LCM
EXPERIENCE COUNTS

Annual Report and Financial Statements 2020

Litigation Capital Management Limited
ACN 608 667 509

LCM
EXPERIENCE COUNTS

Our Purpose

Through disciplined investment we strive to deliver strong returns on assets under management for shareholders and Investors at the same time as providing a valuable finance and risk management tool to clients.

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www.lcmfinance.com

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Highlights

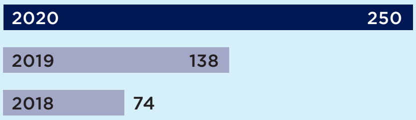
Total assets under management ($m)

250m

For more information on the Total assets under management, please see page 15 of the CEO Review.

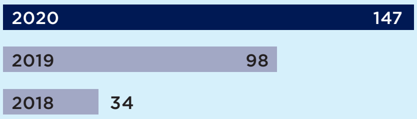
Total committed portfolio ($m)

250m



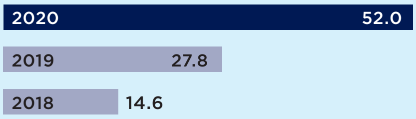
Capital committed ($m)

147m



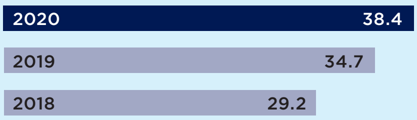
Capital invested ($m)[1]

52.0m



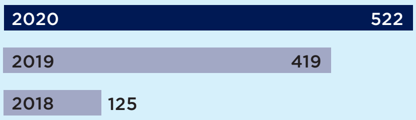
Revenue ($m)

38.4m



Number of applications

522



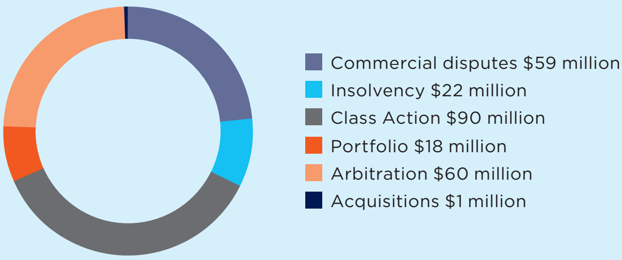
78%

Nine-year cumulative portfolio internal rate of return

134%

Nine-year cumulative portfolio return on invested capital

Total assets under management
(combined capital commitment = A$250 million)



1 Capital deployed includes $10.7 million related to the third party fund

We create value through our three primary investment strategies.

About LCM

Litigation Capital Management (LCM) is an alternative asset manager specialising in disputes financing solutions internationally. Through our two business models, direct balance sheet and funds management, we create value through our three primary investment strategies.

These include single-case, portfolios and acquisition of insolvency claims. LCM has an unparalleled track record, driven by effective project 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.

Our strategic objectives

Balanced portfolio

Maintain diversity of cases across industry type, sector and jurisdiction and maintain a healthy split between single cases and portfolios both by value and volume.

→ *See pages 10 to 11 for more details*

Disciplined underwriting

Consistent and disciplined due diligence and risk management.

→ *See pages 10 to 11 for more details*

Sustainable long-term growth through strategic innovation and evolution

Strong and innovative origination of investment opportunities and continually evolving by responding to market trends and demands within the disputes finance market.

→ *See pages 10 to 11 for more details*

Our values

Transparency

We will always act transparently in the best interests of clients, shareholders and staff.

Discipline

Our investment approach demonstrates the highest levels of ongoing governance and procedural oversight to achieve optimal portfolio outcomes.

Integrity

We choose to operate to a standard that exceeds regulatory obligations placed upon industry participants in the countries we operate.

Opportunity

We are an employer that empowers staff to succeed at every level.

Innovation

We continually drive market evolution through flexible, innovative and competitive client solutions.

Key facts

Experience counts:

22 years
of delivering outstanding results

89%
of funded litigation projects are profitable

1st
one of the first proponents of the litigation financing industry, which was first developed in Australia

1 of 4
global funders listed on public exchanges

Leading
the field in portfolio investment

Chairman's Letter

The next year promises to be an exciting one in the development and expansion of LCM.

"We have though used this period to continue to diversify the LCM business model."

Jonathan Moulds
Non-Executive Chairman

Dear shareholder

In a year that has been marred by disruption to many of the world's economies and impacted many lives and livelihoods, LCM's business remains robust. On a personal level as I write I am pleased to note that no member of our staff has been directly impacted by COVID-19. We have though used this period to continue to diversify the LCM business model.

One of the key highlights of our year has been the launch of our first third party fund. Many of our shareholders will have seen the news release earlier this year. This fund is a co-investment partnership with a number of key blue chip investors and marks a major milestone for LCM. It positions the Company well on its journey to develop its experience as an alternative asset manager focusing on disputes finance globally. Over the course of the next 12 months we will be focusing on the launch of a second and larger third party fund, reflecting the very significant growth in disputes finance we are seeing.

As our CEO Patrick Moloney details in his report, we are particularly pleased with the growth of our business outside Australia. In particular the UK team is now seeing some excellent origination opportunities and has been originating opportunities at a similar volume to our traditional home market of Australia over the course of 2019 under the development of Nick Rowles-Davies, one of the veterans of the disputes finance industry. We continue to see attractive opportunities in other European markets as well as in Middle Eastern markets, as will be very evident from reading this year's annual report.

To that end, as has been notified to the market earlier this year, we are planning to relocate Patrick Moloney to London. This move would already have occurred by now without the challenges of COVID-19. We do, though, expect to complete this move in coming months as soon as the global pandemic situation allows.

This will be another important step for LCM and our ability to capitalise on the growing interest in disputes resolution within the EMEA region as well as the broader sources of investment capital. Supporting our build-out of our London office, we appointed Mary Gangemi as Chief Financial Officer based in London earlier this year – another important signal of our commitment to building our EMEA presence.

With LCM seeing a greater demand for its investment capital, and an expansion of geographic opportunities, it is important that the Board of LCM has the breadth of experience to appropriately represent the shareholder. I am pleased that we have recently announced the addition of Gerhard Seebacher to the LCM Board. Gerhard brings over 20 years of global banking and capital markets experience as well as a strong understanding of the fund sector having been recently a partner at one of the world's largest hedge funds Brevan Howard based in the US. As we continue to evaluate future business development opportunities, I will ensure the experience of our Board fully reflects our business profile.

Further additions and changes to strengthen our Board are thus possible over the coming 12 months. I would also like to take this opportunity to thank Steve McClean, a long-standing Director of LCM and Stephen Conrad former Chief Financial Officer who both stepped down in the second half of this financial year following our re-balancing of our business model towards EMEA.

I am fully aware of the challenges faced by a number of participants in the sector of disputes finance. While LCM strives to be an innovator in this sector, the Board remains fully committed to both the appropriate level of transparency and disclosure for our shareholders to reliably assess the underlying performance of the business. Our focus remains on long-term shareholder value creation and as such both our investments and remuneration schemes I strongly believe reflect this emphasis. I am also confident that our work culture and practices remain at the highest levels, at a time when we have been able to attract some of the industry's top talent over the past 18 months as we have diversified our business model.

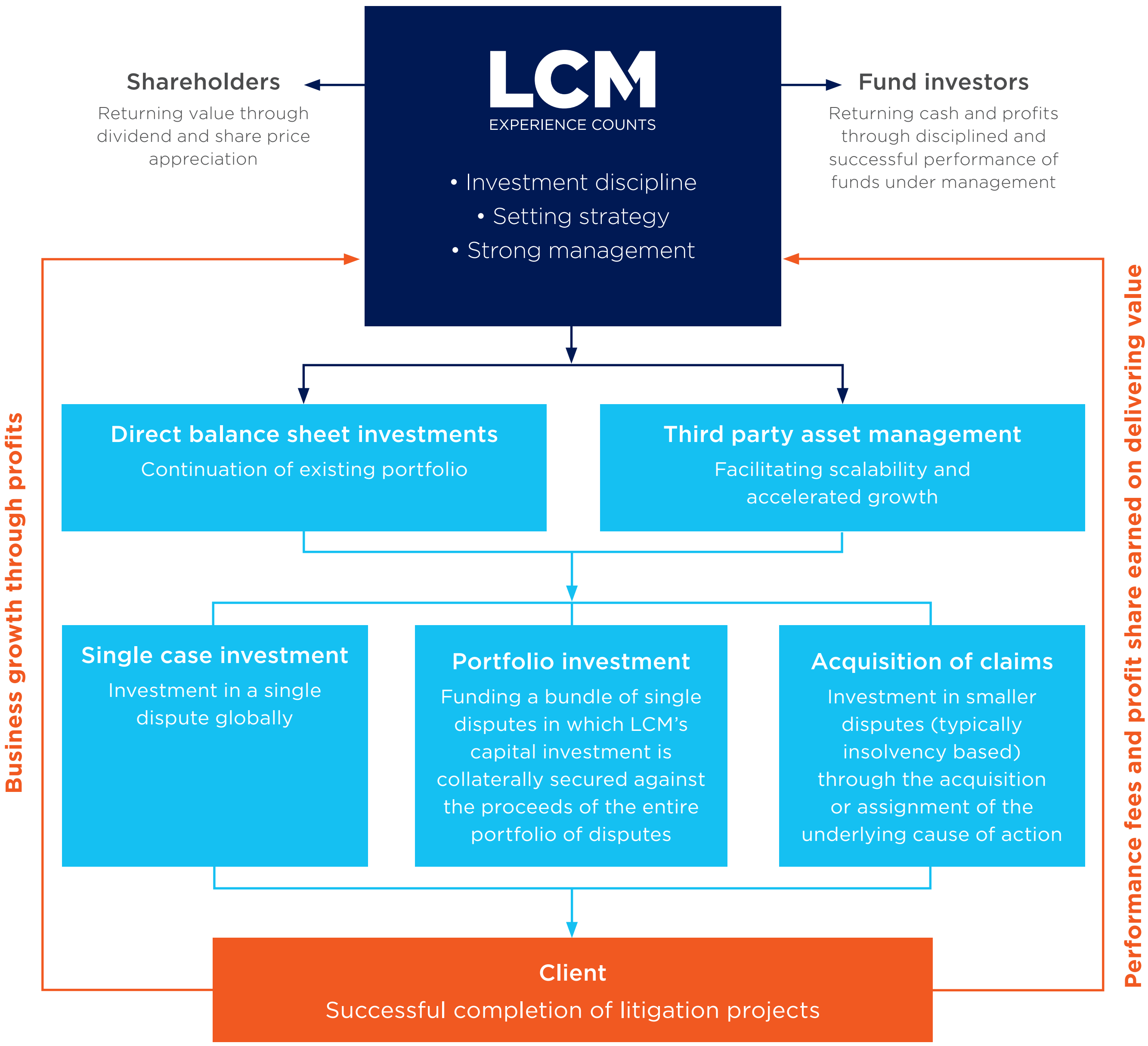
As I reflect on my first 15 months as Chairman, I have these key observations. The UK listing was a major milestone for the Company, allowing us to capitalise on the much larger markets in EMEA. The build out of our teams have reflected this. The importance of our first successful third party fund launch was a critical step forward. The coming months will see our key executive team working out of London. It will also see a continued diversification of our business model from single case funding to portfolio financing and our development of our alternative asset management model. Much of the foundations for future growth are now in place. The next year promises to be an exciting one in the development and expansion of LCM.

Jonathan Moulds
Non-Executive Chairman

We continue to see attractive opportunities in other European markets as well as in Middle Eastern markets.

Our Business Model

The third party fund underpins our expansion as an alternative asset manager.



Who we serve	People	How we engage	We create value	Market expertise
We are an alternate asset manager specialising in disputes financing. That involves the provision of financing and risk management services to claimants in disputes globally. Our financing products are widely used from claimants that rely upon our capital as a means to justice through to large corporates who use our capital as a corporate finance product through choice.	Our people are our business and the key to long-term sustainability. The size of our business enables us to remain highly engaged with our employees. We aim to provide a culture and environment to support and facilitate performance and have aligned employee incentives with those of our shareholders.	We have long standing and deep relationships with referral sources, insolvency practitioners and law firms. Our proven track record ensures we continue to attract recurring business through our strong network and realise new opportunities.	By providing our customers with financing solutions to pursue matters which would otherwise be costly, therefore taking on their risk and preserving their capital to pursue their own business opportunities. On successful completion of litigation cases we recover our investment and earn revenue through share of proceeds, performance and management fees.	We have extensive experience in complex disputes financing with a proven track record. We are industry pioneers in financing portfolio transactions and continue to explore and develop strategies which allow us to grow and penetrate new markets.

Our proven track record ensures we continue to attract recurring business through our strong network and realise new opportunities.

Our Business Model continued

Direct investments

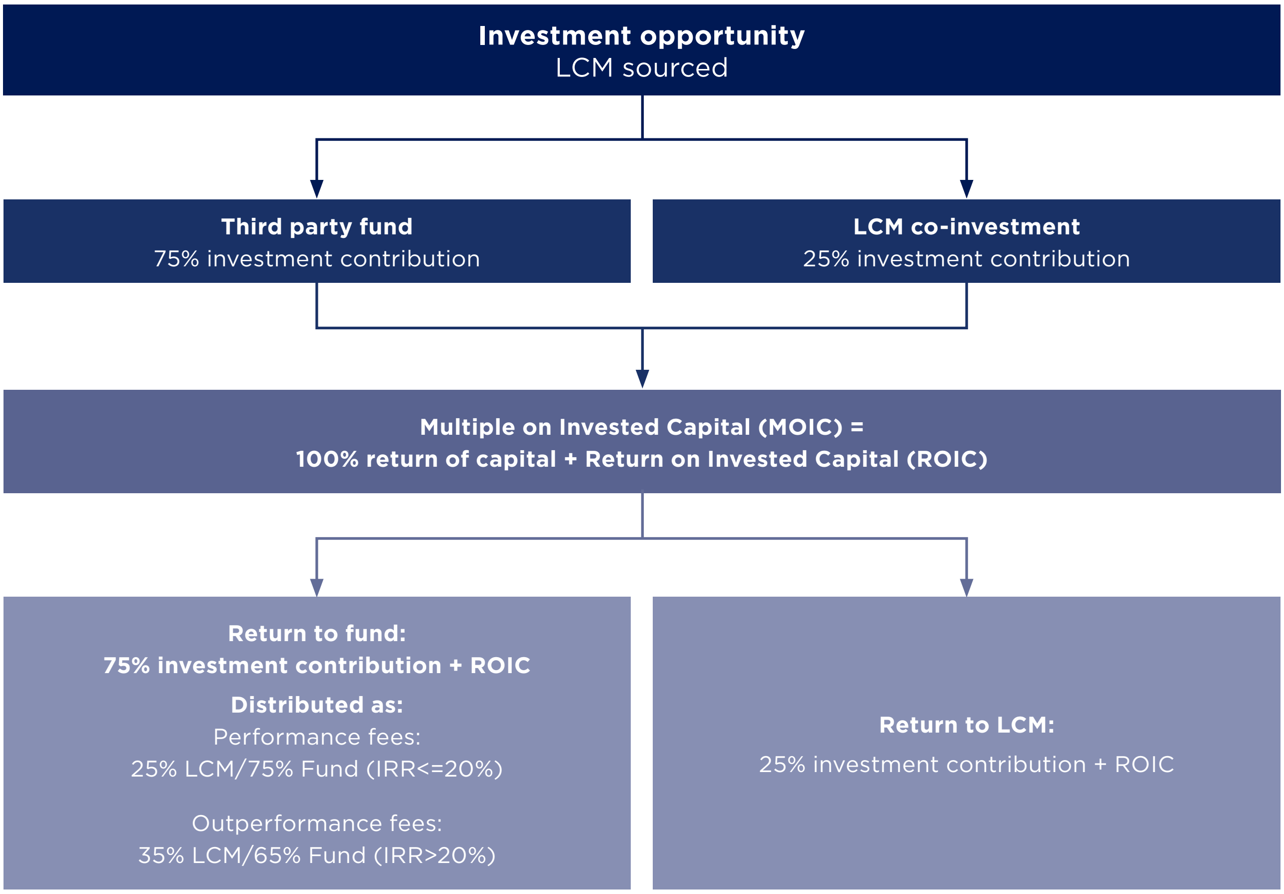
These investments are made directly by LCM through its balance sheet. These investments comprise:

- investments made by LCM where 100% of the capital commitment is made from balance sheet capital; and
- direct investment where LCM co-funds together with third party funds under management (see further detail below under Asset Management Business).

Upon maturity LCM receives 100% of the profits derived from the direct investment and in respect of co-funded investments a percentage of profits referable to the co-funding contribution.

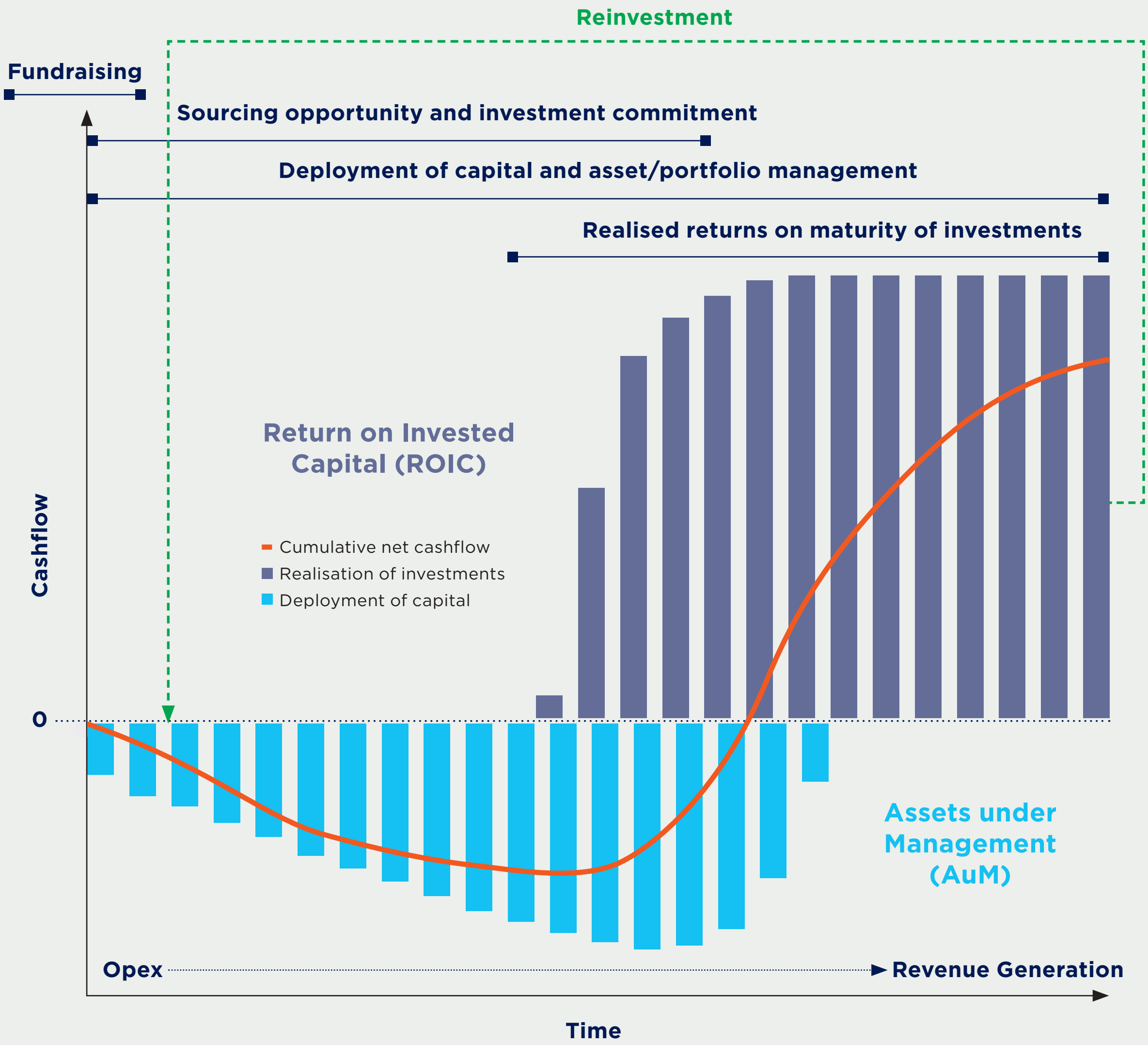
Asset management business

All qualifying investment opportunities generated by LCM are offered to the Fund and to LCM's balance sheet on a co-funding basis. The investment is generally structured as 75% to the Fund and 25% to LCM as a direct investment. In line with our strategic objectives, this provides both LCM and our underlying Investors with a valuable opportunity to diversify significantly the disputes into which investments are made as well as allowing access to a greater part of the disputes funding market through increased capital backing. In the event that LCM continues to generate returns consistent with its nine year track record, we expect to become entitled to out-performance fees on the majority of investments. The fee structure was supported by investors in the Fund as providing a genuine alignment between LCM's balance sheet direct investments and Fund investments.



