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LITIGATION CAPITAL MANAGEMENT LIMITED

(ABN: 13 608 667 509)

HALF YEAR FINANCIAL REPORT 31 DECEMBER 2022

Litigation Capital Management Limited ABN 13 608 667 509

Registered Office: Level 12, The Chifley Tower, 2 Chifley Square Sydney NSW 2000 Australia

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Directors' Report

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 six month period ended 31 December 2022 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

Gerhard Seebacher

Mary Gangemi

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. Principal activities

LCM is a global provider of disputes finance and risk management services.

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.

4. 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 disputes. LCM currently operates two business models. The first is direct investments made from LCM's balance sheet capital. The second is funds and/or asset management. Under those two business models, LCM currently pursues three investment strategies. Those strategies are as follows:

Single-case funding: The first and currently largest strategy, is single-case funding. That is, the investment in a single dispute. This is a strategy that LCM has maintained since its inception (through its predecessor company) 23 years ago. Currently, a large proportion of LCM's investments are in single-case investments.

Portfolio funding: The second strategy pursued by LCM is portfolio funding. That is, the provision of a portfolio based funding solution to law firms, insolvency practitioners or corporates. It involves the provision of a financing solution and risk management tools for a bundle of separate disputes. LCM's particular focus with respect to that strategy is the provision of corporate portfolio financing

Acquisitions of Claims: The third strategy, in its early stages of evolution, is the investment in smaller disputes (typically insolvency-based) through the acquisition or assignment of the underlying cause of action. LCM generates its revenue through acquiring a cause of action and pursuing a recovery or award as principal.

Review of financial performance

The statutory loss for the Group after adjusting for income tax and non-controlling interest amounted to \$7,497,000 (31 December 2021: profit \$2,623,000). Adjusted loss before tax is \$5,521,000 (31 December 2021: profit \$7,525,000).

Cash on balance sheet was \$33,399,000 as at 31 December 2022 (30 June 2022: \$49,964,000). Of this, \$16,826,000 relates to third-party cash which is restricted cash as it relates to balances held within the fund investment vehicles which have been consolidated with the Group numbers (30 June 2022: \$20,711,000). Cash generated during the period was \$17,698,000 (31 December 2021: \$20,577,000).

Total invested capital as at 31 December 2022 was \$237,731,000 inclusive of \$118,284,000 of third party fund investments (30 June 2022: \$184,397,000 inclusive of \$83,130,000 third party fund investments).

The Directors do not recommend a dividend in respect of the period ended 31 December 2022.

5. Matters subsequent to the end of the financial period

On 16 February 2023, LCM drew down US\$7m from the Northleaf Capital Partners credit facility.

On 20 February 2023 LCM announced a confidential settlement was reached in its claim in the Commercial Court of the High Court of Justice of England & Wales against the Carillion group's former auditors, KPMG. As a result, LCM is expected to receive approximately A\$5.4m in litigation service revenue, that amount includes A\$3.1m of invested capital in addition to A\$3.2m in performance fees (figures mentioned are subject to change based on the receipt of cash and FX rate at the time).

The claim was funded directly from LCM's balance sheet (25%) and from the LCM managed Global Alternative Returns Fund ("Fund I") (75%).

On 9 March LCM announced the resolution of an investment in a class action which forms part of LCM's Direct Investment Portfolio and was 100% funded from balance sheet capital.

LCM expects to receive revenue of approximately A\$14.0m. That amount includes capital invested of approximately A\$8.25m together with an expected gross profit of approximately A\$5.75m. The Company's final revenue and profit figures are subject to change pending final distribution of settlement monies.

6. 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.

7. 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.



Mr Jonathan Moulds
Chairman

14 March 2023

DECLARATION OF INDEPENDENCE
BY ANDREW TICKLE
TO THE DIRECTORS OF LITIGATION CAPITAL MANAGEMENT LIMITED

As lead auditor for the review of Litigation Capital Management Limited for the half-year ended 31 December 2022, 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 review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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



Andrew Tickle
Director

BDO Audit Pty Ltd

Adelaide, 14 March 2023

Litigation Capital Management Limited
Consolidated statement of profit or loss and other comprehensive income
For the period ended 31 December 2022

