LCM
EXPERIENCE COUNTS

Annual Report and Financial Statements

2022

Litigation Capital Management Limited
ACN 608 667 509

CONTENTS

“We have delivered improved performance and continue to build scale with a disciplined approach.

PATRICK MOLONEY
CEO

Our Purpose

We strive to deliver growth in our asset management business and through disciplined investment we strive to deliver value and performance that stand out amongst our industry peers.

FY22 Highlights

> We have made meaningful progress in relation to our strategic objectives with growth in our asset management business.

PATRICK MOLONEY
CEO

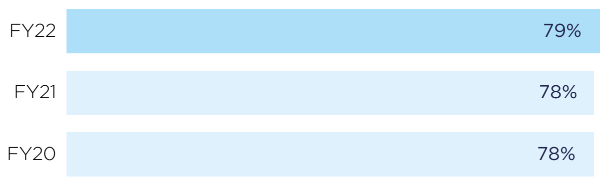
A$414

TOTAL ASSETS UNDER MANAGEMENT ($M)

For more information on the Total Assets Under Management, please see page 22 of the CEO Review.

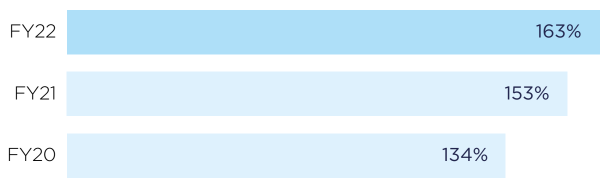
79%

ELEVEN-YEAR CUMULATIVE PORTFOLIO INTERNAL RATE OF RETURN (IRR)

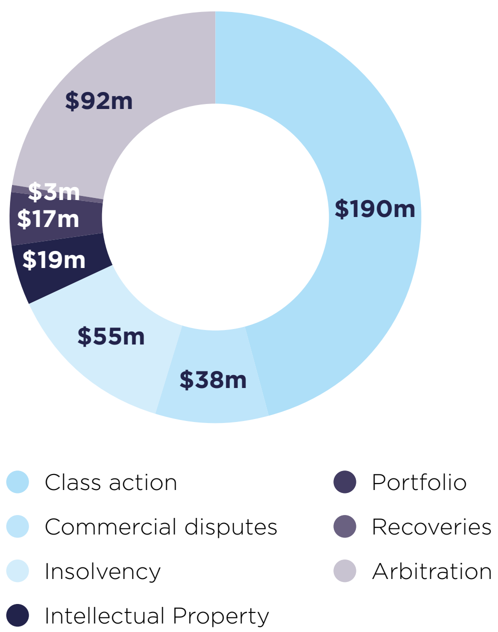


163%

ELEVEN-YEAR CUMULATIVE PORTFOLIO RETURN ON INVESTED CAPITAL (ROIC)

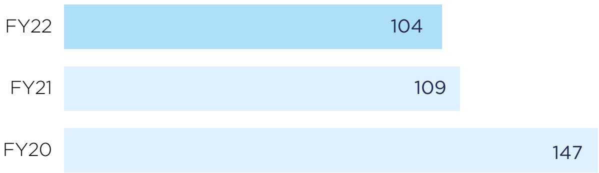


DIVERSIFIED PORTFOLIO BY INDUSTRY TYPE AND CAPITAL COMMITMENT (A$M)



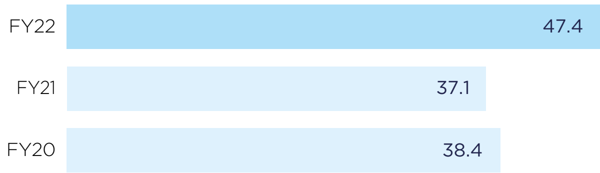
A$104m

CAPITAL COMMITTED IN YEAR ($M)



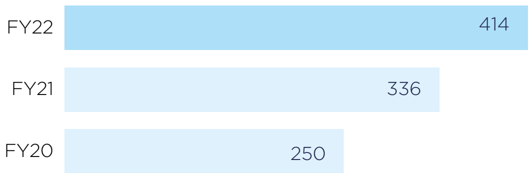
A$47.4m

REVENUE ($M)



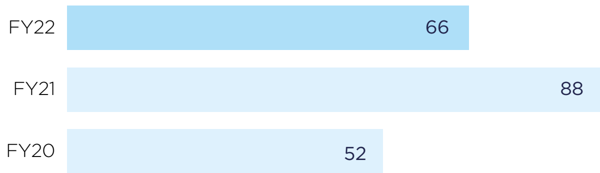
A$414m

TOTAL COMMITTED PORTFOLIO ($M)



A$66m

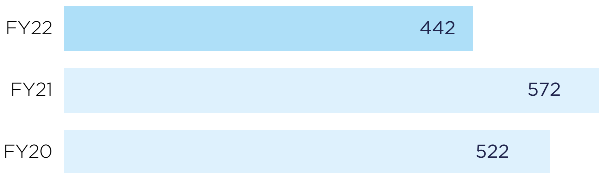
CAPITAL INVESTED ($M)[1]



1. Capital deployed includes $37.3 million related to the third party fund

442

NUMBER OF APPLICATIONS



Strategic Report

> We enter the year ahead with the capital capacity to drive meaningful long-term growth.

Key facts

Experience counts

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

24 yrs
of delivering outstanding results

90%
of funded litigation projects are profitable

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

1 of 4
global funders listed on public exchanges

Leading
the field in portfolio investment

Our Business at a Glance

We create value through our three primary investment strategies.

Our strategic objectives

About LCM

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

These include single-case, portfolios and acquisition of insolvency claims. LCM has an unparalleled track record, driven by effective project selection, active project management and robust risk management. Headquartered in Sydney, with offices in London, Singapore, Brisbane and Melbourne, LCM listed on AIM in December 2018, trading under the ticker LIT.

Balanced portfolio

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

See page 18 to 19 for further details.

Disciplined underwriting

Consistent and disciplined due diligence and risk management.

See page 18 to 19 for further details.

Sustainable long-term growth through strategic innovation and evolution

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

See page 18 to 19 for further details.

Our experience and track record are fundamental to our success.

Our values

Transparency

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

Opportunity

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

Discipline

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

Innovation

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

Integrity

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

Chair's Letter

With the launch of our second fund we are positioned well for long-term sustainable growth and value creation.

With our strong portfolio of investments we expect to continue delivering improved financial performance.

JONATHAN MOULDS
CHAIRMAN

Dear shareholder

When I wrote this letter this past year, many parts of the world were still dealing with effects and disruption caused by COVID 19. While the remarkable success of the vaccine programs in many countries has allowed significant progress to be made, a number of countries are clearly still dealing with the continued effects of the virus and the personal and economic effects of the pandemic.

This past year has witnessed continued uncertainty – humanitarian and economic uncertainty, of course mainly driven by the war in Ukraine. We have seen stresses in many financial indices and significant price disruption in the commodity markets and a market re-evaluation of the US Dollar, among other indices, which has risen by almost 20% over these past 18 months at the time of writing. We have seen inflation at levels that were hardly believable pre-pandemic. These are very significant economic events.

It is against this backdrop that we look ahead to the future of LCM. We are in a changing world and a very uncertain world. It is inevitable that there will be additional corporate restructurings, insolvencies and bankruptcies. LCM is one of the most experienced litigation funders and I am pleased to see the progress the Company has made over this past year to position strongly for this changing environment.

Our CEO Patrick Moloney relocated to London in the 4th quarter of 2021 – a move planned to occur months earlier that was delayed by the global pandemic. This is an important step for the Company and one that underscores our belief in the significant opportunities presented by the UK market and Continental Europe. Our APAC team is highly experienced and many of our senior employees have been with the Company for an extended period of time. The combination of a stronger London-based presence and a strong APAC presence positions the Company well for further market developments as litigation finance becomes much more widely accepted not just as a litigation tool but one of appropriate risk management.

Our performance continues to remain strong – although clearly the disruption caused by the pandemic has caused more uncertainty in timing of certain disputes. As a Board we remain committed to providing information to the market on the most timely and relevant basis possible. The nature of our business does mean that deal resolution announcements can be punctuated by periods of quiet.

As we have discussed previously, LCM recognises revenue only when the service conditions of the litigation funding agreement have been fully satisfied. This is the most conservative valuation methodology and a direct contrast to a number of other litigation funders who recognise revenue on what is called fair value accounting. Fair value accounting uses current market values as the basis for recognising certain assets and liabilities. This can prove challenging in illiquid asset classes.

In the view of the Board, at this stage in the development of the litigation funding industry, the clarity and conservative nature of our valuation methodology is the most appropriate one for our investors. We are continuing to focus on how we can provide further information to the market on the strength of our underlying investments and this remains a priority for us.

To this end, I would encourage all shareholders, and potential shareholders, to read the CEO's report for further information. Patrick has given detailed parameters on the historical performance of our investments and their time to maturity. LCM has a major advantage over a number of our competitors in that it has been operational in the market for a much longer period of time than many. It has the advantage to be able to look back on the performance statistics over more than four cycles of investments with a total of 244 disputes. We are exceptionally pleased by our ratio of successes which is at around 96% and we believe signals strong confidence in our future.

Over the past three years, the Company has made a very important evolution as is well known. This has been to develop our third party asset management business. We closed our first fund of US$150 million in March 2020, a significant achievement given the market volatility around the developing COVID news at the time. Our second fund is in the final stages of closure – having raised approximately two-thirds of the targeted US$300 million to date – and we are expecting to complete a final close before the end of the calendar year.

The asset management business is the key part of the future of LCM given it allows us to leverage our capital extremely effectively and build scale. Equally pivotal is our capacity to originate deals of the highest calibre. We are currently working to build out our origination business – particularly in the UK and we expect to announce further key hires in this space in due course. We are encouraged by the interest expressed by many of our current blue-chip investors to commit further investment as we continue to build our assets under management and expect strong growth in this part of our business.

So, in conclusion, while the background has been a challenge over the past two years, we believe we are now better positioned than at any previous time to continue to develop scale in key areas, and particularly asset management. We clearly continue to believe that interest and opportunities in litigation funding will continue to grow as the market develops. We also believe that, given this current point in the economic cycle, the opportunities for LCM will remain strong.

Our Principles

Our experience and high quality team of investment managers is fundamental to delivering strong returns.

Delivering sustainable growth and shareholder value through:

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

Investment selection criteria:

- Clear legal principles
- Written evidence
- Recoverability
- Proportionality
- Experienced legal team

(read more on our project selection process in the risk report on pages 43 and 48)

Investment selection process:

1. Opportunities

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

2. Preliminary due diligence

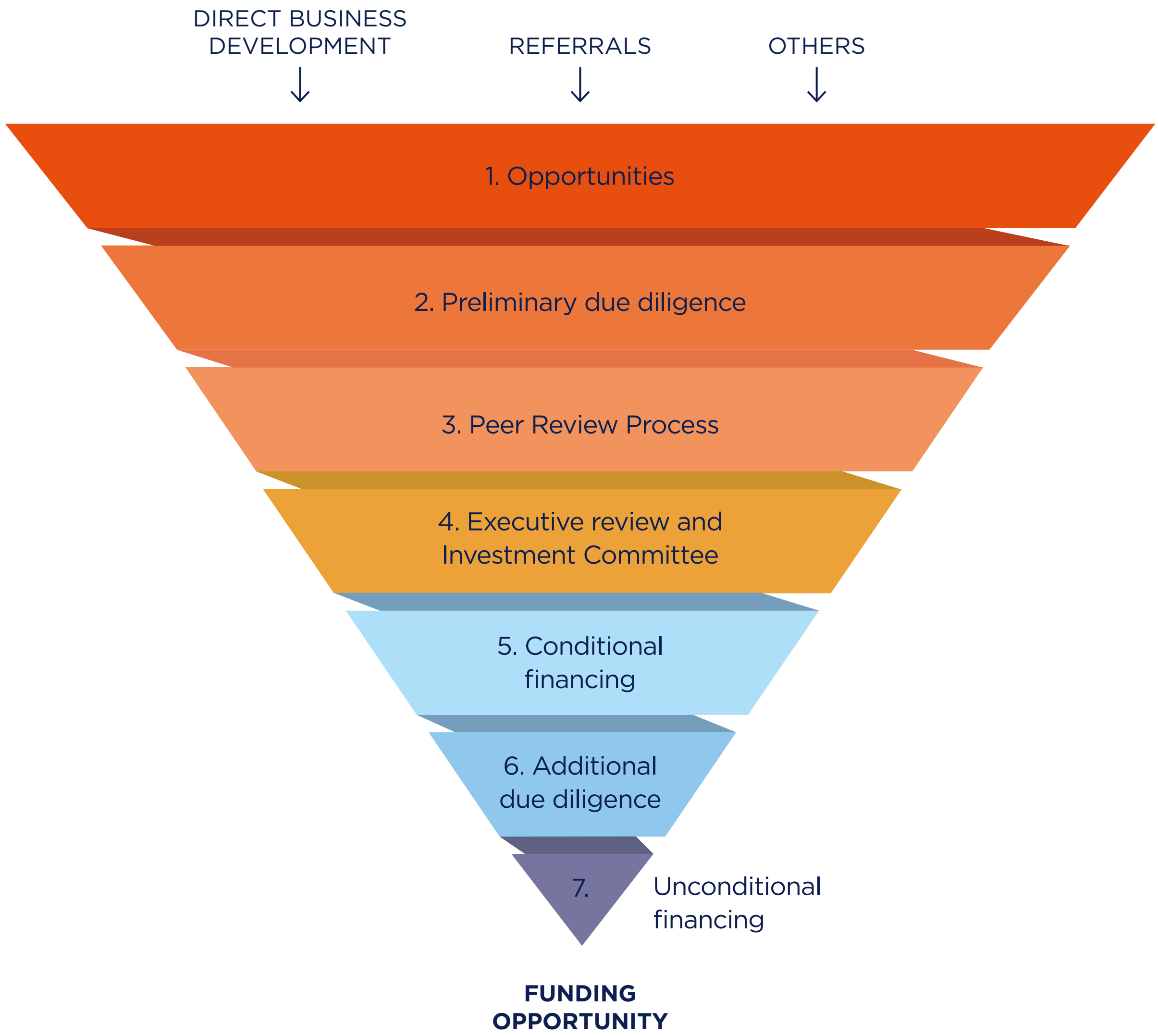
Investment Manager considers applications for financing against LCM's five key criteria and considers the prospects of successful recovery, budget for the litigation project and relevant documents.

3. Peer review

Review by committee of Investment Managers. Preparation of a formal litigation project analysis document. Recommendation may be made to progress a litigation project to Investment Committee, or suggestions made as to further enquiries that need to be made in relation to it.

4. Executive review and Investment Committee

Review by CEO, the Investment Manager reviewing the project and two additional Investment Managers. May require independent opinion from Kings Counsel/Senior Counsel (KC/SC). Investment Committee considers the project against LCM's five criteria, as well as relevant investment restrictions and projects fit for diversification of risk at portfolio level. May approve entry into conditional financing agreement and any due diligence required to confirm that all funding criteria are met.



5. Conditional financing

Common conditions may include:

- Independent KC/SC opinion that the litigation project has good prospects
- Independent opinion on quantum formulation
- Further investigation of defendant's asset position
- Detailed budget and solicitors' retainer and/or deed of priorities
- Proceedings to commence or claim prepared to be filed

Proceedings to commence and claim is prepared to be filed.

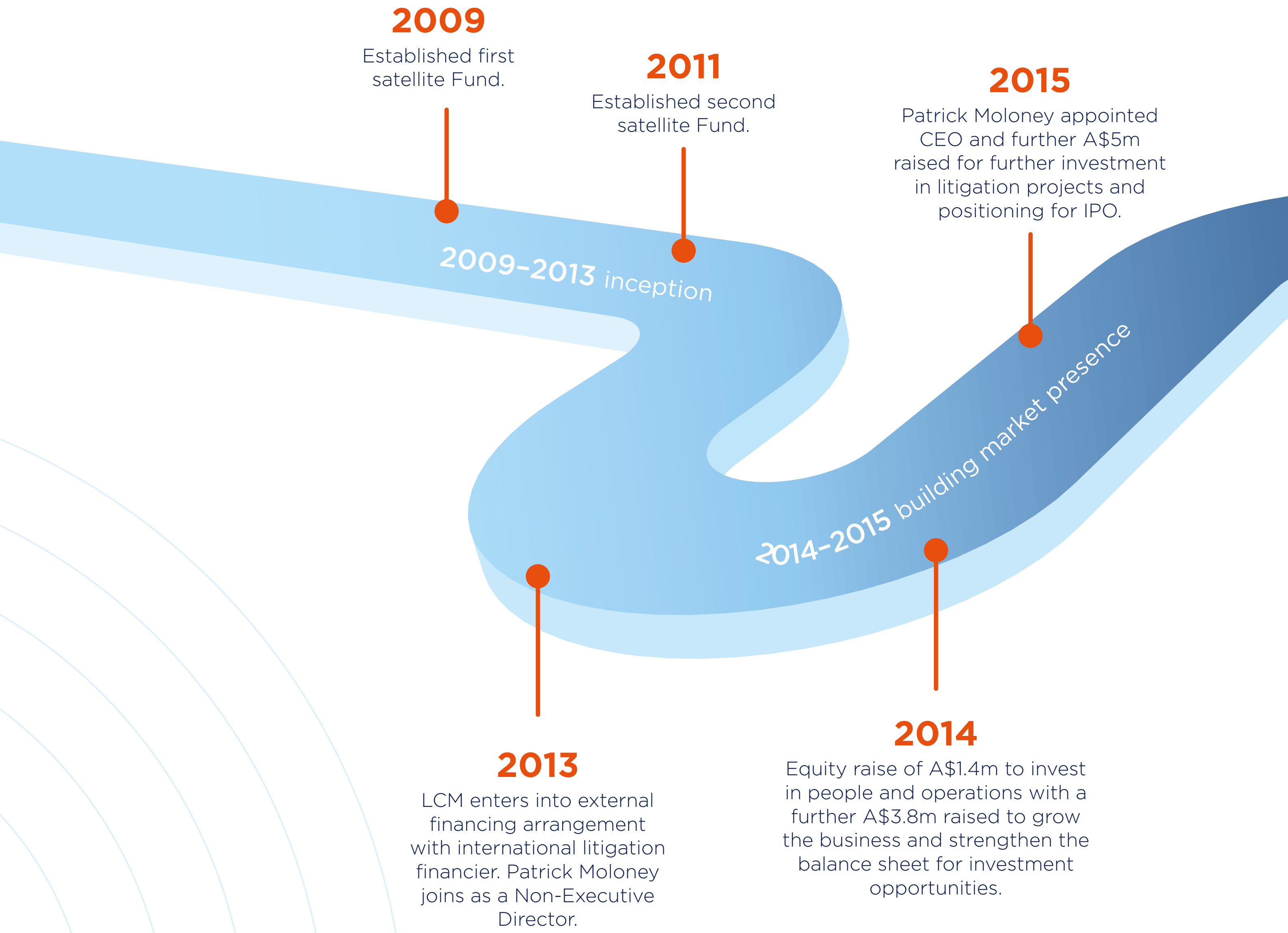
6. Additional due diligence

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

7. Unconditional financing

The project is again considered by the Investment Committee, which may approve entry into unconditional financing agreement, which will result in LCM being required to pay all costs and on some occasions being required to provide an indemnity and/or security for any adverse cost order that may be made against LCM's client(s) in respect of the litigation project. LCM reserves the contractual right to terminate the financing arrangement at any time in the instance of a deterioration in prospects or a change to the economic viability of the claim.

Disciplined investment selection is demonstrated by maintaining a strong track record which for the last 11 years has produced **79% IRR 163% ROIC**



2016

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

2017

Parliament of Hong Kong and Singapore pass legislation to permit litigation finance for international arbitrations. LCM establishes office in Singapore.

2018

LCM establishes an office in London. LCM delists from the ASX and lists on the London Stock Exchange AIM Market. ASX Placement raised A$10m, AIM IPO raised c.A$35m

2018–today position for accelerated growth

2020

LCM closes LCM Global Alternative Returns Fund I at US$150m. LCM enters a non-exclusive arrangement with global law firm DLA Piper.

2021

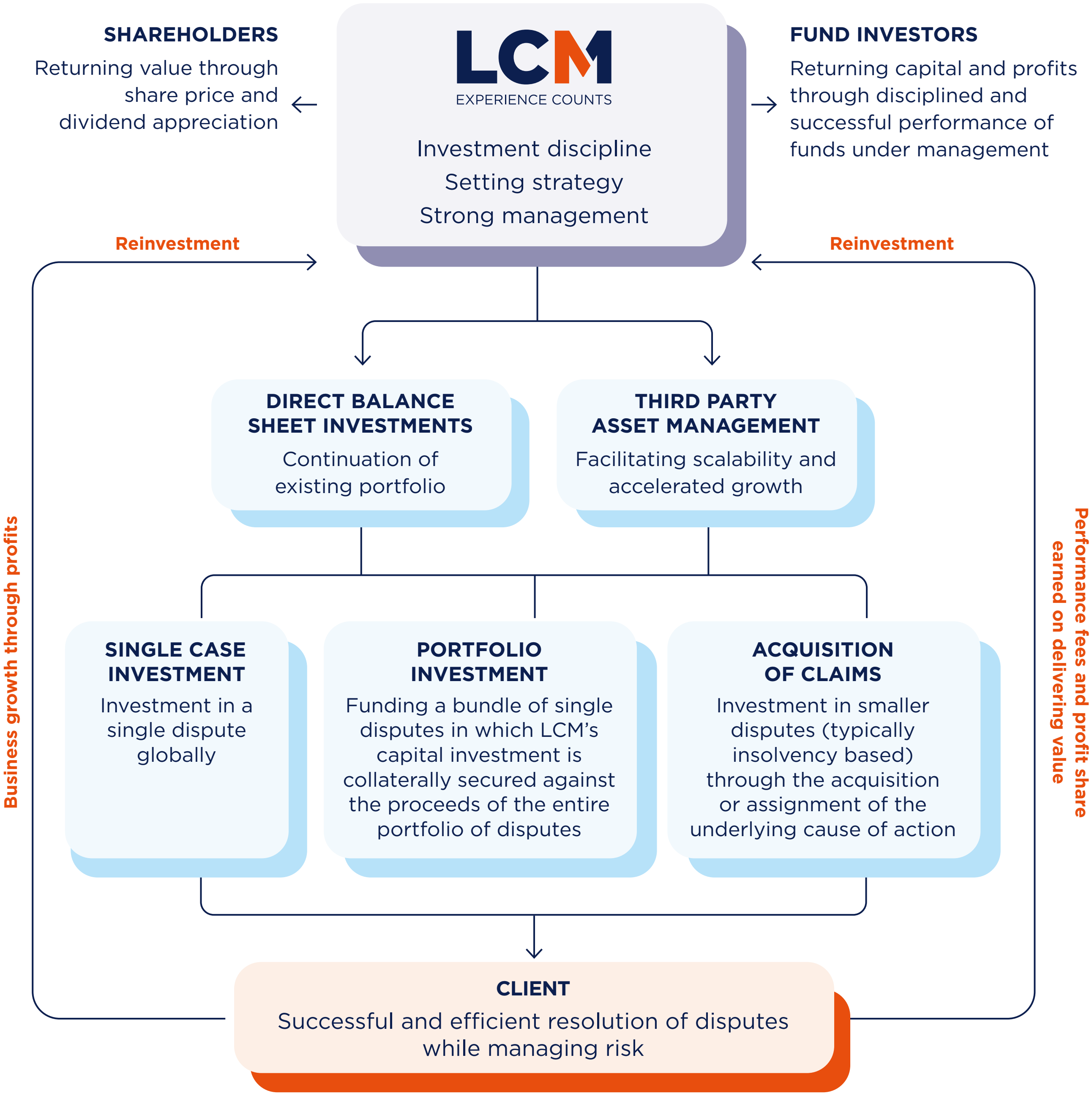
LCM diversifies its capital structure by securing US$50m credit facility.

2022

Fund II launched with two-thirds raised from existing investors. A final close of the targeted US$300m is expected before the end of calendar year 2022.

Our Business Model

Our second larger third party fund strengthens our position as a leading alternative asset manager in disputes funding.



Who we serve

We are an alternate asset manager specialising in disputes financing. That involves the provision of financing and risk management services to claimants in disputes globally. Our financing products are widely used from claimants that rely upon our capital as a means to justice through to large corporates who use our capital as a corporate finance product through choice.

How we engage

We have long-standing and deep relationships with referral sources, insolvency practitioners and law firms. Our proven track record ensures we continue to attract recurring business through our strong network and realise new opportunities.

Market expertise

We have extensive experience in complex disputes financing with a proven track record. We are industry pioneers in financing portfolio transactions and continue to explore and develop strategies which allow us to grow and penetrate new markets.

