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# **LITIGATION CAPITAL MANAGEMENT LIMITED**

**(ABN: 13 608 667 509)**

## **HALF YEAR FINANCIAL REPORT**

### **31 DECEMBER 2020**

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**Litigation Capital Management Limited** ABN 13 608 667 509

Registered Office: Level 12, The Chifley Tower, 2 Chifley Square Sydney NSW 2000 Australia  
**+61 2 8098 1390 | [www.lcmfinance.com](http://www.lcmfinance.com)**

# 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 2020 and the auditors' report thereon.

## 1. Directors

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

Jonathan Moulds

Patrick Moloney

Dr David King

Nick Rowles-Davies

Gerhard Seebacher (appointed 18 August 2020)

## 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.

## 5. 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. 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. LCM currently operates two business models. The first is direct investments made from LCM's permanent 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) 22 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 three or more separate disputes. LCM's particular focus with respect to that strategy is the provision of corporate portfolio financing. LCM is an emerging global leader in the provision of corporate portfolio financing corporate clients.

**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 \$1,170,000 (31 December 2019: Profit \$4,810,000). Adjusted loss before tax is \$175,000 (31 December 2019: Profit \$6,908,000). While there are still some delays resulting from the impact of COVID, these simply shift the expected completion date and consequently revenue, into the following period. This has not led to any impairments.

Cash on balance sheet was \$15,410,000 as at 31 December 2020 (30 June 2020: \$31,754,000). Of this, \$9,574,000 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 2020: \$6,812,000). Cash generated during the period increased by 15% to \$10,610,000 (31 December 2019: \$9,201,000).

Total invested capital as at 31 December 2020 was A\$99,449,000 inclusive of \$28,038,000 of third party fund investments (30 June 2020: \$62,518,000 inclusive of \$10,694,000 third party fund investments).

The Directors do not recommend an interim dividend in respect of the six month period ended 31 December 2020.

## **7. Matters subsequent to the end of the financial period**

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. 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.

## **8. Environmental regulation**

In August 2020, the funding of class actions within the jurisdiction of Australia saw an increase in regulation. The removal of the exemption from holding an Australian Financial Services License (**AFSL**) and from operating a Managed Investment Scheme (**MIS**) pursuant to the Corporations Act. Those changes require litigation financiers who fund class actions to obtain a financial services license and also to operate those class actions as an MIS. At the time that those changes were implemented, LCM had anticipated a form of regulation and had obtained an AFSL in advance of those changes. We were the only funders operating in Australia who held such a license at the time the changes were implemented. We have subsequently sought the necessary amendments to that license to facilitate the precise changes.

In practical terms, the regulation of class actions in Australia will reduce competition. It will result in only the larger litigation financiers who are prepared to deal with the increased regulatory burden of licensing and compliance with the MIS scheme will fund class actions. That will reduce competition from smaller and offshore funders. LCM is well placed, given its size, capital backing and experience in compliance, to deal with those changes and capitalise on reduced competition in the class action space.

## **9. Lead Auditor's independence declaration**

The lead auditor's independence declaration as required under s 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

## **10. Auditor**

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

## **11. 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.

## 12. Corporate Governance

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

Signed in accordance with a resolution of Directors.



**Mr Jonathan Moulds**  
Chairman

16 March 2021

**DECLARATION OF INDEPENDENCE**  
**BY G K EDWARDS**  
**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 2020, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the 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.