	Note	Unaudited six months ended 31 December	
		2022 \$'000	2021 \$'000
Revenue from contracts with customers			
Litigation service revenue	3	4,699	19,321
		4,699	19,321
Litigation service expense		(3,558)	(5,444)
Gross profit		1,141	13,878
Other income		-	-
Interest income		5	-
Expenses			
Employee benefits expense	5	(4,759)	(5,134)
Depreciation & amortisation expense	5	(80)	(28)
Corporate expenses		(2,441)	(1,721)
Finance costs	5	(3,736)	(2,222)
Fund administration expense	5	(1,061)	(730)
Total expenses		(12,077)	(9,835)
(Loss)/profit before income tax expense		(10,931)	4,043
Analysed as:			
Adjusted operating (loss)/profit		(5,521)	7,525
Non-operating expenses	5	(1,674)	(1,260)
Finance costs		(3,736)	(2,222)
(Loss)/profit before income tax expense		(10,931)	4,043
Income tax benefit/(expense)	6	3,434	(1,420)
(Loss)/profit after income tax expense for the period		(7,497)	2,623
Other comprehensive income for the period, net of tax		(1,273)	364
Total comprehensive income for the period		(8,770)	2,987
(Loss)/profit for the period is attributable to:			
Owners of Litigation Capital Management Limited		(7,497)	2,623
		(7,497)	2,623
Total comprehensive income for the period is attributable to:			
Owners of Litigation Capital Management Limited		(8,770)	2,987
		(8,770)	2,987
		Cents	Cents
Basic earnings per share	14	(7.03)	2.47
Diluted earnings per share	14	(7.03)	2.30

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

Litigation Capital Management Limited
Consolidated statement of financial position
As at 31 December 2022

	Note	Unaudited 31 December 2022 \$'000	Audited 30 June 2022 \$'000
Assets			
Current assets			
Cash and cash equivalents	7	33,399	49,964
Trade and other receivables	8	20,413	34,491
Contract costs	9	31,527	21,634
Other assets		513	614
Total current assets		85,852	106,703
Non-current assets			
Contract costs	9	206,204	162,763
Property, plant and equipment		185	182
Intangible assets		376	646
Other assets		492	249
Total non-current assets		207,257	163,840
Total assets		293,109	270,543
Liabilities			
Current liabilities			
Trade and other payables		13,209	12,908
Borrowings	10	-	14,494
Employee benefits		637	700
Total current liabilities		13,846	28,102
Non-current liabilities			
Deferred tax liability	6	7,346	11,513
Borrowings	10	56,063	54,915
Employee Benefits		268	227
Third-party interests in consolidated entities	13	130,041	81,780
Total non-current liabilities		193,718	148,435
Total liabilities		207,564	176,537
Net assets		85,545	94,006
Equity			
Issued Capital	11	69,674	69,674
Reserves		(3,304)	(2,339)
Retained Earnings		19,175	26,671
Parent interest		85,545	94,006
Total equity		85,545	94,006

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

Litigation Capital Management Limited
Consolidated statement of changes in equity
For the period ended 31 December 2022

	Issued capital \$'000	Retained earnings \$'000	Share based payments reserve \$'000	Foreign currency translation \$'000	Total \$'000	Non-controlling interests \$'000	Total equity \$'000
Consolidated							
Balance at 1 July 2021	68,904	20,028	1,317	(1,377)	88,872	19	88,891
Profit after income tax expense for the period	-	2,623	-	-	2,623	-	2,623
Other comprehensive income for the period	-	-	-	364	364	(19)	345
Total comprehensive income for the period	-	2,623	-	364	2,987	(19)	2,968
Equity Transactions:							
Share-based payments (Note 15)	-	-	86	-	86	-	86
Contributions of equity (Note 11)	770	-	-	-	770	-	770
	770	-	86	-	856	-	856
Balance at 31 December 2021	69,674	22,651	1,403	(1,013)	92,715	-	92,715
	Issued capital \$'000	Retained earnings \$'000	Share based payments reserve \$'000	Foreign currency translation \$'000	Total \$'000	Non-controlling interests \$'000	Total equity \$'000
Consolidated							
Balance at 1 July 2022	69,674	26,672	1,573	(3,912)	94,006	-	94,006
Loss after income tax expense for the period	-	(7,497)	-	-	(7,497)	-	(7,497)
Other comprehensive income for the period	-	-	-	(1,273)	(1,273)	-	(1,273)
Total comprehensive income for the period	-	(7,497)	-	(1,273)	(8,770)	-	(8,770)
Equity Transactions:							
Share-based payments (Note 15)	-	-	308	-	308	-	308
	-	-	308	-	308	-	308
Balance at 31 December 2022	69,674	19,175	1,881	(5,185)	85,545	-	85,545