People

Our people are our business and the key to long-term sustainability. The size of our business enables us to remain highly engaged with our employees. We aim to provide a culture and environment to support and facilitate performance and have aligned employee incentives with those of our shareholders.

We create value

By providing our customers with financing solutions to pursue matters which would otherwise be costly, therefore taking on their risk and preserving their capital to pursue their own business opportunities. On successful completion of disputes we recover our investment and earn revenue through share of proceeds, performance and management fees.

We are developing and expanding our network through focused business development aimed at innovating our origination strategy to target new segments, while relying on our existing strong referral network which continues to present us with opportunities.

Direct investments

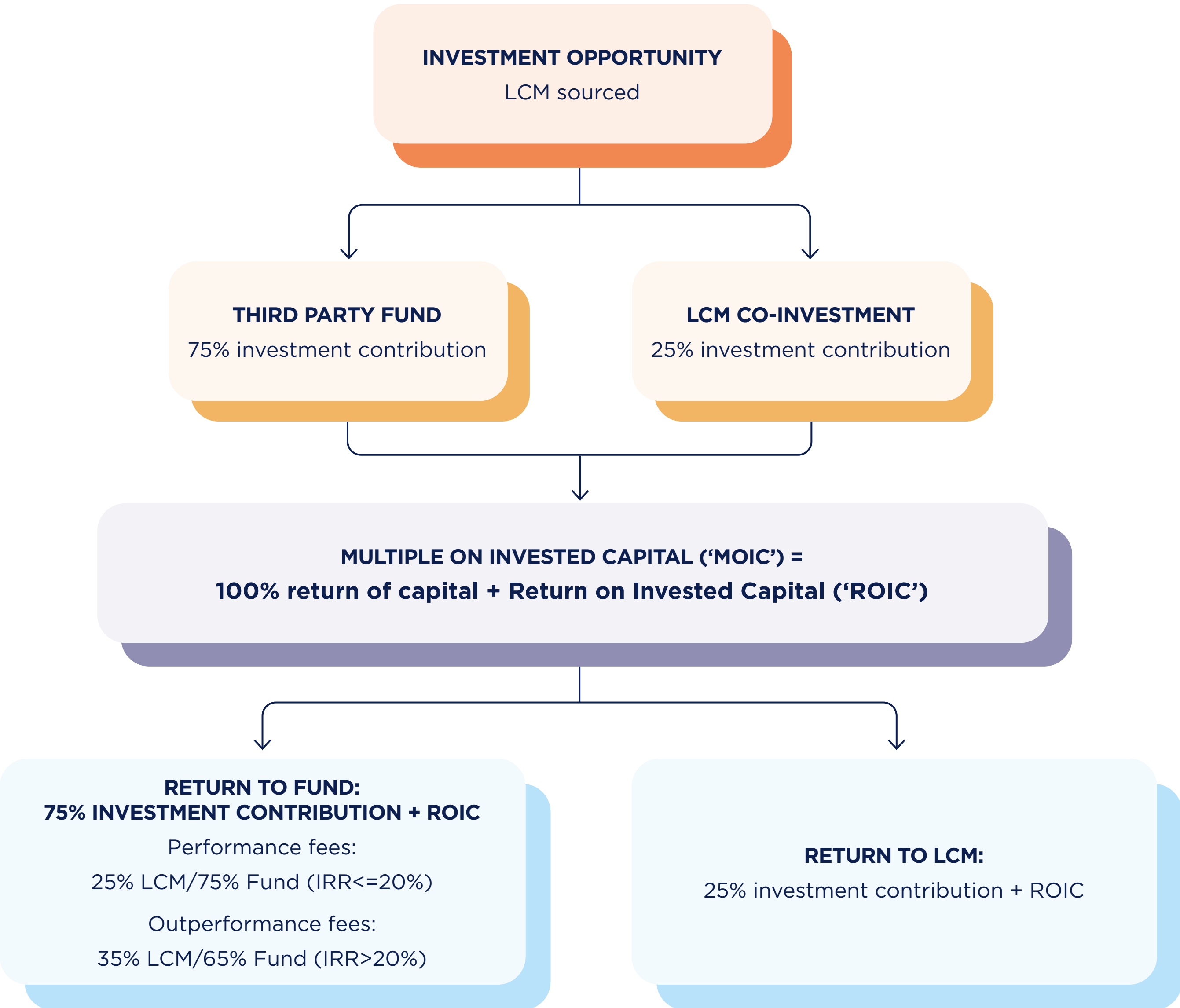
These investments are made directly by LCM through its balance sheet. These investments comprise:

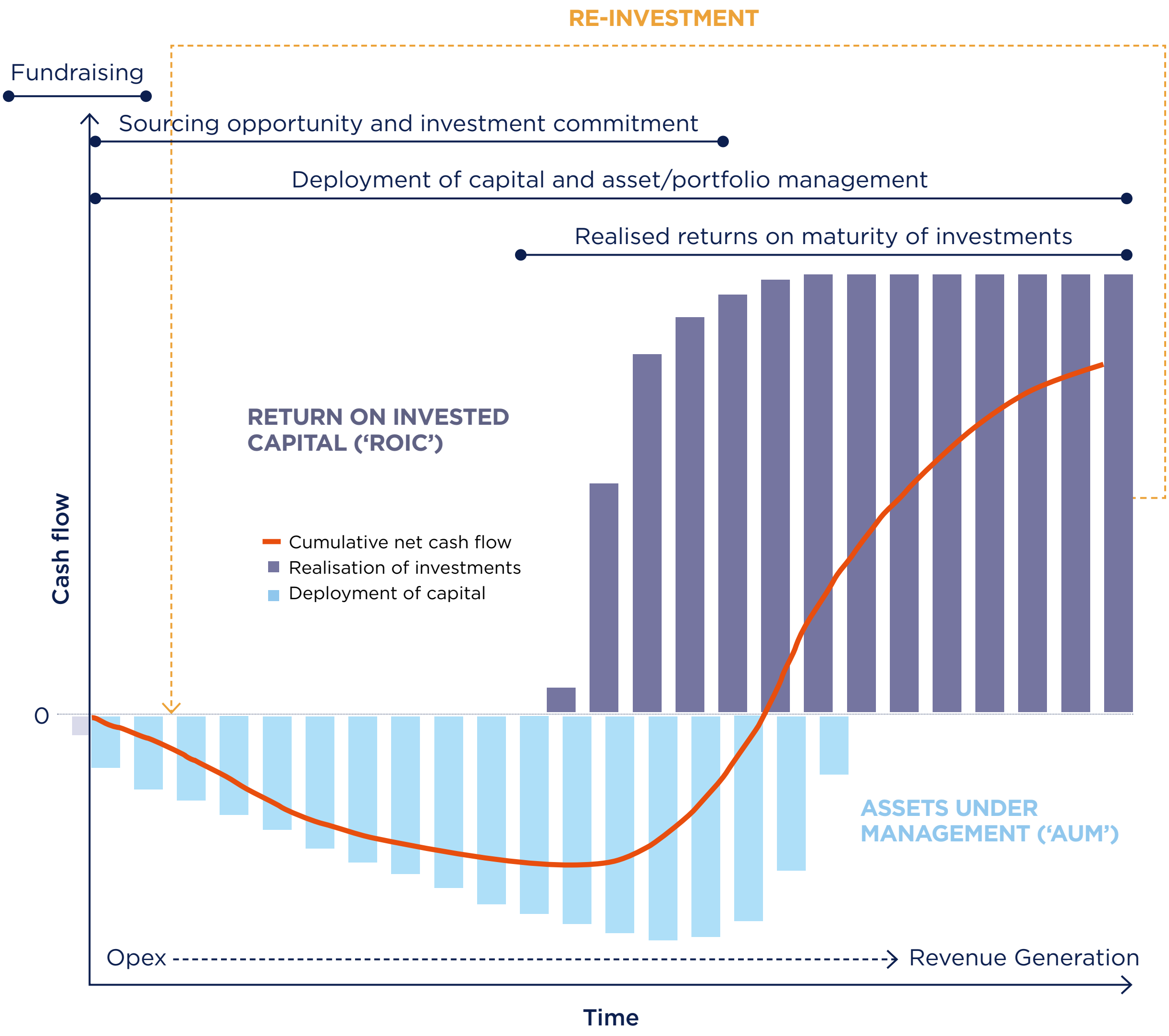
- investments made by LCM where 100% of the capital commitment is made from balance sheet capital; and
- direct investment where LCM co-funds together with third party funds under management (see further detail below under Asset Management Business).

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

Asset management business

Our second and larger fund has further enhanced our position as an alternative asset manager specialising in disputes financing. All qualifying investment opportunities generated by LCM are offered to the Fund and to LCM's balance sheet on a co-funding basis. The investment is generally structured as 75% to the Fund and 25% to LCM as a direct investment, applicable for both Fund I and II. In line with our strategic objectives, this provides both LCM and our underlying Investors with a valuable opportunity to diversify significantly the disputes into which investments are made as well as allowing access to a greater part of the disputes funding market through increased capital backing. In the event that LCM continues to generate returns consistent with its 11-year track record, we expect to become entitled to out-performance fees on the majority of investments. The fee structure was supported by investors in the Fund as providing a genuine alignment between LCM's balance sheet direct investments and Fund investments.





Investment cycle

It is important to understand the investment cycle in order to understand and measure LCM's growth properly. The starting point for consideration is the investment period. Historically, from first capital investment through to realisation, the time for completion of LCM's investments has on average taken 27 months. As LCM invests in larger and more complicated global disputes, that duration is expected to elongate. The practical reality is that people fight longer and harder over larger amounts. Consequently, LCM's performance on a fiscal basis relates to investments entered into some two-and-a-half years prior, with the corresponding operational expenses incurred during that same period.

As a result the revenue cycle tends to flow through to profits approximately 27 months following the initial investment cycle regardless of whether the capital investment was through direct balance sheet or through third party funds. Investments previously made 100% direct from balance sheet are now reaching the end of their maturity cycle and as these approach their completion dates and materialise into liquidity events, this will generate organic cash which will be co-invested alongside our third party Fund investors, further diversifying the portfolio of investments.

Group Strategies and KPIs

Our focus is on long-term sustainable growth and delivering value by driving performance and growing our Funds management offering.

Strategic objectives:

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

Key performance indicators

We have made meaningful progress in growing our Funds under management with our first Fund now fully committed and approximately two-thirds of our targeted US$300 million now raised with respect to our second Fund. Despite a turbulent economy marred by geopolitical unrest and high inflation, we maintained focus on generating long-term value through our KPIs. During the year we delivered growth across the majority of our key metrics which form the underlying foundation of building out a diversified portfolio which, combined with our track record and strong underwriting skills, delivers long-term sustainable performance. Our Assets Under Management grew from $336 million to $414 million and in addition to fully committing our first Fund we are now progressing with committing our second larger Fund, with larger commitments from all our

Funds Under Management US$m

Link to strategy

Performance

FY22	350
FY21	150
FY20	150

- First third party fund of US$150 million fully committed
- Fund II targeted close progressing with approximately two-thirds raised and final close expected to complete prior to the end of the calendar year
- Investment from existing investors into Fund II which comprises US university endowments, global investment bank, high net worth family offices

Outlook

- Targeting final close of US$300 million by the end of the calendar year
- Focus on growth of our asset management business
- Increase portfolio of investments under management

Number of applications

Link to strategy

Performance

FY22	442
FY21	572
FY20	522

- Number of applications received in the last financial year was 442 which is less than the prior period must be considered together with the fact that commitments were strong
- Conversion rate maintained at 2% is the result of a disciplined and rigorous due diligence and investment selection process
- Adapted to current uncertain market conditions

Outlook

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

Capital committed A$m

Link to strategy

Performance

FY22	104
FY21	109
FY20	147

- Capital committed in year was broadly in line with the prior year at $104 million compared to $109 million in FY21
- Total AUM increased from $336 million in FY21 to $414 million FY22 (inclusive of third party investments of $227 million)
- Launch of second Fund accelerates growth of our Asset Management business
- Fund I now fully committed. Commitment of Fund II has commenced with two investments as at 30 June 2022
- 24 further direct investment projects inclusive of recoveries matters

Outlook

- Realisations of maturing direct balance sheet portfolio
- Aim to increase the size of portfolio of investments
- Continue to maintain a balanced portfolio through industry sector, geography, jurisdiction
- Minimise concentration risk in individual capital commitment per investment

existing LPs. This demonstrates the strength of the relationships we have developed with our investors and the long-term value of our business which is gaining increased interest in the market. We remain committed on strategically innovating and developing finance solutions with the aim of creating sustainable long-term value for our shareholders and investors while also serving our clients' needs.

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

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

Capital invested A$m

Link to strategy

Performance

FY22	66.2
FY21	88.0
FY20	52.0

- Investment of capital was $66.2 million comprising $28.9 million direct balance sheet and $37.3 million third party fund vs $88 million in FY21
- Demonstrates our commitment in putting capital to work to maximise returns
- Credit facility further supplements our balance sheet, facilitating growth
- Continued innovative finance solutions

Outlook

- Growth in portfolio of assets under management
- The quantum of capital invested in a given period should increase over time
- Increased capital investments will in time generate organic capital through the maturing of investments

Cumulative portfolio internal rate of return

Link to strategy

Performance

FY22	79%
FY21	78%
FY20	78%

- Eleven-year cumulative IRR inclusive of losses at 79% in line with the prior year demonstrates LCM's ability to generate consistently strong returns over a reasonable investment period
- Performance is a reflection of LCM's disciplined project selection, due diligence and ongoing investment management

Outlook

- Performance metrics will fluctuate from period to period, but expectation is that they still exhibit strong return metrics
- Aim to deliver performance metrics within an acceptable range of historical performance

Cumulative portfolio return on invested capital

Link to strategy

Performance

FY22	163%
FY21	153%
FY20	134%

- Consistent performance reflected in 11-year portfolio ROIC, inclusive of losses, of 163% compared to 153% in FY21
- Performance is a reflection of LCM's disciplined project selection, due diligence and ongoing investment management

Outlook

- Performance metrics will fluctuate from period to period, but expectation is that they still exhibit strong return metrics
- Aim to deliver performance metrics within an acceptable range of historical performance

CEO Review

Delivering growth and scale as we transition into asset management

“Our asset management business provides us with greater flexibility to diversify our portfolio of investments.

PATRICK MOLONEY
CHIEF EXECUTIVE OFFICER

Introduction

The results for the year ended 30 June 2022 represent the first full year results following my relocation to London in December 2021 as part of our wider strategy to drive growth from our London office. This has brought our core executive team together in one location. The knowledge and experience of our London team, which services the UK and continental Europe, combined with my experience of the APAC region where litigation finance originally developed, has provided us with an entirely different perspective to our London-based business. In particular, it has allowed our UK business to draw on the experience of funding into the insolvency and restructuring market, which is how the industry began in Australia back in the late 1990s and early 2000s. We believe this is a significant advantage given the prevailing market conditions.

LCM’s greatest achievement during the FY22 financial period has been the growth in its asset management business. That includes the launch of LCM’s second Fund targeting US$300 million and its substantial close through a combination of existing investors. The development of LCM’s second Fund fortifies LCM’s strategy in moving into asset management.

FY22 in review

The end of FY22 saw LCM move from what we hope to be the end of COVID restrictions into very uncertain economic times and, therefore, a market of opportunity for our skills and capital. We emerge into a high inflationary period with central banks generally increasing official interest rates to combat inflation. In addition, we have seen great disruption across markets both as a consequence of COVID and the geopolitical risk consequent upon the war in Ukraine. That has disrupted markets from food production through to logistics and into supply.

Although we saw a decline in applications generally to 442 compared with 572 in the prior period, commitments remained stable with $104 million of commitment for the fiscal year ending 30 June 2022 compared against $109 million during the prior year. This generally indicates that the quality of applications is beginning to improve, which is pleasing given it is one of LCM's longer-term strategic objectives. In terms of application numbers and commitments generally, we were very pleased to achieve that result given the level of disruption to our normal business practices during the financial period.

LCM launched its asset management business in late March 2020 with a close of US$150 million. We were pleased to have fully committed our first Fund within the two-year investment period, in line with the Fund mandate. This is a great achievement despite the close coinciding with the onset of the COVID pandemic and the disruption it caused across economies globally. The commitment of Fund I allowed us to commence the marketing of our second Fund, with a target size of US$300 million. We are pleased to have raised approximately two-thirds of the target size and expect to complete a final close before the end of the calendar year. That gives LCM access to incrementally larger capital resources than it has historically had, allowing LCM to take advantage of the prevailing market conditions and generally the increased demand for its capital.

In the context of growth generally, LCM has managed to build an asset management business with approximately A$500 million under management in less than 2.5 years. We have made strong progress in committing those funds to quality investments, which should allow us to incrementally grow our asset management business over time.

Overall LCM increased its assets under management from A$336 million at the end of FY21 to A$414 million at the end of FY22. That continued year-on-year growth is a testament to the resilience of LCM's business notwithstanding considerable disruption. It places LCM to continue its growth strategy in much more favourable market conditions.

Portfolio Update

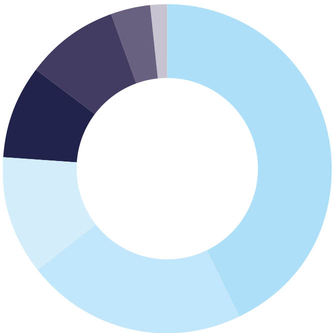
LCM operates two business models; the first is asset management whereby LCM acts as a fund manager investing in disputes and the second is a direct investment model whereby LCM invests its balance sheet capital in disputes. The two business models cross over and interact via a co-investment strategy. LCM's balance sheet invests directly alongside fund investors in each investment, typically with LCM's balance sheet investing 25% of each investment and benefiting from all the economic upside generated by successful dispute investments. Additionally, LCM receives, as a fund manager, performance fees in respect of its asset management business (read more about our asset management business on page 16).

Over a period of time the nature of LCM's business is changing. Currently, LCM maintains a portfolio of historical direct investments where LCM has invested 100% of the capital commitment from its balance sheet capital, whereby LCM benefits from 100% of the economic upside with respect to those investments. LCM's portfolio of 100% direct investments is very mature and we expect that a significant number of those investments will mature in the short to medium term. Over the short to medium term, LCM will see a transition from 100% direct investments capital contribution to a co-investment model.

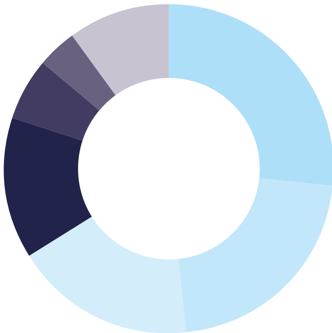
As previously mentioned, LCM commenced the raising of a second managed Fund. It gave us great confidence that all the investors in Fund I increased their investment level into Fund II. In addition, LCM has commenced commitments into Fund II and as at the end of August we have committed a total of four investments. We are encouraged by the level of early commitments into Fund II given the current market and believe the additional capital gives LCM the ability to genuinely benefit from the changing market conditions. The asset management model gives LCM far greater access to capital and the ability to diversify LCM's balance sheet capital across multiple investments through the co-investment model, well beyond what could have been achieved purely utilising LCM's balance sheet as a capital source.

Portfolio of Direct Investments

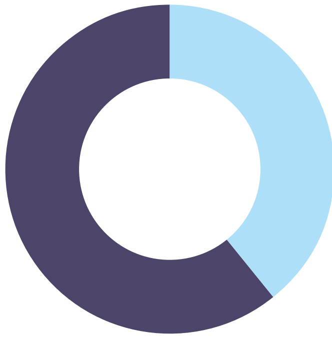
Portfolio by Industry Sector
(Estimated A$ Capital Commitment)[1]



Portfolio by Industry Sector
(Number of Projects)



Portfolio by Region
(Estimated A$ Capital Commitment)[1]



1. Capital commitment denotes the total estimated budget of the portfolio of projects as at 30 June 2022 converted to AUD as at the date of litigation funding agreement.

Performance Metrics

LCM enjoys a number of benefits from being a pioneer in the litigation finance industry. The first lies in its long experience in funding disputes and determining which disputes have the characteristics of an investment capable of generating returns for investors. The second, which is to a large extent born out of our experience, is a remarkably strong track record in terms of performance metrics. It is those two factors' together with others, which have enabled LCM to attract the highest calibre institutional investors to participate in its asset management business. LCM guards that track record zealously and strives to maintain a very high level of investment performance.

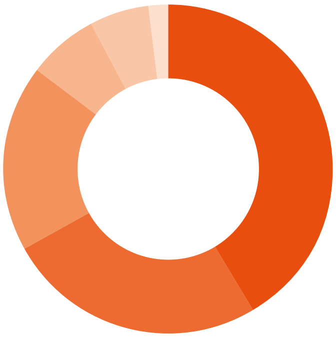
Since LCM first listed in the public markets back in 2016, we have been challenged on whether LCM will be able to maintain its remarkably strong track record as we build in scale. Whilst we should expect some pressure to be applied to our investment performance metrics as we build in scale, given the level at which we currently perform there is significant room to move while still delivering attractive returns. Our running performance metrics for the last 11 years measuring every single completed investment, including losses, has generated an investment internal rate of return of 79%. We have also achieved a return on invested capital of 163%.

The average life of LCM's investments at the conclusion of the 11-year period remains at 27 months. Over the past couple of years we have indicated to investors that we generally expect the duration of investments to increase to between 36 to 42 months. The reason for that is twofold. Firstly, the effects of disruption consequent upon the global pandemic. There is no doubt that the global pandemic caused significant delays to Court systems globally and also the arbitral process. Those delays have been felt to a greater or lesser degree in different territories. Whilst the majority of those delays have now ceased and indeed a number of efficiencies created as a consequence of COVID and technology, there will be a lengthening of any investments entered into within approximately 18 months prior to the global pandemic right through to investments entered into during the current financial period. The reality is that the delays experienced there will increase the time to conclusion or achieving a liquidity event.

The second factor, which will have the tendency to increase the time necessary for our investments to reach a conclusion, is their size and complexity. As LCM has the benefit of larger pools of capital through its asset management business, we are able to consider larger and more complex disputes. These investements were not always available to us previously when we were working with a smaller capital base,

LCM Global Alternative Returns Fund I

Portfolio by Industry Sector[2]
(Estimated A$ Capital Commitment)[1]



- Class action $86m
- Arbitration $53m
- Insolvency $38m
- Commercial disputes $14m
- Intellectual Property $12m
- Portfolio $4m

LCM Global Alternative Returns Fund II

Portfolio by Industry Sector
(Estimated A$ Capital Commitment)[1]

- Class action $24m

1. Capital commitment denotes the total estimated budget of the portfolio of projects as at 30 June 2022 converted to AUD as at the date of litigation funding agreement.
2. Includes Resolved matters (excludes operating expenses)

as they had a tendency to cause concentration risk. We have always possessed the skill and experience to participate in those larger disputes, but not always the capital. We are now able to construct larger and more diversified portfolios of disputes lessening the risk of capital loss. Naturally the motivations for a party to fight longer and harder in a dispute concerning large amounts of money is obvious as people fight longer and harder over larger sums. We have yet to see any elongation of our investments to date.

LCM's high investment performance can be attributed to a number of factors. The first is the rigor with which we undertake a due diligence and risk management process. Both the factors taken into account, and the process by which that due diligence is undertaken, have been developed over our 24-year history. It is a combination of both investment criteria and disciplined process that we have been able to select which disputes are suitable for investment and which are not. Our investment performance is in some ways a direct reflection of that rigorous due diligence process. A second factor is the level of monitoring that we undertake in respect of the dispute investments which we manage post investment and through to a profitable conclusion. It is the level of scrutiny that contributes towards LCM's investment success and our performance metrics. It is also a testament to our experienced and talented investment managers.

Our Win:Loss Ratio

Since LCM commenced its litigation finance business some 24 years ago, it has completed 244 separate investments. That is, LCM has invested in 244 separate disputes. That represents a very significant pool of experience in an industry which is relatively young. Of those 244 separate investments, LCM has suffered a financial loss in respect of only 11. Again, that is a remarkably strong win to loss ratio. It represents a loss rate less than 5%. That strong metric is again a direct reflection of the methodologies and systems developed by LCM over the years to undertake an effective and rigorous due diligence process in selecting those disputes which represent sound investments.

Of those 11 investments where LCM suffered a financial loss, it has only been on six occasions where LCM's due diligence process has predicted the incorrect result. That process, at its essence, is taking a given set of factual circumstances applying the legal principles and predicting how a judge or arbitrator would adjudicate the dispute. On six occasions, LCM has got that exercise incorrect. That, of course, does not necessarily mean that LCM and its investment managers were entirely incorrect; after all, the adjudication of large and complex disputes is not an exact science. It is open to human error, which from time to time occurs. One only needs to give consideration to the determination of appellate to know that the system is not infallible.

