance landscape.

We have identified significant growth opportunities across the litigation finance landscape, particularly in the corporate portfolio space as noted earlier, new markets including Singapore and Hong Kong, and the financing of smaller claims arising out of insolvency. However, we are also cognisant that it is the responsibility of credible funders, such as LCM, to continue the education process and demonstrate the depth of the benefits litigation finance can provide.

As a Board, we are encouraged by the progress made by LCM this year. We see this as the start of the next stage in the company's journey and I firmly believe that the developments achieved during the financial year have positioned LCM well for further growth. We are confident that as LCM achieves its potential, all stakeholders will be duly rewarded for their continued support.

## Market Overview



***Product development by litigation finance has begun to open up the corporate market. By moving beyond a static funding product and developing a corporate finance tool, funders are able to better meet the needs of large companies.”***

**Nick Rowles-Davies**

Executive Vice Chairman

The litigation funding market has been growing strongly in recent years and this trend is set to continue as the industry matures at a rapid rate. While market demand is expanding strongly, only a fraction of the addressable market has opened up, leaving great potential for industry growth. It is currently an exciting time for litigation finance as the market becomes increasingly global, creating opportunities for experienced players to expand into new geographies. Meanwhile, we believe the market has reached an inflexion point where a new surge of growth will come from the move into the largely untapped corporate portfolio segment, supplementing the well-established growth trajectory of the single-claims space.

### **A rapidly developing market – Evolution from insolvency to single-case claims and beyond**

The modern dispute finance market originated in Australia in the late 1990s, when its purpose was primarily to fund claims arising from insolvency. Since then it has expanded globally and spread into a wide range of disputes including commercial claims, intellectual property disputes, class actions and international arbitration. Building on this strong growth, the market is now at a new frontier, where funders are looking to diversify by moving beyond a focus on one-off claims and impecunious clients, and seeking to create new market share in the burgeoning corporate space.

### Moving beyond impecunious claimants to clients who have the luxury of choice

During the two decades that the modern litigation finance industry has been in existence, it has mostly serviced clients who have been unable financially to support their own claims. In the past, users of litigation funding, typically clients in the insolvency space and impecunious claimants, did not have the luxury of having a choice about whether to use their own or an external source of capital.

However, this distressed purchase sector is only a small part of the potential market. A significant amount of litigation is undertaken by claimants such as large corporations who are able to access enough capital to fund their own cases, and therefore have a choice whether to source external funding, or not. This sector represents a significant, largely unrealised market opportunity.

In the past, corporates have often chosen not to use litigation finance, largely because of a perception that the costs were too high, as well as a concern that funders would only take on high-return cases, potentially leaving other litigation needs of the company unmet. However, innovation in the form of corporate portfolio agreements is now making it possible for litigation finance to reduce per case costs and better meet the overall funding needs of corporate clients, therefore making litigation finance more attractive to this section of the market.

### A vastly underpenetrated market

The total legal services market worldwide is estimated at US\$849 billion<sup>1</sup>, of which significantly more than half is estimated to relate to disputes. This potential market remains largely underpenetrated by litigation finance. In major developed market jurisdictions, more than 90% of the market opportunity remains untapped, according to most estimates. Most of the market penetration to date has occurred in the single claims space where the finance is a necessity,

with enormous upside potential remaining in the area of corporate portfolios. Research conducted in the U.S. shows that while only 7% of corporate legal departments have used litigation finance, 60% say they would consider using it in the future.<sup>2</sup> Advantaged by our depth of experience in complex funding, LCM has been a leader in opening this market, which remains at the very early stages of development.

### Estimated Market Penetration

Europe

3-7%



U.S.

0.5-2%



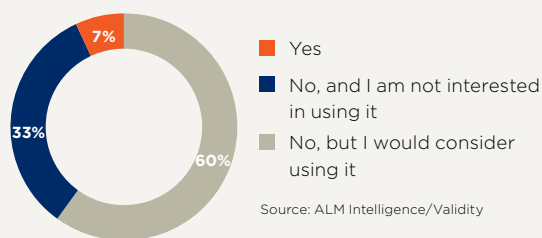
Australia

3-7%



Source: AxiaFunder

### Have you ever used commercial litigation finance?



Various surveys have been conducted globally with a view to determining the addressable market for disputes funding. Those surveys report a range of estimates as to the size of the market and market penetration. Across all surveys one thing is certain, the addressable market is huge and much larger than all providers of disputes financing products could currently address.

<sup>1</sup> Statista

<sup>2</sup> ALM Intelligence/Validity, The 2019 Litigation Finance Client Experience Survey: What Clients Want

## Market Overview continued

### Corporate portfolios - Creating new market share through innovation

Product development by litigation finance has begun to open up the corporate market. By moving beyond a static funding product and developing a corporate finance tool, funders are able to better meet the needs of large companies.

In a corporate portfolio relationship, a litigation financier supports a pool of claims on behalf of a company, rather than just funding large one-off cases. As well as transferring the cost and risk of this pool of claims from a claimant to the financier, this approach also diversifies risk for the financier, allowing litigation finance to be provided at a lower percentage of the outcome.

Such arrangements also allow for greater flexibility as the portfolio of claims can include smaller claims (that might not have met the financier's funding criteria in isolation) and can even include the funding for the defence of claims. As long as the portfolio as a whole presents a good opportunity, then the third-party financier is likely to be less prescriptive about how its capital is deployed across the portfolio.

For companies, corporate portfolio funding can:

- ▲ Preserve or release capital to focus on core businesses and investment growth
- ▲ Move forward with meritorious claims that may not have been pursued due to the likely strain on budget or cash flow
- ▲ Remove drag on financial performance, with flow-on benefit to PE multiples and valuations

### The case for corporates – Internally funded litigation ties up valuable resources, impacts financial performance

Large corporations, who have the resources to finance their own cases, are a potential market that is largely untapped. In the corporate sphere, litigation is one of the few costs that companies still regularly pay for in cash, without considering alternative finance models. However, there are significant benefits available for companies in reconsidering this approach.

Currently, litigation is ineffectively dealt with in accounting terms. Generally, when a company pursues a claim, the costs of litigation will be recognised in a company's accounts as an expense and will negatively impact the operating profit of that company for each year those costs are being incurred. This generates no option to capitalise them against the intangible and contingent asset, being the potential outcome of the dispute. The capital being used to pay these litigation costs is tied up and cannot be used for core business activities, thus reducing further the profitability of the company. Effectively, companies are investing capital in litigation instead of investing in their core business.

An off balance sheet finance arrangement can transfer all of the cost and a significant amount of the risk of litigation from the claimant to the funder. As such, a claimant can participate in litigation with zero financial downside. Instead of having the costs of litigation negatively impacting overall profit, these costs are removed and any profit which is ultimately made as the result of litigation will be generated for zero cost. This can allow corporates to move forward with meritorious claims that might not have otherwise been

pursued due to the likely impact on budget and cash flow. Research shows that 70% of companies have abandoned meritorious legal claims, and 82% of law firms have turned away meritorious cases that were not considered cost effective.<sup>3</sup>

### Limited competition for complex corporate funding

Whilst there has been some increase in competition in most developed market jurisdictions, it has been confined to single-case claims, where people are using litigation finance predominantly by necessity not by choice, and focused on specific market segments. In Australia, for instance, most of the competition has been confined to the high-profile class action space, a market that LCM has been cautious about.

In the discretionary part of the market especially the corporate portfolio space, by contrast, we see limited competition. The reason for this is two-fold. First, only a small proportion of funders have the experience and capability in complex claims needed to address this market. Secondly, the addressable market is so large that competition is largely irrelevant at this stage of the market's development.

### Australia

The longest standing part of the Australian market is insolvency. That part of the market is relatively modest at present, simply because Australia has had many years of buoyant economic times. However, if there is a downturn in the economy, that sector of the market will pick up. That part of LCM's business is counter cyclical.

Commercial disputes are a vibrant part of the market in which LCM is a significant funder. In the class action space, a significant number

of opportunities are arising out of the recent Royal Commission into Banking, Superannuation and the Financial Services Industry.

Whilst international arbitration has not been a large sector of the Australian market in the past, we are now seeing some growth in this sector, particularly in resources and infrastructure. Many of these cases are seated in Singapore, reflecting a global trend in which many parties are opting to use arbitration as a form of dispute resolution as opposed to the public resolution of disputes through the courts.

The corporate portfolio market in Australia is a strong potential growth area in which we have started having conversations with potential clients.

### UK/EMEA

In the UK, the litigation funding market has grown strongly in recent years as courts have increasingly accepted that funding arrangements promote access to justice. Still, it is estimated that only between 3-7% of cases are funded by significant litigation financiers, providing huge potential for market expansion.

Whilst there are currently a number of litigation funders operating in the UK for the most part, since the market's inception a decade ago, the market has been largely without significant competition. As a result, incumbents have been slow to respond to the changing market and have failed to initiate and explore new market opportunities. Rather than adapt their business models to the evolving needs of the UK market, they have in many cases focused on exporting their existing business model to new markets.

## Market Overview continued

By contrast, LCM has identified an opportunity to address unmet demand in the corporate portfolio and small-case insolvency markets. We see these as market sectors with strong growth potential and attractive financial metrics, and we expect the relationships we form through our presence in the small-case insolvency space will also lead to referrals for large claims, supplementing our share of more traditional parts of the litigation market. During the year, we established a team in the UK through which to drive our expansion in the UK and the EMEA region. See the Our Strategy section for details.

### U.S.

Litigation finance, which originated in Australia before expanding into the UK, is relatively new to the U.S. However, the industry has very significant potential in the U.S. because of the sheer size of the litigation market there – the biggest in the world. The total legal services market in the U.S. has grown to US\$437 billion<sup>4</sup>, representing half of the entire global market. However, disputes financing of litigation is estimated to account for less than 2% of this,<sup>5</sup> leaving enormous potential for growth.

### Asia

While more than 60% of legal services spend globally is estimated to be concentrated in the developed legal markets of North America and Europe<sup>6</sup>, we see Asia as an area with high growth potential. The market in the Asia region is currently responding to legislation in Hong Kong and Singapore establishing a framework for litigation finance and funding products to be utilised in association with international arbitration

disputes. With this in mind, we recently established an office in Singapore from which to drive our expansion in the region. More recently Singapore has signalled that it is considering expanding the sectors in which funding will be permitted.

In Singapore and Hong Kong, litigation finance is now available in respect of insolvency-based litigation and international arbitration only. As of yet, neither Singapore nor Hong Kong have opened up with respect to mainstream commercial disputes. However, Singapore has announced that it is considering expanding the types of disputes that can be funded to local arbitrations and disputes being litigated through selected courts. This will significantly expand the litigation finance market in Singapore.

Since opening the Singapore office, our success in terms of applications generated has been even greater than we expected. Our expectation for Asia was that it would ultimately be a good market in which to operate but would grow slowly over time. However, we have found that awareness of disputes funding in Singapore and Hong Kong is growing at a faster rate than we originally estimated, and we are surprised at the high level of knowledge of local practitioners in those jurisdictions.

We have seen a significant increase in applications in insolvency and international arbitration in both Singapore and Hong Kong over the past 12 months. As Asia's business sectors continue to grow, it is expected that demand for legal services, particularly dispute resolution services, will increase.

<sup>4</sup> Thomson Reuters Legal Executive Institute, How big is the U.S. legal services market? This document can be accessed online at <http://www.legalexecutiveinstitute.com/wp-content/uploads/2016/01/How-Big-is-the-U.S.-Legal-Services-Market.pdf>

<sup>5</sup> AxiaFunder guide to litigation funding

<sup>6</sup> Beroe, Legal services report



### Uncorrelated, countercyclical returns

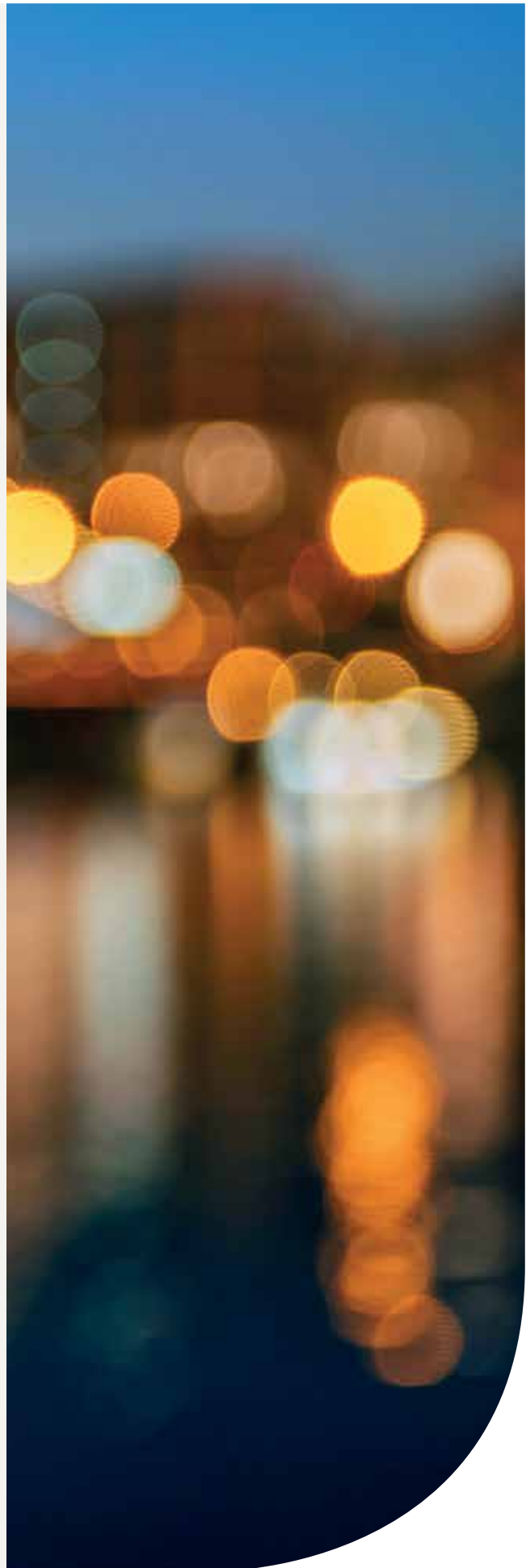
Returns in the litigation financing industry are largely unaffected by economic risk, political risk, and equity and other market risks. To that extent the asset class is uncorrelated.

The asset class is also countercyclical, partly due to the nature of the insolvency disputes. The part of LCM's portfolio that relates to insolvency disputes is currently small due to many years of buoyant economic conditions. That sector will grow rapidly if there is an economic or market downturn.

Beyond insolvency, the broader litigation funding sector has a countercyclical element. Not only does a downturn in the economy lead to an inevitable surge in applications through insolvency practitioners, but the wider corporate disputes market also looks for alternatives to using its own capital to fund disputes. It is expected that as economic conditions become less favourable and budgets are tightened, companies will look to do more with less and increasingly seek to outsource.

### Market outlook

Given the vast, untapped opportunity in the corporate portfolio space and expectations of continued growth in single-case funding, we expect to see ongoing strong growth in the litigation funding market over the year ahead.



## Our Business Model

### Inputs

#### Extensive experience

and expertise in complex disputes funding.

#### Industry pioneers

with more than two decades of experience.

#### Long-standing and deep relationships

with referral sources, insolvency practitioners and law firms.

#### Strong and recognised brand



#### Proven track record

of delivering for both our customers and also to shareholders.

### Our approach

- ▲ Committed to maintaining well diversified portfolio, by geography, jurisdiction, sector and capital commitment
- ▲ Rigorous project selection criteria developed over two decades
- ▲ Disciplined approach to international expansion
- ▲ Innovating to create new market share
- ▲ Conservative accounting policy and commitment to transparency

### What we fund

- ▲ Commercial claims
- ▲ Corporate portfolios
- ▲ Class actions
- ▲ Bilateral Investment Treaty claims
- ▲ Insolvency

## How we differentiate ourselves

- ▲ Developing new market opportunities rather than competing for larger share of existing market
- ▲ Innovation; history of developing new funding and finance products and meeting the needs of our customers
- ▲ Solutions-based finance products
- ▲ Leader in funding corporate portfolio transactions
- ▲ Utilising strong insolvency experience in pilot of small insolvency claims

- ▲ Enforcement
- ▲ International Arbitration
- ▲ Law firm funding including portfolios

## Outputs

### We create value for:

### Customers

We were one of the first proponents of the litigation financing industry, which has now grown globally to be seen as a valuable financial product for businesses who can treat impending litigation as a valuable asset, the cost of which can be financed. We have focused upon a solutions-based approach to servicing our clients needs. Our approach is more consistent with a bespoke corporate finance product than simply funding of litigation.

[More information on page 06](#)

### Investors

Providing access to uncorrelated and countercyclical asset class. Dividend in first year since listing on the Alternative Investment Market (AIM). We have demonstrated discipline in our investment approach over the first year on AIM despite unprecedented growth and maintained a high level of investment performance.

[More information on page 21](#)

### Society

We give serious consideration to the impact our business activities may have in the local communities in which we operate.

[More information on page 42](#)

### Employees

Our people are our business. We treat all our employees fairly and ethically and we aim to provide an environment in which all our employees feel valued, engaged, safe and can perform to the utmost of their abilities. We have aligned employees' incentives with those of shareholders through our share and incentive plans available to all LCM staff.

[More information on page 42](#)

## Our Strategy

LCM's growth strategy is built around the following six principles:



### Balanced Portfolio



### Consistent and Unparalleled Underwriting



### Unique Origination

#### Actions in 2019

- ▲ A total of 419 applications were received, representing an increase of 235% from the 125 applications received in FY18
- ▲ Experienced a period of strong portfolio growth
- ▲ As at June 30, 2019, LCM had a portfolio of 29 projects under management (23 of which are unconditionally funded), up 45% from a year earlier
- ▲ Maintained a portfolio diversified in terms of size, funding structure, area of law and geographical region, so as to avoid concentration risk
- ▲ Although there was a 235% increase in applications, the acceptance rate reduced to 3% of applications, demonstrating a consistent and disciplined approach to underwriting
- ▲ LCM's underwriting team was pivotal in increasing IRR and ROIC and will continue to underpin investment decisions
- ▲ High-quality origination leads to increased enquiries and is demonstrated by a 235% increase from FY18 to FY19
- ▲ Leveraging key relationships for the benefit of LCM and our partners is key to our continued growth and success
- ▲ Strategic alliance made with a global law firm has served as the catalyst for LCM securing a corporate portfolio transaction and providing a conduit for further applications relating to commercial disputes and arbitrations
- ▲ Our proactive, rather than reactive approach, to origination continues to be a key point of differentiation for LCM over the period

#### Goals for 2020

- ▲ Maintain the natural diversity of our pipeline of opportunities and the conversion of those applications into a similar diverse portfolio of investments
- ▲ Maintain the discipline of underwriting quality investments as a key driver to delivering high returns in the future
- ▲ Exploring alternate strategic alliances in the market, although we will approach that task selectively to ensure that any alliance is attended with similar values to innovative development



### Innovative Finance Solutions

- ▲ Achieved strong progress with expanding into the largely untapped corporate market with the establishment of two new corporate portfolio relationships
- ▲ Undertook due diligence on another 13 corporate portfolio transactions across various industry sectors
- ▲ Began pilot programmes in Australia and U.K. to trial the funding and acquisition of small (sub A\$7 million) insolvency cases
- ▲ We are actively looking at a number of applications in respect of judgment or award enforcement, a previously unexplored sector
- ▲ Entered into a global cooperation agreement with a leading international law firm, and considering other alliances of a similar nature



### International Expansion

- ▲ Established an experienced team in London, led by Nick Rowles-Davies, to cover the Europe, Middle East, and Africa (EMEA) region
- ▲ Opened an office in Singapore during the year, which is now our base for funding projects in both Singapore and Hong Kong, appointing Roger Milburn as Investment Manager to lead our expansion in this growing market



### Capital and Funding

- ▲ Listed on the LSE's Alternative Investment Market (AIM) to better align with our global ambitions, raising circa A\$35 million (£20 million) of equity
- ▲ Seeking to supplement capital with third party pooled capital under LCM's management which allows LCM to leverage available capital at low cost and risk
- ▲ LCM currently operates with an unlevered balance sheet which leaves open all capital options without constraint

- ▲ Continued focus on leading the global market in corporate portfolio transactions
- ▲ Review and monitor pilot programme of funding and acquiring small insolvency claims with a view to expanding to a permanent product offering

- ▲ Continue to monitor new markets and jurisdictions while applying the same disciplined and measured approach

- ▲ Look to close first fund of external capital that we will manage in the capacity as fund manager
- ▲ Continue to review other capital options to supplement the resources available to the business to facilitate our growth plans

## Chief Executive's Report

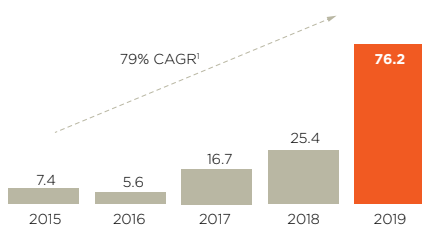


***Over the year we have built significantly on the strong foundations we have developed over the past 21 years, and made the operational advancements needed to support this growth.”***

**Patrick Moloney**

Chief Executive Officer

### Total Equity (A\$m)



### Introduction

**I am very pleased to be reporting on a milestone year for LCM, a year in which we performed ahead of market expectations, substantially expanded our business and further established our position as a global leader in litigation finance and other forms of dispute funding.**

Last year the Board identified that the time was right to deliver our significant expansion plan, leveraging our strong established position to take further advantage of the growing international market for disputes finance. Over the year we have deployed the operational advancements needed to support this growth, significantly building on the strong foundations we have developed over the past 21 years. The ability of our teams to implement such major strategic changes in addition to maintaining first class client service and an extremely rigorous investment process is commendable, and I thank them for all their hard work in this regard.

We now have the opportunity to grow our business rapidly over the medium term. With the opening of our new offices in London and Singapore we have established LCM as a global player. This provides us with the ability to serve clients wherever in the world they are based. Furthermore, our listing on the AIM Market in 2018 reflects our commitment to expanding the breadth of our business and the scale of our ambition. As well as geographical growth, we have also successfully progressed into a number of new sectors, namely corporate portfolios and insolvency funding through acquisition, which have become revenue generating.

<sup>1</sup> Compounding Annual Growth Rate.

The results of these operational developments can clearly be seen flowing through our strong financial performance, as well as in the increased value, quality and diversity of our investment portfolio. Further detail of progress made throughout the year is outlined below.