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

Litigation Capital Management Limited
Consolidated statement of cash flows
For the period ended 31 December 2022

	Unaudited six months ended 31 December	
	2022	2021
Note	\$'000	\$'000
Cash flows from operating activities		
(Loss)/profit after income tax expense for the period	(7,497)	2,623
Adjustments for:		
Depreciation and amortisation of intangibles	80	28
Amortisation of finance costs	235	255
Share-based payments	308	86
Interest reclassified to financing activities	3,668	2,213
Exceptional items	520	250
Other non-cash including exchange rate movements	(1,678)	(234)
Change in operating assets and liabilities:		
Increase in contract costs - litigation contracts	(54,289)	(30,035)
Decrease in trade and other receivables	14,117	1,432
Increase/(Decrease) in trade and other payables	1,420	(2,737)
(Decrease)/Increase in deferred tax liabilities	(4,167)	1,390
Increase in prepayments	(25)	(79)
Increase/(decrease) in employee benefits	(22)	298
Increase/(decrease) in third party consolidated interests	3,180	(163)
Net cash used in operating activities	(44,149)	(24,672)
Cash flows from investing activities		
Payments for property, plant and equipment	(22)	(9)
Payments for intangibles	(34)	(91)
Payments of security deposits	(12)	(5)
Net cash used in investing activities	(69)	(105)
Cash flows from financing activities		
Proceeds from issue of shares	-	770
Repayments of borrowings	(14,494)	-
Finance costs	(3,482)	(2,268)
Transaction costs related to third-party interests	(777)	(625)
Net contributions from third-party interests in consolidated entities	45,298	19,064
Payments for fund establishment & administration costs	-	(162)
Net cash from financing activities	26,545	16,779
Net decrease in cash and cash equivalents	(17,673)	(7,997)
Cash and cash equivalents at the beginning of the period	49,964	49,737
Effects of exchange rate changes on cash and cash equivalents	1,108	1,729
Cash and cash equivalents at the end of the period	33,399	43,469
7	33,399	43,469

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

Litigation Capital Management Limited
Notes to the financial statements
31 December 2022

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 period (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 14 March 2023. The Directors have the power to amend and reissue the financial statements.

Note 2 Significant accounting policies

These consolidated financial statements are general purpose financial statements for the interim reporting period ended 31 December 2022 have been prepared in accordance with the Corporations Act 2001 and Australian Accounting Standard AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These interim financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2022 and any public announcements made by the Company during the interim reporting period.

Basis of preparation

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

Historical cost convention

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

Critical accounting estimates

The critical accounting judgements, estimates and assumptions that have been applied in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual report for the year ended 30 June 2022.

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.

Note 3 Revenue

Major service lines

Litigation service revenue

Litigation service revenue attributable to third party interests

Unaudited six months
 ended 31 December
 2022 2021
 \$'000 \$'000

3,003 19,154

1,696 168

4,699 19,321

Geographical regions

Australia

United Kingdom

Singapore

2,106 335

2,593 18,911

- 75

4,699 19,321

Contract duration

Less than 1 year

1-4 years

More than 4 years

27 -

4,672 19,189

- 132

4,699 19,321

Note 4 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 period ended 31 December 2022 there were 2 major external customers (December 2021: 1 customers, unrelated to those in December 2022) where revenue exceeded 10% of the consolidated revenue. Revenue from each customer for the period ended 31 December 2022 amounted to \$2,603,000 and \$1,302,000 (December 2021: \$18,401,000).

Note 5 Profit/loss before tax

Unaudited six months
ended 31 December
2022 2021
\$'000 \$'000

Profit/loss before income tax expense includes the following specific expenses:

Employee benefits expense

Salaries & wages	3,841	4,176
Directors' fees	196	198
Superannuation and pension	355	141
Share based payments expense	308	86
Other employee benefits & costs	59	533
	4,759	5,134

Depreciation & amortisation

Plant and equipment	20	19
Intangible assets	60	10
	80	28

Finance costs

Interest on borrowings	3,536	2,067
Other finance costs	200	154
	3,736	2,222

Fund administration expense

Finance costs	140	247
General administration expenses	289	112
Set-up expenses	73	-
Amortisation of transaction costs	559	370
	1,061	730

