



LITIGATION CAPITAL MANAGEMENT LIMITED

(ABN: 13 608 667 509)

HALF YEAR FINANCIAL REPORT 31 DECEMBER 2021

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 2021 and the auditors' report thereon.

1. Directors

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

Jonathan Moulds

Patrick Moloney

Dr David King

Gerhard Seebacher

Mary Gangemi (appointed 14 February 2022)

Nick Rowles-Davies (resigned 17 December 2021)

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 profit for the Group after adjusting for income tax and non-controlling interest amounted to \$2,623,000 (31 December 2020: loss \$1,170,000). Adjusted profit before tax is \$7,525,000 (31 December 2020: loss \$175,000). 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 financial period. This has not led to any impairments.

Cash on balance sheet was \$43,469,000 as at 31 December 2021 (30 June 2021: \$49,736,000). Of this, \$13,214,000 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 2021: \$14,210,000). Cash generated during the period increased by 94% to \$20,577,000 (31 December 2020: \$10,610,000).

Total invested capital as at 31 December 2021 was \$160,601,000 inclusive of \$63,444,000 of third party fund investments (30 June 2021: \$134,558,000 inclusive of \$45,956,000 third party fund investments).

The Directors do not recommend a dividend in respect of the period ended 31 December 2021.

5. Matters subsequent to the end of the financial period

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

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

15 March 2022

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 2021, I declare that, to the best of my knowledge and belief, there have been:

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

Adelaide, 15 March 2022

Litigation Capital Management Limited
Consolidated statement of profit or loss and other comprehensive income
For the period ended 31 December 2021

	Note	Unaudited six months ended 31 December	
		2021 \$'000	2020 \$'000
Revenue from contracts with customers			
Litigation service revenue	3	19,321	7,524
Portfolio revenue		-	563
Performance fees	3	-	16
		<u>19,321</u>	<u>8,103</u>
Litigation service expense		(5,444)	(2,721)
Gross profit		<u>13,878</u>	<u>5,382</u>
Other income		-	-
Interest income		-	4
Expenses			
Employee benefits expense	5	(5,134)	(4,512)
Depreciation & amortisation expense	5	(28)	(28)
Corporate expenses		(1,721)	(1,575)
Litigation fees	5	-	(87)
Finance costs	5	(2,222)	-
Fund administration expense	5	(730)	(554)
Total expenses		<u>(9,835)</u>	<u>(6,756)</u>
Profit/(loss) before income tax expense		4,043	(1,370)
Analysed as:			
Adjusted operating profit/(loss)		7,525	(175)
Non-operating expenses	5	(1,260)	(1,195)
Finance costs		(2,222)	-
Profit/(loss) before income tax expense		4,043	(1,370)
Income tax expense	6	(1,420)	200
Profit/(loss) after income tax expense for the period		2,623	(1,170)
Other comprehensive income for the period, net of tax		364	(706)
Total comprehensive income for the period		2,987	(1,876)
Profit/(loss) for the period is attributable to:			
Owners of Litigation Capital Management Limited		2,623	(1,170)
Non-controlling interest		-	-
		<u>2,623</u>	<u>(1,170)</u>
Total comprehensive income for the period is attributable to:			
Owners of Litigation Capital Management Limited		2,987	(1,876)
Non-controlling interest		-	-
		<u>2,987</u>	<u>(1,876)</u>
		Cents	Cents
Basic earnings per share	14	2.47	(1.12)
Diluted earnings per share	14	2.30	(1.12)

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 2021

	Note	Unaudited 31 December 2021 \$'000	Audited 30 June 2021 \$'000
Assets			
Current assets			
Cash and cash equivalents	7	43,469	49,736
Trade and other receivables	8	12,483	13,843
Contract costs	9	15,971	16,663
Other assets		704	616
Total current assets		72,627	80,858
Non-current assets			
Contract costs	9	144,631	117,895
Property, plant and equipment		177	186
Intangible assets		471	391
Other assets		436	284
Total non-current assets		145,714	118,756
Total assets		218,341	199,614
Liabilities			
Current liabilities			
Trade and other payables		5,351	12,392
Borrowings	10	13,720	13,253
Employee benefits		684	452
Total current liabilities		19,756	26,097
Non-current liabilities			
Deferred tax liability	6	8,933	7,543
Borrowings	10	38,727	37,171
Employee Benefits		213	148
Third-party interests in consolidated entities	13	57,996	39,764
Total non-current liabilities		105,870	84,626
Total liabilities		125,626	110,723
Net assets			
Equity			
Issued Capital	11	69,674	68,904
Reserves		390	(60)
Retained Earnings		22,651	20,028
Parent interest		92,715	88,872
Non-controlling interest		-	19
Total equity		92,715	88,891