G K Edwards  
Director

**BDO Audit (SA) Pty Ltd**  
Adelaide, 16 March 2021

## Consolidated Statement of Profit or Loss and other Comprehensive Income

For the six months ended 31 December 2020

	Note	Unaudited six months ended 31 December	
		2020 \$'000	2019 \$'000
<b>Revenue from contracts with customers</b>			
Litigation service revenue	3	7,524	24,064
Portfolio revenue	3	563	-
Performance fees	3	16	-
		8,103	24,064
Litigation service expense		(2,721)	(11,828)
<b>Gross profit</b>		<b>5,382</b>	<b>12,236</b>
Other income		-	634
Interest income		4	19
<b>Expenses</b>			
Employee benefits expense	5	(4,512)	(3,751)
Depreciation expense	5	(28)	(37)
Corporate expenses		(1,575)	(1,928)
Litigation fees	5	(87)	(446)
Fund administration expense	5	(554)	-
Total expenses		(6,756)	(6,162)
<b>(Loss)/profit before income tax expense</b>		<b>(1,370)</b>	<b>6,727</b>
<b>Analysed as:</b>			
Adjusted operating (loss)/profit		(175)	6,908
Non-operating expenses	5	(1,195)	(181)
<b>(Loss)/profit before income tax expense</b>		<b>(1,370)</b>	<b>6,727</b>
Income tax (expense)/benefit	6	200	(1,895)
<b>(Loss)/profit after income tax expense for the period</b>		<b>(1,170)</b>	<b>4,832</b>
<b>Other comprehensive income</b>			
Foreign currency translation reserve		(706)	-
<b>Total other comprehensive income for the period</b>		<b>(706)</b>	<b>-</b>
<b>Total comprehensive income for the period</b>		<b>(1,876)</b>	<b>4,832</b>
<b>Profit for the period is attributable to:</b>			
Owners of Litigation Capital Management Limited		(1,170)	4,810
Non-controlling interest		-	22
		<b>(1,170)</b>	<b>4,832</b>

<b>Total comprehensive income for the period is attributable to:</b>		
Owners of Litigation Capital Management Limited	(1,876)	4,810
Non-controlling interest	-	22
	<b>(1,876)</b>	<b>4,832</b>

		<b>Cents</b>	<b>Cents</b>
Basic (loss)/earnings per share	15	(1.12)	4.60
Diluted (loss)/earnings per share	15	(1.12)	4.29

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

## Consolidated Statement of Financial Position

As at 31 December 2020

	Note	Consolidated	
		Unaudited 31 December 2020 \$'000	Audited 30 June 2020 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	7	15,410	31,754
Trade and other receivables	8	11,641	15,298
Contract costs	9	20,845	15,671
Portfolio costs	10	5,414	-
Other assets		557	439
<b>Total current assets</b>		<b>53,867</b>	<b>63,162</b>
<b>Non-current assets</b>			
Contract costs	9	73,190	46,847
Property, plant and equipment		194	204
Intangible assets		343	336
Other assets		280	280
<b>Total non-current assets</b>		<b>74,007</b>	<b>47,667</b>
<b>Total assets</b>		<b>127,874</b>	<b>110,829</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		13,057	13,162
Employee benefits		421	376
<b>Total current liabilities</b>		<b>13,478</b>	<b>13,538</b>
<b>Non-current liabilities</b>			
Deferred tax liability	6	3,359	3,559
Employee benefits		126	117
Third-party interests in consolidated entities		31,532	12,600
<b>Total non-current liabilities</b>		<b>35,017</b>	<b>16,276</b>
<b>Total liabilities</b>		<b>48,495</b>	<b>29,814</b>
<b>Net assets</b>		<b>79,379</b>	<b>81,015</b>
<b>Equity</b>			
Issued capital		68,830	68,830
Reserves		535	1,001
Retained earnings		9,995	11,165
<b>Parent interest</b>		<b>79,360</b>	<b>80,996</b>