### International expansion

The most significant change involved LCM's expansion into new jurisdictions through the opening of offices in Singapore and London which resulted in skilled and experienced teams being placed on the ground in those territories. Both the teams in Singapore and London have integrated comfortably into the Group and LCM operates as a global team, albeit with separate investment committee members for the northern and southern hemispheres. All risk, however, remains centred in LCM's head office in Sydney.

LCM's expansion also saw it delist from the ASX and list on AIM; both events were accompanied by separate capital raises which supplemented LCM's permanent source of operating capital. The introduction of new capital allowed LCM to increase significantly its portfolio of litigation investments.

The Board is also pleased with the measured approach to expansion into new jurisdictions. LCM has been deliberately disciplined in its expansion to date and both LCM's London and Singapore offices have generated a significant number of quality investment opportunities, which has already exceeded the Board's expectations.

Senior executives continue to monitor opportunities in alternative jurisdictions closely, including North America. Statistically, North America is the largest litigation market globally, but the least penetrated by the litigation finance industry. LCM would apply the same disciplined and measured approach to expansion into any new jurisdiction or territories; this includes identifying the right senior hires to support our future growth, as cultural fit and experience is critical.

### Portfolio and pipeline

During FY19 both the number and quality of applications received by LCM increased significantly. A total of 419 applications were received, representing an increase of 235% compared with 125 applications received in FY18. This application increase was largely due to our expansion into new jurisdictions, but also a result of LCM realising a higher profile consequent upon its listing on AIM. Notwithstanding that LCM received a significantly larger number of applications, we have not altered or relaxed our due diligence processes or underwriting techniques with respect to investments made. Statistically, LCM has operated largely in line with industry peers at approximately 4% of applications converting into an investment. During FY19, our disciplined focus and considered approach saw 3% of applications being converted into investments that became additions to LCM's current portfolio. This level of discipline was achieved notwithstanding the distraction of expansion into two new territories, a delisting, and our admission to trade on AIM. It is worth noting that LCM is observing an increase in both the quality and size of its investment opportunities in the disputes space.

The growth and maturation of LCM's current portfolio of projects is progressing very well and, in respect of some projects, better than anticipated. The individual projects which together comprise the portfolio presently being managed are generally tracking as, or better than, expected.

Both project and pipeline opportunities are well diversified by type and geography, while maintaining a disciplined process of project selection. As at 3 September 2019 LCM had pre-qualified 64 pipeline projects with an estimated investment of A\$394 million.

## Chief Executive's Report continued

**As at 3 September 2019 LCM had pre-qualified 64 pipeline projects with an estimated investment of A\$394 million.**

The pipeline, as at 3 September 2019, demonstrates the large and diverse pre-qualified investment opportunities within the business. In addition to seven corporate portfolio transactions, the current pipeline includes projects across the mix of litigation financing: commercial (28), international arbitration (eight), insolvency (nine), class actions (10), enforcement (one) and law firm funding (one).

### Corporate portfolio

A significant development in FY19 is the entry of LCM into the corporate portfolio market. One of LCM's strategies through recruiting Nick Rowles-Davies as Executive Vice Chairman and our London team was to address the corporate market, which is a key growth area and is presently largely underserved. LCM has originated in excess of 15 applications for corporate portfolio funding during FY19, of which two corporate portfolios have been funded during the year. Whilst two might seem a small number, it is a figure that represents more than any other funder globally and also represents a large number of underlying claims. The combined number of separate disputes comprising those two portfolios represent more disputes by number than our entire overall portfolio of investments. The Board is encouraged by our achievements in the early stages of what we recognise is an emerging market sector.

The use of litigation finance through choice rather than necessity is a far greater addressable market for the industry and is one that remains almost entirely unaddressed. The significant growth opportunity here is for well-capitalised corporate entities who currently fund their own disputes

on balance sheet using their cash resources. LCM is observing an early, but encouraging, change in attitude from corporates globally as they recognise the value of using an external source of capital rather than shareholders' funds. The corporate area of the market represents a considerable opportunity for LCM, which currently leads the world in this disputes funding product, and in Nick Rowles-Davies we have arguably the pioneer for this corporate finance product.

### Strategic alliance with international law firm to support origination

In March, 2019, we entered into a global cooperation agreement with a leading international law firm to support our proactive origination process. The law firm, which is headquartered in London, operates across six continents through a network of 50 offices and more than 400 partners. Thus far this relationship has served as the catalyst for LCM securing a corporate portfolio transaction and providing a conduit for several other applications relating to commercial disputes and arbitrations.

LCM has a first right of refusal for any opportunity that arises out of the law firm globally, and we have agreed to make available significant funding for disputes as they arise for the law firm and its clients, regardless of geography or jurisdiction, that meet LCM's rigorous due diligence process.

### Insolvency pilot programme

A strategic review was undertaken during FY19 to identify opportunities and skillsets presently being underutilised within LCM.



This review resulted in the business recognising an opportunity to leverage LCM's existing skillset in insolvency. The management saw an opportunity to take advantage of changes to the relevant insolvency laws in both the jurisdictions of Australia and the UK, which allow insolvency practitioners to assign statutory causes of action. Prior to the insolvency law changes, an insolvency practitioner could not assign statutory rights and was restricted to traditional funding techniques.

LCM initiated a pilot programme during H2 FY19 to provide a funding solution for the insolvency market in Australia and the UK. Although still at an initial stage, the insolvency funding model is proving to be entirely complementary to LCM's existing business and has realised new opportunities for referral relationships that previously did not exist. In Australia, LCM has considered 30 applications and has entered into three agreements for the funding and/or assignment of smaller insolvency-based claims. In the UK a total of 56 applications have been received and are currently subject to due diligence. The introduction of this business model has already generated significant opportunity for investment and has given LCM access to larger opportunities which ordinarily form part of our core business but would not have been identified prior to the small insolvency claims strategy being adopted.

Expanding into this area of smaller insolvency matters has the potential to reduce the average life of our investments. The average life of our investments over the last eight years is

25 months, and we expect that the smaller matters will have a much short life, somewhere between 12 and 18 months. Thanks to the shorter investment period, the introduction of these investments into our portfolio also has the potential to improve our average internal rate of return and smooth our revenue line.

### Growth opportunity

The Board continues to see significant growth in the litigation finance sector. That growth is a direct reflection of a greater acceptance and knowledge of the services provided by the industry to the legal profession and insolvency practitioners.

After successfully expanding into new markets during FY19, LCM continues to look for new opportunities in the same measured and disciplined fashion. A successful litigation financing business broadly requires three essential elements:

1. Experience in the field;
2. Access to capital; and
3. An ability to originate quality investment opportunities.

LCM has extensive experience in the disputes sector, having spent the last 21 years refining and creating the systems and methodologies which allow it to skilfully undertake due diligence and underwriting processes to determine what investments should be made in the area of disputes. LCM possesses more experience in the field than almost any other operator globally.

## Chief Executive's Report continued

**LCM has the benefit of its public listing on AIM and access to other capital markets in order to raise this capital.**

The operation of a disputes funding business is a capital-intensive enterprise that requires access to significant pools of capital. LCM has the benefit of its public listing on AIM and access to other capital markets in order to raise this capital. We have the flexibility to approach investors to raise equity, if deemed appropriate. LCM continues to monitor the sources of capital for its business, including consideration of a third-party fund where we are in advanced discussions with potential investors and will provide an update later this calendar year.

A number of funders have access to sufficient capital, a smaller number have the experience and expertise of LCM, and fewer still have approached origination in the same innovative manner as LCM. We have an unrivalled and unique ability to originate quality investment opportunities. This is demonstrated most effectively by the move into corporate portfolio funding, where LCM is a global leader.

LCM has recently experienced a significant period of growth. LCM can point to growth in almost all areas of its business over the past 12 months. We have increased our capital base, our investments into litigation projects, the geographies in which we operate and our human capital. LCM continues to monitor the funding industry globally and those geographies and jurisdictions where opportunities exist.

In addition, LCM looks at its personnel and hires skilled and/or experienced practitioners, opportunistically, if and when they become available. LCM undertakes those activities in the same disciplined and measured manner as it has done historically.

### Regulation

LCM's operations are not currently subject to significant regulation under any laws in jurisdictions in which we operate. LCM is supportive of greater regulation, as are other larger litigation financiers. It is vital to the industry for it to mature and increase legitimacy. This is an example that LCM strives to set through supporting and abiding by regulation.

Whilst recognising the need for further regulation, LCM also continues to comply comfortably with regulation. As a listed company we are making a statement about our commitment to transparency and disclosure, especially given how we do not currently include any fair value accounting in our financial or performance metrics.

In Singapore and Hong Kong, where regulation focuses on capital adequacy and the need for litigation financiers to operate a finance business, rather than one-off investments, LCM is in full compliance. There were two government inquiries into litigation finance in Australia in the period which touched upon

the regulatory environment – however, neither made recommendations which were adverse or potentially adverse to the business. LCM also complies with all relevant and related regulation in London.

### Conclusion

We are exceptionally pleased with what the business has achieved in this monumental year and are confident that these recent developments will help us continue to grow. We now have a global infrastructure in place, a diversified portfolio, and an exciting pipeline of opportunities ahead. Importantly, we are proud of our continued dedication to strict investment discipline.

Wider industry and macroeconomic trends are supporting us, with encouraging signs that litigation funding is moving to a corporate finance product that is used by choice, not necessity, by many.

Whilst, by nature, the returns from our financing are not going to result in a linear growth pattern, our trajectory is positive and reflects the true nature of our business. With multi-faceted opportunities for growth laid out ahead of us, an earnings stream that is becoming further diversified and a strengthened balance sheet, we are confident we will continue to deliver good progress over the next year and beyond.



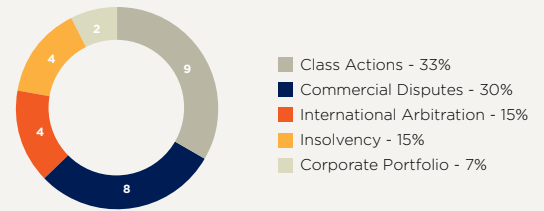
## Financial Review



*In the last 12 months, LCM has experienced a period of unprecedented growth, opening new offices and expanding into new jurisdictions and product offerings. In addition, LCM moved its listing from the Australian Securities Exchange (ASX) to the Alternative Investment Market (AIM) in London.”*

**Stephen Conrad**  
Chief Financial Officer

Portfolio by Type / Industry Sector  
(number of projects)<sup>2</sup>

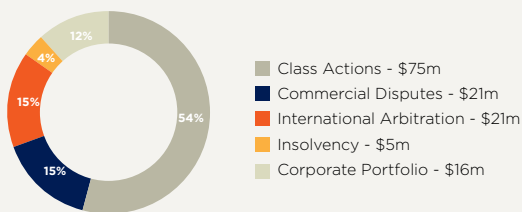


## Overview

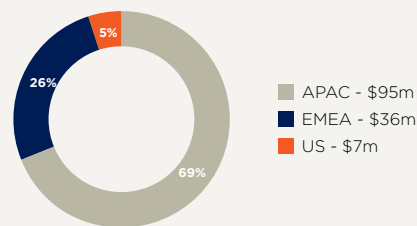
We are pleased with the overall financial performance of the Group for the financial period ending 30 June 2019. During a period of unprecedented growth and expansion across all areas of the business - as well as the one-off event of transitioning its listing to AIM - the Group's financial performance was commensurate with the prior period.

As LCM's portfolio of investments grows in size the volatility of earnings should diminish, as when a significantly larger number of investments are maturing in a particular financial period the impact of one or two investments moving into to the next financial reporting period will have less of an overall effect on yearly profitability.

Portfolio by Type / Industry Sector  
(estimated A\$ capital commitment)<sup>1</sup>



Portfolio by Region  
(estimated A\$ capital commitment)<sup>1</sup>



## Investment Performance

The underlying financial metrics for investments realised during the financial period show that LCM's performance improved. The cumulative return on invested capital (ROIC) over the past eight years (inclusive of losses) increased to 135%. The portfolio internal rate of return (IRR) (also inclusive of losses) has increased to 80%. We are very pleased with the Group's overall maintenance of its high standard of performance notwithstanding a period of unprecedented expansion and growth. Our average time to resolve or complete a litigation project is currently 25 months. Investors should expect those performance metrics to move from period to period, but it is important to note that they remain strong as a direct reflection of our ability to undertake detailed due diligence and underwriting to select profitable litigation projects to invest in.

These financial metrics are clear, transparent and free from any ambiguity which might arise from fair value accounting. The last eight years are the most representative of LCM's business in terms of the projects LCM supports and will continue to do so going forward. Prior to 2011, LCM was providing funding projects to different sectors of the market and was subject to different capital constraints. The day-to-day management of the business during those years was also different together with different systems and methodologies to which LCM now adheres; this last eight-year period best reflects the current strategy based on a diverse portfolio of increasing quality.

The strong cumulative ROIC result is evidence of the success of the systems and methodologies employed by LCM when selecting projects, deploying capital, and managing those projects to a profitable conclusion. The IRR demonstrates LCM's ability to generate consistently strong returns over a reasonable investment period. Together the ROIC and IRR demonstrate that LCM can continue to provide excellent returns both in the private and public markets, and through the management of third-party funds.

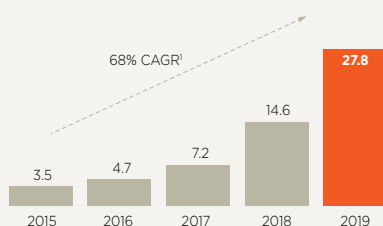
## Portfolio Update

Prior to FY19, LCM measured its portfolio using an estimated aggregate gross claim size. In recognition of LCM's business being a corporate finance product, we took the deliberate decision in FY19 to shift our focus towards aggregate investments as opposed to aggregated gross claim size. Given LCM's past performance and its ability to generate returns on invested capital, the Board believes that this is a far more useful metric for investors to consider LCM's growth. Total invested capital during FY18 was A\$14.62 million. During FY19, LCM's investments increased substantially to A\$27.84 million. The increase in capital investment is a direct result of two significant developments during the financial year. The first is greater access to capital through LCM's equity raise on AIM in December 2018. The second is LCM's expansion into new geographies including opening a permanent office in Singapore, for the Asia Pacific region, and the establishment of an office in London, for the EMEA region. Both of those offices have already generated high-quality investment opportunities for the Group.

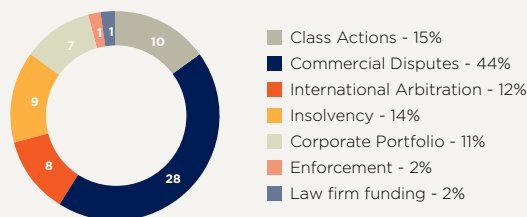
<sup>1</sup> Capital commitment denotes the total estimated budget of the portfolio of projects.  
Note: Current project portfolio as at 3 September 2019 (including conditional projects).  
<sup>2</sup> %'s reflect type of projects as a percentage of total no. of projects.

## Financial Review continued

### Total Capital Deployed on Litigation Investments (\$m)



### Pipeline by Type / Industry Sector (number of projects)



LCM had a portfolio of 29 projects under management as at June 2019, of which 23 were unconditionally funded and six were conditionally signed. The portfolio shows significant growth of 45% in the number of projects under management, given LCM was managing 20 projects as at 30 June 2018. In line with LCM's investment philosophy, the portfolio maintained diversity across industry sector, jurisdiction and capital commitment.

### Financial Performance

LCM's strong results in FY 2019 were driven by the completion of seven litigation projects. The Group's overall gross revenue of A\$34.71 million represents an increase on the prior financial period of 17%. The Group generated a gross profit of A\$20.34 million, representing an increase on the prior period of 23%. The Group produced a statutory profit before tax of A\$10.15 million. This statutory profit represents an outstanding result given the level of growth achieved in the same period, although is marginally down on the prior financial year.

Expenses of A\$10,56 million were in line with the full year guidance provided together with the HY19 results, had increased in line with the opening of additional offices in London and Singapore, together with an increase in staff in

both these locations and in Australia, as well as absorbing the costs of the corporate action to move the company's listing to the UK.

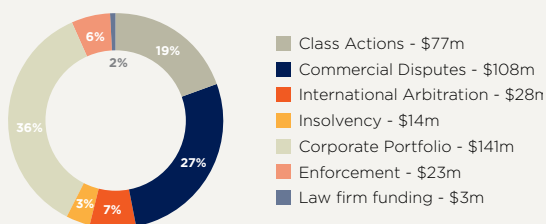
Adjusted profit before tax is A\$12.28 million which was down 5% on the prior period and a reconciliation is provided below:

<b>Statutory Profit Before Tax</b>	10,150
Add:	
FX loss (non-cash)	100
IPO costs (per half year accounts)	233
Fund costs	17
Share-based payments (loan shares)	320
Provision for annual leave and long service leave	197
Non-recurring consultancy fees (per half year)	579
Litigation fees	679
<b>FY19 Adjusted Profit Before Tax</b>	<b>12,275</b>

Cash on balance sheet of A\$49.12 million was in line with cash levels from the half year results (A\$52.60 million as at 31 December 2018) and we note that LCM had generated additional cash that was held in escrow of A\$7.2 million for the completion of a project just prior to 30 June 2019.

As a consequence of the Group raising capital during the period to deploy into the underlying business, basic earnings per share (EPS) declined

### Pipeline by Type / Industry Sector (estimated A\$ capital commitment)<sup>1</sup>



### Portfolio diversification achieved through

- ▲ Industry sector
- ▲ Capital commitment
- ▲ Geographic location
- ▲ Jurisdiction

to 8.65 cents per share. In November 2018, a total of 11,111,112 shares were issued post the announcement of the Group's intentions to delist in Australia and move to AIM. In addition, upon listing on AIM, the Group issued 38,461,540 shares with this capital deployed into the expanded business. Going forward, given the growth nature of the Group's business, we would expect this ratio to reflect a growth company and remain low during these periods of growth.

### Pipeline

LCM's pipeline of pre-qualified opportunities continues to demonstrate the large and diverse investment opportunities within the company as at 3 September 2019. LCM had 64 pipeline projects across a mix of litigation financing including commercial, international arbitration, insolvency, class actions and corporate portfolios. The estimated potential investment across those projects is A\$394 million.

That pipeline of investment opportunities is dynamic and changes regularly. The pipeline reflects the global nature of LCM's business with projects in Australia, the Asia Pacific and EMEA.

### Accounting Policy

LCM has a conservative, cash-based accounting policy. Litigation contracts are recognised at historical cost and we do not adopt fair value

accounting in our reporting. We should note that there is no inherent issue with the use of fair value accounting, but the application of it does matter. The accounting treatment for litigation projects varies in the industry, with some approaches more reliant on subjective judgement by management teams than others.

LCM continues to debate and seek professional expert advice with respect to applicable standards. It may be the case that, as LCM's business continues to grow, the appropriate and applicable standard to apply to our business model may be IFRS 9 and fair value accounting. If LCM were to adopt this accounting standard, it would be alongside cash accounting numbers, and we would only adopt a method of fair valuation that can be scrutinised through a transparent publicly available policy that would provide investors with full disclosure.

LCM's commitment to conservative and transparent disclosure is an important and positive differentiator compared to its peers in the sector. We operate our business with strong processes and values that underpin our robust and diligent approach to risk management. We are committed to providing investors with the disclosure and transparency needed to assess the underlying basis of LCM's returns and to give a true reflection of our financial performance.

## Financial Review continued

The key features of our accounting policy are:

- i. Fair value accounting for litigation projects in our portfolio is not used, instead, LCM recognises litigation projects at historical cost.
- ii. Historically LCM accounted for its litigation projects under AASB 138 Intangible Assets. With effect from 1 July 2018, LCM adopted AASB 15 Revenue from contracts with customers (which is the equivalent of IFRS 15).
- iii. The effect of the revenue recognition policy under AASB 15 simplifies revenue recognition to include revenue solely from settlements and judgments.
- iv. The retrospective application of AASB 15 does not have an impact on LCM's net profitability or investment performance.
- v. Carrying value includes the capitalisation of external costs of funding the litigation, such as solicitors' fees, barristers' fees and experts' fees. No other overheads are capitalised.
- vi. Litigation contract costs are derecognised when a successful judgment or settlement has been determined, at which point the revenue is recognised, and litigation costs derecognised, in the Statement of Profit & Loss and Other Comprehensive Income.
- vii. Cash outflows relating to the litigation projects are reflected under Operating Activities on the cash flow statement.

### Additional information on updated revenue recognition policy

LCM strives to maintain the highest standards in its financial reporting and the preparation of its financial statements with the upmost transparency and accuracy such as to give a true reflection of the financial performance of the business. On 1 July 2018, LCM was required in accordance with the Australian Accounting Standards and International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, to transition from applying AASB 138 - Intangible Assets (AASB 138) to AASB 15 - Revenue from Contracts with Customers (AASB 15 is the equivalent to IFRS 15). It has been noteworthy there has been much discussion in recent times on the adoption of IFRS 9 - Financial Instruments (IFRS 9) and its influence on revenue recognition by litigation finance companies.

Along with the transition to AASB 15 and in particular the recognition of LCM's revenue as being revenue resulting from contracts with its customers, LCM was advised on 1 July 2018 to adopt a revenue recognition policy that recognised (in addition to realised revenue from concluded projects) its investments in litigation projects in its profit and loss statement through the revenue line before that revenue was immediately derecognised and posted to the balance sheet as an intangible asset. The effect of this revenue recognition policy was to increase LCM's gross revenue but had no effect on gross margin or profits.



Going forward, LCM has now simplified its revenue recognition to only include revenue from settlements and judgments. Regardless of this new policy, there is no effect on past or future Gross Profit nor Net Profit Before Tax. Further, this does not represent a change to the accounting standard adopted by LCM which remains in accordance with the Australian Accounting Standards and IFRS, as issued by the International Accounting Standards Board.

