LCM

EXPERIENCE COUNTS

Annual Report and Financial Statements 2021

Litigation Capital Management Limited

ACN 608 667 509

Our Purpose

Delivering sustainable long-term GROWTH, through disciplined investment and substantial progress in our underlying financial performance metrics, creating increased value for shareholders and investors.

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.

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For the latest information, please visit our website: **www.lcmfinance.com**

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

Jonathan Moulds
Non-Executive Chairman

HIGHLIGHTS

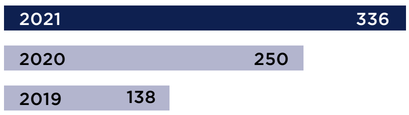
Total assets under management ($m)

336m

For more information on the Total assets under management, please see page 22 of the CEO Review.

Total committed portfolio ($m)

336m



Revenue ($m)

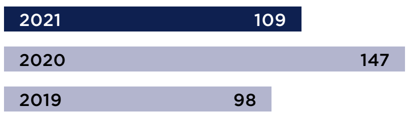
37.1m

Ten-year cumulative portfolio internal rate of return

78%

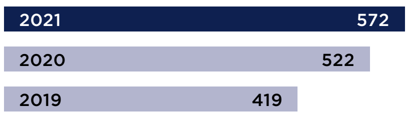
Capital committed ($m)

109m



Number of applications

572

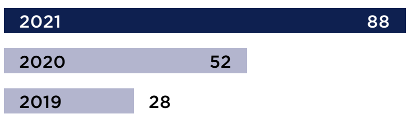


Ten-year cumulative portfolio return on invested capital

153%

Capital invested ($m)[1]

88m



Diversified portfolio by industry type and capital commitment – $Am

- Commercial Disputes – $38m
- Insolvency – $52m
- Class Action – $128m
- Portfolio – $39m
- Arbitration – $77m
- Recoveries – $2m

1 Capital deployed includes A$39.5m related to the third party fund

STRATEGIC REPORT

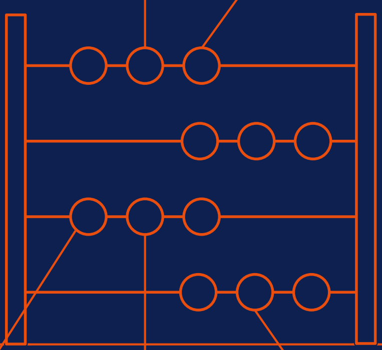
Contents

Experience counts

With a proven track record of success, LCM have been providing litigation finance solutions since 1998. As one of the first litigation finance companies established in Australia our experience has been key for our clients' successful outcomes.

89%
of funded litigation projects are profitable

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



23 years
of delivering outstanding results

1 of 4
global funders listed on public exchanges

Leading
the field in portfolio investment

We create value through our three primary investment STRATEGIES.

Our strategic objectives

1. 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 16 and 17 for more detail***

2. Disciplined underwriting

Consistent and disciplined due diligence and risk management.

→ ***See pages 16 and 17 for more detail***

3. 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 16 and 17 for more detail***

"Delivering sustainable growth through disciplined and responsible investment."

Patrick Moloney
Chief Executive Officer

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.

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

Dear shareholder

At the time of writing this letter in August last year we had just witnessed months of disruption due to COVID-19. Disruption to physical, financial and mental well-being felt by many people across the world. Much of that disruption has continued over these past 12 months – although the stronger and more developed countries have generally performed much more resiliently during this period, largely due to the remarkable success of the vaccine programmes.

LCM has been in a most fortunate position due to the diversity of its business model, in both sector and geography, the flexibility of its funding structure and the ability of our team to work remotely so effectively. We are particularly encouraged by the strong interest we have seen in both single and portfolio commercial disputes – a core competency of the LCM business model. We remain well positioned for an expected upturn in both insolvency disputes and restructuring events that, we believe, will inevitably occur as business activity resumes and the economic cycle plays out.

In last year's letter, I noted the launch of our first third-party fund – the Global Alternative Returns Fund, a US$150 million co-investment fund with a number of key blue-chip global investors. The successful launch of this fund was an exciting development for the LCM business model as we continue to develop our asset management business. As a Board we are pleased to report that the GAR Fund is now more than 75% committed. We expect to launch Fund II, at a target size of US$300 million, in H1 FY22. This will be a highly significant milestone for the Company. All our cornerstone investors in the first fund have expressed their interest in participating in the second fund.

A further highlight of this past year has been a US$50 million credit facility secured with Northleaf Capital Partners. The Board of LCM had been considering for some time introducing additional capital to LCM's balance sheet to increase the flexibility of LCM's capital structure. Northleaf is a global private markets investment firm with considerable experience in the litigation funding

"LCM has been in a most fortunate position due to the diversity of its business model, in both sector and geography, the flexibility of its funding structure and the ability of our team to work remotely so effectively."

Jonathan Moulds
Non-Executive Chairman

sector. As detailed in our CEO Patrick Moloney's report, the number and quality of applications for our capital have continued to increase during this period. The Board considers the capital boost from Northleaf, at highly competitive market rates, an important step to further grow our business. This capital was secured in one of the most volatile and disruptive periods in the recent history of financial markets. In my view, this should give our shareholders further confidence in the underlying strength and opportunities inherent in our business model.

As discussed in this annual report, we continue to develop our global business model and see many attractive opportunities. As we have communicated in previous releases, Patrick planned to move to London during this recent period. This move was delayed due to COVID-19 and it is our firm intention that this move will now occur in the next few months, subject to COVID-19. This will be a major step forward in our ability to widen our business model and diversify our shareholder register.

Appropriate governance and transparency remain critical considerations for our Board. We are well aware of the challenges faced by a number of competitors in this industry in recent years. I believe shareholders can take significant assurance from the diversity of experience of our Board, both in the legal world and in structured finance. This differentiates LCM from many, if not all, of our competitors.

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 while also diversifying our business model.

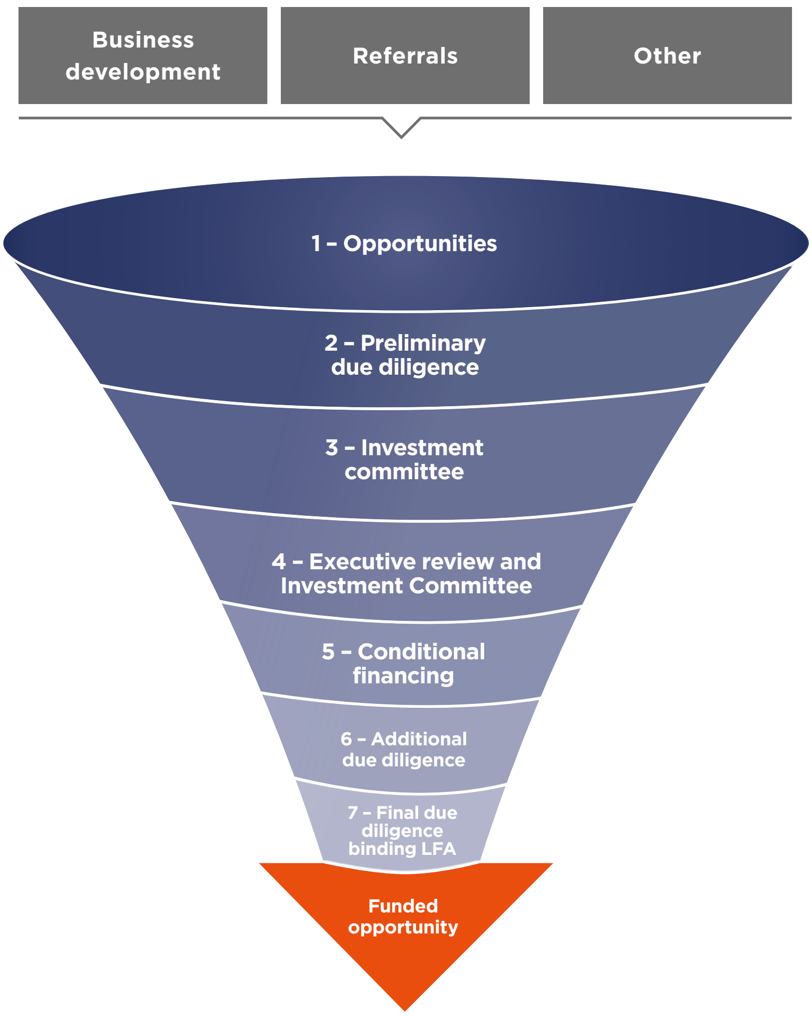
I am gratified to see the performance of LCM over these past 12 months, particularly given the challenging environment much of the sector has faced. In particular, I would highlight the following: since inception, LCM has completed 237 investments sustaining a financial loss in just 4.6% percent of cases. We are now at the 10-year mark of measuring investment performance and our portfolio IRR sits at 78% and our portfolio cumulative Return on Invested Capital is 153%.

As will be clear, we continue to believe this sector will continue to offer attractive opportunities for the experienced litigation funder. In many ways this sector is still nascent. Many areas for funding are yet to be fully developed and many potential beneficiaries, from corporates to law firms, have yet to fully understand the opportunity this market can provide. That process of development and education will be a key part of LCM's focus over the coming years.

We look forward to the future of LCM.

Delivering consistently strong returns, underpinned by our disciplined INVESTMENT selection.

Investment selection process



1 – Opportunities

Opportunities come from reactive sources such as solicitors, barristers, insolvency practioners, experts and brokers as well as proactive sources through business development, leveraging firm wide relationships, participation in key industry events or sectoral focus.

2 – Preliminary due diligence

Investment Manager considers applications for financing against LCM's five key pillars and considers the prospects of successful recovery, budget for the litigation project and relevant documents.

Delivering sustainable growth and shareholder value through:

1. Strong and innovative origination of investment opportunities
2. Consistent and disciplined due diligence and risk management
3. Sufficient and alternate capital to facilitate growth

Investment selection criteria

Clear legal principles | Written Evidence | Recoverability | Proportionality | Experienced legal team

(read more on our project selection process in the risk report on pages 44 and 45)

3 – Investment committee

Review by committee of Investment Managers (and if necessary a senior independent legal professional). This level of review results in the rejection of a large proportion of applications.

Suggestions made by committee as to how to progress the application which may be accepted.

Recommendation may be made to accept a litigation project.

4 – Executive review and Investment Committee

Preparation of a formal Investment Summary analysis document. May require independent opinion from Queens Counsel/Senior Counsel (‘QC/SC’). May require further assessment on the quantum of the litigation project or likely recovery. May approve entry into conditional financing agreement.

5 – Conditional financing

Common conditions may include:

- Further independent QC/SC opinion that the litigation project has good prospects
- Budget provided and solicitors’ retainer agreement signed
- Court approval of the LFA if required.

Proceedings to commence and claim is prepared to be filed.

6 – Additional due diligence

LCM meets costs of further due diligence but, if it elects to proceed to unconditional financing, these costs are recoverable from the outcome of the project.

7 – Final due diligence binding LFA

Funding agreement: Once LCM is satisfied, LCM issues notice that the financing is unconditional, which will result in LCM being required to pay all costs and on some occasions being required to provide an indemnity and/or security for any adverse cost order that may be made against LCM’s client(s) in respect of the litigation project LCM reserves the contractual right to terminate the financing arrangement at any time.

Disciplined investment selection is demonstrated by maintaining a strong track record which for the last ten years has PRODUCED

78% IRR

153% RoIC

2011 Fund completed and delivers IRR to unit holders of 42.1% . Credit facility secured for US$5.7 million. Listed on ASX with A$15 million raise

2016

Patrick Moloney appointed CEO and further A$5 million raised for further investment in litigation projects and positioning for IPO

2015

position for accelerated growth

Singapore office opened. Nick Rowles-Davies and team from Chancery join as LCM EMEA. LCM delists from the ASX and lists on the London Stock Exchange AIM Market. ASX Placement raised A$10m, AIM IPO raised c.A$35m

2018

LCM forms alliance with global litigation law firm Clyde & Co and commitments of A$100m since merger with Chancery

2019

Established first satellite Fund

2009

Inception

Established second satellite Fund

2011

Equity raise of A$1.4 million to invest in people and operations with a further A$3.8 million raised to grow the business and strengthen the balance sheet for investment opportunities

2014

building market presence

LCM enters into external financing arrangement with international litigation financier

2013

LCM closes LCM Global Alternative Returns Fund I at US$150m. LCM enters a non-exclusive arrangement with global law firm DLA piper offering funding for large-scale matters

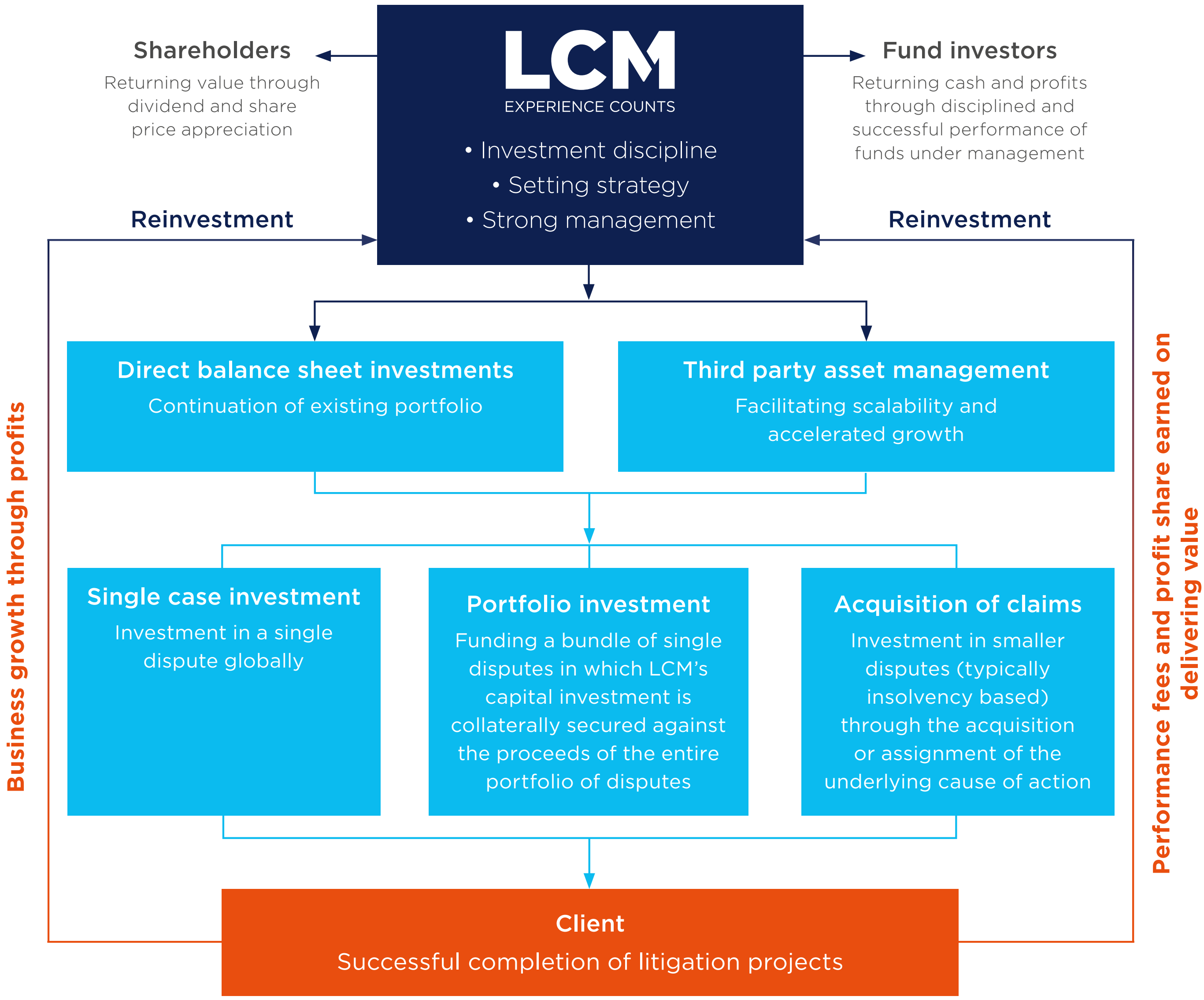
2020

LCM secures US$50m credit facility with Northleaf. Significant progress in raising capital for Fund II

2021

Our Business Model

STRONG momentum in our asset management business, establishing the foundation for further growth.



We continue to deliver strong returns in line with our historical proven track record, further demonstrating our investment selection expertise which translates into enhanced shareholder value.

Who we serve

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.

People

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.

How we engage

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.

We create value

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.

Market expertise

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 Business Model continued

Direct investments

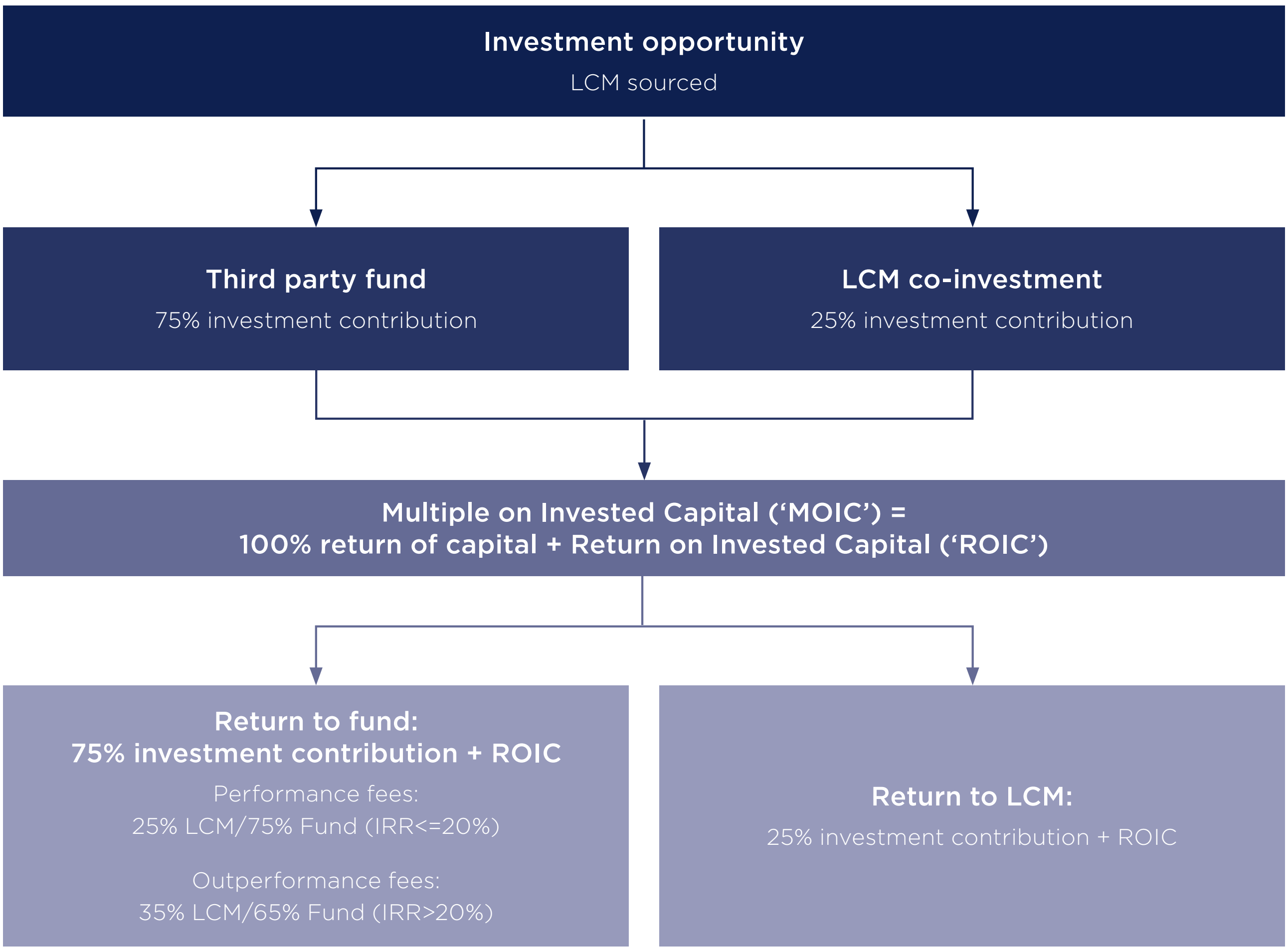
These investments are made directly by LCM through its balance sheet. These investments comprise:

- 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.