Non-controlling interest	19	19
<b>Total equity</b>	<b>79,379</b>	<b>81,015</b>

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

## Consolidated Statements of Changes in Equity

For the period ended 31 December 2020

Consolidated	Issued capital \$'000	Retained earnings \$'000	Share-based payments reserve \$'000	Foreign currency translation reserve \$'000	Total \$'000	Non-controlling interests \$'000	Total equity \$'000
<b>Balance at 1 July 2020</b>	68,830	11,165	1,001	-	80,996	19	81,015
Loss after income tax expense for the period	-	(1,170)	-	-	(1,170)	-	(1,170)
Other comprehensive income for the period	-	-	-	(706)	(706)	-	(706)
<b>Total comprehensive income for the period</b>	-	<b>(1,170)</b>	-	<b>(706)</b>	<b>(1,876)</b>	-	<b>(1,876)</b>
<b>Transactions with owners in their capacity as owners:</b>							
Share-based payments	-	-	240	-	240	-	240
	-	-	240	-	240	-	240
<b>Balance at 31 December 2020</b>	<b>68,830</b>	<b>9,995</b>	<b>1,241</b>	<b>(706)</b>	<b>79,360</b>	<b>19</b>	<b>79,379</b>
Consolidated	Issued capital \$'000	Retained earnings \$'000	Share-based payments reserve \$'000	Foreign currency translation reserve \$'000	Total \$'000	Non-controlling interests \$'000	Total equity \$'000
<b>Balance at 1 July 2019</b>	68,830	6,818	569	-	76,217	22	76,239
Profit after income tax expense for the period	-	4,810	-	-	4,810	22	4,832
Other comprehensive income for the period	-	-	-	-	-	-	-
<b>Total comprehensive income for the period</b>	-	<b>4,810</b>	-	-	<b>4,810</b>	<b>22</b>	<b>4,832</b>
<b>Transactions with owners in their capacity as owners:</b>							
Share-based payments	-	-	210	-	210	-	210
Dividends paid	-	(886)	-	-	(886)	-	(886)
	-	(886)	210	-	(676)	-	(676)
<b>Balance at 31 December 2019</b>	<b>68,830</b>	<b>10,742</b>	<b>779</b>	<b>-</b>	<b>80,351</b>	<b>44</b>	<b>80,395</b>

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

## Consolidated Statements of Cash Flows

For the period ended 31 December 2020

	Note	Unaudited six months ended 31 December Consolidated	
		2020 \$'000	2019 \$'000
<b>Cash flows from operating activities</b>			
Proceeds from litigation contracts – resolutions, fees and reimbursements		10,610	9,201
Payments to suppliers and employees		(28,355)	(22,702)
Net payments made by third-party interests in consolidated entities		(17,132)	-
Non-operating items paid		(350)	(535)
Interest received		4	19
<b>Net cash used in operating activities</b>		<b>(35,223)</b>	<b>(14,017)</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(9)	(40)
Payments for intangibles		(16)	(12)
Refund of security deposits		10	(1)
<b>Net cash used in investing activities</b>		<b>(15)</b>	<b>(53)</b>
<b>Cash flows from financing activities</b>			
Transaction costs related to third-party interests		(888)	-
Dividends paid		-	(874)
Contributions from third-party interests in consolidated entities		21,357	-
Payments for fund establishment & administration costs		(668)	(296)
<b>Net cash from financing activities</b>		<b>19,801</b>	<b>(1,170)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(15,437)</b>	<b>(15,240)</b>
Cash and cash equivalents at the beginning of the period		31,754	49,119
Effects of exchange rate changes on cash and cash equivalents		(907)	862
<b>Cash and cash equivalents at the end of the period</b>	7	<b>15,410</b>	<b>34,741</b>

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

## Notes to the financial statements

31 December 2020

### 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 16 March 2021. 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 2020 have been prepared in accordance with the Corporations Act 2001 and Australian Accounting Standard AASB 134 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 2020 and any public announcements made by the Company during the interim reporting period.