The following tables provide a comparison between each revenue recognition policy for transparency:

### Extract of the Statement of profit or loss and other comprehensive income

For the year ended 30 June 2019

Group's revenue recognition policy under:	AASB 138	AASB 15	New AASB 15
	\$'000		
Litigation service revenue	-	48,179 <sup>2</sup>	34,707
Litigation service expense	-	(27,838) <sup>3</sup>	(14,366)
Other income	20,341 <sup>1</sup>	-	-
Gross Margin	20,341	20,341	20,341
<b>Net Profit Before Tax</b>	<b>10,150</b>	<b>10,150</b>	<b>10,150</b>
<b>Net Profit After Tax</b>	<b>7,111</b>	<b>7,111</b>	<b>7,111</b>

<sup>1</sup> The net of gross revenue on the successful completion of litigation projects of \$34,707 less costs incurred in those litigation projects of \$14,366

<sup>2</sup> Gross revenue on the successful completion of litigation projects of \$34,707 less costs incurred in those litigation projects of \$14,366, plus investments into litigation projects during the financial year

<sup>3</sup> Equates to investments in litigation projects during the financial year

### Extract of the Statement of financial position

As at 30 June 2019

Group's revenue recognition policy under:	AASB 138	AASB 15	New AASB 15
	\$'000		
Intangible assets - litigation contracts <sup>1</sup>	27,386	-	-
Contract assets - litigation contracts <sup>1</sup>	-	27,386	-
Contract costs - litigation contracts <sup>1</sup>	-	-	27,386

<sup>1</sup> Includes current and non-current assets

### Finance Costs

The Group had no debt facilities in place during the reporting period.

## Financial Review continued

### Dividend

LCM announces a final fully franked dividend of 0.828 cents (Australian) per share, or A\$900,000 based on the issued share capital of the Group as at 30 June 2019, that will be paid in respect of the year ending 30 June 2019. This is in addition to the interim dividend of 0.506 cents (Australian) per share, or A\$550,000, paid to eligible shareholders on 21 June 2019.

The ex-dividend date for the final dividend is 14 November 2019 and will be paid on 11 December 2019.

#### Shareholders on the Australian Register

- ▲ The dividend will be paid on 11 December 2019 in Australian dollars to holders on the Australian share register as at 14 November 2019.

#### Shareholders on the Guernsey Register and Depository Interest holders

- ▲ The dividend will be paid on 11 December 2019 in Sterling to holders on the Guernsey share register and within the Depository Interest facility as at 14 November 2019. The Sterling rate will be announced in due course.
- ▲ The dividend is capable of being paid in Australian dollars, provided that the relevant shareholder has registered to receive their dividend in Australian dollars under the Company's Dividend Currency Election form by the close of business on 21 November 2019.
- ▲ A copy of the Dividend Currency Election form, which when completed should be sent to Link Asset Services, The Registry, Beckenham Road, Beckenham, Kent, BR3 4TU, can be found on the Company's website at <https://www.lcmfinance.com/>.

The Board is currently undertaking a review of its capital allocation policy, including dividend quantum, given the significant growth opportunities that the Group has available. The Company intends to consult major shareholders as part of this review. An update will be provided alongside the half year results for FY2020.

### Forecasting and guidance

LCM has extensive experience in the provision of litigation funding and finance products to the market. Indeed that experience extends right back to the inception of the industry in the late 1990's. That experience enables LCM to observe, with some confidence, that accurate forward forecasting is exceptionally difficult to achieve. It requires the financier to accurately predict when a particular project, or portfolio of projects will come to a conclusion either through a negotiated settlement of the dispute or an adjudication by a court or tribunal. Secondly, it requires the financier to predict what the quantum of such a resolution might be either as a negotiated settlement or as an award by the court. Given the myriad of outcomes that one might have in respect of such an investment into litigation, it is simply not reasonable or responsible for us to provide forward forecasting. That is an approach and position which is shared with our listed peers.

LCM acknowledges with gratitude the invaluable assistance provided by analysts who diligently prepare research on its business. Having regard to the observations made above concerning the fragility of accurate forward forecasting, investors should take that into account when considering forward forecasting contained in research reports or research notes.

### Our Accounting Model

Concern has been raised against some of our listed peers regarding the use of fair value accounting, which allows unearned revenue to appear in the revenue line. The introduction of unearned revenue into a company's revenue line provides it with a mechanism to smooth its earnings. In other words, it allows the company to include unearned revenue from future years into the current financial period. The use of fair value accounting may permit a company to produce a far smoother revenue line, than cash accounting, however, it has its downsides.

By contrast, LCM reports on a conservative basis akin to cash accounting. Its revenue line as reported is actual profits received and/or earned by the company during the relevant financial period. That accounting treatment provides investors with absolute transparency as to what is occurring with respect to revenue and profits. It does not, however, permit the company to smooth in any way its revenue line.

The business of litigation finance involves a series of investments into disputes which take, on average, approximately 25 months to complete. Those investments may mature before or after that 25 month average. For the reasons expressed above, it is exceptionally difficult to predict when such realisations take place. They are largely controlled by the underlying parties to the dispute and the court or tribunal adjudicating their dispute. LCM's investments vary in size and through industry sector and jurisdiction, therefore its revenue receipts can be infrequent and can be lumpy.

As a consequence of these factors, the maintenance of a litigation finance business when coupled with very conservative cash accounting can create a very 'lumpy' revenue line. It may result in profit fluctuations from one year to the next and as a result, investors should not expect an even and smooth increase in profits from year to year. The fact that profits do not increase in a linear fashion from year to year should not be interpreted by investors as a reflection on either the level of growth inside LCM from year to year or the profitability of its business. It is simply a feature of the very conservative accounting policies that we have adopted.

As LCM's portfolio of investments grows in size, revenue lines should become smoother. That is when a significantly larger number of investments are maturing in a particular financial period and when the effect of one or two investments moving to the next financial reporting period will have less overall effect on yearly profitability.

### Indications of growth in LCM's business

LCM is going through a period of significant growth, at every level of the business. We continue to carefully and thoughtfully invest in creating a business for the future.

As we strategically invest in building out the geographies and jurisdictions in which we operate, we anticipate that LCM's operating costs will be higher than would ordinarily be the case and this will create some disparity across LCM's generated revenue. LCM's Board are confident that the investments made now will place LCM in an exceptionally good position to capitalise on market opportunities.

## Financial Review continued

As we have already acknowledged in this report, the conservative accounting standard that LCM adopts does lead to fluctuating revenue lines. We remain committed to maintaining a fully transparent business and continue to take measures that allow investors to accurately assess the effectiveness of our expansion initiatives. The indicators set out below provide a useful barometer for the ongoing performance of LCM. These indicators should not be looked at in isolation, but rather considered together and with LCM's financial reporting generally:

- ▲ The size of LCM's portfolio of investments – investors should expect that LCM will increase the size of its portfolio of investments from one accounting period to the next. That increase will be through total number of investments and capital commitment, and will continue to exhibit balance through industry sector, geography, jurisdiction and individual capital commitment per investment.
- ▲ The number of applications that LCM receives for finance in a given period – investors should expect to see the number of applications received by LCM increase over time. That will be a direct reflection of increasing the number of productive investment managers working in the various regions in which LCM maintains offices.
- ▲ The ratio between the number of applications for finance received by LCM and the number of investments made – historically, around 3% of applications ultimately result in an offer of commercial terms and the entry into a funding agreement. That is a direct reflection of the level of rigorous due diligence that is applied towards applications for funding received.
- ▲ The quantum of capital invested in a given period – investors should see a steady increase in the capital invested by LCM from one financial period to the next. This is in line with the expectation that LCM will increase the size of its portfolio of investments leading directly to an increase in the overall amount of capital invested.
- ▲ LCM will continue to generate performance metrics within an acceptable range of its historic performance – whilst investors should expect that LCM's performance metrics will fluctuate from period to period, they should exhibit similar characteristics to the running portfolio metrics, being return on invested capital and internal rates of return.
- ▲ Increase in the quantum and sources of capital available to the business – investors should, over time, expect to see LCM increase the level of capital it has at its disposal to conduct its business. That increased capital will be generated organically through the maturing of investments as well as through other sources including the raising of equity capital and the management of third party pools of capital. Investors should anticipate that as LCM's business grows, so will its capital demands and the varied sources of that capital.

### Performance Metrics

LCM has enjoyed outstanding performance metrics with respect to the various underlying investments which make up its litigation finance business over the past eight years. As described elsewhere in this report, LCM has chosen the last eight years of performance to calculate metrics as being the most representative period referable to LCM's business moving forward.

Those performance metrics are a benchmark in the industry as a whole. LCM encourages investors to recognise those metrics not only from a financial perspective but also as a measure of the effectiveness of LCM's due diligence and underwriting processes. LCM could not generate such high financial metrics without the most robust and effective due diligence and underwriting systems for determining which disputes should be the subject of a funding arrangement and which disputes will deliver a positive result and return on LCM's investment.

Investors should expect to see the performance metrics change over time. That change is reflective of LCM moving into new jurisdictions and geographies as well as funding new industry sectors. For example, the provision of finance support to an insolvency and restructuring dispute in the jurisdiction of NSW Australia will yield very different performance metrics to an international arbitration or a Bilateral Investment Treaty dispute in a jurisdiction such as Singapore, London or Paris. Investors should expect that LCM's investments will continue to perform with high metrics but should not be so concerned about fluctuations.

### Our Win : Loss Ratio

Since it was founded in 1998, LCM has enjoyed an exceptional record when it comes to its litigation investments. Of 205 separate investments into underlying cases, LCM has suffered a loss on only 10 and just five of those have been adjudicated by a court for tribunal unfavourably. The number of cases which were adjudicated against LCM's anticipated outcome is an important metric because it demonstrates that out of 205 separate investments LCM only took an incorrect position in respect of five.

The other five investments where LCM suffered a financial loss could have been for reasons which were unanticipated and outside the knowledge and control of LCM and its investment managers. To put it another way, LCM's ability to predict the outcome of disputes is exceptional.

Investors are, however, reminded that losses are a feature of LCM's business model. It is unreasonable to expect that LCM will not suffer losses in the future. Investors should not be concerned if one of LCM's investments proves to be unprofitable or suffers a loss. It is simply part of LCM's business in the same way that an investment fund which invests in equities is not expected to be successful with every stock it selects.

## Risk Management

Over its 21 years in business, LCM has established clear best practice and high operational standards which contribute directly to the stability and strength of the company.

### IT & Cybersecurity

Data security and privacy are very important to LCM. As a manager of litigation assets, LCM is in possession of highly confidential information that contains sensitive details about client litigation matters. As a publicly listed entity, LCM is also in possession of confidential information that needs to be disseminated in compliance with regulatory frameworks including listing rules, securities licensing regimes and other stakeholders.

As part of our global expansion, we have made sure that our infrastructure platform is primed to scale for this opportunity. During FY19, we moved our data from our local but external server in Australia to a major global cloud-based vendor, to better align with our global expansion and comply with requirements of the General Data Protection Regulation (GDPR) for privacy issues. We upgraded our defences for cyber security and moved our AML (Anti-Money Laundering) and KYC (Know Your Customer) systems from the local server to a global cloud-based platform, providing LCM with real time data and feedback on customers and investors.

### Team integration

During the year, we successfully integrated our new team in the UK with our team in Australia both physically and virtually. Not only have we facilitated the integration through a series of in-person meetings involving travel between offices, we have also updated our technology platform for communication by establishing video conferencing between the two centres and integrating our calls and committees. All treasury and risk management functions will remain centralised in Sydney.

### Finance function & controls

LCM centralises its finance functions in its head office in Sydney. The finance team includes members based in our two largest offices being Sydney and London enabling the team to participate in the review of investment managers' existing projects and their investment pipeline. This creates alignment between origination, treasury, finance and corporate reporting teams and minimises volatility between forecasting and the completion of projects.

LCM has robust controls around payments that incorporate both internal and external systems. These controls require that all payments, regardless of their size, are loaded into a central system by a member of the finance team who does not have the authority to release that payment. They also require at least three different people to provide authorisation before any payments leave LCM. The largest payments relate to litigation projects and these are circulated amongst the investment team, risk team and finance team ahead of them being loaded into and becoming part of the three-step approval process.

During 2019, LCM upgraded our AML/KYC function through the implementation of a new online global onboarding and monitoring software system. This streamlined our already robust function and allowed us to better manage the global requirements we are operating in.

### Risk management

LCM has a proven and robust risk management process. We apply rigorous selection criteria that have been developed over our 21-year history and embody a clear understanding of what is likely to constitute a successful and profitable litigation project. This process is central to the discipline LCM has shown when sourcing deals, which in turn has led directly to our current strong financial position.

LCM's investment managers consider applications for financing against our five key criteria:

- 1) **Proportionality** – There must be proportionality between the size of the claim and the funding commitment. Many applications for funding are instantly dismissed on the basis that it would not be commercially viable for LCM to fund them.
- 2) **Clear legal principles** – The claim must be based on clear legal principles and not any novel or uncertain points of law.
- 3) **Written evidence** – The claim should be supported by clear evidence that is documentary in nature, not oral.
- 4) **Recoverability** – There must be a clear line to recovery for the claim and it must be demonstrated that the defendant has the capacity to meet a judgment of the size that will be brought.
- 5) **Experienced legal team** – There must be a highly competent and experienced legal team in place with the relevant expertise to pursue the claim.

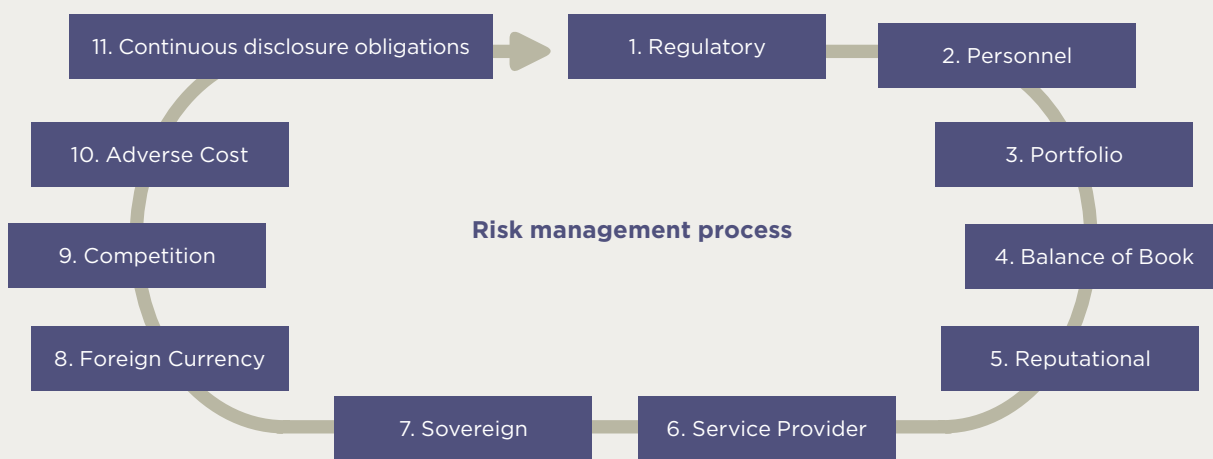
As a result of following these criteria, LCM provides funding to only between 3-7% of the applications it receives. This process allows LCM to be cautious and to protect itself from risk and the temptation of unnecessary growth. The funding criteria are applied across all of the core legal claims sectors that LCM has expertise in: commercial claims, class actions, insolvency, international arbitration, and corporate portfolios.

Each litigation project that LCM funds is managed by an investment manager, who is responsible for ensuring that the litigation project continues to meet the key criteria and is expected to achieve the funder's return at the likely completion date. LCM's investment managers meet weekly and the status of all litigation projects is reviewed quarterly.



## Risk Management continued

As part of the LCM risk management process, all litigation projects are continuously reviewed against 11 risk criteria, as represented by the following graph:



### 1. Regulatory

The monitoring of regulatory risk has two aspects. The first is monitoring the potential regulation of the litigation financing industry in those jurisdictions in which LCM operates. In all jurisdictions, with the exception of Singapore and Hong Kong, litigation financing is almost entirely unregulated. In Singapore and Hong Kong, there is a light regulatory regime which is monitored for continued compliance. The second aspect to regulatory review is monitoring changes in the law in various jurisdictions on an application by application basis.

### 2. Personnel

LCM employs a continuous review process with respect to investment managers. That review process involves continuous peer review in respect of due diligence and underwriting techniques as well as investment monitoring.

Through that process, LCM reduces the risk of siloed behaviour. In addition, LCM monitors the performance of all staff including investment managers to ensure the highest level of performance, integrity and diligence.

### 3. Portfolio

LCM continuously monitors the budgets in respect of each of its investments to ensure that capital commitment remains in line with expectations. That process is overseen at a management level on a quarterly basis.

In addition, the five criteria of LCM's due diligence and underwriting process are measured against each ongoing project on a quarterly basis and that process is peer reviewed on a semi-annual basis. This process ensures that none of the core criteria with respect to due diligence and underwriting change or are relaxed.



#### 4. Balance of book

LCM maintains a policy to build and pursue a balanced portfolio of investments by jurisdiction, industry sector and capital commitment. We strive to maintain a balance across industry sectors as well as jurisdictions. In terms of capital commitment, we monitor all investments to ensure that the portfolio does not suffer from concentration risk in any one project. LCM's entire portfolio is reviewed to ensure balance across those areas on a quarterly basis.

#### 5. Reputational

LCM is careful about its reputation in the marketplace, not only as a provider of litigation finance but also as a company traded on the LSE. In addition, LCM measures all investment opportunities against its environmental, social and corporate governance statement.

#### 6. Service provider

One of LCM's five criteria comprising the framework of its due diligence and underwriting process is the skill and experience of service providers and in particular, law firms providing legal services. Service provider risk is a significant risk that is continuously monitored by LCM through its investment managers. The maintenance of LCM's due diligence and underwriting policies requires significant discipline in rejecting applications for finance products where the application would otherwise meet all of LCM's criteria but LCM cannot be satisfied that the level of skill or experience of the service providers is present.

#### 7. Sovereign

Sovereign risk is measured in two particular ways. The first relates to the recovery risk when financing Bilateral Investment Treaty disputes against sovereign nations. Very careful and in-depth diligence is undertaken with respect to sovereign risk and recovery when considering those particular investment opportunities.

Secondly, sovereign risk is given very careful and particular consideration when an application for funding is received from a sovereign state. Those applications are received infrequently, however, when received are considered with caution and sovereign risk is measured very carefully. In addition, sovereign risk in both situations is continually monitored by the investment manager in respect of existing investments on a quarterly basis and subject to peer review.

#### 8. Foreign currency

LCM Treasury monitors the currency risk associated with respect to the timing for both the deployment budget for litigation projects and the expected return of those costs and our contractual return.

Deposit balances are maintained in the key currencies of exposure, currently being AUD and GBP. As other project obligations become a material exposure, LCM will allocate deposits into those currencies. LCM does not hedge the expected return from litigation projects given the tenor of this exposure.

## Risk Management continued

### 9. Competition

LCM continually monitors competition in the marketplace. That competition typically arises in two areas. The first is conventional competition from rival funding companies. At present, the competition globally is relatively low. LCM actively avoids small pockets of competition if and when they arise. Those areas are, however, continually monitored as funders move in and out of the marketplace.

The second source of competition that LCM monitors comes from an unexpected source. In terms of corporate portfolio transactions, the competition comes from the corporate's own capital resources. LCM monitors the touch points with respect to a corporation utilising its own capital as opposed to a third-party source of capital and amends its origination techniques accordingly.

### 10. Adverse cost

In certain jurisdictions in which LCM operates, it provides an indemnity as against an adverse costs result. That means that LCM underwrites the risk of an unsuccessful litigant being ordered to pay the successful litigant's legal costs. On most occasions, in those jurisdictions where that service is offered, the risk is laid off through after the event insurance.

### 11. Risk in relation to obligations of market disclosure

As a company whose shares are traded on the LSE, LCM continually monitors its continuous disclosure obligations. Those continuous disclosure obligations are carefully balanced against LCM's contractual obligations of confidentiality with respect to its portfolio of investments.

### Compliance

At LCM, we have a very simple philosophy around ethical conduct that is entrenched within our culture. Ethical conduct is of paramount importance to every LCM employee and it is non-negotiable. We do not permit second chances, we do not allow anyone to exploit grey areas and there is zero tolerance towards anyone looking to bend the rules.

Our compliance regime has grown in tandem with our international expansion and it addresses the various legal and regulatory obligations LCM has across multiple jurisdictions.

### Foreign exchange

LCM is an Australian dollar (AUD) reporting business and historically the majority of our operations occurred in AUD denominated activities. In tandem with the expansion of LCM's activities globally, we have increasing expenses associated with operations outside of Australia. In addition, our international expansion has seen LCM deploy additional capital into litigation assets domiciled outside of Australia. To manage this foreign exchange risk, we keep a proportion of our cash in the currencies in which we expect the majority of these expenses to occur.

Foreign exchange transaction risk is the risk that LCM's cash flows will be adversely affected by movements in exchange rates that will increase the AUD value of foreign currency payables or will diminish the AUD value of foreign currency receivables. LCM's approach to foreign exchange transaction risk management is as follows:

- ▲ The overall purpose of hedging is to mitigate risks and achieve known outcomes.
- ▲ Foreign exchange risk management is the responsibility of Treasury.
- ▲ It is the responsibility of LCM's investment managers to identify foreign exchange risks in their areas of responsibilities and notify Treasury in a timely manner of these exposures through the monthly reporting system established by Treasury.

The sources of LCM's foreign exchange transaction exposures are as follows:

- ▲ Investments in cases which are in a foreign currency
- ▲ Foreign operating costs, such as salaries, offices and other business expenses in a foreign currency
- ▲ Payments denominated in a foreign currency



## Sustainability Report

Developing progressive Environmental, Social and Corporate Governance (ESG) business practices is a core value of our growing company. Despite our small size and being a specialised financing firm, we give serious consideration to the impact our business activities may have, not only on our clients and employees, but also in the local communities in which we operate.

### Having regard to our people

It goes without saying that our people are our business. We treat all our employees fairly and ethically and we aim to provide an environment in which all our employees feel valued, engaged, safe and can perform to the utmost of their abilities.

### Contributing to our community

#### Public Interest Advocacy Centre

LCM is an enthusiastic supporter of the Public Interest Advocacy Centre (PIAC), an Australia-based organisation that tackles difficult social problems impacting the lives of many Australians. The organisation conducts test cases and strategic litigation in the public interest and provides legal assistance, policy advice and training to create positive changes in the lives of people who are disadvantaged or marginalised.

Throughout its history, the organisation has run test cases in the public interest involving indigenous justice, mental health and insurance, police accountability, asylum seeker health rights, discrimination and human rights, and in relation to government intervention and the overriding rule of law.

LCM and a handful of other litigation finance companies that operate in Australia have lent their support to PIAC in a very innovative fashion. One of the problems faced by the association in pursuing test cases in the public interest is the risk of failure and the consequential adverse costs exposure that the test applicants have.

Invariably those test applicants are disadvantaged or marginalised individuals without the capacity to meet an adverse costs judgment. That particular issue presented a very significant problem for PIAC.