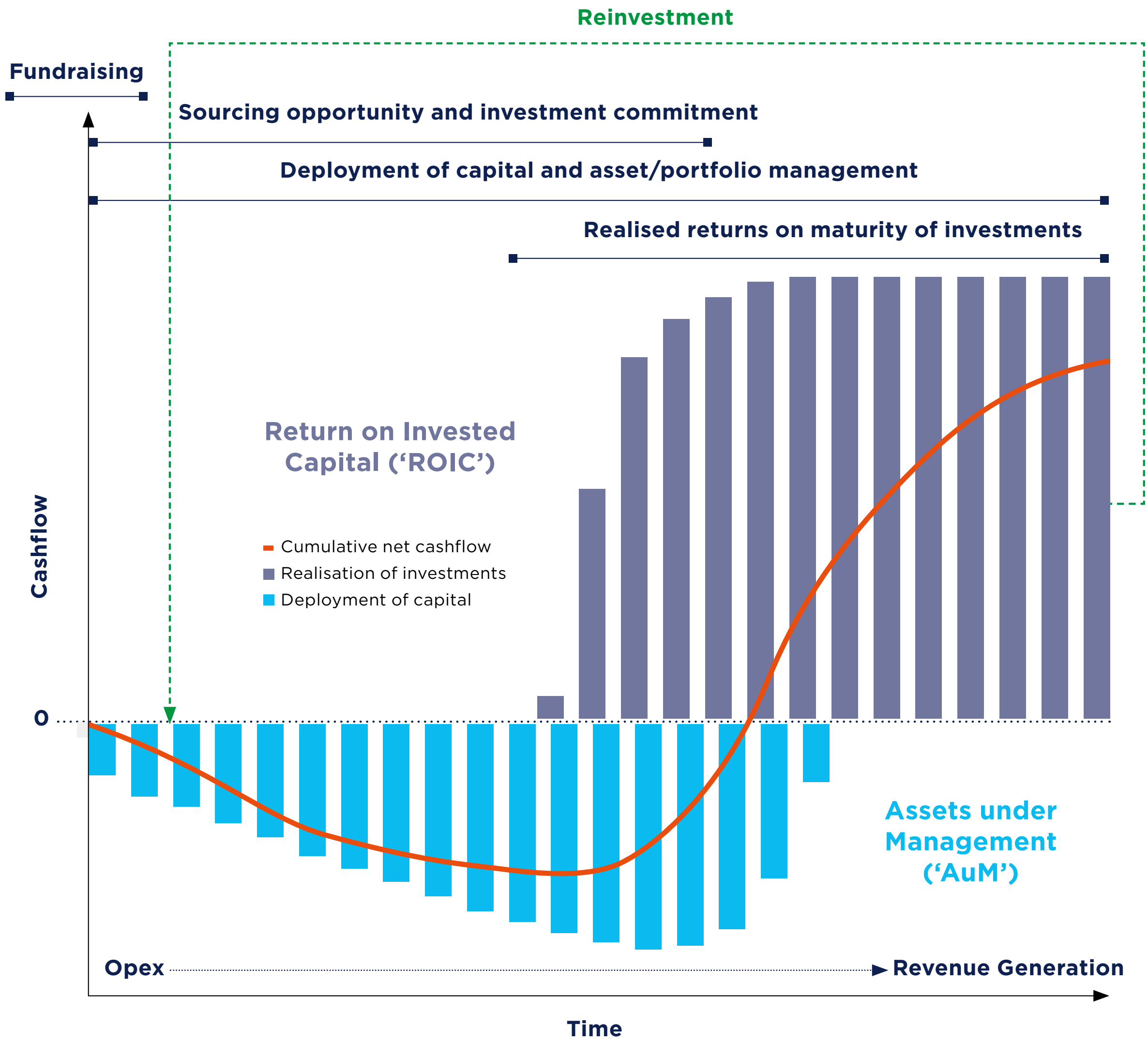
Asset management business

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 ten 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 on average taken 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 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.



Committed to delivering LONG-TERM sustainable growth.

Key performance indicators

Our focus on growth continued during the year with strong progress being made across the vast majority of our key performance metrics. Against a backdrop of volatile markets and uncertainty caused by the impact COVID-19 has had globally, we continued to see an increased demand for litigation funding. Our Assets under Management grew from $250 million to $336 million and we have made considerable progress with Fund I, now over 75% committed. Consequently, we have commenced the process of launching a second and subsequent fund with a target of US$300m. The launch of our second Fund allows us to continue to expand and diversify our portfolio under management. We are pleased that all existing investors from Fund I have expressed a strong interest in participating in Fund II which is expected to close in H1 FY22. This demonstrates the strength of the relationships we have developed with our investors and the long-term value of our business. We are committed to continuing 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.

Our Key Performance Indicators are the metrics which provide a true reflection of growth for our business at this stage. While we place importance on measures such as revenue and operating profit, given the nature of our investments at the early stage of our portfolio, they do not give a true reflection of growth. This is primarily due to 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 (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

2021	US$150
2020	US$150

- First third party fund of $US150 million over 75% committed
- Launch of second fund well progressed
- First resolution achieved during the period

Outlook

- Intention to close second third party fund with a target of US$300 million
- Focus on growth of our asset management business
- Increase portfolio of investments under management
- Fully commit Fund I

Number of applications

Link to strategy

Performance

2021	572
2020	522
2019	419

- Number of applications received in the last financial year was 572, representing a 10% increase on FY20
- Conversion rate maintained at 3% is the result of a disciplined and rigorous due diligence and investment selection process
- Increased demand is significant as it demonstrates the ability of IMs to originate in challenging market conditions

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 A$m

Link to strategy

Performance

2021	109
2020	147
2019	98

- Capital committed in year decreased from $147 million in FY20 to $109 million FY21
- Total AUM increased from $250 million in FY20 to $336 million FY21 (inclusive of third party investments of A$155m)
- Launch of second Fund accelerates growth of our Asset Management business
- Committed over 75% of the capital from the Fund across 22 projects
- 22 further direct investment projects exclusive of recoveries matters

Outlook

- Realisations of maturing direct balance sheet portfolio
- 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 A$m

Link to strategy

Performance

2021	88
2020	52
2019	28

- Investment of capital increased from $52 million in FY20 to $88 million comprising $48.5 million direct balance sheet and $39.5 million third party fund
- Demonstrates our commitment to putting capital to work to maximise returns
- Credit facility further supplements our balance sheet, facilitating growth
- Continued innovative finance solutions

Outlook

- Growth in portfolio of assets under management
- 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

2021	78%
2020	78%
2019	80%

- Ten year cumulative IRR inclusive of losses at 78% consistent with the prior year 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 performances

Cumulative portfolio return on invested capital

Link to strategy

Performance

2021	153%
2020	134%
2019	135%

- Consistent performance reflected in ten year portfolio ROIC, inclusive of losses, of 153% compared to 134% in FY20
- 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 significantly.

"LCM's business is resilient and fortunate enough to adapt and operate effectively from home or in isolation."

Patrick Moloney
Chief Executive Officer

Introduction

The financial year ended 30 June 2021 (FY21) marked the first full year that LCM has operated in markets disrupted by the global pandemic of COVID-19. The economic environment has produced a mixture of positives and challenges for LCM. While they have presented immediate and future opportunities, they have also required LCM to adapt the way it originates investment opportunities. Market conditions have driven higher demand for LCM's capital in our main markets for the funding of commercial disputes at a single case level and portfolio level, in both litigation and arbitration. Additionally, economic conditions have also set an expectation with respect to insolvency and restructuring disputes which LCM regards as being one of its longstanding core competencies. That part of the market, and indeed that economic cycle, is yet to translate into applications, however, our experience is that those opportunities will follow.

Overall, LCM performed strongly against the majority of its Key Performance Indicators ('KPIs'). Applications were up 10% on FY20 although commitments slowed due to the nature of operating through a pandemic. Invested capital increased by 69%, and assets under management increased by 34%.

LCM advanced its third-party capital asset management business by committing 76% of the Global Alternative Returns Fund ('GAR') as at the close of FY21 and made significant progress in its capital raising activities for Fund II.

US$150m

In March 2020 we closed a US$150m Fund which is now over 75% committed

During the FY21 period LCM also supplemented its capital structure by securing a credit facility with Northleaf Capital Partners, a high calibre and experienced international debt capital provider. This facility allows for added flexibility, enabling us to capitalise on our growth strategies, in advance of generating organic capital through our maturing portfolio of direct investments.

FY21 in review

Although LCM's business is resilient and fortunate enough to adapt and operate effectively, FY21 was a difficult and significantly disrupted period for LCM and the broader sector. Particularly impacted were origination and business development, progressing due diligence in relation to applications and the disruption and delays to court and arbitral processes. Notwithstanding this, LCM increased the number of applications it received compared to FY20 from 522 to 572, representing a 10% rise. That increase is a significant achievement given the prevailing market conditions globally.

The increase in applications is particularly significant as it demonstrates the ability of investment managers to originate opportunities despite the challenges brought about by COVID. Government imposed restrictions prevented investment managers from participating in their usual business development activities such as physical presentations, attending legal and insolvency conferences, participating in public speaking and industry debates and generally having the benefit of their established referral lines.

As previously announced, I had planned to relocate to the UK in order to manage LCM's growth from our London office. That would bring LCM's core executive team in one location, with LCM's Chief executive Officer and Chief Financial Officer both operating from our London office. The move will bring about significant efficiencies with the chief executives operating in the same time zone and where LCM enjoys its listing. That management restructure has been delayed as a consequence of Australia's borders being closed and an inability for me as CEO relocating. That position is now beginning to change. It is currently anticipated that such restructuring and relocation can be effected before the end of this calendar year. That is of course subject to border control issues, but it looking very promising.

The delay has permitted me to work closely with Susanna Taylor, our Head of Investments in the APAC region. That period of delay has been valuable in facilitating an extended planning and strategy period for both Susanna and myself with respect to ongoing growth in the APAC region. I can say, without hesitation, that I have every confidence in Susanna managing the ongoing growth of the APAC region. In terms of the London office, I look forward to heading up growth in the region as economies both in the UK and Europe emerge from the difficulties brought about by COVID.

During the year LCM encountered disruption in our ability to conduct efficiently our rigorous due diligence and risk management process. The information flow in respect of applications is largely managed through law firms, which, like many other sectors of the economy, experienced disruption. That slowed the process considerably and consequently, our ability to commit to matters as a result of those delays. This resulted in a reduced level of commitments when measured against the prior financial year. LCM's commitments were A$109 million in FY21 compared with A$147 million in the prior year. We are seeing an increase in the efficiency of applications which is expected to help reverse this decline over the short term. The reality of commerce is that disputes must be resolved and all service providers to the global disputes industry, predominantly lawyers, are adapting to new work practices in a COVID environment.

Our win loss ratio since 1998

237 completed investments

Through the period the benefit of our strategic law firm partnerships continued to develop with the establishment of a tailored Disputes finance facility with DLA Piper which will significantly expand LCM's reach into major global disputes hubs and strengthens our presence in markets that are currently under-penetrated by litigation finance.

LCM also observed disruption in the progress of disputes either through the court process or the arbitral process. From time-to-time in all territories in which LCM operates, the court system and indeed, the community more widely, has been placed in a mandatory lockdown. That has inevitably caused delays in the finalisation of investments. Such disruption and delays have driven innovation and modernisation. Ultimately, the court system in many respects is now operating far more efficiently than it was pre-COVID.

Whilst commitments declined, invested capital increased from $52 million in the prior year to $88 million in FY21. That increase in capital investments is a direct reflection of LCM's growing portfolio of assets under management. The term 'assets under management' in this context refers to the aggregate capital commitments of all litigation funding investments comprising LCM's overall portfolio under management.

Notwithstanding the challenges of a pandemic impacted year, LCM's overall assets under management ('AUM') grew from $250 million at the close of FY20 to $336 million at the close of FY21. Given overall market conditions, we are very pleased with the progress which has been achieved growing LCM's overall portfolio of assets under management despite a year marked with disruption and change.

Credit facility

The Board is continuously looking at options to introduce additional capital to LCM's balance sheet to increase the flexibility of LCM's capital structure. In February LCM secured a US$50 million credit facility with Northleaf Capital Partners. Northleaf is a global private markets investment firm with considerable experience in the litigation funding sector.

The credit facility provides significant additional capital flexibility to enable the Company to grow its direct investment portfolio, its asset management business and to supplement balance sheet capital in relation to the co-funding opportunities of the LCM GAR Fund and for the second fund. It also provides LCM with a bridge to organically generated capital as its portfolio of direct investments matures.

Securing the facility at a time when global economies and markets were heavily disrupted was a significant achievement and demonstrates companies such as Northleaf see the value in LCM and potential of the sector. Northleaf is an excellent finance partner moving forward, not only in relation to the existing credit facility but with respect to other opportunities such as the co-funding of large investments.

Portfolio update

LCM's business comprises two models involving separate, but interlinked, portfolios of investment disputes. The first is LCM's asset management business and the second is LCM's portfolio of direct investments serviced from our balance sheet capital. The business models are linked through a process of co-investment. The majority of investment opportunities originated through LCM's platform are offered to the asset management business where investments are generally funded as 75% of the capital commitment from managed funds and 25% of the capital commitment from LCM's own balance sheet capital. Through this co-investment, the interests of equity investors and fund investors are aligned.

The development of LCM's asset management business has been crucial for LCM's growth and building scale. In an industry

11 LCM has suffered a loss on only 11

6 and just six of those have been adjudicated by a court or tribunal unfavourably.

maturing rapidly on a global scale, LCM's fund management business has permitted it to gain access to larger pools of capital, which in turn allows LCM to build the size of its portfolios and in turn, assets under management.

LCM's GAR Fund had committed 76% of its capital by the end of FY21, which was the trigger for LCM to launch its second fund, building the scale of its asset management business. We are well advanced in terms of discussions with existing and prospective investors, concerning the raising of a second pool of managed capital. LCM is targeting US$300 million for Fund II. To date there has been strong support from existing investors, as well as a number of investors who were unable to participate in the GAR fund. We are in the process of considering the timing of a first close in respect of Fund II, but initial expectations are that it will take place in H1 of FY22.

With respect to both our portfolio of direct investments and asset management business, LCM actively manages its portfolio structure to ensure diversity and minimise concentration risk across its portfolio of global disputes. Both our asset management business and our portfolio of direct investments enjoys diversity across jurisdictions, industry sector, claim type and capital commitment.

At the close of FY21 LCM's portfolio of direct investments was A$181 million which comprised A$105 million of commitments where LCM invests 100% of that commitment from balance sheet capital and A$76 million of commitments which comprise co-investments funded from balance sheet capital alongside the third party fund. In respect of that total portfolio of direct investments of A$181 million, A$98 million has been invested from balance sheet funds to the end of FY21.

Over time, and as LCM's asset management business grows, we expect to see the aggregate value of the portion of LCM's portfolio of direct investments, where LCM is committing 100% of the capital, to diminish and be replaced with an increasing number of co-investments with its asset management business, spreading the risk of each dollar of invested capital across a more diverse pool of investments, further reducing concentration risk in respect of our direct investments. We believe this shift will accelerate long-term sustainable growth.

Performance Metrics

LCM is very proud of its investment performance and guards that performance zealously. We continually measure our track record, which is the cumulative performance of each and every investment completed by LCM. We have now reached the ten year point in that historical performance. Our investment performance in the period prior to the ten years is of less relevance to our expected performance moving forward because LCM's investment methodologies, our investment process, management, and capital structure, were all very different and had a significant impact upon both investment selection and investment performance. That is not to suggest that the performance was necessarily inferior prior to that, however, we believe that the past ten years is the most indicative of how our investment strategies might perform in the future.

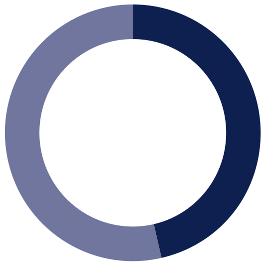
We are often asked by shareholders whether LCM will be able to achieve similar high performance investment metrics as the business builds scale. We have candidly accepted that the building of scale in LCM's platform and the significant increase in the size of the portfolios under management are likely to reduce LCM's performance metrics over time. That said, our investment performance is currently at an exceptionally high rate and a reduction would be unlikely to impact LCM's profitability moving forward, if it is accompanied by a growth in scale and portfolio size.

Portfolio of direct investments

Portfolio by industry sector
(Estimated A$ capital commitment) [1]

Portfolio by industry sector
(Number of projects)

Portfolio by region
(Estimated A$ capital commitment) [1]



1 Capital commitment denotes the total estimated budget of the portfolio of projects as at 30 June 2021 converted to AUD as at the date of litigation funding agreement

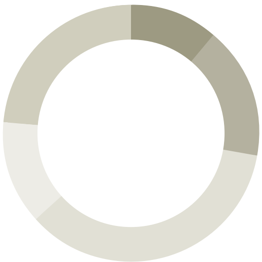
Our performance metrics measure the performance of each and every investment completed by LCM in the past ten years, inclusive of those investments which did not produce a profit or otherwise sustained a loss. For the past 10 years, LCM's investments have generated an internal rate of return ('IRR') of 78%, which has remained consistent with the prior financial period Our Return On Invested Capital ('ROIC') increased to 153% compared to 134% for the nine year period ending 30 June 2020.

The high performance of LCM's investments can be attributed to two main factors. The first is the rigour with which LCM's investment managers undertake their due diligence process and the process itself. It brings to bear not only the experience and expertise of the investment manager who is responsible for that investment application, but also the collective skill and experience of their peers. LCM has developed a proprietary system of application evaluation, due diligence and risk management over its 23 year history. The second factor that drives LCM's performance is the close monitoring and management of investments through to a profitable conclusion. LCM's investments are far from a 'set and forget' strategy. Our highly experienced investment managers monitor closely and continuously, the progress of each dispute through the judicial system. That extends to practices such as attending court hearings to observe the interaction of the presiding judge with the parties and the general programme of the dispute towards its final hearing. Whilst it is accurate to say that our investment managers do not interfere with the provision of legal services, or the relationship between the provider of legal services and the funded party, LCM is not a passive investor. It monitors closely the progress of all investments at all times.