Investment cycle

It is important to understand the investment cycle in order to understand and measure LCM's growth properly. The starting point for consideration is the investment period. Historically, from first capital investment through to realisation, the time for completion of LCM's investments has fluctuated between an average of 25–27 months. As LCM invests in larger and more complicated global disputes, that duration is expected to elongate slightly. The practical reality is that people fight longer and harder over larger amounts. Consequently, LCM's performance on a fiscal basis relates to investments entered into some two and a half years prior, with the corresponding operational expenses incurred during that same period. As a result the revenue cycle tends to flow through to profits approximately 25–27 months following the initial investment cycle regardless of whether the capital investment was through direct balance sheet or through third party funds. Funds invested from capital raised at the time of LCM's IPO on AIM are now maturing and expected to crystallise through to profits in the coming financial periods.



Measuring our progress against our strategies.

Key performance indicators

LCM continues to experience significant growth with increased demand for investment capital. We simultaneously continue to focus on strategically innovating and developing finance solutions with the aim of creating sustainable long-term value for our shareholders and investors while also serving our clients' needs. We have made considerable progress with the launch of our first third party fund closing at US$150 million. The launch of the Fund presents extensive opportunity to expand and diversify our portfolio under management.

While we place importance on measures such as revenue and operating profit, these do not give a true reflection of growth at this stage. This is primarily due the nature and timeline of our investment cycle combined with our conservative approach to revenue recognition, whereby revenue is recognised at the point we achieve a successful resolution for the client and have satisfied our performance obligations. It is equally important to understand the disparity between operating expenses incurred in one year measured against revenue recorded in that same period. Given the historical average of the maturity of investments (25–27 months), the operating expenses incurred during one financial period are better measured against the maturity of investments made in that same period, which are largely recognised as revenue some two years or more later.

Management believe the following indicators are key measures of growth and shareholder value specifically relevant to LCM. These indicators should not be looked at in isolation, but rather considered together and with LCM's financial reporting generally.

Funds under management

Link to strategy

Performance

2020	US$150

- Introduction of asset management division to supplement capital available for investment
- Launch of third party fund $US150 million
- Two cornerstone investors with entrenched rights in the next two of LCM's future funds

Outlook

- Intention to raise further third party pools of capital
- Grow our asset management business
- Aim to increase the size of third party funds raised
- Increase portfolio of investments under management

Number of applications

Link to strategy

Performance

2020	522
2019	419
2018	125

- Number of applications received in the last financial year was 522, representing a 25% increase on FY19
- Conversion rate maintained between 3–7% is the result of a disciplined and rigorous due diligence processes
- Increased demand also demonstrates unique origination

Outlook

- Expected increase in the number of applications as a result of the current economic environment
- Expected increase in the conversion rate over time as experience of investment managers continues to develop further

Strategic objectives

- Balanced portfolio
- Disciplined underwriting
- Sustainable long-term growth through strategic innovation and evolution

Capital committed

Link to strategy

Performance

2020	147
2019	98
2018	34

- Increase in capital committed in year from $98 million in FY19 to $147 million FY20
- Total AUM at $250 million (inclusive of third party investments of $106 million)
- Introduction of third party fund US$150 million providing the necessary capital to meet increased demand
- Committed almost half of the capital from the Fund across 17 projects
- 23 further direct investment projects

Outlook

- Committed capital to translate into returns (see investment cycle on page 09)
- Aim to increase the size of portfolio of investments
- Continue to maintain a balanced portfolio through industry sector, geography, jurisdiction
- Minimise concentration risk in individual capital commitment per investment

Capital invested

Link to strategy

Performance

2020	$52.0m
2019	$27.8m
2018	$14.6m

- Investment of capital of $52 million comprising $41.3 million direct balance sheet and $10.7 million third party fund
- Demonstrates our commitment to putting capital to work to maximise returns
- Continued innovative finance solutions

Outlook

- As LCM's business grows, so will its capital demands
- The quantum of capital invested in a given period should increase over time
- Increased capital investments will in time generate organic capital through the maturing of investments

Cumulative portfolio internal rate of return

Link to strategy

Performance

2020	78%
2019	80%
2018	83%

- Nine year cumulative IRR inclusive of losses at 78% demonstrates LCM's ability to generate consistently strong returns over a reasonable investment period
- Performance is a reflection of LCM's disciplined project selection

Outlook

- Performance metrics will fluctuate from period to period, but expectation is that they still exhibit similar characteristics to the running portfolio metrics
- Aim to deliver performance metrics within an acceptable range of historical performance

Cumulative portfolio return on invested capital

Link to strategy

Performance

2020	134%
2019	135%
2018	138%

- Consistent performance reflected in nine year portfolio ROIC, inclusive of losses, of 134%
- Performance is a reflection of LCM's disciplined project selection

Outlook

- Performance metrics will fluctuate from period to period, but expectation is that they still exhibit similar characteristics to the running portfolio metrics
- Aim to deliver performance metrics within an acceptable range of historical performance

LCM is well placed to pursue its strategy to grow the asset management business.

"LCM's most significant development during the financial period was the establishment of our asset management business."

Patrick Moloney
Chief Executive Officer

Introduction

LCM achieved a number of our planned objectives, notwithstanding that a large part of the financial period just past was significantly disrupted. The most significant was the introduction of an asset management division to supplement the capital available for investment. This begins LCM's transition into an alternate asset manager specialising in disputes finance investment globally.

The instability being experienced in global markets and economies tends to focus attention on investment strategies. Characteristics of certain asset classes become important. With interest rates at historical lows and general instability in global markets, alternate investment classes become important and sought after. As an asset class, disputes financing possesses two characteristics important to current market conditions. Firstly, it is uncorrelated, meaning that dispute resolution or adjudication by courts or tribunals is unaffected by general market conditions, global economies or political influence. Lawyers, judges and arbitrators do not apply different legal principles to the adjudication of a commercial dispute, class action or other dispute depending upon what investment cycle or prevailing economic conditions may exist. Therefore, subject to collection risk, which LCM is accustomed to evaluating, the expected returns of a balanced portfolio of investments in disputes are largely immune to the fluctuations experienced by other, more mainstream, asset classes. The second characteristic is that the demand for disputes finance, and consequently the number of quality investment opportunities available to LCM, increases in times of economic uncertainty and instability. Whilst the desirability of investments in uncorrelated and countercyclical markets is recognised, alternate investment classes such as disputes finance have been brought into sharp focus by the current prevailing economic conditions brought about by COVID-19.

There has been considerable evolution of the disputes finance industry and of LCM, from its

$150 million

In March 2020, we closed a US$150 million fund with LCM acting as Fund Manager.

inception as a source of funding and risk management to insolvency practitioners through prior market downturns and recessions. Over this significant period LCM has always been presented with a greater number of quality investments than it has had capital to invest. With the introduction of the asset management business and with it, access to greater pools of capital, we have never been better positioned to benefit from the opportunities that will arise from current and emerging global economic conditions.

LCM Global Alternative Returns Fund

LCM's most significant development during the financial period was the establishment of our asset management business. In March 2020, we closed a US$150 million fund with LCM acting as Fund Manager. This underpins our expansion as an asset manager in the alternatives sector. LCM now pursues two separate but interactive business models being Direct Investments and Asset Management. Across those two business models, LCM adopts three investment strategies. The first investment strategy is Single Case Funding, the second is Portfolios and the third is the Acquisition of Claims.

We carefully considered our move into Asset Management, previously preferring to develop our investment origination strategies through direct balance sheet investments as well as establishing our experience and track record. LCM's performance metrics have consistently delivered strong returns.

LCM's third party fund was oversubscribed and attracted the highest quality of institutional investors. The largest investor in the Fund is a large US university endowment and the second largest investor is an international investment bank. The balance of smaller institutional and fund investors are highly experienced in the disputes funding sector. All investors in LCM's Fund had prior experience in the disputes funding industry indirectly through managed funds. Most encouragingly, the two cornerstone investors negotiated entrenched rights in the next two of LCM's future funds. LCM is in a strong position and well placed to pursue its strategy to grow the asset management business.

2020 in review

After a period of integration, LCM's London team is now originating quality investment opportunities at a volume similar to that of our longstanding market in Australia, through both investment business models namely, direct balance sheet investments attributable to LCM and contribution to the Global Alternative Returns Fund (GAR Fund, the Fund).

LCM's direct balance sheet investments portfolio is more mature and was partially originated in the Asia Pacific region (APAC) prior to LCM's expansion into the UK, European and Middle Eastern markets (EMEA). Approximately 70% of those direct balance sheet investments were originated through the APAC team and 30% in EMEA through our London office. By comparison the breakdown of origination is more even in the recently established GAR Fund with 53% of investments committed at the period end originated in APAC and 47% in EMEA. These trends demonstrate that LCM's market presence in the EMEA region is increasing. We expect, over time, that more opportunities will arise for LCM from the larger economies globally, simply because those larger economies have more economic activity and thus generate a greater number of disputes presenting investment opportunities.

CEO Review continued

We are pleased to have achieved our goal of expanding our global footprint as well as introducing new capital in the form of asset management in a disciplined, yet progressive manner. In the regions in which we operate, LCM is perfectly placed to deal with the increased demand expected for disputes financing products.

We continue to observe sustained growth in Asia. The number of applications for finance received through our Singapore office has increased considerably compared to the prior year. We believe there are a number of reasons for that growth. One is the general increase in the number of parties utilising Singapore as a seat to resolve global trade and other disputes through arbitration, positioning Singapore as the leading disputes hub for Asia. In addition, Singapore has also implemented legislative changes to position itself as an Asian centre for cross-border insolvencies. With an increasing trend in opting for Singapore as a jurisdiction to resolve disputes, we expect to see greater opportunity for LCM's Singapore office in future years.

In the Australian market, LCM continues to see a steady increase in its business, mainly brought about by our increased access to capital. The Australian business continues to perform solidly, contributing the majority of LCM's revenue based upon its more mature investments, however, as previously highlighted, this is set to shift in future years. Changes to the class action landscape are likely to present opportunities for LCM as a result of having an Australian Financial Services Licence (AFSL). (See further below under Industry regulation.)

Over the past nine years, including every investment as part of one entire portfolio, LCM's Return on Invested Capital (ROIC), inclusive of losses, is 134%. Over the same period, inclusive of losses, LCM generated an Internal Rate of Return (IRR) of 78%. Whilst demonstrating buoyant performance metrics, those metrics are achieved by a disciplined adherence to strict and comprehensive due diligence processes.

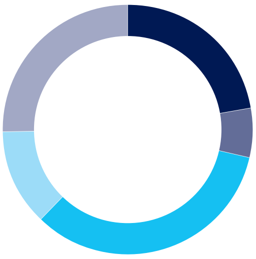
Overall LCM is observing a greater demand for its investment capital. The number of applications received in the last financial year was 522, representing a 25% increase on the prior year. Not only has LCM observed an increase in the overall number of applications but those applications are increasing in quality. This results from a number of factors but they include the expansion of our geographical reach and our access to greater pools of capital with the introduction of our asset management business.

Disputes finance is an asset class going through a period of exponential growth and development. It is a sector that is almost unrecognisable from five years ago. LCM has mirrored that growth and as a company operating in the industry is also unrecognisable from what it was just a few years ago.

LCM prides itself in being an innovator in its sector. Unlike many of its peers in the disputes financing industry globally, LCM focuses on a solutions based approach to providing disputes funding to its clients. We do not operate, like many of our competitors, on a rigid and inflexible model of providing template products. It is through that solutions based approach to the disputes finance market that has enabled LCM to develop new and innovative solutions for our clients and become an early global leader in the development of corporate disputes financing strategies.

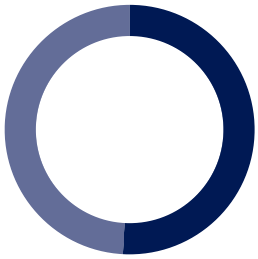
Portfolio of direct investments

Portfolio by industry sector
(Estimated A$ capital commitment)



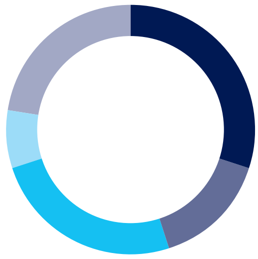
- Commercial disputes – $32 million
- Insolvency – $9 million
- Class action – $48 million
- Portfolio – $18 million
- Arbitration – $36 million

Portfolio by region
(Estimated A$ capital commitment)



- APAC – $73 million
- EMEA – $70 million

Portfolio by industry sector
(Number of projects)



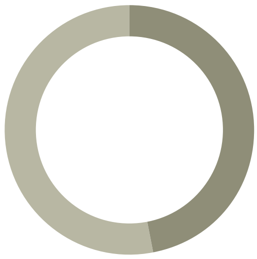
- Commercial disputes – 12
- Insolvency – 6
- Class action – 10
- Portfolio – 3
- Arbitration – 9

LCM Global Alternative Returns Fund

Portfolio by industry sector
(Estimated A$ capital commitment)

- Commercial disputes – $23 million
- Insolvency – $22 million
- Class action – $34 million
- Portfolio – $6 million
- Arbitration – $21 million

Third party funds commitments
(Estimated A$ capital commitment)



- Committed to projects – $106 million
- Uncommitted to projects – $119 million

Performance metrics

LCM has enjoyed strong performance metrics with respect to the various underlying investments which make up its litigation finance business over the past nine years. We believe assessing our metrics on a cumulative basis as being the most representative of our historical performance to date. Those metrics should be considered not only from a financial perspective but also as a measure of the effectiveness of LCM's due diligence and underwriting processes for determining which disputes should be funded and those that will deliver a positive result and return on LCM's investment. While useful in providing guidance on performance historically, we do expect that over time there will be a natural downward shift in some of these metrics. This will be a combination of; growing our portfolio funding investments which have a tendency to reduce risks and consequently returns, investments in matters that require a longer period of time to reach a resolution due to the size of the claim, increased competition in the industry and the scale of the business. Our aim is, and always has been, to achieve sustainable growth for our shareholders and investors through disciplined investment. No single metric alone can be relied on to quantify the success of achieving our business strategies. Instead a number of KPIs should be looked at collectively to give a better representation of that growth and its contribution towards the delivery of our strategic objectives.

We expect that our investments will continue to perform with meaningful returns and are not concerned about fluctuations as these are in line with our expectations as we continue to diversify our investment portfolio and the sectors we invest in.

Our win: loss ratio

Since it was founded in 1998, LCM has enjoyed an exceptional record when it comes to its litigation investments. Of 226 separate investments into underlying cases LCM has suffered a loss on only 11 and just six of those have been adjudicated by a court or tribunal unfavourably. The number of cases which were adjudicated against LCM's anticipated outcome is an important metric because it demonstrates that out of 226 separate investments LCM only adopted an incorrect position in respect of six.

The other five investments where LCM suffered a financial loss could have been for reasons which were utterly 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.

It is important however, to be mindful that losses are a feature of LCM's business model. It is unreasonable to expect that LCM will not suffer losses in the future. Shareholders 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.

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 1990s. 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 a resolution might be either as a negotiated settlement or as an award by the court. Given the myriad of outcomes possible in respect of an investment into litigation, it is simply not reasonable or responsible for us to provide forward forecasting other than providing a likely range. The approach and position which is adopted by our listed peers is to provide no forecast.

Strategy

We have identified the following priorities on which we expect to focus and achieve in the shorter term:

- to launch a second and larger third party fund to further support and increase our asset management business. In circumstances where demand continues, which we expect, the process of closing a second fund should commence before the end of calendar year 2020;
- it is our continual aim to increase the number and the quality of applications we receive. As our investment managers gain greater experience, we have observed an increase in the quality of applications they receive which we expect to continue. Additionally, the increase in capital available to LCM, generated both organically through its balance sheet and through third party capital also increases the size of applications and therefore the size of investments that we can consider;
- in line with the increasing volume of applications received, we also aim to increase the percentage of applications converted to investments. This metric can appear counterintuitive to outside observers. Ordinarily, commercial drivers would dictate that a business aims for a higher conversion rate but in disputes financing the investment selection is crucial. A low conversion rate is the result of disciplined and rigorous due diligence processes, yet it is certainly possible to increase the conversion rate without affecting the quality of investments made. A comfortable balance needs to be struck. Our most experienced investment managers convert a much higher number of their applications into profitable and high returning investments. This is the result of their ability to attract applications which are more likely to satisfy our investment criteria and their experience. Through the education of both the market, which drives a better quality of application, and of investment managers, a higher conversion rate can be achieved safely without sacrificing quality; and

- LCM has experienced significant growth in investment opportunities over the past six months. This has been observed in the number of applications received, growth in portfolio investments, an increase in capital commitments and an increase in invested capital. That growth is expected to continue. Current instability in global markets is creating favourable conditions for the litigation finance industry. This opportunity has prompted LCM's Board to look at supplementing LCM's balance sheet capital to meet the increasing demand. Whilst LCM's newly established asset management business gives us access to significant capital to fund a substantial portion of current and expected growth, there will likely be a need for additional capital to match third party managed funds. LCM's Board is at an advanced stage of exploring a number of options which would supplement LCM's balance sheet capital through debt, securitisation, or a combination of both.