The problem was resolved, or at the very least mitigated, by a group of litigation financiers, including LCM, lending their support to PIAC by providing a contribution towards an indemnity against an adverse costs event. LCM is able to provide that support to PIAC because it fits within LCM's core skillset and experience. LCM is able to make an assessment of the merits of the test cases in a similar way that it would make an assessment of the prospects of success of any other investment that LCM might make in the core conduct of its business.

LCM, through this initiative, is proud to be contributing back to those disadvantaged and marginalised in the community.

#### Class actions and the 'David and Goliath' principle

There is also an additional feature of LCM's business that provides access to the judicial system and justice for those members of the community who would not otherwise be able to assert their rights. This feature of LCM's business manifests itself most readily in its class action investments.

The vast majority, if not all, of the class actions that LCM funds are brought in David versus Goliath circumstances, with our involvement allowing class members access to the judicial system, which would simply not be economically viable without the assistance of LCM's funding and risk management. Examples of those class actions are shareholder class actions and actions taken on behalf of members of superannuation funds and those exposed to environmental harm.

In respect of all of those class actions, the pursuit of a single affected party's legal rights would be utterly disproportionate to the amount of damages that they might be entitled to claim. In addition, there is an element of risk assumed in any litigation that the unsuccessful party would be obliged to pay the successful party's legal costs.

Therefore, without the assistance of LCM, via its funding of class actions and its indemnification of lead or representative applicants, the vast majority of these class actions would not proceed and the rights of consumers would never be pursued.

#### **Looking after our clients, shareholders and stakeholders**

We are proud that our clients and shareholders have participated in the successful outcomes that they engage us to do and this is evident in our track record.

Our global compliance function also ensures that we work to international standards of risk management and compliance and this is underpinned through training of every staff member in the policies and procedures for data protection, anti-money laundering, and anti-bribery and corruption, as well as our regulatory obligations of being a listed entity.

On our Corporate Governance, LCM has an independent Chairman and Board. Upon moving to the London Stock Exchange Alternative Investment Market, we have adopted the QCA Corporate Governance Code, having previously adopted the ASX Corporate Governance Principals. We have also adopted full transparency with respect to remuneration that ensures alignment between our staff and our stakeholders with an appropriate balance of current and deferred compensation.

Finally, as LCM continues to grow, we see our ESG responsibility growing with us.



## Board of Directors



**Jonathan Moulds**  
Non-Executive Chairman

Jonathan is a Non-Executive Director of IG Group Holdings Plc and has recently served as the Chief Operating Officer of Barclays PLC. Prior to his role at Barclays, he was head of Bank of America's European business until 2013 and became the Chief Executive Officer of Merrill Lynch International following the merger of the two institutions in 2008. He was a member of Bank of America's Global Operating Committee.

Jonathan has served widely on key industry associations including as chairman of the International Swaps and Derivatives Association (ISDA) from 2004 until 2008 and as a Director of the Association for Financial Markets in Europe (AFME). He remains a member of AFME's Advisory Board. Jonathan was a member of the Capital Markets Senior Practitioners of the UK Financial Services Authority and the Global Financial Markets Association.



**Dr David King**  
Non-Executive Director

David was a Founder and Non-Executive Director of Sapex Ltd and Gas2Grid Ltd and was Executive Director of Eastern Star Gas Ltd. He has substantial natural resource related experience, having previously served as Managing Director of North Flinders Mines Ltd and Executive Director and CEO of Beach Petroleum and Claremont Petroleum.

David is a Fellow of the Australian Institute of Company Directors, a Fellow of the Australasian Institute of Mining and Metallurgy and a Fellow of the Australian Institute of Geoscientists. David is Non-Executive Director of Galilee Energy Ltd and Cellmid Ltd and a Non-Executive Director of African Petroleum Corporation Ltd.



**Steven McLean**  
Non-Executive Director

Steven has an investment banking background, with over 20 years' experience, commencing with Ernst & Young Corporate Finance before moving to J.P. Morgan both in Australia and Europe. Steven has led equity transactions which have raised in excess of A\$50bn for corporates across various countries including Australia, USA, UK, Switzerland, Finland, Holland, Austria, France, Russia, Singapore and Bermuda.

In addition to his role with LCM, Steven is currently the Head of Corporate Finance at FinEx, Chairman of ASX listed ReNu Energy Ltd and holds numerous private company Board positions. Steven is a graduate of the University of Sydney with a Bachelor of Economics. Steven was appointed as a Director of LCM on 9 November 2015.

**At the time of the AIM listing, LCM took the opportunity to strengthen our Board by adding three additional Directors. The addition of new Non-Executive Chairman Jonathan Moulds, together with Executive Directors Nick Rowles-Davies and Stephen Conrad, has effectively doubled the size of the Board.**



**Patrick Moloney**  
Chief Executive Officer

Patrick Moloney is a veteran of the disputes funding industry with 17 years experience in the space. Patrick has been a Director of LCM since 2003 and the Chief Executive Officer of the group since December 2013 based out of the Sydney Office. He is responsible for overseeing all litigation projects in which LCM has an investment and (as an investment committee member) for approving new litigation projects for funding. He has been involved in all aspects of the business including devising strategy for future growth, investor relations and corporate affairs. Patrick is one of the most experienced litigation financiers globally.

Prior to joining LCM, he was the principal of Moloney Lawyers, which he established in 2003 and specialised in commercial litigation. Prior to establishing his own firm, he was an employed solicitor for three years and then a partner in the firm of Eddy Moloney for four years.

Patrick was admitted to practice law in 1996 and has acted in more than 200 commercial litigation cases for clients in the District Court of NSW, the Supreme Court of NSW, the Federal Court of Australia and the High Court of Australia.



**Nick Rowles-Davies**  
Executive Vice Chairman

Nick has been involved in the litigation finance and legal expenses insurance industries since 1999. He created and defined the concept of portfolio litigation finance and is the global leader in identifying, creating and executing litigation finance portfolios.

He is admitted as a solicitor in England and Wales, in the British Virgin Islands and is an accredited mediator and has a wide range of experience in commercial and civil litigation issues. Nick is a regular speaker and frequent media commentator on all aspects of litigation, the costs regime, litigation finance, legal expenses insurance and a wide variety of legal matters.

In 2010 he co-founded a family office backed global litigation funding business. He was then Managing Director of a large publicly listed litigation finance firm and led it globally outside of the Americas. He then founded Chancery Capital with a clear focus on corporate client portfolios. He is a former Director of the Association of Litigation Funders of England and Wales.

Nick is the author of *Third Party Litigation Funding*, published by Oxford University Press in 2014. He is also a contributing author to *Costs Law: A Practitioners Guide* (Lara Slater - Ark Group 2016), *The Legal Risk Management Handbook* (Whalley and Guzelian - Kogan Page 2017) and to the 3rd edition of *Friston on Costs* (Dr Mark Friston - OUP 2018).



**Stephen Conrad**  
Chief Financial Officer

Stephen was appointed as a Director at the 2018 AGM and is responsible for finance, operations, compliance and risk. He has 25 years' Investment Banking experience, specialising in risk management, governance and capital optimisation across a wide variety of industry sectors working for global banks in Singapore, Hong Kong and Sydney.

Since leaving Investment Banking, Stephen has acted as an independent advisor and Director for clients across asset management, infrastructure and financial services. He holds a Master of Applied Finance from Macquarie University, a Bachelor of Economics from the University of Newcastle, Australia and a graduate diploma in Applied Finance & Investment from the Securities Institute of Australia. He has also completed securities licensing exams in Sydney, Hong Kong and Singapore and is a graduate of the Australian Institute of Company Directors.

## Corporate Governance Statement

**From admission to the Alternative Investment Market (AIM), we have adopted the QCA Corporate Governance Code, having previously reported on our compliance with the ASX Corporate Governance Council's Principles and Recommendations. A description of the company's corporate governance practices from admission are set out below:**

### The Board

The Board is responsible for the overall management of the group. The Board will meet regularly and not less than eight times per year. Matters specifically reserved for the Board include matters relating to strategy, management structure and appointments, review of performance, corporate finance and approval of any major capital expenditure and the framework of internal controls.

The Board has established a Remuneration Committee, a Nomination Committee and an Audit and Risk Committee and has adopted the Share Dealing Code. The group also operates an Anti-bribery and Corruption Policy, details of each are described below.

### Remuneration Committee

The Board seeks to ensure that LCM adopts remuneration practices which will enable it to attract and retain high calibre and suitably qualified employees, executives and Directors whose interests are aligned with those of shareholders.

The company has established a Remuneration Committee which is delegated the responsibility of advising the Board on developing an overall remuneration policy that is aligned with business strategy and objectives, risk appetite, values and long term interests of the company, recognising the interests of all stakeholders.

The Remuneration Committee comprises two members who are at present Jonathan Moulds and Steve McLean who will chair the Remuneration Committee. The Remuneration Committee meets at least two times a year.

The Remuneration Committee has adopted formal terms of reference under which the Remuneration Committee shall, amongst other matters:

- (a) have responsibility for setting remuneration policy for all executive Directors, the Chairman and such other members of the executive management as it is designated to consider, including pension rights and any compensation payments;
- (b) recommend and monitor the level and structure of remuneration for senior management;
- (c) review the on-going appropriateness and relevance of the remuneration policy;
- (d) within the terms of the remuneration policy and in consultation with the Chairman of the Board and/or Chief Executive, as appropriate, determine the total individual remuneration package of each executive Director of the company, the chairman of the Board and the designated members of executive management, including bonuses, incentive payments and share options or other share awards and in determining such packages and arrangements, give due regard to any relevant legal requirements;
- (e) review the design of all share incentive plans for approval by the Board and shareholders;
- (f) ensure that contractual terms on termination, and any payments made, are fair to the individual, and the company, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- (g) oversee any major changes in employee benefits structures throughout the group; and
- (h) agree the policy for authorising claims for expenses from the Company's Chief Executive and chairman of the Board.

The Remuneration Committee chairman shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall ensure that appropriate disclosure of information, including pensions are fulfilled and produce a report of the company's remuneration policy and practices to be included in the company's annual report.



## Audit & Risk Committee

The company has established an Audit & Risk Committee which provides advice and assistance to the Board in fulfilling its corporate governance and oversight responsibilities in relation to internal and external audit, risk management systems, financial and market reporting, internal accounting, financial control systems and other items as requested by the Board.

The Audit & Risk Committee shall comprise at least three members who at present are Dr David King, Steve McLean and Jonathan Moulds who will chair the Audit & Risk Committee. The Audit & Risk Committee shall meet at least three times a year.

The primary objective of the Audit & Risk Committee is to assist the Board in overseeing the systems of internal control and external financial reporting of the group. It performs this role by ensuring that the external and internal audit arrangements are appropriate and effective; the compliance arrangements are appropriate and effective fraud prevention and whistleblowing arrangements are established which minimise potential for fraud and financial impropriety; and the annual report and accounts, related internal control disclosures and any other publicly available financial information are reviewed and scrutinised.

The Audit & Risk Committee has adopted formal terms of reference under which the Audit & Risk Committee shall, amongst other matters:

- (a) monitor the integrity of the financial statements of the group, including its annual and half-yearly reports, and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgments which they contain having regard to the matters communicated to it by the group's external auditor;
- (b) review the content of the annual report and accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy;
- (c) monitor and keep under review the adequacy and effectiveness of the Group's internal financial controls and internal control and risk management systems;
- (d) review the adequacy and security of the Group's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters;
- (e) review the group's procedures for detecting fraud;
- (f) monitor and review the need for an internal audit function in the context of the Group's overall risk management system; and
- (g) oversee the relationship and matters with the external auditor and make recommendations to the Board regarding the same.

The Audit & Risk Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within the Audit & Risk Committee's duties and responsibilities shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

## Nomination Committee

The company has established the Nomination Committee which is delegated the responsibility to lead the process for Board appointments and to ensure that the Board and its committees have an appropriate balance of skills, experience, availability, independence and knowledge of the company to enable them to discharge their respective responsibilities effectively.

The Nomination Committee shall comprise at least two members who at present are Jonathan Moulds and Dr David King who will chair the Nomination Committee. The Nomination Committee shall meet at least once a year.

## Corporate Governance Statement continued

The Nomination Committee has adopted formal terms of reference under which the Nomination Committee shall, amongst other matters:

- (a) regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) (including gender) of the Board and make recommendations to the Board with regard to any changes;
- (b) give full consideration to succession planning for Directors and other senior managers in the course of its work, taking into account the challenges and opportunities facing the group, and the skills and expertise needed on the Board in the future;
- (c) be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise;
- (d) be responsible for the induction of new appointments to the Board;
- (e) make recommendations to the Board regarding membership of the Audit and Remuneration Committees, and any other Board committees as appropriate, in consultation with the chairmen of those committees; and
- (f) make recommendations to the Board on the re-appointment of any Non-Executive Director at the conclusion of their specified term of office (in particular, for any term beyond six years) having given due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required.

The Nomination Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within the Nomination Committee's duties and responsibilities shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

### Share Dealing Code

The Share Dealing Code adopted by the company from admission to AIM applies to any person discharging management responsibility, which will apply to all the Directors, any closely associated persons and applicable employees (as each is defined in the Code). The Share Dealing Code sets out their responsibilities under the AIM Rules, FSMA and MAR and other relevant legislation. The Share Dealing Code addresses the share dealing restrictions as required by the AIM Rules and where applicable MAR. The Share Dealing Code's purpose is to ensure that Directors and other relevant persons do not abuse, or place themselves under suspicion of abusing, inside information that they may have or be thought to have, especially in periods leading up to an announcement of results. The Share Dealing Code sets out a notification procedure which is required to be followed prior to any dealing in the company's securities.

### Anti-bribery and corruption policy

The Directors have zero tolerance towards bribery and corruption and as part of the move to AIM, the Board has adopted a new anti-bribery and corruption policy. The policy applies to all personnel of the group including Directors, officers and employees. The policy prohibits both "active bribery" (such as offering or promising to a third party benefits such gifts, donations or awards) and "passive bribery" (such as requesting, soliciting or agreeing to receive a bribe from a third party).

As part of implementing the policy, the company has a system for recording hospitality and gifts (both received and made to others) and sets out in detail guidelines for providing and accepting hospitality.

The policy condemns tax evasion, whether it involves evading UK taxes or foreign taxes and expressly prohibits the group's employees, consultants and agents from facilitating tax evasion by any third party.



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Australia

## Declaration of Independence

By G K Edwards

To the Directors of Litigation Capital Management Limited

As lead auditor of Litigation Capital Management Limited for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Litigation Capital Management Limited and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to read 'G K Edwards', is enclosed in a thin black rectangular border.

**G K Edwards**  
Director

**BDO Audit (SA) Pty Ltd**  
Adelaide, 10 September 2019

*BDO Audit (SA) Pty Ltd ABN 33 161 379 086 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (SA) Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation, other than for the acts or omissions of financial services licensees.*

**Statement of Profit or Loss and other Comprehensive Income**

For the year ended 30 June 2019

	Note	Consolidated	
		2019 \$'000	2018 \$'000
<b>Revenue from contracts with customers</b>			
Litigation service revenue		34,707	29,170
Performance fees		-	513
	5	34,707	29,683
Litigation service expense		(14,366)	(13,173)
Gross margin		20,341	16,510
Other income	7	311	457
Interest income		56	30
<b>Expenses</b>			
Employee benefits expense	8	(6,266)	(2,058)
Depreciation expense	8	(53)	(22)
IPO and other transaction costs		(250)	-
Legal and professional fees	8	(717)	(1,020)
Corporate expenses		(3,272)	(1,247)
Finance costs	8	-	(686)
<b>Profit before income tax expense</b>		10,150	11,964
Income tax expense	9	(3,039)	(3,326)
<b>Profit after income tax expense for the year</b>		7,111	8,638
Other comprehensive income for the year, net of tax		-	-
<b>Total comprehensive income for the year</b>		7,111	8,638
Profit for the year is attributable to:			
Non-controlling interest		(4)	41
Owners of Litigation Capital Management Limited	17	7,115	8,597
		7,111	8,638
Total comprehensive income for the year is attributable to:			
Non-controlling interest		(4)	41
Owners of Litigation Capital Management Limited		7,115	8,597
		7,111	8,638
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	28	8.65	15.24
Diluted earnings per share	28	8.07	15.07

Refer to note 4 for detailed information on Restatement of comparatives.

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

## Statement of Financial Position

As at 30 June 2019

	Note	Consolidated	
		2019 \$'000	2018 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	10	49,119	13,787
Trade and other receivables	11	7,266	513
Contract costs - litigation contracts	12	8,910	11,049
Other assets		693	126
Total current assets		65,988	25,475
<b>Non-current assets</b>			
Contract costs - litigation contracts	12	18,476	2,865
Property, plant and equipment		216	175
Intangible assets		64	-
Deferred tax	9	-	1,011
Total non-current assets		18,756	4,051
<b>Total assets</b>		<b>84,744</b>	<b>29,526</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	13	6,689	3,815
Employee benefits	14	986	254
Total current liabilities		7,675	4,069
<b>Non-current liabilities</b>			
Deferred tax	9	760	-
Employee benefits		70	34
Total non-current liabilities		830	34
<b>Total liabilities</b>		<b>8,505</b>	<b>4,103</b>
<b>Net assets</b>		<b>76,239</b>	<b>25,423</b>
<b>Equity</b>			
Issued capital	15	68,830	24,865
Share-based payments reserve	16	569	293
Retained earnings	17	6,818	239
Equity attributable to the owners of Litigation Capital Management Limited		76,217	25,397
Non-controlling interest		22	26
<b>Total equity</b>		<b>76,239</b>	<b>25,423</b>

Refer to note 4 for detailed information on Restatement of comparatives.

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

**Statement of Changes in Equity**

For the year ended 30 June 2019

<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Share-based payments Reserve \$'000</b>	<b>Retained earnings \$'000</b>	<b>Non-controlling interest \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2017	24,865	166	(8,358)	(15)	16,658
Profit after income tax expense for the year	-	-	8,597	41	8,638
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income for the year	-	-	8,597	41	8,638
<b>Transactions with owners in their capacity as owners:</b>					
Share-based payments (note 30)	-	127	-	-	127
Balance at 30 June 2018	24,865	293	239	26	25,423
<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Share-based payments Reserve \$'000</b>	<b>Retained earnings \$'000</b>	<b>Non-controlling interest \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2018	24,865	293	239	26	25,423
Profit/(loss) after income tax expense for the year	-	-	7,115	(4)	7,111
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income for the year	-	-	7,115	(4)	7,111
<b>Transactions with owners in their capacity as owners:</b>					
Contributions of equity, net of transaction costs (note 15)	43,921	-	-	-	43,921
Share-based payments (note 30)	-	320	-	-	320
Transfer on exercise of options	44	(44)	-	-	-
Dividends paid (note 18)	-	-	(536)	-	(536)
Balance at 30 June 2019	68,830	569	6,818	22	76,239

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

## Statement of Cash Flows

For the year ended 30 June 2019

	Note	Consolidated	
		2019 \$'000	2018 \$'000
<b>Cash flows from operating activities</b>			
Proceeds from litigation contracts - settlements, fees and reimbursements		26,796	27,127
Payments to suppliers and employees		(33,682)	(14,358)
Interest received		56	30
Other revenue		311	-
Interest and other finance costs paid		-	(686)
Net cash from/(used in) operating activities	29	(6,519)	12,113
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(88)	(189)
Payments for intangibles		(70)	-
Payments for security deposits		(75)	-
Net cash used in investing activities		(233)	(189)
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	15	46,880	-
Share issue transaction costs		(4,279)	-
Proceeds from borrowings		-	4,250
Repayment of borrowings		-	(4,250)
Dividends paid	18	(536)	-
Net cash from financing activities		42,065	-
Net increase in cash and cash equivalents		35,313	11,924
Cash and cash equivalents at the beginning of the financial year		13,787	1,863
Effects of exchange rate changes on cash and cash equivalents		19	-
Cash and cash equivalents at the end of the financial year	10	49,119	13,787

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

## Notes to the Financial Statements

30 June 2019

### Note 1. General information

The financial statements cover Litigation Capital Management Limited (the 'Company') as a Group consisting of Litigation Capital Management Limited and the entities it controlled at the end of, or during, the year (referred to as the 'Group'). The financial statements are presented in Australian dollars, which is Litigation Capital Management Limited's functional and presentation currency.

Litigation Capital Management Limited was admitted onto the Alternative Investment Market ('AIM') on 19 December 2018.

Litigation Capital Management Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 12, The Chifley Tower  
2 Chifley Square  
Sydney NSW 2000

A description of the nature of the Group's operations and its principal activities are included in the Directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 10 September 2019. The Directors have the power to amend and reissue the financial statements.

### Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Other than as described below, the adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

The following Accounting Standards and Interpretations are most relevant to the Group:

#### *AASB 9 Financial Instruments (applying transitional rules)*

The Group has adopted AASB 9 from 1 July 2018 using the transitional rules not to restate comparatives.

The standard introduced new classification and measurement models for financial assets.

A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

*Impact of adoption:* There was no change to the carrying amounts on adoption of AASB 9 as at the transition date.

#### *AASB 15 Revenue from Contracts with Customers (full retrospective approach)*

The Group has adopted AASB 15 retrospectively from 1 July 2017. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

*Impact of adoption:* Refer to note 4 for restatement of comparatives due to the retrospective adoption of AASB 15.

#### Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities.



These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

#### *Historical cost convention*

The financial statements have been prepared under the historical cost convention.

#### *Critical accounting estimates*

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

#### **Parent entity information**

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 26.

#### **Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Litigation Capital Management Limited ('Company' or 'parent entity') as at 30 June 2019 and the results of all subsidiaries for the year then ended. Litigation Capital Management Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the Group. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

#### **Operating segments**

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

#### **Foreign currency translation**

The financial statements are presented in Australian dollars, which is Litigation Capital Management Limited's functional and presentation currency.

#### *Foreign currency transactions*

Foreign currency transactions are translated into the entity's functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

#### *Foreign operations*

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

## Notes to the Financial Statements continued

30 June 2019

### Note 2. Significant accounting policies continued

#### Revenue recognition

The Group recognises revenue as follows:

##### *Revenue from contracts with customers*

Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring services to a customer. For each contract with a customer, the Group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the services promised.

Variable consideration within the transaction price, if any, reflects the variability of potential outcomes in awards or settlements of the litigation and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

##### *Litigation service revenue*

The performance of a litigation service contract by the Group entails the management and progression of the litigation project during which costs are incurred by the Group over the life of the litigation project.