In addition to the accounting policies outlined in the Group's annual report for the year ended 30 June 2020, the following policy has been adopted during the half year ended 31 December 2020:

#### ***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.

#### **Basis of preparation**

##### ***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 2020.

#### **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

	Unaudited six months ended 31 December Consolidated	
	2020 \$'000	2019 \$'000
<b>Major service lines</b>		
Litigation service revenue	7,524	24,064
Portfolio revenue	136	-
Portfolio revenue – third party interests	427	-
Performance fees	16	-
	8,103	24,064
<b>Geographical regions</b>		
Australia	5,565	14,878
United Kingdom	2,538	9,186
	8,103	24,064
<b>Contract duration</b>		
Less than 1 year	563	631
1–4 years	7,540	19,381
More than 4 years	-	4,052
	8,103	24,064

### 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 2020 there were 4 major external customers (2019: 4 customers, unrelated to those in 2020) where revenue exceeded 10% of the consolidated revenue. Revenue from each customer for the period ended 31 December 2020 amounted to \$2,520,000, \$1,796,000, \$1,259,000 and \$1,108,000 (2019 \$8,560,000, \$6,500,000 \$4,052,000 and \$3,426,000).

## Note 5 (Loss)/profit before tax

	Unaudited six months ended 31 December Consolidated	
	2020 \$'000	2019 \$'000
Loss/profit before income tax expense includes the following specific expenses:		
<b>Depreciation &amp; amortisation</b>		
Plant and equipment	18	30
Intangible assets	10	7
Total depreciation and amortisation	28	37
<b>Leases</b>		
Short-term lease payments	298	383
<b>Employee benefits expense</b>		
Salaries and wages	3,897	3,054
Directors' fees	129	204
Defined contribution superannuation expense <sup>1</sup>	162	126
Share based payments expense	240	210
Other employee benefits and costs	84	157
Total employee benefits expense	4,512	3,751

1 Includes employers pension contributions for UK staff

### Adjusted operating (loss)/profit

Adjusted operating (loss)/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:

	Unaudited six months ended 31 December Consolidated	
	2020 \$'000	2019 \$'000
Share-based payments expense	240	210
Consultancy	263	89
Litigation fees	87	446
Other expenses	51	-
Unrealised foreign exchange (gain)/loss	-	(564)
Fund administration expenses	554	-
Total non-operating expenses	1,195	181

## Note 5 (Loss)/profit before tax (continued)

### Fund administration expense

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

## Note 6 Income tax expense

	Unaudited six months ended 31 December Consolidated	
	2020 \$'000	2019 \$'000
<b>Numerical reconciliation of income tax expense and tax at the statutory rate</b>		
(Loss)/profit before income tax expense	(1,370)	6,727
At the Group's statutory income tax rate of 26% (2019: 27.5%)	(356)	1,850
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	62	58
Other non-deductible expenses	-	(171)
Adjustment for tax effect of loss attributable to third party interests	34	-
	<b>(260)</b>	<b>1,738</b>
Adjustment to deferred tax balances as a result of change in statutory tax rate	60	157
Income tax (benefit)/expense	<b>(200)</b>	<b>1,895</b>

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	
	Unaudited six months ended 31 December 2020 \$'000	Audited 30 June 2020 \$'000
Deferred tax asset/(liability)		
Deferred tax asset/(liability) comprises temporary differences attributable to:		
Tax losses	17,130	10,851
Employee benefits	164	154
Accrued expenses	26	30
Contract costs – litigation contracts	(21,423)	(15,547)
Transaction costs on share issue	744	953
Deferred tax liability	(3,359)	(3,559)
Movements:		
Opening balance	(3,559)	(760)
Charged to profit or loss	200	(2,799)
Closing balance	(3,359)	(3,559)

## Note 7 Cash and cash equivalents

	Consolidated	
	Unaudited six months ended 31 December 2020 \$'000	Audited 30 June 2020 \$'000
Cash at bank	5,836	24,942
Cash of third-party interests in consolidated entities	9,574	6,812
	<b>15,410</b>	<b>31,754</b>

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

	Consolidated	
	Unaudited six months ended 31 December 2020 \$'000	Audited 30 June 2020 \$'000
Due from completion of litigation service	11,641	15,298

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

### Allowance for expected credit losses

The Group has recognised a loss of \$nil (June 2020: \$nil) in profit or loss in respect of the expected credit losses for the year ended 31 December 2020.