We have identified the following longer term goals:

- expansion into new regions remains one of our aims. As with all expansion undertaken to date, we shall continue to maintain a disciplined and considered approach to ensure that ahead of expanding into a new region, we can be satisfied that the appropriate skill set can be put in place to manage investment opportunities;
- increasing the level of assets under management is a principal focus area for LCM over the long-term. We intend to raise further third party pools of capital and to grow our asset management business. We also aim to increase the size of those funds and the portfolio of investments under management which in turn will increase returns to shareholders and diversify LCM's direct investments. The increase in the overall size of the portfolios under management will smooth LCM's revenues over time; and
- we continue to look at ways to innovate and to increase the range of solutions we offer to the market. This goal is aimed at addressing two markets. First, the investment community who contribute to our third party pools of capital. Secondly, the market for disputes finance solutions. LCM has a history of innovation in the marketplace and we shall continue to test and challenge the existing market with our innovative approach.

Since March 2020, when global markets began to feel the instability that COVID-19 had created, LCM observed an increase in the number of applications and a swift change in demand by corporate clients eager to explore funding their disputes off balance sheet. This demonstrates that corporates globally are keen to allocate their financial resources towards core business as opposed to non core activities such as legal disputes spending. We expect that position to continue until economies return to a state pre COVID-19.

Given the increased demand, LCM expects to commit the Fund fully, well inside the two year period the Fund allowed for that purpose. Indeed, if demand levels continue as they have since March, which is anticipated, LCM expects to commit the Fund fully by the end of calendar year 2020. Once the Fund is 75% committed, LCM is free to commence marketing for its second fund.

Investment strategies

Single case funding

The single case funding strategy has been pursued by LCM since its inception in 1998. It is an investment in a single dispute whether that dispute is being pursued through the court system or the arbitral process. Single case investments, by their nature, represent the most challenging investment strategy given that the outcome tends to be binary. That said, the vast majority of single case investments that have been made by LCM to date, have been resolved through commercial negotiation which has the effect of reducing the binary nature of the outcome. LCM has extensive experience in single case funding and its systems and methodologies for underwriting risk and undertaking due diligence were developed through single case funding. LCM's performance metrics are generated overwhelmingly through single case investments and it continues to represent a significant ongoing part of LCM's investment strategy. LCM is seeing increasing numbers of applications for single case funding year in, year out and most recently an increased demand as a consequence of the prevailing economic conditions. We expect to see a significant increase in the demand for insolvency and restructuring funding globally as governments bring stimulus measures to an end. Those insolvency and restructuring investment opportunities are likely to persist for a number of years. LCM sees this as a significant opportunity in the future.

Portfolio financing

LCM is a market leader in Portfolio financing which involves the provision of a finance facility across a bundle, or portfolio, of single cases. The strategy can apply to the financing of a bundle of single disputes for a corporate client referred to as corporate portfolios, to a portfolio of single cases in an insolvency situation or through a law firm.

As at the period end, LCM is providing finance with respect to two separate corporate portfolios as part of its direct investment portfolio. The total of underlying separate disputes in those two corporate portfolios exceeds 40 disputes. The first of those corporate portfolios was in the building and construction sector and has seen the resolution of four separate disputes during the financial period. Until the portfolio has completed, it is not possible to calculate its overall financial performance, however, it is currently tracking in line with expectation. LCM expects that portfolio to resolve in the current financial period.

The second corporate portfolio investment came from the aviation industry and originally comprised some 36 separate disputes. It has subsequently increased in size. During the relevant financial period, the portfolio saw four resolutions, both of which contributed to LCM's EBITDA for the period.

Acquisition of claims

This strategy involves LCM acquiring or taking an assignment of a cause of action and pursuing that claim through the court system as the principal. It is a strategy created through opportunity and the circumstances which led to the evolution of the strategy were twofold. First LCM observed that it was considering a number of quality applications for disputes funding which did not meet our funding criteria due to their value. The economics of the investment, being the relationship between legal spend and anticipated recovery, created a misalignment between interests. That misalignment occurs where the funded party becomes entitled to a disproportionately small amount of the recovery. Those applications were generally arising in situations of insolvency. That left LCM in a situation where it had significant experience in assessing the risks associated with the investment but could not proceed to investment in the opportunity.

The second factor was a change in the law in both Australia and the United Kingdom which permitted insolvency practitioners to sell or assign causes of action, including statutory causes of action, which previously would have vested solely in them. Prior to those legislative changes the insolvency practitioners were restricted to a more traditional funding model. Those two factors led LCM to develop its acquisition or assignment strategy.

The acquisition or assignment strategy tends to operate in that part of the market that was previously unavailable to LCM for the reasons described above. It allows LCM to participate in investments across the spectrum. LCM expects that the smaller investments which are acquired or assigned will have an investment cycle of 12 and 18 months and will generate metrics commensurate or better than its historical record. LCM will act as principal in these claims and will have complete control over the claims as they travel through the court system.

LCM has seen that strategy develop over the financial period. Our ability to offer this product as an alternative enhances our reputation with insolvency practitioners as an innovative solutions based disputes finance provider. We have had a number of small resolutions however we have not had sufficient resolutions of investments in this strategy to report separate performance metrics to market. We anticipate being in a position to do so in the future.

As with insolvency based opportunities generally, LCM anticipates that there will be a considerable increase in the demand for its acquisitions and assignment strategy with the general instability in global markets and the expected increase in insolvencies and restructuring in the markets in which we operate.

The acquisition of the claims and pursuing as principal means that LCM has complete control and autonomy as to how the claim is pursued. Furthermore LCM does not have a funded party to consider in terms of returns.

Our people and culture

LCM operates a small, but high performing, global team. Our headcount has grown with the business and we remain disciplined about expanding our workforce against the increase in the size of the overall portfolio of investments under management. LCM has expanded its team of investment managers through a small number of opportunistic hires during the year. That has boosted LCM's capacity both to originate and to undertake due diligence on an increased number of applications and in specific sectors in which we have observed growth, such as building and construction and insolvency.

LCM has built and developed the systems and methodologies to select the most profitable investment opportunities in the disputes sector.

The interface between LCM's business and its clients, to whom disputes financing solutions are supplied, are the investment managers. LCM's investment managers typically come from a legal background, having practised in disputes. The talent pool from which experienced disputes finance practitioners can be selected is limited which is not surprising in an industry which has been operating at scale for little more than a decade. An effective investment manager must not only possess legal, litigation or arbitration experience, but also a level of commercial acumen rarely developed through legal practice and an ability to evaluate and assume risk.

LCM is known in the industry as having an exceptional work culture and a desired career destination in disputes finance. Not all investment managers achieve the transition from legal practice despite their abilities in a former position as a disputes lawyer. LCM has a very low turnover of investment managers. We work continuously towards maintaining an inclusive and supportive work culture, notwithstanding the high performance expectations we place on investment managers. We acknowledge the importance of identifying internal successors and developing talent to maintain the long-term success of our business.

We have also added Mary Gangemi to our global team as our new Chief Financial Officer coming from a public markets background in the funds management sector. Mary brings considerable experience as we move into asset management. Mary has also been a great cultural fit and has moved our finance focus to the London office. We expect to observe increased efficiency in the Finance department as Mary implements new financial systems and accounting programmes moving forward.

LCM operates a staff incentive scheme which allows staff to acquire shares in the Company efficiently as distinct from receiving a cash bonus. The evaluation criteria for participating in the scheme involves not only personal achievement measured through the origination of investment opportunities and successful investments but also the overall performance of LCM. A shareholding acquired through the incentive scheme vests over a period of years to encourage loyalty and longevity of employment. The scheme is designed to balance the interests of LCM and the employee and to align the interests of staff, executives and shareholders effectively.

I am pleased to report that no LCM staff member has been directly affected by the COVID-19 virus.

Market and environment

Resilient business model and operations

The last financial year was significantly interrupted by the COVID-19 pandemic. The effects of the pandemic were felt in every region and through every office maintained by LCM. To their credit, LCM staff adapted quickly and smoothly to remote operations. Unsurprisingly, LCM's first priority was the safety of its employees. Necessary changes were made to LCM's systems and implemented to permit remote operations. Fortunately for LCM, those changes and alterations were not significant as the global team previously worked through a cloud-based solution.

The most significant change to LCM's business model was in the area of business development where traditionally, face to face meetings, including attendances and speaking at industry conferences was a regular feature. As with many businesses we adapted to virtual meetings and adopted digital technology. Overall, the productivity of our various teams remained at very high levels.

The one area that was affected by the global pandemic was the completion of mature investments. That is, investments made by LCM in litigation disputes fixed for a final hearing and adjudication before a court. The most affected jurisdiction was Australia given that, for historical reasons, Australia was the location of our most mature investments. As businesses and economies went into shut down, for a short period, so did the court system. Although the superior courts in most jurisdictions in Australia moved swiftly to provide facilities for virtual hearings, the introduction of such a new process resulted in delays. Those delays were not so much occasioned by the introduction of the new system itself but rather the speed with which both judges and members of the legal profession picked up the new processes. As a consequence, hearing times for cases were extended and courts ran out of time to hear, and adjudicate, all listed disputes. As a further consequence, three of LCM's mature investments were postponed until the following financial period. Such postponement does not affect the overall prospects or merits of the investment, but merely shifts their resolution from one financial period to the next. LCM may see some further delays depending upon market factors.

Industry regulation

Disputes financing is an industry with a light regulatory touch globally. In the United Kingdom, the industry implemented a form of self-regulation through an industry body. In the US, the market is largely unregulated. In Hong Kong and Singapore, the industry has a light regulatory touch with capital adequacy requirements which tend to restrict the market to the larger operators. In Australia, where the industry started, there has been debate over the past few years including a Law Reform Commission Inquiry and more recently a Parliamentary Inquiry. Those inquiries have almost exclusively involved that part of the market involving class actions. Many LCM shareholders will be familiar with the cautious approach LCM has taken to the class action segment in Australia over the last few years. That part of the market has seen increased competition, mainly from litigation funders outside Australia.

In May of this year, the Commonwealth Treasurer announced the introduction of two changes which would operate to regulate the disputes finance industry insofar as it concerns class actions in Australia. The first was the introduction of a requirement that litigation financiers wishing to fund class actions would need to obtain an Australian Financial Services License (AFSL). Having anticipated the potential for regulation LCM acquired an AFSL which meant we were the only industry member with the required licence at the time of implementation. The second change brought by the regulation was to bring certain class actions under the Managed Investment Scheme (MIS) regime. That change will place a considerable administrative burden upon those disputes financiers wishing to invest in class actions. Australia's corporate regulator charged with the responsibility for administering both the licensing and investment scheme changes for class actions, did not establish a separate regime in which class actions (despite their particular features) will operate. Therefore, the practical operation of those requirements is currently uncertain. What appears clear, at this point, is that the changes are likely to reduce competition for LCM in that part of the market. A likely consequence of the changes is that the smaller operators and offshore

By any measure, LCM's business continues to grow at a brisk rate.

funders will find it more difficult and a far greater regulatory burden to invest in class actions within the jurisdiction of Australia. Given that LCM is a listed disputes financier, it is not unfamiliar with regulation and compliance generally. LCM's size and its access to capital will place it in a favourable position when it comes to regulation of class actions in Australia, whatever their form.

We are not seeing signs of any intention to further regulate the industry in other regions in which we operate.

Outlook

By any measure, LCM's business continues to grow at a brisk rate. Applications, assets under management, portfolio of investments and available capital have all increased over the past financial period significantly and growth in all of those areas is set to continue.

We are regularly requested to provide some form of guidance or forecasting as to expected earnings for the upcoming financial period. Shareholders have, from time to time, expressed a difficulty in assessing LCM's value as a business without the benefit of forward estimates on revenue. That position is, to some extent, made more difficult due to LCM adopting a conservative accounting standard which recognises revenue only when it is earned in contrast to ascribing a fair value to its book of investments from time to time. That very conservative position is recognised by the market as a cautious and reserved method of accounting however it gives little insight to investors as to how LCM's portfolio of investments may perform in future years.

As previously disclosed, LCM expects that as its portfolio of investments grows globally and the business evolves, we will need to reconsider the most appropriate accounting standard in relation to revenue recognition, including the possible adoption of fair value accounting. In any case, we remain committed to reporting both conservatively and transparently.

Notwithstanding the obvious limitations associated with accurate forecasting as described above, we have decided to give shareholders some guidance as to future gross profits by providing a range in the forthcoming financial period. Gross profit is revenue derived from disputes investments net of the repayment of the capital investment itself. LCM expects the resolution of seven investments in the financial period ending 30 June 2021. Those resolutions are expected to generate gross profit between A$30 million and A$47 million. Certain investments are significant in size. As a consequence, LCM's gross profit for the period can move considerably simply on the basis of one single investment moving from one financial period to the next.

To date, the effect of COVID-19 on the maturation of LCM's portfolio of investment has been limited. In FY20 three investments were delayed due to the inability of court systems to facilitate hearing dates which had previously been fixed. The investments which LCM expects to complete in FY21 are in various jurisdictions. We are currently not able to adequately forecast the adverse impacts that second or third waves of COVID-19 may have on the resolution of those projects. Any such impact would likely delay the realisation of the investments.

It is therefore with some caution that we provide the range.

As also noted above, LCM's business tends to observe increased opportunity in times of economic instability. We expect the changed sentiment of corporate clients in utilising external capital to fund non-core business such as disputes to continue beyond the stabilisation of global economies. Economic conditions merely provide the catalyst for corporates to recognise other significant benefits such as accounting, risk management and enhanced efficiency. In terms of insolvency and restructuring, LCM possesses very considerable experience in investments from that sector. LCM also enjoys long and deep referral relationships which will be invaluable into the future. Based upon experience from prior periods of significant economic disruption, the quality of investment opportunities arising from the insolvency and restructuring sector will continue well beyond the stabilisation of global markets.

Over many years, LCM has built and developed the systems and methodologies to select the most profitable investment opportunities in the disputes sector. LCM's success in that regard is demonstrated through its performance metrics over the past nine years. LCM is exceptionally well placed amongst its global peers to take advantage of the opportunities which it will receive in the future. We are excited at what the immediate future will bring.

Patrick Moloney
Chief Executive Officer

Market Overview and Outlook

The last 12 months have seen the continued growth of the disputes financing industry.

"LCM remains the global market leader in portfolio financing."

Nick Rowles-Davies
Executive Vice Chairman

Market overview

The last 12 months have seen the continued growth of the disputes financing industry. The uncorrelated returns and counter cyclical nature of the industry are increasingly of interest to investors with the addition of several new market entrants as well as a number of new potential funders seeking investment.

Whilst the market for disputes financing continues to grow, the education process of lawyers and corporate clients has also continued at pace. This has led to more demand from law firms and their corporate clients, whether funding out of choice or necessity.

The understanding of disputes finance, its evolution, and how it can be used as a corporate finance tool has begun to change the way the industry is viewed.

That said, the demand for traditional single case funding remains high and still accounts for the majority of the global disputes financing market.

The growth of the industry has been seen first-hand at LCM with a record number of applications in the last financial year. This trend has increased significantly since the beginning of 2020 and has been driven by the effect of the pandemic.

This has materialised in three specific ways:

- first, those corporate clients who find themselves in the midst of a dispute and are reviewing their budgets to decide whether to continue with the litigation or arbitration given the need to consider focusing their financial resources on their core business;
- second, those corporates who were contemplating the launch of a dispute and are now reconsidering how they spend their money; and

- third, the law firms who are witnessing this reassessment and seeing that they need to provide an alternative solution to the traditional monthly cash drain that disputes brings to the finances of a corporate client. A number of firms have realised that now is a good time to learn how better to understand the economics of law. This will allow them to offer clients a financial alternative and help them to distinguish themselves in a crowded and competitive market.

The industry continues to grow rapidly and existing funders have continued to raise more capital.

There have been a number of new reported legal decisions in the UK on the use and acceptance of funding which clarified specific areas of the law relating to disputes financing in the UK, but provided no shocks in what is a fast maturing industry.

Despite the fast-growing nature of our industry and our continued innovation, the majority of the industry is still single case, template driven traditional third party funding.

LCM remains the global market leader in corporate portfolio financing. The lack of competition in that space is both helpful and unhelpful.

The education of lawyers and corporate clients creates an increased awareness of the benefits of our solutions for corporates. We rarely see a competitive situation in the discussion of corporate portfolio investments, but increased competition and more funders offering solutions rather than the rigid single case templates would assist in the ongoing education process and improve understanding of the offering and the potential of disputes financing as a corporate finance tool.

As the understanding of what is possible with disputes financing and the exposure to more and more portfolio style investments, this will change.

There are only four full service, publicly listed disputes financiers. The rest of the market remains privately held and therefore performance metrics and reporting are very limited.

However, a comparison of LCM's performance metrics against the other two listed peers is favourable.

LCM distinguishes itself from its peers by providing an entirely solutions-based approach rather than a rigid template-driven single case model which is the preference of much of the market.

A successful disputes finance business requires three key pillars.

First, adequate capital to invest. The closing of our recent Global Alternatives Fund has enhanced the level of capital that LCM has available to invest. The Fund is a significant achievement, given the timing of the closing, in the midst of a global pandemic and the quality of the investors.

Second, high quality underwriting and case assessment. Despite increasing the number of applications in the last 12 months by 25% from 419 to 522, LCM maintained its strict discipline and underwriting criteria, by investing in only 3.5% of those applications.

The third element is quality origination and business development. LCM thinks very carefully about the route to market, the sales channels and the methods of origination. Our methods of origination are ever evolving. We continually adopt new strategies and adapt existing strategies to make the best use of our resources and in response to what we see and hear in the market.

It is that evolution and innovation which has driven the origination methods for our portfolio strategy.

We have been very pleased with the corporate portfolio strategy, both in the new transactions we are reviewing and in the way in which the two existing portfolio investments are maturing. Whilst these investments are relatively new, they are beginning to demonstrate the characteristics that we have anticipated they would in terms of returns and duration as well as the evergreen nature of the relationship with the corporate client. That ongoing relationship with a corporate client is important. We had anticipated that once a corporate client was accustomed to the use of external capital for the financing of their disputes budget, it would be a method that was embraced and maintained. The increase in the number of disputes within the aviation portfolio is an indication of that.

Market Dynamics

Uncorrelated returns

- Industry returns are not correlated to the markets
- Each investment is uncorrelated to the next

Countercyclical business

- The number of disputes tends to increase in an economic downturn
- There is a corresponding increase in the use of disputes financing

Low market penetration

- The penetration of disputes finance remains a small percentage of global disputes legal spend
- UK 3–7% (estimated)
- Australia 3–7% (estimated)

Sectors

Commercial disputes

- An economic downturn usually increases the level of disputes and the trend is being seen already
- Necessity for corporates and law firms to find a budgetary solution for the financing of disputes

Arbitration

- An area of high value quantum and budgets means a natural affinity with disputes financing
- Funding now well understood by practitioners and tribunals
- The acceptance of arbitration funding and regular use provides a significant opportunity

Insolvency

- Legislative changes in UK and Australia create a beneficial environment for case acquisition
- Economic conditions will create an increase in insolvency related disputes

Opportunity by sector

Commercial disputes

There has historically been an increase in the number of disputes when we enter a recession. The current financial outlook is not positive, and this same pattern is likely. A key difference this time, compared to 2008, is the maturity of the disputes funding market and the awareness of lawyers of how it can assist them. A lack of budget allocation to ongoing and future disputes has and will continue to drive law firms to think about disputes financing and will drive an increase in applications and opportunities.