As consideration for providing litigation management services and financing of litigation projects, the Group receives either a percentage of the gross proceeds of any award or settlement of the litigation, or a multiple of capital deployed, and is reimbursed for all invested capital.

Revenue, which includes amounts in excess of costs incurred and the reimbursement for all invested capital, is not recognised as revenue until the successful completion of the litigation project ie, complete satisfaction of the performance obligation, which is generally at the point in time when a judgment has been awarded or on an agreed settlement between the parties to the litigation, and therefore when the outcome is considered highly probable. On this basis, revenue is not recognised over time and instead recognised at the

point in time when the Group satisfies the performance obligation. Costs includes only external costs of funding the litigation, such as solicitors' fees, counsels' fees and experts' fees.

The terms and duration of each settlement or judgment varies by litigation project. Payment terms are not defined by the Group's litigation contracts however upon successful completion of a litigation project, being the satisfaction of the single performance obligation, funds are generally paid into trust within 28 days. The funds will remain in trust until the distribution amounts have been determined and agreed by the relevant parties, after which payment will be received by the Group.

##### *Performance fees*

Performance fees are derived from the management of litigation projects under externally financed financing arrangements and governed by the agreement with external investors. Performance fees are recognised at the point in time when a judgment has been awarded or a settlement agreement has been agreed on the litigation projects.

##### **Interest**

Interest income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

##### **Income tax**

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- ▲ When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- ▲ When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Litigation Capital Management Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

#### **Current and non-current classification**

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a

liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

#### **Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### **Trade and other receivables**

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

#### **Contract costs**

Contract costs are recognised as an asset when the Group incurs costs in fulfilling a contract and when all the following are met: (i) the costs relate directly to the contract; (ii) the costs generate or enhance resources of the Group that will be used to satisfy future performance obligations; and (iii) the costs are expected to be recovered. Contract costs are non-financial assets for impairment purposes. Contract costs are amortised upon complete satisfaction of the performance obligation. Refer to the Group's revenue recognition policy for further information.

#### **Leases**

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

#### **Impairment of non-financial assets**

Non-financial assets are reviewed for impairment at each reporting date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

## Notes to the Financial Statements continued

30 June 2019

### Note 2. Significant accounting policies continued

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

#### Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted.

The amounts are unsecured and are usually paid within 30 days of recognition.

#### Employee benefits

##### *Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

##### *Other long-term employee benefits*

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high-quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

##### *Defined contribution superannuation expense*

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

##### *Share-based payments*

Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes

option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

#### Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

#### Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### Dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.

#### Earnings per share

##### *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to the owners of Litigation Capital Management Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

##### *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

#### Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

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

#### Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

#### New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2019. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

##### *AASB 16 Leases*

This standard is applicable to annual reporting periods beginning on or after 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred.

## Notes to the Financial Statements continued

30 June 2019

### Note 2. Significant accounting policies continued

A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The impact of adoption of this standard as at 1 July 2019, using the modified retrospective approach, will result in the recognition of a right-of-use asset of approximately \$612,000 with a corresponding increase in lease liability, in respect of the Group's operating leases over premises.

#### *AASB Interpretation 23 Uncertainty over Income Tax Treatments*

The Interpretation clarifies the application of the recognition and measurement criteria in AASB 112 Income Taxes where there is uncertainty over income tax treatments. The Interpretation specifically addresses the following: a) whether an entity considers uncertain tax treatments separately, b) the assumptions an entity makes about the examination of tax treatments by taxation authorities, c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and d) how an entity considers changes in facts and circumstances. The application of the Standard is 1 January 2019 (effective for the Group from 1 July 2019). The Group is in the process of assessing the impact of AASB Interpretation 23.

#### *New Conceptual Framework for Financial Reporting*

A revised Conceptual Framework for Financial Reporting is applicable for annual reporting periods beginning on or after 1 January 2020. This release impacts for-profit private sector entities that have public accountability that are required by legislation to comply with Australian Accounting Standards and other for-profit entities that voluntarily elect to apply the Conceptual Framework.

Phase 2 of the framework is yet to be released which will impact for-profit private sector entities. The application of new definition and recognition criteria as well as new guidance on measurement will result in amendments to several accounting standards. The issue of AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework, also applicable from 1 January 2020, includes such amendments. Where the Group has relied on the conceptual framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under Australian Accounting Standards, the Group may need to revisit such policies. The Group will apply the revised conceptual framework from 1 July 2020 and is yet to assess its impact.

### Note 3. Critical accounting judgments, estimates and assumptions

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgments and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgments, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgments and estimates will seldom equal the related actual results. The judgments, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

#### **Revenue from contracts with customers**

The entity's active involvement in litigation service contracts to achieve a successful resolution for the client is the predominant purpose of the service provided and accordingly the litigation funding contracts are within the scope of AASB 15 'Revenue from Contracts with Customers', and so are excluded from the scope of AASB 9 'Financial Instruments' which would require the recognition of a financial asset for each contract, measured at fair value.

#### **Method of measuring progress of completion of performance obligations and recognition of revenue**

Management uses judgment to measure its progress towards complete satisfaction of its performance obligations. For the provision of litigation management services and financing of litigation projects, management has determined that there is a single performance obligation and that complete satisfaction

of that performance obligation occurs at the point in time when the Group achieves a successful resolution for the client as it is the predominant purpose of the service provided. On this basis, revenue is not recognised over time and only recognised at the point in time when the Group satisfies that performance obligation.

In accordance with the accounting policy in note 2, revenue is now recognised at a point in time at which a successful outcome has been achieved. In the 31 December 2018 interim report, revenue was recognised over time to the extent of costs incurred by the Group. As a result, comparatives in the statement of profit or loss and other comprehensive income of the interim report to 31 December 2019 will be restated in line with the revenue accounting policies outlined in note 2. There is no effect on the net assets or profit for the comparative year ended 30 June 2018.

#### **Impairment of non-financial assets other than goodwill and other indefinite life intangible assets**

The Group assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date, and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. This includes evaluating the expected outcome pursuant to the contracts, including consideration of whether each individual litigation contract is likely to result in a successful outcome, the cost and timing to completion and the ability of the defendant to pay the settlement or award. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves value in use calculations, which incorporate a number of key estimates and assumptions (refer note 12).

#### **Recovery of deferred tax assets**

Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

### **Note 4. Restatement of comparatives**

#### **Change in accounting policy**

The Group's litigation contracts principally generate revenue on the successful management and financing of litigation projects. The Group assists clients in determining the appropriate specialist team to pursue the litigation claim for clients and works with that team to ensure that the case is being appropriately progressed. The selection of litigation claims to manage and fund is critical to the Group's success.

The types of litigation projects funded by the Group are insolvency claims, commercial claims and class actions. However contract terms for each type of litigation project do not vary materially nor does it change the service provided or the price.

The Group only receives payment upon successful completion of a litigation project and when the litigation project is finalised and payment of the claim by the defendant has been paid to the client. On average litigation projects take a period of 25 months from inception to settlement, although this varies depending upon the specific litigation project.

Revenue, which includes amounts in excess of costs incurred and the reimbursement for all invested capital, is only recognised as revenue on the successful completion of the litigation project, which is generally once a judgment has been awarded or on an agreed settlement between the parties to the litigation, and therefore when the outcome is considered highly probable. Previously revenue was recognised on the same basis under AASB 138 Intangible Assets and therefore this has not changed upon adoption of AASB 15, however revenue was previously recognised net of costs incurred whereas it is now recognised on a gross basis in the primary statements.

Costs are incurred and the services are rendered by the Group during the management and progression of the project, however the client only receives a benefit from the services upon the successful completion of the litigation project on the basis that another litigation funder would need to substantially re-perform the work completed to date by the Group.

Previously, under AASB 138 Intangible Assets, costs were capitalised as incurred as an intangible asset. Costs includes only external costs of funding the litigation, such as solicitors' fees, counsels' fees and experts' fees. Under AASB 15 these costs are recognised as a contract costs. When a judgment has been awarded or an agreed settlement between the parties to the litigation, the total consideration is recognised and the contract costs are amortised as litigation service expenses.

**Notes to the Financial Statements** continued

30 June 2019

**Note 4. Restatement of comparatives** continued

The tables below highlight the impact of AASB 15 on the Group's statement of profit or loss and other comprehensive income and statement of financial position for the comparative period:

**Statement of profit or loss and other comprehensive income**

	Consolidated		
	2018 \$'000 Reported	\$'000 Adjustment	2018 \$'000 Restated
<b>EXTRACT</b>			
<b>Revenue from contracts with customers</b>			
Litigation service revenue	-	29,170	29,170
Litigation service expense	-	(13,173)	(13,173)
Other income	16,454	(15,997)	457
<b>Profit before income tax expense</b>	11,964	-	11,964
Income tax expense	(3,326)	-	(3,326)
Profit after income tax expense for the year	8,638	-	8,638
Other comprehensive income for the year, net of tax	-	-	-
<b>Total comprehensive income for the year</b>	8,638	-	8,638
Profit for the year is attributable to:			
Non-controlling interest	41	-	41
Owners of Litigation Capital Management Limited	8,597	-	8,597
	8,638	-	8,638
Total comprehensive income for the year is attributable to:			
Non-controlling interest	41	-	41
Owners of Litigation Capital Management Limited	8,597	-	8,597
	8,638	-	8,638
	<b>Cents Reported</b>	<b>Cents Adjustment</b>	<b>Cents Restated</b>
Basic earnings per share	15.24	-	15.24
Diluted earnings per share	15.06	-	15.06



Performance fees revenue for the year ended 30 June 2018 amounting to \$513,000 was unchanged on adoption of AASB 15.

#### Statement of financial position at the end of the earliest comparative period

	Consolidated		
	2018 \$'000 Reported	\$'000 Adjustment	2018 \$'000 Restated
<b>Extract</b>			
<b>Assets</b>			
<b>Current assets</b>			
Contract costs - litigation contracts	-	11,049	11,049
Intangible assets - litigation contracts	11,049	(11,049)	-
Total current assets	25,475	-	25,475
<b>Non-current assets</b>			
Contract costs - litigation contracts	-	2,865	2,865
Intangible assets	2,865	(2,865)	-
Total non-current assets	4,051	-	4,051
<b>Total assets</b>	29,526	-	29,526
<b>Net assets</b>	25,423	-	25,423

#### Comparative year statement of cash flows

In the previous year, litigation contracts were treated as intangible assets. As a result of retrospective adoption of AASB 15 as detailed above, litigation contracts are treated as contract costs. As a result the comparative period cash flow statement has been restated. Proceeds from litigation contracts of \$27,127,000 has been reclassified from investing to operating activities. Payments for litigation funding and capitalised supplier costs of \$11,292,000 have been also been reclassified to operating activities, included within payments to suppliers and employees.

#### Reclassification

Comparatives in the statement of profit or loss and other comprehensive income, and the statement of financial position have been realigned to current year presentation. There has been no effect on the net assets or profit for the year.

**Notes to the Financial Statements** continued

30 June 2019

**Note 5. Revenue from contracts with customers****Disaggregation of revenue**

The disaggregation of revenue from contracts with customers is as follows:

	Consolidated	
	2019 \$'000	2018 \$'000
<b>Major service lines</b>		
Revenue on completion of litigation projects	34,707	29,170
Performance fees	-	513
	34,707	29,683
<b>Geographical regions</b>		
Australia	34,666	29,683
United Kingdom	41	-
	34,707	29,683
<b>Contract duration</b>		
Less than 1 year	3,075	-
1-4 years	24,153	15,855
More than 4 years	7,479	13,828
	34,707	29,683

**Note 6. Operating segments**

The Group's operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

The Directors have determined that there is one operating segment. The information reported to the CODM is the consolidated results of the Group. The segment result is as shown in the statement of profit or loss and other comprehensive income. Refer to statement of financial position for assets and liabilities.

**Major customers**

During the year ended 30 June 2019 there were 3 major external customers (2018: 3 customers, unrelated to those in 2019) where revenue exceeded 10% of the consolidated revenue. Revenue from each customer for the year ended 30 June 2019 amounted to \$14,440,000, \$9,713,000, and \$7,183,000 (2018: \$13,003,000, \$8,298,000, \$7,127,000).

**Note 7. Other income**

	Consolidated	
	2019 \$'000	2018 \$'000
Recoveries of legal costs other than in relation to litigation contracts in progress	306	454
Miscellaneous income	5	3
Other income	311	457

## Note 8. Expenses

	Consolidated	
	2019 \$'000	2018 \$'000
Profit before income tax includes the following specific expenses:		
<b>Depreciation</b>		
Plant and equipment	47	22
<b>Amortisation</b>		
Intangible assets	6	-
Total depreciation and amortisation	53	22
<b>Finance costs</b>		
Interest and finance charges paid/payable	-	686
<b>Net foreign exchange loss</b>		
Net foreign exchange loss	100	8
<b>Rental expense relating to operating leases</b>		
Minimum lease payments	621	343
<b>Employee benefits expense</b>		
Salaries & wages	4,478	1,465
Directors' fees	264	114
Defined contribution superannuation expense <sup>1</sup>	194	151
Provision for employee entitlements	197	46
Payroll tax	120	50
Share-based payments expense	320	127
Provision for bonuses	675	105
Other employee benefits & costs	18	-
Total employee benefits expense	6,266	2,058
<sup>1</sup> Includes employers pension contributions for UK staff		
<b>Legal and professional fees</b>		
Litigation fees	679	180
Other legal and professional fees	38	840
Total legal and professional fees	717	1,020

### Litigation fees

Legal and professional fees includes fees relating to the costs of litigation commenced by Australian Insolvency Group Pty Limited ('AIG') against the Group, and subsequent cross claim by the Group in these proceedings against Vannin Capital Limited and Mr Patrick Coope, a Director of AIG and former employee of the Group. The proceedings are likely to be heard and determined during the subsequent year subject to the court's availability. The potential economic impact for the Group is limited.

**Notes to the Financial Statements** continued

30 June 2019

**Note 9. Income tax**

	<b>Consolidated</b>	
	<b>2019 \$'000</b>	<b>2018 \$'000</b>
<b>Numerical reconciliation of income tax expense and tax at the statutory rate</b>		
Profit before income tax expense	10,150	11,964
Tax at the statutory tax rate of 27.5% (2018: 30%)	2,791	3,589
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	88	38
Other non-deductible expenses	-	1
Unrealised foreign exchange	(9)	-
	2,870	3,628
Adjustment to deferred tax balances as a result of change in statutory tax rate	169	(302)
Income tax expense	3,039	3,326
	<b>Consolidated</b>	
	<b>2019 \$'000</b>	<b>2018 \$'000</b>
<b>Amounts credited directly to equity</b>		
Deferred tax assets	(1,268)	-

Statutory tax rate of 27.5% is applicable to Australian entities with aggregated turnover below \$50 million for the year ended 30 June 2019. The Group's turnover is expected to be above the threshold of \$50 million in the future reporting periods which will attract a statutory tax rate of 30%. As a result, recognition of deferred tax asset is made by applying a 30% statutory rate instead of the lower 27.5% used in the previous year.

	Consolidated	
	2019 \$'000	2018 \$'000
<b>Deferred tax asset/(liability)</b>		
Deferred tax asset/(liability) comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Tax losses	5,761	4,332
Property, plant and equipment	-	1
Employee benefits	316	51
Accrued expenses	7	14
Contract costs - litigation contracts	(8,216)	(3,827)
	(2,132)	571
Amounts recognised in equity:		
Transaction costs on share issue	1,372	440
Deferred tax asset/(liability)	(760)	1,011
Movements:		
Opening balance	1,011	4,337
Charged to profit or loss	(3,039)	(3,326)
Credited to equity	1,268	-
Closing balance	(760)	1,011

#### Note 10. Current assets - cash and cash equivalents

	Consolidated	
	2019 \$'000	2018 \$'000
Cash at bank and on hand	49,119	13,787

**Notes to the Financial Statements** continued

30 June 2019

**Note 11. Current assets - trade and other receivables**

	Consolidated	
	2019 \$'000	2018 \$'000
Due from performance fees	-	513
Due from completion of litigation service	7,266	-
	7,266	513

Amounts due from completion of litigation service relate to the recovery of litigation projects that have successfully completed.

**Allowance for expected credit losses**

The Group has recognised a loss of \$nil (2018: \$nil) in profit or loss in respect of the expected credit losses for the year ended 30 June 2019.

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

	Expected credit loss rate 2019 %	Carrying amount 2019 \$'000	Allowance for expected credit losses 2019 \$'000
<b>Consolidated</b>			
Not overdue	-	7,266	-

## Note 12. Contract costs - litigation contracts

	Consolidated	
	2019 \$'000	2018 \$'000
Contract costs - litigation contracts	27,386	13,914

### Reconciliation

Reconciliation of the contract costs (current and non-current) at the beginning and end of the current and previous financial year are set out below:

Opening balance	13,914	12,470
Additions during the year	27,838	14,618
Litigation service expense - successful contracts <sup>1</sup>	(14,189)	(13,136)
Litigation service expense - write down <sup>2</sup>	(177)	(38)
Closing balance	27,386	13,914

<sup>1</sup> Contract costs amortised upon the successful completion of the litigation contract

<sup>2</sup> Due diligence costs written off upon determining that the litigation contract would not be pursued further

	Consolidated	
	2019 \$'000	2018 \$'000
Current	8,910	11,049
Non-current	18,476	2,865
Closing balance	27,386	13,914

### Impairment considerations

The recoverable amount of the Group's contract costs has been determined by a value in use calculation using a discounted cash flow model, based on cash flow projections and financial budgets as approved by management for the life of each litigation contract.

Key assumptions were used in the discounted cash flow model for determining the value in use of litigation contracts:

- ▲ The estimated cost to complete a litigation contract is budgeted, based on estimates provided by the external legal advisors handling the litigation;
- ▲ The value to the Group of the litigation contract, once completed, is estimated based on the expected settlement or judgment amount of the litigation and the fees due to the Group under the litigation contract;
- ▲ The discount rate applied to the cash flow projections is based on the Group's weighted average cost of capital and other factors relevant to the particular litigation contract. The discount rate applied was 15% (2018: between 13% and 15%).

Based on the above, the Group has recognised impairment losses of \$nil (2018: \$nil) in profit or loss on contract costs for the year ended 30 June 2019.

**Notes to the Financial Statements** continued

30 June 2019

**Note 13. Current liabilities - trade and other payables**

	Consolidated	
	2019 \$'000	2018 \$'000
Trade payables	6,600	3,696
Distribution payable	32	32
Other payables	57	87
	6,689	3,815

Refer to note 19 for further information on financial instruments.

**Note 14. Current liabilities - employee benefits**

	Consolidated	
	2019 \$'000	2018 \$'000
Annual leave	311	149
Bonus payable	675	105
	986	254

**Note 15. Equity - issued capital**

	Consolidated			
	2019 Shares	2018 Shares	2019 \$'000	2018 \$'000
Ordinary shares - fully paid	104,580,899	53,533,247	68,830	24,865
Ordinary shares - under loan share plan	8,454,547	2,000,000	-	-
	113,035,446	55,533,247	68,830	24,865

**Movements in ordinary share capital**

Details	Date	Shares	\$'000
Balance	1 July 2017	53,533,247	24,865
Balance	30 June 2018	53,533,247	24,865
Issue of shares at \$0.90 per share	31 October 2018	11,111,112	10,000
Issue under Employee Share Option Scheme at \$0.47 per share	29 November 2018	1,298,000	615
Issue under Employee Share Option Scheme at \$0.47 per share	3 December 2018	177,000	79
Issue of shares at £0.52 per share	19 December 2018	38,461,540	36,186
Transfer from share-based payment reserve on exercise of options		-	44
Share issue transaction costs, net of tax		-	(2,959)
Balance	30 June 2019	104,580,899	68,830



**Movements in ordinary shares issued under loan share plan:**

Details	Date	Shares	\$'000
Balance	1 July 2017	-	-
Issue of shares under loan share plan	4 December 2017	2,000,000	-
Balance	30 June 2018	2,000,000	-
Issue of shares under loan share plan	31 August 2018	411,972	-
Issue of shares under loan	19 November 2018	1,595,058	-
Issue of shares under loan share plan	3 December 2018	100,000	-
Issue of shares under loan share plan	6 March 2019	4,347,517	-
Balance	30 June 2019	8,454,547	-

**Ordinary shares**

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

**Ordinary shares - under loan share plan ('LSP')**

The Company has an equity scheme pursuant to which certain employees may access a LSP. The acquisition of shares under this LSP is fully funded by the Company through the granting of a limited recourse loan. The shares under LSP are restricted until the loan is repaid. These shares are recorded as treasury shares separate to the issued capital. The underlying options within the LSP have been accounted for as a share-based payment. Refer to note 30 for further details. When the loans are settled the treasury shares are reclassified as fully paid ordinary shares and the equity will increase by the amount of the loan repaid.

**Ordinary shares - partly paid**

As at 30 June 2019, there are currently 2,866,050 partly paid shares issued at an issue price of \$0.17 per share. No amount has been paid up and the shares will become fully paid upon payment to the Company of \$0.17 per share. As per the terms of issue, the partly paid shares have no maturity date and the amount is payable at the option of the holder.

Partly paid shares entitle the holder to participate in dividends and the proceeds of the Company in proportion to the number of and amounts paid on the shares held. The partly paid shares do not carry the right to participate in new issues of securities. Partly paid shareholders are entitled to receive notice of any meetings of shareholders. The partly paid shareholders are entitled to vote in the same proportion as the amounts paid on the partly paid shares bears to the total amount paid and payable.

**Capital risk management**

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity as recognised in the statement of financial position.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital risk management policy remains unchanged from the 30 June 2018 Annual Report.

**Notes to the Financial Statements** continued

30 June 2019

**Note 16. Equity - Share-based payments reserve**

	Consolidated	
	2019 \$'000	2018 \$'000
Share-based payments reserve	569	293

**Share-based payments reserve**

The reserve is used to recognise the value of equity benefits provided to employees and Directors as part of their remuneration, and other parties as part of their compensation for services.