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

	Expected credit loss rate 2020 %	Carrying amount 2020 \$'000	Allowance for expected credit losses 2020 \$'000
<b>Consolidated</b>			
Not overdue	–	11,641	–
		<b>11,641</b>	<b>–</b>

## Note 9 Contract costs – litigation contracts

	Consolidated	
	Unaudited six months ended 31 December 2020 \$'000	Audited 30 June 2020 \$'000
Contract costs – litigation contracts	94,035	62,518



## Note 9 Contract costs – litigation contracts (continued)

### 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	
	Unaudited six months ended 31 December 2020 \$'000	Audited 30 June 2020 \$'000
Opening balance	62,518	27,386
Additions during the period	20,958	41,330
Additions during the period made by third-party interests	13,312	10,694
Litigation service expense – successful contracts <sup>1</sup>	(2,721)	(16,723)
Litigation service expense – write down <sup>2</sup>	(32)	(3)
Foreign exchange losses	-	(166)
Closing balance	94,035	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 costs

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

	Consolidated	
	Unaudited six months ended 31 December 2020 \$'000	Audited 30 June 2020 \$'000
Attributable to owners of LCM	70,057	51,824
Third-party interests	23,978	10,694
Consolidated total	94,035	62,518

	Consolidated	
	Unaudited six months ended 31 December 2020 \$'000	Audited 30 June 2020 \$'000
Current	20,845	15,671
Non-current	73,190	46,847
	94,035	62,518

## Note 9 Contract costs – litigation contracts (continued)

### 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% (June 2020: 15%).

Based on the above, the Group has recognised impairment losses of \$nil (June 2020: \$nil) in profit or loss on contract costs for the year ended 31 December 2020.

## Note 10 Portfolio costs – litigation contracts

	Consolidated	
	Unaudited six months ended 31 December 2020 \$'000	Audited 30 June 2020 \$'000
Portfolio costs – litigation contracts	5,414	-

	Consolidated	
	Unaudited six months ended 31 December 2020 \$'000	Audited 30 June 2020 \$'000
Opening balance	-	-
Additions during the period	1,354	-
Additions during the period made by third-party interests	4,060	-
Closing balance	5,414	-

### Portfolio costs

Portfolio costs are assets measured at amortised cost that relate to the provision of law firm funding.

## Note 11 Equity – issued capital

	Consolidated			
	31 December 2020 Shares	30 June 2020 Shares	31 December 2020 \$'000	30 June 2020 \$'000
Ordinary shares – fully paid	104,580,899	104,580,899	68,830	68,830
Ordinary shares – under loan share plan	11,073,767	10,457,247	-	-
	115,654,666	115,038,146	68,830	68,830

## Note 11 Equity – issued capital (continued)

	Date	Shares	\$'000
Balance	30 June 2020	104,580,899	68,830
Balance	31 December 2020	104,580,899	68,830

  

	Date	Shares	\$'000
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	–
Balance	31 December 2020	11,073,767	–

## Note 12 Equity – Share-based payments reserve

	Consolidated	
	Unaudited six months ended 31 December 2020 \$'000	Audited 30 June 2020 \$'000
Share-based payments reserve	1,241	1,001

### Share-based payments reserve

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

### Movements in reserves

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

	\$'000
Balance at 1 July 2019	569
Share-based payments expense	432
Balance at 30 June 2020	1,001
Share-based payments expense	240
Balance at 31 December 2020	1,241

## Note 13 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 14 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 31 December 2020, the financial liability due to third-party interests is \$31,532,000 (June 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 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 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.