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	379	331
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Adjusted operating profit/loss

Adjusted operating profit/loss 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	308	86
Consultancy & legal	-	197
Other transaction costs	38	33
Litigation fees	225	-
Other expenses	42	215
Fund administration expenses	1,061	730
Total non-operating expenses	1,674	1,260

Note 6 Income tax expense

Unaudited six months
ended 31 December
2022 2021
\$'000 \$'000

Numerical reconciliation of income tax expense and tax at the statutory rate

Profit before income tax expense	(10,931)	4,043
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At the Group's statutory income tax rate of 25% (2021: 25%)

(2,733) 1,011

Tax effect amounts which are not deductible/(taxable) in calculating taxable income:

Foreign tax rate adjustments	(232)	(9)
Share-based payments	77	22
Other non-deductible expenses	-	131
Adjustment for tax effect of loss attributable to third party interests	147	64
Adjustment in respect of deferred tax rate	(693)	202
	(3,434)	1,420

Adjustment to deferred tax balances as a result of change in statutory tax rate

Income tax (benefit)/expense	(3,434)	1,420
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Statutory tax rate of 25% is applicable to Australian entities with aggregated turnover below \$50 million for the period ended 30 June 2023. 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 25% tax rate.

Note 6 Income tax expense (continued)

	Unaudited six months ended 31 December	
	2022	2021
	\$'000	\$'000
Deferred tax liability		
Deferred tax asset/(liability) comprises temporary differences attributable to:		
Tax losses	28,037	15,561
Employee benefits	272	269
Accrued expenses	380	140
Contract costs - litigation contracts	(36,168)	(25,304)
Transaction costs on share issue	133	401
Deferred tax asset/(liability)	<u>(7,346)</u>	<u>(8,933)</u>
Movements:		
Opening balance	(11,513)	(7,543)
Charged to profit or loss	4,167	(1,390)
Closing balance	<u>(7,346)</u>	<u>(8,933)</u>

Note 7 Cash and cash equivalents

	31 December 2022	30 June 2022
	\$'000	\$'000
Cash at Bank	16,573	29,253
Cash of third-party interests in consolidated entities	16,826	20,711
	<u>33,399</u>	<u>49,964</u>

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 8 Trade and other receivables

	31 December 2022	30 June 2022
	\$'000	\$'000
Due from litigation service ¹	15,112	27,893
Due from litigation service - portfolios ²	5,225	6,452
Other receivables	76	146
	<u>20,413</u>	<u>34,491</u>

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 (June 2022: \$nil) in profit or loss in respect of the expected credit losses for the period ended 31 December 2022.

Note 9 Contract costs - litigation contracts

	31 December 2022	30 June 2022
	\$'000	\$'000
Contract costs - litigation contracts	<u>237,731</u>	<u>184,397</u>

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:

	31 December 2022	30 June 2022
	\$'000	\$'000
Opening balance	184,397	134,558
Additions during the period	21,283	28,927
Additions during the period made by third-party interests	35,609	37,255
Litigation service expense - successful contracts ¹	(2,583)	(16,343)
Litigation service expense - write down ²	(975)	-
Closing balance	<u>237,731</u>	<u>184,397</u>

¹Contract costs amortised upon the successful resolution of the litigation contract

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

Note 9 Contract costs - litigation contracts (continued)

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:

	31 December	30 June
	2022	2022
	\$'000	\$'000
Attributable to owners of LCM	119,513	101,267
Third-party interests	118,218	83,130
Consolidated total	<u>237,731</u>	<u>184,397</u>

	31 December	30 June
	2022	2022
	\$'000	\$'000
Current	31,527	21,634
Non Current	206,204	162,763
	<u>237,731</u>	<u>184,397</u>

Note 10 Borrowings

	31 December	30 June
	2022	2022
	\$'000	\$'000
Current		
Borrowings of third-party interests in consolidated entities	-	14,494
	<u>-</u>	<u>14,494</u>
Non-current		
Borrowings	56,063	54,915
	<u>56,063</u>	<u>54,915</u>

Reconciliation of borrowings of third-party interests in consolidated entities:

	31 December	30 June
	2022	2022
	\$'000	\$'000
Balance 1 July	14,494	13,253
Proceeds from borrowings	-	-
Repayment of borrowings	(14,695)	-
Net accrued interest	(17)	17
Payments for borrowing costs	-	(185)
Amortisation of borrowing costs	34	230
Other non-cash items	184	1,178
Balance as at period end	<u>-</u>	<u>14,494</u>