Opportunity by sector

Arbitration

Arbitration is an area of high value claims and large legal budgets. This area has always been well suited to disputes financing. Experienced practitioners in this are well versed in disputes funding as are most tribunal members. There is a steady and regular flow of this type of application through our London and Singapore offices and this will only increase. The acceptance of arbitration funding and regular use provides a significant opportunity.

Opportunity by sector

Insolvency

Legislative changes in UK and Australia have created a beneficial environment for case acquisition in those jurisdictions. One of LCM's key strategies is to pursue the acquisition of claims arising out of insolvencies and run them as principal. The impending economic conditions will create an increase in insolvency related disputes both in the area of acquisition but also higher value matters. LCM has a long track record in funding insolvency matters and is well placed to capitalise as and when those LCM opportunities arise.

Demand expanding rapidly

- 25% increase in application in 2019/20
- 522 applications

Growing industry globally

- Growing acceptance by lawyers and corporates
- Increased use of disputes finance
- Increasing global legal spend expected to rise from US$680–$886 billion (2018*) to US$1 trillion+ in 2021

Shifting legal market dynamic

- Corporates now require alternative and innovative pricing arrangements
- Law firm landscape increasingly competitive
- Law firms need to distinguish themselves
- Disputes financing provides a new narrative for law firms

Portfolio

- Increased need and growing understanding of the possible solutions
- Financial and accounting benefits now understood and attractive to CFOs
- Budgetary pressure is driving increased opportunity

Class actions

- In Australia the class action regime is undergoing change
- LCM well placed given long heritage in that space and holds an Australian Financial Services Licence (AFSL)
- Growing UK and European collective action process primarily in competition follow-on damages claims

Opportunity by sector

Portfolio

There is an increased need for alternative methods of financing disputes now that corporate litigants are reconsidering their legal spend and the use of it. There is a growing understanding of the possible solutions provided by disputes financing, the accounting benefits and the consideration of disputes as contingent assets. The financial and accounting benefits now understood and attractive to CFOs. The budgetary pressures faced by CFOs and General Counsel are driving increased opportunity.

Opportunity by sector

Class actions

The class action regime in Australia is undergoing change with new regulations being introduced in August. The long-term effects remain to be seen but in the short-term only licensed funders will be permitted to operate. This may cause offshore funders to reconsider their plans and could leave a vacuum for local, licensed, funders to fill. The UK is seeing an increase in the number of proposed collective actions in Competition law matters. Both areas present an opportunity for LCM opportunity.

US$1 trillion+

Increasing global legal spend expected to rise from US$680–$886 billion (2018*) to US$1 trillion+ in 2021

• The City UK 'Legal Excellence, Internationally Renowned' UK Legal Service Report December 2019

Regions

APAC

- Rising demand in Asia fueled by increased awareness and understanding
- Regulation in Australia will create a window of opportunity for licensed funders
- Increased interest in corporate portfolio offering

EMEA

- Growing demand due to economic uncertainty
- Fresh demand from law firms seeking to distinguish their offerings
- Increased interest from corporates

Opportunity by regions

APAC

Australia has seen steady demand and opportunities in single case matters driven by careful marketing and thoughtful origination planning from an experienced team. This is likely to increase if economic conditions continue to worsen. We anticipate a rise in the number of insolvency related opportunities, albeit over the next 12–18 months. Regardless of the pandemic insolvency was always an area we had anticipated would increase in activity. The regulation of class actions funders in Australia will create a window of opportunity for licensed funders and may discourage offshore funders from making the commitment to the Australian market. There had been a pleasing increase in interest in the corporate portfolio offering in Australia and that is an area of specific focus for the coming year.

There is a rising demand for disputes financing in Singapore fueled by the increased awareness of disputes financing and the growing understanding of its benefits. In a relatively new jurisdiction for disputes funding Singapore has very much embraced the idea. Singapore is the main regional arbitral hub and as such there is a significant number of arbitration applications that come through our Singapore office. On the whole there is a swift and increasing adoption of funding as a tool for disputes lawyers in the region.

Opportunity by regions

EMEA

The EMEA region has shown a growing demand in interest due to several factors. The EMEA team has spent the last 12 months successfully promoting the LCM brand and economic uncertainty has played a part in corporate clients reconsidering the use of their own money rather than external financing of disputes. There is fresh demand from law firms seeking to distinguish their offerings and seeking to meet the needs of corporate clients who are demanding alternative pricing options. The last 12 months has seen a growth in understanding of what can be done with disputes financing with banks and investment banks making referrals.

Market Outlook

The negative effects of the pandemic are already being felt in all aspects of life, but the economic downturn it had caused will continue for some time. Over the next 12 months many corporates will be capital constrained and forced to reconsider the allocation of their budgets. It is widely accepted that an economic downturn fuels a rise in disputes. Accordingly, we expect that there will be an equal growth in the use of funding to finance those cases as corporate clients turn to the use of external capital in the form of disputes finance.

In the coming 12–18 months, there will be a significant rise in insolvency related litigation in all jurisdictions in which we operate is better. The regulation in Australia in the class action regime, may well provide an opportunity for LCM, given our expertise in those matters and the fact we hold an AFSL. Singapore is an area of growth for our industry. The increasing number of applications coupled with a growing understanding of what can be done with disputes financing suggests that Singapore will continue to be an important hub for Asia.

In the UK and Europe, the growth of the industry will accelerate. The UK is the most advanced jurisdiction in which we operate, as regards disputes funding. There is a growing understanding by the lawyers that disputes funding is a tool they can use in many ways. The current economic situation will accelerate the education of law firm management and force them to think differently about billing. In house teams have been asking for more flexibility and innovation for some time but the coming year is likely to see the better firms make those changes.

The lack of liquidity in certain industries changes budgetary priorities and engenders a change of mindset. The financial and accounting benefits to corporations of the use of disputes financing is unarguable. Those corporate clients with high volumes and low margins such as building and construction, infrastructure, energy, outsourcing and aviation as well as those directly affected by the pandemic will drive the change in law firm thinking and demand a new approach.

The demand for disputes financing will be fuelled by those corporations and by law firms recognising and understanding what we offer. The accelerated learning of those law firms and their understanding that the financial solutions we provide can help lawyers to provide those flexible billing regimes and help them distinguish themselves and assist them in keeping existing clients as well as gaining new ones. There will be an increased use of portfolio financing whether direct to corporates or for law firms.

The outlook for the coming year in the global disputes financing market is extremely positive.

Nick Rowles-Davies
Executive Vice Chairman

Financial Review

Our overall gross revenue of A$38.4 million represents an increase on the prior financial period of 11%.

"The Fund supplements our own balance sheet, significantly increasing our ability to invest in new opportunities and accelerating growth."

Mary Gangemi
Chief Financial Officer

During the year LCM delivered a strong performance despite the challenges and disruption to the global economy as a result of the COVID-19 pandemic. We are pleased to have closed our first third party fund in March 2020 at US$150 million. This supports our strategy of becoming a leading operator in the alternative asset management space, specialising in disputes financing. The Fund supplements our own balance sheet, significantly increasing our ability to invest in new opportunities and accelerating growth.

LCM standalone results

The performance of the business presented on pages 66 to 69 has been presented in accordance with the Australian Accounting Standards (AASB) and the International Financial Reporting Standards (IFRS).

AASB requires the consolidation of the Fund as LCM has exposure, or rights, to variable returns from its co-investment with the Fund. Consequently, third party interests have been consolidated in the financial statements on pages 66 to 69.

Both Management and the Board believe that the Fund should be excluded from the presentation of our financial performance to provide a clearer understanding of the underlying performance attributable to LCM and its shareholders.

The tables following provide a full reconciliation of the consolidated statement of comprehensive income and consolidated statement of financial position so that investors are able to relate our performance discussion with our financial report. Note that these are non-AASB measures and may not be directly comparable with adjusted measures of other companies. They are not a substitute for or replacement of AASB measures.

Income statement	Note	AASB as reported 30 June 2020 $'000	Fund interests* $'000	LCM-only 30 June 2020 $'000	LCM-only 30 June 2019 $'000
Revenue from contracts with customers					
Litigation service revenue	4	**35,833**		**35,833**	34,707
Performance fees	4	**2,608**		**2,608**	–
		38,441		**38,441**	34,707
Litigation service expense		**(16,723)**		**(16,723)**	(14,366)
Gross profit		**21,718**		**21,718**	20,341
Other income		**90**		**90**	311
Interest income		**35**		**35**	56
Expenses					
Employee benefits expense	6	**(7,611)**		**(7,611)**	(6,069)
Depreciation expense	6	**(86)**		**(86)**	(53)
Corporate expenses		**(3,752)**		**(3,752)**	(3,757)
Litigation fees	6	**(1,159)**		**(1,159)**	(679)
Fund administration expense	6	**(1,183)**	(1,183)	**–**	–
Total expenses		**(13,791)**	(1,183)	**(12,608)**	(10,558)
Profit before income tax		**8,052**	(1,183)	**9,235**	10,150
Analysed as:					
Adjusted operating profit		**11,137**		**11,137**	12,275
Non-operating costs**	6	**(3,085)**	(1,183)	**(1,902)**	(2,125)
Profit before income tax expense		**8,052**	(1,183)	**9,235**	10,150
Profit before income tax expense		**8,052**	(1,183)	**9,235**	10,150
Income tax expense		**(2,799)**		**(2,799)**	(3,039)
Profit after income tax expense for the period		**5,253**	(1,183)	**6,436**	7,111
Other comprehensive income for the year, net of tax					
Total comprehensive income for the period		**–**		**–**	–
Profit for the period is attributable to:					
Non-controlling interests		**8**	–	**8**	(4)
Third party interests in the Fund		**(1,183)**	(1,183)	**–**	–
Owners of Litigation Capital Management Limited		**6,428**	–	**6,428**	7,115
		5,253	(1,183)	**6,436**	7,111

* Third party interests. There was no consolidation in the prior period as the Fund was launched 10 March 2020

** Other adjustments are Non-operating expenses which includes items which are considered unusual, non-cash or one-off in nature. Management have opted to separately present these items as it better reflects the Group's core operations and underlying performance

Revenue from contracts with customers reflects the consideration to which the Group is expected to be entitled in exchange for transferring services to a customer. (See further detail on revenue from contracts with customers page 73.)

LCM continues to recognise revenue in line with AASB 15 Revenue from Contracts with Customers. Revenue is recognised at the point we achieve a successful resolution for the client and have satisfied our performance obligations. At this stage we have an unconditional right to consideration. As the portfolio is still relatively modest in size, the impact of one or two investments shifting into the next financial reporting period can have a material impact. As the portfolio grows, the expected impact will have a less significant effect on yearly profitability.

Litigation service revenue – 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 dispute, or a multiple of capital deployed, and is reimbursed for all invested capital. Revenue, which includes amounts in excess of capital deployed 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.

Litigation service expense – are contract costs amortised upon the successful resolution of the litigation contract and generally include external costs of funding the dispute, such as solicitors' fees, counsels' fees and experts' fees.

The business of litigation finance involves a series of investments into disputes which historically take on average, approximately 25–27 months to complete. Those investments may mature before or after that monthly average. Consequently, it is exceptionally difficult to predict the timing of 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 the revenue recognised can be infrequent and can be lumpy. This may result in profit fluctuations from one year to the next rather than 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 as a reflection on either the level of growth from year to year or the profitability. It is simply a feature of the conservative accounting policies adopted. As LCM's portfolio of investments grows in size the volatility of earnings are expected to smooth out.

Adjusted profit before tax is A$11.1 million which was down 9% on the prior period. That modest reduction results from the reconciliation of three litigation projects being delayed due to COVID-19. That revenue is not lost but simply pushed to the next financial period. A reconciliation is provided below:

	AASB as reported 30 June 2020 $'000	AASB as reported 30 June 2019 $'000
Statutory profit before tax	**8,052**	10,150
Add:		
IPO and other transaction costs	**72**	233
Fund costs	**10**	17
Share-based payments (loan shares)	**432**	320
Provision for annual leave and long service leave	**47**	297
Non-recurring consultancy fees	**182**	579
Litigation fees	**1,159**	679
Third party fund costs	**1,183**	
FY20 adjusted operating profit	**11,137**	12,275

Cash on balance sheet as at 30 June 2020 was $24.9 million, down 49% on the same period in 2019 at A$49.1 million. This is a direct reflection of the growth in LCMs direct investments as well as the incremental investment into that growing portfolio.

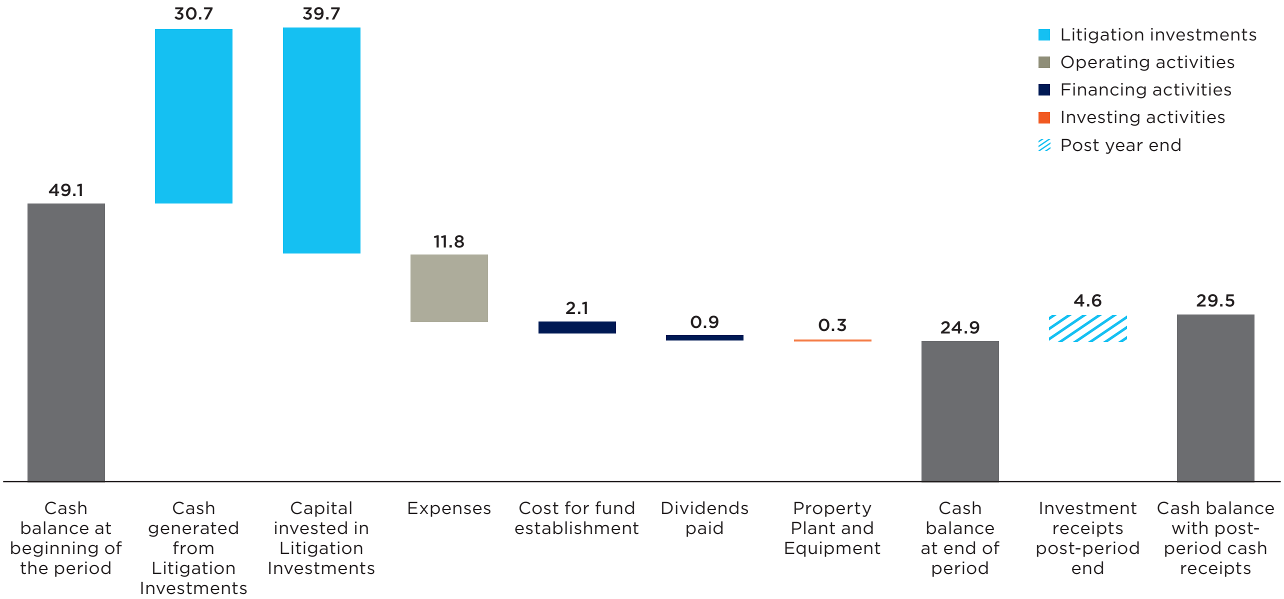
Statement of financial position	AASB as reported 30 June 2020 $'000	Fund interests* $'000	LCM-only 30 June 2020 $'000	AASB as reported 30 June 2019 $'000
Current assets				
Cash and cash equivalents	**31,754**	6,812	**24,942**	49,119
Trade and other receivables	**15,298**		**15,298**	7,266
Contract costs	**15,671**		**15,671**	8,910
Other assets	**439**		**439**	693
Total current assets	**63,162**	6,812	**56,350**	65,988
Non-current assets				
Contract costs	**46,847**	10,694	**36,153**	18,476
Property, plant and equipment	**204**		**204**	216
Intangible assets	**336**		**336**	64
Other assets	**280**		**280**	–
Total non-current assets	**47,667**	10,694	**36,973**	18,756
Total assets	**110,829**	17,506	**93,323**	84,744
Liabilities				
Current liabilities				
Trade and other payables	**13,162**	3,894	**9,268**	6,689
Employee benefits	**376**		**376**	986
Total current liabilities	**13,538**	3,894	**9,644**	7,675
Non-current liabilities				
Deferred tax liability	**3,559**		**3,559**	760
Employee benefits	**117**		**117**	70
Third party interests in consolidated entities	**12,600**	14,795	**(2,195)**	–
Total non-current liabilities	**16,276**	14,745	**1,481**	830
Total liabilities	**29,814**	18,689	**11,125**	8,505
Net assets	**81,015**	(1,183)	**82,198**	76,239

* Elimination of third party interests

Cash flow

We generated cash of $30.7 million from the resolution of matters compared to $26.8 million in FY19. With payments related to capital deployed of $39.7 million compared to $27.8 million in FY19. The following waterfall is exclusive of third party fund interests.

FY2020 Cash Flow Waterfall[1]
(A$ in millions)



1 FY ending 30 June 2020

We continue to focus on our approach of reporting financial and non-financial KPIs which we believe are measures of growth, performance and shareholder value. During the year:

- investment Commitment was $147 million inclusive of third party funds, increasing from $98 million in FY19;
- the nine year cumulative portfolio Internal Rate of Return (IRR) was 78%;
- nine year cumulative portfolio Return on Invested Capital (ROIC) was 134%;
- applications received increased to 522 from 419 in FY19 and increase of 25%;
- gross income increased by 7% to $21.7 million from $20.3 million;
- statutory profit before tax decreased by 21% to $8.1 million from $10.2 million with the main reason being the inclusion of $1.2 million of third party fund related costs as well as the shift of three investments into the following financial period. On an adjusted basis (excluding third party interests) profit before tax decreased by 9% to $9.2 million from $10.2 million; and
- adjusted operating profit decreased by 9% to $11.1 million from $12.3 million.

Revenue

Gross revenue increased by 11% to $38.4 million, inclusive of $2.6 million in performance fees, from $34.7 million in 2019. Litigation service expenses (investments in realised disputes) increased by 16% to $16.7 million from $14.4 million in 2019, resulting in an increase of 7% in gross profit to $21.7 million from $20.3 million.

Revenue by investment strategy

	Litigation revenue 30 June 2020 $'000	Number of investments/ projects	Number of cases	Litigation revenue 30 June 2019 $'000	Number of investments/ projects	Number of cases
Single cases – completed	**13,572**	**3**	**3**	34,330	6	6
Single cases – ongoing	**3,285**	**3**	**3**	250	1	1
Corporate portfolios – ongoing	**16,718**	**2**	**8**	–	–	–
Insolvency – completed	**354**	**1**	**1**	40	1	1
Insolvency – ongoing	**1,904**	**2**	**8**	–	–	–
Other	**2,608**	**1**	**1**	87	1	1
Total	**38,441**	**12**	**24**	34,707	9	9

The table above illustrates the variability in revenues generated which reinforces the difficulty faced in accurately forecasting profitability without the detail supporting the underlying data specific to each matter. Each case is unique based on the investment type, duration to completion, jurisdiction, cost and merits.

Revenue by region

	Litigation revenue 30 June 2020 $'000	Litigation revenue 30 June 2019 $'000
APAC	**21,723**	34,666
EMEA	**16,718**	41
Total	**38,441**	34,707

We generated cash of $30.7 million from the resolution of matters compared to $26.8 million in FY19.