Notwithstanding LCM's strong track record in terms of wins and losses and the performance metrics generated from the investments which we manage, the resolution of disputes either through litigation or arbitration can be inherently unpredictable. That unpredictable characteristic is also a factor which complicates the market's desire for financial forecasting and guidance. Notwithstanding all of those factors, LCM continues to improve its otherwise rigorous due diligence processes and the criteria that we apply when considering an application for finance and the potential outcome of a dispute. It also drives us to ensure that we are diligent when it comes to monitoring our investments through to a profitable outcome.

It is prudent to recognise that losses from dispute investments are a feature of the investment class. Indeed, they are present across the track record of all participants in the litigation finance industry. As the resolution of disputes is not a precise or exact science, it is inevitable that losses will occur from time to time. Given LCM's significant experience in the industry combined with the robust and ever evolving processes and systems employed, we expect that such losses will be infrequent and minimal consistent with our track record to date.

Forecasting and guidance

The provision of financial forecasting and/or guidance has been a vexed issue for those litigation financers who are listed on the public markets. The issue has been addressed in a number of ways. One way that some operators have dealt with this issue is through fair value accounting. Through that mechanism, public litigation financers have been able to recognise revenue and thus the progress of their investments before they are actually realised, and the resolution achieved. LCM has always adopted an exceptionally conservative view towards revenue recognition. LCM has preferred to recognise investment revenue once we have satisfied all of the conditions of the litigation funding arrangement. That means we do not recognise the proceeds of a completed investment until such time as they have crystalised and LCM can be satisfied that they will be received within a short period. We do not fair value our dispute investments prior to completion, nor do we recognise revenue on a fair value basis.

That conservatism tends to create a revenue line punctuated by infrequent but large inflows, a feature of LCM's revenue line since its inception.

Historically, more than 90% of investments have resolved through commercial negotiation rather than the imposition of a Judgement or Award by a Court or Arbitral Tribunal. That is, the parties to the litigation have negotiated a commercial outcome. We encourage that approach and are very comfortable with a high proportion of our investments being resolved in that fashion.

Despite LCM benefitting from being a pioneer in the litigation finance industry and having a very strong record of accurately selecting disputes as suitable investments, forecasting both the timing and quantification of an individual commercial settlement is notoriously difficult. It involves predicting not only the timing of a negotiated settlement between two third party commercial participants, but also the quantum of that settlement. Consequently, LCM has taken the view that we are unable to accurately or responsibly provide forecasts of revenue to the market.

Additionally, LCM structures its underlying Litigation Finance Agreement as a rising multiple of invested capital or rising percentage over time. Therefore, in terms of the investment returns generated, it is often the case that the longer the investment, the better the returns generated. For that reason, it has never been a matter of concern whether an investment resolves on one side or the other of a financial period. Equally, a delay is not seen as impacting the performance of a particular single investment.

We are constantly endeavouring to provide information and data to the market to enable investors and those analysts who cover our business to make informed decisions about when investments are expected to be realised and what returns they might generate. We hope that we continue to improve that information set over time.

Strategy

Approximately three years ago, LCM began to develop a strategy with a view to increasing the scale of its business. That strategy involved a change in both mindset and in the way we operated our business. In executing that strategy, LCM has changed its business from the use of its balance sheet capital to fund litigation to establishing an asset management business specialising in alternate and uncorrelated investments, being disputes.

The first steps in executing the strategy were to diversify LCM's capital structure. That was done in two ways. First, the introduction of a conservative amount of leverage against LCM's balance sheet; secondly, through the establishment of LCM's asset management business. The execution of the strategy commenced approximately 2.5 years ago and has progressed swiftly. In particular, over the past financial period LCM has made considerable headway with respect to its asset management business.

The diversification of LCM's capital structure, and in particular the commencement of its asset management business, creates significant advantages to LCM beyond simply allowing us to build scale. It reduces concentration risk, aids in the smoothing of LCM's revenue line and leverages LCM's ability to generate profits from its investment strategy utilising external capital sources. With respect to risk, it allows LCM to invest its balance sheet capital across a far wider portfolio of investments, thus defraying concentration risks. It also permits LCM to generate revenue both directly from its co-investment participation, but also by way of performance fees. Additionally, it allows for the management of much larger portfolios of disputes resulting in increased frequency of liquidity events having the effect, over time, of smoothing LCM's revenue and increasing the frequency of inflows. It also allows concentration risk from single investments to be avoided through the structuring of much larger portfolios of disputes. We believe all of those factors contribute to the acceleration of delivering value and growth.

The structure of our asset management business provides LCM with the benefit of a fee structure whereby LCM receives performance fees with respect to its role as fund manager. The structure for Fund I and Fund II allows LCM to receive a 25% share of profits derived from fund investments over a hurdle rate of return of 8% up to an IRR of 20%. Profits earned above a 20% IRR attract an outperformance fee equivalent to 35% of the profits. Importantly, that profit participation occurs at the conclusion of each investment as distinct from at the end of the Fund, providing exposure to performance returns throughout the life of the Fund.

Another feature of our asset management business is the right of co-funding. LCM enjoys a right to directly invest its balance sheet capital in each and every investment that the asset management business participates in. That allows LCM, as a direct investor, to enjoy the full economics derived from each investment up to its right of participation as a co-investor. That blend of returns generated from direct investments together with performance fees provides a very robust business structure for LCM moving forward.

The raising of Funds I and II has firmly established LCM's asset management business with overall Funds Under Management of A$0.5 billion inside 2.5 years. We are proud of that achievement.

Investment Strategies

Single case investments

LCM applies three investment strategies across its business. The first strategy is single case investments where LCM invests in a single matter, providing both the capital to bring about the resolution of that dispute together with risk management and general dispute management. The types of disputes which LCM considers as investments are typically large and complex commercial disputes. They also extend to class actions and disputes arising from insolvency and restructuring. Additionally, we also invest in disputes where the resolution is facilitated through arbitration. Single case investments are attended with the most binary risk as returns are generated based upon a single outcome. For that reason, it is important that the risk associated with single case investments be defrayed through the building of a diversified portfolio.

Single case investments comprise the majority of LCM's performance track record generated over many years. LCM has developed systems and methodologies for assessing the risks of those investments over its entire history. This strategy continues to be a significant focus moving forward.

Portfolio funding

The second investment strategy pursued by LCM is portfolio funding. That is the funding of a group of disputes as distinct from a single standalone investment. The funding of a portfolio allows for risk to be dispersed across the outcome of a group of disputes and permits investment capital to be collaterally secured against the outcome of individual disputes forming part of the portfolio. Portfolio funding fits into three categories. The first and most common across the litigation finance industry is law firm portfolios, that is the provision of investment capital to a law firm against a portfolio of disputes where the law firm has entered into a contingent retainer with its clients. It is a means by which both risk and reward are shared between a law firm and a litigation financer. These types of investments are most regularly seen in North America, however they are also developing in the United Kingdom. They are only a feature of markets where lawyers are permitted to provide legal services in return for a share of the outcome of a dispute. In many jurisdictions in which we operate, that is not permissible.

The second type of portfolio investments are seen in the insolvency and restructuring space. They are prevalent where an insolvency practitioner is appointed as an external manager of an insolvent company wherein there is a portfolio of disputes. A capital facility is provided to the insolvency practitioner allowing them to pursue the portfolio of disputes referable to a particular insolvent estate. These types of insolvency portfolio investments are only typically available with respect to larger corporate collapses. In these types of investments, investment capital is collaterally secured against the outcome of multiple disputes. During different market cycles, these investment opportunities are present in the market. Given turbulent market conditions, we would anticipate, in future years, that these types of investments will be increased. LCM actively pursues these opportunities in the market.

The third type of portfolio investments are known as corporate portfolios. These involve the provision of a capital facility to a solvent corporate entity to permit them to fund, through to resolution, a portfolio of disputes. These types of facilities are increasing as the litigation finance industry matures. We are seeing increased interest in this part of the market. In particular, the current and prevailing market conditions make these types of capital facilities more attractive to corporates than in a more stable and predictable market. This is a strategy that is still developing within the litigation finance industry and which LCM is pursuing.

Acquisition of claims

The third and final investment strategy is that of acquisition of claims. As investors will have noted from prior reports, legislative changes implemented in the jurisdictions in which we focus our investment activities now permit insolvency practitioners to sell or assign statutory rights and causes of action which were formally only available to the investment practitioner themselves. That has provided an opportunity in the market and is a strategy which we predominantly pursue within the APAC region. Investments which are acquired through transfer or assignment have a number of attractive features. Firstly, it allows LCM to exercise complete and unfettered control over the cause of action once assigned. Secondly, and although the investments and disputes tend to be smaller, they have had a shorter investment cycle and have generated very strong returns.

Another very important aspect of the acquisition of claims strategy is that it provides a conduit to larger disputes, particularly from the insolvency industry. We have observed since this strategy was implemented that a number of larger investment opportunities have arisen through the relationships built around the acquisition strategy.

Building Scale

One of LCM's pivotal strategies, both in the medium and longer term, is to build scale of its business. The building of scale in an asset management business must be achieved incrementally.

In terms of direct strategic focus, with an aim to building scale, we have scrutinised the development of LCM's business to this point and our focus in the future. LCM's business, and indeed any litigation funding business, is built around three essential elements. Each element must be developed in a particular order to achieve scale. The first essential element is to develop a skillset necessary to determine which disputes are suitable for investment and which are not. At its most simple level, the systems and methodologies developed by LCM over time involve the analysis of a given set of facts, the application of the prevailing law and the prediction of the outcome of a dispute. That exercise together with the commercial drivers which influence that process and its outcome form the basis of our investment thesis. Only a very small percentage of applications for finance or investment opportunities ultimately lead to inclusion in one of LCM's portfolios of dispute investments.

The due diligence and risk management processes and systems that LCM has developed has occurred over many years. It is this particular skillset which enables LCM, through its investment managers, to make prudent investment decisions. It is a skillset which must be developed over time through bitter experience and cannot be acquired. LCM's investment performance metrics support the proposition that LCM has developed that skill at a very high level. Our track record is a testament to that. Indeed, that skillset will only improve and develop over time. It is fair to say that this element of LCM's business is well developed and operates at a high level.

The next essential element is a source of capital. Dispute investments have particular characteristics and are largely an illiquid investment. They therefore require meaningful capital resources to pursue through to a profitable outcome. In addition, and as noted elsewhere in this report, it is important to build a sufficiently large and diverse portfolio of dispute investments to ensure that concentration risks are mitigated. The establishment of LCM's asset management business has given us access to larger pools of capital to achieve that diversification. In addition, and consequent largely upon our experience and track record, LCM has been fortunate to attract the highest calibre institutional investors in its asset management business. A number of those investors have entrenched rights to participate in future Funds. Therefore, we are confident that on the assumption that we continue to generate returns in accordance with our asset management mandate, we will continue to have access to investors' capital through the asset management business.

One can readily observe that it is not possible to attract meaningful and sufficient capital through asset management or otherwise unless we can demonstrate a skillset evidenced by track record.

The third and final step in the process of building scale is the origination component of the business. That is to allow LCM to use its developed skillset to generate returns from dispute investments we need to gain access to the very best dispute investments globally. We do that through the process of investment opportunity origination. Again, the evolution of LCM's business, through developing our skillset and gaining access to capital allows LCM's origination platform to expand having now developed the first two essential elements. It is important to observe that LCM has a very good and well-developed network that gives us access to disputes globally, however we are now keenly focused upon expanding that network and our origination capacity. This is a focus for management in the short term and will further accelerate our ability to build scale.

Market and Environment

Resilient Business Model and Operations

LCM's Business Model, and more particularly its investment strategies, operate in all market conditions. That is to say whilst the demand for capital in the litigation finance industry varies from market to market, it is ever present whether economies are growing or contracting. With the current market conditions exhibiting more of a challenging economic environment, demand for LCM's capital will increase. To that extent, litigation finance as an industry generally, operates somewhat countercyclically with an increased demand during economic downturns.

With economic headwinds as they currently are together with significant uncertainty in global markets, we are seeing, and expect to continue to see, increased applications for finance.

We are also seeing an increased volume of applications and ultimately investments coming from the insolvency and restructuring sector. That position is consequent not only upon the prevailing economic conditions, but also as a consequence of prohibitions on the winding up of insolvent companies during the global pandemic. Effectively, during the two years when global economies were most affected by the global pandemic, governments in the territories in which we operated prohibited insolvent companies being wound up. Those prohibitions have recently been relaxed and as a consequence a backlog of insolvency activity is ensuing. There is no doubt that increased activity in insolvency and bankruptcy will lead to an increase in applications coming from that sector.

Industry Regulation

Litigation finance as an industry is largely unregulated globally. That said, there are small pockets of regulation; however they tend to be light, geographically specific or confined to a particular type of dispute. Examples of regulation, which has been introduced into certain markets, are in Singapore and Hong Kong. In both jurisdictions, legislation was passed in 2017 to specifically permit the funding of disputes which comprise international arbitrations. In more recent years both jurisdictions have expanded the categories of disputes which can benefit from litigation finance. Both Singapore and Hong Kong are examples of jurisdictions in which litigation finance has been recognised as an important part of dispute resolution and positive steps have been made to create certainty around the use of litigation finance in connection with the resolution of disputes both internationally and domestically. Although the regulatory regime in both jurisdictions is relatively light, it does signal an acceptance of litigation finance associated with dispute resolution rather than attempts to constrain its use.

The other jurisdiction in which a regulation has been introduced over the past couple of years has been Australia. Australia has one of the oldest and most established litigation finance markets globally. The regulation considered, and ultimately implemented in Australia, related only to Class Actions. The balance of the market in Australia remains unregulated as it has since the commencement of litigation funding in the late 1990s.

As described in LCM's last Annual Report, the provision of litigation finance in connection with Class Actions has been the subject of regulation in two forms. The first is the requirement for litigation financers who wish to provide finance for Class Actions to hold an Australian Financial Services Licence ('AFSL'). Secondly, for Class Actions to be run as Managed Investment Schemes ('MIS') imposing the regulations mandated for those types of investments in the Corporations Act. In terms of licensing, LCM had anticipated a form of regulation in the future and held an Australia Financial Services Licence at the time that the regulation was introduced. Indeed, LCM was the only litigation financer operating within the Australian market who held an AFSL at the time. Since then, the more established litigation financers operating in that market have obtained licence approval.

In terms of operating Class Actions as MIS, although LCM rendered itself compliant such that it could participate in the funding of Class Actions, the MIS regime was ill fitting, incredibly cumbersome, administratively burdensome and costly. More importantly the nature of Class Actions and their funding made the MIS particularly difficult to operate on a practical level in a number of fundamental respects. That, in LCM's view, left Class Action investments vulnerable to a number of challenges by Defendants and their insurers, which would ultimately increase the cost of funding Class Actions as well as lengthening the investment time. It also narrowed the types of Class Actions which were suitable for investment and increased the investment risk. For all those reasons LCM decided to challenge the Federal Regulation imposing MIS obligations. Such challenge was brought in the Federal Court of Australia. In the first instance, Judgement of a single Judge of that Court, LCM was unsuccessful as the Judge regarded himself as being bound by prior Federal Court Precedent. LCM pursued that challenge to the full Federal Court. That full Federal Court appeal was successful with the obligation to fund Class Actions through the MIS being struck down. That decision has proved a turning point in the regulation of the litigation funding industry generally and specifically the use of litigation finance in association with Class Actions in Australia. More recently, the newly elected Federal Government has announced that it intends to wind back further the regulation of litigation finance insofar as it concerns Class Actions.

If the regulatory initiatives implemented in Australia over the past couple of years can be used as a barometer more generally, the industry should expect that over a period of time the regulation of litigation finance will be considered in wider jurisdictions insofar as it relates to consumers or retail users. LCM's interaction with consumers, or retail users of its finance, only ever occurs in respect of a small number of Class Actions. Therefore, there is minimal risk to LCM with respect to regulation as the position currently stands.

LCM continues to monitor all jurisdictions and territories in which it operates with respect to regulation or the potential for regulation. There have been no other developments in those territories other than the commentary above with respect to Australia. That said, those litigation financers who operate globally, and in particular those who are subject to regulation through the public markets, have indicated their support with respect to forms of regulation when they have been raised. Ultimately, any form of regulation that is introduced will favour the larger and more established litigation financers such as LCM and will create further barriers to entry into the litigation funding industry.

Outlook

It is with some relief that markets globally move on from the unprecedented effects of the global pandemic. Markets now face the consequences of those years. As described in more detail throughout this report the prevailing conditions, both economically and market driven, are incredibly conducive to the use of litigation finance across all sectors. That is an increasing number of insolvencies, bankruptcies and restructurings which are occurring in the market will lead to a greater number of opportunities for investment in that sector. Additionally, the general sentiment driven by economic forces across the middle market of disputes generally will see greater prevalence towards using litigation finance, both as a capital tool and a risk management tool. Finally, we are seeing prevailing conditions both economically and in terms of market certainty favour large sophisticated and well capitalised corporates considering the use of litigation finance, again as both a capital tool and a tool for managing risk. Since LCM commenced its strategy for corporate portfolio funding, the market conditions have never been more conducive to that part of the market.

With increasing demand for litigation finance capital, LCM's greater access to capital through its asset management business, and finally the expansion of our origination network, LCM is exceptionally well placed to benefit from the changing market conditions.

Market Overview

As we move into the first half of FY23 we are observing changed, but very favourable, market conditions across the territories in which we operate. As we begin to trade outside the periods which sustained disruption due to the COVID pandemic, we see a market dynamic of high and increasing inflation, the move by central banks to increase interest rates in an effort to combat inflation, as well as considerable disruption to different market segments. By way of example, the entire food production vertical has seen disruption from fuel and fertiliser prices, through labour shortage and wage increases, logistics and transport to changing market demands, and that is to identify just one market vertical. In addition, there is the geopolitical disruption caused by the war in Ukraine. Those market conditions are likely to result in certain market economies falling into recession; or at the very least, experiencing extended periods of disruption. Those market conditions create differing effects and influence demands at different ends of LCM's market. At one end lies the market of insolvency and restructuring disputes. In all the main markets in which we operate, governments created a moratorium on the winding up of insolvent corporations in an effort to avoid that market disruption during COVID. Those moratoriums have rolled off in those jurisdictions in the recent past, which is having a direct impact upon market conditions. In the United Kingdom the numbers of externally appointed managers have risen above a 40-year high and in Australia such numbers are approaching pre-pandemic levels. We are already seeing increased activity in the area of insolvency and restructuring, which will inevitably lead to an increased number of applications and quality investment opportunities coming from that sector. Once that part of the market begins to change, our experience has been that it will supply a steady stream of investment opportunities for many years to come. LCM, as a litigation financer, is exceptionally well placed to service those opportunities given its long experience and heritage in the insolvency and restricting space. LCM enjoys long and deep relationships from referral sources in that sector. It is a sector that we have observed in terms of demand for litigation finance capital through the back end of the Asian credit crisis in the late 1990s through other market downturns to the global financial crisis in 2008. In anticipation of those opportunities beginning to reach the market, LCM has adopted a strategic objective of fortifying our referral relationships in all markets. We are excited about the opportunities which will flow from that sector.

If we next move to the general litigation funding market, including commercial disputes, arbitral disputes and the use of litigation by corporates, we see a different, but equally positive, opportunity. Market conditions globally are particularly uncertain. They are uncertain not only from an economic perspective, but also as a consequence of the negative effects of geopolitical risk and energy prices. That uncertainty inevitably translates into a greater demand for litigation finance capital. At its most basic level, litigants, or those involved in disputes, will have a greater tendency to consider an external source of capital to fund those disputes than in more buoyant markets. That is not to say that litigation finance capital is not in demand when markets are good it is simply an observation of the countercyclical nature of the demand cycle of our industry.

Importantly, at the other end of the market to insolvency and restructuring lies the corporate market. As investors are aware, LCM has as part of its overall strategy a desire to provide greater funding to large, sophisticated and well capitalised corporates. In effect, providing litigation finance as a bespoke corporate finance product, where the users of litigation of finance are doing so through choice, as to whether to use their own capital or that of a third party financer. In market conditions, as they currently present, large corporates are far more inclined to explore options with respect to non-core expenditure, such as funding disputes, than they would be in more stable markets. Our experience in the market is that in times of uncertainty, such as they currently are, large corporations are far more inclined to consider the use of litigation through portfolios or otherwise. We see the market conditions as very conducive to that strategy.

As a measure of changing market conditions and increased demand, LCM has committed just under A$40 million in the first two months of the 2023 financial year as against approximately $104 million of overall commitments during FY22. We expect to see that demand continuing, or even increasing, as the market conditions change further.

EMEA

General market observations made above apply most particularly in the EMEA region. At the time of writing this report, it appears that the economic conditions faced by the United Kingdom and continental Europe are somewhat more uncertain than that of the Australasian region. Central banks across the UK and Europe have forecast the strong risk of recessionary conditions. Those predictions, if correct, will lead to a significant increase in the number of opportunities right across the market within those regions.

In terms of data points, the number of insolvency processes commenced and the appointment of external managers to insolvent companies increased in the region of England and Wales by 81% on the prior year. That increase is the largest number recorded in over 40 years. Similar statistics are being recorded in other markets across continental Europe. The significant increase in those numbers are as a consequence of various factors including the removal of moratoriums against the winding up of insolvent companies during the global pandemic and also general market conditions. If the economic conditions continue to deteriorate as predicted, those numbers are likely to increase.

As a strategic initiative, LCM has been very focused on that part of the market now for in excess of 18 months. That strategic focus has seen an increase in the number of applications in the new financial period. It is important to observe that once numbers of insolvencies increase, experience suggests that the number of applications for litigation finance from that sector will increase and remain at increased levels for between six to eight years. Given LCM's significant experience in the insolvency and restructuring sector, this provides a great opportunity moving forward.

Across the wider market in the EMEA region, we expect to see a general increase in the demand for capital. Again, through experience, we know that in uncertain times corporations focus their own capital towards core business. That dynamic operates right across the market from small and medium sized enterprises through to large sophisticated and well capitalised corporations. In the UK market profit warnings between the period Jan – June 2022 increased by 66% when compared with the same prior period. That is an indication of how corporations are being impacted by current economic conditions. In times when capital allocation is vitally important, corporations right through the market will look for alternatives when it comes to non-core expenditure. Funding disputes very much fits in to that category. That is expected to translate into an increase in demand across those sectors.

An additional area in which LCM is observing considerable growth is in relation to competition claims in the United Kingdom. Many of those claims are a follow on damages claim as a consequence of competition and anti-competitive behaviour findings across Europe. We have received a significant increase in the number of claims of that nature through our London office. This is an area of growth in the litigation finance industry. LCM is particularly well placed to consider those types of claims because they are similar in nature to class actions, which LCM has a long history of investing into through our Australian offices. Our expectation is that we will see an increased number of these types of applications coming from the EMEA region over time.

At its most simple level, investment opportunities for LCM derive from large and complex commercial disputes. Those types of disputes occur where there is economic activity, whether in a rising or contracting economy. The most economic activity tends to occur in the larger economic regions. In terms of numbers of applications, we are seeing an increased number of applications, as well as an increased number of actual investments coming through LCM's London office. Since LCM opened its London office, we have seen a steady increase in the number of applications and commitments made from the EMEA region. Overall, in terms of LCM's direct investment portfolio, which provides a good measure across our entire portfolio through the mechanism of co-funding, 34% of overall commitments have been contributed from the Australasian region and 66% through LCM's London office. That significant increase has occurred most predominantly in the past 12 months. As investors would be aware, we predicted that our London office would increasingly provide commitment contributions by reason of the larger economies and economic activity.

Overall, we are pleased with the progress of the London team and the traction that we are achieving in the EMEA markets. The London office implemented, in anticipation of the current and evolving market conditions, strategies particularly focusing upon the insolvency and restructuring market. Consequently, we expect to see continuation of the trend towards increasing commitments from this region.

APAC

> In Australia, a favourable regulatory environment and changing economic conditions place LCM on sound footing to pursue its key strategies of the funding of insolvency claims, Class Actions and funding for corporates. Our Singapore office goes from strength to strength and we anticipate significant growth as large insolvencies result in increased claims and the categories of claims we are permitted to fund is likely to further expand.

SUSANNA TAYLOR
HEAD OF INVESTMENTS APAC

Australia

- Change in government resulting in a more favourable regulatory environment for Class Actions
- Economic conditions likely to result in increase in insolvency related claims
- Building out the strategy for the funding of corporate disputes

Class Actions Regulation

The previous Federal Government introduced regulatory changes in 2020 requiring litigation funders involved in Class Actions to hold an Australian Financial Services Licence (AFSL) and for Class Actions to be registered as managed investment schemes. LCM welcomed the first of these changes as it was already the holder of an AFSL and this change resulted in a reduced number of funders operating in the space and some overseas funders have exited the Australian market altogether leaving increased opportunity for licensed funders such as LCM.