Reconciliation of borrowings of LCM:

	31 December	30 June
	2022	2022
	\$'000	\$'000
Balance 1 July	54,915	37,171
Proceeds from borrowings	-	13,298
Payments for borrowing costs	(221)	(259)
Amortisation of borrowing costs	200	919
Other non-cash items	1,169	3,786
Balance as at period end	<u>56,063</u>	<u>54,915</u>

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 \$73,475,000¹ (the "Facility"). The Facility carries interest of a LIBOR or equivalent 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 31 December 2022, the Group's outstanding utilisation amounted to US\$10,000,000, an AUD equivalent of \$14,695,000¹.

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 period ended 31 December 2022. 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 \$1,613,000 which were reflected transactions costs and will be amortised over the 4 year term of the borrowings. As at 31 December 2022, \$988,000 of the loan arrangement fees remained outstanding.

Note 11 Equity - issued capital

	Consolidated			
	31 December	30 June	31 December	30 June
	2022	2022	2022	2022
	Shares	Shares	\$'000	\$'000
Ordinary shares - fully paid	106,613,927	106,613,927	69,674	69,674
Ordinary shares - under loan share plan	12,586,405	12,586,405	-	-
	<u>119,200,332</u>	<u>119,200,332</u>	<u>69,674</u>	<u>69,674</u>

Movements in ordinary share capital

	Date	Shares	\$'000
Balance	30 June 2021	105,014,157	68,904
Conversion of partly paid shares paid up at \$0.17 per share	22 October 2021	498,583	85
Conversion of options paid up at \$1.00 per share	5 November 2021	600,000	600
Conversion of partly paid shares paid up at \$0.17 per share	16 December 2021	501,187	85
Balance	31 December 2021	<u>106,613,927</u>	<u>69,674</u>
	31 December 2022	<u>106,613,927</u>	<u>69,674</u>

Movements in ordinary shares issued under loan share plan

	Date	Shares	\$'000
Balance	30 June 2021	11,073,767	-
Issue of shares under loan share plan	27 October 2021	612,638	-
Issue of shares under loan share plan	5 November 2021	900,000	-
Balance	31 December 2021	<u>12,586,405</u>	-
	31 December 2022	<u>12,586,405</u>	-

Reconciliation of ordinary shares issued under LSP:

	2022	2021
Total shares allocated under existing LSP arrangements with underlying LSP shares	8,134,929	8,134,929
Less shares allocated under existing LSP arrangements without underlying LSP shares	(465,988)	(465,988)
Shares held by LCM Employee Benefit Trust for future allocation under LSP	<u>4,917,464</u>	<u>4,917,464</u>
	<u>12,586,405</u>	<u>12,586,405</u>

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 15 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 31 December 2022, there are currently 1,433,022 partly paid shares issued at an issue price of \$0.17 per share. No amount has been paid up and the shares will become fully paid upon payment to the Company of \$0.17 per share. As per the terms of issue, the partly paid shares have no maturity date and the amount is payable at the option of the holder.

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

Capital risk management

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

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

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

The capital risk management policy remains unchanged from the 30 June 2022 Annual Report.

Note 12 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 13 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 Funds have been consolidated in the financial statements.

As at 31 December 2022, the financial liability due to third-party interests is \$130,079,000 (June 2022: \$81,780,000), 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 Funds 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 an 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 Funds 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 funds. The LCM column includes the 25% co-investment in these litigation contracts.