## Note 14 Third-party interests in consolidated entities (continued)

Consolidated Statement of Comprehensive Income	31 December 2020			31 December 2019
	LCM-only \$'000	Fund \$'000	Consolidated \$'000	Consolidated \$'000
<b>Revenue from contracts with customers</b>				
Litigation service revenue	7,524	-	7,524	24,064
Portfolio revenue	136	427	563	-
Performance fees	16	-	16	-
	7,676	427	8,103	24,064
Litigation service expense	(2,721)	-	(2,721)	(11,828)
<b>Gross profit</b>	<b>4,955</b>	<b>427</b>	<b>5,382</b>	<b>12,236</b>
Other income	-	-	-	634
Interest income	4	-	4	19
<b>Expenses</b>				
Employee benefits expense	(4,512)	-	(4,512)	(3,751)
Depreciation expense	(28)	-	(28)	(37)
Corporate expenses	(1,575)	-	(1,575)	(1,928)
Litigation fees	(87)	-	(87)	(446)
Fund administration expense	-	(554)	(554)	-
Total expenses	(6,202)	(554)	(6,756)	(6,162)
<b>(Loss)/profit before income tax expense</b>	<b>(1,243)</b>	<b>(127)</b>	<b>(1,370)</b>	<b>6,727</b>
<b>Analysed as:</b>				
Adjusted operating (loss)/profit	(602)	427	(175)	6,908
Non-operating expenses	(641)	(554)	(1,195)	(181)
<b>(Loss)/profit before income tax expense</b>	<b>(1,243)</b>	<b>(127)</b>	<b>(1,370)</b>	<b>6,727</b>
Income tax expense	200	-	200	(1,895)
<b>(Loss)/profit after income tax expense for the period</b>	<b>(1,043)</b>	<b>(127)</b>	<b>(1,170)</b>	<b>4,832</b>
<b>(Loss)/profit for the period is attributable to:</b>				
Owners of Litigation Capital Management Limited	(1,043)	-	(1,043)	4,810
Third party interests in the Fund	-	(127)	(127)	-
Non-controlling interest	-	-	-	22
	(1,043)	(127)	(1,170)	4,832

## Note 14 Third-party interests in consolidated entities (continued)

Consolidated Statement of Financial Position	31 December 2020			30 June 2020		
	LCM-only \$'000	Fund \$'000	Consolidated \$'000	LCM-only \$'000	Fund \$'000	Consolidated \$'000
<b>Assets</b>						
Current assets						
Cash and cash equivalents	5,836	9,574	15,410	24,942	6,812	31,754
Trade and other receivables	11,641	-	11,641	15,298	-	15,298
Contract costs	20,845	-	20,845	15,671	-	15,671
Portfolio costs	1,354	4,060	5,414	-	-	-
Other assets	556	-	556	439	-	439
<b>Total current assets</b>	<b>40,233</b>	<b>13,634</b>	<b>53,867</b>	<b>56,350</b>	<b>6,812</b>	<b>63,162</b>
<b>Non-current assets</b>						
Contract costs	49,212	23,978	73,190	36,153	10,694	46,847
Property, plant and equipment	194	-	194	204	-	204
Intangible assets	343	-	343	336	-	336
Other assets	280	-	280	280	-	280
<b>Total non-current assets</b>	<b>50,029</b>	<b>23,978</b>	<b>74,007</b>	<b>36,973</b>	<b>10,694</b>	<b>47,667</b>
<b>Total assets</b>	<b>90,262</b>	<b>37,612</b>	<b>127,874</b>	<b>93,323</b>	<b>17,506</b>	<b>110,829</b>
<b>Liabilities</b>						
Current liabilities						
Trade and other payables	8,878	4,179	13,057	9,268	3,894	13,162
Employee benefits	421	-	421	376	-	376
<b>Total current liabilities</b>	<b>9,299</b>	<b>4,179</b>	<b>13,478</b>	<b>9,644</b>	<b>3,894</b>	<b>13,538</b>
<b>Non-current liabilities</b>						
Deferred tax liability	3,359	-	3,359	3,559	-	3,559
Employee benefits	126	-	126	117	-	117
Third-party interests in consolidated entities <sup>1</sup>	(3,083)	34,615	31,532	(2,195)	14,795	12,600
<b>Total non-current liabilities</b>	<b>402</b>	<b>34,615</b>	<b>35,017</b>	<b>1,481</b>	<b>14,795</b>	<b>16,276</b>
<b>Total liabilities</b>	<b>9,701</b>	<b>38,794</b>	<b>48,495</b>	<b>11,125</b>	<b>18,689</b>	<b>29,814</b>
<b>Net assets</b>	<b>80,561</b>	<b>(1,182)</b>	<b>79,379</b>	<b>82,198</b>	<b>(1,183)</b>	<b>81,015</b>