Portfolio update

Total invested capital during FY20 was A$52.0 million inclusive of $10.7 million third party fund investments. This compares to A$27.8 million in the prior financial year. On an adjusted basis, exclusive of third party investments, the total invested capital was $41.3 million an increase of 55% on the prior period. This increase is fundamental to measuring LCM growth. Assuming, as we do, that we continue to apply the same rigorous due diligence processes and our investments perform as they have for the past nine years, the revenue to be generated from these investments will form part of our financial performance in two to three years time.

As at 30 June 2020 there were 23 direct balance sheet projects under management and 17 projects co-invested alongside the Fund. This comprised 32 unconditionally funded and eight conditionally signed. As at 30 June 2019 there were 29 direct balance sheet projects under management. This comprised 23 unconditionally funded and six conditionally signed.

The portfolio continued to maintain diversity across industry sector, jurisdiction and capital commitment, in line with LCM's investment philosophy.

Financial performance

LCM's strong results in FY20 were driven by the resolution of four investments and the partial resolution of seven investments. The Group's overall gross revenue of A$38.4 million represents an increase on the prior financial period of 11%. The Group generated gross profit of A$21.7 million, representing an increase on the prior period of 7%. The Group produced a statutory profit before tax of A$8.1 million a decrease of 21% on the prior financial period, however this is inclusive of third party fund costs of $1.2 million, on an adjusted basis which excludes third party costs, statutory profit before tax was $9.2 million, a decrease of 9% on the prior financial period. This statutory profit represents a solid and pleasing result given the challenges and delays experienced as a result of the recent COVID-19 pandemic. It should be noted that delays result in matters being pushed beyond their expected resolution into the next financial period, it does not result in a loss of revenue.

Operating expenses of $10.7 million increased by 27% compared to $8.4 million in 2019 in line with management expectations. As we continue to expand we expect to see an increase in operating costs, however these are expected to remain at a similar margin relative to the size of the portfolio under management, allowing us to benefit from economies of scale.

Non-operating expenses include; $1.2 million of costs related to the third party fund which have been consolidated to comply with AASB standards but are not attributable to LCM; $1.2 million of litigation 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, $0.4 million related to share-based expenses, $0.2 million related to non-recurring consultancy costs and other expenses (see note 6).

The portfolio continued to maintain diversity across industry sector, jurisdiction and capital commitment, in line with LCM's investment philosophy.

Finance costs

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

Dividend

Given the ongoing uncertainty in global markets and the number of quality investments available as well as the countercyclical nature of our business, the Board has made the difficult decision that no dividend will be paid, to preserve cash to make further investments in our portfolio of assets to accelerate growth.

The Board remains committed to returning to the payment of a dividend as a matter of fiscal discipline. The Board will continue to assess global market stability to determine the appropriate level of dividend based on profitability, cash flows, growth and available capital. Shareholders should not interpret the Board's current stance as a change in policy relating to dividends. It is simply a responsible and conservative response to unprecedented global conditions which are yet to fully play out and stabilise.

Mary Gangemi
Chief Financial Officer

Understanding and managing risk is paramount to the success of our business.

Risk management

Understanding and managing risk is paramount to the success of our business and enables us to deliver on our strategic objectives. Our approach to identifying, assessing, managing and monitoring risk allows us to make effective investment decisions, which translate to returns, allowing us to reinvest and grow. The controls we have aim to manage and mitigate risk and seek to encourage open communication, it does not eliminate risk entirely.

Risk management framework

The Board has overall responsibility of risk management and sets the Group's risk appetite. The Board delegates responsibilities to the Risk & Audit Committee and day to day oversight to the Executive Management team. The Executive Management team led by the Group CEO, monitor and manage the risks appropriate for the business within the boundaries set by the Board.

LCM has a proven and robust risk management process in relation to its investments. We apply rigorous investment selection criteria that have been developed over our 22-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 has been fundamental to our financial strength.

Across all core legal claim sectors we operate in; commercial claims, class actions, insolvency, arbitration and corporate portfolios, 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 judgement of the size that will be brought; and

(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 only provides funding to between 3–7% of applicants received. This process allows LCM to be cautious and to protect itself from risk and the temptation of unnecessary growth.

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.

Financial reporting processes

Internal control and risk management is fundamental to the integrity of our business and the quality of the information we produce. We have policies and procedures to ensure we maintain accurate records and provide a true and fair view of our business performance. 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 and ensure accurate and timely maintenance of records. These controls provide reasonable assurance that payments have been approved through the correct authorisation channels. Our internal policies and procedures also ensure that transactions are recorded in the necessary manner to enable compliance with International Financial Reporting Standards (IFRS) and the Australian Accounting Standards Board (AASB).

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 our global requirements.

$

3–7%

LCM only provides funding to between 3–7% of applicants received

Principal risks and uncertainties

The table following outlines the principal risks and uncertainties facing LCM together with mitigation measures which are intended to provide a reasonable but not definite level of protection. This is not a complete list of all the risks as matters or events not currently known to the Board or management could emerge.

Internal control and risk management is fundamental to the integrity of our business and the quality of the information we produce.

Risk Management and Internal Controls continued

Risk	Mitigation	Movement
Strategic risk		
Changing market conditions/increased competition		
Increased competition globally could reduce the number of available investment opportunities or reduce margins if competition drives a reduction in pricing.	We promote our three strategies to diversify our offering and differentiate ourselves. In contrast to almost the entire market, our solutions appeal to both impecunious and financially stable corporates. The continuous innovation allows us to operate across the entire spectrum and provide funding solutions to counterparties who use out of both choice and necessity. Consequently, we operate in areas where there is very little competition, particularly in the provision of our portfolio financing. Indeed competition would assist in the education process in what is a nascent market. The global addressable market for disputes financing is extremely large and hugely underpenetrated.	↔
Ability to raise third party capital		
Failure to raise third party capital could significantly impede growth opportunities potentially presenting competitors with an advantage to monetise on missed opportunities.	We strive to maintain performance at historical levels through our disciplined investment process. In addition we continue to look at innovative solutions and attractive investment options to expand our investor reach. Our corporate portfolios are an example of how we continue to evolve as the market shifts to perceiving litigation funding as a choice rather than a necessity.	↓
Deployment of capital		
Failure to invest capital in a timely manner can have an adverse effect on the performance of our portfolio and the returns to our underlying investors. It could also be detrimental to our ability to raise further capital.	In addition to our robust investment process we regularly monitor the performance of each of our investments to ensure delivery against our own internal expectations. In terms of capital commitment, we monitor all investments to ensure that the portfolio does not suffer from concentration risk in any one project.	↓
Investment risks		
Failure to originate investment opportunities and invest capital selectively and successfully can lead to reputational damage and may cause adverse financial losses.	Despite an increase in applications, LCM continues to maintain a robust and disciplined investment process. 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. LCM measures all investment opportunities against its environmental, social and corporate governance statement. We also limit our investment risk by ensuring we maintain a balanced portfolio of investments by jurisdiction, industry sector and capital commitment. Current instability in global markets is likely to lead to increased insolvency and bankruptcy. This is a factor that attracts particular attention at present.	↑

Risk	Mitigation	Movement
Operational risk		
Loss of key personnel		
Our employees are fundamental to our success. Failure to attract and retain highly skilled and experienced investment managers could have a negative impact on the success of our investments. Additionally, the loss of staff could cause disruptions to our ability to deliver to our strategic objectives.	We have a robust recruitment process in place and offer competitive remuneration alongside long-term incentive schemes. We continuously carry out peer reviews and appraise the due diligence and underwriting techniques as well as investment monitoring. In addition, LCM monitors the performance of all staff including investment managers to ensure the highest level of performance, integrity and diligence.	Risk the same
Loss of key customer relationships		
The risk of financial loss as a result of losing key relationships. This could have an adverse effect on our ability to generate new business through our long standing relationships with law firms and insolvency practitioners.	LCM continues to maintain and culture relationships with existing clients and understands how valuable they are to our business. We also continuously seek to develop new alliances. We serve clients fairly and always maintain a transparent relationship. Equally, the skill and experience of service providers and in particular, law firms providing legal services is fundamental to our successful performance and delivering on our objectives. LCM continues to monitor service provider risk through its investment managers and through its due diligence and underwriting policies.	Risk the same
Disruption to systems		
Disruptions to our systems could impact our ability to operate. It could also result in a reduced level of service to our clients. An attack on our system could jeopardise the security of the firms and/or client data which in turn could cause reputational damage.	We continuously monitor and test our business continuity and disaster recovery plan. The benefit of our decision to move to a cloud based system was evident as staff seamlessly and without disruption transitioned to working from home during the ongoing pandemic. The implementation of remote operations for investment managers globally has tested LCM's systems and demonstrated that they operate effectively. We continue to invest in our information technology systems to ensure that we continue to work efficiently with risk of minimal disruption.	Risk decreased

Risk increased Risk decreased Risk the same

Risk Management and Internal Controls continued

Risk	Mitigation	Movement
Operational risk continued		
Cybercrime, fraud or security breaches		
This risk of failure to protect our Information Technology systems and confidential information related to our clients and litigation matters, which could lead to a breach in our data protection obligations or cause loss of data or financial loss.	As part of our global expansion we moved our data from local external servers to a major global cloud-based vendor. We continue to monitor and assess our compliance with requirements of the General Data Protection Regulation (GDPR) for privacy issues adjustments. We recently upgraded our defences for cyber security and moved our local but external server to a major global cloud-based vendor to better align with our global expansion and comply with requirements of the GDPR for privacy issues. We adhere to all AML (Anti Money Laundering) and KYC (Know Your Customer) checks required and continue to monitor these with real time data and feedback on customers and investors.	
Regulatory risk		
Regulatory risk arises as a result of both the regulations specific to the jurisdictions in which we operate and the laws in those jurisdiction. Additionally, each country in which we operate may look to further regulating the industry in which we operate, which could lead to disruption of our business operations and have adverse impact on the potential to generate profits.	In all jurisdictions, with the exception of Singapore and Hong Kong, litigation financing is almost entirely unregulated or regulation is light touch. In Singapore and Hong Kong, there is a light regulatory regime which is monitored for continued compliance. Recent changes in the Australian market will require litigation funders to obtain an Australian Financial Services Licence (AFSL). As part of managements strategic planning and anticipation of changes in the sector, this placed LCM in an advantageous position against its peers in Australia, having already successfully obtained an AFSL. Management continue to monitor the changing landscape to ensure it remains in a position to operate without hindrance. Management also actively monitor changes in the law in various jurisdictions on an application by application basis.	
Financial risks		
Liquidity		
Liquidity risk is the risk the Company has a lack of sufficient resources, readily realisable assets or access to capital at commercially viable terms to continue to make investments or meet its current obligations. This could have an adverse effect on the value of investment assets.	Finance closely monitor liquidity and cashflow to ensure the Company continues to operate within the risk appetite set by the Board. The Finance function actively manage working capital to enable the Company to meet its obligations as they fall due. The Company also benefits from an unlevered balance sheet with a strong cash position and organic cash generation from investments reaching maturity. Additionally, LCM has significant control over its investments including the contractual right to cease funding.	

Risk	Mitigation	Movement
FX risk		
Foreign exchange risk is the risk that LCM will sustain losses due to adverse movements in currency exchange rates which may arise from transactions and investments denominated in foreign exchange currencies.	Finance 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. To manage the impact of foreign exchange risk caused by rate movements, we keep a proportion of our cash in the currencies in which we expect the majority of these expenses to occur. LCM does not hedge the expected return from litigation projects given the tenor of this exposure.	↔
Credit risk		
Exposure to financial losses to LCM as a result of a client's inability to pay its obligations due for services received.	As part of the initial stages of LCM's investment process, investment managers consider, when reviewing applications for financing, the ability of the funded party to pay. Investment managers ensure there is clear line to recovery for the claim and it must be demonstrated that the defendant has the capacity to meet a judgement of the size that will be brought.	↑
Adverse costs		
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.	↔
COVID-19		
The impact of the COVID-19 pandemic has caused severe disruptions across all markets globally. It is hard to predict the full impact this will have on capital markets and the wider macro economy. Governments globally are injecting stimulus packages but this is expected to provide a short-term solution. The long-term effects of COVID-19 could likely lead to further mass job losses, economic downturns and increased restructuring and insolvencies.	We continue to monitor the ever changing landscape caused by the impact of COVID-19. We have little concentration risk as our investment strategy is to ensure a diversified portfolio. We have carried out a review assessing credit risk to ensure there are no constraints on recoverability based on our current portfolio of investments. As a business we expect to see an increase in insolvency and restructuring matters as the full effect of COVID-19 emerges over the near term.	↑

↑ Risk increased ↓ Risk decreased ↔ Risk the same

Developing progressive Environmental, Social and Corporate Governance (ESG) business practices is a core value of our growing company.

Despite our small size, 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.

People

It goes without saying that our people are our business and are fundamental to LCM's long-term success and to delivering shareholder value. 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. Staff retention is important at LCM and we continue to focus on the development of our employees and ensure that they remain motivated and incentivised.

Diversity and inclusion

At LCM we ensure that everyone is treated equally and foster an equal opportunities approach to hiring. Our work environment is one that supports diversity and we aim to recruit the most suitable candidates with the right skill set for the role, regardless of their gender, nationality or ethnic background.

Corporate governance

Regarding 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 Principle. 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.

Community and charities

Our people are involved both at an individual and Company level in various charities supporting the broader communities in which we operate. Some of the initiatives supported during the year include:

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.

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 judgement. That particular issue presented a very significant problem for PIAC.

LCM are proud to be lending their support to PIAC by providing a contribution towards an indemnity against an adverse costs event. We are 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.

In the last financial year, LCM has provided support for the following claims:

(a) a discrimination test case on behalf of an eight-year old girl who has an autism spectrum disorder, after she was expelled from her primary school in year two. PIAC's client says that her daughter, was expelled after her school failed to provide a range of supports and adjustments recommended by health professionals in time to keep her educational and social development on track. The case was filed in the Federal Circuit Court, and alleged that the school discriminated against the girl because of her autism, including by failing to provide her reasonable adjustments to access education, by banning her from the school bus, and by expelling her from school, the case settled recently on terms which the family were very happy with; and

(b) a test case in Victoria that will challenge unfair and discriminatory practices of insurers in their treatment of people who disclose they have seen a psychologist, as well as people with a past or current mental health condition. The case, a disability discrimination claim filed in the Victorian Civil and Administrative Tribunal in May, is on behalf of a client who had unreasonably broad mental health exclusion clauses placed on his income protection cover because he disclosed that he had seen a psychologist to discuss normal life stresses.

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

Scleroderma & Raynaud's UK

LCM is proud to be supporting Scleroderma & Raynaud's UK (SRUK), by partnering with The Ventour Project. The Ventour project is led by one of our employees who tragically lost a sister aged 44 to Scleroderma. Scleroderma is a rare, chronic disease of the immune system, blood vessels and connective tissue. SRUK is the only charity dedicated to improving the lives of people suffering from the disease. We hope to raise awareness of the charity which aims to invest in research, improve understanding of the conditions of the disease and provide support to those affected.

Clients and stakeholders

We are proud that our clients and stakeholders 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.

Shareholders

Our shareholders are fundamental to the long-term success of our business and we place significant importance on our relationship with them. We strive to maintain an open and transparent dialogue with our investors as often as practicable, ensuring they understand our overall strategy and how we are delivering against them. We do this through one to one meetings, capital market days and investor roadshows.

Environmental

At LCM we acknowledge the impact paper waste has on our environment and we strive to make our business a paperless organisation. We focus on being cloud based and utilise software that helps minimise the need to print or use paper where possible. Additionally, conscious of the adverse impact of travel on our environment, some staff elect to travel on flights with the option of offsetting carbon emissions. We remain committed to reducing our environmental impact.

Board of Directors

Jonathan Moulds
Non-Executive Chairman

Jonathan was appointed as a Director and Chairman of the Company in December 2018. Jonathan currently acts as the Chair of the Audit & Risk Committee and is a member of each of the Remuneration and Nominations Committee.

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 has been a Director of the Company since October 2015 and was former Chairman until December 2018. David currently is a member of each of the Audit & Risk, Remuneration and Nominations Committee.

David has a doctorate in geophysics/seismology, and was a founder and 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 CEO/Director 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. He currently serves as Non-Executive Chairman of Cellmid Ltd, and a Non-Executive Director of Galilee Energy Ltd, Tap Oil Ltd, and Renergen Ltd.

Patrick Moloney
Chief Executive Officer

Patrick has been a Director of the Company since October 2015.

Patrick Moloney is a veteran of the disputes funding industry with 17 year's 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 a Board 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 also the Chairman of 101 Capital, the holder of an Australian Financial Services Licence, which was formerly the Responsible Entity of a registered Managed Investment Scheme which raised significant monies from investors and operated an enhanced equity income strategy.

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 a Director of the Company since December 2018.

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 & Wales.

A pioneer in the development of the litigation funding industry in the UK and the common law world globally, he has led its transformation from third party funding, through litigation finance and now into a broad-based corporate finance offering.

Gerhard Seebacher

Non-Executive Director

Appointed 18 August 2020 (post period).

Gerhard brings to LCM's Board a long career in financial services and fund management. He has worked extensively in Europe and the US, including a 20-year-plus career at Bank of America in a number of senior management roles within the global investment bank.

Gerhard was more recently a partner at Brevan Howard Asset Management, a leading global macro hedge fund, and is currently the Chief Investment Officer and owner of Boulder Hill LLC, a private investment company.

We continue to strengthen our Board to further broaden the skill set and experience of our current Non-Executive members and enable us to deliver on our strategic goals. The addition of new Non-Executive Director Gerhard Seebacher helps embed our business as an Alternate Asset Manager.

Corporate Governance Statement

Strong corporate Governance is fundamental to our long term success.

"The Board is responsible for the overall management of the Group ensuring the delivery of our strategic objectives and creating shareholder value."

Jonathan Moulds
Chairman

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 aims to meet not less than eight times per year. In the 2020 reporting year, travel restrictions as a result of the COVID-19 pandemic has meant that the Board has only met seven times. Despite this, the Directors have continued to meet on an informal basis to discuss the Company's business.

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 & Risk Committee and has adopted the Share Dealing Code. The group also operates an Anti-bribery and Corruption Policy, details of each are described further below (see page 55).

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 during the year were Dr David King, Steve McLean and Jonathan Moulds who will chair the Audit & Risk Committee. Steve McLean resigned as a Director and therefore as a member of the Audit & Risk Committee on 30 June 2020, and the Board are currently considering a replacement member. The Audit & Risk Committee endeavours to meet at least three times a year. In the 2020 reporting year, travel restrictions as a result of the COVID-19 pandemic has meant that the Audit & Risk Committee has only met twice. Despite this, the Committee members are in regular contact to discuss any relevant audit and risk matters.

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 judgements 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 and shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

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.

The objective of LCM's remuneration policy is to attract, motivate and retain the best available management and employees to operate and manage LCM.

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 aims to meet at least once a year. In the 2020 reporting year, travel restrictions as a result of the COVID-19 pandemic has meant that the Nomination Committee has not met. Despite this, the Committee members are in regular contact to discuss any relevant nomination matters.