Consolidated Statement of Comprehensive Income	LCM	Fund	Consolidated	LCM	Fund	Consolidated
	\$'000	31 December 2022 \$'000	\$'000	\$'000	31 December 2021 \$'000	\$'000
Revenue from contracts with customers						
Litigation service revenue	3,003	1,696	4,699	19,154	168	19,321
	3,003	1,696	4,699	19,154	168	19,321
Litigation service expense	(3,037)	(521)	(3,558)	(5,378)	(65)	(5,444)
Gross income	(34)	1,175	1,141	13,775	103	13,878
Interest income	5	-	5	-	-	-
Expenses						
Employee benefits expense	(4,759)	-	(4,759)	(5,134)	-	(5,134)
Depreciation & amortisation expense	(80)	-	(80)	(28)	-	(28)
Corporate expenses	(1,596)	(845)	(2,441)	(1,721)	-	(1,721)
Finance costs	(3,736)	-	(3,736)	(2,222)	-	(2,222)
Fund administration expense	(559)	(502)	(1,061)	(370)	(359)	(730)
Total expenses	(10,730)	(1,347)	(12,077)	(9,476)	(359)	(9,835)
Profit/(loss) before income tax expense	(10,759)	(172)	(10,931)	4,300	(257)	4,043
Analysed as:						
Adjusted operating profit/(loss)	(5,851)	330	(5,521)	7,423	103	7,525
Non-operating expenses	(1,172)	(502)	(1,674)	(901)	(359)	(1,260)
Finance costs	(3,736)	-	(3,736)	(2,222)	-	(2,222)
Profit/(loss) before income tax expense	(10,759)	(172)	(10,931)	4,300	(257)	4,043
Income tax benefit/(expense)	3,434	-	3,434	(1,420)	-	(1,420)
Profit/(loss) after income tax expense for the period	(7,325)	(172)	(7,497)	2,880	(257)	2,623
Other comprehensive income for the period, net of tax	310	(1,583)	(1,273)	442	(78)	364
Total comprehensive income for the period	(7,015)	(1,755)	(8,770)	3,322	(335)	2,987
Profit/(loss) for the period is attributable to:						
Owners of Litigation Capital Management Limited	(7,015)	-	(7,015)	3,322	-	3,322
Third-party interests in the Fund	-	(1,755)	(1,755)	-	(335)	(335)
	(7,015)	(1,755)	(8,770)	3,322	(335)	2,987
Consolidated Statement of Financial Position	LCM	Fund	Consolidated	LCM	Fund	Consolidated
	\$'000	31 December 2022	\$'000	\$'000	30 June 2022	\$'000
Assets						
Current assets						
Cash and cash equivalents	16,573	16,826	33,399	29,253	20,711	49,964
Trade and other receivables	20,413	-	20,413	34,491	-	34,491
Contract costs	31,527	-	31,527	21,634	-	21,634
Other assets	647	(134)	513	1,238	(624)	614
Total current assets	69,160	16,692	85,852	86,616	20,087	106,703
Non-current assets						
Contract costs	87,986	118,218	206,204	79,633	83,130	162,763
Property, plant and equipment	185	-	185	182	-	182
Intangible assets	376	-	376	646	-	646
Other assets	492	-	492	249	-	249
Total non-current assets	89,039	118,218	207,257	80,710	83,130	163,840
Total assets	158,199	134,910	293,109	167,326	103,217	270,543
Liabilities						
Current liabilities						
Trade and other payables	7,932	5,277	13,209	7,091	5,817	12,908
Borrowings	-	-	-	-	14,494	14,494
Employee benefits	637	-	637	700	-	700
Total current liabilities	8,569	5,277	13,846	7,791	20,311	28,102

Note 13 Third-party interests in consolidated entities (continued)

Non-current liabilities						
Deferred tax liability	7,346	-	7,346	11,513	-	11,513
Borrowings	56,063	-	56,063	54,915	-	54,915
Employee Benefits	268	-	268	227	-	227
Third-party interests in consolidated entities ¹	(5,231)	135,272	130,041	(5,014)	86,794	81,780
Total non-current liabilities	58,446	135,272	193,718	61,641	86,794	148,435
Total liabilities	67,015	140,549	207,564	69,432	107,105	176,537
Net assets	91,184	(5,639)	85,545	97,894	(3,888)	94,006

¹LCM incurred placement fees and other costs in relation to the LCM Global Alternative Returns Fund and LCM Global Alternative Returns Fund II which closed in March 2020 and October 2021 (first close) respectively. The amounts are reflected as transaction costs and reflected in the LCM balance sheet above.