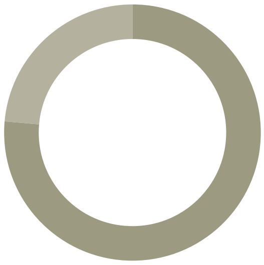
Historically, since LCM's very inception, the relationship between applications and investments has remained relatively consistent. That is the number of applications which are ultimately converted into an investment after being subjected to our rigorous due diligence and risk management process. That conversion rate has been between 3% and 7%. At the close of the financial year ended 30 June 2020, LCM's conversion rate was 3.5%. Over FY21 that conversion rate has dropped to 3%. In our last annual report we identified as one of our short-term goals, a desire to increase the conversion rate of applications to investments, whilst maintaining our investment performance. Regrettably, due to the market conditions, we have not been in a position properly to advance that goal. The reasons for that are many and varied, but the most meaningful initiative which will increase LCM's efficiency with respect to conversion rate, is through education. This is best achieved through our strategic partnerships with global law firms, and involves LCM's experienced investment managers educating the referrers, typically disputes lawyers, as to the elements which will increase the prospects of an application converting to an investment. Given the disruption occasioned by COVID during the entire financial period, we have not been in a position where we can effectively roll out that education

LCM Global Alternative Returns Fund

Portfolio by industry sector [2]
(Estimated A$ capital commitment) [1]



Third party funds commitments
(Estimated A$ capital commitment)



2 Includes resolved matters

3 Including operational expenses and resolved investments

programme. It remains one of our goals and we shall focus upon it as global markets return to the new normal.

One other factor which has affected our conversion rate and kept it at the lower end of the range is recovery risk. Recovery risk forms part of our five core assessment principles when considering an investment, before it is offered to our Investment Committee. Further detail is provided with respect to those five criteria under the Risk section on pages 44 and 45. LCM's investment managers, adapting quickly to market conditions, placed greater focus on the risk associated with recovery and collection given global conditions and the increased risk of corporate failure in volatile and unstable markets. LCM needs a clear line of sight towards a recovery before it is prepared to approve an investment. That risk typically drives our investment managers towards potential investments which are backed by an insurance product whether it be professional indemnity, or directors and officers insurance policies. That has resulted in LCM rejecting a larger proportion of investments which might otherwise have been approved during more stable economic times. We see that as an important initiative and a logical and intelligent reaction to market conditions.

Our Win: Loss Ratio

Since inception, LCM has completed 237 investments. That is, it has entered into litigation finance agreements in respect of 237 disputes, predominantly litigious disputes, which have completed. In respect of that number, LCM has sustained a financial loss in respect of 11 of those investments. That represents a loss rate of 4.6%. That remarkable statistic is achieved through LCM's rigorous and disciplined due diligence processes and risk management systems as well as our fastidious approach towards investment management and monitoring.

Of the 11 investments where LCM suffered a financial loss, six investments involved a court, or tribunal adjudicating the dispute in a different way from that which LCM had predicted or anticipated through its due diligence process. In simple terms, LCM had invested in a dispute it expected to win, the judge disagreed and the funded party lost. The other five investments which LCM made, did not result in a determination by a court or tribunal and resulted from a negotiated outcome. In those instances, the factors which led to the financial loss were outside LCM's control. Typically, a change in circumstances, the law, or otherwise.

It is important to emphasise that litigation is unpredictable. Losses are part of the investment class, and there will inevitably be some circumstances where LCM suffers a financial loss in a particular investment, although we have not seen a loss in respect of an investment for many years. That said, LCM has every intention of maintaining its rigorous and disciplined approach towards due diligence and risk management. In addition, we intend to continue to critically monitor our portfolio of investments through to conclusion.

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 predict accurately when a particular project, or portfolio of projects, will come to a conclusion either through a negotiated settlement of the dispute or an adjudication by a court or tribunal. Secondly, it requires the financier to predict what the quantum of such a resolution might be either as a negotiated settlement or as an award by the court. Given the myriad of outcomes that one might have in respect of such an investment in a dispute, it is simply not reasonable or responsible for us to provide forward forecasting.

Strategy

As noted above, the past financial period has been a challenging environment in which to operate which has impacted upon the progress of our short term priorities: the expansion of the asset management business, increase in the number of applications and to supplement the balance sheet capital.

In parallel with progressing these priorities, it also became necessary for management to focus its attention upon the formation and implementation of strategies to deal effectively with the disruption to global markets consequent upon COVID. Those initiatives focused upon new routes to market, business development, innovative origination of investment opportunities as well as adapting due diligence and risk management. Progress with respect to our short-term strategies were as follows:

- Expansion of LCM's asset management business: This time last year we anticipated having progressed significantly towards a closure of Fund II during the FY21 period. As previously reported, LCM closed the US$150 million GAR Fund in late March 2020, which is currently committed at 76%. The structure of our first managed fund allowed a period of 24 months from closure for that fund to be committed and we have achieved this within 18 months. We are now well advanced in our progress of closing Fund II, targeting a raise of US$300 million which will take our asset management business to US$450 million of funds under management. That figure does not include our portfolio of 100% direct balance sheet commitments. We are currently aiming towards a first close of our second fund in H1 FY22.
- Increase the number and quality of applications: Despite a very disrupted financial period, applications increased by 10%. We are pleased with the increase, particularly given the market conditions and most particularly LCM's inability to pursue its usual and traditional origination techniques. Conversion of those applications was down slightly consequent upon a number of factors. The first, explained above, is a greater focus and scrutiny upon recovery at due diligence and risk management levels. Secondly, LCM is encouraged to see an increase in the proportion of applications relating to larger investments and more complex commercial disputes. In particular, LCM entered into a number of investments involving large and high-profile corporate collapses including the Carillion Group ('Carillion') and CGL Realisations ('Comet'). We continue to focus upon strategies to increase the number and quality of applications received.

  One of the methods by which we are seeking to increase the quality of applications and thus increase the conversion rate of applications to investments is through our global strategic alliances. The past year has given LCM the opportunity to review and analyse our global alliances with law firms. We currently enjoy global alliances with Clyde & Co, DLA Piper and Norton Rose Fulbright in the Asia Pacific ('APAC') region. Those strategic alliances range from a relatively informal cooperation arrangement to a more structured agreement involving the establishment of purpose-built funding vehicles. We are constantly reviewing and innovating our relationships with those strategic partners. The advantage of the strategic alliances is not only to increase the number of applications that we receive during any given period, but also the quality of those applications. Increasing the quality of the applications will, in turn, increase the conversion rate and thus the overall efficiency of LCM's origination strategies.
- Supplementing balance sheet capital: During the financial period LCM secured a capital facility through the highly experienced global capital provider, Northleaf Capital. That capital facility of US$50 million broadens LCM's capital structure and allows for continued growth, the benefits of which have previously been detailed earlier.

Progress in relation to longer term goals:

- LCM continues to observe new markets and territories. As we have consistently stated, we will not move into a new jurisdiction or territory unless we can be satisfied that we have a sufficiently experienced team on the ground in that jurisdiction. It is essential in our view that recommendations made to our investment committees are made by professionals with real and relevant experience in the territory in which the dispute is to be adjudicated.

The past financial period has not been conducive to advancing this goal other than to observe and study alternate territories. Due to COVID we have not been in a position to travel, and undertaking real and tangible investigations into new territories has not been possible. That said, LCM has received a number of inbound enquiries, several of which have been from North America, seeking to create strategic alliances and/or joint ventures. We are considering those enquiries as part of our longer-term strategic goals. We hope that as markets globally return to a new normal that we will be in a better position to advance this goal in a more meaningful and tangible way.

- Our second goal is to increase our overall portfolios of assets under management. Notwithstanding the challenging market conditions, we increased AUM from $250 million at 30 June 2020 to $336 million at 30 June 2021, an increase of 34%. We are encouraged by that increase given the restricted market conditions.
- The third longer term goal is to increase the innovation LCM brings to the litigation finance asset class. The extended periods of lockdown experienced over the past financial period have permitted a period of reflection. We have studied closely our routes to market, in particular with respect to products such as corporate portfolios. We have also looked closely with a view to innovating our actual finance products in order to better meet the needs of those involved in disputes.

Investment Strategies

LCM applies its capital in both balance sheet and managed funds, across three separate investment strategies. The first is Single Case Investments, the second Portfolio Investments and the third, an Acquisition of Claims strategy. Over time, and when each of the separate strategies warrant and are able to produce separate performance metrics, we will aim to report on them segmentally to the market. At present we report performance on an amalgamated basis which includes single case investments and portfolio investments. We have intentionally excluded the small number of acquisition of claim investments from our performance metrics to give a more accurate representation of performance, as these matters perform at such a high level of returns that including them would skew the metrics.

Single Case Investments

Single case investments comprise an investment in a single dispute whether it be in the court system or being pursued by the arbitral process. Typically those investments have more of a binary outcome and results in either a profitable or unprofitable investment. LCM has been investing in single disputes for 23 years and has very significant experience in undertaking a comprehensive due diligence and risk assessment process in respect of applications related to single case investments. The bulk of LCM's ten year track record involve single case investments.

LCM continues to see strong demand for its capital with respect to single case investments. The majority of applications received in any given financial period, including the one just passed, relate to potential single case investments. Across all jurisdictions in which LCM operates, we expect to see an increase in applications relating to single case disputes, particularly from the insolvency and restructuring part of the market. The timing of that increase will very much depend upon the extent to which global economies are subject to continuing stimulus packages and the reduction in safe-guards against insolvency and the winding-up of insolvent companies.

Portfolio Investments

Portfolio investments themselves fit into three separate categories, the first and most well-known are law firm portfolios. These investments involve LCM sharing risk with a law firm in respect of a portfolio of disputes. The terms of that arrangement vary, however, commonly involve the funder providing part of the costs of the portfolio of disputes in return for the law firm sharing a percentage of the law firm's contingency remuneration. These investments exist in jurisdictions in which law firms are able to enter into contingency fee arrangements.

The second type of portfolio investments are corporate portfolios. That involves LCM providing a capital facility to a single corporate, or corporate group to fund all, or some, of their disputes. The facility can be provided both in respect of disputes where the corporate is a claimant or where they are defending a claim brought against them. LCM's capital advance is collaterally secured across the portfolio of disputes. LCM is actively pursuing corporate portfolios as an investment strategy and is one of the few litigation financiers globally who provide corporate portfolio financing.

LCM continues to see strong demand for its capital with respect to single case investments.

The third type of portfolio investments relate to insolvency and restructuring disputes. In select and large insolvencies or bankruptcies, the insolvency practitioner may seek a working capital facility to pursue a portfolio of disputes arising within an insolvent shell or bankrupt estate. As with corporate portfolio facilities, the capital can be supplied both in respect of claimant disputes, but also in defence claims. The volume of insolvency and restructuring related investments, as well as the number of appointments, is relatively low at present consequent upon global economic stimulus packages and measures put in place in various jurisdictions in which LCM operates in which to defer insolvency events and corporate wind-ups. LCM expects that as with single case investment opportunities in the insolvency and restructuring space that insolvency portfolios will represent opportunities in the future.

LCM sees portfolio investments as both an important part of the addressable market generally, but also as a reduced risk investment with favourable return metrics.

The market for corporate portfolio investments has been challenging over the last financial period. That is due to market disruption and lockdowns in the various jurisdictions in which LCM operates. That has hindered LCM's route to market with respect to originating those investment opportunities. It is difficult for LCM to develop an alternate route to market with respect to corporate portfolios simply due to it being a very new strategy which brings with it the need for there to be an educational process involved in origination. Notwithstanding those challenging conditions, LCM has seen an increase in the numbers of applications for corporate portfolio investments. We expect to see the number of quality applications for corporate portfolio investments to increase as global economies stabilise.

Acquisition of Claims

The acquisition of claims strategy involves LCM acquiring, through assignment, the cause of action and then pursuing that claim as principal as opposed to an external funder. It is the most recent of LCM's investment strategies. The strategy enjoys significant advantages as against a more traditional funding model particularly in circumstances where the claim size is modest. Over the years since LCM commenced its funding business in the late 1990s it has observed that the economics of funding claims where the amount in dispute is below approximately $8 million (depending on complexity) the traditional funding model is difficult to apply. It creates the potential for the commercial interests of the funder and the funded party to diverge. The implementation of the acquisition of claims strategy allows LCM to address that part of the market.

The acquisition strategy has a number of benefits to LCM. First, it allows LCM to exercise complete control over the investment without reference to a funded party. In other words, LCM has the absolute autonomy to settle or pursue through to a contested hearing without having to consider the interests of third parties. Secondly, these smaller types of claims have traditionally been resolved in a shorter period than our average investment period for larger claims. Currently the average time to maturity of LCM's portfolio of investments completed over the past ten years has been 27 months. We expect the duration of claims pursued as principal through acquisition to be between 12 and 18 months. Finally, we expect over a period of time for the return metrics to be greater than those of larger claims.

The acquisition of claims strategy is progressing well. We are managing a portfolio of five claims which have been acquired. We have also enjoyed a number of resolutions which have returned metrics well in excess of our ten-year track record and hope to provide segmental reporting metrics as our dataset warrants it.

Whilst this investment strategy is progressing well and we are happy with the size of the portfolio already established, the availability of investment opportunities for this strategy has been low consequent upon prohibitions imposed in the jurisdiction of Australia which has prevented insolvent companies from being wound up due to the economic impact of COVID. Therefore, there has been lower

Single case investments have played an important role in LCM's evolution.

numbers of smaller to medium sized corporate insolvencies which would traditionally provide the source of investment opportunity during the time since COVID began its disruptive effect upon the Australian economy. Similar measures have been introduced in other jurisdictions in which we operate. We expect that as the economic restrictions and stimulus packages are removed that greater opportunity will arise in the market.

Our people and culture

LCM operates with a small but high performing team. As CEO I am fortunate to lead a team of investment managers who not only perform at a high level but are self-motivated and driven. Managing such a hardworking and high performing team requires us to be mindful and supportive of the working environment and culture of the Company.

The past financial period has also placed some pressures on that work environment and culture. In particular, our London and Melbourne offices have experienced prolonged periods in which the community was locked down and as such there has been very little attendance in the office itself. That is not to say that there has been a reduction in productivity, however, investment managers and their support teams have not had the benefit of the camaraderie and culture of those offices. Our other offices across the territories in which we operate have also been affected from time-to-time but not in such a profound way as London and Melbourne. Indeed, at the time of writing this report greater Sydney has been placed in a strict lockdown for an extended period of time preventing staff from attending the office at all. It is during these tough times that the culture of an organisation is so important. As has always been the case, investment managers have strongly supported each other from territory to territory. The drive of individual investment managers and their support for each other has contributed to a large degree in the investment resolutions which occurred during the financial period which has driven financial result.

The other clear measure of the discipline of investment managers is LCM's strong track record. We are now at the 10 year mark of measuring investment performance and our portfolio IRR sits at 78% and our portfolio cumulative RoIC is 153%. That performance is directly reflective of the systems and methodologies that LCM has developed over the many years of its operations. It is also a direct reflection of the skill and discipline with which those systems and methodologies have been applied to applications by our investment managers and how they have managed those investments through to a profitable outcome.

We have seen our global team increase by three investment managers during the financial year. In the coming financial period we anticipate further strengthening our team of investment managers in the London office as well as taking advantage of opportunistic hires.

Given LCM's growth over the past five years, as well as the work environment that we have created, LCM has become a sought after employer for those moving within the industry itself but also those transitioning from a career in the law.

Market and environment

Resilient Business Model and Operations

LCM is fortunate as a business both to be able to operate remotely in an effective manner but also to benefit from turbulent and uncertain market conditions. Whilst the past financial year has been marked with disruption it is certainly not the type of disruption which suspends LCM's business operations to any great degree. As noted above, it does affect the way that LCM originates its investment opportunities and undertakes business development, however, its core business and the demand for its capital either remain the same, or indeed have been the beneficiary of the uncertain market.

We see through our application flow three particular dynamics at play in the current market conditions. The first is a desire by law firms to consider litigation finance as an alternate way of their disputes clients funding costly litigation. It is a concept that the disputes teams inside large international firms are forced to consider when facing market conditions which have a tendency to restrict the budgets being allocated towards disputes. This has driven increased dialogue and opportunity through our law firm relationships and strategic partnerships.

We are now at the 10 year mark of measuring investment performance

78%

our portfolio IRR sits at 78%

The second dynamic that we are observing in the market is that corporate clients in particular are reacting to the uncertainty in the market by allocating their resources and capital towards core business and at the same time restricting the budget on non-core items. That dynamic results in a more open-minded consideration of litigation finance than would be the case in more buoyant, stable times. That is particularly the case with respect to LCM's corporate portfolio product.

Finally, the prolonged periods of lockdown and interruption to economies generally are likely to lead to an increase in corporate insolvencies and bankruptcies. Market conditions in all the economies in which we operate are expected to see an increase in insolvencies, bankruptcies and restructuring. That is an area that LCM has enjoyed considerable experience since its inception 23 years ago.

Industry Regulation

Regulation of litigation finance as an industry is an area that LCM monitors continually. For many years LCM operated in an environment that was largely unregulated. More recently there has been small pockets of regulation although such regulation is seen by LCM as a positive.

When considering regulation, it is important to observe that LCM as a public company whose shares are traded on a public platform is subjected to a significantly higher level of regulation than a private litigation financier. Secondly, and as described in more detail below, LCM maintains an Australian Financial Services License ('AFSL') which it obtained and maintained prior to the recent change in regulation which required the holding of such a license. The regulation through the London Stock Exchange's rules, the requirement to audit, financial transparency and the maintenance of an AFSL are all features which provide a significant advantage when addressing the part of the addressable market where the user of litigation finance does so through choice. That is large, sophisticated, well capitalised, and often publicly listed corporations are far more willing to consider a litigation finance offering from a company who is regulated in some degree in a largely unregulated market. It results in LCM being well placed to address corporate clients and in particular offer corporate portfolio products.

The past financial period has seen regulation which has both expanded the available markets as well as place barriers to entry to others. The first jurisdictions to consider are Singapore and Hong Kong. As observed above, LCM has seen significant growth and activity in the Asian market as measured through its Singapore office. The legislatures of both Singapore and Hong Kong passed laws to specifically permit litigation finance to be utilised in international arbitration (and in the case of Hong Kong, also domestic arbitration). The opening of those markets occurred first in Singapore in 2017 and then in Hong Kong in 2019. Most recently in 2021, Singapore has extended the disputes in which litigation finance can be utilised to domestic arbitration and selected disputes to be adjudicated through their international commercial court. The recent legislative changes in Singapore and Hong Kong are welcomed as an extension of the available markets in which litigation finance can be utilised in those jurisdictions.