The second of these changes was more controversial. The requirement for Class Actions to be registered as managed investment schemes was widely criticised as an inappropriate form of regulation aimed not at improving outcomes for Class Actions participants but at installing a costly regulatory hurdle with the objective of reducing the number of Class Actions being brought in Australia. LCM successfully challenged this regulatory change by bringing an application in the Federal Court which culminated in the decision of LCM Funding Pty Ltd v Stanwell Corporation Limited (2022) FCAFC 103 in which the full Federal Court found that a funded Class Action was not a managed investment scheme within the meaning of the *Corporations Act 2001* (Cth) reversing the effect of the second limb of the regulation introduced in 2020.

A bill was introduced by the former Federal Government in 2021 which proposed to cap the returns of funders in Class Action removing the flexibility which the court has to adjust the returns of funders when approving a Class Action settlement. LCM was closely involved in the efforts to prevent this bill from being passed preparing detailed submissions in relation to an Exposure Draft of the legislation as well as to a Senate Economics Legislation Committee considering the impacts of the bill. The bill was not introduced to the Senate after it became clear that the government did not have the numbers required in order for it to be passed and the new Federal Government elected in May 2022 has made it clear it has no intention of introducing legislation of this kind.

Any regulation which is introduced by the current Federal Government is likely to be favourable to the pursuit of funded Class Actions with the Attorney General indicating publicly that his government sees both litigation funding and Class Actions as promoting access to justice for ordinary Australians.

The actions of LCM in being closely involved in (and indeed responsible for) changes to the regulatory landscape demonstrate our position as a market leader in Australia and our proactive approach to government relations where required.

Change in economic conditions

The recent changes to global economic conditions as we enter an environment of higher inflation, increased interest rates and economic pressure are being keenly felt in Australia where all pandemic related government support for business has ceased and the rate of insolvencies is now up to pre-pandemic levels and is anticipated to continue to increase. LCM has a long history of the funding of insolvency related disputes in Australia and this experience coupled with its deep relationships means that it is uniquely placed to take advantage of these altered economic conditions over the next financial period.

Corporate disputes

LCM has been building its strategy for the funding of corporate disputes with 73% of its portfolio in Australia now being corporate disputes. The law firms with whom LCM works are increasingly educated in LCM's product offering in this regard and are able to make recommendations to their clients and introductions to LCM. In addition to generating these investments via law firms LCM has been identifying the corporates most suitable for this product and targeting them directly. Recently LCM has seen take-up of its corporate offering in Australia by corporates in the infrastructure, mining, and construction sectors.

Asia

- LCM is a market leader in Singapore
- Increasing interest the funding of insolvency disputes in Asia
- Applications were broadly in line with the prior year despite Singapore only ending lockdown restrictions in April 2022.

LCM has now been operating in Singapore since 2018 being one of the first litigation funders to open following the legislative changes to allow the funding of international arbitration. From 28 June 2021, Singapore expanded the permitted use of disputes funding to include:

a. domestic arbitrations
b. court proceedings arising from or connected with domestic arbitrations
c. proceedings commenced in the Singapore International Commercial Court
d. mediation proceedings relating to any of the proceedings above.

LCM is currently funding the first domestic arbitration brought pursuant to this change in the rules.

LCM is recognised as a market leader in Singapore with our investment manager in Singapore, Roger Milburn, being recognised as Band 1 for funding of disputes in South East Asia (together with only one other individual). We have also built out our Singapore office adding an additional investment manager to the team in 2021.

We have seen an increased number of insolvency disputes being directed to our Singapore office for funding. Given the current economic conditions, we anticipate this activity will increase over the coming period. LCM is able to utilise its expertise across APAC to consider these applications and make offers to invest in these claims where they meet our investment criteria.

The increase in applications from our Singapore office during the period demonstrates the increasing importance of this office to LCM's global platform and the ever growing position of Singapore as the leading dispute resolution hub in Asia. Changes to the political situation in Hong Kong as well as continued pandemic restrictions in that country have had the result of Singapore achieving clear leadership in this regard and LCM anticipates continued growth in the funding of disputes generated from Singapore including arbitration, insolvency and International Commercial Court actions.

Financial Review

Delivering meaningful growth in our funds management business while also improving underlying performance and profitability.

"Our funds management business grew significantly with the launch of our second Fund, positioning us well for sustainable long-term growth."

Mary Gangemi
Chief Financial Officer

During the year markets were confronted with the challenges brought about by the geopolitical landscape which created economic uncertainty and volatility. As economies emerged from a tumultuous two-and-a-half years following the disruption caused by COVID, markets were faced with rising interest rates, surging gas prices and the highest inflation experienced in decades. Hospitality industries across the world have faced a number of challenges returning to pre-COVID business levels and several industries continue to experience disruption caused by various factors including industrial action and supply chain shortages. As a consequence of these uncertain conditions, economies across the world will likely see an uplift in corporate and social disputes at a time when businesses typically preserve capital for core business. We have observed a 25% uplift in applications in the second half of the fiscal year when compared to H1.

> We delivered improved underlying financial performance while maintaining momentum across our KPIs.

During the year LCM delivered meaningful growth across our key performance metrics building scale and sustainable long-term growth. Our first Fund of US$150 million is now fully committed across 26 projects and we have made significant progress in building scale across our Funds Under Management with Fund II raising approximately two-thirds of the targeted US$300 million from existing investors. Commitments towards the second Fund have commenced and we are aiming for a final close of the targeted size before the end of the calendar year. Our strong underwriting skills and investment selection expertise continue to support our financial performance with our 11-year historical IRR at 79% and 11-year ROIC of 163%. We experienced some delays in the resolution of balance sheet matters but expect organic cash flows from these matters to crystallise in the short to medium term, delivering meaningful profits in the future.

LCM standalone results

The performance of the business presented on pages 78 to 114 has been presented in accordance with the Australian Accounting Standards (AASB) and the International Financial Reporting Standards (IFRS).

AASB requires the consolidation of the Funds as LCM has exposure, or rights, to variable returns from its co-investment with the Funds. Consequently, third party interests have been consolidated in the financial statements on pages 78 to 114.

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

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

Income statement	Note	AASB as reported 30 June 2022 $'000	Fund interests* $'000	LCM-only 30 June 2022 $'000	AASB as reported 30 June 2021 $'000	Fund interests* $'000	LCM-only 30 June 2021 $'000
Revenue from contracts with customers							
Litigation service revenue	4	**47,350**	207	**47,143**	36,924	664	36,260
Performance fees	4	**53**	1	**52**	135	–	135
		47,403	208	**47,195**	37,059	664	36,395
Litigation service expense		**(16,343)**	(81)	**(16,262)**	(10,439)	(114)	(10,325)
Gross profit		**31,060**	127	**30,933**	26,620	550	26,070
Other income		**–**	–	**–**	–	–	–
Interest income		**1**	–	**1**	4	–	4
Expenses							
Employee benefits expense	6	**(8,841)**	–	**(8,841)**	(8,396)	–	(8,396)
Depreciation expense	6	**(65)**	–	**(65)**	(59)	–	(59)
Corporate expenses		**(3,599)**	–	**(3,599)**	(2,750)	–	(2,750)
Finance costs	6	**(4,703)**	–	**(4,703)**	(1,334)	–	(1,334)
Fund administration expense	6	**(3,169)**	(2,369)	**(800)**	(1,153)	(685)	(468)
Total expenses		**(20,377)**	(2,369)	**(18,008)**	(13,692)	(685)	(13,007)
Profit before income tax		**10,684**	(2,242)	**12,926**	12,932	(135)	13,067
Analysed as:							
Adjusted operating profit		**20,165**	127	**20,038**	16,384	550	15,834
Non-operating expenses**	6	**(4,778)**	(2,369)	**(2,409)**	(2,118)	(685)	(1,433)
Finance costs	6	**(4,703)**	–	**(4,703)**	(1,334)	–	(1,334)
Profit before income tax expense		**10,684**	(2,242)	**12,926**	12,932	(135)	13,067
Income tax expense	7	**(4,040)**	–	**(4,040)**	(4,069)	–	(4,069)
Profit/(loss) after income tax expense for the period		**6,644**	(2,242)	**8,886**	8,863	(135)	8,998
Profit for the period is attributable to:							
Third party interests in the Fund		**(2,242)**	(2,242)	**–**	(135)	(135)	–
Owners of Litigation Capital Management Limited		**8,886**	–	**8,886**	8,998	–	8,998
		6,644	(2,242)	**8,886**	8,863	(135)	8,998
Other comprehensive income for the year, net of tax		**(2,535)**	(432)	**(2,103)**	(1,377)	105	(1,482)
Total comprehensive income for the period		**4,109**	(2,674)	**6,783**	7,486	(30)	7,516

* Third party interests.

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

Revenue from contracts with customers reflects the consideration to which the Group is expected to be entitled in exchange for transferring services to a customer. (See further detail on revenue from contracts with customers page 89.)

LCM continues to recognise revenue in line with AASB 15 *Revenue from Contracts with Customers*. Revenue is recognised at the point we achieve a successful resolution for the client and have satisfied our performance obligations. At this stage we have an unconditional right to consideration. As the portfolio is still relatively modest in size, one or two investments shifting into the next financial reporting period can have a material impact. This does not mean the investment has suffered a loss, it is simply a shift from one period to the next. The investments we make are held on our balance sheet at cost and consequently the true intrinsic value of our portfolio of investments is not reflected in our balance sheet. While we expect this to have a less significant effect on profitability as the portfolio grows, the performance of the business should be assessed together with our key performance metrics such as growth in commitments and assets under management, to provide an accurate representation of the performance of the business during the year and future long-term sustainable growth.

Litigation service revenue – as consideration for providing litigation management services and financing of litigation projects, the Group receives either a percentage of the gross proceeds of any award or settlement of the dispute, or a multiple of capital deployed, and is reimbursed for all invested capital. Revenue, which includes amounts in excess of capital deployed and the reimbursement for all invested capital, is not recognised as revenue until the successful completion of the litigation project; i.e., complete satisfaction of the performance obligation, which is generally at the point in time when a judgement has been awarded or on an agreed settlement between the parties to the litigation, and therefore when the outcome is considered highly probable.

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

The business of litigation finance involves a series of investments into disputes which historically take, on average, approximately 27 months to complete. Those investments may mature before or after that monthly average and our expectation is that time to resolution will increase to between 36 and 42 months in the future. Consequently, it is exceptionally difficult to predict the timing of when such realisations take place. They are largely controlled by the underlying parties to the dispute and the court or tribunal adjudicating their dispute. LCM's investments vary in size and through industry sector and jurisdiction, therefore the revenue recognised can be infrequent and may flow through to profits at irregular intervals. This results in profit fluctuations from one year to the next rather than an even and linear increase in profits from year to year. Additionally, accounting for revenue under IFRS 15 means that revenue is only recognised at the point we have satisfied our performance obligation and have an unconditional right to revenue. Consequently, to accurately interpret the performance of the business, it is critical to measure growth by assessing profits for the year alongside the progress of our key performance metrics, as these metrics provide a more accurate indication of the scale of growth in our underlying portfolio of investments and better reflect the intrinsic value of the underlying assets.

Adjusted profit before tax inclusive of third party interests was A$20.2 million which was up 23% on the prior financial year. LCM's business benefits from being counter-cyclical to the market, meaning we tend to observe an increased demand for funding during times of economic uncertainty when companies preserve capital for core business operations. Disputes are largely unaffected as courts and tribunals will continue to operate and progress matters, despite changing conditions in the wider market.

A reconciliation of adjusted profit is provided below:

Income statement	AASB as reported 30 June 2022 $'000	AASB as reported 30 June 2021 $'000
Statutory profit before tax	**10,684**	12,932
Add:		
Transaction costs	**401**	174
Share-based payments	**256**	316
Other expenses	**80**	31
Non-recurring consultancy fees	**183**	358
Litigation fees	**689**	86
Finance costs	**4,703**	1,334
Third party fund costs	**3,169**	1,153
FY22 adjusted operating profit	**20,165**	16,384

LCM only cash on balance sheet as at 30 June 2022 was $29.3 million and long-term borrowings was $54.9 million, compared with $35.5 million and $37.2 million respectively for the same period in 2021. This is a direct reflection of the growth in investments during the period in both LCM's direct investments as well as investments in the Fund alongside third party investors.

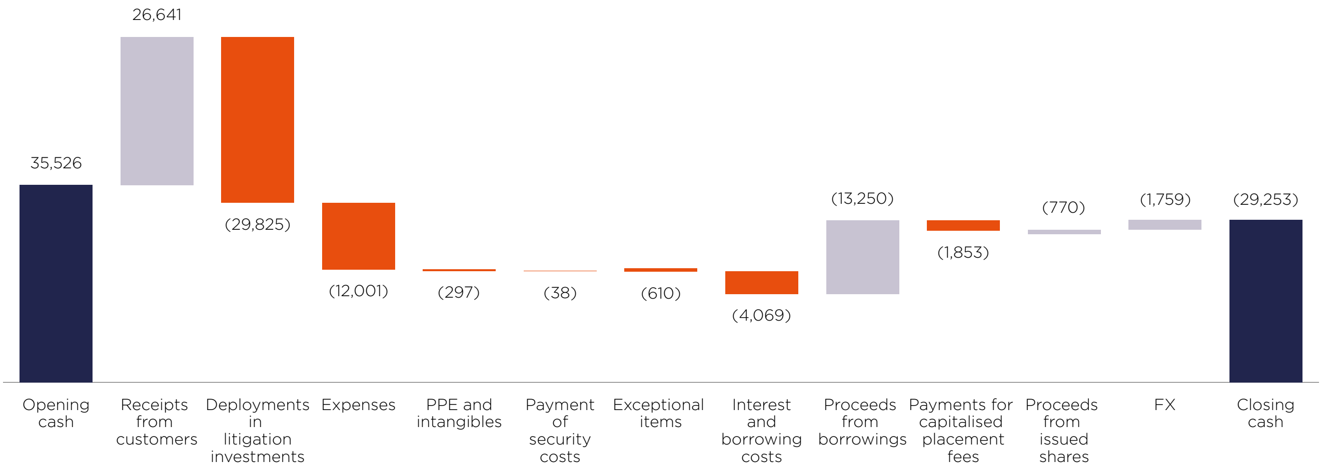
Statement of financial position	AASB as reported 30 June 2022 $'000	Fund interests** $'000	LCM-only 30 June 2022 $'000	AASB as reported 30 June 2021 $'000	Fund interests* $'000	LCM-only 30 June 2021 $'000
Current assets						
Cash and cash equivalents	**49,964**	20,711	**29,253**	49,736	14,210	35,526
Trade and other receivables	**34,491**		**34,491**	13,843		13,843
Contract costs	**21,634**		**21,634**	16,663		16,663
Other assets	**614**	(624)	**1,238**	616	(23)	639
Total current assets	**106,703**	20,087	**86,616**	80,858	14,187	66,671
Non-current assets						
Contract costs	**162,763**	83,130	**79,633**	117,895	45,956	71,939
Property, plant and equipment	**182**		**182**	186		186
Intangible assets	**646**		**646**	391		391
Other assets	**249**		**249**	284		284
Total non-current assets	**163,840**	83,130	**80,710**	118,759	45,956	72,800
Total assets	**270,543**	103,217	**167,326**	199,614	60,143	139,471
Liabilities						
Current liabilities						
Trade and other payables	**12,908**	5,817	**7,091**	12,392	4,378	8,014
Borrowings	**14,494**	14,494	**–**	13,253	13,253	–
Employee benefits	**700**		**700**	452		452
Total current liabilities	**28,102**	20,311	**7,791**	26,097	17,631	8,466
Non-current liabilities						
Deferred tax liability	**11,513**		**11,513**	7,543		7,543
Borrowings	**54,915**		**54,915**	37,171		37,171
Employee benefits	**227**		**227**	148		148
Third party interests in consolidated entities	**81,780**	86,794	**(5,014)**	39,764	43,725	(3,961)
Total non-current liabilities	**148,435**	87,694	**61,641**	84,626	43,725	40,901
Total liabilities	**176,537**	107,105	**69,432**	110,723	61,356	49,367
Net assets	**94,006**	(3,888)	**97,894**	88,891	(1,213)	90,104

* Elimination of third party interests in Fund I.
** Elimination of third party interests in Fund I and Fund II.

Cash flow

LCM cash generated from the resolution of matters during the period was $26.6 million, as compared to $37.5 million in FY21; this was primarily as a result of resolutions materialising just before the financial year end. Payments related to capital invested was $29.8 million, compared to the same prior period in FY21 of $47.6 million. The following waterfall is exclusive of third party fund interests.

LCM ONLY CASH FLOW FY21-22 ($A)



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

- investment commitment was A$104 million inclusive of third party funds, decreasing marginally from A$109 million in FY21;
- the 11-year cumulative portfolio Internal Rate of Return (IRR) was 79%;
- 11-year cumulative portfolio Return on Invested Capital (ROIC) was 163%;
- applications received decreased to 442 from 572 in FY21, a decrease of 23%;
- gross profit increased by 17% to A$31.1 million from A$26.6 million;
- statutory profit before tax decreased by 17% to A$10.7 million from A$12.9 million. On an LCM only basis (excluding third party interests) profit before tax was broadly in line with the prior year at A$12.9 million compared to A$13.1 million in FY21; and
- adjusted operating profit increased by 23% to A$20.2 million from A$16.4 million in FY21 and increased by 27% to A$20.0 million compared to A$15.8 million in FY21 exclusive of third party interests.

Revenue

Gross revenue increased by 28% to A$47.4 million during the period compared to A$37.06 million in FY21. Litigation service expenses (investments in realised disputes) increased by 57% to A$16.3 million during the period from $10.4 million in FY21, resulting in an increase of 16.7% in gross profit to $31.1 million from $26.6 million.

REVENUE BY INVESTMENT STRATEGY

	Litigation revenue 30 June 2022 $'000	Number of investment/ projects	Number of cases	Litigation revenue 30 June 2021 $'000	Number of investment/ projects	Number of cases
Single cases – completed	**43,557**	4	**4**	24,860	1	1
Single cases – ongoing	**1,397**	6	**6**	444	4	4
Law firm portfolios – ongoing	**-**	–	**-**	728	1	1
Corporate portfolios – ongoing	**814**	1	**14**	3,586	2	12
Insolvency – completed	**1,567**	2	**2**	5,022	5	5
Insolvency – ongoing	**15**	1	**1**	2,283	3	8
Other	**53**	1	**1**	136	2	1
Total	**47,403**	15	**28**	37,059	18	32

As illustrated in the table above, the variability of returns fluctuates significantly between one investment and the next irrespective of the investment type. The ability to accurately forecast profitability is impracticable without the detail supporting the underlying data specific to each matter. Each case is unique based on the investment type, duration to completion, jurisdiction, cost and merits.

	Litigation revenue 30 June 2022 $'000	Litigation revenue 30 June 2021 $'000
APAC	**27,985**	32,536
EMEA	**19,418**	4,523
Total	**47,403**	37,059

Revenue during the year increased by 28% to A$47.4 million when compared to A$37.1 million the prior year.

Portfolio update

Capital invested during FY22 was $66.2 million, inclusive of $37.3 million of third party fund investment, a decrease on FY21 which was $88.0 million inclusive of $39.5 million of third party investments. LCM's ability to originate investment opportunities and deploy capital is a measure of its growth and future performance as the value of our future profits is derived from the capital we deploy in our investments at the time a resolution is achieved. We observed further delays in cases this year but this does not indicate a loss but rather a shift from one period to the next. With delays often comes a ratchet increase in the multiple on invested capital deployed to date, so delays in some circumstances will enhance our returns further. Despite these delays, LCM continued to demonstrate its ability to maintain progressive momentum year on year.

As at 30 June 2022 there were 24 direct balance sheet investments under management, inclusive of five recoveries matters, and 25 ongoing investments co-invested alongside Fund I and 2 matters in Fund II. Of the total 51 investments, 45 were unconditionally signed. As at 30 June 2021 there were 21 direct balance sheet investments and 20 investments co-invested alongside the Fund. This comprised 44 unconditionally funded investments.

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

Financial performance

During the year we had two material investments move into future financial periods. The uncertainty of timing with respect to our portfolio of investments is still present, however as we grow scale the impact this has on our financial performance will become less significant. Delays should not be taken as a direct shift of the matters into the following period as the collective portfolio and timing of resolutions is continually assessed based on how investments are progressing through either the court or arbitral cycle. The performance of the business during the earlier stages of growth should be reviewed alongside our key performance metrics which provide a more accurate representation of the momentum achieved during the period.

The nature and complexity of the assets we invest in means they are subject to external factors beyond LCM's control. We rely on our rigorous investment selection process, extensive experience at inception of an investment and active project management of the investments through to their completion; however delays either through the court or tribunal, or awards and negotiated settlements between parties, can provide a myriad of possible outcomes for a dispute. Despite this, LCM still delivered a strong set of results primarily attributable to its 100% direct balance sheet portfolio. The Group's overall gross revenue of A$47.4 million, inclusive of A$0.2 million of third party fund revenue, was up 28% compared to A$37.1 million in the prior financial period.

Gross profit of A$31.1 million, inclusive of A$0.1 million of third party fund gross profit, represented an increase of 17% compared to A$26.6 million in FY21.

The Group generated a statutory profit before tax of A$10.7 million, inclusive of third party fund costs of A$2.2 million representing a decrease of 17% on the prior financial year. On a LCM stand-alone basis which excludes third party costs, statutory profit before tax was A$12.9 million which was marginally down by 1% on FY21 which was $13.1 million.

Operating expenses of $10.9 million increased by 6% compared to $10.2 million in FY21. We expect to see an increase in operating costs as we expand, however these are expected to remain in line relative to the size of the portfolio under management.

Non-operating expenses of $4.8 million include $2.4 million of costs related to the third party funds which have been consolidated to comply with AASB standards but are not attributable to LCM, $0.8 million of amortisation costs related to placement fees; $0.2 million related to share-based expenses, $0.2 million related to non-recurring consultancy costs, $0.4 million related to fund costs attributable to LCM, $0.7 million related to legal fees and $0.1 million related to other expenses (see note 6).

We have made significant progress in building the foundations for sustainable long-term growth through the launch of our second and larger Fund.

We have made significant progress in building the foundations for sustainable long-term growth through the launch of our second and larger Fund.

Finance costs

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

Dividend

The Board remains committed to returning to the payment of a dividend as a matter of fiscal discipline. The ongoing uncertainty in global markets caused by geopolitical unrest continues to impact most sectors. As governments start to look at measures to curb inflation, there is an expectation that the impact will ricochet across several industries and will likely lead to an increase in restructuring and insolvency related disputes. At this stage, the Board has made the decision that no dividend will be paid, to preserve cash to meet any increase in demand for investments in order to accelerate growth in our portfolio.

The Board will continue to assess global market stability to determine the appropriate level of dividend based on profitability, cash flows, growth and available capital. Shareholders should not interpret the Board's current stance as a change in policy relating to dividends.

Mary Gangemi
Chief Financial Officer

Risk Management and Internal Controls

An integral part of our business' success is our ability to identify and manage risk.

Risk management

As we evolve we develop our approach to risk management. Our ability to identify, assess, manage and monitor risk is a key component to our success. We continually acquire new skills over time which further develops our investment approach, enabling us to continue to make effective investment decisions which translate to increased returns, allowing us to reinvest and grow. The controls we have aim to manage and mitigate risk and seek to encourage open communication. These controls provide reasonable, not absolute, assurance against loss and do not eliminate risk entirely.

Risk management framework

The Board retains ultimate responsibility for risk management and sets the Group's risk appetite. The Board delegates responsibilities to the Risk and Audit Committee and day to day oversight to the Executive Management team. The Executive Management team, led by the Group CEO, monitor and manage the risks appropriate for the business within the boundaries set by the Board. The Board also recognises that effective risk management requires commitment of people throughout the business and encourages a culture of open communication. The Board continues to develop and implement a comprehensive conduct framework which focuses on mitigating the risk of poor performance or other conduct risks.

Our proven risk management process involves applying our investment selection criteria to each and every investment both at the time of making an investment decision and continuously for the life of each investment. This process has developed over our history and demonstrates a clear understanding of what is likely to constitute a successful and profitable litigation project. This process is central to the discipline LCM has shown when sourcing potential investments, which has been fundamental to our financial strength.

Across all core legal claim sectors we operate in – commercial claims, class actions, insolvency, arbitration and corporate portfolios – LCM's investment managers consider applications for financing against our five key criteria:

1. **proportionality** – there must be proportionality between the size of the claim and the funding commitment. Many applications for funding are instantly dismissed on the basis that it would not be commercially viable for LCM to fund them;

2. **clear legal principles** – the claim must be based on clear legal principles and not any novel or uncertain points of law;

3. **written evidence** – the claim should be supported by clear evidence that is documentary in nature, not oral;

4. **recoverability** – there must be a clear line to recovery for the claim and it must be demonstrated that the defendant has the capacity to meet a judgement of the size that will be brought; and

5. **experienced legal team** – there must be a highly competent and experienced legal team in place with the relevant expertise to pursue the claim.