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

Litigation Capital Management Limited
Consolidated statements of changes in equity
For the period ended 31 December 2021

	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 2020	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)
Total comprehensive income for the period	-	(1,170)	-	(706)	(1,876)	-	(1,876)
Equity Transactions:							
Share-based payments (Note 15)	-	-	240	-	240	-	240
	-	-	240	-	240	-	240
Balance at 31 December 2020	68,830	9,995	1,241	(706)	79,360	19	79,379
	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

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 statements of cash flows
For the period ended 31 December 2021

	Unaudited six months ended 31 December	
	2021 \$'000	2020 \$'000
	Note	
Cash flows from operating activities		
Proceeds from litigation contracts - settlements, fees and reimbursements		20,577
Payments to suppliers and employees		(24,860)
Non-operating items paid		(445)
Interest received		-
Net payments made by third-party interests in consolidated entities		(19,943)
Net cash used in operating activities		(24,672)
Cash flows from investing activities		
Payments for property, plant and equipment		(9)
Payments for intangibles		(91)
(Payments)/refund of security deposits		(5)
Net cash used in investing activities		(105)
Cash flows from financing activities		
Proceeds from issue of shares		770
Dividends paid		-
Finance costs		(2,268)
Transaction costs related to third-party interests		(625)
Net contributions from third-party interests in consolidated entities		19,064
Payments for fund establishment & administration costs		(162)
Net cash from financing activities		16,779
Net decrease in cash and cash equivalents		(7,997)
Cash and cash equivalents at the beginning of the period		49,737
Effects of exchange rate changes on cash and cash equivalents		1,729
Cash and cash equivalents at the end of the period	7	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 2021

Note 1 General Information

The financial statements cover Litigation Capital Management Limited (the 'Company') as a Group consisting of Litigation Capital Management Limited and the entities it controlled at the end of, or during, the 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 15 March 2022. 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 2021 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 2021 and any public announcements made by the Company during the interim reporting period.

Basis of preparation

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

Historical cost convention

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

Critical accounting estimates

The 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 2021.

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	
	2021 \$'000	2020 \$'000
<i>Major service lines</i>		
Litigation service revenue	19,154	7,524
Portfolio revenue	-	563
Performance fees	-	16
Litigation service revenue attributable to third party interests	168	-
	<u>19,321</u>	<u>8,103</u>
<i>Geographical regions</i>		
Australia	335	5,565
United Kingdom	18,911	2,538
Singapore	75	-
	<u>19,321</u>	<u>8,103</u>
<i>Contract duration</i>		
Less than 1 year	-	563
1-4 years	19,189	7,540
More than 4 years	132	-
	<u>19,321</u>	<u>8,103</u>

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 2021 there was 1 major external customer (2020: 4 customers, unrelated to those in 2021) where revenue exceeded 10% of the consolidated revenue. Revenue from each customer for the period ended 31 December 2021 amounted to \$18,401,000 (2020: \$2,520,000, \$1,796,000, \$1,259,000 and \$1,108,000).

Note 5 Profit/loss before tax

Unaudited six months
ended 31 December
2021 2020
\$'000 \$'000

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

<i>Employee benefits expense</i>		
Salaries & wages	4,176	3,847
Directors' fees	198	179
Superannuation and pension	141	162
Share based payments expense	86	240
Other employee benefits & costs	533	84
	5,134	4,512

Depreciation

Plant and equipment	19	18
Intangible assets	10	10
	28	28

Litigation fees

Litigation fees	-	(87)
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Litigation fees includes fees relating to the costs of litigation commenced by Australian Insolvency Group Pty Limited ('AIG') against the Group, and subsequent cross claim by the Group in these proceedings against Vannin Capital Limited and Mr Patrick Coope, a director of AIG and former employee of the Group. The proceedings have concluded following reaching a binding settlement with all parties in April 2020.

Finance costs

Interest on borrowings	2,067	-
Other finance costs	154	-
	2,222	-

Fund administration expense

Finance costs	247	-
General administration expenses	112	245
Set-up expenses	-	938
Amortisation of transaction costs	370	-
	730	1,183

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

Leases

Short-term lease payments	331	298
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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	86	240
Consultancy & legal	197	263
Other transaction costs	33	-
Litigation fees	-	87
Other expenses	215	51
Fund administration expenses	730	554
Total non-operating expenses	1,260	1,195

Note 6 Income tax expense

Unaudited six months
ended 31 December
2021 2020
\$'000 \$'000

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

Profit before income tax expense	4,043	(1,370)
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At the Group's statutory income tax rate of 25% (2020: 26%)

1,011 (356)

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

Foreign tax rate adjustments	(9)	-
Share-based payments	22	62
Other non-deductible expenses	131	-
Adjustment for tax effect of loss attributable to third party interests	64	34
Adjustment in respect of deferred tax rate	202	-
	1,420	(260)

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

60

Income tax expense / (benefit)

1,420 (200)

Note 6 Income tax expense (continued)

Statutory tax rate of 25% is applicable to Australian entities with aggregated turnover below \$50 million for the period ended 30 June 2022. 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.