In Australia a number of legislative changes have been enacted which affect the litigation funding industry insofar as funding is supplied to the class action market. Those legislative changes now require any litigation financier providing litigation funding products in connection with a class action to both hold an AFSL and also provide their funding through a Managed Investment Scheme ('MIS'). As noted above, LCM already held an AFSL at the time that the requirement was introduced and has modified that AFSL to ensure that the appropriate approvals are in place to permit LCM to fund class actions. With respect to operating a class action and its funding as an MIS, LCM has implemented the necessary infrastructure to permit that to occur.

As previously reported, LCM had expected changes to the class action landscape and the introduction of some form of regulation. LCM had, prior to the changes being debated or made, consciously stepped back from the class action part of the market until such time that clarity

153%

and our portfolio cumulative RoIC is 153%

around the changes had crystallised. Although the changes are recent and involve greater regulatory approval and administration, LCM is well placed to ensure compliance moving forward.

Indeed, it is likely to be the case that the level and cost of administration associated with the licensing and requirement for litigation financiers to operate a MIS will create a significant barrier to entry with respect to smaller providers of litigation finance products. It is anticipated, and generally accepted in the Australian market, that the best placed litigation financiers to navigate and provide funding to class actions are litigation financiers such as LCM. We welcome that form of regulation and believe it will ultimately result in a barrier to entry to those less experienced and smaller funders.

We are not aware of any other jurisdictions or geographies in which we operate contemplating any form of regulation at this time, as we constantly monitor the market for any form of suggested regulation.

Outlook

Notwithstanding a financial year punctuated by disruption, LCM has continued to deliver growth. We saw increases across the board from applications to capital invested through to overall assets under management. We also achieved the introduction of additional capital and flexibility to our capital structure through a US$50 million credit facility.

As we look ahead to the next financial period and beyond, it is not entirely clear when markets will return to normal, if at all. If market commentary is correct, it is likely that markets will never return to the way they were pre-COVID but will adjust and adapt. As the markets globally emerge from the restrictions imposed as a consequence of COVID there will be, to some degree, an increase in insolvencies, bankruptcies and restructuring. That appears to be an inevitable consequence of the markets, prolonged lockdowns and shifting economic conditions.

As we look forward, we see opportunity. With the GAR Fund significantly committed and first close of Fund II expected in H1 FY22 we are making solid progress in building the scale of the third-party capital asset management business. We find ourselves with a capital structure providing us with more flexibility to permit portfolio growth as well as a larger pool of funds under management in our asset management business. We see favourable market conditions looking forward, irrespective of how quickly or slowly global and local economies recover from the impacts of COVID.

We respond and adapt to what we see in the MARKET in a rapidly evolving industry.

"We shall build upon the foundations of the last year through continued innovation"

Nick Rowles-Davies
Executive Vice Chairman

Market Overview

It would be impractical to review the last year in the disputes finance market, or any market, without assessing the effect of COVID-19 on our business, the impact it has had, and the way LCM has responded and evolved. Undoubtedly, nobody anticipated the disruption that the pandemic would cause to the normality of business life. Whilst disputes financing is both counter-cyclical and historically also counter-recessionary, the disruption to travel and routine operations has been felt in every sector.

There have been challenges created by the shift to remote working, delays to the court and arbitral processes and the effect of several lockdowns in the jurisdictions in which we operate, all of which have required LCM's teams to adapt to new ways of creating and doing business, which they have achieved admirably.

Whilst there was a significant disruptive impact upon the court system however in London particularly, it has rebounded with the number of contractual claims filed in the High Court doubling in comparison to the previous year and the overall number of High Court claims increasing by 24%[1].

Our strategic alliance partners featured heavily in those matters with both Clyde & Co and DLA Piper in the top ten for volume of Claimant cases for a second year running[2].

Whilst there has not yet been a surge in pandemic related disputes, some 31% of corporates have reported an increase in disputes directly related to the pandemic3 with contract disputes (including force majeure) and other commercial disputes the predominant drivers of increasing activity.

Origination and business development is a vital part of the process. We continue to review our origination methods and how

10%

increase in applications in comparison to the previous year

successful or efficient they are. We respond and adapt to what we see in the market in a rapidly evolving industry. A significant part of our thinking in origination is the development of specific strategies to address any market observations and to improve the quality and size of our pipeline. The market penetration of disputes financing remains low in comparison and the percentage of matters that proceed with the assistance of disputes funding remains low in relation to the global universe of cases that could be funded. The market presents considerable opportunity and there remains vast untapped potential. We shall continue to deploy, review and refine our strategies to address these areas in the coming year.

In conclusion, the last 12 months have demonstrated the flexible and resilient nature of LCM's operations. We witnessed an increase in opportunities and built on the solid foundations of the prior year, despite the unprecedented challenges and disruption caused by a global pandemic. LCM has invested in some high profile and high value disputes in Australia and the UK, demonstrating the recognition of LCM as a global leader in disputes financing.

1 Solomonic – HFW The future of disputes – The COVID effect
2 Solomonic - https://www.solomonic.co.uk/news
3 Litigation Trends Survey 16th Annual Edition Norton Rose Fulbright

Market Dynamics

COVID-19 Impact

- 31% of corporates have seen an increase in disputes as a direct result of COVID-19
- 46% of all corporates expecting an increase in litigation in the next six months
- Two thirds of $1bn+ companies expecting an increase in litigation
- Full impact of pandemic and increase in disputes will take six to 12 months to develop due to end of stimulus packages[4]

4 Litigation Trends Survey 16th Annual Edition Norton Rose Fulbright

Continued rise in demand

- Robust origination and pipeline despite disruption and restrictions of the pandemic
- 10% increase in applications in 2020/21
- 572 applications in the period

Maturing industry globally

- Rise in flexibility and sophistication in offering in the market
- Increased adoption and understanding of disputes finance by corporates and law firms
- Global legal spend expected to rise from US$680–$886 billion (2018*) to US$1 trillion+ in 2021[5]

5 The City UK- Legal Excellence, Internationally Renowned: UK Legal Services 2020

Fertile market dynamics

- Corporates continue to demand alternative and innovative fee solutions
- Increasingly competitive market for law firms
- Accelerated and increased use by law firms of disputes financing to win and retain clients

Countercyclical, counter recessionary and uncorrelated

- Industry returns are not correlated to the markets
- Each investment is uncorrelated to the next
- There is a corresponding increase in the use of disputes financing

EMEA

- Increased demand despite restricted operations
- Limited delay to the judicial process
- Growing corporate interest in mitigating legal spend

The EMEA region has seen a significant increase in the number of applications received in the last 12 months. Whilst there was an initial disruptive impact to the court system in London with a switch to remote hearings, the effect was short lived and the process has been efficient, with case durations in some areas even reducing.

The effects of the pandemic that we had identified previously have continued to be a feature of the last year. Increasing numbers of disputes and budgetary challenges have caused an uptick in interest from corporate clients in alternative methods of mitigating their legal spend on disputes. There has not yet been a huge surge in the numbers of disputes, but the trend is that the numbers are increasing and the expectation is that this will continue.

The historical trends in the types of case in the region appears to be changing. There has been a reduction in banking related litigation, which for the last five years has accounted for approximately 20% of cases perhaps signalling, finally, the end to disputes arising out of the 2008 financial crisis.

The two busiest sectors in the English High Court in 2020 were construction and professional services, both at 16%[6], and both areas where the use of disputes financing is prevalent. The highest increase was the rise in professional services claims.

There is typically an increase in professional negligence cases in an economic downturn, therefore we would expect the trend to continue. Shipping also had a busy year primarily due to the sector being one of the first and heaviest impacted by pandemic related disruption.

Market Outlook

The headline factor for the last 12 months and undoubtedly for many months to come is the effect of the pandemic. There has been increasing pressure on corporate in-house teams over the last year, which is set to continue as the number of disputes they face will continue to increase. Almost half of corporates have already seen a significant increase in disputes volumes, with a consequential impact on resourcing, that will lead to an inexorable rise in the consideration and use of disputes financing.

It took some time for the full effects of the 2008 global financial crisis on corporate disputes to filter through. Similarly, the effects of the pandemic may not be felt fully for six to 12 months. The result may well be different from 2008.

That recession arose from a crisis of liquidity and resulted in a range of complex financial services disputes, involving bad loans, defunct financial services products and derivatives.

The pandemic is likely to produce more traditional corporate and commercial disputes. It is anticipated that the traditional areas of disputes such as construction and shipping, already hit by the early effects of the pandemic, will be joined by an increase in aviation, retail, hospitality, leisure and infrastructure related litigation.

The financial uncertainty in the coming year is also likely to give rise to an inevitable increase in insolvency related disputes. History suggests that disputes increase in uncertain financial times and that underlines the countercyclical and counter recessionary nature of disputes financing.

The next twelve months will see LCM reinforcing its position as a global leader in disputes finance. We shall build upon the foundations of the last year through continued innovation. We shall continue to promote our work with corporate clients and strategic law firm partnerships by the deployment and execution of our key business development strategies to maintain the excellent volume, but increase the quality of our pipeline.

6 Solomonic – HFW The future of disputes – Don't bank on it

1. Law Firm

Working closely and regularly with a law firm allows for an exchange of information and provides a bilateral education process. LCM is able to understand the needs or concerns of the law firm and their clients. The law firm quickly learns how to obtain a positive investment decision by appreciating the process that LCM undertakes. This improves efficiency and avoids a lengthy and ultimately disappointing and expensive application process for clients.

2. Corporate

The strategies we employ to assist corporate clients with a financial solution to their legal budgets are an important part of our plans for the next year although they are very much long-term projects. Corporate clients have begun to react more favourably to those firms that are investing in the longer-term development of the relationship and have begun to give them more work.[7]

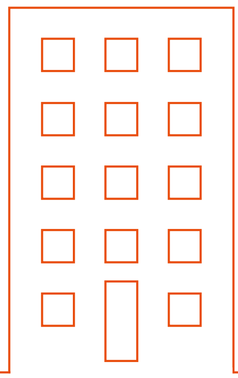
The law firms adopting the practice of looking beyond short-term transactional goals and investing in the creation and development of longer-term relationships sits very comfortably with LCM's ethos of building evergreen disputes finance portfolio arrangements with corporates.

3. Insolvency

This strategy encompasses the acquisition of insolvency related disputes in the UK and Australia as well as traditional financing of insolvency disputes. We remain committed to this area with an anticipated rise in these types of dispute expected in the coming year.

4. Education and Advisory

The evolving nature of what can be done with disputes financing means that a part of what we do at LCM every day is education. The continuous process of innovation, education and explanation is an important part of the LCM brand and the individual brands of our team members who are all experts in their field.



7 Thomson Reuters State of The Legal Market UK 2021

Susanna Taylor
Head of Investments APAC

Australia

- Ongoing demand in traditional sectors
- Increased opportunity for the funding of corporate disputes
- Reduced competition as the result of regulatory changes

In the last year the Australian market has seen continued demand in the use of disputes finance in the traditional sectors, such as commercial claims and insolvency. Additionally, the market in other areas continues to mature. There has been a positive response to the ongoing process of education as to the benefits to corporates from funding out of choice rather than necessity and the understanding of the bespoke and flexible solutions that can be provided by LCM. Corporates in Australia are feeling the same pressure to reduce costs and minimise exposure to financial risk as experienced in other parts of the world and LCM is uniquely placed to respond to this.

Although the court system was initially disrupted by the switch to an increased use of technology and online hearings, the process is now running smoothly. That said, there have been delays in some matters caused by the challenges of the pandemic meaning that some projects will complete in a later period than initially anticipated.

The disputes landscape in Australia is dominated by a view that there will be an uptick in litigation as we enter a post-pandemic marketplace and the economic pressures of the past two years have their most significant impact.

2020 saw the introduction of regulation for litigation funders involved in the funding of class actions. The introduction of a requirement to hold an Australian Financial Services Licence in order to fund class actions has resulted in a reduced number of funders operating in the space and some overseas funders have exited the Australian market altogether leaving increased opportunity for licensed funders such as LCM.

Asia

- Expansion in Singapore of permitted uses of funding
- Increasing interest and adoption of disputes funding in Asia
- Growing acceptance of litigation finance as an important tool for disputes lawyers

From 28 June 2021, Singapore expanded the permitted use of disputes funding to include:

a) domestic arbitrations

b) court proceedings arising from or connected with domestic arbitrations

c) proceedings commenced in the Singapore International Commercial Court

d) mediation proceedings relating to any of the proceedings above.

LCM has entered into a funding agreement to fund what we believe will be the first funding of a domestic arbitration pursuant to this change in the rules.

The Singapore International Arbitration Centre ('SIAC') reported a 125% increase in new arbitrations commenced than in the previous year with 1080 new references commenced in 2020 compared to 479 in 2019. The Hong Kong equivalent, Hong Kong International Arbitration Centre ('HKIAC') reported 318 arbitral references for 2020 which was 10% higher than 2019.

The 2021 International Arbitration survey by Queen Mary University of London ('QMUL') and White & Case published in May 2021 ranked SIAC as the most preferred arbitral institution in the Asia-Pacific and second in the world. The survey also had Singapore tied for first place with London as the top seat of arbitration in the world. We have seen a significant increase in the number of applications to our Singapore office with 57% of those received being for arbitration matters.

In the last year the Australian market has seen continued demand in the use of disputes finance in the traditional sectors, such as commercial claims and insolvency.

On top of other COVID induced fiscal support measures, Singapore currently has temporary relief measures in place designed to protect individuals from bankruptcy and companies from liquidation. These measures are temporary and will not last forever with insolvency practitioners and lawyers anticipating increased insolvency activity when the protection is withdrawn. There is an also increasing awareness in Singapore of the availability of funding for insolvency claims and a corresponding increase in applications received.

HKIAC has reported increasing use of the Arrangement Concerning Mutual Assistance in Court-ordered Interim Measures in Aid of Arbitral Proceedings by the Courts of the Mainland of the Hong Kong Special Administrative Region which was introduced on 1 October 2019. The Arrangement between Hong Kong and Mainland China empowers Mainland Chinese courts to grant interim measures to support certain Hong Kong arbitrations, including proceedings before the HKIAC, International Chamber of Commerce ('ICC'), and China International Economic and Trade Arbitration Commission ('CIETAC'). The arrangement is seen as a key incentive to use Hong Kong as an arbitral seat for businesses with counterparties in the PRC.

The Belt and Road Initiative ('BRI') is a strategy initiated by the People's Republic of China that seeks to connect Asia with Africa and Europe via land and maritime networks with the aim of improving regional integration, increasing trade and stimulating economic growth. As with any huge infrastructure project, and the BRI is establishing the largest infrastructure network in world history, it is anticipated that there will be a large number of disputes generated by the initiative. These are expected to present significant opportunities for LCM, given our geographical and sector experience across construction, transport and infrastructure.

Increased profits by 41% and strong momentum in our underlying PERFORMANCE metrics, creating sustainable long-term value.

"Capital invested increased by 69% during the year, demonstrating our ability to put capital to work and facilitating growth."

Mary Gangemi
Chief Financial Officer

The global economy continued to face challenges as a result of the prolonged disruption caused by continued and subsequent outbreaks of COVID. Despite this, LCM delivered improved performance on the prior year and continued to build scale across the majority of key performance metrics. Our investment selection expertise is supported by our ten year historical IRR which remains at 78% and an improved ten year ROIC of 153%. We have made good progress in committing our first third party fund, and are well progressed with Fund II with an aim to launch in H1 FY22, with all existing investors expressing a strong interest to participate in our second Fund, demonstrating their confidence in LCM. As previously announced, the US$50m credit facility entered in February 2021, further supplements our balance sheet, significantly increasing our ability to invest in new opportunities and facilitating growth. The progress made over the past two years in growing our portfolio of investments positions us well for delivering meaningful profits in the future.

LCM standalone results

The performance of the business presented on pages 82 to 85 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 82 to 85.

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.

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 2021 $'000	Fund interests* $'000	LCM-only 30 June 2021 $'000	AASB as reported 30 June 2020 $'000	Fund interests* $'000	LCM-only 30 June 2020 $'000
Revenue from contracts with customers							
Litigation service revenue	4	**36,924**	664	**36,260**	35,833		35,833
Performance fees	4	**135**	–	**135**	2,608		2,608
		37,059	664	**36,395**	38,441		38,441
Litigation service expense		**(10,439)**	(114)	**(10,325)**	(16,723)		(16,723)
Gross profit		**26,620**	550	**26,070**	21,718		21,718
Other income		**-**	–	**-**	90		90
Interest income		**4**	–	**4**	35		35
Expenses							
Employee benefits expense	6	**(8,396)**		**(8,396)**	(7,611)		(7,611)
Depreciation expense	6	**(59)**		**(59)**	(86)		(86)
Corporate expenses		**(2,664)**		**(2,664)**	(3,752)		(3,752)
Litigation fees	6	**(86)**		**(86)**	(1,159)		(1,159)
Finance costs	6	**(1,334)**	–	**(1,334)**	–	–	–
Fund administration expense	6	**(1,153)**	(685)	**(468)**	(1,183)	(1,183)	–
Total expenses		**(13,692)**	(685)	**(13,007)**	(13,791)	(1,183)	(12,608)
Profit before income tax		**12,932**	(135)	**13,067**	8,052	(1,183)	9,235
Analysed as:							
Adjusted operating profit		**16,384**	550	**15,834**	11,137		11,137
Non-operating expenses	6	**(2,118)**	(685)	**(1,433)**			
Finance costs	6	**(1,334)**	–	**(1,334)**			
Profit before income tax expense		**12,932**	(135)	**13,067**	8,052	(1,183)	9,235
Income tax expense	7	**(4,069)**	–	**(4,069)**	(2,799)		(2,799)
Profit/(loss) after income tax expense for the period		**8,863**	(135)	**8,998**	5,253	(1,183)	6,436
Profit for the period is attributable to:							
Non-controlling interests		–	–	–	8	–	8
Third party interests in the Fund		(135)	(135)	–	(1,183)	(1,183)	–
Owners of Litigation Capital Management Limited		8,998	–	8,998	6,428	–	6,428
		8,863	**(135)**	**8,998**	5,253	(1,183)	6,436
Other comprehensive income for the year, net of tax		**(1,377)**	105	**(1,482)**	–	–	–
Total comprehensive income for the period		**7,486**	(30)	**7,516**	–	–	–

* Third party interests

** 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 88.)

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, one or two investments shifting into the next financial reporting period can have a material impact. The resolution of the direct balance sheet investment related to a partnership dispute in June 2021 emphasises the significance the impact of timing can have on results. While we expect this to have a less significant effect on profitability as the portfolio grows, the performance of the business should be assessed together with our key performance metrics to provide an accurate representation of the performance of the business during the year.

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 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 may flow through to profits at irregular intervals. This results in profit fluctuations from one year to the next rather than an even and linear increase in profits from year to year.

Additionally, accounting for revenue under AASB 15 means that revenue is only recognised at the point we have satisfied our performance obligation and have an unconditional right to revenue. Consequently, to accurately interpret the performance of the business, it is critical to measure growth by assessing profits for the year alongside the progress of our key performance metrics, as these metrics provide a more accurate indication of the scale of growth in our underlying portfolio of investments and better reflect the intrinsic value of the underlying assets.