As a result of following these criteria, LCM only provides funding to between 3–7% of applications received. This process forces restraint when making investment decisions and mitigates the risk of financial loss and the temptation of an unnecessary acceleration of growth.

Each litigation investment that LCM enters into is managed by an investment manager, who is responsible for ensuring that the investment continues to meet the key criteria and is expected to achieve the investment return at the likely completion date. If a litigation project no longer meets the key criteria, LCM has the ability to exit the investment and will seek to do so in order to preserve its capital.

Financial reporting processes

We maintain policies and procedures to facilitate accurate and timely record keeping which provides a true and fair view of our business performance. Our strong internal control and risk management framework ensures the integrity of our business and the quality of the information we produce. Finance members in our Sydney and London offices provide an additional layer of oversight with an aim of creating alignment between origination, treasury, finance and corporate reporting in an effort to minimise volatility between forecasting and the completion of projects. Finance will provide the investment management teams with information on existing projects and their investment pipeline, enabling the team to participate in the review of our portfolio's performance on an ongoing basis.

LCM has robust controls around payments that incorporate both internal and external systems and ensure accurate and timely maintenance of records. These controls provide reasonable assurance that payments have been approved through the correct authorisation channels and we continue to look at ways to strengthen our existing controls to deal with the increasing threats of cyber security. Our internal policies and procedures also ensure that transactions are recorded in the necessary manner to enable compliance with International Financial Reporting Standards (IFRS) and the Australian Accounting Standards Board (AASB).

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

Principal risks and uncertainties

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

The integrity of our business and quality of the information we produce relies on the strength of our internal control and risk management framework.

Risk	Mitigation	Movement
Strategic risk		
Changing market conditions/increased competition		
Increased competition globally could reduce the number of available investment opportunities or reduce margins if competition drives a reduction in pricing.	During the past year, we have seen an increased interest and understanding of our sector. Additionally, in June 2021, Singapore expanded the permitted use of disputes funding, which increases the opportunities available to us in a market we are well established in and continue to develop. We differentiate ourselves through our three primary strategies which allow us to diversify our offering. Continuous innovation allows us to operate across the entire spectrum and provide funding solutions to counterparties who use LCM out of both choice and necessity. Our experience, which is reflected in our longstanding track record, puts us in a good position against other peers in the market. The global addressable market for disputes financing is extremely large and remains hugely underpenetrated.	●
Ability to raise third party capital		
Failure to raise third party capital could significantly impede growth opportunities potentially presenting competitors with an advantage to monetise on missed opportunities.	LCM has a $US50 million Facility Agreement which provides the Group with added capital flexibility to grow its investment portfolio. Additionally, we continue to look at innovative solutions and attractive investment options to expand our investor reach. Our current portfolio is well progressed and we have fully committed Fund I which we expect to materialise organic cash flows in the short to medium term. Additionally, we have raised a second Fund with a target of US$300 million. All investors in Fund I have participated in our second Fund. This places us in a strong position for growth.	▼
Deployment of capital		
Failure to invest capital in a timely manner can have an adverse effect on the performance of our portfolio and the returns to our underlying investors. It could also be detrimental to our ability to raise further capital.	LCM has proven its capacity for deployment by the commitment of Fund I within the commitment period. In terms of capital commitment, our origination strategy is designed to ensure the continued growth of our investments.	▼

Risk	Mitigation	Movement
Investment risks		
Failure to invest capital selectively and successfully can lead to reputational damage and may cause adverse financial losses.	LCM continues to maintain a robust and disciplined investment selection process. LCM provides funding to only between 3–7% of the applications it receives. LCM places great significance on maintaining performance in line with our historical levels. Our rigorous investment process includes peer review by our team of highly experienced investment managers as well as external expert advice to ensure strict adherence to our investment criteria. This process demonstrates LCM's restraint from the temptation of unnecessary growth which may not create long-term value for shareholders and investors. LCM measures all investment opportunities against its environmental, social and corporate governance statement. We also limit our investment risk by ensuring we maintain a balanced portfolio of investments by jurisdiction, industry sector and capital commitment. Current instability in global markets is likely to lead to increased insolvency and bankruptcy. This is a factor that continues to attract attention and is likely to result in increased opportunity for investment by LCM.	▼
Operational risk		
Loss of key personnel		
Our employees are fundamental to our success. Failure to attract and retain highly skilled and experienced investment managers could have a negative impact on the success of our investments. Additionally, the loss of staff could cause disruptions to our ability to deliver to our strategic objectives.	Executives remain focused on achieving high levels of staff satisfaction and regularly consider succession planning. Staff are encouraged to take relevant training or professional development throughout the year. We continue to invest in our workforce and look to hire talent that can contribute to the success of our business. We have a robust recruitment process in place and offer competitive remuneration alongside long-term incentive schemes which we monitor and develop to remain competitive. We continuously carry out peer reviews and appraise the due diligence and underwriting techniques as well as investment monitoring. In addition, LCM monitors the performance of all staff including investment managers to ensure the highest level of performance, integrity and diligence.	●
Loss of key customer relationships		
The risk of financial loss as a result of losing key relationships. This could have an adverse effect on our ability to generate new business through our longstanding relationships with law firms and insolvency practitioners.	Our clients, shareholders and investors are at the heart of everything we do. With LCM's longevity in the markets in which we operate, the key relationships that we have are deep and longstanding. We continue to develop and cultivate these relationships with existing clients. We also continuously seek to develop new alliances. We serve clients fairly and always maintain a transparent relationship. Equally, the skill and experience of service providers and in particular, law firms providing legal services is fundamental to our successful performance and to the delivery of our objectives. LCM continues to monitor service provider risk through its investment managers and through its due diligence and underwriting policies. Additionally, we have observed that during times of market instability people tend to rely more on existing relationships.	▼

Risk	Mitigation	Movement
Disruption to systems		
Disruption to our systems could impact our ability to operate. It could also result in a reduced level of service to our clients. An attack on our systems could jeopardise the security of the firms and/or client data which in turn could cause reputational damage.	LCM operates on a cloud based system providing flexibility and operational resilience. During the pandemic our business continuity and disaster recovery plan has delivered a stable platform for all staff globally, in light of the challenges faced as a result of COVID and working from home. We monitor and test our continuity and disaster recovery plan to ensure it operates effectively and in line with our requirements. We have continued to invest in and upgrade our information technology systems to ensure that we continue to work efficiently with minimal risk of disruption or loss of data.	●
Cybercrime, fraud or security breaches		
This risk of failure to protect our Information Technology systems and confidential information related to our clients and litigation matters, which could lead to a breach in our data protection obligations or cause loss of data or financial loss.	As part of our global expansion we moved our data from local external servers to a major global cloud based vendor. We continue to monitor and assess our compliance with requirements of the General Data Protection Regulation (GDPR) for privacy issues adjustments. Our servers are held externally with a major global cloud based vendor to better align with our global expansion and comply with requirements of the GDPR for privacy issues. We continue to upgrade our defences for cyber security as the threat of cybercrime continues to challenge businesses globally. We adhere to all AML (Anti Money Laundering) and KYC (Know Your Customer) checks required and continue to monitor these with real time data and feedback on customers and investors. During the year we enhanced our risk mitigation by putting in place additional cyber insurance.	●
Regulatory risk		
Regulatory risk arises as a result of both the regulations specific to the jurisdictions in which we operate and the laws in those jurisdictions. Additionally, each country in which we operate may look to further regulating the industry in which we operate, which could lead to disruption of our business operations and have adverse impact on the potential to generate profits.	In many jurisdictions, with the exception of Singapore and Hong Kong, litigation financing is almost entirely unregulated or regulation is light touch. In Singapore and Hong Kong, there is a light regulatory regime which is monitored for continued compliance. The Full Federal Court in Australia recently reversed its previous decisions of classifying funded Class Actions as 'Managed Investment Schemes' reducing the regulatory burden on litigation funders in Australia. This was as the result of a proceeding which was brought by LCM. Litigation funders are still required to maintain an Australian Financial Services Licence (AFSL) if they are involved in the funding of Class Actions, which LCM already holds. Management continue to monitor the changing regulatory landscape to ensure LCM remains in a position to operate without hindrance. The recent change to the Federal Government in Australia is likely to result in regulation which is positive to litigation funding and Class Actions as this government has publicly stated its support for both, noting that litigation funding promotes access to justice. Management actively monitors changes in the law in various jurisdictions on an application by application basis; and if there are legal issues which arise particular to a jurisdiction, external advice is obtained.	▼

Risk	Mitigation	Movement
Financial risks		
Liquidity		
Liquidity risk is the risk the Company has a lack of sufficient resources, readily realisable assets or access to capital at commercially viable terms to continue to make investments or meet its current obligations. This could have an adverse effect on the value of investment assets.	Finance closely monitors liquidity and cash flow to ensure the Company continues to operate within the risk appetite set by the Board. The Finance function actively monitors and manages working capital to enable the Company to meet its obligations as they fall due. The Company utilises its credit facility to supplement the balance sheet. Finance closely manages all financial covenant and reporting requirements with respect to the facility, to ensure compliance is maintained at all times. LCM maintains a strong balance sheet with organic cash generation from investments reaching maturity expected to materialise in the short to mid term. Additionally, LCM has significant discretion in relation to its investments including the contractual right to cease funding where the prospects of the claim have changed or the economic viability of the investment has deteriorated.	▼
FX risk		
Foreign exchange risk is the risk that LCM will sustain losses due to adverse movements in currency exchange rates which may arise from transactions and investments denominated in foreign exchange currencies.	Finance monitors the currency risk associated with respect to the timing for both the budget deployment for litigation projects and the expected return of those costs and our contractual return. Additionally, consequent to entering into a USD credit facility, Finance regularly reviews its overall FX exposure and assesses any hedging requirements needed to mitigate FX risk. We keep a proportion of our cash in the currencies in which we expect the majority of these expenses to occur, to best manage the impact of foreign exchange risk caused by rate movements. LCM does not hedge the expected return from litigation projects given the tenor of this exposure.	●
Credit risk		
Exposure to financial losses to LCM as a result of a client's inability to pay its obligations due for services received.	As part of the initial stages of LCM's investment process, Investment managers ensure there is clear line to recovery for the claim and it must be demonstrated that the defendant has the capacity to meet a judgement of the size that will be brought. This is a detailed analysis which may involve obtaining an asset tracing report or considering the detailed terms of an insurance policy. This analysis in relation to recovery is also monitored over the life of each of LCM's investments to ensure there has been no change to the initial analysis. In addition, all of LCM's litigation funding contracts require that any recovery on the investment be paid into a solicitor's trust account or escrow account. The funded client is not entitled to be paid any part of this recovery until LCM has been paid the amount it is owed on its investment. The solicitors directly contract with LCM to distribute the funds in accordance with these terms.	●
Adverse costs		
In certain jurisdictions in which LCM operates, it provides an indemnity as against an adverse costs result. That means that LCM underwrites the risk of an unsuccessful litigant being ordered to pay the successful litigant's legal costs.	On most occasions, in those jurisdictions where that service is offered, the risk is laid off through after-the-event insurance. This is an insurance policy taken out in the name of LCM which covers it for this adverse cost risk. Where there is no risk of a costs order being made for which LCM would be liable to pay, LCM expressly disclaims any liability for adverse costs in its litigation funding contract.	●

Sustainability Report

Environmental, Social and Governance (ESG)

With a growing focus on Environmental and Social practices, our business is contributing towards positive social outcomes, while promoting strong corporate governance.

We provide funding for a number of social and environmental matters which aim to deliver justice and financial compensation to parties adversely affected by unjust or unlawful activities.

People

During the past two years companies and people across the world have had to adapt to significant changes following more than two years of lockdown coupled with geopolitical unrest. This required us to consider how best to provide our staff with greater flexibility while sustaining high performance, a collaborative work environment and motivating staff.
The staff at LCM have shown a new-found resilience and continue to find ways to innovate when confronted with the rapidly changing environment. We place great value on our staff who are fundamental to our success. We aim to attract and retain highly talented staff who generate value and create a sustainable business. We treat all our employees fairly and ethically and we aim to provide an environment in which all our employees feel valued, engaged, safe and can perform to the utmost of their abilities. We conduct appraisals and encourage an open dialogue with management at all times. The appraisal process is designed to improve performance by articulating individual goals and providing feedback on performance. Professional development is encouraged and ensures employees remain motivated, incentivised and working.

Diversity and inclusion

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

Corporate governance

LCM adopts the Quoted Companies Alliance Code ('QCA Code') which applies a principles based approach to good Corporate Governance. LCM has an independent Chairman and Board who are responsible for ensuring we operate ethically and transparently. LCM's business continues to evolve and we aim to strengthen and develop our governance framework to ensure it is relevant to the business as it grows. More details on our Board, Committees and how we comply with the QCA Code can be found on pages 56 to 60. Strong corporate governance is crucial to the success of our business.

Community and charities

Our people are involved both at an individual and Company level in various charities supporting the broader communities in which we operate.

Contributing to our community

Redfern Legal Centre and Aboriginal Legal Service

During the period LCM agreed to enter into a Deed of Guarantee to cover any adverse costs associated with a matter being pursued by a community legal centre where a number of people were incorrectly issued with fines between $1,000 to $3,000 for an offence under the Public Health Act (NSW) 2010 for failure to comply with restrictions imposed during COVID-19. These fines are alleged to have been incorrectly issued according to the law and impacted people already suffering from the economic impact of COVID and exposed them to further debt. The fines were seen to have been targeting people in communities which were already disadvantaged or marginalised for very minor alleged infringements.

KidsOut

LCM was a proud supporter of the UK charity KidsOut dedicated to bringing fun and happiness to disadvantaged children across the UK. The charity provides toy boxes, days out, workshops and counselling for tens of thousands of vulnerable children, enhancing their welfare.

Public Interest Advocacy Centre

We are pleased to be able to continue to support the Public Interest Advocacy Centre (PIAC) in FY23, an Australia-based non-profit organisation that tackles difficult social problems impacting the lives of many Australians. In bringing public interest litigation, many of PIAC's clients assume the risk of an adverse costs order if they are unsuccessful in court. This is a powerful disincentive to carrying on litigation. This is particularly so where the benefits to the broader community are significant, but the benefits to the individual plaintiff/applicant are minimal. Many of PIAC's clients are unable or unwilling to risk their modest assets or income in this situation. The project partners for the Adverse Costs Order Guarantee Fund utilised by PIAC are litigation funders with experience in the investigation, funding and management of litigation claims. They have a commitment to social justice and advancing the public interest by supporting litigation that aligns with their values and goals. The project partners each agree to commit an amount towards protecting PIAC clients from adverse cost orders, in respect of claims commenced.

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

LCM is proud to be lending its support to PIAC by providing a contribution towards an indemnity against an adverse costs event by way of the Adverse Costs Order Guarantee Fund. We are able to provide that support to PIAC because it fits within LCM's core skillset and experience. LCM is able to make an assessment of the merits of the test cases in a similar way that it would make an assessment of the prospects of success of any other investment that LCM might make in the core conduct of its business.

In the last financial year, the Adverse Costs Order Guarantee Fund has provided support for the following claims:

- ensure access to health in immigration detention, by challenging the pervasive practice of the use of handcuffs to restrain detained asylum seekers when they attend medical appointments;
- improve access to education for children with disability, through a test case on behalf of an eight-year-old girl with autism, after she was banned from the school bus and ultimately expelled from her primary school; and
- improve access to public transport for people with disability, including on airlines and in airports across Australia.

Clients and stakeholders

We strive to develop and improve relationships with our clients and stakeholders. This is evident in the strong referral network we have built over the years with our law firms. We work hard to foster these relationships, which have contributed to our success over the years. We are proud that our clients and stakeholders have participated in the successful outcomes that they engage us to assist to achieve and this is evident in our track record.

We continue to work on improving the way we work in order to maintain high standards of risk management and compliance. We continue to monitor and develop our policies and procedures for data protection, anti-money laundering, and anti-bribery and corruption, as well as our regulatory obligations of being a listed entity; and provide adequate training to our staff as these develop. This ensures the interests of our clients and shareholders are always at the centre of what we do.

Shareholders

We place significant importance on our relationship with shareholders. We strive to maintain an open and transparent dialogue with our investors as often as practicable. Our shareholders are fundamental to the long-term success of our business. We aim to meet with shareholders to develop an understanding of their concerns and allow them the opportunity to have an open dialogue with management. We do this predominantly through one to one meetings and investor roadshows.

Environmental

The nature of our business is to help facilitate claimants in achieving justice. As part of our investment criteria we ensure that we pursue cases that will be given a fair trial (read more on our legal principles in our risk report on page 43) and don't disadvantage the claimant as a result of receiving funding (read more on proportionality in our risk report on page 43).

Our portfolio currently includes a number of matters which we are pursuing in an effort to bring justice to claimants who have suffered both financial loss and environmental damage, including:

- A class action brought on behalf of the Queensland fishing industry for loss and damage resulting from environmental damage resulting from the dredging of the Gladstone port.
- A class action brought on behalf of land owners who have suffered diminution in the value of their land as the result of contamination with the chemical PFAS used in nearby defence bases.

We remain committed to developing our ESG framework to promote environmental sustainability.

Governance

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

JONATHAN MOULDS
CHAIRMAN

Introduction to Governance

Our Board offers strong and diverse skills across various industries, while bringing a breadth of experience which will enhance the growth of the business as we embark on our next phase as an alternate asset manager.

The Board of LCM places great emphasis on the duty we have to our shareholders in ensuring we have a strong corporate governance framework in place. Corporate governance operates at all levels throughout the business to enable the business to operate efficiently. The Board is committed to delivering high standards of corporate governance and embedding the right culture and behaviour throughout the business. We are committed to enhancing and developing our practises to ensure they remain appropriate for our business at it evolves. The Quoted Companies Alliance has published a corporate governance code for small and mid-sized quoted companies, which includes a standard of minimum best practice for AIM companies, and recommendations for reporting corporate governance matters. From admission to the Alternative Investment Market (AIM), we have adopted the QCA Corporate Governance Code, having previously reported on our compliance with the ASX Corporate Governance Council's Principles and Recommendations. A description of the Company's corporate governance practices from admission are set out below.

Board of Directors

Jonathan Moulds
Non-Executive Chairman

Jonathan previously served as the Chief Operating Officer of Barclays PLC. Prior to his role at Barclays, he was head of Bank of America's European business until 2013 and became the Chief Executive Officer of Merrill Lynch International following the merger of the two institutions in 2008. He was a member of Bank of America's Global Operating Committee.

Jonathan has served widely on key industry associations including as Chairman of the International Swaps and Derivatives Association (ISDA) from 2004 until 2008 and as a Director of the Association for Financial Markets in Europe (AFME). Jonathan was a member of the Capital Markets Senior Practitioners of the UK Financial Services Authority and the Global Financial Markets Association.

Term of office
Joined the Board December 2018

Independent
Yes

Committee membership
Rem, Nom

External directorships and commitments
Chair of Citigroup Global Markets Limited (CGML) a subsidiary of Citi Group Inc.

Non-Executive Director of IG Group Holdings Plc

Member of AFME's Advisory Board

Dr David King
Non-Executive Director

David has a doctorate in geophysics/seismology, and was a founder and Executive Director of Eastern Star Gas Ltd. He has substantial natural resource related experience, having previously served as Managing Director of North Flinders Mines Ltd and CEO/Director of Beach Petroleum and Claremont Petroleum.

David is a Fellow of the Australasian Institute of Mining and Metallurgy, and a Fellow of the Australian Institute of Geoscientists.

Term of office
Joined the Board October 2015

Independent
Yes

Committee membership
ARC (Chair), Nom

External directorships and commitments
Non-Executive Director Renergen Ltd

Gerhard Seebacher
Non-Executive Director

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

Gerhard was more recently a partner at Brevan Howard Asset Management, a leading global macro hedge fund.

Term of office
Joined the Board August 2020

Independent
Yes

Committee membership
Rem Com (Chair)

Nom (Chair)

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

Strong corporate governance underpins our ability to deliver long-term success and in fulfilling our growth objectives. As a Board we strive to develop and enhance our governance as we evolve.

Patrick Moloney
Chief Executive Officer

Patrick Moloney is a veteran of the disputes funding industry with 19 years experience in the space. Patrick has been a Director of LCM since 2003 and the Chief Executive Officer of the Group since December 2013 based out of LCM's London Office. He is responsible for overseeing all litigation projects in which LCM has an investment and (as a Board member) for approving new litigation projects for funding. He has been involved in all aspects of the business including devising strategy for future growth, investor relations and corporate affairs. Patrick is one of the most experienced litigation financiers globally.

Prior to joining LCM, he was the principal of Moloney Lawyers, which he established in 2003 and specialised in commercial litigation.

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

Term of office
Joined the Board 2003

Independent
No

Committee membership
n/a

External directorships and commitments
–

Mary Gangemi
Chief Financial Officer

Mary has extensive senior management experience in financial services, having managed finance functions in the UK, Europe and Asia. Mary has extensive listed company experience and has been involved with a number of corporate transactions (both buy and sell side), and her involvement in several restructures, provides her with a strong background in change and people management.

Mary has a Bachelor of Commerce (Accounting and Finance), is qualified as a Certified Practising Accountant (CPA Australia), and has completed the Transition to General Management program through Executive Education at INSEAD.

Mary's previous roles at Investment Banks and Brokers include Bridgewell, Creditex and Canaccord. Most recently, she worked for IFG Group PLC, where she was part of the key management team that successfully sold the business to Epiris-Private Equity.