	Unaudited six months ended 31 December	
	2021 \$'000	2020 \$'000
Deferred tax asset/(liability)		
Deferred tax asset/(liability) comprises temporary differences attributable to:		
Tax losses	15,561	17,130
Employee benefits	269	164
Accrued expenses	140	26
Contract costs - litigation contracts	(25,304)	(21,423)
Transaction costs on share issue	401	744
Deferred tax asset/(liability)	(8,933)	(3,359)
Movements:		
Opening balance	(7,543)	(3,559)
Charged to profit or loss	(1,390)	200
Closing balance	(8,933)	(3,359)

Note 7 Cash and cash equivalents

	31 December	30 June
	2021 \$'000	2021 \$'000
Cash at Bank	30,255	35,526
Cash of third-party interests in consolidated entities	13,214	14,210
	43,469	49,736

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	30 June
	2021 \$'000	2021 \$'000
Due from litigation service ¹	5,684	8,267
Due from litigation service - portfolios ²	6,732	5,576
Other receivables	68	-
	12,483	13,843

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 2021: \$nil) in profit or loss in respect of the expected credit losses for the period ended 31 December 2021.

Note 9 Contract costs - litigation contracts

	31 December	30 June
	2021 \$'000	2021 \$'000
Contract costs - litigation contracts	160,601	134,558

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	30 June
	2021 \$'000	2021 \$'000
Opening balance	134,558	62,518
Additions during the period	13,937	48,495
Additions during the period made by third-party interests	17,553	39,539
Litigation service expense - successful contracts ¹	(5,444)	(10,439)
Litigation service expense - write down ²	(3)	(4)
Other contract costs reimbursed - successful contracts ¹	-	(5,551)
Foreign exchange losses	-	-
Closing balance	160,601	134,558

Note 9 Contract costs - litigation contracts (continued)

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

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 2021 \$'000	30 June 2021 \$'000
Attributable to owners of LCM	97,158	88,602
Third-party interests	63,444	45,956
Consolidated total	<u>160,601</u>	<u>134,558</u>

	31 December 2021 \$'000	30 June 2021 \$'000
Current	15,971	16,663
Non Current	144,631	117,895
	<u>160,601</u>	<u>134,558</u>

Note 10 Borrowings

	31 December 2021 \$'000	30 June 2021 \$'000
Current		
Borrowings of third-party interests in consolidated entities	13,720	13,253
	<u>13,720</u>	<u>13,253</u>

Non-current		
Borrowings	38,727	37,171
	<u>38,727</u>	<u>37,171</u>

	31 December 2021 \$'000	30 June 2021 \$'000
Reconciliation of borrowings of third-party interests in consolidated entities:		
Balance 1 July	13,253	-
Proceeds from borrowings	-	26,782
Repayment of borrowings	-	(13,391)
Payments for borrowing costs	(127)	354
Amortisation of borrowing costs	113	(281)
Other non-cash items	481	(211)
Balance as at period end	<u>13,720</u>	<u>13,253</u>

	31 December 2021 \$'000	30 June 2021 \$'000
Reconciliation of borrowings of LCM:		
Balance 1 July	37,171	-
Proceeds from borrowings	-	36,371
Payments for borrowing costs	155	1,134
Amortisation of borrowing costs	(154)	(99)
Other non-cash items	1,556	(235)
Balance as at period end	<u>38,727</u>	<u>37,171</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 \$68,964,000 (the "Facility"). The Facility carries interest of a LIBOR based rate of 8 per cent together with a profit participation calculated by reference to the profitability of a defined category of the Group's investments, and a non-utilisation margin of 1 per cent for the first two years. The 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 2021, the Group's outstanding utilisation amounted to US\$20,000,000, an AUD equivalent of \$27,586,000.

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 2021. Should the Group not satisfy any of these covenants, the outstanding balance of the Facility may become due and payable.

The Group incurred costs in relation to arranging the Facility of \$1,288,000 which were reflected transactions costs and will be amortised over the 4 year term of the borrowings. As at 31 December 2021 \$1,035,000 of the loan arrangement fees remained outstanding.