Adjusted profit before tax inclusive of third party interests was A$16.4 million which was up 47% on the prior period. LCMs business benefits from being counter-cyclical to the market and while the impact of COVID has disrupted operations across almost every sector in some way, disputes are largely unaffected as courts and tribunals will continue to operate and progress matters, despite changing conditions in the wider market. Consequently, we expect that further investments will materialise in the short to medium term, as LCM's portfolio of direct balance sheet investments is at a point of maturation.

A reconciliation of adjusted profit is provided below:

	AASB as reported 30 June 2021 $'000	AASB as reported 30 June 2020 $'000
Statutory profit before tax	**12,932**	8,052
Add:		
IPO and other transaction costs	**174**	82
Share-based payments (loan shares)	**316**	432
Provision for annual leave and long service leave	**31**	47
Non-recurring consultancy fees	**358**	182
Litigation fees	**86**	1,159
Finance costs	**1,334**	–
Third party fund costs	**1,153**	1,183
FY21 adjusted operating profit	**16,384**	11,137

LCM only cash on balance sheet as at 30 June 2021 was $35.5m and long-term borrowings was $37.2m, compared with $24.9m and nil respectively for the same period in 2020. This is a direct reflection of the growth in investments during the period in both LCM's direct investments as well as investments in the Fund alongside third party investors.

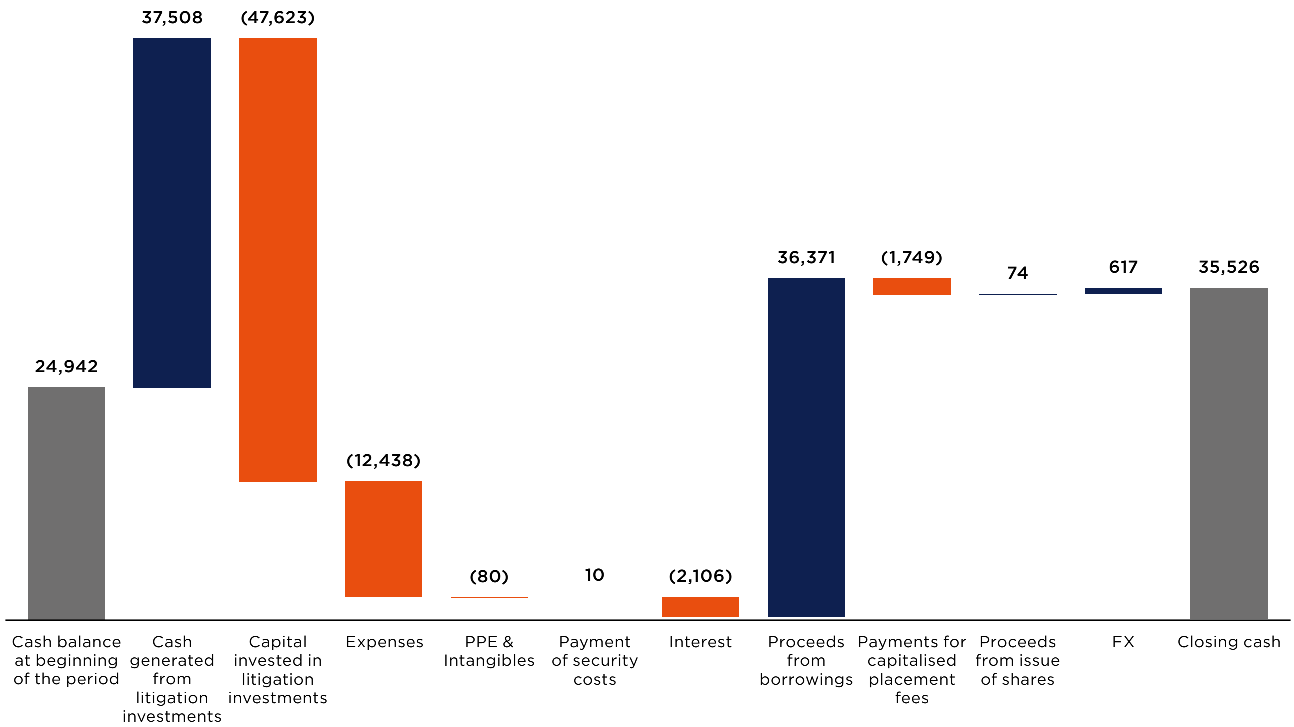
Statement of financial position	AASB as reported 30 June 2021 $'000	Fund interests* $'000	LCM-only 30 June 2021 $'000	AASB as reported 30 June 2020 $'000	Fund interests* $'000	LCM-only 30 June 2020 $'000
Current assets						
Cash and cash equivalents	**49,736**	**14,210**	**35,526**	31,754	6,812	24,942
Trade and other receivables	**13,843**		**13,843**	15,298		15,298
Contract costs	**16,663**		**16,663**	15,671		15,671
Other assets	**616**	**(23)**	**639**	439		439
Total current assets	**80,858**	**14,187**	**66,671**	63,162	6,812	56,350
Non-current assets						
Contract costs	**117,895**	**45,956**	**71,939**	46,847	10,694	36,153
Property, plant and equipment	**186**		**186**	204		204
Intangible assets	**391**		**391**	336		336
Other assets	**284**		**284**	280		280
Total non-current assets	**118,759**	**45,956**	**72,800**	47,667	10,694	36,973
Total assets	**199,614**	**60,143**	**139,471**	110,829	17,506	93,323
Liabilities						
Current liabilities						
Trade and other payables	**12,392**	**4,378**	**8,014**	13,162	3,894	9,268
Borrowings	**13,253**	**13,253**				
Employee benefits	**452**		**452**	376		376
Total current liabilities	**26,097**	**17,631**	**8,466**	13,538	3,894	9,644
Non-current liabilities						
Deferred tax liability	**7,543**		**7,543**	3,559		3,559
Borrowings	**37,171**		**37,171**			
Employee benefits	**148**		**148**	117		117
Third party interests in consolidated entities	**39,764**	**43,725**	**(3,961)**	12,600	14,795	(2,195)
Total non-current liabilities	**84,626**	**43,725**	**40,901**	16,276	14,795	1,481
Total liabilities	**110,723**	**61,356**	**49,367**	29,814	18,689	11,125
Net assets	**88,891**	**(1,213)**	**90,104**	81,015	(1,183)	82,198

* Elimination of third party interests

Cash flow

LCM cash generated from the resolution of matters during the period was $37.5 million, an increase of 22% compared to the same prior period in FY20 at $30.7 million. Payments related to capital invested was $47.6 million, an increase of 20% compared to the same prior period in FY20 of $39.7 million. The following waterfall is exclusive of third party fund interests.

FY2021 Cashflow waterfall LCM-only (A$)



The following financial and non-financial KPIs are measures we believe are relevant to the performance of our business and reflect progress in the growth of our portfolio of investments and shareholder value. During the year:

- investment commitment was A$109m inclusive of third party funds, decreasing from $147 million in FY20;
- the ten year cumulative portfolio Internal Rate of Return ('IRR') was 78%;
- ten year cumulative portfolio Return on Invested Capital ('ROIC') was 153%;
- applications received increased to 572 from 522 in FY20 and increase of 10%;
- gross profit increased by 23% to $26.6 million from $21.7 million inclusive of third party interests, and increased by 20% exclusive of third party interests;
- statutory profit before tax increased by 61% to $12.9 million from $8.1 million. On an adjusted basis (excluding third party interests) profit before tax increased by 41% to $13.1 million from $9.2 million; and
- Adjusted operating profit increased by 47% to $16.4m from $11.1m in the prior period and increased by 42% to $15.8 million exclusive of third party interests

Revenue

Gross revenue fell marginally by 4% to $37.1 million, from $38.4 million in FY20. Litigation service expenses (investments in realised disputes) decreased by 37.6% to $10.4 million from $16.7 million in FY20, resulting in an increase of 23% in gross profit to $26.6 million from $21.7 million.

Revenue by investment strategy

	Litigation revenue 30 June 2021 $'000	Number of investments/ projects	Number of cases	Litigation revenue 30 June 2020 $'000	Number of investments/ projects	Number of cases
Single cases – completed	**24,860**	1	1	13,572	3	3
Single cases – ongoing	**444**	4	4	3,285	3	3
Law firm portfolios – ongoing	**728**	1	1	–	–	–
Corporate portfolios – ongoing	**3,586**	2	12	16,718	2	8
Insolvency – completed	**5,022**	5	5	354	1	1
Insolvency – ongoing	**2,283**	3	8	1,904	2	8
Other	**136**	2	1	2,608	1	1
Total	**37,059**	18	32	38,441	12	24

As illustrated in the table above, the variability of returns fluctuates significantly between one investment and the next irrespective of the investment type. The ability to accurately forecast profitability is impracticable 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 2021 $'000	Litigation revenue 30 June 2020 $'000
APAC	**32,536**	21,723
EMEA	**4,523**	16,718
Total	**37,059**	38,441

Portfolio update

Capital invested during FY21 was $88.0 million, inclusive of $39.5 million of third party fund investment, a 69% increase on FY20 which was A$52.0 million inclusive of $10.7 million third party fund investments. LCM's ability to deploy capital is a crucial measure of its performance and measuring growth, as the value of our future profits are derived from the capital we deploy in our investments at the time a resolution is achieved. LCM has demonstrated its ability to maintain progressive momentum year on year, while we continue to apply the same rigorous due diligence processes in our investment selection process.

As at 30 June 2021 there were 30 direct balance sheet projects under management, inclusive of eight recoveries matters, and 20 ongoing projects co-invested alongside the Fund of which 44 were unconditionally signed. As at 30 June 2020 there were 23 direct balance sheet projects and 17 projects co-invested alongside the Fund. This comprised 32 unconditionally funded and eight conditionally signed.

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

Cash generated from the resolution of matters increased by 22% to $37.5m million COMPARED to $30.7m million in FY20.

Financial performance

LCM delivered robust results in FY21 despite the challenges faced in the wider global economy. This was primarily attributable to the resolution of six investments from its direct balance sheet portfolio and the partial resolution of 12 investments, of which one related to a Fund investment. The Group's overall gross revenue of A$37.1 million, inclusive of $0.7 million of third party fund revenue, was marginally down compared to $38.4 million in the prior financial period, a decrease of less than 4%.

Gross profit of $26.6 million, inclusive of $0.5 million of third party fund gross profit, represented an increase of 23% compared to A$21.7 million in FY20.

The Group generated a statutory profit before tax of A$12.9 million an increase of 61% on the prior financial period, however this is inclusive of third party fund costs of $0.7 million, on an adjusted basis which excludes third party costs, statutory profit before tax was $13.1 million, an increase of 41% on the prior financial period which was $9.2 million on an adjusted basis. It is fundamental to understand the significant impact the timing of resolutions can have on the results from one year to the next. To accurately assess the performance and underlying value of the business it is fundamental to review the financial performance of the Group alongside the key performance metrics as these provide a more accurate representation of the momentum achieved in the underlying portfolio of investments. Delays in the resolution of matters purely shifts the recognition of revenues from one period to the next, it does not result in a loss of revenue.

Operating expenses of $10.2 million decreased by 5% compared to $10.7 million in FY20. 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 of $2.1 million include; $0.7 million of costs related to the third party fund which have been consolidated to comply with AASB standards but are not attributable to LCM; $0.3 million related to share-based expenses, $0.4 million related to non-recurring consultancy costs, $0.4m related to fund costs attributable to LCM and $0.3 million related to other expenses (see note 6).

Finance costs

On 22 February 2021, the Company entered into a credit facility with Northleaf Capital Partners to provide the Company with additional investment capital. Northleaf is a global private markets investment firm, with experience in the litigation finance sector. The Credit Facility, which is secured against LCM's assets, is available for general corporate purposes, and has an overall term of four years. The coupon comprises a LIBOR based rate of 8% per annum together with a profit participation calculated by reference to the profitability of LCM's direct investments. In all circumstances, the overall cost of the facility is capped at 13% per annum.

Capital invested during the period increased by 69%, reinforcing LCM's ability to put capital to work and creating value.

$88 million

Capital invested during FY21

The Credit Facility can be drawn down during the first two years of the facility. The facility otherwise contains the usual financial covenants and reporting conditions of a facility of this nature.

Dividend

The Board remains committed to returning to the payment of a dividend as a matter of fiscal discipline. The ongoing uncertainty in global markets caused by COVID continues to impact most sectors. As governments start to ease stimulus, there is an expectation that restructuring and insolvency related disputes will increase accordingly. Consequently, the Board has made the decision that no dividend will be paid, to preserve cash to meet any increase in demand for investments in order to accelerate growth in our portfolio.

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.

Mary Gangemi
Chief Financial Officer

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

Risk management

We continue to strengthen our risk management framework to improve the decisions we make to deliver our strategic objectives. It is paramount to the success of our business that we understand and manage risk. We continue to evolve our approach to identifying, assessing, managing and monitoring risk to enable us to continue 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 23-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.

3–7%

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

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

The integrity of our business and the quality of information we produce relies on having a robust internal control and risk management framework. We have policies and procedures to ensure we maintain accurate records and provide a true and fair view of our business performance. Members of the finance team in our Sydney and London offices provide an additional layer of oversight across investment managers' existing projects and their investment pipeline, enabling the team to participate in the review of our portfolios performance on an ongoing basis. This creates alignment between origination, treasury, finance and corporate reporting 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 and we continue to look at ways to strengthen our existing controls to deal with the increasing threats of cyber security. 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').

LCM maintains its AML/KYC function through an online global onboarding and monitoring software system which streamlines our already robust function and allows us to better manage our global requirements.

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	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.	During the past year, we have seen an increased interest and understanding of our sector. Additionally, in June 2021, Singapore expanded the permitted use of disputes funding, which increases the opportunities available to us in a market we are well established in and continue to develop. We differentiate ourselves through our three primary strategies which allow us to diversify our offering. Continuous innovation allows us to operate across the entire spectrum and provide funding solutions to counterparties who use out of both choice and necessity. Our experience which is reflected in our long standing track record, puts us in a good position against other peers in the market. The global addressable market for disputes financing is extremely large and remains hugely underpenetrated.	▼

Movement

❚❚ Pause ▲ Increase ▼ Decrease

Risk	Mitigation	Movement
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.	During the year LCM entered into a $US50m Facility Agreement which provides the Group with added capital flexibility to grow its investment portfolio. Additionally, we continue to look at innovative solutions and attractive investment options to expand our investor reach. Our current portfolio is well progressed and we expect organic cash flows to crystallise over the next 12-18 months. This combined with the credit facility places us in a strong position for growth.	▼
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.	Our robust investment process is fundamental to our success. 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 on a regular basis 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 selection process. LCM provides funding to only between 3–7% of the applications it receives. LCM places great significance on maintaining performance in line with our historical levels. Our rigorous investment process includes peer review by our team of highly experienced investment managers as well as external expert advice to ensure strict adherence to our investment criteria. This process demonstrates LCM's restraint from the temptation of unnecessary growth which may not create long term value for shareholders and investors. 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 continues to attract attention.	▼

Risk Management and Internal Controls continued

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 continue to invest in our workforce and during the year recruited two new investment managers. Executives remain focused on achieving high levels of staff satisfaction and regularly consider succession planning. Staff are encouraged to take relevant training. 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.	
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.	Our clients, shareholders and investors are at the heart of everything we do. We continue to develop and culture relationships with existing clients and we place great value on their importance to LCM. 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. Additionally, we have observed that during times of market instability people tend to rely more greatly on existing relationships.	
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.	LCM operates on a cloud based system providing flexibility and operational resilience. During the year, our business continuity and disaster recovery plan has delivered a stable platform for all staff globally, in light of the challenges faced as a result of the COVID pandemic. We monitor and test our continuity and disaster recovery plan to ensure it operates effectively and in line with our requirements. We have continued to invest in and upgrade our information technology systems to ensure that we continue to work efficiently with risk of minimal disruption.	

Risk	Mitigation	Movement
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. Our servers are held externally with a major global cloud-based vendor to better align with our global expansion and comply with requirements of the GDPR for privacy issues. We continue to upgrade our defences for cyber security as the threat of cybercrime continues to challenge businesses globally. 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 many 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 require litigation funders to obtain an Australian Financial Services Licence ('AFSL') if they are involved in the funding of class actions. As part of management's 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. This AFSL was supplemented in 2021 to allow LCM to continue to fund class actions in Australia. Management continue to monitor the changing regulatory landscape to ensure it remains in a position to operate without hindrance. Management actively monitor changes in the law in various jurisdictions on an application by application basis and if there are legal issues which arise particular to a jurisdiction, external advice is obtained.	

Movement

Pause Increase Decrease

Risk	Mitigation	Movement
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 monitor and manage working capital to enable the Company to meet its obligations as they fall due. During the year, the Company entered into a credit facility to supplement the balance sheet. Finance closely manage all financial covenant and reporting requirements with respect to the facility, to ensure compliance is maintained at all times. LCM maintains a strong balance sheet with organic cash generation from investments reaching maturity expected to materialise in the next 12-18 months. Additionally, LCM has significant control over its investments including the contractual right to cease funding where the prospects of the claim have changed or the economic viability of the investment has deteriorated.	
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. Additionally, consequent to entering into a USD credit facility, Finance regularly reviews its overall FX exposure and assesses any hedging requirements needed to mitigate FX risk. We keep a proportion of our cash in the currencies in which we expect the majority of these expenses to occur, to best manage the impact of foreign exchange risk caused by rate movements. 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 ensure there is a clear line to recovery for the claim and it must be demonstrated that the defendant has the capacity to meet a judgment of the size that will be brought. This is a detailed analysis which may involve obtaining an asset tracing report or considering the detailed terms of an insurance policy. In addition, all of LCM's litigation funding contracts require that any recovery on the investment be paid into a solicitor's trust account or escrow account. The funded client is not entitled to be paid any part of this recovery until LCM has been paid the amount it is owed on its investment. The solicitors directly contract with LCM to distribute the funds in accordance with these terms.	

Risk	Mitigation	Movement
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. This is an insurance policy taken out in the name of LCM which covers it for this adverse cost risk. Where there is no risk of a costs order being made for which LCM would be liable to pay, LCM expressly disclaims any liability for adverse costs in its litigation funding contract.	Pause
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.	During the year, economies across the globe continued to deal with the challenges brought about by the onset of COVID-19. Many sectors and industries have adapted to changing work environments and the restrictions of remote working. This inevitably resulted in a slow-down across many sectors, including the court and arbitral systems. Client interaction was also limited. Notwithstanding these challenges, LCM continued to develop its business development strategies through remote interaction and added a number of high profile quality matters to our portfolio. We continue to monitor the ever changing landscape caused by the impact of COVID-19 and develop strategies to adapt. We have little concentration risk as our investment strategy is to ensure a diversified portfolio. We continue to assess 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.	Pause

Movement

Pause Increase Decrease

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

We understand the importance of our wider communities and the environment. Our aim is to progressively take steps towards improving the impact our business activities have.