Term of office
Joined the Board February 2022

Independent
No

Committee membership
n/a

External directorships and commitments
–

The QCA Corporate Governance Code

Governance principles	Compliant	Application of code	Further reading
Principle 1			
Establish a strategy and business model which promote long-term value for shareholders	✓	LCM's strategy focuses principally on growth and is built around four core principles: • Maintaining a balanced portfolio • Providing funding for new claim types • Focus on expansion • Ensuring access to capital and funding match LCM's current and future pipeline LCM considers the most important aspect of its business to be its people, who implement its strategy through the identification and assessment of litigation projects for financing.	Full disclosure of the strategy is detailed in LCM's Strategic Report on pages 24 to 25
Principle 2			
Seek to understand and meet shareholder needs and expectations	✓	The Board acknowledges the importance of relationships with shareholders and seeks regular interaction with major shareholders to ensure their requirements and opinions are conveyed to the Board. Our shareholders are fundamental to the long-term success of our business and we place significant importance on our relationship with them. We strive to maintain an open and transparent dialogue with our investors as often as practicable, ensuring they understand our overall strategy and how we are delivering against them. We do this through one to one meetings, capital market days and investor roadshows. LCM intends to continue to use its annual general meeting ('AGM') as an opportunity to engage with its shareholders and seek their input on the management of LCM. LCM undertakes a number of steps to seek to maximise shareholders' ability to participate in the AGM process.	See pages 49 to 51 for more details
Principle 3			
Take into account wider stakeholder and social responsibilities and their implications for long-term success	✓	LCM gives serious consideration to the impact our business activities may have, not only on our clients and employees, but also in the local communities in which we operate. It goes without saying that our people are our business and are fundamental to LCM's long-term success and to delivering shareholder value. We treat all our employees fairly and ethically and we aim to provide an environment in which all our employees feel valued, engaged, safe and can perform to the utmost of their abilities. Staff retention is important at LCM and we continue to focus on the development of our employees and ensure that they remain motivated and incentivised. We ensure that everyone is treated equally and foster an equal opportunities approach to hiring. Our work environment is one that supports diversity and we aim to recruit the most suitable candidates with the right skillset for the role, regardless of their gender, nationality or ethnic background. In Australia, LCM is a partner of the Adverse Costs Order Guarantee Fund (ACO Fund) which has been established by the Public Interest Advocacy Centre (PIAC).	See further information on our involvement in PIAC on pages 49 to 51

Governance principles	Compliant	Application of code	Further reading
Principle 3 *continued*			
Take into account wider stakeholder and social responsibilities and their implications for long-term success *continued*	✓	The ACO Fund aims to promote access to justice for public interest litigation by responding to the significant barrier that is posed by the risk of an adverse cost order. There is no financial return to LCM from the ACO Fund and our involvement represents our commitment to supporting social justice and public interest litigation. The Board has a significant role to play in ensuring longevity of the business through sustainable long-term growth and development strategies. The Group's strategy means that it will rely on the networking ability of executive and senior management as well as employees to maintain active contacts and communications with legal professionals, other professionals and business and financial parties in order to provide it with Litigation Projects. LCM takes feedback from its stakeholders into account when making decisions and taking actions.	
Principle 4			
Embed effective risk management, considering both opportunities and threats, throughout the organisation	✓	LCM has a proven and robust risk management process. When considering new Litigation Projects, LCM applies a rigorous selection criteria, referred to as LCM's five pillars. Once a Litigation Project has passed this initial selection criteria, LCM then applies an established investment approval process to manage and mitigate the risks associated with its Litigation Projects. The Company has established an Audit and Risk Committee which provides advice and assistance to the Board in fulfilling its corporate governance and oversight responsibilities in relation to internal and external audit, risk management systems, financial and market reporting, internal accounting, financial control systems and other items as requested by the Board. The primary objective of the Audit and Risk Committee is to assist the Board in overseeing the systems of internal control and external financial reporting of the Group. It performs this role by ensuring that the external and internal audit arrangements are appropriate and effective; the compliance arrangements are appropriate and effective fraud prevention and whistleblowing arrangements are established which minimise potential for fraud and financial impropriety; and the annual report and accounts, related internal control disclosures and any other publicly available financial information are reviewed and scrutinised. The Audit and Risk Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within the Audit and Risk Committee's duties and responsibilities and shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.	Read more about LCM's investment risk assessment on pages 43 to 48

Governance principles	Compliant	Application of code	Further reading
Principle 5			
Maintain the Board as a well-functioning, balanced team led by the Chair	✓	The Board is responsible for the overall management of the Group. The Board comprises five directors; two executive directors and three non-executive directors. The Company believes that it has an appropriate balance between executive and non-executive directors and meets the criteria for at least two independent non-executive directors. The board is led by the Chairman, Jonathan Moulds and the roles of Chairman and CEO are distinct. The Board has specific Audit and Risk, Remuneration and Nomination Committees covering three of the areas of the Group's operation which the Board views as having key importance to the Group's stakeholders. Each of these Committees have their own terms of reference which provide the necessary authorities for them to operate as they consider appropriate.	Read more on our Board and committees on pages 61 to 67
Principle 6			
Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities	✓	The Board believes its members collectively possess the appropriate balance of skills to allow it to discharge its duties and responsibilities effectively.	Read more about the skills and experience of the Board on pages 54 to 55
Principle 7			
Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement	✓	The Board will review the effectiveness of the Board and its composition to ensure it has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively and to otherwise manage Board succession issues. The Company has established the Nomination Committee which is delegated the responsibility to lead the process for Board appointments and to ensure that the Board and its committees have an appropriate balance of skills, experience, availability, independence and knowledge of the Company to enable them to discharge their respective responsibilities effectively. The Nomination Committee has adopted formal terms of reference under which the Nomination Committee shall, amongst other matters: a. regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) (including gender) of the Board and make recommendations to the Board with regard to any changes; b. give full consideration to succession planning for directors and other senior managers in the course of its work, taking into account the challenges and opportunities facing the Group, and the skills and expertise needed on the Board in the future;	Read more on our Board and committees on pages 61 to 67

Governance principles	Compliant	Application of code	Further reading
Principle 7 *continued*			
Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement *continued*	✓	c. be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise; d. be responsible for the induction of new appointments to the Board; e. make recommendations to the Board regarding membership of the Audit and Remuneration Committee, and any other Board committees as appropriate, in consultation with the chairmen of those committees; and f. make recommendations to the Board regarding the re-appointment of any non-executive director at the conclusion of their specified term of office (in particular, for any term beyond six years) having given due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required. The Nomination Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within the Nomination Committee's duties and responsibilities and shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.	
Principle 8			
Promote a corporate culture that is based on ethical values and behaviours	✓	LCM has a very simple philosophy around ethical conduct that is entrenched within its culture. Ethical conduct is of paramount importance to every LCM employee and it is non-negotiable. We do not permit second chances, we do not allow anyone to exploit grey areas and there is zero tolerance towards anyone looking to bend the rules. LCM's compliance regime has grown in tandem with our international expansion and it addresses the various legal and regulatory obligations LCM has across multiple jurisdictions. The Directors have zero tolerance towards bribery and corruption and the Board has adopted an anti-bribery and corruption policy. The policy applies to all personnel of the Group including Directors, officers and employees. The policy prohibits both 'active bribery' (such as offering or promising to a third party benefits such as gifts, donations or awards) and 'passive bribery' (such as requesting, soliciting or agreeing to receive a bribe from a third party). As part of implementing the policy, the Company has a system for recording hospitality and gifts (both received and made to others) and sets out in detail guidelines for providing and accepting hospitality. The policy condemns tax evasion, whether it involves evading UK taxes or foreign taxes and expressly prohibits the Group's employees, consultants and agents from facilitating tax evasion by any third party.	Read more on anti-bribery and corruption on pages 50 to 51

Governance principles	Compliant	Application of code	Further reading
Principle 9			
Maintain governance structures and processes that are fit for purpose and support good decision making by the Board	✓	The Board is responsible for the overall management of the Group. The Board has established a Remuneration Committee, a Nomination Committee and an Audit and Risk Committee and has adopted the Share Dealing Code. The Group also operates an Anti-Bribery and Corruption Policy. The Board and its committees have an appropriate balance of skills, experience, availability, independence and knowledge of the Company to enable them to discharge their respective responsibilities effectively.	Read more on our Board and committees on pages 61 to 67
Principle 10			
Communicate how LCM is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	✓	The Board endeavours to keep all interested shareholders informed by regular announcements and update statements. The directors intend to meet regularly with new and existing institutional shareholders to understand their needs and expectations. The Company invites shareholder feedback and will report it back to the Board. LCM uses its annual general meeting (AGM) as an opportunity to further engage with its shareholders. The Chairperson of the Board is ultimately responsible for shareholder communication. As soon as practicable after any general meeting has been concluded, the results of the meeting will be released through a regulatory news service and a copy of the announcements placed on the Company's website. In the event that a significant proportion of votes was cast against any resolution at a general meeting, an explanation of the actions proposed to be taken in response would be outlined. LCM's website is one of its key information tools and LCM endeavours to keep its website up-to-date, complete and accurate. Documents produced that communicate key information to shareholders will include the annual and interim financial statements, announcements released to the London Stock Exchange and investor presentations.	Further information can be found on our Company's website lcmfinance.com

Corporate Governance Statement

The Board

The Board is responsible for the overall management of the Group. The Board meets formally and aims to meet not less than four times per year and meets informally on a monthly basis to discuss the Company's business. In the 2022 reporting year, the Board held three meetings virtually through video conferencing while travel restrictions were still in place in many jurisdictions; and once in person.

Matters specifically reserved for the Board include matters relating to strategy, management structure and appointments, review of performance, corporate finance and approval of any major capital expenditure and the framework of internal controls.

The Board has established a Remuneration Committee, a Nomination Committee and an Audit and Risk Committee and has adopted the Share Dealing Code. The Group also operates an Anti-Bribery and Corruption Policy; details of each are described further (see pages 50 to 51).

Audit and Risk Committee

The Company has established an Audit and Risk Committee which provides advice and assistance to the Board in fulfilling its corporate governance and oversight responsibilities in relation to internal and external audit, risk management systems, financial and market reporting, internal accounting, financial control systems and other items as requested by the Board.

The Audit and Risk Committee Charter states that this Committee shall comprise at least three members. To the extent practicable given the size and composition of the Board from time to time the Committee will consist of three Directors. Currently the Audit and Risk Committee consists of two members who during the year were Gerhard Seebacher and Dr David King who chairs the Audit and Risk Committee. The composition of the Audit and Risk Committee will be reviewed and additional members appointed as considered necessary by the Board.

The Audit and Risk Committee endeavours to meet at least three times a year. In the 2022 reporting year, travel restrictions as a result of the COVID-19 pandemic have meant that the Audit and Risk Committee has only met twice. Despite this, the Committee members (and Directors when considered appropriate) are in regular contact to discuss any relevant audit and risk matters.

The primary objective of the Audit and Risk Committee is to assist the Board in overseeing the systems of internal control and external financial reporting of the Group. It performs this role by ensuring that the external and internal audit arrangements are appropriate and effective; the compliance arrangements are appropriate and effective fraud prevention and whistleblowing arrangements are established which minimise potential for fraud and financial impropriety; and the annual report and accounts, related internal control disclosures and any other publicly available financial information are reviewed and scrutinised.

LCM's Audit and Risk Committee provides oversight on the adequacy of risk management and controls, assisting the Board in fulfilling its financial and governance responsibilities.

- The Audit and Risk Committee has adopted formal terms of reference under which the Audit and Risk Committee shall, amongst other matters:

a. monitor the integrity of the financial statements of the Group, including its annual and half-yearly reports, and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgements which they contain having regard to the matters communicated to it by the Group's external auditor;

b. review the content of the annual report and accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy;

c. monitor and keep under review the adequacy and effectiveness of the Group's internal financial controls and internal control and risk management systems;

d. review the adequacy and security of the Group's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters;

e. review the Group's procedures for detecting fraud;

f. monitor and review the need for an internal audit function in the context of the Group's overall risk management system; and

g. oversee the relationship and matters with the external auditor and make recommendations to the Board regarding the same.

The Audit and Risk Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within the Audit and Risk Committee's duties and responsibilities and shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

LCM's Remuneration Committee aims to develop incentive awards which attract and retain talent that ultimately drive growth and deliver the Group's strategic objectives.

Nomination Committee

The Company has established the Nomination Committee which is delegated the responsibility to lead the process for Board appointments and to ensure that the Board and its committees have an appropriate balance of skills, experience, availability, independence and knowledge of the Company to enable them to discharge their respective responsibilities effectively.

The Nomination Committee shall comprise at least two members; at present the nominations committee consists of three members being Jonathan Moulds, Dr David King and Gerhard Seebacher who will chair the Nomination Committee. The Nomination Committee aims to meet at least once a year. In the 2022 reporting year, the Nomination Committee met once.

The Nomination Committee has adopted formal terms of reference under which the Nomination Committee shall, amongst other matters:

a. regularly review the structure, size and composition (including the skills, knowledge, experience and diversity (including gender)) of the Board and make recommendations to the Board with regard to any changes;

b. give full consideration to succession planning for Directors and other senior managers in the course of its work, taking into account the challenges and opportunities facing the Group, and the skills and expertise needed on the Board in the future;

c. be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise;

d. be responsible for the induction of new appointments to the Board;

e. make recommendations to the Board regarding membership of the Audit and Risk and Remuneration Committees, and any other Board committees as appropriate, in consultation with the Chairmen of those committees; and

f. make recommendations to the Board on the re-appointment of any Non-Executive Director at the conclusion of their specified term of office (in particular, for any term beyond six years) having given due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required.

The Nomination Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within the Nomination Committee's duties and responsibilities and shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

Remuneration Committee

The Board seeks to ensure that LCM adopts remuneration practices which will enable it to attract and retain high calibre and suitably qualified employees, Executives and Directors whose interests are aligned with those of shareholders.

The Company has established a Remuneration Committee which is delegated the responsibility of advising the Board on developing an overall remuneration policy that is aligned with business strategy and objectives, risk appetite, values and long-term interests of the Company, recognising the interests of all stakeholders.

The Remuneration Committee comprises two members who during the year were Jonathan Moulds and David King who chaired the Remuneration Committee. Gerhard Seebacher was invited to attend one of the two meetings held and has subsequently been appointed Chair of the Remuneration Committee, effective February 2022, replacing Dr David King. The Remuneration Committee aims to meet at least two times a year.

In the 2022 reporting year, travel restrictions as a result of the COVID-19 pandemic have meant that the Remuneration Committee has only met twice, with one of the two meetings being held virtually. Despite this, the Committee members are in regular contact to discuss any remuneration matters.

The Remuneration Committee has adopted formal terms of reference under which the Remuneration Committee shall, amongst other matters:

a. have responsibility for setting remuneration policy for all Executive Directors, the Chairman and such other members of the executive management as it is designated to consider, including pension rights and any compensation payments;

b. recommend and monitor the level and structure of remuneration for senior management;

c. review the on-going appropriateness and relevance of the remuneration policy;

d. within the terms of the remuneration policy and in consultation with the Chairman of the Board and/or Chief Executive, as appropriate, determine the total individual remuneration package of each Executive Director of the Company, the Chairman of the Board and the designated members of executive management, including bonuses, incentive payments and share options or other share awards and in determining such packages and arrangements, give due regard to any relevant legal requirements;

e. review the design of all share incentive plans for approval by the Board and shareholders;

f. ensure that contractual terms on termination, and any payments made, are fair to the individual, and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised;

g. oversee any major changes in employee benefits structures throughout the Group; and

h. agree the policy for authorising claims for expenses from the Company's Chief Executive and Chairman of the Board.

The Remuneration Committee Chairman shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall ensure that appropriate disclosure of information, ensuring pensions are fulfilled, and produce a report of the Company's remuneration policy and practices to be included in the Company's annual report.

Remuneration Report

The Directors present this Remuneration Report (Report) for Litigation Capital Management Limited (LCM and together with its controlled entities, the LCM Group) for the 12 months ended 30 June 2022, of which certain tables have been audited (as noted below), and outline key aspects of our remuneration framework. It contains the following sections:

1. Remuneration framework
2. Remuneration details
3. Service agreement
4. Remuneration table (audited)
5. Directors' interests (audited)
6. Other disclosures

Remuneration framework

Overview of remuneration framework

The Board recognises that the performance of LCM depends on the quality and motivation of its people. The objective of LCM's remuneration policy is to attract, motivate and retain the best available management and employees to operate and manage LCM.

Non-Executive Director remuneration is designed in a way that supports the retention of their independence.

Employee remuneration and incentive policies and practice are performance-based and aligned with LCM Group's vision, values and overall business objectives, with five guiding principles in mind:

- alignment of employee pay with shareholder interests and wealth outcomes;
- alignment of employee pay with fund interests and wealth outcomes;
- motivation of employee behaviour to execute LCM's strategy through an appropriate mix of fixed and variable pay elements;
- delivery of a competitive remuneration framework that assists with attracting and retaining high calibre non-executive and employee talent to ensure business success; and
- provision of a simple and transparent framework that is clear to participants and external stakeholders.

Role of the Remuneration Committee

The Remuneration Committee ensures that the remuneration of Directors and senior employees is consistent with market practice and sufficient to ensure that the LCM Group can attract, develop and retain the best individuals and is designed to:

- attract, develop and retain Board and executive talent;
- create a high-performance culture by driving and rewarding employees for achieving the Group's strategy and business objectives; and
- link incentives to the creation of shareholder and Fund value.

The Remuneration Committee shall meet formally at such frequency as circumstances demand for the purposes referred to above.

Principal terms of the share plans

The committee initiated a review during the year of the existing share plan arrangements for Executive staff and employees. The committee decided it was appropriate to move away from the current Loan Share Plan (LSP) and Company Share Option Plan (CSOP) granted at Market Value to a nil cost option plan, the Deferred Bonus Share Plan (DBSP) and Executive Long-Term Incentive Plan ('LTIP'), in line with other listed peers. This ensures LCM remains competitive in retaining and attracting new talent. The plan/s were approved in July 2022 and September 2022. The committee believes the new plans will provide a greater incentive to grow shareholder value. The principal terms of the new Share Plans, determined by the Remuneration Committee, are set out below.

Eligibility

Deferred Share Bonus Plan (DSBP)
Awards may be made to Directors and employees of the Group and its subsidiaries, at the discretion of the Remuneration Committee.

Executive Long-Term Incentive Plan (LTIP)
Awards may be made only to Senior Management of the Group and its subsidiaries, at the discretion of the Remuneration Committee.

Timing

Awards will normally only be granted after the end of a closed period (typically following the announcement of the Group's results for any period). In exceptional circumstances, awards may be granted at other times provided that no awards may be granted during a closed period.

Performance conditions

The Group attaches considerable importance to the role of appropriate performance-based incentives to drive sustainable long-term growth and align Directors' and employees' interests with the interests of shareholders and Fund investors. Accordingly, awards to Directors and senior management will ordinarily be subject to the achievement of performance conditions set by the Remuneration Committee at the date of grant.

Plan limits

In any 10-year period, not more than 10% of the issued ordinary share capital of the Group may be issued or be issuable under the Share Plans.

These limits do not include awards which have lapsed, which are satisfied by shares purchased in the market, or include shares which are used to pay dividend equivalents.

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

Satisfaction of awards

Options will be subject to the satisfaction of performance conditions. The Executive LTIP awards for senior management are awarded with vesting conditions linked to fund performance over a three-to-five-year period.

The Remuneration Committee ensures that incentives are aligned with achieving the Group's strategic objectives for creating shareholder value.

Holding period

Awards may be granted on the basis that some or all of the shares in respect of which the award vests will be held for a further period post-vesting. Awards granted under the Executive LTIP have a holding period up to the fifth anniversary of grant.

Malus and clawback

The Remuneration Committee will have the ability to reduce the number of shares subject to an unvested award (including to zero) in certain circumstances or impose additional conditions on the awards and/or require that the participant has to either return some or all of the shares acquired under the award or make a cash payment to the Company in respect of any shares delivered.

The circumstances which may lead to a clawback are where the award is determined to have been granted or vested on the basis of materially inaccurate information or where the Remuneration Committee determines that the participant has committed a material breach of their contract of employment which would include, without limitation: where the participant has contributed to a material loss or reputational damage to the Group; the participant has materially breached any compromise agreement entered into in relation to their cessation of employment; or, where applicable, the participant has materially breached any of their fiduciary duties.

Leaving employment

If a participant leaves employment, unvested awards will normally lapse. If the participant leaves for one of the following reasons: disability, ill-health, injury, redundancy, or in other circumstances if the Remuneration Committee allows, their award will normally continue in effect and vest on the original vesting date or, if applicable, will be released at the end of the holding period.

Takeovers, reorganisations, etc

Awards will generally vest early on a takeover, or other change of control event, or on a voluntary winding up of the Group.

The applicable rules of the Share Plans may also contain provisions to allow for awards to be made to participants based in jurisdictions outside of Australia and the UK and to allow for the Remuneration Committee to agree special terms to allow for awards to be granted in those jurisdictions in order to comply with local practice or to avoid adverse tax, legal or regulatory consequences.

Any shares issued following the vesting of awards will rank equally with shares of the same class in issue on the date of allotment except in respect of rights arising by reference to a prior record date.

Remuneration details

Remuneration payable to Non-Executive Directors

Non-Executive Directors enter into service agreements through a letter of appointment which are not subject to a fixed term. Non-Executive Directors receive a fee for their contribution as Directors.

Fees payable to Non-Executive Directors reflect the demands which are made on, and the responsibilities of, Directors. Directors' fees are reviewed regularly by the Board.

LCM's Constitution provides that LCM may remunerate each Director as the Directors decide, provided that the total amount paid to Non-Executive Directors may not exceed:

i. the amount fixed by LCM in general meeting for that purpose; or

ii. if no amount has been fixed by LCM in general meeting for that purpose, A$700,000 per annum.

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

The objective of LCM's remuneration policies with regard to Non-Executive Directors is to ensure the Group is able to attract and retain Non-Executive Directors with the skills and experience to ensure the Board is able to discharge its oversight and governance responsibilities in an effective and diligent manner and supports the retention of their independence.

LCM does not pay bonus payments or lump sum retirement benefits to Non-Executive Directors.

Details of fees paid during the financial year to each Non-Executive Director are detailed below.

Remuneration details for employees

Employees of LCM are contracted under an employment agreement which incorporates a probation period generally of six months, a salary as well as an ability after 12 months of service for the employee to be eligible for a performance award discretionary bonus and participate in an incentive scheme (Eligible Employees).

Each Eligible Employee will be entitled to participate in the LCM incentive scheme, the rules of which may be subject to change by LCM at any time.

The award of an incentive will be discretionary and will be determined based on:

1. the financial performance of LCM as a whole;
2. the performance review of the Eligible Employee in each full financial year the Eligible Employee is employed by LCM; and
3. the financial performance of any fund managed by LCM.

The performance review of each Eligible Employee will be undertaken at the end of each financial year and during that performance review each Eligible Employee will be assessed in accordance with the Eligible Employee's Role Description (the Performance Conditions).

The maximum amount of the incentive able to be earned by an Eligible Employee in any year is as follows:

1. a cash payment of up to 35% of the base salary of the Eligible Employee (Cash Incentive); and
2. an invitation to participate in the Share Plan up to a value of 65% of the base salary of the Eligible Employee.

During periods of exceptional performance and at the discretion of the Remuneration Committee and Board, Eligible Employees can earn an additional award under the Share Plan.

Service agreement

All Executive Directors have contracts of employment. Remuneration and other terms of employment are formalised in that agreement, including components of remuneration and base salary to which they are entitled, eligibility for incentives and other benefits including superannuation and pensions.

Key terms of Patrick Moloney's employment agreement as follows:

- term of five years (commencing December 2018) with an automatic extension for a further five years unless notice is given at least one year before the expiry of the initial term that the agreement will not be extended;
- a fixed salary per annum plus superannuation and is entitled to six weeks paid annual leave per year, details of which are set out in the remuneration tables below; and
- LCM can terminate the agreement at any time without cause by making payment of the total remuneration and benefits for the unexpired period of the term, unless the remaining term is less than 12 months, in which case the agreement may be terminated by 12 months' notice in writing or payment in lieu of notice.

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

Remuneration table

Remuneration table for year ended 30 June 2022 (audited)

The table below provides remuneration for KMPs for the 12 months ended 30 June 2022 and comparatives for the year ended 30 June 2021.

	Cash salaries and fees $		Bonus $		Benefits $	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**
Non-Executive Directors						
Dr David King	**100,000**	100,000	**–**	–	**–**	–
Jonathan Moulds	**183,319**	180,308	**–**	–	**–**	–
Gerhard Seebacher	**103,488**	87,255	**–**	–	**–**	–
	386,807	367,563	**–**	–	**–**	–
Executive Directors						
Mary Gangemi[1]	**189,048**	–	**–**	–	**449**	–
Nick Rowles-Davies[2]	**513,294**	1,102,651	**–**	–	**3,701**	13,748
Patrick Moloney	**998,817**	750,000	**–**	–	**–**	–
	1,701,159	1,852,651	**–**	–	**4,150**	13,748
Total	**2,087,966**	2,220,214	**–**	–	**4,150**	13,748

1. From 14 February 2022.
2. Resigned 17 December 2021.

Fully paid ordinary shares and unlisted partly paid shares

The table below provides the number of fully paid ordinary shares and unlisted partly paid shares in the Company held by each Non-Executive Director and Executive KMP during the period ended 30 June 2022 and the previous period ended 30 June 2021:

Name of the Director	Description of shares	30 June 2022 Number	30 June 2021 Number
Jonathan Moulds	Fully paid ordinary shares	**2,080,000**	–
Dr David King	Fully paid ordinary shares	**1,951,484**	1,601,484
Patrick Moloney	Fully paid ordinary shares	**3,970,971**	3,920,971
Patrick Moloney	Unlisted partly paid shares	**1,433,022**	1,433,022[1]
Mary Gangemi	Fully paid ordinary shares	**27,500**	–

1. Unlisted partly paid shares in the Company were issued at a price of $0.17 per share, wholly unpaid and will convert to a share upon payment to the Company of $0.17 per share. Further details provided in note 15 to the financial statements.

No changes took place in the interests of the Directors between 30 June 2022 and 20 September 2022.

Accrued leave $		Superannuation/ pension $		Long service leave $		Share-based payments $		Total $	
2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
–	–	10,000	9,500	–	–	–	–	110,000	109,500
–	–	–	–	–	–	–	–	183,319	180,308
–	–	–	–	–	–	–	–	103,488	87,255
–	–	10,000	9,500	–	–	–	–	396,807	377,063
–	–	18,904		–	–	15,546	–	223,947	–
–	–	1,211	2,371	–	–	–	4,342	518,205	1,123,112
187,678	34,615	27,500	42,750	63,210	12,520	241,583	228,270	1,518,788	1,068,155
187,678	34,615	47,615	45,121	63,210	12,520	257,129	232,612	2,260,941	2,191,267
187,678	34,615	57,615	54,621	63,210	12,520	257,129	232,612	2,657,748	2,568,330

Share options

The table below provides the number of options over ordinary shares in the Company held by each Non-Executive Director and Executive KMP during the financial year:

Name of the Director	Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Balance at the end of the year
Dr. David King	20/09/2016	01/11/2021	$1.00	600,000	–	(600,000)	–
Patrick Moloney	20/09/2016	01/11/2021	$1.00	900,000	–	(900,000)	–
Patrick Moloney	19/11/2018	25/11/2028	$0.47	1,595,058	–	–	1,595,058
Patrick Moloney	04/12/2017	04/12/2027	$0.60	1,000,000	–	–	1,000,000
Patrick Moloney	04/12/2017	04/12/2027	$0.60	1,000,000	–	–	1,000,000
Patrick Moloney	01/11/2019	01/11/2029	£0.7394	1,166,400	–	–	1,166,400
Patrick Moloney	13/10/2020	13/10/2030	£0.6655	291,597	–	–	291,597
Patrick Moloney	27/10/2021	27/10/2031	£1.06	–	279,232	–	279,232
Patrick Moloney1	27/10/2021	27/10/2031	£1.06	–	900,000	–	900,000
Mary Gangemi	27/10/2021	27/10/2031	£1.06	–	93,585	–	93,585
Mary Gangemi	27/10/2021	27/10/2031	£1.14	–	26,315	–	26,315
				6,553,055	1,299,132	(1,500,000)	6,352,187

1. On 27 October 2021 Patrick Moloney, Chief Executive Officer of the Company exercised 900,000 options (the 'Executive Options') at an exercise price of A$1.00. The Company has agreed to issue and allot in total 900,000 new Ordinary Shares ('Ordinary Shares') in the capital of the Company to Patrick Moloney which were granted under the Loan Share Plan for the sole purpose to fund the Aggregate Exercise Price of the 900,000 unlisted options.
2. Performance related shareholdings awarded to former executive Nick Rowles-Davies did not vest. The performance conditions which were subject to a share price target of 175 pence and continuous employment were not met. That benefit comprised 4,917,464 shares held through the Group's Joint Share Ownership Plan ("JSOP"). The JSOP award was subject to malus and clawback provisions. The awards remain held in the EBT.