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 and shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

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 during the year were Jonathan Moulds and Steve McLean who chaired the Remuneration Committee. The Remuneration Committee aims to meet at least two times a year. Steve McLean resigned as a Director and therefore as a member of the Remuneration Committee on 30 June 2020, and the Board are currently considering a replacement member.

In the 2020 reporting year, travel restrictions as a result of the COVID-19 pandemic has meant that the Remuneration Committee has only met once. Despite this, the Committee members are in regular contact to discuss any remuneration matters.

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, ensuring pensions are fulfilled, and produce a report of the Company's remuneration policy and practices to be included in the Company's annual report.

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 2020, of which certain tables have been audited[1] (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

1 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, 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 after 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.

The Group attaches considerable importance to the role of appropriate performance-based incentives to drive sustainable long-term growth.

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.

As disclosed in the AIM Admission Document, shares granted under the existing Australian Loan Share Plan prior to listing on AIM will not form part of the limits for the Share Plans nor the shares granted to Nick Rowles-Davies under the Joint Share Ownership Plan post Admission.

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$700,000 per annum.

An amount has been fixed by LCM in the Annual General Meeting of 21 November 2019 for the aggregate fee pool limit to be A$700,000 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.

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 12 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;

(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).

Remuneration table

Remuneration table for year ended 30 June 2020 (audited)

The table below provides remuneration for KMPs for the 12 months ended 30 June 2020 and comparatives for the year ended 30 June 2019.

	Cash salaries and fees $		Bonus $		Benefits $	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Non-Executive Directors						
Dr David King	**129,167**	100,000	**–**	–	**–**	–
Steven McLean	**129,167**	81,250	**–**	–	**–**	–
Jonathan Moulds	**183,082**	90,408	**–**	–	**–**	11,237
	441,416	271,658	**–**	–	**–**	11,237
Executive Directors						
Stephen Conrad	**426,859**	325,000	**–**	–	**–**	–
Nick Rowles-Davies	**1,098,499**	632,856	**183,083**	–	**18,032**	86,794
Patrick Moloney	**750,000**	750,000	**250,000**	550,000	**50,043**	30,571
	2,275,358	1,707,856	**433,083**	550,000	**68,075**	117,365
Total	**2,716,774**	1,979,514	**433,083**	550,000	**68,075**	128,602

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 five years (commencing December 2018) with an automatic extension for a further five years unless notice is given at least one 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; and
- 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.

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

Accrued leave $		Superannuation /pension $		Long service leave $		Share-based payments $		Total $	
2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
–	–	**12,271**	9,500	**–**	–	**–**	12,480	**141,438**	121,980
–	–	**12,271**	7,719	**–**	–	**–**	–	**141,438**	88,969
–	–	**2,407**	716	**–**	–	**–**	–	**185,489**	102,361
–	–	**26,949**	17,935	**–**	–	**–**	12,480	**468,365**	313,310
–	1,516	**25,000**	25,000	**–**	–	**2,480**	2,854	**454,339**	354,370
–	–	**2,408**	1,081	**–**	–	**130,686**	66,866	**1,432,708**	787,597
25,962	142,692	**42,750**	42,750	**12,525**	35,392	**231,029**	154,118	**1,362,309**	1,705,523
25,962	144,208	**70,158**	68,831	**12,525**	35,392	**364,195**	223,838	**3,249,356**	2,847,490
25,962	144,208	**97,107**	86,766	**12,525**	35,392	**364,195**	236,318	**3,717,721**	3,160,800

Fully paid ordinary shares & 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 2020 and the previous period ended 30 June 2019:

Name of the Director	Description of shares	30 June 2020 Number	30 June 2019 Number
Jonathan Moulds	N/A	**–**	–
Dr David King	Fully paid ordinary shares	**1,601,484**	1,601,484
Steve McLean	Fully paid ordinary shares	**577,499**	577,499 [1]
Patrick Moloney	Fully paid ordinary shares	**3,920,971**	3,768,113
Patrick Moloney	Unlisted partly paid shares	**1,433,022**	1,433,022 [2]
Stephen Conrad	N/A	**337,778**	277,778 [3]
Nick Rowles-Davies	N/A	**–**	–

1 Directorship ceased effective 30 June 2020

2 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

3 Directorship ceased effective 31 March 2020

No changes took place in the interest of the Directors between 30 June 2020 and 22 September 2020.

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	19/11/2018	25/11/2028	$0.47	1,595,058	–	–	1,595,058
Patrick Moloney	04/12/2017	04/12/2027	$0.60	1,000,000	–	–	1,000,000
Patrick Moloney	04/12/2017	04/12/2027	$0.60	1,000,000	–	–	1,000,000
Stephen Conrad [1]	03/12/2018	03/12/2028	$0.89	50,000	–	–	50,000
Stephen Conrad [1]	03/12/2018	03/12/2028	$0.89	50,000	–	–	50,000
Nick Rowles-Davies	08/03/2019	08/03/2029	£0.5200	4,347,517	181,147	–	4,528,664
Patrick Moloney	01/11/2019	01/11/2029	£0.7394	–	1,166,400	–	1,166,400
Nick Rowles-Davies	04/11/2019	04/11/2029	£0.7394	–	388,800	–	388,800
				9,542,575	1,736,347	–	11,278,922

1 Resigned 31 March 2020

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 the Board has adopted an 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.

LCM is a global provider of disputes finance which operates two business models.

The Directors of Litigation Capital Management Limited (LCM) 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 2020 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:

Jonathan Moulds

Patrick Moloney

Stephen Conrad (resigned 31 March 2020)

Dr David King

Steve McLean (resigned 30 June 2020)

Nick Rowles-Davies

Gerhard Seebacher (appointed 18 August 2020)

Directors who resigned during the year

Stephen Conrad – (Former Chief Financial Officer and Executive Director) BEc, GDipAppFin (Sec Inst), MAppFin, GAICD. Appointed to the Board November 2018 and Executive Director December 2018. Resigned 31 March 2020. Extensive experience in financial markets.

Steve McLean – (Independent Non-Executive Director) BEc. Non-Executive Director since November 2015. Resigned 30 June 2020. Chair of the Remuneration Committee and a member of each of the Audit & Risk Committee and Nomination Committee. Extensive experience in investment banking.

Further information on the current Directors in office are disclosed on pages 44 and 45 of the corporate governance section within the annual report.

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

During the 2020 financial year, seven Board meetings were held (not counting circular resolutions passed outside regular meetings). The following table sets out the number of Board and Committee meetings each Director attended and the number they were eligible to attend.

Meetings Attended / Meetings Eligible to Attend

Director	Board	Audit & Risk Committee	Remuneration	Nominations
David King	7/7	1/2	*	–
Steven McLean [1]	7/7	2/2	1/1	*
Patrick Moloney	7/7	*	*	*
Stephen Conrad [2]	3/3	*	*	*
Jonathan Moulds	7/7	2/2	1/1	–
Nick Rowles-Davies	7/7	*	*	*

1 Resigned 30 June 2020
2 Resigned 31 March 2020
* Not a member of the committee

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

LCM is a global provider of disputes finance which operates two business models. The first is direct investments made from LCM's permanent balance sheet capital and the second is fund and/or asset management. Under those two business models, LCM currently pursues three investment strategies; Single-case funding, Corporate portfolio funding and Acquisitions of claims. LCM generates its revenue from both its direct investments and also performance fees through asset management.

LCM has an unparalleled track record, driven by effective project selection, active project management and robust risk management. Currently headquartered in Sydney, with offices in London, Singapore, Brisbane and Melbourne, LCM listed on AIM in December 2018, trading under the ticker LIT.

6. Operating and financial review

Overview of the LCM Group

LCM is a company limited by shares and was incorporated on 9 October 2015. LCM was admitted to trade on the Alternative Investment Market (AIM) of the London Stock Exchange on 19 December 2018 under the ticker LIT. LCM was formerly listed on the Australian Securities Exchange (ASX) between 13 December 2016 and 21 December 2018.

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.

Information on the Group's operations are disclosed in the strategic report.

Review of financial performance

The statutory profit for the Group after providing for income tax and non-controlling interest amounted to $5,245,000 (30 June 2019: $7,115,000).

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

Declared and paid during FY20	AUD cents per share	Equivalent GBP amount per share[1]	Total amount $	Date of payment
Final 2019 dividend	0.828	0.4347	$886,000	11 December 2019

1 Exchange rate of 0.54934

The Directors do not recommend a final dividend in respect of the year ended 30 June 2020.

Further commentary on the financial results are disclosed in the financial review by the Chief Financial Officer within the strategic report.

Significant changes in the state of affairs

The most significant development in LCM's business during the financial period was the establishment of its asset management business. In March 2020, LCM closed a fund of US$150 million with LCM acting as Fund Manager. The closing of that fund allowed LCM to expand its business as an asset manager in the alternatives sector. LCM now pursues two separate but interactive business models being: Direct Investments and Asset Management. Across those two business models, LCM adopts three investment strategies in the alternate sector of disputes finance. The first investment strategy is Single Case Funding, the second, Corporate Portfolios and the third, Acquisition of Claims. Further commentary on each of those strategies is provided by the Chief Executive Officer within the CEO's Report.

7. 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.

8. Likely developments

LCM's portfolios of investments in the disputes sector continues to mature as expected. LCM manages two separate but interrelated portfolios of investments. The first is its direct investments made with balance sheet capital. Secondly, LCM manages the LCM Global Alternatives Returns Fund on behalf of third party investors.

In the coming financial period LCM expects the realisation of a number of its dispute investments. The expectation is that those resolutions will be in the portfolio of direct investments. LCM is not in a position to provide forecasts as to the number of investments that will mature or the expected revenue that will be generated.

Financial markets locally are experiencing instability as a consequence of the COVID-19 pandemic. That market instability will have differing effects upon the territories in which LCM operates. Generally, it is expected that such instability will drive increased demand for LCM's financing products. That increased demand is likely to manifest itself in two principal ways. First, businesses and corporations will focus their own capital towards core business thus increasing the demand for external capital to fund disputes. Secondly, LCM expects that there will over time be an increase in insolvency and restructuring related disputes. That will lead to increased demand by businesses and corporations with restricted capital. It will increase the demand for LCM's financial products by insolvency professionals appointed to administer insolvent corporations and estates.

As the litigation finance industry matures LCM will continue to monitor new jurisdictions in which to operate. It shall do so in the same disciplined way that it has approached expansion in the past.

Overall LCM sees greater opportunity in the future both with respect to the size of the market and the jurisdictions in which it operates.

9. Environmental regulation

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

10. Directors' interests in shares and options

The relevant interests of each Director in the shares and rights or options over shares issued by LCM at the date of this report is as follows:

Director [1]	Ordinary shares [1]	Loan Plan Shares [2] & Loans	Joint Share Ownership Plan [3]	Unlisted options [4]	Unlisted partly paid shares [5]
Dr. David King	1,601,484	–	–	600,000	–
Steven McLean [6]	577,499	–	–	–	–
Patrick Moloney	3,920,971	4,761,458	–	900,000	1,433,022
Stephen Conrad [7]	337,778	100,000	–	–	–
Jonathan Moulds	–	–	–	–	–
Nick Rowles-Davies	–	–	4,917,464	–	–

1 Directors, including associated parties, interests held directly and indirectly
2 Loan Plan Shares exercisable at various prices and subject to vesting conditions
3 Joint Share Ownership Plan exercisable at various prices and subject to vesting conditions
4 Unlisted options over ordinary shares exercisable at $1.00
5 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
6 Resigned 30 June 2020
7 Resigned 31 March 2020

11. Share Options

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.

During the year the Group granted 2,068,337 (2019: 6,454,547) shares under the loan funded share plans. As at the date of this report there were 5,605,920 Loan Shares and 4,917,464 Joint Share Ownership Plan shares outstanding subject to various vesting and performance conditions.

There were 3,062,031 options vested and exercisable as at 30 June 2020 (2019: 102,993).

Further details provided in note 28 to the financial statements.

12. 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.

13. 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 19 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 19 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.

14. 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.

15. 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.

16. Auditor

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

17. 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.

18. Corporate Governance

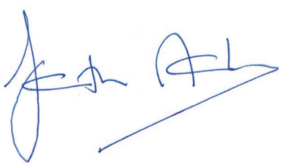
The corporate governance statement can be found here: https://www.lcmfinance.com/shareholders/corporate-governance/

19. Remuneration report

The remuneration report can be found in the corporate governance section within the annual report.

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

22 September 2020

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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 2020, 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.

G Edwards

G K Edwards
Director

BDO Audit (SA) Pty Ltd

Adelaide, 22 September 2020

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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 2020, 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 2020 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* (including Independence Standards) (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.

Accounting for the establishment of LCM Global Alternative Returns Fund

Key audit matter	How the matter was addressed in our audit
As disclosed in note 24 the Group launched the LCM Global Alternative Returns Fund (the Fund) on 10 March 2020. The audit of the accounting for the establishment of the Fund is a key audit matter due to the significant judgement and complexity in assessing factors including; the Group's equity and economic ownership interest, the economic structures in use in the entity, the level of control the Group has over the entity through the entity's structure and any relevant contractual agreements, and the rights of other investors.	Our audit procedures include, amongst others: • reading all relevant agreements and documents relating to the establishment of the Fund to understand the key terms and conditions, and confirming our understanding of the Group's relationship with the Fund and management thereof; • ensuring the accounting for the Fund was consistent with the relevant agreements and documents, including consulting with BDO Technical IFRS experts in relation to the application of AASB 10, and in particular the assessment of whether the Group has power over the Fund in a situation when power results from one or more contractual arrangements, and how to account for third party interests in the Fund; and • assessing the appropriateness of the Group's disclosures in respect of the acquisition.

Recoverable amount of Contract cost assets

Key audit matter	How the matter was addressed in our audit
Note 10 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. The impairment assessment of contract costs was a key audit matter due to the size of the recorded asset 2020: $62,518,000 (2019: $27,386,000) and the degree of estimation and assumptions required to be made by the Group, specifically concerning future discounted cash flows.	Our audit procedures included, among others: • 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. This included evaluating the quantum of cash flows with reference to underlying contracts, and considering timing with reference to management representations and previous forecasting models; • discussing the progress of litigation contracts with management, evaluating the status of litigation for indication of potential impairment indicators and corroborating recent developments in litigation to external supporting documentation; and • assessing the adequacy of the Group's disclosures in note 10 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 assets.

Other information

The Directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information 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, 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.

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: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our auditor's report.

BDO

BDO Audit (SA) Pty Ltd

G Edwards

G K Edwards
Director

Adelaide, 22 September 2020

Consolidated Statement of Profit or Loss and other Comprehensive Income

For the period ended 30 June 2020

		Consolidated	
	Note	2020 $'000	2019 $'000
Revenue from contracts with customers			
Litigation service revenue	4	**35,833**	34,707
Performance fees	4	**2,608**	–
		38,441	34,707
Litigation service expense		**(16,723)**	(14,366)
Gross profit		**21,718**	20,341
Other income		**90**	311
Interest income		**35**	56
Expenses			
Employee benefits expense	6	**(7,611)**	(6,069)
Depreciation expense	6	**(86)**	(53)
Corporate expenses		**(3,752)**	(3,757)
Litigation fees	6	**(1,159)**	(679)
Fund administration expense	6	**(1,183)**	–
Total expenses		**(13,791)**	(10,558)
Profit before income tax expense		**8,052**	10,150
Analysed as:			
Adjusted operating profit		**11,137**	12,275
Non-operating expenses	6	**(3,085)**	(2,125)
Profit before income tax expense		**8,052**	10,150
Income tax expense	7	**(2,799)**	(3,039)
Profit after income tax expense for the period		**5,253**	7,111
Other comprehensive income for the year, net of tax			
Total comprehensive income for the period		**5,253**	7,111
Profit for the period is attributable to:			
Owners of Litigation Capital Management Limited		**5,245**	7,115
Non-controlling interest	24	**8**	(4)
		5,253	7,111
Total comprehensive income for the period is attributable to:			
Owners of Litigation Capital Management Limited		**5,245**	7,115
Non-controlling interest		**8**	(4)
		5,253	7,111

		Cents	Cents
Basic earnings per share	26	**5.02**	8.65
Diluted earnings per share	26	**4.71**	8.07

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with accompanying notes to the Financial Statements.

Consolidated Statement of Financial Position

As at 30 June 2020

	Note	Consolidated 2020 $'000	2019 $'000
Assets			
Current assets			
Cash and cash equivalents	8	**31,754**	49,119
Trade and other receivables	9	**15,298**	7,266
Contract costs	10	**15,671**	8,910
Other assets		**439**	693
Total current assets		**63,162**	65,988
Non-current assets			
Contract costs	10	**46,847**	18,476
Property, plant and equipment		**204**	216
Intangible assets		**336**	64
Other assets		**280**	–
Total non-current assets		**47,667**	18,756
Total assets		**110,829**	84,744
Liabilities			
Current liabilities			
Trade and other payables	11	**13,162**	6,689
Employee benefits	12	**376**	986
Total current liabilities		**13,538**	7,675
Non-current liabilities			
Deferred tax liability	7	**3,559**	760
Employee benefits	12	**117**	70
Third party interests in consolidated entities	25	**12,600**	–
Total non-current liabilities		**16,276**	830
Total liabilities		**29,814**	8,505
Net assets		**81,015**	76,239
Equity			
Issued capital	13	**68,830**	68,830
Share-based payments reserve	14	**1,001**	569
Retained earnings		**11,165**	6,818
Parent interest		**80,996**	76,217
Non-controlling interest		**19**	22
Total equity		**81,015**	76,239

The above Consolidated Statement of Financial Position should be read in conjunction with accompanying notes to the Financial Statements.

Consolidated Statements of Changes in Equity

For the period ended 30 June 2020

Consolidated	Issued capital $'000	Retained earnings $'000	Share-based payments reserve $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 July 2019	**68,830**	**6,818**	**569**	**76,217**	**22**	**76,239**
Profit after income tax expense for the year	**–**	**5,245**	**–**	**5,245**	**8**	**5,253**
Other comprehensive income for the year, net of tax	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**5,245**	**–**	**5,245**	**8**	**5,253**
Transactions with owners in their capacity as owners:						
Share-based payments (note 28)	**–**	**–**	**432**	**432**	**–**	**432**
Dividends paid (note 15)	**–**	**(886)**	**–**	**(886)**	**–**	**(886)**
Changes in portion of equity held by non-controlling interests	**–**	**(12)**	**–**	**(12)**	**(11)**	**(23)**
	–	**(898)**	**432**	**(466)**	**(11)**	**(477)**
Balance at 30 June 2020	**68,830**	**11,165**	**1,001**	**80,996**	**19**	**81,015**

Consolidated	Issued capital $'000	Retained earnings $'000	Share-based payments reserve $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 July 2018	24,865	239	293	25,397	26	25,423
Profit after income tax expense for the year	–	7,115	–	7,115	(4)	7,111
Other comprehensive income for the year, net of tax	–	–	–	–	–	–
Total comprehensive income for the year	–	7,115	–	7,115	(4)	7,111
Transactions with owners in their capacity as owners:						
Contributions of equity (note 13)	43,921	–	–	43,921	–	43,921
Share-based payments (note 28)	–	–	320	320	–	320
Transfer on exercise of options	44	–	(44)	–	–	–
Dividends paid (note 15)	–	(536)	–	(536)	–	(536)
	43,965	(536)	276	43,705	–	43,705
Balance at 30 June 2019	68,830	6,818	569	76,217	22	76,239

The above Consolidated Statement of Changes in Equity should be read in conjunction with accompanying notes to the Financial Statements.