People

Our staff are fundamental to our success. We aim to attract and retain highly talented staff who generate value and create a sustainable business. We treat all our employees fairly and ethically and we aim to provide an environment in which all our employees feel valued, engaged, safe and can perform to the utmost of their abilities. During this past year the challenges of remote working focused our attention to the mental health and wellbeing of our workforce. We took extra measures to frequently engage with staff and encouraged them to participate in well-being surveys, giving them an opportunity to express their needs. We conduct appraisals and encourage an open dialogue with management at all times. The appraisal process is designed to improve performance by articulating individual goals and providing feedback on performance. Professional development is encouraged and ensures employees 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

LCM adopts the Quoted Companies Alliance Code (‘QCA Code’) which applies a principles based approach to good Corporate Governance. LCM has an independent Chairman and Board who are responsible for ensuring we operate ethically and transparently. LCM’s business has evolved significantly over the past five years. The appointment of Gerhard Seebacher strengthens the composition of the Board, bringing extensive financial markets experience and providing the necessary challenge for the business at it grows its asset management business. More details on our Board, Committees and how we comply with the QCA Code can be found on pages 54 to 69. Strong corporate governance is crucial to the success of our business and we continue develop our governance structures as we grow and our business evolves.

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.

Contributing to our community

Public Interest Advocacy Centre

For many years LCM has and continues to be an enthusiastic supporter of the Public Interest Advocacy Centre (‘PIAC’), an Australia-based non-profit organisation that tackles difficult social problems impacting the lives of many Australians.

In bringing public interest litigation, many of PIAC’s clients assume the risk of an adverse costs order if they are unsuccessful in court. This is a powerful disincentive to carrying on litigation. This is particularly so where the benefits to the broader community are significant, but the benefits to the individual plaintiff/applicant are minimal. Many of PIAC’s clients are unable or unwilling to risk their modest assets or income in this situation.

The project partners are litigation funders with experience in the investigation, funding and management of litigation claims. They have a commitment to social justice and advancing the public interest by supporting litigation that aligns with their values and goals. The project partners each agree to commit an amount towards protecting PIAC clients from adverse cost orders, in respect of claims commenced.

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

LCM is 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 (see more below).

Clients and stakeholders

We strive to develop and improve relationships with our clients and stakeholders. This is evident in the strong referral network we have built over the years with our law firms. We work hard to foster these relationships, which have contributed to our success over the years. 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. This ensures the interests of our clients and shareholders are always at the forefront of what we do.

Shareholders

We place significant importance on our relationship with shareholders. We strive to maintain an open and transparent dialogue with our investors as often as practicable. During the year we continued to improve the way in which we deliver our message to the market to ensure they understand our overall strategy and how we are delivering against them. Our shareholders are fundamental to the long-term success of our business. We aim to meet with shareholders to develop an understanding of their concerns and allow them the opportunity to have an open dialogue with Management. We do this through one to one meetings, capital market days and investor roadshows.

Environmental

At LCM we believe in the importance of understanding the impact our business has on our environment, acknowledge the impact paper waste has 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 and we have, where possible, encouraged the use of video conferencing, balancing the impact of travel. During the year we commenced our search process to engage a provider to assist us with Green House Gas and Energy reporting, a step towards improving our environmental initiatives. We remain committed to reducing our environmental impact.

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

Immigration detention and access to health care

A landmark test case on behalf of an asylum seeker client to highlight excessive use of force in Australian immigration detention centres. The case challenges the pervasive practice of handcuffs to restrain detained asylum seekers attending offsite medical appointments which is often disproportionate to any genuine risk. The filing was only made possible by securing litigation funders to indemnify the client.

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

GOVERNANCE

Contents

Delivering our strategies and growth through STRONG Corporate Governance.

"Creating shareholder value and enabling the Group to deliver growth through focused direction, strong leadership and Corporate Governance."

Jonathan Moulds
Chairman

The Board of LCM recognises the duty that we have to our shareholders to ensure that robust rules, practices and processes are in place and that these operate efficiently at all levels of the business and is committed to delivering high standards of corporate governance and embedding the right culture and behaviour throughout the business. The Quoted Companies Alliance has published a corporate governance code for small and mid-sized quoted companies, which includes a standard of minimum best practice for AIM companies, and recommendations for reporting corporate governance matters. 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 opposite.

Our Board offers a breadth of experience across various industries, with the skill required to drive the business forward through its accelerated growth journey as an Alternate Asset Manager.

Board of Directors

Jonathan Moulds
Non-Executive Chairman

Term of office
Joined the Board December 2018

Independent
Yes

Committee membership
Rem, ARC (Chair), Nom

External directorships and commitments
Non-Executive Director of IG Group Holdings Plc. Member of AFME's Advisory Board.

Jonathan's previously 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'). 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

Term of office
Joined the Board October 2015

Independent
Yes

Committee membership
Rem (Chair), ARC, Nom (Chair)

External directorships and commitments
Non-Executive Director of Galilee Energy Ltd, Non-Executive Director Tap Oil Ltd, Non-Executive Director Renergen Ltd.

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.

Patrick Moloney
Executive Director

Term of office
Joined the Board 2003

Independent
No

Committee membership
n/a

Patrick Moloney is a veteran of the disputes funding industry with 18 years' experience in the space. Patrick has been a Director of LCM since 2003 and the Chief Executive Officer of the group since December 2013 based out of the Sydney Office. He is responsible for overseeing all litigation projects in which LCM has an investment and (as 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.

Patrick was admitted to practice law in 1996 and has acted in more than 200 commercial litigation disputes for clients in the Australian superior Courts.

Nick Rowles-Davies
Executive Director

Term of office
Joined the Board December 2018

Independent
No

Committee membership
n/a

Nick defined the concept of portfolio litigation finance. A pioneer in the development of the litigation funding industry globally, he has led its transformation from third party funding, through litigation finance and now into a corporate finance offering.

In 2010 he co-founded a family office backed global litigation funder, 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. He is admitted as a solicitor in England and Wales, in the British Virgin Islands and is an accredited mediator.

Gerhard Seebacher
Non-Executive Director

Term of office
Joined the Board August 2020

Independent
Yes

Committee membership
Appointed as Chair of the ARC effective 1 October

External directorships and commitments
Chief Investment Officer and owner of Boulder Hill LLC.

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.

The QCA Corporate Governance Code

Governance principles	Compliant	Explanation	Further reading
Deliver Growth			
Establish a strategy and business model to promote long-term value for shareholders.	✓	LCM's strategy focuses principally on growth and is built around four core principles: – Maintaining a balanced portfolio – Providing funding for new claim types – Focus on international expansion – Ensuring access to capital and funding match LCM's current and future pipeline LCM considers the most important aspect of its business to be its people, who implement its strategy through the identification and assessment of litigation projects for financing.	→ ***Full disclosure of the strategy is detailed in LCM's strategic report on pages 24 to 26***
Seek to understand and meet shareholder needs and expectations.	✓	The Board acknowledges the importance of relationships with shareholders and seeks regular interaction with major shareholders to ensure their requirements and opinions are conveyed to the Board. 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. LCM intends to continue to use its annual general meeting ('AGM') as an opportunity to engage with its shareholders and seek their input on the management of LCM. LCM undertakes a number of steps to seek to maximise shareholders' ability to participate in the AGM process.	→ ***See page 53 for more details***
Take into account wider stakeholder and social responsibilities and their implications for long-term success.	✓	LCM gives 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. 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. 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. In Australia, LCM is a partner of the Adverse Costs Order Guarantee Fund ('ACO Fund') which has been established by the Public Interest Advocacy Centre ('PIAC'). The ACO Fund aims to promote access to justice for public interest litigation by responding to the significant barrier that is posed by the risk of an adverse cost order. There is no financial return to LCM from the ACO Fund and our involvement represents our commitment to supporting social justice and public interest litigation. The Board has a significant role to play in ensuring longevity of the business through sustainable long-term growth and development strategies. The Group's strategy means that it will rely on the networking ability of executive and senior management as well as employees to maintain active contacts and communications with legal professionals, other professionals and business and financial parties in order to provide it with Litigation Projects. LCM takes feedback from its stakeholders into account when making decisions and taking actions.	→ ***See further information on our involvement in PIAC on pages 52 to 53***

Governance principles	Compliant	Explanation	Further reading
Deliver Growth continued			
Embed effective risk management, considering both opportunities and threats, throughout the organisation.	✓	LCM has a proven and robust risk management process. When considering new Litigation Projects, LCM applies a rigorous selection criteria, referred to as LCM's five pillars. Once a Litigation Project has passed this initial selection criteria, LCM then applies an established investment approval process to manage and mitigate the risks associated with its Litigation Projects. 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 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 Chairman shall report formally to the Board on its proceedings after each meeting on all matters within the Audit & Risk Committee's duties and responsibilities shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.	→ *Read more about LCMs investment risk assessment on pages 44 to 51*
Maintain a dynamic management framework			
Maintain the Board as a well-functioning, balanced team led by the Chair.	✓	The Board is responsible for the overall management of the Group. The Board comprises five Directors; two Executive Directors and three Non-Executive Directors. The Company believes that is has an appropriate balance between Executive and Non-Executive Directors and meets the criteria for at least two independent Non-Executive Directors. The Board is led by the Chairman, Jonathan Moulds and the roles of Chairman and CEO are distinct. The Board has specific Audit & Risk, Remuneration and Nomination Committees covering three of the areas of the Group's operation which the Board views as having key importance to the Group's stakeholders. Each of these Committees have their own terms of reference which provide the necessary authorities for them to operate as they consider appropriate.	→ *Read more on our Board and committees on pages 60 to 64*
Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities.	✓	The Board believes its members collectively possess the appropriate balance of skills to allow it to discharge its duties and responsibilities effectively.	→ *Read more about the skills and experience of the Board on page 55*

Governance principles	Compliant	Explanation	Further reading
Maintain a dynamic management framework continued			
Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.	✓	The Board will review the effectiveness of the Board and its composition to ensure it has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively and to otherwise manage Board succession issues. 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 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 for the re-appointment of any Non-Executive Director at the conclusion of their specified term of office (in particular, for any term beyond six years) having given due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required. The Nomination Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within the Nomination Committee's duties and responsibilities shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.	→ ***Read more on our Board and committees on pages 60 to 64***
Promote a corporate culture that is based on ethical values and behaviours.	✓	LCM has a very simple philosophy around ethical conduct that is entrenched within its culture. Ethical conduct is of paramount importance to every LCM employee and it is non-negotiable. We do not permit second chances, we do not allow anyone to exploit grey areas and there is zero tolerance towards anyone looking to bend the rules. LCM's compliance regime has grown in tandem with our international expansion and it addresses the various legal and regulatory obligations LCM has across multiple jurisdictions. 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 as 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.	→ ***Read more on Anti-Bribery and corruption on page 53***

Governance principles	Compliant	Explanation	Further reading
Maintain a dynamic management framework continued			
Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board.	✓	The Board is responsible for the overall management of the Group. 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. 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.	→ *Read more on our Board and committees on pages 60 to 64*
Build trust			
Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.	✓	The Board endeavours to keep all interested shareholders informed by regular announcements and update statements. The Directors intend to meet regularly with new and existing institutional shareholders to understand their needs and expectations. The Company invites shareholder feedback and will report it back to the Board. LCM uses its annual general meeting ('AGM') as an opportunity to further engage with its shareholders. The Chairman of the Board is ultimately responsible for shareholder communication. As soon as practicable following any general meeting has been concluded, the results of the meeting will be released through a regulatory news service and a copy of the announcements placed on the Company's website. In the event that a significant proportion of votes was cast against any resolution at a general meeting, an explanation of the actions proposed to be taken in response would be outlined. LCM's website is one of its key information tools and LCM endeavours to keep its website up-to-date, complete and accurate. Documents produced that communicate key information to shareholders will include the annual and interim financial statements, announcements released to the London Stock Exchange and investor presentations.	→ *Further information can be found on our Company's website www.lcmfinance.com*

The Company has established an Audit & Risk Committee which provides advice and ASSISTANCE to the Board in fulfilling its corporate governance and oversight responsibilities.

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 2021 reporting year, travel restrictions as a result of the COVID-19 pandemic has meant that the Board has met eight times through video conferencing. Despite this, the Directors have continued to meet informally on a regular 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 (see page 69).

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 Charter states that this Committee shall comprise at least three members.

To the extent practicable given the size and composition of the Board from time to time the Committee will consist of three Directors. Currently the Audit & Risk Committee consists of two members who during the year were Dr David King and Jonathan Moulds who chairs the Audit & Risk Committee. The composition of the Audit & Risk Committee will be reviewed and additional members appointed as considered necessary by the Board.

The Audit & Risk Committee endeavours to meet at least three times a year. In the 2021 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 (and Directors when considered appropriate) are in regular contact to discuss any relevant audit and risk matters.

Overview of governance STRUCTURES

The Board

The Board is responsible for ensuring the Group delivers on its strategy and growth objectives and maintains responsibility for effective corporate governance.

Board Committees

The Board delegates some of its responsibilities to Committees of the Board and receives updates from the chair of each committee on current activities.

Nomination Committee

Responsible for the composition, structure and skill-set of the Board and for making recommendations to the Board on the appointment and re-appointment of Directors (see further detail on page 62).

Audit Committee

Responsible for assisting the Board in fulfilling its financial governance obligations and monitoring the effectiveness of internal controls and risk management systems.

Remuneration Committee

Assisting the Board in ensuring the Groups overall reward philosophy is consistent with the Groups strategic objectives (see further detail on page 63).

Chief Executive Officer

The Chief Executive Officer is responsible for the overall day to day management of the Group, driving development and executing the business strategy. The CEO is responsible for communicating with shareholders and investors and reports directly to the Board.

Executive team

The Executive team support the CEO in delivering the overall strategy of the business as well as optimising operational and financial performance.

LCM's Audit & Risk Committee assists the Board in fulfilling its financial and governance oversight responsibilities.

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.

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 2021 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:

LCM's Remuneration Committee aims to develop a reward PHILOSOPHY that aligns the interests of employees with the strategic objectives of the Group.

(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 Group places considerable importance to the role of appropriate performance-based INCENTIVES to drive sustainable long-term growth.

The Remuneration Committee comprises two members who during the year were Jonathan Moulds and David King who chaired the Remuneration Committee. The Remuneration Committee aims to meet at least two times a year.

In the 2021 reporting year, travel restrictions as a result of the COVID-19 pandemic has meant that the Remuneration Committee has only met twice. 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 2021, 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 2020 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.

Plan limits

In any ten 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 on the following page.

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').

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.

Remuneration table

Remuneration table for year ended 30 June 2021 (audited)

The table below provides remuneration for Key Management Personnel ('KMPs') for the 12 months ended 30 June 2021 and comparatives for the year ended 30 June 2020.

	Cash salaries and fees $		Bonus $		Benefits $	
	2021	2020	2021	2020	2021	2020
Non-Executive Directors						
Dr David King	**100,000**	129,167	**-**	–	**-**	–
Steven McLean	**-**	129,167	**-**	–	**-**	–
Jonathan Moulds	**180,308**	183,082	**-**	–	**-**	–
Gerhard Seebacher	**87,255**	–	**-**	–	**-**	–
	367,563	441,416	**-**	–	**-**	–
Executive Directors						
Stephen Conrad	**-**	426,859	**-**	–		–
Nick Rowles-Davies	**1,102,651**	1,098,499	**-**	183,083	**13,748**	18,032
Patrick Moloney	**750,000**	750,000	**-**	250,000	**-**	50,043
	1,852,651	2,275,358	**-**	433,083	**13,748**	68,075
Total	**2,220,214**	2,716,774	**-**	433,083	**13,748**	68,075

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 2021 and the previous period ended 30 June 2020:

Name of the Director	Description of shares	30 June 2021 Number	30 June 2020 Number
Jonathan Moulds	N/A	–	–
Dr David King	Fully paid ordinary shares	1,601,484	1,601,484
Patrick Moloney	Fully paid ordinary shares	3,920,971	3,768,113
Patrick Moloney	Unlisted partly paid shares	1,433,022	1,433,022[1]
Nick Rowles-Davies	N/A	–	–
Gerhard Seebacher	N/A	–	–

1 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

No changes took place in the interest of the Directors between 30 June 2021 and 21 September 2021.

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
Nick Rowles-Davies	08/03/2019	08/03/2029	£0.5200	4,528,664	–	–	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
Patrick Moloney	13/10/2020	13/10/2021	£0.6655	–	291,597	–	291,597
				11,178,922	291,597	–	11,470,519

Accrued leave $		Superannuation /pension $		Long service leave $		Share-based payments $		Total $	
2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
-	–	9,500	12,271	-	–	-	–	109,500	141,438
-	–	-	12,271	-	–	-	–	-	141,438
-	–	-	2,407	-	–	-	–	180,308	185,489
-	–	-	–	-		-		87,255	
-	–	9,500	26,949	-	–	-	–	377,063	468,365
-	–		25,000		–		2,480	-	454,339
-	–	2,371	2,408		–	4,342	130,686	1,123,112	1,432,708
34,615	25,962	42,750	42,750	12,520	12,525	228,270	231,029	1,068,155	1,362,309
34,615	25,962	45,121	70,158	12,520	12,525	232,612	364,195	2,191,267	3,249,356
34,615	25,962	54,621	97,107	12,520	12,525	232,612	364,195	2,568,330	3,717,721

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 2021 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

Dr David King

Nick Rowles-Davies

Gerhard Seebacher (appointed 18 August 2020)

Directors appointed during the year

Gerhard Seebacher – *Independent Non-Executive Director.* Appointed to the Board August 2020. Extensive experience in financial services and fund management.

Further information on the current Directors in office are disclosed on page 55 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 2021 financial year, eight 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	8/8	2/2	2/2	–
Patrick Moloney	8/8	*	*	*
Jonathan Moulds	8/8	2/2	2/2	–
Gerhard Seebacher[1]	7/7	*	*	*
Nick Rowles-Davies	8/8	*	*	*

1 Appointed 18 August 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 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 $8,863,000 (30 June 2020: $5,245,000).

The Directors do not recommend a final dividend in respect of the year ended 30 June 2021.

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

During the year the Board considered a number of options to introduce additional capital to LCM's balance sheet to increase the flexibility of LCM's capital structure. In February 2021 LCM secured a USD$50 million credit facility with Northleaf Capital Partners. Northleaf is a global private markets investment firm with considerable experience in the litigation funding sector. The credit facility provides significant additional capital flexibility to enable the company to grow its direct investment portfolio, its asset management business and to supplement balance sheet capital in relation to the co-funding opportunities of the LCM GAR Fund and for the second fund. It also provides LCM with a bridge to organically generated capital as its portfolio of direct investments matures.

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

Notwithstanding a financial year marred by disruption as a consequence of COVID, LCM has continued to deliver growth. As we look ahead to the next financial period and beyond, it is not entirely clear when markets will return to normal, if at all. Market instability will have differing effects upon the territories in which LCM operates. As the markets globally emerge from the restrictions imposed as a consequence of COVID there will be, to some degree, an increase in insolvencies, bankruptcies and restructuring. That appears to be an inevitable consequence of the markets, prolonged lockdowns and shifting economic conditions. As we look forward, we see opportunity.

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 ('GAR') Fund on behalf of third-party investors. In the coming financial period LCM expects the realization of a number of its dispute investments. The expectation is that those resolutions will predominantly be in the portfolio of direct investments.

With the GAR Fund committed at 76% of its capital at 30 June 2021, this enabled LCM to launch its second fund, building the scale of its asset management business. We are well advanced in terms of discussions with existing, and prospective investors, concerning the raising of a second pool of managed capital. LCM is targeting US$300 million for Fund II. To date there has been strong support from existing investors, as well as a number of investors who were unable to participate in the first fund. The timing of a first close in respect of Fund II is H1 FY22.