**Movements in reserves**

Movements in each class of reserve during the current and previous financial year are set out below:

	Share-based payments reserve \$'000
<b>Consolidated</b>	
Balance at 1 July 2017	166
Share-based payments expense	127
Balance at 30 June 2018	293
Share-based payments expense	320
Transfer to issued capital on exercise of options	(44)
Balance at 30 June 2019	569

**Note 17. Equity - retained earnings**

	Consolidated	
	2019 \$'000	2018 \$'000
Retained earnings at the beginning of the financial year	239	(8,358)
Profit after income tax expense for the year	7,115	8,597
Dividends paid (note 18)	(536)	-
Retained earnings at the end of the financial year	6,818	239

**Note 18. Equity - dividends****Dividends**

Dividends paid during the financial year were as follows:

	Consolidated	
	2019 \$'000	2018 \$'000
Interim dividend for the year ended 30 June 2019 of 0.506 cents per ordinary share	536	-

On 10 September 2019, the Directors declared a fully franked final dividend for the year ended 30 June 2019 of 0.828 cents per ordinary shares, to be paid on 11 December 2019 to eligible shareholders on the register as at 14 November 2019. This equates to a total estimated distribution of \$900,000, based on the number of ordinary shares on issue as at 30 June 2019. The financial effect of dividends declared after the reporting date are not reflected in the 30 June 2019 financial statements and will be recognised in subsequent financial reports.

*Franking credits*

	Consolidated	
	2019 \$'000	2018 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2018: 30%)	657	893

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- ▲ franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date.
- ▲ franking debits that will arise from the payment of dividends recognised as a liability at the reporting date.
- ▲ franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

**Note 19. Financial instruments****Financial risk management objectives**

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ageing analysis for credit risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the Group's operating units. Finance reports to the Board on a monthly basis.

**Market risk***Foreign currency risk*

The carrying amount of the Group's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

	Assets 2019 \$'000	Liabilities 2019 \$'000
<b>Consolidated</b>		
U.S. dollars	-	(809)
Pound Sterling	30,686	(400)
New Zealand dollars	-	(508)
Other	-	(254)
	30,686	(1,971)

The Group had net assets denominated in foreign currencies of \$28,715,000 (assets of \$30,686,000 less liabilities of \$1,971,000) as at 30 June 2019. Based on this exposure, had the Australian dollars weakened by 10%/strengthened by 10% against these foreign currencies with all other variables held constant, the Group's profit before tax for the year would have been \$2,872,000 higher/\$2,872,000 lower. The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 12 months. The actual foreign exchange loss for the year ended 30 June 2019 was \$100,000 (2018: loss of \$8,000).

The Group was not exposed to any significant foreign currency risk in 2018.

*Price risk*

The Group is not exposed to any significant price risk.

## Notes to the Financial Statements continued

30 June 2019

### Note 19. Financial instruments continued

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#### *Interest rate risk*

The Group's main interest rate risk arises from interest on cash at bank.

An official increase/decrease in interest rates of 50 (2018: 50) basis points would have an favourable/adverse effect on profit before tax of \$249,000 (2018: \$69,000) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts forecasts.

#### **Credit risk**

Credit risk refers to the risk that on becoming contractually entitled to a settlement or award a defendant will default on its contractual obligation to pay resulting in financial loss to the Group. The Group assesses the defendants in the matters funded by the Group prior to entering into any agreement to provide funding and continues this assessment during the course of funding. Whenever possible the Group ensures that security for settlements sums is provided, or the settlements funds are placed into solicitors' trust accounts. However, the Group's continual monitoring of the defendants' financial capacity mitigates this risk.

The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements which includes cash, cash equivalents and trade and other receivables due from completion of litigation services. The Group does not hold any collateral.

The Group's cash and cash equivalents are held in financial institutions with a AA- credit rating and are subject to the prudential regulation of the Reserve Bank of Australia.

The Group applies the simplified approach to recognise impairment on settlement and receivable balances based on the lifetime expected credit loss at each reporting date. The Group reviews the lifetime expected credit loss rate based on historical collection performance, the specific provisions of any settlement agreement, assessments of recoverability during the due diligence process and a forward-looking assessment of macro economic factors however note that the Group's operations are generally uncorrelated to market conditions and therefore has little to no impact on the recoverability of the Group's financial assets.

The Group's due diligence processes assess the defendants financial capacity in the matters funded by the Group prior to entering into any agreement to provide funding and continues this assessment over the course of the matter which includes but not limited to the identification of insurance policies which are sufficient to cover the claim.

Financial assets are generally considered to be in default when amounts are more than 90 days past due or if sufficient indicators exist that the debtor is unlikely to pay. Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

#### **Liquidity risk**

Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

#### *Remaining contractual maturities*

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
<b>Consolidated - 2019</b>					
<b>Non-derivatives</b>					
<i>Non-interest bearing</i>					
Trade payables	6,600	-	-	-	6,600
Distribution payable	32	-	-	-	32
Other payables	58	-	-	-	58
Total non-derivatives	6,690	-	-	-	6,690
<b>Consolidated - 2018</b>					
<b>Non-derivatives</b>					
<i>Non-interest bearing</i>					
Trade payables	3,696	-	-	-	3,696
Distribution payable	32	-	-	-	32
Other payables	88	-	-	-	88
Total non-derivatives	3,816	-	-	-	3,816

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

#### Note 20. Fair value measurement

There were no assets and liabilities measured at fair value as at 30 June 2019 and 30 June 2018. The carrying amounts of trade and other receivables and trade and other payables approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

**Notes to the Financial Statements** continued

30 June 2019

**Note 21. Key management personnel disclosures****Compensation**

The aggregate compensation made to Directors and other members of key management personnel of the Group is set out below:

	Consolidated	
	2019 \$'000	2018 \$'000
Short-term employee benefits	2,802,324	584,924
Post-employment benefits	86,766	53,595
Long-term benefits	35,392	7,496
Share-based payments	236,318	126,581
	3,160,800	772,596

Details of the remuneration of key management personnel of the Group are set out in the following tables.

	Cash salaries and fees \$	Bonus \$	Benefits \$	Accrued leave \$	Super- annuation \$	Long service leave \$	Share- based payments \$	Total \$
<b>2019</b>								
<b>Non-Executive Directors</b>								
Dr David King	100,000	-	-	-	9,500	-	12,480	121,980
Steven McLean	81,250	-	-	-	7,719	-	-	88,969
Jonathan Moulds	90,408	-	11,237	-	716	-	-	102,361
	271,658	-	11,237	-	17,935	-	12,480	313,310

<b>Executive Directors</b>								
Stephen Conrad	325,000	-	-	1,516	25,000	-	2,854	354,370
Nick Rowles-Davies	632,856	-	86,794	-	1,081	-	66,866	787,597
Patrick Moloney	750,000	550,000	30,571	142,692	42,750	35,392	154,118	1,705,523
	1,979,514	550,000	128,602	144,208	86,766	35,392	236,318	3,160,800

	Cash salaries and fees \$	Bonus \$	Benefits \$	Accrued leave \$	Super- annuation \$	Long service leave \$	Share- based payments \$	Total \$
<b>2018</b>								
<b>Non-Executive Directors</b>								
Dr David King	68,493	-	-	-	6,507	-	37,440	112,440
Steven McLean	45,662	-	-	-	4,338	-	-	50,000
	114,155	-	-	-	10,845	-	37,440	162,440

<b>Executive Directors</b>								
Patrick Moloney	450,000	-	-	20,769	42,750	7,496	89,141	610,156
	564,155	-	-	20,769	53,595	7,496	126,581	772,596

*Directors' share options*

The details of options over ordinary shares in the Company held during the financial year by each Director is set out below:

Name of the Director	Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Expired/ forfeited/ other	Balance at the end of the year
Dr. David King	20/09/2016	01/11/2021	\$1.00	600,000	-	-	600,000
Patrick Moloney	20/09/2016	01/11/2021	\$1.00	900,000	-	-	900,000
Patrick Moloney	01/12/2013	01/12/2018	\$0.47	1,595,058	-	(1,595,058)	-
Patrick Moloney <sup>1</sup>	19/11/2018	25/11/2028	\$0.47	-	1,595,058	-	1,595,058
Patrick Moloney <sup>1</sup>	04/12/2017	04/12/2027	\$0.60	1,000,000	-	-	1,000,000
Patrick Moloney <sup>1</sup>	04/12/2017	04/12/2027	\$0.60	1,000,000	-	-	1,000,000
Stephen Conrad <sup>1</sup>	03/12/2018	03/12/2028	\$0.89	-	50,000	-	50,000
Stephen Conrad <sup>1</sup>	03/12/2018	03/12/2028	\$0.89	-	50,000	-	50,000
John (Nick) Rowles-Davies <sup>1</sup>	06/03/2019	08/03/2029	\$0.94	-	4,347,517	-	4,347,517
				5,095,058	6,042,575	(1,595,058)	9,542,575

<sup>1</sup> Outstanding share options granted under the Loan Funded Share Plan as disclosed in note 30.

*Directors' interests*

The number of shares in the Company held at the end of the financial year by each Director is set out below:

Name of the Director	Description of shares	30 June 2019 Number	30 June 2018 Number
Jonathan Moulds	N/A	-	- <sup>1</sup>
Dr David King	Fully paid ordinary shares	1,601,484	1,601,484
Steve McLean	Fully paid ordinary shares	577,499	577,499
Patrick Moloney	Fully paid ordinary shares	3,768,113	3,212,557
Patrick Moloney	Unlisted partly paid shares	1,433,022	1,433,022 <sup>2</sup>
Stephen Conrad	N/A	277,778	- <sup>3</sup>
John (Nick) Rowles-Davies	N/A	-	- <sup>4</sup>

<sup>1</sup> As at date of appointment on 19 December 2018.

<sup>2</sup> Unlisted partly paid shares in the Company were issued at a price of \$0.17 per share, wholly unpaid and will convert to a share upon payment to the Company of \$0.17 per share. Further details provided in Note 15 to the financial statements.

<sup>3</sup> As at date of appointment on 29 November 2018.

<sup>4</sup> As at date of appointment on 19 December 2018.

No changes took place in the interest of the Directors between 30 June 2019 and 10 September 2019.

**Notes to the Financial Statements** continued

30 June 2019

**Note 22. Remuneration of auditors**

During the financial year the following fees were paid or payable for services provided by BDO Audit (SA) Pty Ltd, the auditor of the Company, and its network firms:

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
<b>Audit services - BDO Audit (SA) Pty Ltd</b>		
Audit or review of the financial statements	78,663	63,199
<b>Other services - network firms</b>		
Preparation of the tax return	6,596	-
Corporate finance services	366,769	-
	<b>373,365</b>	<b>-</b>

**Note 23. Contingent liabilities**

The majority of the Group's funding agreements contain a contractual indemnity from the Group to the funded party that the Group will pay adverse costs awarded to the successful party in respect of costs incurred during the period of funding, should the client's litigation be unsuccessful. The Group's position is that for the majority of litigation projects which are subject to funding, the Group enters insurance arrangements which lessen or eliminate the impact of such awards and therefore any adverse costs order exposure.

**Note 24. Commitments**

	<b>Consolidated</b>	
	<b>2019 \$'000</b>	<b>2018 \$'000</b>
<b>Lease commitments - operating</b>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	563	172
One to five years	88	194
	<b>651</b>	<b>366</b>

Operating lease commitments includes contracted amounts for office premises under non-cancellable operating leases expiring within 1 to 5 years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

**Note 25. Related party transactions****Parent entity**

Litigation Capital Management Limited is the parent entity.

**Subsidiaries**

Interests in subsidiaries are set out in note 27.

**Key management personnel**

Disclosures relating to key management personnel are set out in note 21.



### Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2019	2018
Payment for other expenses:		
Consulting fees paid to Thedoc Pty Ltd - a Director related entity of Stephen Conrad	130,625	-

Patrick Moloney is a Director and shareholder of 101 Capital Pty Ltd. 101 Capital Pty Ltd is the Trustee of LCM Litigation Investment Fund and engages LCM Litigation Management Pty Ltd to manage this entity on its behalf. There were no payments made to 101 Capital Pty Ltd during the year ended 30 June 2019 and 30 June 2018.

### Transactions with non-controlling interests

Director Patrick Moloney has a non-controlling interest in LCM Unit Trust. On 13 February 2014 the LCM Unit Trust was established. The consolidated entity sold rights to performance fees to LCM Unit Trust for \$150,000, which this amount contributed back to LCM Unit Trust for a 60% ownership in the entity. The remaining 40% is equally owned by Australian Insolvency Group Pty Ltd of which Patrick Coope is a shareholder and Keli-Saw Holdings Pty Ltd of which Patrick Moloney is a shareholder.

### Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

### Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

### Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

## Note 26. Parent entity information

Set out below is the supplementary information about the parent entity.

### Statement of profit or loss and other comprehensive income

	Parent	
	2019 \$'000	2018 \$'000
Loss after income tax	(4)	(127)
Total comprehensive income	(4)	(127)

### Statement of financial position

	Parent	
	2019 \$'000	2018 \$'000
Total current assets	-	-
Total assets	68,446	24,663
Total current liabilities	-	-
Total liabilities	-	-
<b>Equity</b>		
Issued capital	68,830	24,865
Share-based payments reserve	569	197
Retained earnings	(953)	(399)
Total equity	68,446	24,663

**Notes to the Financial Statements** continued

30 June 2019

**Note 26. Parent entity information** continued**Guarantees entered into by the parent entity in relation to the debts of its subsidiaries**

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2019 and 30 June 2018.

**Contingent liabilities**

The parent entity had no contingent liabilities as at 30 June 2019 and 30 June 2018.

**Capital commitments - Property, plant and equipment**

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2019 and 30 June 2018.

**Significant accounting policies**

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- ▲ Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- ▲ Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

**Note 27. Interests in subsidiaries**

The consolidated financial statements incorporate the assets, liabilities and results of the following wholly-owned subsidiaries in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2019 %	2018 %
LCM Litigation Fund Pty Ltd	Australia	100%	100%
LCM Litigation Management Pty Ltd	Australia	100%	100%
LCM Litigation Investment Fund No 1 Pty Ltd	Australia	100%	100%
LCM Operations Pty Ltd	Australia	100%	100%
LCM Corporate Services Pty Ltd	Australia	100%	100%
LCM Unit Trust	Australia	60%	60%
LCM Operations UK Limited	United Kingdom	100%	-
LCM Corporate Services UK Limited	United Kingdom	100%	-
LCM Corporate Services Pte. Ltd.	Singapore	100%	-

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary with non-controlling interests in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Principal activities	Parent		Non-controlling interest	
			Ownership interest 2019 %	Ownership interest 2018 %	Ownership interest 2019 %	Ownership interest 2018 %
LCM Unit Trust	Australia	Management rights	60%	60%	40%	40%

**Summarised financial information**

Summarised financial information of the subsidiary with non-controlling interests that are material to the Group are set out below:

	LCM Unit Trust	
	2019 \$'000	2018 \$'000
<b>Summarised statement of financial position</b>		
Current assets	139	536
Total assets	139	536
Non-current liabilities	85	472
Total liabilities	85	472
Net assets	54	64
<b>Summarised statement of profit or loss and other comprehensive income</b>		
Revenue	-	513
Other income	-	3
Expenses	(11)	(413)
Profit/(loss) before income tax expense	(11)	103
Income tax expense	-	-
Profit/(loss) after income tax expense	(11)	103
Other comprehensive income	-	-
Total comprehensive income	(11)	103
<b>Statement of cash flows</b>		
Net cash used in operating activities	(234)	(23)
Net cash from investing activities	513	-
Net cash used in financing activities	(163)	-
Net increase/(decrease) in cash and cash equivalents	116	(23)
<b>Other financial information</b>		
Profit/(loss) attributable to non-controlling interests	(4)	41
Accumulated non-controlling interests at the end of reporting period	22	26

**Note 28. Earnings per share**

	Consolidated	
	2019 \$'000	2018 \$'000
Profit after income tax	7,111	8,638
Non-controlling interest	4	(41)
Profit after income tax attributable to the owners of Litigation Capital Management Limited	7,115	8,597

**Notes to the Financial Statements** continued

30 June 2019

**Note 28. Earnings per share** continued

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	82,235,934	56,399,297
Adjustments for calculation of diluted earnings per share:		
Amounts uncalled on partly paid shares and calls in arrears	2,573,409	-
Options over ordinary shares	3,354,864	665,950
Weighted average number of ordinary shares used in calculating diluted earnings per share	88,164,207	57,065,247
	Cents	Cents
Basic earnings per share	8.65	15.24
Diluted earnings per share	8.07	15.07

Dilutive potential shares which are contingently issuable are only included in the calculation of diluted earnings per share where the conditions are met.

**Note 29. Cash flow information**

Reconciliation of profit after income tax to net cash from/(used in) operating activities

	Consolidated	
	2019 \$'000	2018 \$'000
Profit after income tax expense for the year	7,111	8,638
Adjustments for:		
Depreciation and amortisation	53	22
Share-based payments	320	127
Other - non-cash items*	719	2,042
Change in operating assets and liabilities:		
Increase in trade and other receivables	(8,150)	(596)
Increase in contract costs - litigation contracts	(13,472)	(1,701)
Decrease in deferred tax assets	1,011	3,326
Increase in prepayments	(492)	-
Increase in trade and other payables	3,585	104
Increase in deferred tax liabilities	2,028	-
Increase in employee benefits	768	151
Net cash from/(used in) operating activities	(6,519)	12,113

**Changes in liabilities arising from financing activities**

\* Other non-cash items represents the proceeds from the settlement of Litigation Projects of \$719,000 (2018: \$2,042,000) were not received by the Group as they were paid directly from the funded party's solicitors trust account to the Group's trade creditors to extinguish outstanding litigation funding costs payable. As the Group did not receive these proceeds, they have not been reflected in the proceeds or payments of litigation funding within the statement of cash flows.

### Note 30. Share-based payments

The share-based payment expense for the year was \$320,000 (2018: \$127,000).

#### Employee share option scheme

A share option plan has been established by the Group and approved by shareholders at a general meeting, whereby the Group may, at the discretion of the Nomination and Remuneration Committee, grant options over ordinary shares in the Company to certain key management personnel of the Group. The options are issued for nil consideration and are granted in accordance with performance guidelines established by the Nomination and Remuneration Committee.

Set out below are summaries of options granted under the employee share option plan:

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/forfeited/other	Balance at the end of the year
<b>2019</b>							
01/12/2013	01/12/2018	\$0.470	3,190,116	-	(3,070,058)	(120,058)	-
20/09/2016	01/11/2021	\$1.000	1,500,000	-	-	-	1,500,000
			4,690,116	-	(3,070,058)	(120,058)	1,500,000
Weighted average exercise price			\$0.640	\$0.000	\$0.470	\$0.470	\$1.000

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/forfeited/other	Balance at the end of the year
<b>2018</b>							
01/12/2013	01/12/2018	\$0.470	3,190,116	-	-	-	3,190,116
20/09/2016	01/11/2021	\$1.000	1,500,000	-	-	-	1,500,000
			4,690,116	-	-	-	4,690,116
Weighted average exercise price			\$0.640	\$0.000	\$0.000	\$0.000	\$0.640

Set out below are the options exercisable at the end of the financial year:

Grant date	Expiry date	2019 Number	2018 Number
01/12/2013	01/12/2018	-	3,190,116
20/09/2016	01/11/2021	1,500,000	-
		1,500,000	3,190,116

The weighted average share price during the financial year was \$1.665 (2018: \$0.594).

The weighted average remaining contractual life of options outstanding at 30 June 2019 was 2.34 years (2018: 1.36 years).

#### Loan Funded Share Plans ('LSP')

As detailed in note 15, the Group has an equity scheme pursuant to which certain employees may access a LSP. The shares under LSP are issued at the exercise price by granting a limited recourse loan. The LSP shares are restricted until the loan is repaid. These shares are recorded as treasury shares representing a deduction against issued capital. Accordingly, the underlying options have been accounted for as a share-based payments. The options are issued over a 1-3 year vesting period. Vesting conditions include satisfaction of customary continuous employment with the Group and may include a share price hurdle.

During the year the Group granted 6,454,547 (2018: 2,000,000) shares under the LSP.

**Notes to the Financial Statements** continued

30 June 2019

**Note 30. Share-based payments** continued

Set out below are summaries of shares/options granted under the LSP:

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/forfeited/other	Balance at the end of the year
<b>2019</b>							
04/12/2017	04/12/2027	\$0.597	2,000,000	-	-	-	2,000,000
31/08/2018	31/08/2028	\$0.770	-	411,972	-	-	411,972
19/11/2018	25/11/2028	\$0.470	-	1,595,058	-	-	1,595,058
03/12/2018	03/12/2028	\$0.890	-	100,000	-	-	100,000
06/03/2019	06/03/2029	\$0.940	-	4,347,517	-	-	4,347,517
			2,000,000	6,454,547	-	-	8,454,547
Weighted average exercise price			\$0.597	\$0.812	\$0.000	\$0.000	\$0.761

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/forfeited/other	Balance at the end of the year
<b>2018</b>							
04/12/2017	04/12/2027	\$0.597	-	2,000,000	-	-	2,000,000
			-	2,000,000	-	-	2,000,000
Weighted average exercise price			\$0.000	\$0.597	\$0.000	\$0.000	\$0.597

There were 102,993 options vested and exercisable as at 30 June 2019 (2018: Nil). These exercisable options relate to those granted on 31 August 2018.

The weighted average remaining contractual life of options under LSP outstanding at the end of the financial year was 1.56 years (2018: 1.93 years).

For the options under LSP granted during the current financial year, the valuation model inputs used in the Black-Scholes or Monte Carlo option pricing model to determine the fair value at the grant date, are as follows:

Grant date	Expiry date <sup>1</sup>	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
31/08/2018	31/08/2028	\$0.950	\$0.770	12.000%	-	2.270%	\$0.323
19/11/2018	25/11/2028	\$0.890	\$0.470	16.200%	-	2.270%	\$0.520
03/12/2018	03/12/2028	\$0.890	\$0.890	16.200%	-	2.270%	\$0.119
06/03/2019	06/03/2029	\$1.350 <sup>2</sup>	\$0.940 <sup>3</sup>	40.000%	-	1.500%	\$0.175

<sup>1</sup> Various vesting dates 1-3 years from grant date.

<sup>2</sup> Share price at grant date £0.745 presented at the equivalent AUD.

<sup>3</sup> Exercise price £0.52 presented at the equivalent AUD.

The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

Options granted on 6 March 2019 are denominated in Pound Sterling. Information in the report has been converted into Australian dollar functional and presentation currency.

**Note 31. Events after the reporting period**

Apart from the dividend declared as disclosed in note 18, no other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

## Directors' Report

The Directors of Litigation Capital Management Limited present their report together with the annual financial report of the consolidated entity consisting of LCM and its subsidiaries (collectively LCM Group or the Group) for the period ended 30 June 2019 and the auditors' report thereon.