Share Dealing Code

The Share Dealing Code adopted by the Company from admission to AIM applies to any person discharging management responsibility, which will apply to all the Directors, any closely associated persons and applicable employees (as each is defined in the Code). The Share Dealing Code sets out their responsibilities under the AIM Rules, FSMA and MAR and other relevant legislation. The Share Dealing Code addresses the share dealing restrictions as required by the AIM Rules and where applicable MAR. The Share Dealing Code's purpose is to ensure that Directors and other relevant persons do not abuse, or place themselves under suspicion of abusing, inside information that they may have or be thought to have, especially in periods leading up to an announcement of results. The Share Dealing Code sets out a notification procedure which is required to be followed prior to any dealing in the Company's securities.

Anti-bribery and corruption policy

The Directors have zero tolerance towards bribery and corruption and the Board has adopted an anti-bribery and corruption policy. The policy applies to all personnel of the Group including Directors, officers and employees. The policy prohibits both 'active bribery' (such as offering or promising to a third party benefits such gifts, donations or awards) and 'passive bribery' (such as requesting, soliciting or agreeing to receive a bribe from a third party).

As part of implementing the policy, the Company has a system for recording hospitality and gifts (both received and made to others) and sets out in detail guidelines for providing and accepting hospitality. The policy condemns tax evasion, whether it involves evading UK taxes or foreign taxes and expressly prohibits the Group's employees, consultants and agents from facilitating tax evasion by any third party.

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 period ended 30 June 2022 and the auditor's 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 (resigned 17 December 2021)

Gerhard Seebacher

Mary Gangemi (appointed 14 February 2022)

Directors appointed during the year

Mary Gangemi – *Executive Director*

Appointed to the Board February 2022. Extensive experience in financial services. Mary has a Bachelor of Commerce (Accounting and Finance), is qualified as a Certified Practising Accountant (CPA Australia), and has completed the Transition to General Management program through Executive Education at INSEAD.

Further information on the current Directors in office are disclosed on pages 54 to 55 of the corporate governance section within the annual report.

2. Company Secretary

Anna Sandham was appointed Company Secretary of LCM in September 2016. Anna is an experienced company secretary and governance professional with over 20 years' experience in various large and small, public and private, listed and unlisted companies. Anna has previously worked for companies including AMP Financial Services, Westpac Banking Corporation, BT Financial Group and NRMA Limited. Anna holds a Bachelor of Economics (University of Sydney), Graduate Diploma of Applied Corporate Governance (Governance Institute of Australia) and is a Chartered Secretary.

3. Officers who were previously partners of the audit firm

There were no officers of the Group during the financial year which were previously partners of the current audit firm, BDO Audit Pty Ltd.

4. Meetings of Directors

During the 2022 financial year, four Board meetings were held (not counting circular resolutions passed outside regular meetings). The following table sets out the number of Board and Committee meetings each Director attended and the number they were eligible to attend.

MEETINGS ATTENDED/MEETINGS ELIGIBLE TO ATTEND

Director	Board	Audit and Risk Committee	Remuneration Committee	Nominations Committee
David King	4/4	2/2	2/2[1]	1/1
Patrick Moloney	4/4	*	*	*
Jonathan Moulds	4/4	1/1[1]	2/2	1/1
Gerhard Seebacher	4/4	1/1	–[2]	–[2]
Nick Rowles-Davies[3]	2/2	*	*	*
Mary Gangemi[4]	2/2	*	*	*

1. Resigned as committee member 11 February 2022.
2. Appointed as committee member 11 February 2022.
3. Resigned 17 December 2021.
4. Appointed 14 February 2022.

* Not a member of the committee.

5. Principal activities

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

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

6. Operating and financial review

Overview of the LCM Group

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

Its registered office and principal place of business is Level 12, The Chifley Tower, 2 Chifley Square, Sydney NSW 2000, Australia.

Operations

LCM operates its business through a series of wholly owned subsidiaries. The principal activity of those subsidiaries is the provision of litigation finance and risk management associated with individual, and portfolios of, litigation projects.

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

Review of financial performance

The statutory profit for the Group after providing for income tax and non-controlling interest amounted to $6,644,000 (30 June 2021: $8,863,000).

The Directors do not recommend a final dividend in respect of the year ended 30 June 2022.

Further commentary on the financial results is disclosed in the financial review by the chief financial officer within the strategic report.

Significant changes in the state of affairs

In the Directors' Report for the financial year ended 30 June 2021 the Board reported as to the establishment of an asset management business. That asset management business was commenced with a fund of US$150 million. During the financial year just past, LCM has built on that asset management business by launching Fund II with a target raising of US$300 million. To date, LCM has received commitments from existing investors of approximately two-thirds. It is expected that the full US$300 million fund will be raised in the near future.

The change to LCM's business model that occurs over a period of time is from a direct investment portfolio utilising LCM's balance sheet capital where it commits to 100% of the capital committed to those investments, to a co-funding where LCM's balance sheet contributes only 25%. Through that mechanism, LCM's portfolio of direct investments will, over time, change to co-investments as opposed to taking the full commercial risk from balance sheet capital. That transformation allows LCM to invest its balance sheet capital with less risk and with more diversification. It also allows LCM to generate revenue from performance fees as distinct from purely investment returns. That shift will occur over the next two to three years.

7. Matters subsequent to the end of the financial period

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

8. Likely developments

LCM's portfolio of investments in the disputes sector continues to mature as expected. As noted above, LCM manages two separate but interrelated portfolios of investments. The first is its direct investments made from balance sheet capital. Secondly, LCM manages two separate Funds of third party capital on behalf of investors. In the coming financial period, LCM expects the realisation of a number of its dispute investments. Those resolutions will be both LCM's direct portfolio of investments and also its asset management business. Although it is expected that a significant number of those resolutions will be on the portfolio of direct investments where LCM is funding 100% of the capital commitment, there will also be resolutions with respect to fund investments. LCM is not in a position to provide forecasts as to the number of investments that will mature, or the expected revenue that will be generated.

As global economies move beyond the direct disruption from the global pandemic, we see market conditions changing rapidly. We observe high inflation and the increase of interest rates by central banks in an effort to control inflationary pressures. We see disruption to many market verticals from energy right through to food production and distribution. We also see geopolitical disruption and risk in Europe. All of the factors which are influencing global markets are creating a global environment of uncertainty. Such market conditions tend to increase demand for litigation finance capital. It has been our experience in prior uncertain markets that parties tend to use an external source of capital to fund their disputes rather than in more buoyant and certain economic times. We therefore expect to see increasing opportunities for LCM in the market.

With markets and economies behaving in the way they are, and LCM's access to increased capital, we see very positive opportunities moving forward.

9. Environmental regulation

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

10. Directors' interests in shares and options

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

Director[1]	Ordinary shares[1]	Loan Plan Shares[2] and Loans	Unlisted partly paid shares[3]
Dr. David King	1,951,484	–	–
Patrick Moloney	3,970,971	6,232,287	1,433,022
Jonathan Moulds	2,080,000	–	–
Nick Rowles-Davies[4]	–	–	–
Gerhard Seebacher	–	–	–
Mary Gangemi[5]	27,500	119,900	–

1. Directors, including associated parties, interests held directly and indirectly.
2. Loan Plan Shares exercisable at various prices and subject to vesting conditions.
3. Unlisted partly paid shares in the Group were issued at a price of $0.17 per share, wholly unpaid and will convert to a share upon payment to the Group of $0.17 per share.
4. Resigned 17 December 2021.
5. Appointed 14 February 2022.

11. Share Options

During the year the Group granted 1,912,489 (2021: 616,520) shares under the loan funded share plans. As at the date of this report there were 8,134,929 Loan Shares outstanding subject to various vesting and performance conditions.

There were 6,318,671 options vested and exercisable as at 30 June 2022 (2021: 4,630,141).

Further details are provided in note 27 to the financial statements.

12. Indemnity and insurance of officers and auditors

Indemnification

Under the LCM Constitution, to the maximum extent permitted by the Act, LCM must indemnify each person who is or has been an Officer against any liability incurred as an Officer and may pay a premium for a contract insuring an Officer against that liability. During the financial period, LCM has paid premiums in respect of contracts insuring the directors and officers of LCM against any liability of this nature.

LCM has not, during or since the end of the financial period, indemnified or agreed to indemnify an officer or auditor of LCM or any related entity against a liability as such by an officer or auditor except to the extent permitted by law.

Insurance premiums

In accordance with normal commercial practices, under the terms of the insurance contracts, the nature of liabilities insured against and the amount of the premiums paid are confidential.

13. Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 19 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the financial period, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Act.

The Directors are of the opinion that the services disclosed in note 19 to the financial statements do not compromise the external auditor's independence requirements of the Act for the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in the APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Group, acting as an advocate for the Company or jointly sharing economic risks and rewards.

14. Proceedings on behalf of LCM Group

No person has applied for leave of a court to bring proceedings on behalf of the company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

15. Lead Auditor's independence declaration

The Auditor's independence declaration as required under section 307C of the Act is included in LCM's financial statements.

16. Auditor

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

17. Rounding of amounts

LCM is of a kind referred to the Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

18. Corporate Governance

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

19. Remuneration Report

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

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Act.

On behalf of the Directors

MR JONATHAN MOULDS
CHAIRMAN

20 September 2022

Auditor's Independence Declaration

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

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

DECLARATION OF INDEPENDENCE

BY G K EDWARDS

TO THE DIRECTORS OF LITIGATION CAPITAL MANAGEMENT LIMITED

As lead auditor of Litigation Capital Management Limited for the year ended 30 June 2022, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

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

G K Edwards
Director

BDO Audit Pty Ltd

Adelaide, 20 September 2022

Financial Statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the period ended 30 June 2022

	Note	Consolidated 2022 $'000	Consolidated 2021 $'000
Revenue from contracts with customers			
Litigation service revenue	4	**47,350**	36,924
Performance fees	4	**53**	135
		47,403	37,059
Litigation service expense		**(16,343)**	(10,439)
Gross profit		**31,060**	26,620
Other income		–	–
Interest income		1	4
Expenses			
Employee benefits expense	6	**(8,841)**	(8,396)
Depreciation expense	6	**(65)**	(59)
Corporate expenses		**(3,599)**	(2,750)
Finance costs	6	**(4,703)**	(1,334)
Fund administration expense	6	**(3,169)**	(1,153)
Total expenses		**(20,377)**	(13,692)
Profit before income tax expense		**10,684**	**12,932**
Analysed as:			
Adjusted operating profit		**20,165**	16,384
Non-operating expenses	6	**(4,778)**	(2,118)
Finance costs	6	**(4,703)**	(1,334)
Profit before income tax expense		**10,684**	**12,932**
Income tax expense	7	**(4,040)**	(4,069)
Profit after income tax expense for the period		**6,644**	**8,863**
Other comprehensive income			
Items that may be subsequently reclassified to profit and loss:			
Movement in foreign currency translation reserve		(2,535)	(1,377)
Total comprehensive income for the period		**4,109**	**7,486**
Profit for the period is attributable to:			
Owners of Litigation Capital Management Limited		6,644	8,863
Non-controlling interest		–	–
		6,644	**8,863**
Total comprehensive income for the period is attributable to:			
Owners of Litigation Capital Management Limited		4,109	7,486
Non-controlling interest		(19)	–
		4,090	**7,486**
		Cents	**Cents**
Basic earnings per share	25	6.28	8.46
Diluted earnings per share	25	6.09	7.95

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

Consolidated Statement of Financial Position

As at 30 June 2022

	Note	Consolidated 2022 $'000	Consolidated 2021 $'000
Assets			
Current assets			
Cash and cash equivalents	8	**49,964**	49,736
Trade and other receivables	9	**34,491**	13,843
Contract costs	10	**21,634**	16,663
Other assets		**614**	616
Total current assets		**106,703**	**80,858**
Non-current assets			
Contract costs	10	**162,763**	117,895
Property, plant and equipment		**182**	186
Intangible assets		**646**	391
Other assets		**249**	284
Total non-current assets		**163,840**	**118,756**
Total assets		**270,543**	**199,614**
Liabilities			
Current liabilities			
Trade and other payables	11	**12,908**	12,392
Borrowings	13	**14,494**	13,253
Employee benefits	12	**700**	452
Total current liabilities		**28,102**	**26,097**
Non-current liabilities			
Deferred tax liability	7	**11,513**	7,543
Borrowings	13	**54,915**	37,171
Employee Benefits	12	**227**	148
Third party interests in consolidated entities	24	**81,780**	39,764
Total non-current liabilities		**148,435**	84,626
Total liabilities		**176,537**	**110,723**
Net assets		**94,006**	**88,891**
Equity			
Issued Capital	14	**69,674**	68,904
Reserves	15	**(2,339)**	(60)
Retained Earnings		**26,671**	20,028
Parent interest		**94,006**	88,872
Non-controlling interest		**–**	19
Total equity		**94,006**	**88,891**

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

Consolidated Statements of Changes in Equity

For the period ended 30 June 2022

Consolidated	Issued capital $'000	Retained earnings $'000	Share-based payments reserve $'000	Foreign currency translation $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 July 2020	68,830	11,165	1,001	-	80,996	19	81,015
Profit after income tax expense for the year	-	8,863	-	-	8,863	-	8,863
Other comprehensive income for the year	-	-	-	(1,377)	(1,377)	-	(1,377)
Total comprehensive income for the year	-	8,863	-	(1,377)	7,486	-	7,486
Equity Transactions:							
Share-based payments (note 27)	-	-	316	-	316	-	316
Contributions of equity (note 14)	74			-	74		74
	74	-	316	-	390	-	390
Balance at 30 June 2021	**68,904**	**20,028**	**1,317**	**(1,377)**	**88,872**	**19**	**88,891**

Consolidated	Issued capital $'000	Retained earnings $'000	Share-based payments reserve $'000	Foreign currency translation $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 July 2021	68,904	20,028	1,317	(1,377)	88,872	19	88,891
Profit after income tax expense for the year	-	6,644	-	-	6,644	-	6,644
Other comprehensive income for the year	-	-	-	(2,535)	(2,535)	(19)	(2,554)
Total comprehensive income for the year	-	6,644	-	(2,535)	4,109	(19)	4,090
Equity Transactions:							
Share-based payments (note 27)	-	-	256	-	256	-	256
Contributions of equity (note 14)	770	-	-	-	770	-	770
	770	-	256	-	1,026	-	1,026
Balance at 30 June 2022	**69,674**	**26,672**	**1,573**	**(3,912)**	**94,006**	**-**	**94,006**

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

Consolidated Statement of Cash Flows

For the period ended 30 June 2022

	Note	Consolidated 2022 $'000	2021 $'000
Cash flows from operating activities			
Proceeds from litigation contracts – settlements, fees and reimbursements		**26,641**	37,508
Payments to suppliers and employees		**(41,804)**	(59,412)
Non-operating items paid		**(1,353)**	(649)
Interest received		**1**	4
Net payments made by third party interests in consolidated entities		**(38,702)**	(33,995)
Net cash used in operating activities	26	**(55,217)**	**(56,544)**
Cash flows from investing activities			
Payments for property, plant and equipment		**(38)**	(14)
Payments for intangibles		**(278)**	(66)
Refunds of security deposits		**(19)**	10
Net cash used in investing activities		**(335)**	**(70)**
Cash flows from financing activities			
Proceeds from issue of shares		**770**	74
Proceeds from borrowings	13	**13,298**	63,153
Repayments of borrowings		**–**	(13,391)
Payments of finance costs		**(4,637)**	(2,546)
Payments of transaction costs related to third party interests		**(1,853)**	(1,749)
Net contributions from third party interests in consolidated entities		**45,060**	29,234
Payments for fund establishment and administration costs		**(778)**	(635)
Net cash from financing activities		**51,859**	**74,140**
Net (decrease)/increase in cash and cash equivalents		**(3,693)**	17,525
Cash and cash equivalents at the beginning of the financial year		**49,736**	31,754
Effects of exchange rate changes on cash and cash equivalents		**3,921**	457
Cash and cash equivalents at the end of the financial year	8	**49,964**	**49,736**

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

Notes to the Financial Statements

30 June 2022

Note 1. General information

The financial statements cover Litigation Capital Management Limited (the 'Company') as a Group consisting of Litigation Capital Management Limited and the entities it controlled at the end of, or during, the year (referred to as the 'Group'). The financial statements are presented in Australian dollars, which is Litigation Capital Management Limited's functional and presentation currency.

Litigation Capital Management Limited was admitted onto the Alternative Investment Market ('AIM') on 19 December 2018.

Litigation Capital Management Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

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

A description of the nature of the Group's operations and its principal activities are included in the Directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 20 September 2022. The Directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

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

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the 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 preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 22.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Litigation Capital Management Limited ('Company' or 'parent entity') as at 30 June 2022 and the results of all subsidiaries for the year then ended. Litigation Capital Management Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

The Group includes fund investment vehicles over which the Group has the right to direct the relevant activities of the fund under contractual arrangements and has exposure to variable returns from the fund investment vehicles. See note 24.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the Group. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Litigation Capital Management Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into the entity's functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Note 2. Significant accounting policies continued

Revenue recognition

The Group recognises revenue as follows:

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring services to a customer. For each contract with a customer, the Group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the services promised.

Variable consideration within the transaction price, if any, reflects the variability of potential outcomes in awards or settlements of the litigation and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

Litigation service revenue

The performance of a litigation service contract by the Group entails the management and progression of the litigation project during which costs are incurred by the Group over the life of the litigation project.

As consideration for providing litigation management services and financing of litigation projects, the Group receives either a percentage of the gross proceeds of any award or settlement of the litigation, or a multiple of capital deployed, and is reimbursed for all invested capital.

Revenue, which includes amounts in excess of costs incurred and the reimbursement for all invested capital, is not recognised as revenue until the successful completion of the litigation project i.e., complete satisfaction of the performance obligation, which is generally at the point in time when a judgement has been awarded or on an agreed settlement between the parties to the litigation, and therefore when the outcome is considered highly probable. On this basis, revenue is not recognised over time and instead recognised at the point in time when the Group satisfies the performance obligation. Costs includes only external costs of funding the litigation, such as solicitors' fees, counsels' fees and experts' fees.

The terms and duration of each settlement or judgement varies by litigation project. Payment terms are not defined by the Group's litigation contracts however upon successful completion of a litigation project, being the satisfaction of the single performance obligation, funds are generally paid into trust within 28 days. The funds will remain in trust until the distribution amounts have been determined and agreed by the relevant parties, after which payment will be received by the Group.

Performance fees

Performance fees are derived from the management of litigation projects under externally financed financing arrangements and governed by the agreement with external investors. Performance fees are recognised at the point in time when a judgement has been awarded or a settlement agreement has been agreed on the litigation projects.

Interest

Interest income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amounts of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Litigation Capital Management Limited (the 'head entity') and its wholly owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Note 2. Significant accounting policies continued

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables generally do not have a specifically defined time frame for settlement; additionally, when the receivable is due from part of the portfolio of litigation projects, the settlement of the receivable is generally made upon an additional resolution of another litigation project within the portfolio which also may not be within a specifically defined time frame.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Contract costs

Contract costs are recognised as an asset when the Group incurs costs in fulfilling a contract and when all the following are met: (i) the costs relate directly to the contract; (ii) the costs generate or enhance resources of the Group that will be used to satisfy future performance obligations; and (iii) the costs are expected to be recovered. Contract costs are non-financial assets for impairment purposes. Contract costs are amortised upon complete satisfaction of the performance obligation. Refer to the Group's revenue recognition policy for further information.

Leases

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

Impairment of non-financial assets

Non-financial assets are reviewed for impairment at each reporting date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

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

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date, are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments

Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

The costs of equity-settled transactions are measured at fair value on grant date. Fair value is determined using either the Monte Carlo or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The costs of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If an equity-settled award is cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award are treated as if they were a modification.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Note 2. Significant accounting policies continued

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Financial assets and liabilities at amortised cost

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

Issued capital

Ordinary shares are classified as equity.

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

Dividends

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

Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

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

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

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

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

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

Third party interests in consolidated entities

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

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Key judgements

Revenue from contracts with customers

The entity's active involvement in litigation service contracts to achieve a successful resolution for the client is the predominant purpose of the service provided and accordingly the litigation funding contracts are within the scope of AASB 15 'Revenue from Contracts with Customers', and so are excluded from the scope of AASB 9 'Financial Instruments' which would require the recognition of a financial asset for each contract, measured at fair value.

Performance obligations and recognition of revenue

In the provision of litigation management services and financing of litigation projects, management has determined that there is a single performance obligation and that complete satisfaction of that performance obligation occurs at the point in time when the Group achieves a successful resolution for the client as it is the predominant purpose of the service provided. On this basis, revenue is not recognised over time and only recognised at the point in time when the Group satisfies that performance obligation.

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

The Group has assessed the entities in which it has an interest to determine whether or not control exists and the entity is, therefore, consolidated into the Group (refer note 23). Where the Group does not own 100% of interests, the Group makes judgements to determine whether to consolidate the entity in question by applying the factors set forth in AASB 10, including but not limited to the Group's equity and economic ownership interest, the economic structures in use in the entity, the level of control the Group has over the entity through the entity's structure or any relevant contractual agreements, and the rights of other investors.

Note 3. Critical accounting judgements, estimates and assumptions continued

Significant estimates and assumptions

Recovery of deferred tax assets

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

Impairment of non-financial assets other than goodwill

The Group assesses impairment of non-financial assets other than goodwill at each reporting date, and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. This includes evaluating the expected outcome pursuant to the contracts, including consideration of whether each individual litigation contract is likely to result in a successful outcome, the cost and timing to completion and the ability of the defendant to pay the settlement or award. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves value in use calculations, which incorporate a number of key estimates and assumptions (refer note 10).

Note 4. Revenue

	Consolidated	
	2022 $'000	**2021 $'000**
Major service lines		
Litigation service revenue		
Revenue attributable to LCM	**47,143**	36,260
Attributable to third party interests	**207**	664
	47,350	36,924
Performance fees	**53**	135
	47,403	**37,059**
Geographical regions		
Australia	**27,984**	32,536
United Kingdom	**19,419**	4,523
	47,403	**37,059**
Contract duration		
Less than 1 year	**–**	1,043
1 to 4 years	**43,407**	35,834
More than 4 years	**3,996**	182
	47,403	**37,059**

Note 5. Segment information

The Group's operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

The Directors have determined that there is one operating segment. The information reported to the CODM is the consolidated results of the Group. The segment result is as shown in the statement of profit or loss and other comprehensive income. Refer to Statement of Financial Position for assets and liabilities.

Major customers

During the year ended 30 June 2022 there were three major external customers (2021: 1 customer, unrelated to that in 2022) where revenue exceeded 10% of the consolidated revenue. Revenue from these customers for the year ended 30 June 2022 amounted to $18,401,000, $13,670,000 and $7,951,000 (2021: $24,860,000).

Note 6. Profit before tax

	Consolidated	
	2022 $'000	**2021 $'000**
Profit before income tax expense includes the following specific expenses:		
Employee benefits expenses		
Salaries and wages	**7,337**	7,205
Directors' fees	**390**	380
Superannuation and pension	**254**	277
Share-based payments expense	**256**	316
Other employee benefits and costs	**604**	218
	8,841	**8,396**
Depreciation		
Plant and equipment	**41**	39
Intangible assets	**24**	20
	65	**59**
Finance costs		
Interest on borrowings (note 13)	**4,376**	1,235
Other finance costs	**327**	99
	4,703	**1,334**
Fund administration expenses		
Finance costs	**553**	387
General administration expenses	**327**	9
Set-up expenses	**1,489**	289
Amortisation of transaction costs	**800**	468
	3,169	**1,153**

Fund administration expenses relates to costs associated with the set-up 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	**639**	541

Note 6. Profit before tax continued

Adjusted operating profit

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

Non-operating expenses

Management has opted to separately present these items as it better reflects the Group's underlying performance. Non-operating expenses includes the following items:

	Consolidated	
	2022 $'000	**2021 $'000**
Share-based payments expense	**256**	316
Consultancy	**183**	358
Transaction costs	**401**	174
Litigation fees	**689**	86
Other expenses	**80**	31
Fund administration expenses	**3,169**	1,153
Total non-operating expenses	**4,778**	**2,118**

Note 7. Income tax expense

	Consolidated	
	2022 $'000	**2021 $'000**
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	**10,684**	12,932
At the Group's statutory income tax rate of 25% (2021: 26%)	**2,671**	3,362
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Foreign tax rate adjustments	**(16)**	(29)
Share-based payments	**64**	82
Other assessable income	**98**	127
Other non-deductible expenses	**–**	35
Unrealised foreign exchange	**–**	93
Change in tax rate	**662**	12
Adjustment for tax effect of loss attributable to third party interests	**561**	–
Adjustment in respect of deferred tax of previous years	**–**	387
	4,040	**4,069**
Adjustment to deferred tax balances as a result of change in statutory tax rate		
Income tax expense/(benefit)	**4,040**	**4,069**

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.