The development of LCM's asset management business has been crucial for LCM's growth and building scale. In an industry maturing rapidly on a global scale, LCM's fund management business has permitted it to gain access to larger pools of capital, which in turn allows LCM to build the size of its portfolios and in turn, assets under management. Over time, and as LCM's asset management business grows, we expect to see the aggregate value of the portion of LCM's portfolio of direct investments, where LCM is committing 100% of the capital, to diminish and be replaced with an increasing number of co-investments with its asset management business, spreading the risk of each dollar of invested capital across a more diverse pool of investments further reducing concentration risk in respect of our direct investments. We believe this shift will accelerate long-term sustainable growth.

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	–
Patrick Moloney	3,920,971	5,053,055	–	900,000	1,433,022
Jonathan Moulds	–	–	–	–	–
Nick Rowles-Davies	–	–	4,917,464	–	–
Gerhard Seebacher[6]	–	–	–	–	–

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 Appointed 20 August 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 616,520 (2020: 2,068,337) shares under the loan funded share plans. As at the date of this report there were 6,222,440 Loan Shares and 4,917,464 Joint Share Ownership Plan shares outstanding subject to various vesting and performance conditions.

There were 4,630,141 options vested and exercisable as at 30 June 2021 (2020: 3,062,031).

Further details provided in note 29 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 20 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 20 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

21 September 2021

FINANCIAL STATEMENTS

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Tel: +61 8 7324 6000
Fax: +61 8 7324 6111
www.bdo.com.au

BDO Centre
Level 7, 420 King William Street
Adelaide SA 5000
GPO Box 2018 Adelaide SA 5001
Australia

DECLARATION OF INDEPENDENCE
BY G K EDWARDS
TO THE DIRECTORS OF LITIGATION CAPITAL MANAGEMENT LIMITED

As lead auditor of Litigation Capital Management Limited for the year ended 30 June 2021, 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 K Edwards

Director

BDO Audit (SA) Pty Ltd

Adelaide, 21 September 2021

Tel: +61 8 7324 6000
Fax: +61 8 7324 6111
www.bdo.com.au

BDO Centre
Level 7, 420 King William Street
Adelaide SA 5000
GPO Box 2018 Adelaide SA 5001
Australia

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 2021, 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 Litigation Capital Management Limited, 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 2021 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.

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 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 agreements. • 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. • 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 obtained at the date of this auditor's report is information included in the Group's annual report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly 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 on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf

This description forms part of our auditor's report.

BDO

BDO Audit (SA) Pty Ltd

G Edwards

G K Edwards
Director

Adelaide, 21 September 2021

Consolidated statement of profit or loss and other comprehensive income

For the period ended 30 June 2021

	Note	Consolidated 2021 $'000	Consolidated 2020 $'000
Revenue from contracts with customers			
Litigation service revenue	4	36,924	35,833
Performance fees	4	135	2,608
		37,059	38,441
Litigation service expense		(10,439)	(16,723)
Gross profit		26,620	21,718
Other income		–	90
Interest income		4	35
Expenses			
Employee benefits expense	6	(8,396)	(7,611)
Depreciation expense	6	(59)	(86)
Corporate expenses		(2,664)	(3,752)
Litigation fees	6	(86)	(1,159)
Finance costs	6	(1,334)	–
Fund administration expense	6	(1,153)	(1,183)
Total expenses		(13,692)	(13,791)
Profit before income tax expense		**12,932**	**8,052**
Analysed as:			
Adjusted operating profit		16,384	11,137
Non-operating expenses	6	(2,118)	(3,085)
Finance costs	6	(1,334)	–
Profit before income tax expense		**12,932**	**8,052**
Income tax expense	7	(4,069)	(2,799)
Profit after income tax expense for the period		**8,863**	**5,253**
Other comprehensive income			
Items that may be subsequently reclassified to profit and loss:			
Movement in foreign currency translation reserve		(1,377)	–
Total comprehensive income for the period		**7,486**	**5,253**
Profit for the period is attributable to:			
Owners of Litigation Capital Management Limited		8,863	5,245
Non-controlling interest	25	–	8
		8,863	**5,253**
Total comprehensive income for the period is attributable to:			
Owners of Litigation Capital Management Limited		7,486	5,245
Non-controlling interest		–	8
		7,486	**5,253**
		Cents	Cents
Basic earnings per share	27	8.46	5.02
Diluted earnings per share	27	7.95	4.71

Consolidated statement of financial position
As at 30 June 2021

	Note	Consolidated 2021 $'000	2020 $'000
Assets			
Current assets			
Cash and cash equivalents	8	49,736	31,754
Trade and other receivables	9	13,843	15,298
Contract costs	10	16,663	15,671
Other assets		616	439
Total current assets		**80,858**	**63,162**
Non-current assets			
Contract costs	10	117,895	46,847
Property, plant and equipment		186	204
Intangible assets		391	336
Other assets		284	280
Total non-current assets		**118,756**	**47,667**
Total assets		**199,614**	**110,829**
Liabilities			
Current liabilities			
Trade and other payables	11	12,392	13,162
Borrowings	13	13,253	–
Employee benefits	12	452	376
Total current liabilities		**26,097**	**13,538**
Non-current liabilities			
Deferred tax liability	7	7,543	3,559
Borrowings	13	37,171	–
Employee benefits	12	148	117
Third-party interests in consolidated entities	26	39,764	12,600
Total non-current liabilities		**84,626**	**16,276**
Total liabilities		**110,723**	**29,814**
Net assets		**88,891**	**81,015**
Equity			
Issued capital	14	68,904	68,830
Reserves	15	(60)	1,001
Retained earnings		20,028	11,165
Parent interest		88,872	80,996
Non-controlling interest		19	19
Total equity		**88,891**	**81,015**

Consolidated statements of changes in equity
For the period ended 30 June 2021

Consolidated	Issued capital $'000	Retained earnings $'000	Share based payments reserve $'000	Foreign currency translation $'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 29)	–	–	432		432	–	432
Dividends paid (note 16)	–	(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	Foreign currency translation $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 July 2020	68,830	11,165	1,001	–	80,996	19	81,015
Profit after income tax expense for the year	–	8,863	–	–	8,863	–	8,863
Other comprehensive income for the year, net of tax	–	–	–	(1,377)	(1,377)	–	(1,377)
Total comprehensive income for the year	**–**	**8,863**	**–**	**(1,377)**	**7,486**	**–**	**7,486**
Equity Transactions:							
Share-based payments (note 29)	–	–	316	–	316	–	316
Contributions of equity (note 14)	74			–	74		74
	74	**–**	**316**	**–**	**390**	**–**	**390**
Balance at 30 June 2021	**68,904**	**20,028**	**1,317**	**(1,377)**	**88,872**	**19**	**88,891**

Consolidated statements of cash flows
For the period ended 30 June 2021

	Note	Consolidated 2021 $'000	2020 $'000
Cash flows from operating activities			
Proceeds from litigation contracts – settlements, fees and reimbursements		37,508	30,673
Payments to suppliers and employees		(59,412)	(50,591)
Non-operating items paid		(649)	(1,412)
Interest received		4	35
Net payments made by third-party interests in consolidated entities		(33,995)	(6,891)
Net cash used in operating activities	28	**(56,544)**	**(28,186)**
Cash flows from investing activities			
Payments for property, plant and equipment		(14)	(56)
Payments for intangibles		(66)	(288)
Refunds of security deposits		10	(1)
Net cash used in investing activities		**(70)**	**(345)**
Cash flows from financing activities			
Proceeds from issue of shares		74	–
Dividends paid	16	–	(886)
Proceeds from borrowings	13	63,153	–
Repayments of borrowings		(13,391)	–
Payments of finance costs		(2,546)	–
Payments of transaction costs related to third-party interests		(1,749)	(2,066)
Net contributions from third-party interests in consolidated entities		29,234	14,582
Payments for fund establishment & administration costs		(635)	(920)
Net cash from financing activities		**74,140**	**10,710**
Net decrease in cash and cash equivalents		17,525	(17,821)
Cash and cash equivalents at the beginning of the financial year		31,754	49,119
Effects of exchange rate changes on cash and cash equivalents		457	456
Cash and cash equivalents at the end of the financial year	8	**49,736**	**31,754**

Notes to the financial statements
30 June 2021

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 21 September 2021. 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.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

Basis of preparation

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

Historical cost convention

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

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its 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 24.

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 2021 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 26.

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.

Note 2 Significant accounting policies continued

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.

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.

Note 2 Significant accounting policies continued

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 generally do not have a specifically defined time frame for settlement, additionally, when the receivable is due from part of the portfolio of litigation projects, the settlement of the receivable is generally made upon an additional resolution of another litigation project within the portfolio which also may not be within a specifically defined time frame.

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.

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.

Borrowings

Borrowings are initially recognised at fair value net of transaction costs incurred. Subsequent to initial recognition, borrowings are stated at amortised cost. The borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

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.

Note 2 Significant accounting policies continued

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.

Financial assets and liabilities at amortised cost

Financial assets and liabilities held at amortised cost includes third party interests in consolidated entities and portfolio costs. Financial assets and liabilities are initially recognised at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method, less any allowances for expected credit losses.

Issued capital

Ordinary shares are classified as equity.

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

Dividends

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

Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

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

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

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

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

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

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 below.

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.

Note 3 Critical accounting judgements, estimates and assumptions continued

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 25). 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 10, 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.

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 (refer note 10).

Note 4 Revenue

	Consolidated	
	2021 $'000	2020 $'000
Major service lines		
Litigation service revenue		
Revenue attributable to LCM	36,260	35,833
Attributable to third party interests	664	–
	36,924	35,833
Performance fees	135	2,608
	37,059	38,441
Geographical regions		
Australia	32,536	21,723
United Kingdom	4,523	16,718
	37,059	38,441
Contract duration		
Less than 1 year	1,043	2,257
1–4 years	35,834	23,277
More than 4 years	182	12,907
	37,059	38,441

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 2021 there was one major external customer (2020: three customers, unrelated to that in 2021) where revenue exceeded 10% of the consolidated revenue. Revenue from this customer for the year ended 30 June 2021 amounted to $24,860,000 (2020 $13,926,000, $6,534,000, and $4,052,000).

Note 6 Profit before tax

	Consolidated	
	2021 $'000	2020 $'000
Profit before income tax expense includes the following specific expenses:		
Employee benefits expense		
Salaries & wages	7,205	6,222
Directors' fees	380	449
Superannuation and pension	277	260
Share based payments expense	316	432
Other employee benefits & costs	218	248
	8,396	7,611
Depreciation		
Plant and equipment	39	69
Intangible assets	20	17
	59	86
Litigation fees		
Litigation fees	86	1,159

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.

	2021 $'000	2020 $'000
Finance costs		
Interest on borrowings (note 13)	1,235	–
Other finance costs	99	–
	1,334	–
Fund administration expense		
Finance costs	387	–
General administration expenses	9	245
Set-up expenses	289	938
Amortisation of transaction costs	468	–
	1,153	1,183

Fund administration expenses relates 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.

Leases		
Short-term lease payments	541	764

Adjusted operating profit

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

Non-operating expenses

Management have opted to separately present these items as it better reflects the Groups underlying performance. Non-operating expenses includes the following items:

Share based payments expense	316	432
Consultancy	358	182
IPO and other transaction costs	174	82
Litigation fees	86	1,159
Other expenses	31	47
Fund administration expenses	1,153	1,183
	2,118	**3,085**

Note 7 Income tax expense

	Consolidated	
	2021 $'000	**2020 $'000**
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	12,932	8,052
At the Group's statutory income tax rate of 26% (2020: 27.5%)	3,362	2,214
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Foreign tax rate adjustments	(29)	–
Share-based payments	82	119
Other assessable income	127	–
Other non-deductible expenses	35	325
Unrealised foreign exchange	93	(93)
Change in tax rate	12	234
Adjustment in respect of deferred tax of previous years	387	–
	4,069	2,799
Adjustment to deferred tax balances as a result of change in statutory tax rate		
Income tax expense / (benefit)	4,069	2,799

Statutory tax rate of 26% is applicable to Australian entities with aggregated turnover below $50 million for the period ended 30 June 2021. 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 26% tax rate.

	Consolidated	
	2021 $'000	**2020 $'000**
Deferred tax asset/(liability)		
Deferred tax asset/(liability) comprises temporary differences attributable to:		
Tax losses	14,596	10,851
Employee benefits	185	154
Accrued expenses	79	30
Contract costs – litigation contracts	(22,938)	(15,547)
Transaction costs on share issue	535	953
Deferred tax asset/(liability)	(7,543)	(3,559)
Movements:		
Opening balance	(3,559)	(760)
Charged to profit or loss	(3,984)	(2,799)
Credited to equity	–	0
Closing balance	(7,543)	(3,559)

Notes to the financial statements continued

Note 8 Cash and cash equivalents

	Consolidated	
	2021 $'000	2020 $'000
Cash at Bank	35,526	24,942
Cash of third-party interests in consolidated entities	14,210	6,812
	49,736	31,754

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	
	2021 $'000	2020 $'000
Due from litigation service[1]	8,267	3,821
Due from litigation service – portfolios[2]	5,576	11,477
	13,843	15,298

1 Receivables relate to the recovery of litigation projects that have successfully completed which may not have a specified time frame for settlement

2 Receivables which form part of a portfolio of litigation projects and settlement of the receivable can be made upon an additional resolution of another litigation project within the portfolio which may not be within a specified contractual due date

Allowance for expected credit losses

The Group has recognised a loss of $nil (2020: $nil) in profit or loss in respect of the expected credit losses for the year ended 30 June 2021.

Note 10 Contract costs – litigation contracts

	Consolidated	
	2021 $'000	2020 $'000
Contract costs – litigation contracts	134,558	62,518

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	
	2021 $'000	2020 $'000
Opening balance	62,518	27,386
Additions during the period	48,495	41,330
Additions during the period made by third-party interests	39,539	10,694
Litigation service expense – successful contracts[1]	(10,439)	(16,723)
Litigation service expense – write down[2]	(4)	(3)
Other contract costs reimbursed – successful contracts[1]	(5,551)	–
Foreign exchange losses	–	(166)
Closing balance	**134,558**	**62,518**

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 assets

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:

	2021 $'000	2020 $'000
Attributable to owners of LCM	88,602	51,824
Third-party interests	45,956	10,694
Consolidated total	**134,558**	**62,518**

	Consolidated	
	2021 $'000	2020 $'000
Current	16,663	15,671
Non Current	117,895	46,847
	134,558	**62,518**

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;
- 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% (2020: 15%).

Based on the above, the Group has recognised impairment losses of $nil (2020: $nil) in profit or loss on contract costs for the year ended 30 June 2021.

Note 11 Current liabilities – trade and other payables

	Consolidated	
	2021 $'000	2020 $'000
Trade payables	11,655	13,042
Distribution payable	32	32
Tax payable	84	–
Other payables	622	88
	12,392	**13,162**

Refer to note 17 for further information on financial instruments.

Note 12 Current and non-current liabilities – Employee benefits

	Consolidated 2021 $'000	Consolidated 2020 $'000
Current		
Annual Leave	452	376
	452	**376**
Non-current		
Long Service Leave	148	117
	148	**117**

Note 13 Borrowings

	Consolidated 2021 $'000	Consolidated 2020 $'000
Current		
Borrowings of third-party interests in consolidated entities	13,253	–
	13,253	**–**
Non-current		
Borrowings	37,171	–
	37,171	**–**

Reconciliation of borrowings of third-party interests in consolidated entities:	Consolidated 2021 $'000	Consolidated 2020 $'000
Balance 1 July	–	–
Proceeds from borrowings	26,782	–
Repayment of borrowings	(13,391)	
Payments for borrowing costs	354	–
Amortisation of borrowing costs	(281)	
Other non-cash items	(211)	–
Balance as at 30 June	13,253	–

Reconciliation of borrowings of LCM:	Consolidated 2021 $'000	Consolidated 2020 $'000
Balance 1 July	–	–
Proceeds from borrowings	36,371	–
Payments for borrowing costs	1,134	–
Amortisation of borrowing costs	(99)	
Other non-cash items	(235)	
Balance as at 30 June	37,171	–

On 22 February 2021 the Group entered into a credit facility with Northleaf Capital Partners for an aggregate amount of US$50,000,000, AUD equivalent of $66,507,000[1] (the 'Facility'). The Facility carries interest of a LIBOR based rate of 8 per cent together with a profit participation calculated by reference to the profitability of a defined category of the Group's investments, and a non-utilisation margin of 1 per cent for the first two years. The overall cost of the Facility is capped at 13% per annum. The Facility is available to be drawn down during the first two years, has an overall term of four years and is secured against the Group's assets. As at 30 June 2021, the Group's outstanding utilisation amounted to US$20,000,000, an AUD equivalent of $26,603,000[1].

The Group agreed to various debt covenants including a minimum effective net tangible worth, borrowings as a percentage of effective net tangible worth, minimum liquidity, a minimum consolidated EBIT and a minimum multiple of invested capital on concluded contract assets over a specified period. There have been no defaults or breaches related to the Facility during the year ended 30 June 2021. Should the Group not satisfy any of these covenants, the outstanding balance of the Facility may become due and payable.

The Group incurred costs in relation to arranging the Facility of $1,134,000 which were reflected transactions costs and will be amortised over the four year term of the borrowings. As at 30 June 2021 $1,035,000 of the loan arrangement fees remained outstanding.

1 Converted at the functional currency spot rates of exchange at the reporting date

Note 14 Equity – issued capital

	Consolidated			
	2021 Shares	2020 Shares	2021 $'000	2020 $'000
Ordinary shares – fully paid	105,014,157	104,580,899	68,904	68,830
Ordinary shares – under loan share plan	11,073,767	10,457,247	–	–
	116,087,924	115,038,146	68,904	68,830

	Date	Shares	$'000
Movements in ordinary share capital			
Balance	1 July 2019	104,580,899	68,830
Balance	30 June 2020	104,580,899	68,830
Issue of partly paid shares paid up at $0.17 per share	17 March 2021	433,258	74
Balance	30 June 2021	105,014,157	68,904

	Date	Shares	$'000
Movements in ordinary shares issued under loan share plan:			
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	–
Issue of shares under loan share plan	13 October 2020	616,520	–
		11,073,767	–

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. The underlying options within the LSP have been accounted for as a share-based payment. Refer to note 29 for further details. When the loans are settled the 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 2021, there are currently 2,432,792 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.

Note 14 Equity – issued capital continued

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 15 Equity – reserves

Movements in reserves

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

Consolidated	Share based payments reserve $'000	Foreign currency translation $'000	Total reserves $'000
Balance at 1 July 2019	569	–	569
Movements in reserves during the period	432	–	432
Balance at 30 June 2020	1,001	–	1,001
Movements in reserves during the period	316	(1,377)	(1,061)
Balance at 30 June 2021	1,317	(1,377)	(60)

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.

Foreign currency translation reserve

This reserve is used to record differences on the translation of the assets and liabilities of foreign operations.