Consolidated Statement of Cash Flows	LCM	Fund	Consolidated	LCM	Fund	Consolidated
	\$'000	31 December 2022 \$'000	\$'000	\$'000	31 December 2021 \$'000	\$'000
Cash flows from operating activities						
(Loss)/profit after income tax expense for the year	(7,325)	(172)	(7,497)	3,322	(335)	2,987
Adjustments for:						
Depreciation and amortisation of intangibles	80	-	80	28	-	28
Amortisation of finance costs	200	35	235	154	101	255
Share-based payments	308	-	308	86	-	86
Interest reclassified to financing activities	3,536	132	3,668	2,067	146	2,213
Exceptional items	520	-	520	250	-	250
Other non-cash including exchange rate movements	189	(1,868)	(1,678)	(442)	(156)	(598)
Change in operating assets and liabilities:						
Increase in contract costs - litigation contracts	(18,246)	(36,043)	(54,289)	(12,547)	(17,488)	(30,035)
Decrease in trade and other receivables	14,117	-	14,117	1,432	-	1,432
Increase/(decrease) in trade and other payables	1,470	(50)	1,420	(688)	(2,049)	(2,737)
(Decrease)/increase in deferred tax liabilities	(4,167)	-	(4,167)	1,390	-	1,390
Increase in prepayments	(25)	-	(25)	(79)	-	(79)
Increase/(decrease) in employee benefits	(22)	-	(22)	298	-	298
Increase/(decrease) in third party consolidated interests	-	3,180	3,180	-	(163)	(163)
Net cash used in operating activities	(9,364)	(34,785)	(44,149)	(4,728)	(19,944)	(24,672)
Cash flows from investing activities						
Payments for property, plant and equipment	(22)	-	(22)	(9)	-	(9)
Payments for intangibles	(34)	-	(34)	(91)	-	(91)
Payments of security deposits	(12)	-	(12)	(5)	-	(5)
Net cash used in investing activities	(69)	-	(69)	(105)	-	(105)
Cash flows from financing activities						
Proceeds from issue of shares	-	-	-	770	-	770
Repayments of borrowings	-	(14,494)	(14,494)	-	-	-
Finance costs	(3,350)	(132)	(3,482)	(1,999)	(269)	(2,268)
Transaction costs related to third-party interests	(777)	-	(777)	(625)	-	(625)
Net contributions from third-party interests in consolidated entities	-	45,298	45,298	-	19,064	19,064
Payments for fund establishment & administration costs	-	-	-	-	(162)	(162)
Net cash from financing activities	(4,127)	30,672	26,545	(1,854)	18,633	16,779
Net decrease in cash and cash equivalents	(13,560)	(4,113)	(17,673)	(6,686)	(1,311)	(7,997)
Cash and cash equivalents at the beginning of the period	29,253	20,711	49,964	35,526	14,210	49,736
Effects of exchange rate changes on cash and cash equivalents	880	228	1,108	1,415	314	1,729
Cash and cash equivalents at the end of the period	16,573	16,826	33,399	30,255	13,214	43,469

Note 14 Earnings per share

	Unaudited six ended 31 December	
	2022 \$'000	2021 \$'000
(Loss)/profit after income tax	(7,497)	2,623
(Loss)/profit after income tax attributable to the owners of Litigation Capital Management Limited	(7,497)	2,623
Weighted average number of ordinary shares used in calculating basic earnings per share	Number 106,613,927	Number 106,015,738
Adjustments for calculation of diluted earnings per share:		
Amounts uncalled on partly paid shares and calls in arrears	-	1,306,445
Options over ordinary shares	-	6,610,912
Weighted average number of ordinary shares used in calculating diluted earnings per share	Number 106,613,927	Number 113,933,095
	Cents	Cents
Basic earnings/(loss) per share	(7.03)	2.47
Diluted earnings/(loss) per share	(7.03)	2.30

Note 15 Share-based payments

The share-based payment expense for the year was \$308,000 (2021: \$86,000).

Loan Funded Share Plans ('LSP')

As detailed in note 11, 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 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 period the Group granted nil (June 2021: 1,912,489) shares under the LSP.

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

December 2022

Grant date	Expiry date	Exercise Price	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the period
4/12/2017	4/12/2027	\$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
3/12/2018	3/12/2028	\$0.89	100,000				100,000
1/11/2019	1/11/2029	£0.7394	1,432,753				1,432,753
1/11/2019	1/11/2029	£0.7730	66,137				66,137
13/10/2020	13/10/2030	£0.6655	616,520				616,520
27/10/2021	27/10/2031	£1.06	1,512,638				1,512,638
27/10/2021	27/10/2031	£1.06	269,044				269,044 ¹
27/10/2021	27/10/2031	£1.14	130,807				130,807 ¹
			8,134,929	-	-	-	8,134,929

1 Options granted without an underlying LSP share until exercised ie, do not form part of the Group's issued share capital

Deferred Bonus Share Plan ('DBSP')

The Company has in place a DBSP. Options granted under the DBSP reflect past performance and are in the form of nil cost options and will vest in three equal tranches from the date of issue and are subject to continued employment over the three year period.