Note 11 Equity - issued capital

	Consolidated			
	31 December 2021 Shares	30 June 2021 Shares	31 December 2021 \$'000	30 June 2021 \$'000
Ordinary shares - fully paid	106,613,927	105,014,157	69,674	68,904
Ordinary shares - under loan share plan	12,586,405	11,073,767	-	-
	119,200,332	116,087,924	69,674	68,904

Movements in ordinary share capital

	Date	Shares	\$'000
Balance	30 June 2020	104,580,899	68,830
Issue of partly paid shares paid up at \$0.17 per share	17 March 2021	433,258	74
Balance	30 June 2021	105,014,157	68,904
Issue of partly paid shares paid up at \$0.17 per share	22 October 2021	498,583	85
Issue of options paid up at \$1.00 per share	5 November 2021	600,000	600
Issue of partly paid shares paid up at \$0.17 per share	16 December 2021	501,187	85
Balance	31 December 2021	106,613,927	69,674

Movements in ordinary shares issued under loan share plan

	Date	Shares	\$'000
Balance	30 June 2020	10,457,247	-
Issue of shares under loan share plan	13 October 2020	616,520	-
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	-
	31 December 2021	12,586,405	-

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 2021, 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 2019 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 Fund have been consolidated in the financial statements.

As at 31 December 2021, the financial liability due to third-party interests is \$57,996,000 (June 2021: \$39,764,000), recorded at amortised cost and net of transaction costs. The net amount due comprises cash and cash equivalents, contract costs and trade payables. Third-party interests exclude the 25% co-investment made by Litigation Capital Management Limited and its wholly owned subsidiaries ("LCM"). The third-party interests in the Fund carry an entitlement to receive an 8% soft return hurdle. Upon satisfaction of the third-party interests soft return hurdle, LCM is entitled to performance fees as fund manager on the basis of a deal by deal waterfall. The residual net cash flows are to be distributed 25% to LCM and 75% to the third-party interests until a IRR of 20% is achieved by the third-party interests, thereafter the net residual cash flows are distributed 35% to LCM and 65% to the third-party interests.

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

Consolidated Statement of Comprehensive Income	LCM	Fund	Consolidated	LCM	Fund	Consolidated
	\$'000	31 December 2021 \$'000	\$'000	\$'000	31 December 2020 \$'000	\$'000
Revenue from contracts with customers						
Litigation service revenue	19,154	168	19,321	7,524	-	7,524
Portfolio revenue	-	-	-	136	427	563
Performance fees	-	-	-	16	-	16
	19,154	168	19,321	7,676	427	8,103
Litigation service expense	(5,378)	(65)	(5,444)	(2,721)	-	(2,721)
Gross income	13,775	103	13,878	4,955	427	5,382
Other income	-	-	-	-	-	-
Interest income	-	-	-	4	-	4
Expenses						
Employee benefits expense	(5,134)	-	(5,134)	(4,512)	-	(4,512)
Depreciation & amortisation expense	(28)	-	(28)	(28)	-	(28)
Corporate expenses	(1,721)	-	(1,721)	(1,575)	-	(1,575)
Litigation fees	-	-	-	(87)	-	(87)
Finance costs	(2,222)	-	(2,222)	-	-	-
Fund administration expense	(370)	(359)	(730)	-	(554)	(554)
Total expenses	(9,476)	(359)	(9,835)	(6,202)	(554)	(6,756)
Profit/(loss) before income tax expense	4,300	(257)	4,043	(1,243)	(127)	(1,370)
Analysed as:						
Adjusted operating profit/(loss)	7,423	103	7,525	(602)	427	(175)
Non-operating expenses	(901)	(359)	(1,260)	(641)	(554)	(1,195)
Finance costs	(2,222)	-	(2,222)	-	-	-
Profit/(loss) before income tax expense	4,300	(257)	4,043	(1,243)	(127)	(1,370)
Income tax expense	(1,420)	-	(1,420)	200	-	200
Profit/(loss) after income tax expense for the period	2,880	(257)	2,623	(1,043)	(127)	(1,170)
Other comprehensive income for the period, net of tax	442	(78)	364	(706)	-	(706)
Total comprehensive income for the period	3,322	(335)	2,987	(1,749)	(127)	(1,876)
Profit for the period is attributable to:						
Owners of Litigation Capital Management Limited	3,322	-	3,322	(1,043)	-	(1,043)
Third-party interests in the Fund	-	(335)	(335)	-	(127)	(127)
Non-controlling interest	-	-	-	-	-	-
	3,322	(335)	2,987	(1,043)	(127)	(1,170)