### 1. Directors

The Directors of LCM at any time during or since the end of the financial period are set out below:

Name, qualifications and independence status	Experience and special responsibilities
<p><b>Jonathan Moulds CBE, MMath (First Class) Cambridge</b> Chairperson Independent Non-Executive Director</p>	<p>Extensive experience in the financial services industry. Chairperson of LCM since March 2019 and Non-Executive Director of LCM since December 2018.</p> <p>Chair of the Audit and Risk Committee and member of each of the Nomination and Remuneration Committees.</p>
<p><b>Patrick Moloney Dip Law</b> Chief Executive Officer Executive Director</p>	<p>Extensive experience in the litigation finance industry.</p> <p>Appointed Non-Executive Director in 2003 and Executive Director in December 2013.</p>
<p><b>Stephen Conrad BEc, GDipAppFin (Sec Inst), MAppFin, GAICD</b> Chief Financial Officer Executive Director</p>	<p>Extensive experience in financial markets. Elected to the Board November 2018 and Executive Director since December 2018.</p>
<p><b>Dr David King PhD, MSc, FAusIMM, FAICD</b> Independent Non-Executive Director</p>	<p>Extensive experience in the natural resource industry.</p> <p>Non-Executive Director since February 2014.</p> <p>Chair of the Nomination Committee and a member of each of the Audit and Risk Committee and Remuneration Committee.</p>
<p><b>Steve McLean BEc</b> Independent Non-Executive Director</p>	<p>Extensive experience in investment banking.</p> <p>Non-Executive Director since November 2015.</p> <p>Chair of the Remuneration Committee and a member of each of the Audit and Risk Committee and Nomination Committee.</p>
<p><b>Nick Rowles-Davies, BA (Hons) Law &amp; Politics</b> Executive Vice-Chairman Executive Director</p>	<p>Extensive experience in the litigation finance and legal expenses insurance industries. Solicitor of the Senior Courts of England and Wales, Solicitor of the British Virgin Islands.</p> <p>Executive Director since December 2018.</p>

**Directors' Report** continued**2. Company Secretary**

Anna Sandham was appointed Company Secretary of LCM in September 2016. Anna is an experienced company secretary and governance professional with over 20 years' experience in various large and small, public and private, listed and unlisted companies. Anna has previously worked for companies including AMP Financial Services, Westpac Banking Corporation, BT Financial Group and NRMA Limited. Anna holds a Bachelor of Economics (University of Sydney), Graduate Diploma of Applied Corporate Governance (Governance Institute of Australia) and is a Chartered Secretary.

**3. Officers who were previously partners of the audit firm**

There were no officers of the Group during the financial year which were previously partners of the current audit firm, BDO (SA) Pty Ltd.

**4. Meetings of Directors**

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of LCM during the financial period are:

Directors	Directors' meetings		Audit and Risk Committee meetings		Remuneration	
	A	B	A	B	A	B
David King	8	8	2	2	1	1
Steven McLean	8	8	2	2	1	1
Patrick Moloney	8	8	-	-	-	-
Steve Conrad	5	5	-	-	-	-
Jonathan Moulds	3	3	2	2	-	-
Nick Rowles-Davies	3	3	-	-	-	-

A: represents the number of meetings held during the time the Director held office;

B: represents the number of meetings attended.

No meetings of the Nomination Committee have been held this financial year. The Directors note that all nomination matters have been considered by the Board as a whole and that therefore convening a separate meeting of the Nomination Committee was not necessary.

**5. Principal Activities**

The LCM Group provides financial and risk management services associated with the legal industry and most particularly, disputes including litigation and arbitration. This includes single-case and portfolios; across class actions, commercial claims, claims arising out of insolvency and international arbitration.

From the close of trading on Friday, 21 December 2018 LCM was removed from the Official List of the Australian Securities Exchange (ASX) after being admitted to trading on AIM, a market operated by London Stock Exchange plc on 19 December 2018. This was approved by shareholders at the 2018

Annual General Meeting. The decision to de-list from ASX and list on the AIM was made to give the Group the best opportunity to:

- (i) raise new capital through accessing new equity capital markets and broadening its shareholder base;
- (ii) position the Group as a growth company on a growth platform;
- (iii) locate the Group in proximity to other listed litigation finance companies; and
- (iv) provide access to a much larger market for financing legal claims.



## 6. Operating and financial review

### Overview of the LCM Group

LCM is a company limited by shares and was incorporated on 9 October 2015. Until 13 December 2016 the Group was listed on the ASX under the code LCA and delisted from the ASX in December 2018. LCM listed on AIM in December 2018 under the code LIT.

Its registered office and principal place of business is Level 12, The Chifley Tower, 2 Chifley Square, Sydney NSW 2000, Australia.

### Operations

LCM operates its business through a series of wholly owned subsidiaries. The principal activity of those subsidiaries is the provision of litigation finance and risk management associated with individual and portfolios of litigation projects.

### Review of financial performance

We are pleased with the overall financial performance of the LCM Group for the financial period ending 30 June 2019 (FY19). Despite a period of unprecedented growth and expansion across all areas of the business – as well as the one-off event of transitioning its listing to AIM – the LCM Group's financial performance was commensurate with the prior period with a statutory profit before tax of A\$10.15 million. The net statutory profit represents an outstanding result given the level of growth achieved in the same period, although is marginally down on the prior financial year. Adjusted profit before tax is A\$12.28 million. The LCM Group's overall gross revenue of A\$34.71 million represents an increase on the prior financial period of 17%. The LCM Group generated a gross profit of A\$20.34 million representing an increase on the prior period of 23%.

The underlying financial metrics for investments realised during the financial period show that LCM's performance improved. The cumulative return on invested capital (ROIC) over the past eight years (inclusive of losses) increased to 135%. The portfolio internal rate of return (IRR) (also inclusive of losses) has increased to 80%. We are very pleased with the LCM Group's overall maintenance of its high standard of performance notwithstanding a period of unprecedented expansion and growth. Our average time to resolve or complete a litigation project is currently 25 months.

Prior to FY19, LCM measured its portfolio using an estimated aggregate gross claim size. In recognition

of LCM's business being a corporate finance product, we took the deliberate decision in FY19 to shift our focus towards aggregated investments as opposed to aggregated gross claim size. Given LCM's past performance and its ability to generate returns on invested capital the Board believes that this is a far more useful metric for investors to consider LCM's growth. Total invested capital during FY18 was A\$14.62 million. During FY19, LCM's investments increased substantially to A\$27.84 million. The increase in capital investment is a direct result of two significant developments during the financial year. The first is a greater access to capital through its equity raise on AIM in December 2018. The second is LCM's expansion into new geographies including opening a permanent office in Singapore, for the Asia Pacific region, and the establishment of an office in London, for the EMEA region. Both of those offices have already generated high-quality investment opportunities for the LCM Group.

When assessing our actual financial results and performance for LCM's investments realised during the period it is important to note that such performance is unaffected by fair value accounting (FVA). Our financial results and performance metrics represent how the business has actually performed on its concluded investments, as revenue is on a realised basis as opposed to unrealised. Accounting in such a conservative and tangible fashion may result in increased volatility of both earnings and performance but provides investors with the comfort that all revenue and profits have been earned and realised and that LCM's performance metrics are actual as opposed to notional.

### Review of LCM's portfolio of Litigation Projects

As at 30 June 2019, LCM has a portfolio of 29 current projects under management. 23 projects are unconditionally funded and six projects conditionally funded. The portfolio shows significant growth of 45% in the number of projects under management, given LCM was managing 20 projects as at 30 June 2018. In line with LCM's investment philosophy, the portfolio maintained diversity across industry sector, jurisdiction and capital commitment.

Both project and pipeline opportunities are well diversified by litigation type and geography, while maintaining a disciplined process of project selection. LCM has pre-qualified 64 pipeline projects with estimated investment of A\$394 million.

## Directors' Report continued

During FY19 both the number and quality of applications received by LCM increased significantly. A total of 419 applications were received representing an increase of 235%, compared with 125 applications received in FY18. This application increase was largely due to our expansion into new jurisdictions, but also from LCM realising a higher profile consequent upon its listing on AIM. Notwithstanding that LCM received a significantly larger number of applications, we have not altered or relaxed our due diligence processes or underwriting techniques with respect to investments made. Statistically, LCM has operated, largely in line with industry peers at approximately 4% of applications converting into an investment. During FY19, our disciplined focus and considered approach saw 3% of applications being converted into investments that became additions to LCM's current portfolio. It is worth noting that LCM is observing an increase in both the quality and size of its investment opportunities into the disputes space.

A significant portfolio development in FY19 is the entry of LCM into the corporate portfolio market. One of LCM's strategies through recruiting Nick Rowles-Davies, as Executive Vice Chairman, and our London team was to address the corporate market, which is a key growth area and is presently largely underserved. LCM has managed to originate in excess of 15 applications for corporate portfolio funding during FY19 of which two corporate portfolios have been funded during the year. While two might seem a small number, it is a figure that represents more than any other funder globally and also represents a large number of underlying claims. The Board is encouraged by our achievements in the early stages of what we recognise is an emerging market sector.

A strategic review was undertaken during FY19 to identify opportunities and skillsets presently being underutilised within the LCM Group. This review resulted in the Group recognising an opportunity to leverage LCM's existing skillset in insolvency. The management saw an opportunity to take advantage of changes to the relevant insolvency laws in both the jurisdictions of Australia and the United Kingdom, which allow insolvency practitioners to assign statutory causes of action. Prior to the insolvency law changes, an insolvency practitioner could not assign statutory rights and was restricted to traditional funding techniques.

LCM initiated a pilot program during H2 FY19 to provide a funding solution for the insolvency market in Australia and the United Kingdom. Although still at an initial stage, the insolvency funding model is proving to be entirely complementary to LCM's existing business and has realised new opportunities for referral relationships that previously did not exist. In Australia, LCM has considered 30 applications and has entered into three agreements for the funding and/or assignment of smaller insolvency-based claims. In the UK a total of 56 applications have been received and are currently subject to due diligence.

Smaller claims arising out of insolvency typically require a less significant funding commitment and have a shorter duration period, which in turn will see potential returns being realised at a faster and more consistent rate. All investments made as part of the pilot program will be subject to LCM's existing rigorous selection criteria and due diligence process. The return metrics for small insolvency matters will be reported separately for transparency. It is expected that the revenue generated from providing a funding solution for smaller insolvency claims, once properly developed, will positively supplement the revenue LCM generates from funding projects, that typically have a larger funding size and a longer duration.

The growth in LCM's portfolio of litigation projects during FY19 is a direct result of the Group expanding its geographical footprint into new jurisdictions. It is worth noting that while we refer to our investment projects as litigation based, this is a term that encompasses arbitration as well as litigation. Future expansion of the portfolio, particularly in the key growth markets for Asia of Singapore and Hong Kong, is expected to include arbitral disputes following the passing of legislation during the 2017 calendar year to permit litigation funding and finance products to be utilised in association with international arbitration projects. Ahead of the legislation being passed, LCM anticipated these changes and began its search for the appropriate team to represent LCM's interest in those jurisdictions.

The current pipeline demonstrates the very large and diverse pre-qualified investment opportunities within the Group. In addition to seven corporate portfolio transactions, the current pipeline includes

projects across the mix of litigation financing: commercial (28), international arbitration (eight), insolvency (nine), class actions (10), enforcement (one) and law firm funding (one).

### **Significant Changes in the State of Affairs**

As previously noted, FY19 was a period of very significant growth and change for LCM. The most significant change involved LCM's expansion into new jurisdictions through the opening of offices in Singapore and London which resulted in significant experience being placed on the ground in those territories. Both the teams in Singapore and London have integrated comfortably into the LCM Group and LCM operates as a global team albeit with separate investment committee members for the northern and southern hemispheres. All risk however remains centred in LCM's head office in Sydney. LCM's expansion also saw it delist from the ASX and list on AIM, both of these events were accompanied by separate capital raises which supplemented LCM's permanent source of operating capital. The introduction of new capital allowed LCM to significantly increase its portfolio of litigation investments.

In addition, LCM has refreshed its board of Directors with the appointment of two new executive board members, Nick Rowles-Davies and Stephen Conrad. LCM was also fortunate to attract the very significant experience and talent of Jonathan Moulds who took up the position of Chairman. Those appointments strengthen LCM's executive management team and gives the Group unparalleled leadership under the chairmanship of Jonathan Moulds.

### **Future Developments, Prospects and Business Strategies**

The Board continues to see significant growth in the litigation finance sector. That growth is a direct reflection of a greater acceptance and knowledge of the services provided by the industry to the legal profession and insolvency practitioners.

The use of litigation finance through choice rather than necessity is a far greater addressable market for the industry and is one that remains almost entirely undeveloped. The significant growth opportunity here are well-capitalised corporate entities who currently fund their own disputes on balance sheet using their cash resources.

LCM is observing an early, but encouraging, change in attitude from corporates globally as they recognise the value of using an external source of capital, rather than shareholders' funds. The corporate area of the market represents a considerable opportunity for LCM who currently leads the world in this disputes funding product and in Nick Rowles-Davies we arguably have the pioneer for this corporate finance product.

The Board is also pleased with the measured approach to expansion into new jurisdictions. LCM has been deliberately very disciplined in its expansion to date which has resulted in a seamless integration of a fully functioning team in London and the establishment of our first office in Singapore. Both LCM's London and Singapore offices have generated a significant number of quality investment opportunities which has already exceeded the Board's expectations. LCM expects that growth to continue, particularly in the Asian markets, as well as the UK and Europe. As with LCM's expansion into the northern hemisphere, senior executives continue to monitor opportunities in alternative jurisdictions closely, including North America. Statistically North America is the largest litigation market globally and the least penetrated by the litigation finance industry. LCM would apply the same disciplined and measured approach to expansion into any new jurisdiction or territories; this includes identifying the right senior hires to support our future growth as experience and cultural fit is critical.

As previously referenced, LCM has launched a pilot program with respect to a new business line of acquiring via assignment, statutory causes of action from insolvency practitioners in both Australia and the United Kingdom. Although this strategy is at an initial stage it is showing very significant promise. The strategy seeks to leverage LCM's existing skillset and experience as well as its existing referral base. The introduction of that business model has already generated significant opportunity for investment and has also given LCM access to larger opportunities, which would not have been identified prior to this strategy being adopted.

Investment decisions and risk management remains centralised in the Sydney office.

**Directors' Report** continued**7. Dividends**

Dividends paid or declared by the Group to members since the end of the previous financial year were:

<b>Declared and paid during FY19</b>	<b>AUD cents per share</b>	<b>Equivalent GBP amount per share (using exchange rate of 0.54934)</b>	<b>Total amount \$</b>	<b>Date of payment</b>
Interim 2019 dividend	0.506	0.277966	\$550,000	21 June 2019
Total amount			\$550,000	

**Declared after end of year**

After the balance sheet the following fully franked dividends were proposed by the Directors. The dividends have not been provided and there are no income tax consequences.

<b>Declared after end of year</b>	<b>AUD cents per share</b>	<b>Total amount \$</b>	<b>Date of payment</b>
Final 2019 dividend	0.828	\$900,000	11 December 2019
Total amount		\$900,000	

The financial effect of these dividends has not been brought to account in the consolidated financial statements for the year ended 30 June 2019 and will be recognised in subsequent financial reports.

**Matters subsequent to the end of the financial period**

In the Directors' opinion, no matter or circumstance has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the LCM Group, the results of those operations, or the state of affairs of the LCM Group in future years.

**Likely developments**

The growth and maturation of LCM's current portfolio of litigation projects is progressing very well and, in respect of some litigation projects, better than anticipated. The individual litigation projects which together comprise the portfolio presently being managed are generally tracking as, or better than, expected.

After successfully expanding into new markets during FY19, LCM continues to look for new opportunities in the same measured and disciplined fashion. A successful litigation financing business broadly requires three essential elements: experience in the field, access to capital and an ability to originate quality investment opportunities.

LCM has extensive experience in the disputes sector, having spent the last 21 years refining and creating the systems and methodologies which allow it to skilfully undertake due diligence and underwriting processes such as to determine what investments should be made in the area of disputes. LCM possesses more experience in the field than almost any other operator globally.

The operation of a disputes funding business is a capital-intensive enterprise that requires access to significant pools of capital. LCM has the benefit of its public listing on AIM and access to other capital markets in order to raise this capital. We have the flexibility to approach investors to raise equity, if deemed appropriate. LCM continues to monitor the sources of capital for its business, including a third-party fund where we are in advanced discussion and will provide an update later this calendar year.

A number of funders have access to sufficient capital, a smaller number have the experience and expertise of LCM and fewer still have approached origination in the same innovative manner as LCM. We have an ability to originate quality investment opportunities. This is demonstrated most effectively by the move into corporate portfolio funding, where LCM is a global leader.

LCM has recently gone through a significant period of growth. LCM can point to growth in almost all areas of its business over the past 12 months. We have increased our capital base, our investments into litigation projects, the geographies in which we operate and our human capital. LCM continues to monitor the funding industry globally and those geographies and jurisdictions where opportunities exist. In addition, LCM looks at its personnel and opportunistically hires skilled and/or experienced practitioners as and when they become available. LCM undertakes those activities in the same disciplined and measured manner as it has done historically.

## 10. Regulation

The operations of LCM are not currently subject to significant regulation under any laws in jurisdictions in which operate. LCM is supportive of greater regulation as are the larger litigation financiers. In many ways, as a listed company, we are already making a statement about our commitment to transparency and disclosure.

There is a relatively light touch of regulation in the jurisdictions of both Hong Kong and Singapore, but this is restricted in nature to capital adequacy and the need for litigation financiers to be operate a finance business, rather than one-off investments. We comply comfortably with all regulation that exists in those jurisdictions and also comply with all litigation-related regulation in London.

During the financial period two government inquiries were undertaken in the jurisdiction of Australia that touched upon the regulatory environment. The first of those inquiries was in the state of Victoria and that enquiry focussed upon whether the litigation finance industry should be regulated. The second was a federal inquiry which focussed upon the class action industry and how litigation finance interacted with class actions. Neither of those inquiries made recommendations which were adverse or potentially adverse to the business.

The LCM Group is not aware of any other inquiries or considered legislations which impact adversely on its business.

## 11. Directors' interests in shares and options

The relevant interests of each Director in the shares and rights or options over shares issued by LCM, as notified by ASX in accordance with s205G(1) of the Corporations Act 2001 (Cth) (Act), at the date of this report is as follows:

Director <sup>1</sup>	Ordinary shares <sup>1</sup>	Loan Plan Shares <sup>2</sup> & Loans	Joint Share Ownership Plan <sup>3</sup>	Unlisted options <sup>4</sup>	Unlisted partly paid shares <sup>5</sup>
Dr. David King	1,601,484	-	-	600,000	-
Steven McLean	577,499	-	-	-	-
Patrick Moloney	3,768,113	3,595,058	-	900,000	1,433,022
Stephen Conrad	277,778	100,000	-	-	-
Jonathan Moulds	-	-	-	-	-
John (Nick) Rowles-Davies	-	-	4,347,517	-	-

<sup>1</sup> Directors, including associated parties, interests held directly and indirectly.

<sup>2</sup> Loan Plan Shares exercisable at various prices and subject to vesting conditions.

<sup>3</sup> Joint Share Ownership Plan exercisable at £0.52, and subject to vesting conditions, to acquire fully paid ordinary shares, exercisable between 1 November 2018 and 1 November 2021 at an exercise price of \$1.00 per option.

<sup>4</sup> Unlisted options over ordinary shares exercisable at \$1.00.

<sup>5</sup> Unlisted partly paid shares in the Group were issued at a price of \$0.17 per share, wholly unpaid and will convert to a share upon payment to the Group of \$0.17 per share. Further details provided in note 15 to the financial statements.

**Directors' Report** continued**12. Share Options and Rights outstanding**

As at the date of this report there are 1,500,000 options outstanding at an exercise price of \$1.00 exercisable between 1 November 2018 and 1 November 2021 and 4,107,030 Loan Shares outstanding with various vesting dates and issue prices and 4,347,517 Joint Share Ownership Plan shares outstanding subject to vesting and performance conditions (see further detail below).

Option holders do not have the right to participate in any share issue or interest issue of the Group.

The terms and conditions of each grant of options exercisable at the end of the financial year are summarised below:

Grant date	Vesting date	Expiry date	Exercise price	Number of Options
20 September 2016	1 November 2018	1 November 2021	\$1.00 per share	600,000
20 September 2016	1 November 2018	1 November 2021	\$1.00 per share	900,000

Loan Shares approved and issued since the inception of the plans are as follows:

- ▲ 2,000,000 Loan Shares to Patrick Moloney approved at the 2017 AGM and issued in two tranches of 1,000,000 Loan Shares;
- ▲ 100,000 Loan Shares to Steve Conrad approved at the 2018 AGM and issued in two tranches of 50,000 Loan Shares;
- ▲ 411,972 Loan Shares to senior LCM staff during 2019; and
- ▲ 4,347,517 JSOP interests issued to Nick Rowles-Davies.

The terms and conditions of each grant of Loan Shares outstanding at the end of the financial year are summarised below:

Grant Date	Expiry Date <sup>1</sup>	Number of Plan Shares <sup>1</sup>	Exercise price
4 December 2017	4 December 2027	2,000,000	\$0.597
31 August 2018	31 August 2028	411,972	\$0.770
19 November 2018	25 November 2028	1,595,058 <sup>2</sup>	\$0.470
3 December 2018	3 December 2028	100,000	\$0.890
6 March 2019	6 March 2029	4,347,517	GBP 0.52

<sup>1</sup> Various tranches and vesting dates 1-3 years from grant date.

<sup>2</sup> Following the end of the financial year ended 30 June 2018, Patrick Moloney was granted a limited recourse interest free loan of A\$749,677.26 for the exercise of 1,595,058 options, which then took place on 19 November 2018.

There were 102,993 options vested and exercisable as at 30 June 2019. These exercisable options relate to those granted on 31 August 2018.