In addition, the Options granted under the DBSP are subject to malus and clawback provisions. In the event of a change of control of the Company, unvested awards will vest to the extent determined by the Board, taking into account the proportion of the period of time between grant and the normal vesting date that has elapsed at the date of the relevant event.

During the period the Group granted 1,132,692 (December 2022: nil) shares under the DBSP.

Set out below are summaries of options granted under the DBSP:

December 2022

Grant date	Expiry date	Exercise Price	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the period
7/10/2022	7/10/2032	\$1.1816	-	1,132,692	-	-	1,132,692
			-	1,132,692	-	-	1,132,692

Executive Long Term Incentive Plan ('LTIP')

The Company has in place an Executive LTIP. Options over ordinary shares in the capital of the Company ("Ordinary Shares") are issued to recipients under the LTIP plan. The options set out above have been granted under the LTIP in the form of nil cost options and are subject to performance conditions which require the growth of Funds under Management ('FuM') over a five year performance period. The performance conditions associated with the options are set out below:

- 50% vesting on reaching a minimum of FuM of US\$750m; and
- 100% vesting on reaching FuM of US\$1bn.

The vesting date of options granted is the later of:

- the third anniversary of the Grant Date;
- the satisfaction of the Performance Condition; or
- the date of any adjustment under the Plan rules of the Plan at the Boards discretion.

Any awards made to the participants are subject to a five year holding period from the grant date. In the event of a change of control of the Company, unvested awards will vest to the extent determined by the Board, taking into account the proportion of the period of time between grant and the normal vesting date that has elapsed at the date of the relevant event and the extent to which any performance condition has been satisfied at the date of the relevant event.

During the period the Group granted 5,671,516 (December 2022: nil) shares under the LTIP.

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

December 2022

Grant date	Expiry date	Exercise Price	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the period
7/10/2022	7/10/2032	\$1.1816	-	5,671,516	-	-	5,671,516
			-	5,671,516	-	-	5,671,516

For the options under LSP granted during the current period, 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
4/10/2022	4/10/2032	£0.73	£0.00	35.00%	0.00%	3.19%	\$1.287
4/10/2022	4/10/2032	£0.73	£0.00	35.00%	0.00%	3.21%	\$1.287

¹AUD amount. GBP equivalent £0.726

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 16 Events after the reporting period

On 16 February 2023, LCM drew down US\$7m from the Northleaf Capital Partners credit facility.

On 20 February 2023, LCM announced a confidential settlement was reached in its claim in the Commercial Court of the High Court of Justice of England & Wales against the Carillion group's former auditors, KPMG. As a result, LCM is expected to receive approximately A\$5.4m in litigation service revenue, that amount includes A\$3.1m of invested capital in addition to A\$3.2m in performance fees (figures mentioned are subject to change based on the receipt of cash and FX rate at the time).

The claim was funded directly from LCM's balance sheet (25%) and from the LCM managed Global Alternative Returns Fund ("Fund I") (75%).

On 9 March 2023, LCM announced the resolution of an investment in a class action which forms part of LCM's Direct Investment Portfolio and was 100% funded from balance sheet capital. LCM expects to receive revenue of approximately A\$14.0m. That amount includes capital invested of approximately A\$8.25m together with an expected gross profit of approximately A\$5.75m. The Company's final revenue and profit figures are subject to change pending final distribution of settlement monies.

Litigation Capital Management Limited
31 December 2022
DIRECTORS DECLARATION

In the directors' opinion:

1. the attached financial statements and notes comply with the *Corporations Act 2001*, Australian Accounting Standards and other mandatory professional reporting requirements;
 - a. complying with Accounting Standard AASB 134: Interim Financial Reporting; and
 - b. the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2022 and of its performance for the period ended on that date;
2. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors.

On behalf of the directors



Director

Dated this 14 day of March 2023

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF LITIGATION CAPITAL MANAGEMENT LIMITED

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Litigation Capital Management Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2022, 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 half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of the Group does not comply with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2022 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of 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 the audit of the annual 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 the same terms if given to the directors as at the time of this auditor's review report.

Responsibility of the directors for the financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.



Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2022 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

A handwritten signature in blue ink that reads 'BDO'.

BDO Audit Pty Ltd

A handwritten signature in blue ink that reads 'Andrew Tickle'.

Andrew Tickle
Director

Adelaide, 14 March 2023