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

Consolidated statement of financial position	LCM	Fund	Consolidated	LCM	Fund	Consolidated
	\$'000	31 December 2021 \$'000	\$'000	\$'000	30 June 2021 \$'000	\$'000
Assets						
Current assets						
Cash and cash equivalents	30,255	13,214	43,469	35,526	14,210	49,736
Trade and other receivables	12,483	-	12,483	13,843	-	13,843
Contract costs	15,971	-	15,971	16,663	-	16,663
Other assets	701	3	704	639	(23)	616
Total current assets	59,410	13,217	72,627	66,671	14,187	80,858
Non-current assets						
Contract costs	81,187	63,444	144,631	71,939	45,956	117,895
Property, plant and equipment	177	-	177	186	-	186
Intangible assets	471	-	471	391	-	391
Other assets	436	-	436	284	-	284
Total non-current assets	82,270	63,444	145,714	72,800	45,956	118,756
Total assets	141,680	76,661	218,341	139,471	60,143	199,614
Liabilities						
Current liabilities						
Trade and other payables	3,490	1,862	5,351	8,014	4,378	12,392
Borrowings	-	13,720	13,720	-	13,253	13,253
Employee benefits	684	-	684	452	-	452
Total current liabilities	4,174	15,582	19,756	8,466	17,631	26,097
Non-current liabilities						
Deferred tax liability	8,933	-	8,933	7,543	-	7,543
Borrowings	38,727	-	38,727	37,171	-	37,171
Employee Benefits	213	-	213	148	-	148
Third-party interests in consolidated entities ¹	(4,629)	62,626	57,996	(3,961)	43,725	39,764
Total non-current liabilities	43,245	62,626	105,870	40,901	43,725	84,626
Total liabilities	47,419	78,207	125,626	49,367	61,356	110,723
Net assets	94,261	(1,547)	92,715	90,104	(1,213)	88,891

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

Note 14 Earnings per share

	Unaudited six ended 31 December	
	2021 \$'000	2020 \$'000
Profit/(loss) after income tax	2,623	(1,170)
Non-controlling interest	-	-
Profit/(loss) after income tax attributable to the owners of Litigation Capital Management Limited	<u>2,623</u>	<u>(1,170)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	106,015,738	104,580,899
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	<u>113,933,095</u>	<u>104,580,899</u>
	Cents	Cents
Basic earnings/(loss) per share	2.47	(1.12)
Diluted earnings/(loss) per share	2.30	(1.12)

Note 15 Share-based payments

The share-based payment expense for the year was \$86,000 (2020: \$240,000).

Employee share option scheme

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

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

2021

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

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 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 1,912,489 (June 2021: 616,520) shares under the LSP.

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

2021

Grant date	Expiry date	Exercise Price	Balance at the start of the 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
6/03/2019	6/03/2029	£0.5200	4,528,664				4,528,664 ¹
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
4/11/2019	4/11/2029	£0.7394	388,800				388,800 ¹
13/10/2020	13/10/2030	£0.6655	616,520				616,520
27/10/2021	27/10/2031	£1.06	-	1,781,682			1,781,682
27/10/2021	27/10/2031	£1.14	-	130,807			130,807
			11,139,904	1,912,489	-	-	13,052,393

¹As announced on 17 December 2021, the employment of former Executive Director Nick Rowles-Davies was terminated and his performance related shareholding did not vest. That benefit comprised 4,917,464 shares held through the Group's Joint Share Ownership Plan ("JSOP").

These JSOP awards are held by the LCM Employee Benefit Trust ("EBT"), and were due to vest 19 December 2021 subject to continued employment and performance conditions including a share price target of 175 pence being achieved at any time during the vesting period. The JSOP award was subject to malus and clawback provisions. Although the JSOP awards did not vest by reason of the termination of employment for cause, the awards had not vested at the date of termination due to the share price of LCM not trading at 175 pence at any point during the vesting period.

The awards remain held in the EBT.

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
27/10/2021	27/10/2031	£1.14	£1.06	35.00%	0.00%	0.63%	\$0.480
27/10/2021	27/10/2031	£1.14	£1.06	35.00%	0.00%	1.10%	\$0.890
27/10/2021	27/10/2031	£1.14	£1.14	35.00%	0.00%	0.63%	\$0.520

¹AUD amount. GBP equivalent £0.26, £0.48 and £0.28.

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

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

Litigation Capital Management Limited
31 December 2021
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 2021 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 15 day of March 2022

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 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the 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 2021 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 2021 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 'Geoff Edwards'.

Geoff Edwards
Director

Adelaide, 15 March 2022