Note 16 Equity – dividends

Dividends

Dividends paid during the financial year were as follows:

	Consolidated 2021 $'000	Consolidated 2020 $'000
Final dividend for 2020: nil cents per share (2019: 0.828 cents per share)	–	886
	–	886

The Directors have determined not to pay a final dividend for the year ended 30 June 2021.

Franking credits

	Consolidated 2021 $'000	2020 $'000
Franking credits available for subsequent financial years based on a tax rate of 26% (2020: 27.5%)	338	338

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

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

Note 17 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 2021 $'000	Liabilities 2021 $'000	Assets 2020 $'000	Liabilities 2020 $'000
US dollars	25,805	(54,167)	7,312	(1,445)
Pound sterling	25,390	(3,095)	12,100	(4,885)
New Zealand dollars	1,874	(8)	–	(708)
United Arab Emirates Dirham	5,047	(670)	3,254	–
Other	293	(176)	5	(425)
	58,409	(58,116)	22,671	(7,463)

The Group had net assets denominated in foreign currencies of $293,000 (assets of $58,409,000 less liabilities of $58,116,000) as at 30 June 2021 (2020: $15,208,000). 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 $29,000 (2020: $1,521,000). 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 2021 was $96,000 (2020: loss of $229,000).

Foreign exchange risk arises mainly from contract costs and borrowings 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.

Note 17 Financial instruments continued

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 (2020: 50) basis points would have an favourable/adverse effect on profit before tax of $249,000 (2020: $159,000) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts forecasts.

Credit risk

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

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

To mitigate credit risk on cash and cash equivalents, the Group holds cash with Australian and American financial institutions with at least a AA- credit rating.

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 maturity profile of the Group's financial liabilities based on contractual maturity on an undiscounted basis are:

Consolidated – 2021	Less than 1 year $'000	Between 1 and 5 years $'000	Over 5 years $'000	No contractual maturity date $'000	Remaining contractual maturities $'000
Non-derivatives					
Non-interest bearing					
Trade payables	11,655	–	–	–	11,655
Distribution payable	32	–	–	–	32
Other payables	534	–	–	–	534
Borrowings – current	13,308	–	–	–	13,308
Borrowings – non current	3,506	45,355	–	–	48,861
Third-party interest in consolidated entities	–	–	–	39,764	39,764
Total non-derivatives	29,035	45,355	–	39,764	114,154

Consolidated – 2020	Less than 1 year $'000	Between 1 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
Total non-derivatives	13,162	–	–	12,600	25,762

Note 18 Fair value measurement

The carrying amounts of the Group's financial instruments carried at amortised cost in the financial statements approximate their fair values. There were no assets and liabilities measured at fair value as at 30 June 2021 and 30 June 2020.

Note 19 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 2021 $	Consolidated 2020 $
Short-term employee benefits	2,268,577	3,243,894
Post-employment benefits	54,621	97,107
Long-term benefits	12,520	12,525
Share-based payments	232,612	364,195
	2,568,330	3,717,721

Note 19 Key management personnel disclosures continued

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

2021	Cash salaries and fees $	Bonus $	Benefits $	Accrued leave $	Super-annuation $	Long service leave $	Share-based payments $	Total $
Non-Executive Directors								
Dr David King	100,000	–	–	–	9,500	–	–	109,500
Jonathan Moulds	180,308	–	–	–	–	–	–	180,308
Gerhard Seebacher	87,255	–	–	–	–	–	–	87,255
	367,563	–	–	–	9,500	–	–	377,063
Executive Directors								
Nick Rowles-Davies	1,102,651	–	13,748	–	2,371	–	4,342	1,123,112
Patrick Moloney	750,000	–	–	34,615	42,750	12,520	228,270	1,068,155
	1,852,651	–	13,748	34,615	45,121	12,520	232,612	2,191,267
	2,220,214	–	13,748	34,615	54,621	12,520	232,612	2,568,330

2020	Cash salaries and fees $	Bonus $	Benefits $	Accrued leave $	Super-annuation $	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

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)	–
John (Nick) Rowles-Davies[1]	06/03/2019	08/03/2029	£0.5200	4,528,664	–	–	4,528,664
Patrick Moloney[1]	01/11/2019	01/11/2029	£0.7394	1,166,400	–	–	1,166,400
John (Nick) Rowles-Davies[1]	04/11/2019	04/11/2029	£0.7394	388,800	–	–	388,800
Patrick Moloney[1]	13/10/2020	13/10/2030	£0.6655		291,597	–	291,597
				11,278,922	291,597	–	11,470,519

1 Outstanding share options as disclosed in Note 29

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 2021 Number	30 June 2020 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[1]
Patrick Moloney	Fully paid ordinary shares	3,920,971	3,920,971
Patrick Moloney	Unlisted partly paid shares	1,433,022	1,433,022[2]
Stephen Conrad	Fully paid ordinary shares	–	337,778[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 14 to the financial statements

3 Directorship ceased effective 31 March 2020

No changes took place in the interest of the directors between 30 June 2021 and 21 September 2021.

Note 20 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 2021 $	2020 $
Audit or review services		
Fees for auditing the statutory financial report of the parent covering the Group	125,747	93,520
Other auditor fees for auditing the statutory financial reports of any controlled entities	54,084	39,371
	179,831	132,891
Other services – network firms		
Preparation of the tax return	–	–
Corporate finance services	–	–
	–	–

Note 21 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 22 Commitments

	Consolidated 2021 $'000	2020 $'000
Lease commitments		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	455	180
One to five years	–	–
	455	180

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

Note 23 Related party transactions

Transactions with Director related entities

The following transactions occurred with related parties:

	Consolidated 2021 $	2020 $
Consulting fees paid to Thedoc Pty Ltd – a related entity of Stephen Conrad, a former Director of LCM	26,000	–
Acquisition of LCM Advisory Pty Ltd (formerly 101 Capital Pty Ltd)	–	225,000
	26,000	225,000

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. 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. As at 30 June 2021, the remaining 20% was owned by Keli-Saw Holdings Pty Ltd of which Patrick Moloney is a shareholder.

Note 24 Parent entity information

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

	Consolidated 2021 $'000	2020 $'000
Statement of profit or loss and other comprehensive income		
Loss after income tax	(316)	(432)
Total comprehensive income	(316)	(432)
Statement of financial position		
Total current assets	–	–
Total assets	67,634	67,560
Total current liabilities	–	–
Total liabilities	–	–
Equity		
Issued capital	68,904	68,830
Share based payments reserve	1,317	1,001
Retained profits	(2,587)	(2,271)
Total equity	67,634	67,560

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

Litigation Capital Management Limited (as holding entity), LCM Operations Pty Ltd, LCM Litigation Fund Pty Ltd, LCM Corporate Services Pty Ltd, LCM Recoveries Pty Ltd, LCM Funding Pty Ltd, LCM Singapore Pty Ltd, LCM Funding SG Pty Ltd and LCM Group Holdings Pty Ltd are parties to a deed of cross guarantee under which each company guarantees the debts of the others. The specified subsidiaries represent a 'closed group' for the purposes of the guarantee, and as there are no other parties to the Deed that are controlled by the Group, they also represent the 'extended closed group'.

During the period, LCM Advisory Limited was removed from the Deed by a revocation deed dated 11 May 2021 and LCM Group Holdings Pty Ltd was added to the Deed by an assumption deed dated 11 May 2021.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2021 and 30 June 2020.

Capital commitments – Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2021 and 30 June 2020.

Significant accounting policies

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

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

Note 25 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 2021 %	Ownership Interest 2020 %
LCM Litigation Fund Pty Ltd	Australia	100%	100%
LCM Litigation Management Pty Ltd	Australia	–[1]	100%
LCM Litigation Investment Fund No 1 Pty Ltd	Australia	100%	100%
LCM Operations Pty Ltd	Australia	100%	100%
LCM Corporate Services Pty Ltd	Australia	100%	100%
LCM Unit Trust	Australia	80%	80%
LCM Singapore Pty Ltd	Australia	100%	100%
LCM Recoveries Pty Ltd	Australia	100%	100%
LCM Advisory Limited	Australia	100%[2]	100%
LCM Funding Pty Ltd	Australia	100%	100%
LCM Funding SG Pty Ltd	Australia	100%	100%
LCM Corporate Services Pte. Ltd.	Singapore	100%	100%
LCM Operations UK Limited	United Kingdom	100%	100%
LCM Corporate Services UK Limited	United Kingdom	100%	100%
LCM Recoveries UK Limited	United Kingdom	100%	100%
LCM Funding UK Limited	United Kingdom	100%	100%
LCM Group Holdings Pty Ltd	Australia	100%[3]	–
LCM Global Alternative Returns Fund[4]			
LCM Global Alternative Returns Fund GP Limited	Jersey	100%	100%
LCM Global Alternative Returns Fund (Special Partner) LP	Jersey	100%	100%

1 Entity was deregistered on 13 January 2021

2 Name changed from LCM Advisory Pty Ltd to LCM Advisory Limited upon conversion to a public company on 1 January 2021

3 Entity was incorporated during the year

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, LCM Global Alternative Returns Fund (Special Partner) LP (which are both 100% owned by the Group as reflected within this note), and fund investors ie, third party interests. 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 26

Note 25 Interests in subsidiaries continued

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 2021 %	Parent Ownership Interest 2020 %	Non-controlling interest Ownership Interest 2021 %	Non-controlling interest Ownership Interest 2020 %
LCM Unit Trust	Australia	Management rights	80%	80%	20%	20%

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 2021 $'000	LCM Unit Trust 2020 $'000
Summarised statement of financial position		
Current assets	96	179
Non-current assets	–	–
Total assets	96	179
Current liabilities	81	84
Non-current liabilities	–	–
Total liabilities	81	84
Net assets	15	95
Summarised statement of profit or loss and other comprehensive income		
Revenue	–	–
Other income	–	70
Expenses	–	(29)
Profit/(loss) before income tax expense	–	41
Income tax expense	–	–
Profit/(loss) after income tax expense	–	41
Other comprehensive income	–	–
Total comprehensive income	–	41
Statement of cash flows		
Net cash from operating activities	(65)	40
Net cash used in investing activities	–	–
Net cash used in financing activities	–	–
Net increase/(decrease) in cash and cash equivalents	(65)	40
Other financial information		
Profit attributable to non-controlling interests	–	8
Accumulated non-controlling interests at year end	12	19

Note 26 Third-party interests 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 2021, the financial liability due to third-party interests is $39,764,000 (2020: $12,600,000), 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.

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.

Consolidated Statement of Comprehensive Income	LCM 2021 $'000	Fund $'000	Consolidated $'000	LCM 2020 $'000	Fund $'000	Consolidated $'000
Revenue from contracts with customers						
Litigation service revenue	36,260	664	36,924	35,833	–	35,833
Performance fees	135	–	135	2,608	–	2,608
	36,395	664	37,059	38,441	–	38,441
Litigation service expense	(10,325)	(114)	(10,439)	(16,723)	–	(16,723)
Gross income	26,070	550	26,620	21,718	–	21,718
Other income	–	–	–	90	–	90
Interest income	4	–	4	35	–	35
Expenses						
Employee benefits expense	(8,396)	–	(8,396)	(7,611)	–	(7,611)
Depreciation expense	(59)	–	(59)	(86)	–	(86)
Corporate expenses	(2,664)	–	(2,664)	(3,752)	–	(3,752)
Litigation fees	(86)	–	(86)	(1,159)	–	(1,159)
Finance costs	(1,334)	–	(1,334)	–	–	–
Fund administration expense	(468)	(685)	(1,153)	–	(1,183)	(1,183)
Total expenses	(13,007)	(685)	(13,692)	(12,608)	(1,183)	(13,791)
Profit before income tax expense	**13,067**	**(135)**	**12,932**	**9,235**	**(1,183)**	**8,052**
Analysed as:						
Adjusted operating profit	15,834	550	16,384	11,137	–	11,137
Non-operating expenses	(1,433)	(685)	(2,118)	(1,902)	(1,183)	(3,085)
Finance costs	(1,334)	–	(1,334)	–	–	–
Profit before income tax expense	**13,067**	**(135)**	**12,932**	**9,235**	**(1,183)**	**8,052**
Income tax expense	(4,069)	–	(4,069)	(2,799)	–	(2,799)
Profit after income tax expense for the period	**8,998**	**(135)**	**8,863**	**6,436**	**(1,183)**	**5,253**
Other comprehensive income for the year, net of tax	(1,482)	105	(1,377)	–	–	–
Total comprehensive income for the period	**7,516**	**(30)**	**7,486**	**6,436**	**(1,183)**	**5,253**
Profit for the period is attributable to:						
Owners of Litigation Capital Management Limited	8,998	–	8,998	6,428	–	6,428
Third-party interests in the Fund	–	(135)	(135)	–	(1,183)	(1,183)
Non-controlling interest	–	–	–	8	–	8
	8,998	(135)	8,863	6,436	(1,183)	5,253

Note 26 Third-party interests in consolidated entities continued

Consolidated Statement of financial position	LCM 2021 $'000	Fund $'000	Consolidated $'000	LCM 2020 $'000	Fund $'000	Consolidated $'000
Assets						
Current assets						
Cash and cash equivalents	35,526	14,210	49,736	24,942	6,812	31,754
Trade and other receivables	13,843	–	13,843	15,298	–	15,298
Contract costs	16,663	–	16,663	15,671	–	15,671
Other assets	639	(23)	616	439	–	439
Total current assets	**66,671**	**14,187**	**80,858**	**56,350**	**6,812**	**63,162**
Non-current assets						
Contract costs	71,939	45,956	117,895	36,153	10,694	46,847
Property, plant and equipment	186	–	186	204	–	204
Intangible assets	391	–	391	336	–	336
Other assets	284	–	284	280	–	280
Total non-current assets	**72,800**	**45,956**	**118,756**	**36,973**	**10,694**	**47,667**
Total assets	**139,471**	**60,143**	**199,614**	**93,323**	**17,506**	**110,829**
Liabilities						
Current liabilities						
Trade and other payables	8,014	4,378	12,392	9,268	3,894	13,162
Borrowings	–	13,253	13,253	–	–	–
Employee benefits	452	–	452	376	–	376
Total current liabilities	**8,466**	**17,631**	**26,097**	**9,644**	**3,894**	**13,538**
Non-current liabilities						
Deferred tax liability	7,543	–	7,543	3,559	–	3,559
Borrowings	37,171	–	37,171	–	–	–
Employee Benefits	148	–	148	117	–	117
Third-party interests in consolidated entities[1]	(3,961)	43,725	39,764	(2,195)	14,795	12,600
Total non-current liabilities	40,901	43,725	84,626	1,481	14,795	16,276
Total liabilities	**49,367**	**61,356**	**110,723**	**11,125**	**18,689**	**29,814**
Net assets	**90,104**	**(1,213)**	**88,891**	**82,198**	**(1,183)**	**81,015**

1 LCM incurred placement fees and other costs in relation to the LCM Global Alternative Returns Fund which closed in March 2020. The amounts are reflected as transaction costs and reflected in the LCM balance sheet above

Note 27 Earnings per share

	Consolidated 2021 $'000	2020 $'000
Profit after income tax	8,863	5,253
Non-controlling interest	–	(8)
Profit after income tax attributable to the owners of Litigation Capital Management Limited	8,863	5,245

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	104,706,722	104,580,899
Adjustments for calculation of diluted earnings per share:		
Amounts uncalled on partly paid shares and calls in arrears	2,144,431	2,506,679
Options over ordinary shares	4,693,686	4,195,207
Weighted average number of ordinary shares used in calculating diluted earnings per share	111,544,839	111,282,785

	Cents	Cents
Basic earnings per share	8.46	5.02
Diluted earnings per share	7.95	4.71

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

Note 28 Reconciliation of cash flows

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

	Consolidated 2021 $'000	2020 $'000
Profit/(loss) after income tax expense for the year	8,863	5,253
Adjustments for:		
Depreciation and amortisation of intangibles	342	86
Amortisation of finance costs	99	–
Share-based payments	316	432
Fund administration expenses	468	–
Other non-cash including exchange rate movements	(265)	372
Change in operating assets and liabilities:		
Increase in contract costs – litigation contracts	(72,040)	(35,132)
Decrease/(increase) in trade and other receivables	1,455	(8,032)
(Decrease)/increase in trade and other payables	(135)	6,473
Increase in deferred tax liabilities	3,985	2,799
Increase in interest payable	176	–
(Increase)/decrease in prepayments	(189)	255
Increase/(decrease) in employee benefits	107	(563)
Increase/(decrease) in other liabilities	274	(129)
Net cash from operating activities	**(56,544)**	**(28,186)**

Cash and non-cash movements in third-party interests in consolidated entities are shown below:

	Consolidated 2021 $'000	2020 $'000
Balance 1 July	(12,600)	–
Proceeds	(29,234)	(14,582)
Payments	635	920
Other non-cash items	1,435	1,062
Balance as at 30 June	(39,764)	(12,600)

Note 29 Share-based payments

The share-based payment expense for the year was $316,000 (2020: $432,000).

Employee share option scheme

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

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

2021

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

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

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

Grant date	Expiry date	2021 Number	2020 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 $1.434 (2020: $1.356).

The weighted average remaining contractual life of options outstanding at 30 June 2021 was 0.34 years (2020: 1.34 years).

Loan Funded Share Plans ('LSP')

As detailed in note 14, 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. The underlying options have been accounted for as a share-based payments. The options are issued over a 1–3 year vesting period. Vesting conditions include satisfaction of customary continuous employment with the Group and may include a share price hurdle.

During the year the Group granted 616,520 (2020: 2,068,837) shares under the LSP.

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

2021

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	4,528,664				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
13/10/2020	13/10/2030	£0.6655		616,520			616,520
			10,523,384	616,520	–	–	11,139,904
Weighted average exercise price			$0.862	$1.200	$0.000	$0.000	$0.885

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	01/11/2019	$0.77		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

There were 4,630,141 options vested and exercisable as at 30 June 2021 (2020: 3,062,031).

The weighted average remaining contractual life of options under LSP outstanding at the end of the financial year was 0.43 years (2020: 1.03 years).

For the options under LSP granted during the current financial year, the valuation model inputs used in the Black-Scholes 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]
13/10/20	13/10/2020	£0.6655	£0.6655	35.00%	1.20%	-0.09%	$0.259

1 AUD amount. GBP equivalent £0.1436

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 30 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

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 2021 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.

On behalf of the Directors

Patrick Moloney
Chief Executive Officer
Director

21 September 2021

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 23 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 be found on https://www.lcmfinance.com/about/directors/.

Registered office and advisers

- Details of the Company's registered office and list of advisers can be 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 16,087,924 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 28.30% (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

EXPERIENCE COUNTS

Sydney

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

T +61 2 8098 1390

London

Bridge House
181 Queen Victoria Street
London EC4V 4EG

T +44 203 955 5260

Singapore

Marina Bay,
Financial Centre,
Tower 1, Level 11
8 Marina Boulevard
Singapore 018981

T +65 6653 4192

Melbourne

Level 30,
Collins Place,
35 Collins Street,
Melbourne VIC 3000

T +61 3 9900 6270

Brisbane

Level 54,
111 Eagle Street
Brisbane QLD 4000

T +61 7 3012 6478