Each tranche of Loan Shares granted to Directors' will vest if the relevant Vesting Conditions set out below are met:

Director <sup>1</sup>	Tranche	Vesting conditions
Patrick Moloney	Tranche 1	<p>a) Mr Moloney has been continuously employed by the Company from the Grant Date to the date that is 24 months after the Grant Date and has been continuously been employed by the LCM Group over that period; and</p> <p>b) The VWAP of the Company's shares over any 5 trading day period is at least \$1.00 per share (or such equivalent price if a capital reconstruction occurs in relation to the Company) (Target Price Condition).</p>
Patrick Moloney	Tranche 2	<p>a) Mr Moloney has been continuously employed by the Company from the Grant Date to the date that is 36 months after the Grant Date and has been continuously been employed by the LCM Group over that period; and</p> <p>b) The Target Price Condition has been met.</p>
Stephen Conrad	Tranche 1	<p>a) Mr Conrad has been continuously employed by the Company from the Grant Date to the date that is 24 months after the Grant Date and has been continuously been employed by the LCM Group over that period; and</p> <p>b) The VWAP of the Company's shares over any 5 trading day period is at least \$1.50 per share (or such equivalent price if a capital reconstruction occurs in relation to the Company) (Target Price Condition).</p>
Stephen Conrad	Tranche 2	<p>a) Mr Conrad has been continuously employed by the Company from the Grant Date to the date that is 36 months after the Grant Date and has been continuously been employed by the LCM Group over that period; and</p> <p>b) The Target Price Condition has been met.</p>
John (Nick) Rowles-Davies	Tranche 1	<p>a) Mr Rowles-Davies has been continuously employed by the Company from the Grant Date to the date that is 36 months after 19 December 2018 and has been continuously been employed by the LCM Group over that period; and</p> <p>b) The Company's shares is at least £1.75 per share at any time during the vesting period (Share Price Target).</p>

<sup>1</sup>Directors, including associated parties, interests held directly and indirectly

### 13. Indemnity and insurance of officers and auditors

#### Indemnification

Under the LCM Constitution, to the maximum extent permitted by the Act, LCM must indemnify each person who is or has been an Officer against any liability incurred as an Officer and may pay a premium for a contract insuring an Officer against that liability. During the financial period, LCM has paid premiums in respect of contracts insuring the Directors and officers of LCM against any liability of this nature.

LCM has not, during or since the end of the financial period, indemnified or agreed to indemnify an officer or auditor of LCM or any related entity against a liability as such by an officer or auditor except to the extent permitted by law.

#### Insurance premiums

In accordance with normal commercial practices, under the terms of the insurance contracts, the nature of liabilities insured against and the amount of the premiums paid are confidential.

**Directors' Report** continued**14. Non-audit services**

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 22 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the financial period, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Act.

The Directors are of the opinion that the services disclosed in note 22 to the financial statements do not compromise the external auditor's independence requirements of the Act for the following reasons:

- ▲ All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- ▲ None of the services undermine the general principles relating to auditor independence as set out in the APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Group, acting as an advocate for the company or jointly sharing economic risks and rewards.

**15. Proceedings on behalf of LCM Group**

No person has applied for leave of court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

**16. Lead Auditor's independence declaration**

The Auditor's independence declaration as required under section 307C of the Act is included in LCM's financial statements.

**17. Auditor**

BDO (SA) Pty Ltd continues in office in accordance with section 327 of the Act.

**18. Rounding of amounts**

LCM is of a kind referred to the Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

**19. Corporate Governance**

The corporate governance statement can be found here: <https://www.lcmfinance.com/shareholders/corporate-governance/>.

**20. Remuneration report**

Please see attached Annexure A.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2) (a) of the Act.

On behalf of the Directors



**Mr Jonathan Moulds**  
Chairman

10 September 2019



## ANNEXURE "A"

### Remuneration report

The Directors present this Remuneration Report (Report) for Litigation Capital Management Limited ("LCM") and together with its controlled entities (the "LCM Group") for the 12 months ended 30 June 2019, of which certain tables have been audited<sup>1</sup> (as noted below), and outlines key aspects of our remuneration framework. It contains the following sections:

1. Remuneration Framework
2. Remuneration details
3. Service Agreement
4. Remuneration table (audited)
5. Directors' interests (audited)
6. Other disclosures

<sup>1</sup>Audited where referenced in this report means that the relevant tables have been extracted directly from the audited 2019 financial statements and notes

### REMUNERATION FRAMEWORK

#### Overview of remuneration framework

The Board recognises that the performance of LCM depends on the quality and motivation of its people. The objective of LCM's remuneration policy is to attract, motivate and retain the best available management and employees to operate and manage LCM.

Non-Executive Director remuneration is designed in a way that supports the retention of their independence.

Employee remuneration and incentive policies and practice are performance-based and aligned with LCM Group's vision, values and overall business objectives, with five guiding principles in mind:

- ▲ Alignment of employee pay with shareholder interests and wealth outcomes;
- ▲ Alignment of employee pay with fund interests and wealth outcomes;
- ▲ Motivation of employee behaviour to execute LCM's strategy through an appropriate mix of fixed and variable pay elements;
- ▲ Delivery of a competitive remuneration framework that assists with attracting and retaining high calibre Non-Executive and employee talent to ensure business success; and
- ▲ Provision of a simple and transparent framework that is clear to participants and external stakeholders.

### Role of the Remuneration Committee

The Remuneration Committee ensures that the remuneration of Directors and senior employees is consistent with market practice and sufficient to ensure that the LCM Group can attract, develop and retain the best individuals and is designed to:

- ▲ Attract, develop and retain Board and executive talent;
- ▲ Create a high-performance culture by driving and rewarding employees for achieving the Group's strategy and business objectives; and
- ▲ Link incentives to the creation of shareholder and fund value.

The Remuneration Committee shall meet formally at such frequency as circumstances demands for the purposes referred to above.

### Principal Terms of the Share Plans

The principal terms of the Share Plans, where so determined by the Remuneration Committee, are set out below.

#### Eligibility

Awards may be made to Directors and employees of the Group and its subsidiaries, at the discretion of the Remuneration Committee.

#### Timing

Awards will normally only be granted within 42 days of the end of a closed period (typically following the announcement of the Group's results for any period). In exceptional circumstances, awards may be granted at other times provided that no awards may be granted during a closed period.

### Performance conditions

The Group attaches considerable importance to the role of appropriate performance-based incentives to drive sustainable long-term growth and align Directors' and employees' interests with the interests of shareholders and fund investors. Accordingly, awards to Directors and senior management will ordinarily be subject to the achievement of performance conditions set by the Remuneration Committee at the date of grant.

**Directors' Report** continued**Plan limits**

In any 10 year period, not more than 10% of the issued ordinary share capital of the Group may be issued or be issuable under the Share Plans.

These limits do not include awards which have lapsed, which are satisfied by shares purchased in the market, or include shares which are used to pay dividend equivalents. Shares granted under the Loan Share Plan will not form part of the limits for the Share Plans nor do the shares granted to Nick Rowles-Davies under the Joint Share Ownership Plan.

**Satisfaction of awards**

Instead of issuing or transferring shares upon the vesting of awards, the Remuneration Committee may decide to pay a cash amount equal to the value of those shares. However, it is envisaged that this would only be done where local tax, legal or regulatory rules make share settlement difficult.

**Holding period**

Awards may be granted on the basis that some or all of the shares in respect of which the award vests will be held for a further period post-vesting.

**Malus and clawback**

The Remuneration Committee will have the ability to reduce the number of shares subject to an unvested award (including to zero) in certain circumstances.

The circumstances which may lead to a clawback are where the award is determined to have been granted or vested on the basis of materially inaccurate information or where the Remuneration Committee determines that the participant has committed a material breach of their contract of employment which would include, without limitation: where the participant has contributed to a material loss or reputational damage to the Group; the participant has materially breached any compromise agreement entered into in relation to their cessation of employment; or, where applicable, the participant has materially breached any of their fiduciary duties.

**Leaving employment**

If a participant leaves employment, unvested awards will normally lapse. If the participant leaves for one of the following reasons: disability, ill-health,

injury, redundancy, or in other circumstances if the Remuneration Committee allows, their award will normally continue in effect and vest on the original vesting date or, if applicable, will be released at the end of the holding period.

**Takeovers, reorganisations, etc.**

Awards will generally vest early on a takeover, or other change of control event, or on a voluntary winding up of the Group.

The applicable rules of the Share Plans may also contain provisions to allow for awards to be made to participants based in jurisdictions outside of Australia and the UK and to allow for the Remuneration Committee to agree special terms to allow for awards to be granted in those jurisdictions in order to comply with local practice or to avoid adverse tax, legal or regulatory consequences.

Any shares issued following the vesting of awards will rank equally with shares of the same class in issue on the date of allotment except in respect of rights arising by reference to a prior record date.

**REMUNERATION DETAILS****Remuneration payable to Non-Executive Directors**

Non-Executive Directors enter into service agreements through a letter of appointment which are not subject to a fixed term. Non-Executive Directors receive a fee for their contribution as Directors.

Fees payable to Non-Executive Directors reflect the demands which are made on, and the responsibilities of, Directors. Directors' fees are reviewed regularly by the Board.

LCM's Constitution provides that LCM may remunerate each Director as the Directors decide, provided that the total amount paid to Non-Executive Directors' may not exceed:

- (i) The amount fixed by LCM in general meeting for that purpose; or
- (ii) If no amount has been fixed by LCM in general meeting for that purpose, A\$400,000 per annum.

An amount has been fixed by LCM in the Annual General Meeting of 30 November 2018 for the aggregate fee pool limit to be A\$400,000 per annum.

The objective of LCM's remuneration policies with regard to Non-Executive Directors is to ensure the Group is able to attract and retain Non-Executive Directors with the skills and experience to ensure the Board is able to discharge its oversight and governance responsibilities in an effective and diligent manner and supports the retention of their independence.

LCM do not pay bonus payments or lump sum retirement benefits to Non-Executive Directors.

The Non-Executive Director annual fee structure (excluding superannuation and pensions) paid during the 12 months ended 30 June 2019 is as follows:

	<b>Fees per annum</b>
Non-Executive Chairman	£100,000*
Non-Executive Director	A\$100,000

\* comprising a base fee of £75,000 and a fee of £25,000 or the role of Chairman.

Details of fees paid during the financial year to each Non-Executive Director are detailed below.

### Remuneration Details for Employees

Employees of LCM are contracted under an employment agreement which incorporates a probation period generally of six months, a salary as well as an ability after twelve months of service for the employee to be eligible for a performance award discretionary bonus and participate in an incentive scheme (Eligible Employees).

Each Eligible Employee will be entitled to participate in the LCM incentive scheme, the rules of which may be subject to change by LCM at any time.

The award of an incentive will be discretionary and will be determined based on:

1. the financial performance of LCM as a whole; and
2. the performance review of the Eligible Employee in each full financial year the Eligible Employee is employed by LCM; and

3. the financial performance of any fund managed by LCM.

The performance review of each Eligible Employee will be undertaken at the end of each financial year and during that performance review each Eligible Employee will be assessed in accordance with the Eligible Employee's Role Description (the Performance Conditions).

The maximum amount of the incentive able to be earned by an Eligible Employee in any year is as follows:

1. a cash payment of up to 35% of the base salary of the Eligible Employee (Cash Incentive); and
2. an invitation to participate in the Share Plan up to a value of 65% of the base salary of the Eligible Employee.

During periods of exceptional performance and at the discretion of the Remuneration Committee and Board, Eligible Employees can earn an additional award under the Share Plan.

### SERVICE AGREEMENT

All Executive Directors have contracts of employment. Remuneration and other terms of employment are formalised in that agreement, including components of remuneration and base salary to which they are entitled, eligibility for incentives and other benefits including superannuation and pensions.

Key terms of Patrick Moloney's employment agreement is as follows:

- ▲ Term of 5 years (commencing December 2018) with an automatic extension for a further 5 years unless notice is given at least 1 year before the expiry of the initial term that the agreement will not be extended
- ▲ A fixed salary per annum plus superannuation and is entitled to six weeks paid annual leave per year, details of which are set out in the remuneration tables below
- ▲ LCM can terminate the agreement at any time without cause by making payment of the total remuneration and benefits for the unexpired period of the term, unless the remaining term is less than 12 months, in which case the agreement may be terminated by 12 months' notice in writing or payment in lieu of notice

**Directors' Report** continued

On appointment, all Non-Executive Directors enter into an agreement which outlines obligations and minimum terms and conditions.

**REMUNERATION TABLE**

Remuneration table for year ended 30 June 2019 (audited)

The table below provides remuneration for KMPs for the 12 months ended 30 June 2019 and comparatives for the year ended 30 June 2018.

2019	Cash salaries and fees \$	Bonus \$	Benefits \$	Accrued leave \$	Super-annuation \$	Long service leave \$	Share-based payments \$	Total \$
<b>Non-Executive Directors</b>								
Dr David King	100,000	-	-	-	9,500	-	12,4801	121,980
Steven McLean	81,250	-	-	-	7,719	-	-	88,969
Jonathan Moulds	90,408	-	11,237	-	716	-	-	102,361
	271,658	-	11,237	-	17,935	-	12,480	313,310
<b>Executive Directors</b>								
Stephen Conrad	325,000	-	-	1,516	25,000	-	2,854	354,370
Nick Rowles-Davies	632,856	-	86,794	-	1,081	-	66,866	787,597
Patrick Moloney	750,000	550,000	30,571	142,692	42,750	35,392	154,118	1,705,523
	1,979,514	550,000	128,602	144,208	86,766	35,392	236,318	3,160,800
<b>2018</b>								
2018	Cash salaries and fees \$	Bonus \$	Benefits \$	Accrued leave \$	Super-annuation \$	Long service leave \$	Share-based payments \$	Total \$
<b>Non-Executive Directors</b>								
Dr David King	68,493	-	-	-	6,507	-	37,440	112,440
Steven McLean	45,662	-	-	-	4,338	-	-	50,000
	114,155	-	-	-	10,845	-	37,440	162,440
<b>Executive Directors</b>								
Patrick Moloney	450,000	-	-	20,769	42,750	7,496	89,141	610,156
	564,155	-	-	20,769	53,595	7,496	126,581	772,596

**DIRECTORS' INTERESTS (audited)**

## Fully paid ordinary shares &amp; unlisted partly paid shares

The table below provides the number of fully paid ordinary shares and unlisted partly paid shares in the company held by each Non-Executive Director and Executive KMP during the period ended 30 June 2019 and the previous period ended 30 June 2018:

<b>Name of the Director</b>	<b>Description of shares</b>	<b>30 June 2019 Number</b>	<b>30 June 2018 Number</b>
Jonathan Moulds	N/A	-	- <sup>1</sup>
Dr David King	Fully paid ordinary shares	1,601,484	1,601,484
Steve McLean	Fully paid ordinary shares	577,499	577,499
Patrick Moloney	Fully paid ordinary shares	3,768,113	3,212,557
Patrick Moloney	Unlisted partly paid shares	1,433,022	1,433,022 <sup>2</sup>
Stephen Conrad	N/A	277,778	- <sup>3</sup>
John (Nick) Rowles-Davies	N/A	-	- <sup>4</sup>

<sup>1</sup> As at date of appointment on 19 December 2018.

<sup>2</sup> Unlisted partly paid shares in the Company were issued at a price of \$0.17 per share, wholly unpaid and will convert to a share upon payment to the Company of \$0.17 per share. Further details provided in Note 15 to the financial statements.

<sup>3</sup> As at date of appointment on 29 November 2018.

<sup>4</sup> As at date of appointment on 19 December 2018.

No changes took place in the interest of the Directors between 30 June 2019 and 10 September 2019.

**Directors' Report** continued**Share options**

The table below provides the number of options over ordinary shares in the company held by each Non-Executive Director and Executive KMP during the financial year:

Name of the Director	Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Expired/forfeited/other	Balance at the end of the year
Dr. David King	20/09/2016	01/11/2021	\$1.00	600,000	-	-	600,000
Patrick Moloney	20/09/2016	01/11/2021	\$1.00	900,000	-	-	900,000
Patrick Moloney	01/12/2013	01/12/2018	\$0.47	1,595,058	-	(1,595,058)	-
Patrick Moloney <sup>1</sup>	19/11/2018	25/11/2028	\$0.47	-	1,595,058	-	1,595,058
Patrick Moloney <sup>1</sup>	04/12/2017	04/12/2027	\$0.60	1,000,000	-	-	1,000,000
Patrick Moloney <sup>1</sup>	04/12/2017	04/12/2027	\$0.60	1,000,000	-	-	1,000,000
Stephen Conrad <sup>1</sup>	03/12/2018	03/12/2028	\$0.89	-	50,000	-	50,000
Stephen Conrad <sup>1</sup>	03/12/2018	03/12/2028	\$0.89	-	50,000	-	50,000
John (Nick) Rowles-Davies <sup>1</sup>	08/03/2019	08/03/2029	\$0.94 <sup>2</sup>	-	4,347,517	-	4,347,517
				5,095,058	6,042,575	(1,595,058)	9,542,575

<sup>1</sup> Outstanding share options granted under the Loan Funded Share Plan as disclosed in note 30.

<sup>2</sup> Exercise price £0.52 presented at the equivalent AUD.

**OTHER DISCLOSURES****Loans to Non-Executive Directors and Executive KMPs**

Patrick Moloney was granted a limited recourse interest free loan of A\$749,677.26 for the exercise of 1,595,058 options, which then took place on 19 November 2018. Refer Directors' Interest above for further detail.

Other transactions with Non-Executive Directors and Executive KMPs.

No other transactions occurred with Non-Executive Directors or Executive KMPs during the year.

This concludes the remuneration report.

## Directors' Declaration

In the Directors' opinion:

- ▲ the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- ▲ the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- ▲ the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and
- ▲ there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- ▲ Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Directors



**Stephen Conrad**

Chief Financial Officer  
Executive Director

10 September 2019



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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LITIGATION CAPITAL MANAGEMENT LIMITED

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Litigation Capital Management Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

#### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



### Recoverable amount of Litigation Contract in Progress

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
<p>Note 12 to the financial report discloses the contract cost assets consisting of the costs to fulfil litigation funding contracts, and the assumptions used by the Group in testing these assets for impairment.</p> <p>The impairment assessment of contract costs was a key audit matter due to the size of the recorded asset 2019: \$27,386,000 (2018: \$13,914,000), the degree of estimation and assumptions required to be made by the Group, specifically concerning future discounted cash flows.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> <li>▶ Assessing the Group's value in use model which calculates the recoverable amount of the Group's litigation contracts, in order to determine if any asset impairments were required.</li> <li>▶ Evaluating and challenging the Group's assumptions and estimates used to determine the recoverable amount of its assets, including those relating to estimated costs to complete a Litigation Contract in Progress, the value to the Group of the Litigation Contract in Progress once completed, and the timing of completion of the Litigation Contract in Progress.</li> <li>▶ Assessing the accuracy of the forecasts by comparing previous forecasts with actual business results.</li> <li>▶ Assessing the adequacy of the Group's disclosures in note 12 about those assumptions to which the outcome of the impairment test is most sensitive, that is, that have the most significant effect on the determination of the recoverable amount of the litigation contract intangible assets.</li> </ul>

### Treatment of Loan Share Plan

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
<p>Note 30 to the financial report discloses the details of the loan share plans granted to employees during the year. The treatment of the loan share plan arrangements is a key audit matter as the accounting treatment involves complexity, expertise and judgement</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> <li>▶ Evaluating the appropriateness of the valuation methodology adopted and the reasonableness of inputs used in the model, with the assistance of an auditors' internal expert.</li> <li>▶ Assessing the adequacy and accuracy of the disclosures included in the audited remuneration report and note 30 of the consolidated financial statements, which outlines the terms of the arrangement and inputs to the fair value calculation.</li> </ul>

### Other information

The directors are responsible for the other information. The other information comprises the information contained in the directors' report and the remuneration report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the Chairman's letter and Chief Executive's report, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and we do not express any



In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Chairman's letter and Chief Executive's report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and will request that it is corrected. If it is not corrected, we will seek to have the matter appropriately brought to the attention of users for whom our report is prepared.

### **Responsibilities of the directors for the Financial Report**

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf)

This description forms part of our auditor's report.

A handwritten signature in blue ink that reads 'G K Edwards'.

**BDO Audit (SA) Pty Ltd**

A handwritten signature in blue ink that reads 'G K Edwards'.

G K Edwards  
Director

Adelaide, 10 September 2019

## Additional Notes on Shareholdings

The following information is being disclosed for the purposes of Rule 26 of the AIM Rules for Companies.

### Description of the business:

- ▲ Litigation Capital Management Limited (“LCM”) is a leading provider of litigation financing and ancillary services, enabling third parties to pursue and recover funds from legal claims.
- ▲ For over twenty years LCM has provided litigation financing and was one of the first professional litigation financiers in Australia.
- ▲ For more information visit [www.lcmfinance.com](http://www.lcmfinance.com)

### Country of incorporation and main country of operation:

- ▲ Incorporated and registered in Australia with registered number ACN 608 667 509.
- ▲ LCM’s head office is in Sydney, Australia, and has other offices in Melbourne, Brisbane, Singapore and London.
- ▲ Shareholders should note that as LCM is not incorporated in the United Kingdom, the rights of shareholders may be different from the rights of shareholders in a United Kingdom incorporated company. Please see LCM’s Constitution for further information.

### Board of Directors:

- ▲ Details of the Company’s board of Directors can be found at [www.lcmfinance.com](http://www.lcmfinance.com)

### Registered office and advisers:

- ▲ Details of the Company’s registered office and list of advisers can be found at [www.lcmfinance.com](http://www.lcmfinance.com)

### Other exchanges or trading platforms:

- ▲ LCM was listed on the Australian Securities Exchange (ASX Code: LCA) in 2016
- ▲ The Company de-listed from the ASX in connection with admission to AIM. Delisting from the ASX occurred with effect from close of trading on 21 December 2018.

### AIM securities in issue:

- ▲ LCM has 113,035,446 fully paid ordinary shares of no par value in issue, each ordinary share having equal voting rights.
- ▲ LCM does not hold any ordinary shares in treasury.

### Significant shareholders and holdings by Directors:

- ▲ The holdings of significant shareholders and Directors can be found at [www.lcmfinance.com](http://www.lcmfinance.com)
- ▲ The percentage of the ordinary shares that are not in public hands is 25.8% (to the best of our knowledge).

### Restrictions on the transfer of its AIM securities:

- ▲ There are no restrictions on the transfer of the Company’s AIM securities.

### Corporate governance:

- ▲ The Company adopted the Quoted Companies Alliance, Corporate Governance Code, published by the UK Quoted Companies Alliance (the “QCA Guidelines”) from Admission.
- ▲ Please refer to Corporate Governance for further details.
- ▲ Directors responsibilities and committee memberships can be found at [www.lcmfinance.com](http://www.lcmfinance.com)

### Takeovers and mergers:

- ▲ As the Company is not incorporated in and does not have its registered office in the United Kingdom, the Channel Islands or the Isle of Man and does not have its place of central management and control in any of those jurisdictions; the Company shall not be subject to and Shareholders will not be afforded the rights and protections pursuant to the City Code. Instead, the takeover provisions in Chapter 6 of the Corporations Act 2001, will regulate the acquisition of control over the voting shares in the Company.



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