1 During the period LCM incurred placement fees and other costs in relation to the LCM Global Alternative Returns Fund. The amounts are reflected as transaction costs and reflected in the LCM statement of financial position above.

## Note 15 (Loss)/earnings per share

	Unaudited six months ended 31 December Consolidated	
	2020 \$'000	2019 \$'000
(Loss)/ profit after income tax	(1,170)	4,832
Non-controlling interest	-	(22)
(Loss)/profit after income tax attributable to the owners of Litigation Capital Management Limited	(1,170)	4,810
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	104,580,899	104,580,899
Adjustments for calculation of diluted earnings per share:		
Amounts uncalled on partly paid shares and calls in arrears	-	2,559,326
Options over ordinary shares	-	4,951,124
Weighted average number of ordinary shares used in calculating diluted earnings per share	104,580,899	112,091,349
	Cents	Cents
Basic (loss)/earnings per share	(1.12)	4.60
Diluted (loss)/earnings per share	(1.12)	4.29

Dilutive potential shares which are contingently issuable are only included in the calculation of diluted earnings per share where the conditions are met. As at 31 December 2020, there were 5,284,501 shares calculated for inclusion in diluted earnings per share, however these were not included due to their anti-dilutive effect.

## Note 16 Share-based payments

The share-based payment expense for the year was \$240,000 (2019: \$210,000).

### Employee share option scheme

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

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

### 2020

Grant date	Expiry date	Exercise Price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/other	Balance at the end of the year
20/09/2016	01/11/2021	\$1.00	1,500,000	-	-	-	1,500,000
			1,500,000	-	-	-	1,500,000

## Note 16 Share-based payments (continued)

### Loan Funded Share Plans (LSP)

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

During the period the Group granted 616,520 (2019: 2,002,700) shares under the LSP.

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

#### 2020

Grant date	Expiry date	Exercise Price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/other	Balance at the end of the year
04/12/2017	04/12/2027	\$0.60	2,000,000				2,000,000
31/08/2018	31/08/2028	\$0.77	411,972				411,972
19/11/2018	25/11/2028	\$0.47	1,595,058				1,595,058
03/12/2018	03/12/2028	\$0.89	100,000				100,000
06/03/2019	06/03/2029	£0.5200	4,528,664				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

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

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date <sup>1</sup>
13/10/2020	13/10/2030	£0.6655	£0.6655	35.00%	1.20%	-0.09%	\$0.259

1 AUD amount. GBP equivalent £0.14356.

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 17 Events after the reporting period

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. 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.



# Directors' Declaration

**31 December 2020**

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 2020 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



**Patrick Moloney**  
Chief Executive Officer  
Director

16 March 2021

## 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 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, a summary of statement of 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 2020 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 2020 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, appearing to read 'G K Edwards'.

**BDO Audit (SA) Pty Ltd**

A handwritten signature in blue ink, appearing to read 'G K Edwards'.

G K Edwards  
Director

Adelaide, 16 March 2021