Consolidated Statements of Cash Flows

For the period ended 30 June 2020

	Note	Consolidated 2020 $'000	2019 $'000
Cash flows from operating activities			
Proceeds from litigation contracts – resolutions, fees and reimbursements		**30,673**	26,796
Payments to suppliers and employees		**(50,591)**	(32,064)
Payments to suppliers and employees – third party interests		**(6,891)**	–
Non-operating items paid		**(1,412)**	(1,618)
Interest received		**35**	56
Other revenue		**–**	311
Net cash used in operating activities	27	**(28,186)**	(6,519)
Cash flows from investing activities			
Payments for property, plant and equipment		**(56)**	(88)
Payments for intangibles		**(288)**	(70)
Payments for security deposits		**(1)**	(75)
Net cash used in investing activities		**(345)**	(233)
Cash flows from financing activities			
Proceeds from issue of shares		**–**	46,880
Share issue transaction costs		**–**	(4,279)
Transaction costs related to third party interests		**(2,066)**	–
Dividends paid	15	**(886)**	(536)
Contributions from third party interests in consolidated entities		**14,582**	–
Payments for fund establishment & administration costs		**(920)**	–
Net cash from financing activities		**10,710**	42,065
Net decrease in cash and cash equivalents		**(17,821)**	35,313
Cash and cash equivalents at the beginning of the financial year		**49,119**	13,787
Effects of exchange rate changes on cash and cash equivalents		**456**	19
Cash and cash equivalents at the end of the financial year	8	**31,754**	49,119

The above Consolidated Statement of Cash Flows should be read in conjunction with accompanying notes to the Financial Statements.

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 22 September 2020. 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 16 Leases

The Group has adopted AASB 16 from 1 July 2019 using the transitional rules not to restate comparatives. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases.

AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under AASB 117. The standard includes two recognition exemptions for lessees – leases of 'low value' assets and short-term leases (ie. leases with a lease term of 12 months or less).

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (ie. the lease liability) and an asset representing the right to use the underlying asset during the lease term (ie. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting does not apply to the Group as it has no assets that it provides to third parties under lease agreements.

AASB 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under AASB 117. Prior to the adoption of AASB 16, the Group classified each of its leases at inception as either operating or finance leases based on the extent to which, risks and rewards incidental to ownership of the leased asset were transferred to the Group. Operating lease payments were previously recognised as an expense in the profit or loss on a straight-line basis over the lease term, excluding contingent rentals which were expensed as incurred. Operating lease incentives were recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

On transition, the Group has elected to use the practical expedient to exclude leases with a term of 12 months or less and therefore there is no impact on the adoption of AASB 16.

The following table reconciles the operating lease commitments disclosed under AASB 117 as at 30 June 2019 to the lease liabilities recognised under AASB 16 at 1 July 2019:

	$'000
Total operating lease commitments disclosed at 30 June 2019	**621**
Exclusion of leases with a remaining term of less than one year and low value leases	**(621)**
Total lease liabilities recognised under AASB 16 at 1 July 2019	**–**

The Group has elected to apply the recognition exemption for short-term leases permitting lease payments to be expensed for leases with a term of less than 12 months.

AASB Interpretation 23 Uncertainty over Income Tax Treatments

The Group has adopted AASB Interpretation 23 from 1 July 2019. 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.

Impact of adoption: There was no impact on adoption of AASB Interpretation 23 as at the transition date.

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.

Note 2 Significant accounting policies continued

Basis of preparation continued

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement 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 23.

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 2020 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'.

The Group includes fund investment vehicles over which the Group has the right to direct the relevant activities of the fund under contractual arrangements and has exposure to variable returns from the fund investment vehicles. See note 25.

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.

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 judgement 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.

Note 2 Significant accounting policies continued

Revenue recognition continued

The terms and duration of each settlement or judgement 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 judgement 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

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term. The short-term lease recognition exemption applies to those leases that have a lease term of 12 months or less from the commencement date. It also applies to leases over assets that are considered of low value.

Note 2 Significant accounting policies continued

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.

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.

Note 2 Significant accounting policies continued

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.

Third party interests in consolidated entities

Non-controlling interests where the Group does not own 100% of a consolidated entity are recorded as third party interests in consolidated entities. Third party interests in consolidated entities are classified as financial liabilities and are initially recognised at the fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method. Amounts included in the consolidated statement of financial position represent the net asset value of the third parties' interests.

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.

Note 3 Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, 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 judgements and estimates will seldom equal the related actual results. The judgements, 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 as follows:

Key judgements

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.

Performance obligations and recognition of revenue

In 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.

Consolidation of entities in which the Group holds less than 100% of interests

The Group has assessed the entities in which it has an interest to determine whether or not control exists and the entity is, therefore, consolidated into the Group (refer note 24). Where the Group does not own 100% of interests, the Group makes judgements to determine whether to consolidate the entity in question by applying the factors set forth in AASB, including but not limited to the Group's equity and economic ownership interest, the economic structures in use in the entity, the level of control the Group has over the entity through the entity's structure or any relevant contractual agreements, and the rights of other investors.

COVID-19 pandemic

On 11 March 2020 the World Health Organisation declared COVID-19 a pandemic. COVID-19 is a developing situation and the assessment of this situation will need continued attention and will evolve overtime. The rapid development and fluidity of the COVID-19 situation makes it difficult to predict the ultimate impact at this stage. The Directors do not underestimate the seriousness of the issue and the inevitable effect it will have on the global economy and many businesses across the world however have assessed that it is not possible to quantify the likely impact at this stage. While it is expected that the resolution dates for certain cases might be pushed out, as at 30 June 2020 no adjustment has been made to the financial statements to reflect the impact of COVID-19.

Significant estimates and assumptions

Recovery of deferred tax assets

Deferred tax assets includes an amount relating to carried-forward tax losses in Australia. The Group only recognises the deferred tax asset if it is probable that future taxable amounts of the Group's business in Australia will be available to utilise those losses and therefore they are assessed as recoverable (refer to note 7). The tax losses can be carried forward indefinitely and have no expiry date.

Impairment of non-financial assets other than goodwill

The Group assesses impairment of non-financial assets other than goodwill 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.

Note 4 Revenue

	Consolidated 2020 $'000	2019 $'000
Major service lines		
Litigation service revenue	**35,833**	34,707
Performance fees	**2,608**	–
	38,441	34,707
Geographical regions		
Australia	**21,723**	34,666
United Kingdom	**16,718**	41
	38,441	34,707
Contract duration		
Less than 1 year	**2,257**	3,075
1–4 years	**23,277**	24,153
More than 4 years	**12,907**	7,479
	38,441	34,707

Note 5 Segment information

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 2020 there were three major external customers (2019: three customers, unrelated to those in 2020) where revenue exceeded 10% of the consolidated revenue. Revenue from each customer for the year ended 30 June 2020 amounted to $13,926,000, $6,534,000, and $4,052,000 (2019 $14,440,000, $9,713,000, and $7,183,000).

Note 6 Profit before tax

	Consolidated 2020 $'000	Consolidated 2019 $'000
Profit before income tax expense includes the following specific expenses:		
Depreciation & amortisation		
Plant and equipment	**69**	47
Intangible assets	**17**	6
Total depreciation and amortisation	**86**	53
Leases		
Short-term lease payments	**764**	621
Employee benefits expense		
Salaries and wages	**6,222**	4,478
Directors' fees	**449**	264
Defined contribution superannuation expense [1]	**260**	194
Payroll tax	**102**	120
Provision for bonuses	**–**	675
Share based payments expense	**432**	320
Other employee benefits and costs	**146**	18
Total employee benefits expense	**7,611**	6,069

1 Includes employers pension contributions for UK staff

Adjusted operating profit

Adjusted operating profit excludes non-operating expenses which includes items which are considered unusual, non-cash or one-off in nature.

	Consolidated 2020 $'000	Consolidated 2019 $'000
Share-based payments expense	**432**	320
Consultancy	**182**	579
IPO and other transaction costs	**82**	250
Litigation fees	**1,159**	679
Other expenses	**47**	297
Fund administration – Set-up expenses	**938**	–
Fund administration – General administration expenses	**245**	–
Total non-operating expenses	**3,085**	2,125

Litigation fees

Litigation 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 have concluded following reaching a binding settlement with all parties in April 2020 and as part of the resolution of these disputes the Group received performance fees which are disclosed in note 4.

Fund administration expense

Fund administration expenses relate to costs associated with the setup and administration of the LCM Global Alternative Returns Fund which are wholly attributable to the third party interest in consolidated entities.

Note 7 Income tax expense

	Consolidated 2020 $'000	Consolidated 2019 $'000
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	**8,052**	10,150
At the Group's statutory income tax rate of 27.5% (2019: 27.5%)	**2,214**	2,791
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	**119**	88
Other non-deductible expenses	**325**	–
Unrealised foreign exchange	**(93)**	(9)
Change in tax rate	**234**	–
	2,799	2,870
Adjustment to deferred tax balances as a result of change in statutory tax rate	**–**	169
Income tax expense/(benefit)	**2,799**	3,039
Amounts credited directly to equity		
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 2020. 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% tax rate.

	Consolidated 2020 $'000	Consolidated 2019 $'000
Deferred tax asset/(liability)		
Deferred tax asset/(liability) comprises temporary differences attributable to:		
Tax losses	**10,851**	5,761
Employee benefits	**154**	316
Accrued expenses	**30**	7
Contract costs – litigation contracts	**(15,547)**	(8,216)
Transaction costs on share issue	**953**	1,372
Deferred tax asset/(liability)	**(3,559)**	(760)
Movements:		
Opening balance	**(760)**	1,011
Charged to profit or loss	**(2,799)**	(3,039)
Credited to equity	**–**	1,268
Closing balance	**(3,559)**	(760)

Note 8 Cash and cash equivalents

	Consolidated	
	2020 $'000	2019 $'000
Cash at bank	**24,942**	49,119
Cash of third party interests in consolidated entities	**6,812**	–
	31,754	49,119

Cash of third party interests in consolidated entities is restricted as it is held within the fund investment vehicles on behalf of the third party investors in these vehicles. The cash is restricted to use cashflows in the litigation contracts made on their behalf and costs of administering the Fund.

Note 9 Trade and other receivables

	Consolidated	
	2020 $'000	2019 $'000
Due from completion of litigation service	**15,298**	7,266

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 (2019: $nil) in profit or loss in respect of the expected credit losses for the year ended 30 June 2020.

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

	Expected credit loss rate 2020 %	Carrying amount 2020 $'000	Allowance for expected credit losses 2020 $'000
Consolidated			
Not overdue	–	15,298	–
	–	15,298	–

Note 10 Contract costs – litigation contracts

	Consolidated 2020 $'000	Consolidated 2019 $'000
Contract costs – litigation contracts	**62,518**	27,386

Reconciliation of litigation contract costs

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

	Consolidated 2020 $'000	Consolidated 2019 $'000
Opening balance	**27,386**	13,914
Additions during the period	**41,330**	27,838
Additions during the period made by third party interests	**10,694**	–
Litigation service expense – successful contracts [1]	**(16,723)**	(14,189)
Litigation service expense – write down [2]	**(3)**	(177)
Foreign exchange losses	**(166)**	–
Closing balance	**62,518**	27,386

1 Contract costs amortised upon the successful resolution of the litigation contract
2 Due diligence costs written off upon determining that the litigation contract would not be pursued further

Third party interests in contract costs

Contract costs (current and non-current) associated with interests of third parties in the entities which are consolidated in the consolidated statement of financial position is set out below:

	2020 $'000	2019 $'000
Attributable to owners of LCM	**51,824**	27,386
Third party interests	**10,694**	–
Consolidated total	**62,518**	27,386

	Consolidated 2020 $'000	Consolidated 2019 $'000
Current	**15,671**	8,910
Non-current	**46,847**	18,476
	62,518	27,386

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 judgement amount of the litigation and the fees due to the Group under the litigation contract; and
- 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% (2019: 15%).

Based on the above, the Group has recognised impairment losses of $nil (2019: $nil) in profit or loss on contract costs for the year ended 30 June 2020.

Note 11 Current liabilities – trade and other payables

	Consolidated	
	2020 $'000	2019 $'000
Trade payables	**13,042**	6,600
Distribution payable	**32**	32
Other payables	**88**	57
	13,162	6,689

Refer to note 16 for further information on financial instruments.

Note 12 Current and non-current liabilities – employee benefits

	Consolidated	
	2020 $'000	2019 $'000
Current		
Annual leave	**376**	311
Bonuses payable	**–**	675
	376	986
Non-current		
Long service leave	**117**	70
	117	70

Note 13 Equity – issued capital

	Consolidated			
	2020 Shares	2019 Shares	2020 $'000	2019 $'000
Ordinary shares – fully paid	**104,580,899**	104,580,899	**68,830**	68,830
Ordinary shares – under loan share plan	**10,457,247**	8,454,547	**–**	–
	115,038,146	113,035,446	**68,830**	68,830

Movements in ordinary share capital	Date	Shares	$'000
Balance	1 July 2018	53,533,247	24,865
Issue of shares at $0.90 per share		11,111,112	10,000
Issue under Employee Share Option Scheme at $0.47 per share		1,298,000	615
Issue under Employee Share Option Scheme at $0.47 per share		177,000	79
Issue of shares at £0.52 per share		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
Balance	**30 June 2020**	**104,580,899**	**68,830**

Movements in ordinary shares issued under loan share plan:	Date	Shares	$'000
Balance	1 July 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	–
Issue of shares under loan share plan	1 November 2019	1,432,753	–
Issue of shares under loan share plan	4 November 2019	569,947	–
Balance	**30 June 2020**	**10,457,247**	–

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 28 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 2020, 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 2019 Annual Report.

Note 14 Equity – Share-based payments reserve

	Consolidated	
	2020 $'000	2019 $'000
Share-based payments reserve	**1,001**	569

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:

Consolidated	$'000
Balance at 1 July 2018	293
Share-based payments expense	320
Transfer to issued capital on exercise of options	(44)
Balance at 30 June 2019	569
Share-based payments expense	432
Balance at 30 June 2020	**1,001**

Note 15 Equity – dividends

Dividends

Dividends paid during the financial year were as follows:

	Consolidated 2020 $'000	Consolidated 2019 $'000
Final dividend for 2019: 0.828 cents per share (2018: nil cents per share)	**886**	–
Interim dividend for 2020: nil cents per share (2019: 0.506 cents per share)	**–**	536
	886	536

The Directors have determined not to pay a final dividend for the year ended 30 June 2020.

Franking credits

	Consolidated 2020 $'000	Consolidated 2019 $'000
Franking credits available for subsequent financial years based on a tax rate of 27.5% (2019: 30%)	**338**	657

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; and
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

Note 16 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 programme 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:

Consolidated	Assets 2020 $'000	Liabilities 2020 $'000	Assets 2019 $'000	Liabilities 2019 $'000
US dollars	**7,312**	**(1,445)**	–	(809)
Pound sterling	**12,100**	**(4,885)**	30,686	(400)
New Zealand dollars	**–**	**(708)**	–	(508)
Singapore dollars	**1**	**(425)**	–	–
United Arab Emirates dirham	**3,254**	**–**	–	(237)
Other	**4**	**–**	–	(17)
	22,671	**(7,463)**	30,686	(1,971)

The Group had net assets denominated in foreign currencies of $15,208,000 (assets of $22,671,000 less liabilities of $7,463,000) as at 30 June 2020 (2019: $28,715,000). Based on this exposure, had the Australian dollars weakened or strengthened by 10% against these foreign currencies with all other variables held constant, the Group's profit before tax for the year would have increased and decreased respectively by $1,521,000 (2019: $2,872,000). 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 2020 was $229,000 (2019: loss of $100,000).

Foreign exchange risk arises mainly from contract costs which are denominated in a currency that is not the functional currency in which they are measured. The risk is monitored using sensitivity analysis and cash flow forecasting. The Group's contract cost assets are not hedged as those currency positions are considered to be long term in nature.

Price risk

The Group is not exposed to any significant price risk.

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 (2019: 50) basis points would have an favourable/adverse effect on profit before tax of $159,000 (2019: $249,000) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts forecasts.

Note 16 Financial instruments continued

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 one 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.

Consolidated – 2020	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	No contractual maturity date $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	13,042	–	–	–	–	13,042
Distribution payable	32	–	–	–	–	32
Other payables	88	–	–	–	–	88
Third party interest in consolidated entities	–	–	–	–	12,600	12,600
	13,162	–	–	–	12,600	25,762

Consolidated – 2019	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	No contractual maturity date $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	6,600	–	–	–	–	6,600
Distribution payable	32	–	–	–	–	32
Other payables	57	–	–	–	–	57
	6,689	–	–	–	–	6,689

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

Note 17 Fair value measurement

There were no assets and liabilities measured at fair value as at 30 June 2020 and 30 June 2019. 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.

Note 18 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	
	2020 $	2019 $
Short-term employee benefits	3,243,894	2,802,324
Post-employment benefits	97,107	86,766
Long-term benefits	12,525	35,392
Share-based payments	364,195	236,318
	3,717,721	3,160,800

Note 18 Key management personnel disclosures continued

Compensation continued

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

2020	Cash salaries and fees $	Bonus $	Benefits $	Accrued leave $	Superannuation / Pension $	Long service leave $	Share-based payments $	Total $
Non-Executive Directors								
Dr David King	**129,167**	**–**	**–**	**–**	**12,271**	**–**	**–**	**141,438**
Steven McLean	**129,167**	**–**	**–**	**–**	**12,271**	**–**	**–**	**141,438**
Jonathan Moulds	**183,082**	**–**	**–**	**–**	**2,407**	**–**	**–**	**185,489**
	441,416	**–**	**–**	**–**	**26,949**	**–**	**–**	**468,365**
Executive Directors								
Stephen Conrad	**426,859**		**–**	**–**	**25,000**	**–**	**2,480**	**454,339**
Nick Rowles-Davies	**1,098,499**	**183,083**	**18,032**	**–**	**2,408**	**–**	**130,686**	**1,432,708**
Patrick Moloney	**750,000**	**250,000**	**50,043**	**25,962**	**42,750**	**12,525**	**231,029**	**1,362,309**
	2,275,358	**433,083**	**68,075**	**25,962**	**70,158**	**12,525**	**364,195**	**3,249,356**
	2,716,774	**433,083**	**68,075**	**25,962**	**97,107**	**12,525**	**364,195**	**3,717,721**

2019	Cash salaries and fees $	Bonus $	Benefits $	Accrued leave $	Superannuation / Pension $	Long service leave $	Share-based payments $	Total $
Non-Executive Directors								
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
Executive Directors								
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
	1,707,856	550,000	117,365	144,208	68,831	35,392	223,838	2,847,490
	1,979,514	550,000	128,602	144,208	86,766	35,392	236,318	3,160,800

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 [1]	19/11/2018	25/11/2028	$0.47	1,595,058	–	–	1,595,058
Patrick Moloney [1]	04/12/2017	04/12/2027	$0.60	1,000,000	–	–	1,000,000
Patrick Moloney [1]	04/12/2017	04/12/2027	$0.60	1,000,000	–	–	1,000,000
Stephen Conrad [1]	03/12/2018	03/12/2028	$0.89	50,000	–	–	50,000
Stephen Conrad [1]	03/12/2018	03/12/2028	$0.89	50,000	–	–	50,000
Nick Rowles-Davies [1]	06/03/2019	08/03/2029	£0.5200	4,347,517	181,147	–	4,528,664
Patrick Moloney [1]	01/11/2019	01/11/2029	£0.7394	–	1,166,400	–	1,166,400
Nick Rowles-Davies [1]	04/11/2019	04/11/2029	£0.7394	–	388,800	–	388,800
				9,542,575	**1,736,347**	**–**	**11,278,922**

1 Outstanding share options as disclosed in note 28

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 2020 Number	30 June 2019 Number
Jonathan Moulds	N/A	**–**	–
Dr David King	Fully paid ordinary shares	**1,601,484**	1,601,484
Steve McLean	Fully paid ordinary shares	**577,499**	577,499 [1]
Patrick Moloney	Fully paid ordinary shares	**3,920,971**	3,768,113
Patrick Moloney	Unlisted partly paid shares	**1,433,022**	1,433,022 [2]
Stephen Conrad	Fully paid ordinary shares	**337,778**	277,778 [3]
Nick Rowles-Davies	N/A	**–**	–

1 Directorship ceased effective 30 June 2020

2 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

3 Directorship ceased effective 31 March 2020

No changes took place in the interest of the Directors between 30 June 2020 and 22 September 2020.

Note 19 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:

	Consolidated	
	2020	2019
Audit or review services		
Fees for auditing the statutory financial report of the parent covering the Group	**93,520**	78,663
Other auditor fees for auditing the statutory financial reports of any controlled entities	**39,371**	–
	132,891	78,663
Other services – network firms		
Preparation of the tax return	**–**	6,596
Corporate finance services	**–**	366,769
	–	373,365

Note 20 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 21 Commitments

	Consolidated	
	2020 $'000	2019 $'000
Lease commitments		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	**180**	563
One to five years	**–**	88
	180	651

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

Note 22 Related party transactions

Transactions with Director related entities

The following transactions occurred with related parties:

	Consolidated	
	2020	2019
Consulting fees paid to Thedoc Pty Ltd – a Director related entity of Stephen Conrad	**–**	130,625
Acquisition of LCM Advisory Pty Ltd (formerly 101 Capital Pty Ltd)	**225,000**	–
	225,000	130,625

The Group acquired all of the issued capital in LCM Advisory Pty Ltd (formally known as 101 Capital Pty Limited) on 3 February 2020 for $225,000. LCM Advisory Pty Ltd is the owner of an Australian Financial Services License (AFSL). LCM Advisory Pty Ltd was wholly owned by Kanamex Pty Limited of which Patrick Moloney was a Director and shareholder. The acquisition price for company holding an AFSL was at normal market rates. Patrick Moloney did not participate in the Board decision to acquire the company.

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 (AIG) of which Patrick Coope is a shareholder and Keli-Saw Holdings Pty Ltd of which Patrick Moloney is a shareholder.

On 28 February 2020 the Group's ownership in the LCM Unit Trust increased by 20% following the acquisition of units owned by AIG of which Patrick Coope is a shareholder. The Group acquired these units for $300,000 as part of the settlement of the litigation between the Group and AIG.

Note 23 Parent entity information

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

	Consolidated	
Statement of profit or loss and other comprehensive income	**2020 $'000**	**2019 $'000**
Loss after income tax	**(432)**	(4)
Total comprehensive income	**(432)**	(4)
Statement of financial position		
Total current assets	**–**	–
Total assets	**67,560**	68,446
Total current liabilities	**–**	–
Total liabilities	**–**	–
Equity		
Issued capital	**68,830**	68,830
Share-based payments reserve	**1,001**	569
Retained profits	**(2,271)**	(953)
Total equity	**67,560**	68,446

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity has guarantees in relation to the debts of its Australian subsidiaries as at 30 June 2020 and 30 June 2019.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2020 and 30 June 2019.

Capital commitments – property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2020 and 30 June 2019.

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; and
- 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 24 Interests in subsidiaries

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

Name	Principal place of business/ Country of incorporation	Ownership Interest 2020 %	Ownership Interest 2019 %
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%**	–
LCM Unit Trust	Australia	**80%** [2]	60%
LCM Operations UK Limited	United Kingdom	**100%**	100%
LCM Corporate Services UK Limited	United Kingdom	**100%**	100%
LCM Corporate Services Pte. Ltd.	Singapore	**100%**	100%
LCM Singapore Pty Ltd	Australia	**100%** [1]	–
LCM Recoveries Pty Ltd	Australia	**100%** [1]	–
LCM Recoveries UK Limited	United Kingdom	**100%** [1]	–
LCM Advisory Pty Ltd	Australia	**100%** [3]	–
LCM Funding Pty Ltd	Australia	**100%** [1]	–
LCM Funding SG Pty Ltd	Australia	**100%** [1]	–
LCM Funding UK Limited	United Kingdom	**100%** [1]	–
LCM Global Alternative Returns Fund [4]			
LCM Global Alternative Returns Fund GP Limited	Jersey	**100%** [1]	–
LCM Global Alternative Returns Fund (Special Partner) LP	Jersey	**100%** [1]	–

1 Entity was incorporated during the year
2 Percentage owned increased to 80% on 28 February 2020 per note 22
3 Shares in the company were acquired on 3 February 2020 per note 22. Formerly named 101 Capital Pty Ltd
4 The Group launched the LCM Global Alternative Returns Fund (the Fund) on 10 March 2020. The Fund comprises two partnerships, the LCM Global Alternative Returns Fund LP and the LCM Global Alternative Returns Feeder Fund LP. The partnerships are between the LCM Global Alternative Returns Fund GP Limited and LCM Global Alternative Returns Fund (Special Partner) LP which are both 100% owned by the Group as reflected within this note. The Group is deemed to control the Fund from an accounting perspective on the basis that the Group has exposure, or rights, to variable returns from its involvement with the Fund. As a result, the LCM Global Alternative Returns Fund entities have been consolidated into the Group. Further information disclosed in note 25

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 Ownership Interest 2020 %	Parent Ownership Interest 2019 %	Non-controlling interest Ownership Interest 2020 %	Non-controlling interest Ownership Interest 2019 %
LCM Unit Trust	Australia	Management rights	**80%**	60%	**20%**	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	
Summarised statement of financial position	**2020 $'000**	**2019 $'000**
Current assets	**179**	139
Non-current assets	**–**	–
Total assets	**179**	139
Current liabilities	**84**	85
Non-current liabilities	**–**	–
Total liabilities	**84**	85
Net assets	**95**	54
Summarised statement of profit or loss and other comprehensive income		
Revenue	**–**	–
Other income	**70**	–
Expenses	**(29)**	(11)
Profit/(loss) before income tax expense	**41**	(11)
Income tax expense	**–**	–
Profit/(loss) after income tax expense	**41**	(11)
Other comprehensive income	**–**	–
Total comprehensive income	**41**	(11)
Statement of cash flows		
Net cash from operating activities	**40**	(234)
Net cash from investing activities	**–**	513
Net cash used in financing activities	**–**	(163)
Net increase/(decrease) in cash and cash equivalents	**40**	116
Other financial information		
Profit attributable to non-controlling interests	**8**	(4)
Accumulated non-controlling interests at year end	**19**	22

Note 25 Investment in consolidated entities

AASB requires the Group to consolidate fund investment vehicles over which it has exposure to variable returns from the Fund investment vehicles. As a result, third party interests in relation to the Fund have been consolidated in the financial statements.

As at 30 June 2020, the financial liability due to third party interests is $12,600,000 (2019: nil), recorded at amortised cost and net of transaction costs. The net amount due comprises cash and cash equivalents, contract costs and trade payables. Third party interests exclude the 25% co-investment made by Litigation Capital Management Limited and its wholly owned subsidiaries (LCM). The third party interests in the Fund carry an entitlement to receive an 8% soft return hurdle. Upon satisfaction of the third party interests soft return hurdle, LCM is entitled to performance fees as Fund Manager on the basis of a deal by deal waterfall. The residual net cash flows are to be distributed 25% to LCM and 75% to the third party interests until a IRR of 20% is achieved by the third party interests, thereafter the net residual cash flows are distributed 35% to LCM and 65% to the third party interests.

Note 25 Investment in consolidated entities continued

The following tables reflect the impact of consolidating the results of the Fund with the results for LCM to arrive at the totals reported in the consolidated statement of comprehensive income and consolidated statement of financial position. The Fund column in the table below presents the interests of third party investors comprising both the investment in the litigation contracts made on their behalf and costs of administering the Fund. The LCM column includes the 25% co-investment in these litigation contracts.

	2020			2019
Consolidated Statement of Comprehensive Income	**LCM-only $'000**	**Fund $'000**	**Consolidated $'000**	**Consolidated $'000**
Revenue from contracts with customers				
Litigation service revenue	**35,833**	**–**	**35,833**	34,707
Performance fees	**2,608**	**–**	**2,608**	–
	38,441	**–**	**38,441**	34,707
Litigation service expense	**(16,723)**	**–**	**(16,723)**	(14,366)
Gross profit	**21,718**	**–**	**21,718**	20,341
Other income	**90**	**–**	**90**	311
Interest income	**35**	**–**	**35**	56
Expenses				
Employee benefits expense	**(7,611)**	**–**	**(7,611)**	(6,069)
Depreciation expense	**(86)**	**–**	**(86)**	(53)
Corporate expenses	**(3,752)**	**–**	**(3,752)**	(3,757)
Litigation fees	**(1,159)**	**–**	**(1,159)**	(679)
Fund administration expense	**–**	**(1,183)**	**(1,183)**	–
Total expenses	**(12,608)**	**(1,183)**	**(13,791)**	(10,558)
Profit before income tax expense	**9,235**	**(1,183)**	**8,052**	10,150
Analysed as:				
Adjusted operating profit	**11,137**	**–**	**11,137**	12,275
Non-operating expenses	**(1,902)**	**(1,183)**	**(3,085)**	(2,125)
Profit before income tax expense	**9,235**	**(1,183)**	**8,052**	10,150
Income tax expense	**(2,799)**	**–**	**(2,799)**	(3,039)
Profit after income tax expense for the period	**6,436**	**(1,183)**	**5,253**	7,111
Other comprehensive income for the year, net of tax	**–**	**–**	**–**	–
Total comprehensive income for the period	**6,436**	**(1,183)**	**5,253**	7,111
Profit for the period is attributable to:				
Owners of Litigation Capital Management Limited	**6,428**	**–**	**6,428**	7,115
Third party interests in the Fund	**–**	**(1,183)**	**(1,183)**	–
Non-controlling interest	**8**	**–**	**8**	(4)
	6,436	**(1,183)**	**5,253**	7,111

Consolidated statement of financial position	2020 LCM-only $'000	2020 Fund $'000	2020 Consolidated $'000	2019 Consolidated $'000
Assets				
Current assets				
Cash and cash equivalents	**24,942**	**6,812**	**31,754**	49,119
Trade and other receivables	**15,298**	**–**	**15,298**	7,266
Contract costs	**15,671**	**–**	**15,671**	8,910
Other assets	**439**	**–**	**439**	693
Total current assets	**56,350**	**6,812**	**63,162**	65,988
Non-current assets				
Contract costs	**36,153**	**10,694**	**46,847**	18,476
Property, plant and equipment	**204**	**–**	**204**	216
Intangible assets	**336**	**–**	**336**	64
Other assets	**280**	**–**	**280**	–
Total non-current assets	**36,973**	**10,694**	**47,667**	18,756
Total assets	**93,323**	**17,506**	**110,829**	84,744
Liabilities				
Current liabilities				
Trade and other payables	**9,268**	**3,894**	**13,162**	6,689
Employee benefits	**376**	**–**	**376**	986
Total current liabilities	**9,644**	**3,894**	**13,538**	7,675
Non-current liabilities				
Deferred tax liability	**3,559**	**–**	**3,559**	760
Employee benefits	**117**	**–**	**117**	70
Third party interests in consolidated entities[1]	**(2,195)**	**14,795**	**12,600**	–
Total non-current liabilities	**1,481**	**14,795**	**16,276**	830
Total liabilities	**11,125**	**18,689**	**29,814**	8,505
Net assets	**82,198**	**(1,183)**	**81,015**	76,239

1 During the year LCM incurred placement fees and other costs in relation to the LCM Global Alternative Returns Fund. The amounts are reflected as transaction costs and reflected in the LCM balance sheet above

Note 26 Earnings per share

	Consolidated	
	2020 $'000	2019 $'000
Profit after income tax	**5,253**	7,111
Non-controlling interest	**(8)**	4
Profit after income tax attributable to the owners of Litigation Capital Management Limited	**5,245**	7,115

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	**104,580,899**	82,235,934
Adjustments for calculation of diluted earnings per share:		
Amounts uncalled on partly paid shares and calls in arrears	**2,506,679**	2,573,409
Options over ordinary shares	**4,195,207**	3,354,864
Weighted average number of ordinary shares used in calculating diluted earnings per share	**111,282,785**	88,164,207

	Cents	Cents
Basic earnings per share	**5.02**	8.65
Diluted earnings per share	**4.71**	8.07

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

Note 27 Reconciliation of cash flows

Reconciliation of profit after income tax to net cash from operating activities:

	Consolidated	
	2020 $'000	2019 $'000
Profit/(loss) after income tax expense for the year	**5,253**	7,111
Adjustments for:		
Depreciation and amortisation	**86**	53
Share-based payments	**432**	320
Other – non-cash items	**372**	719
Change in operating assets and liabilities:		
Increase in contract costs – litigation contracts	**(35,132)**	(13,472)
Increase in trade and other receivables	**(8,032)**	(8,150)
Increase in trade and other payables	**6,473**	3,585
Decrease in deferred tax assets	**–**	1,011
Increase in deferred tax liabilities	**2,799**	2,028
Increase in prepayments	**255**	(492)
Decrease in employee benefits	**(563)**	768
Decrease in other liabilities	**(129)**	–
Net cash used in operating activities	**(28,186)**	(6,519)

Changes in liabilities arising from financing activities

	Third party interests in consolidated entities $'000
At 1 July 2018	–
Other non-cash items	–
At 30 June 2019	–
Proceeds	(14,582)
Payments	920
Other non-cash items	1,062
At 30 June 2020	(12,600)

Note 28 Share-based payments

The share-based payment expense for the year was $432,000 (2019: $320,000).

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 Committees, 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 Committees.

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

2020

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
20/09/2016	01/11/2021	**$1.00**	**1,500,000**	**–**	**–**	**–**	**1,500,000**
			1,500,000	**–**	**–**	**–**	**1,500,000**
Weighted average exercise price			**$1.00**	**$0.00**	**$0.00**	**$0.00**	**$1.00**

2019

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
01/12/2013	01/12/2018	$0.47	3,190,116	–	(3,070,058)	(120,058)	–
20/09/2016	01/11/2021	$1.00	1,500,000	–	–	–	1,500,000
			4,690,116	–	(3,070,058)	(120,058)	1,500,000
Weighted average exercise price			$0.64	$0.00	$0.47	$0.47	$1.00

Note 28 Share-based payments continued

Employee share option scheme continued

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

Grant date	Expiry date	2020 Number	2019 Number
20/09/2016	01/11/2021	**1,500,000**	1,500,000
		1,500,000	1,500,000

The weighted average share price during the financial year was $1.356 (2019: $1.665).

The weighted average remaining contractual life of options outstanding at 30 June 2020 was 1.34 years (2019: 2.34 years).

Loan Funded Share Plans (LSP)

As detailed in note 13, 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 one to three 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 2,068,837 (2019: 6,454,547) shares under the LSP.

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

2020

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
04/12/2017	04/12/2027	**$0.60**	**2,000,000**				**2,000,000**
31/08/2018	31/08/2028	**$0.77**	**411,972**				**411,972**
19/11/2018	25/11/2028	**$0.47**	**1,595,058**				**1,595,058**
03/12/2018	03/12/2028	**$0.89**	**100,000**				**100,000**
06/03/2019	06/03/2029	**£0.5200**	**4,347,517**	**181,147**			**4,528,664**
01/11/2019	01/11/2029	**£0.7394**		**1,432,753**			**1,432,753**
01/11/2019	01/11/2029	**£0.7730**		**66,137**			**66,137**
04/11/2019	04/11/2029	**£0.7394**		**388,800**			**388,800**
			8,454,547	**2,068,837**	**–**	**–**	**10,523,384**
Weighted average exercise price			**$0.761**	**$1.292**	**$0.000**	**$0.000**	**$0.862**

2019

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
04/12/2017	04/12/2027	$0.60	2,000,000				2,000,000
31/08/2018	31/08/2028	$0.77		411,972			411,972
19/11/2018	25/11/2028	$0.47		1,595,058			1,595,058
03/12/2018	03/12/2028	$0.89		100,000			100,000
06/03/2019	06/03/2029	£0.5200		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

There were 3,062,031 options vested and exercisable as at 30 June 2020 (2019: 102,993).

The weighted average remaining contractual life of options under LSP outstanding at the end of the financial year was 1.03 years (2019: 1.56 years).year was 0.97 years (2019: 1.56 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	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date[1]
06/03/2019	06/03/2029	£0.7580	£0.5200	35.00%	1.20%	0.45%	$0.198
01/11/2019	01/11/2029	£0.7730	£0.7394	35.00%	1.20%	0.45%	$0.308
04/11/2019	04/11/2029	£0.7720	£0.7394	35.00%	1.20%	0.45%	$0.140
01/11/2019	01/11/2029	£0.7730	£0.7730	35.00%	1.20%	0.45%	$0.140
01/11/2019	01/11/2029	£0.7730	£0.7730	35.00%	1.20%	0.45%	$0.177

1 AUD amount. GBP equivalent £0.1050, £0.1638, £0.0744, £0.0744, £0.0940 respectively

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.

Note 29 Events after the reporting 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 Group, the results of those operations, or the state of affairs of the Group in future years.

Directors' Declaration
30 June 2020

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standards 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 consolidated entity's financial position as at 30 June 2020 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- 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

Patrick Moloney
Chief Executive Officer
Director

22 September 2020

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 20 years LCM has provided litigation financing and was one of the first professional litigation financiers in Australia.
- For more information see About Us (https://www.lcmfinance.com/about/about-lcm/).

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 (https://www.lcmfinance.com/constitution/).

Board of Directors

- Details of the Company's Board of Directors can found on https://www.lcmfinance.com/about/directors/.

Registered office and advisers

- Details of the Company's registered office and list of advisers can found on https://www.lcmfinance.com/shareholders/advisers/.

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 115,038,146 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 on https://www.lcmfinance.com/shareholders/significant-shareholders/.
- 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 (https://www.lcmfinance.com/shareholders/corporate-governance/).
- Directors' responsibilities and committee memberships can be found on https://www.lcmfinance.com/shareholders/committees/.

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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LCM

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