	Consolidated	
	2022 $'000	2021 $'000
Deferred tax asset/(liability)		
Deferred tax asset/(liability) comprises temporary differences attributable to:		
Tax losses	12,880	14,596
Employee benefits	279	185
Accrued expenses	255	79
Contract costs – litigation contracts	(25,195)	(22,938)
Transaction costs on share issue	268	535
Deferred tax asset/(liability)	**(11,513)**	**(7,543)**
Movements:		
Opening balance	(7,543)	(3,559)
Charged to profit or loss	(3,970)	(3,984)
Closing balance	**(11,513)**	**(7,543)**

Note 8. Cash and cash equivalents

	Consolidated	
	2022 $'000	2021 $'000
Cash at Bank	29,253	35,526
Cash of third party interests in consolidated entities	20,711	14,210
	49,964	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 cash flows in the litigation contracts made on their behalf and costs of administering the Fund.

Note 9. Trade and other receivables

	Consolidated	
	2022 $'000	2021 $'000
Due from litigation service[1]	27,893	8,267
Due from litigation service – portfolios[2]	6,452	5,576
Other receivables	146	–
	34,491	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 (2021: $nil) in profit or loss in respect of the expected credit losses for the year ended 30 June 2022.

Note 10. Contract costs – litigation contracts

	Consolidated	
	2022 $'000	**2021 $'000**
Contract costs – litigation contracts	**184,397**	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:

	Consolidated	
	2022 $'000	**2021 $'000**
Opening balance	**134,558**	62,518
Additions during the period	**28,927**	48,495
Additions during the period made by third party interests	**37,255**	39,539
Litigation service expense – successful contracts[1]	**(16,343)**	(10,439)
Litigation service expense – write down[2]	**–**	(4)
Other contract costs reimbursed – successful contracts[1]	**–**	(5,551)
Closing balance	**184,397**	**134,558**

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

Third party interests in contract assets

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

	2022 $'000	**2021 $'000**
Attributable to owners of LCM	**101,267**	88,602
Third party interests	**83,130**	45,956
Consolidated total	**184,397**	**134,558**

	Consolidated	
	2022 $'000	**2021 $'000**
Current	**21,634**	16,663
Non-current	**162,763**	117,895
	184,397	**134,558**

Impairment considerations

The recoverable amount of the Group's contract costs has been determined by a value in use calculation using a discounted cash flow model, based on cash flow projections and financial budgets as approved by management for the life of each litigation contract.

Key assumptions were used in the discounted cash flow model for determining the value in use of litigation contracts:

- The estimated cost to complete a litigation contract is budgeted, based on estimates provided by the external legal advisors handling the litigation;
- The value to the Group of the litigation contract, once completed, is estimated based on the expected settlement or judgement amount of the litigation and the fees due to the Group under the litigation contract; and
- The discount rate applied to the cash flow projections is based on the Group's weighted average cost of capital and other factors relevant to the particular litigation contract. The discount rate applied was 15% (2021: 15%).

Based on the above, the Group has recognised impairment losses of $nil (2021: $nil) in profit or loss on contract costs for the year ended 30 June 2022.

Note 11. Current liabilities – trade and other payables

	Consolidated	
	2022 $'000	**2021 $'000**
Trade payables	**12,562**	11,655
Distribution payable	**–**	32
Tax payable	**68**	84
Other payables	**278**	621
	12,908	**12,392**

Refer to note 16 for further information on financial instruments.

Note 12. Current and non-current liabilities – employee benefits

	Consolidated	
	2022 $'000	**2021 $'000**
Current		
Annual Leave	**700**	452
	700	**452**
Non-current		
Long Service Leave	**227**	148
	227	**148**

Note 13. Borrowings

	Consolidated	
	2022 $'000	**2021 $'000**
Current		
Borrowings of third party interests in consolidated entities	**14,494**	13,253
	14,494	**13,253**
Non-current		
Borrowings	**54,915**	37,171
	54,915	**37,171**

Reconciliation of borrowings of third party interests in consolidated entities:

	Consolidated	
	2022 $'000	**2021 $'000**
Balance 1 July	**13,253**	–
Proceeds from borrowings	**–**	26,782
Repayment of borrowings	**–**	(13,391)
Net accrued interest	**17**	18
Payments for borrowing costs	**(185)**	(354)
Amortisation of borrowing costs	**230**	281
Other non-cash items	**1,178**	(83)
Balance as at 30 June	**14,494**	**13,253**

On 7 September 2021 the Group entered into a multicurrency revolving credit facility with Raiffeisen Bank International AG for an aggregate amount of USD$30,000,000 (the 'Facility').

The Facility carries interest of LIBOR or equivalent plus margin of 2.2% p.a. and was available for a period of 364 days from the date of the agreement. As at 30 June 2022, the Group's outstanding utilisation amounted to USD$10,000,000 and was due for repayment on 6 September 2022.

Reconciliation of borrowings of LCM:

	Consolidated	
	2022 $'000	**2021 $'000**
Balance 1 July	**37,171**	–
Proceeds from borrowings	**13,298**	36,371
Payments for borrowing costs	**(259)**	(1,134)
Amortisation	**919**	247
Other non-cash items	**3,786**	1,687
Balance as at 30 June	**54,915**	**37,171**

On 22 February 2021 the Group entered into a credit facility with Northleaf Capital Partners for an aggregate amount of US$50,000,000, AUD equivalent of $72,519,0001 (the 'Facility'). The Facility carries interest of a LIBOR or equivalent based rate of 8% 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% for the first two years. The overall cost of the Facility is capped at 13% per annum. The Facility is available to be drawn down during the first two years, has an overall term of four years and is secured against the Group's assets. As at 30 June 2022, the Group's outstanding utilisation amounted to US$10,000,000, an AUD equivalent of $14,504,000[1].

The Group agreed to various debt covenants including a minimum effective net tangible worth, borrowings as a percentage of effective net tangible worth, minimum liquidity, a minimum consolidated EBIT and a minimum multiple of invested capital on concluded contract assets over a specified period. There have been

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

no defaults or breaches related to the Facility during the year ended 30 June 2022. Should the Group not satisfy any of these covenants, the outstanding balance of the Facility may become due and payable.

The Group incurred costs in relation to arranging the Facility of $1,393,000 which were reflected transactions costs and will be amortised over the four-year term of the borrowings. As at 30 June 2022, $968,000 of the loan arrangement fees remained outstanding.

Note 14. Equity – issued capital

	Consolidated			
	2022 Shares	**2021 Shares**	**2022 $'000**	**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
Conversion 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
Conversion of partly paid shares paid up at $0.17 per share	22 October 2021	**498,583**	85
Conversion of options paid up at $1.00 per share	5 November 2021	**600,000**	600
Conversion of partly paid shares paid up at $0.17 per share	16 December 2021	**501,187**	85
Balance	30 June 2022	**106,613,927**	**69,674**

Movements in ordinary shares issued under loan share plan ('LSP'):	**Date**	**Shares**	**$'000**
Balance	30 June 2020	**10,457,247**	–
Issue of shares under LSP	13 October 2020	**616,520**	–
Balance	30 June 2021	**11,073,767**	–
Issue of shares under LSP	27 October 2021	**612,638**	–
Issue of shares under LSP	5 November 2021	**900,000**	–
	30 June 2022	**12,586,405**	**–**

Reconciliation of ordinary shares issued under LSP:	**2022**	**2021**
Total shares allocated under existing LSP arrangements with underlying LSP shares (note 27)	**8,134,929**	11,139,904
Less shares allocated under existing LSP arrangements without underlying LSP shares (note 27)	**(465,988)**	(66,137)
Shares held by LCM Employee Benefit Trust for future allocation under LSP	**4,917,464**	–
	12,586,405	11,073,767

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Note 14. Equity – issued capital continued

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 27 for further details. When the loans are settled the shares are reclassified as fully paid ordinary shares and the equity will increase by the amount of the loan repaid.

Ordinary shares – partly paid

As at 30 June 2022, there are currently 1,433,022 partly paid shares issued at an issue price of $0.17 per share. No amount has been paid up and the shares will become fully paid upon payment to the Company of $0.17 per share. As per the terms of issue, the partly paid shares have no maturity date and the amount is payable at the option of the holder.

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

Capital risk management

The Group's objective 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 2021 Annual Report.

Note 15. Equity – reserves

Movements in reserves

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

Consolidated	Share-based payments reserve $'000	Foreign currency translation reserve $'000	Total reserves $'000
Balance at 30 June 2020	1,001	–	1,001
Movements in reserves during the period	316	(1,377)	(1,061)
Balance at 30 June 2021	1,317	(1,377)	(60)
Movements in reserves during the period	256	(2,535)	(2,279)
Balance at 30 June 2022	**1,573**	**(3,912)**	**(2,339)**

Share-based payments reserve

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

Foreign currency translation reserve

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

Note 16. Financial instruments

Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ageing analysis for credit risk.

Risk management is carried out by senior finance executives ('Finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the Group's operating units. Finance reports to the Board on a monthly basis.

Market risk

Foreign currency risk

The carrying amounts of the Group's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

Consolidated	Assets 2022 $'000	Liabilities 2022 $'000	Assets 2021 $'000	Liabilities 2021 $'000
US dollars	**40,390**	**(72,641)**	25,805	(54,167)
Pound Sterling	**5,121**	**(4,857)**	25,390	(3,095)
New Zealand dollars	**1,819**	**-**	1,874	(8)
United Arab Emirates Dirham	**5,478**	**(718)**	5,047	(670)
Other	**631**	**(567)**	293	(176)
	53,439	**(78,783)**	**58,409**	**(58,116)**

The Group had net liabilities denominated in foreign currencies of $25,344,000 (assets of $53,439,000 less liabilities of $78,783,000) as at 30 June 2022 (2021: net assets $293,000). Based on this exposure, had the Australian dollars weakened or strengthened by 10% against these foreign currencies with all other variables held constant, the Group's profit before tax for the year would have increased and decreased respectively by $2,534,000 (2021: $29,000). The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 12 months. The actual realised foreign exchange loss for the year ended 30 June 2022 was $100,000 (2021: loss of $96,000). The movement in the foreign currency translation reserve for the year ended 30 June 2022 was a loss of $2,535,000 (2021: loss of $1,377,000).

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

Note 16. Financial instruments continued

Price risk

The Group is not exposed to any significant price risk.

Interest rate risk

The Group's main interest rate risk arises from interest on cash at bank.

An official increase/decrease in interest rates of 50 (2020: 50) basis points would have a favourable/adverse effect on profit before tax of $250,000 (2021: $249,000) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts' forecasts.

Credit risk

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

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

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

The Group applies the simplified approach to recognise impairment on settlement and receivable balances based on the lifetime expected credit loss at each reporting date. The Group reviews the lifetime expected credit loss rate based on historical collection performance, the specific provisions of any settlement agreement, assessments of recoverability during the due diligence process and a forward-looking assessment of macro-economic factors; however note that the Group's operations are generally uncorrelated to market conditions and therefore have little to no impact on the recoverability of the Group's financial assets.

The Group's due diligence processes assess the defendants' financial capacity in the matters funded by the Group prior to entering into any agreement to provide funding and continue this assessment over the course of the matter which includes but is not limited to the identification of insurance policies which are sufficient to cover the claim.

Financial assets are generally considered to be in default when amounts are more than 90 days past due or if sufficient indicators exist that the debtor is unlikely to pay. Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than one year.

Liquidity risk

Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Remaining contractual maturities

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

Consolidated – 2022	Less than 1 year $'000	Between 1 and 5 years $'000	Over 5 years $'000	No contractual maturity date $'000	Remaining contractual maturities $'000
Non-derivatives					
Non-interest bearing					
Trade payables	12,562	-	-	-	12,562
Other payables	190	-	-	-	190
Borrowings – current	14,494	-	-	-	14,494
Borrowings – non-current	6,553	74,414	-	-	80,967
Third party interest in consolidated entities	-	-	-	81,780	81,780
Total non-derivatives	**33,799**	**74,414**	**-**	**81,780**	**189,993**

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

Note 17. Fair value measurement

The carrying amounts of the Group's financial instruments carried at amortised cost in the financial statements approximate their fair values. There were no assets and liabilities measured at fair value as at 30 June 2022 and 30 June 2021.

Note 18. Key management personnel disclosures

Compensation

The aggregate compensation made to Directors and other members of key management personnel of the Group is set out below:

	Consolidated	
	2022 $	**2021 $**
Short-term employee benefits	**2,279,794**	2,268,577
Post-employment benefits	**57,615**	54,621
Long-term benefits	**63,210**	12,520
Share-based payments	**257,129**	232,612
	2,657,748	2,568,330

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

2022	**Cash salaries and fees $**	**Bonus $**	**Benefits $**	**Accrued leave $**	**Super-annuation/ Pension $**	**Long service leave $**	**Share-based payments $**	**Total $**
Non-executive Directors								
Dr David King	**100,000**	**–**	**–**	**–**	**10,000**	**–**	**–**	**110,000**
Jonathan Moulds	**183,319**	**–**	**–**	**–**	**–**	**–**	**–**	**183,319**
Gerhard Seebacher	**103,488**	**–**	**–**	**–**	**–**	**–**	**–**	**103,488**
	386,807	**–**	**–**	**–**	**10,000**	**–**	**–**	**396,807**
Executive Directors								
Nick Rowles-Davies	**513,294**	**–**	**3,701**	**–**	**1,211**	**–**	**–**	**518,205**
Patrick Moloney	**998,817**	**–**	**–**	**187,678**	**27,500**	**63,210**	**241,583**	**1,518,788**
Mary Gangemi	**189,048**	**–**	**449**	**–**	**18,904**	**–**	**15,546**	**223,947**
	1,701,159	**–**	**4,150**	**187,678**	**47,615**	**63,210**	**257,129**	**2,260,941**
	2,087,966	**–**	**4,150**	**187,678**	**57,615**	**63,210**	**257,129**	**2,657,748**

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

Directors' share options

The details of options over ordinary shares in the Company held during the financial year by each Director are set out below:

Name of Director	Grant date	Expiry date	Exercise price	Balance at start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at end of the year
Dr David King	20/9/16	1/11/21	$1.00	600,000	–	(600,000)	–	–
Patrick Moloney[1]	20/9/16	1/11/21	$1.00	900,000	–	(900,000)	–	–
Patrick Moloney[2]	19/11/18	25/11/28	$0.47	1,595,058	–	–	–	1,595,058
Patrick Moloney[2]	4/12/17	4/12/27	$0.60	1,000,000	–	–	–	1,000,000
Patrick Moloney[2]	4/12/17	4/12/27	$0.60	1,000,000	–	–	–	1,000,000
Nick Rowles-Davies[2]	6/3/19	8/3/29	£0.5200	4,528,664	–	–	(4,528,664)	–
Patrick Moloney[2]	1/11/19	1/11/29	£0.7394	1,166,400	–	–	–	1,166,400
Nick Rowles-Davies[2]	4/11/19	4/11/29	£0.7394	388,800	–	–	(388,800)	–
Patrick Moloney[2]	13/10/20	13/10/30	£0.6655	291,597	–	–	–	291,597
Patrick Moloney[2]	27/10/21	27/10/31	£1.06	–	279,232	–	–	279,232
Patrick Moloney[2]	27/10/21	27/10/31	£1.06	–	900,000	–	–	900,000
Mary Gangemi[2]	27/10/21	27/10/31	£1.06	–	93,585	–	–	93,585
Mary Gangemi[2]	27/10/21	27/10/31	£1.14	–	26,315	–	–	26,315
				11,470,519	**1,299,132**	**(1,500,000)**	**(4,917,464)**	**6,352,187**

1. On 27 October 2021, Patrick Moloney exercised 900,000 unlisted options at an exercise price of A$1.00 which were granted under the Employee share option scheme. Further information about this scheme is provided in Note 27. Upon exercise, the Group issued 900,000 new ordinary shares in the capital of the Group to Patrick Moloney which have been granted under the Loan Share Plan with the sole purpose to fund the exercise price of the 900,000 unlisted options.
2. Outstanding share options as disclosed in Note 27.

Directors' interests

The number of shares in the Company held at the end of the financial year by each Director is set out below:

Name of the Director	Description of shares	30 June 2022 Number	30 June 2021 Number
Jonathan Moulds	Fully paid ordinary shares	**2,080,000**	–
Dr David King	Fully paid ordinary shares	**1,951,484**	1,601,484
Patrick Moloney	Fully paid ordinary shares	**3,970,971**	3,920,971
Patrick Moloney	Unlisted partly paid shares	**1,433,022**	1,433,022[1]
Nick Rowles-Davies	N/A	**–**	–[2]
Gerhard Seebacher	N/A	**–**	–[3]
Mary Gangemi	Fully paid ordinary shares	**27,500**	–[4]

1. Unlisted partly paid shares in the Company were issued at a price of $0.17 per share, wholly unpaid and will convert to a share upon payment to the Company of $0.17 per share. Further details are provided in Note 14 to the financial statements.
2. Directorship ceased effective 17 December 2021.
3. Directorship commenced effective 18 August 2020.
4. Directorship commenced effective 14 February 2022.

No changes took place in the interests of the Directors between 30 June 2022 and 20 September 2022.

Note 19. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by BDO Audit Pty Ltd, the auditor of the Company, and its network firms:

	Consolidated	
	2022 $	**2021 $**
Audit Services – BDO Audit Pty Ltd		
Audit or review of financial report	**112,500**	125,747
	112,500	**125,747**
Audit Services – Firms related to BDO Audit Pty Ltd		
Audit of statutory report of controlled entities	**93,554**	–
	93,554	**-**
Audit Services – Unrelated Firms		
Audit of statutory report of controlled entities	**2,750**	54,084
	2,750	**54,084**

Note 20. Contingent liabilities

The majority of the Group's funding agreements contain a contractual indemnity from the Group to the funded party that the Group will pay adverse costs awarded to the successful party in respect of costs incurred during the period of funding, should the client's litigation be unsuccessful. The Group's position is that for the majority of litigation projects which are subject to funding, the Group enters insurance arrangements which lessen or eliminate the impact of such awards and therefore any adverse costs order exposure.

Note 21. Related party transactions

Transactions with Director related entities

The following transactions occurred with related parties:

	Consolidated	
	2022	**2021**
Consulting fees paid to Thedoc Pty Ltd – a related entity of Stephen Conrad, a former Director of LCM	**-**	26,000
	-	26,000

Note 22. Parent entity information

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

	Consolidated	
	2022 $'000	2021 $'000
Statement of profit or loss and other comprehensive income		
Loss after income tax	**(256)**	**(316)**
Total comprehensive income	**(256)**	**(316)**
Statement of financial position		
Total current assets	**–**	**–**
Total assets	**68,404**	**67,634**
Total current liabilities	**–**	**–**
Total liabilities	**–**	**–**
Equity		
Issued capital	**69,674**	68,904
Share-based payments reserve	**1,573**	1,317
Retained profits	**(2,843)**	(2,587)
Total equity	**68,404**	**67,634**

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

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

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2022 and 30 June 2021.

Capital commitments – Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2022 and 30 June 2021.

Significant accounting policies

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

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

Note 23. Interests in subsidiaries

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

Name	Principal place of business/Country of incorporation	Ownership Interest 2022 %	Ownership Interest 2021 %
LCM Litigation Fund Pty Ltd	Australia	**100%**	100%
LCM Litigation Investment Fund No 1 Pty Ltd	Australia	**-**[1]	100%
LCM Operations Pty Ltd	Australia	**100%**	100%
LCM Corporate Services Pty Ltd	Australia	**100%**	100%
LCM Unit Trust	Australia	**-**[2]	80%
LCM Singapore Pty Ltd	Australia	**100%**	100%
LCM Recoveries Pty Ltd	Australia	**100%**	100%
LCM Advisory Limited[3]	Australia	**100%**	100%[3]
LCM Funding Pty Ltd	Australia	**100%**	100%
LCM Funding SG Pty Ltd	Australia	**100%**	100%
LCM Corporate Services Pte. Ltd.	Singapore	**100%**	100%
LCM Operations UK Limited	United Kingdom	**100%**	100%
LCM Corporate Services UK Limited	United Kingdom	**100%**	100%
LCM Recoveries UK Limited	United Kingdom	**100%**	100%
LCM Funding UK Limited	United Kingdom	**100%**	100%
LCM Group Holdings Pty Ltd	Australia	**100%**	100%
LCM Global Alternative Returns Fund[4]			
LCM Global Alternative Returns Fund GP Limited	Jersey	**100%**	100%
LCM Global Alternative Returns Fund (Special Partner) LP	Jersey	**100%**	100%
LCM Global Alternative Returns Fund II[5]			
LCM Global Alternative Returns Fund II GP Limited	Jersey	**100%**	-
LCM Global Alternative Returns Fund II (Special Partner) LP	Jersey	**100%**	-

1. Entity was deregistered on 13 October 2021.
2. Trust was wound up on 11 August 2021.
3. Name changed from LCM Advisory Pty Ltd to LCM Advisory Limited upon conversion to a public company on 1 January 2021.
4. The Group launched the LCM Global Alternative Returns Fund ('the Fund') on 10 March 2020. The Fund comprises two partnerships, the LCM Global Alternative Returns Fund LP and the LCM Global Alternative Returns Feeder Fund LP. The partnerships are between the LCM Global Alternative Returns Fund GP Limited, LCM Global Alternative Returns Fund (Special Partner) LP (which are both 100% owned by the Group as reflected within this note), and fund investors i.e., third party interests. The Group is deemed to control the Fund from an accounting perspective on the basis that the Group has exposure, or rights, to variable returns from its involvement with the Fund. As a result, the LCM Global Alternative Returns Fund entities have been consolidated into the Group. Further information is disclosed in note 24.
5. The Group launched the LCM Global Alternative Returns Fund II ('Fund II') on 14 October 2021. The Fund comprises two partnerships, the LCM Global Alternative Returns Fund II LP and the LCM Global Alternative Returns Feeder Fund II LP. The partnerships are between the LCM Global Alternative Returns Fund II GP Limited, LCM Global Alternative Returns Fund II (Special Partner) LP (which are both 100% owned by the Group as reflected within this note), and fund investors i.e., third party interests. The Group is deemed to control the Fund from an accounting perspective on the basis that the Group has exposure, or rights, to variable returns from its involvement with the Fund. As a result, the LCM Global Alternative Returns Fund II entities have been consolidated into the Group. Further information is disclosed in note 24.

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary with non-controlling interests in accordance with the accounting policy described in note 2:

Name	Principal place of business/Country of incorporation	Principal activities	Parent Ownership Interest 2022 %	Parent Ownership Interest 2021 %	Non-controlling interest Ownership Interest 2022 %	Non-controlling interest Ownership Interest 2021 %
LCM Unit Trust	Australia	Management rights	0%	80%	0%	20%

Note 24. Third party interests in consolidated entities

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

As at 30 June 2022, the financial liability due to third party interests is $81,780,000 (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 Funds carry an entitlement to receive an 8% soft return hurdle. Upon satisfaction of the third party interests soft return hurdle, LCM is entitled to performance fees as fund manager on the basis of a deal by deal waterfall. The residual net cash flows are to be distributed 25% to LCM and 75% to the third party interests until 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 Funds with the results for LCM to arrive at the totals reported in the consolidated statement of comprehensive income and consolidated statement of financial position. The Fund column in the table below presents the interests of third party investors comprising both the investment in the litigation contracts made on their behalf and costs of administering the Funds. The LCM column includes the 25% co-investment in these litigation contracts.

Note 24. Third party interests in consolidated entities continued

Consolidated Statement of Comprehensive Income	2022 LCM $'000	2022 Fund $'000	2022 Consolidated $'000	2021 LCM $'000	2021 Fund $'000	2021 Consolidated $'000
Revenue from contracts with customers						
Litigation service revenue	**47,143**	**207**	**47,350**	36,260	664	36,924
Performance fees	**52**	**1**	**53**	135	–	135
	47,195	**208**	**47,403**	36,395	664	37,059
Litigation service expense	**(16,262)**	**(81)**	**(16,343)**	(10,325)	(114)	(10,439)
Gross income	**30,933**	**127**	**31,060**	**26,070**	**550**	**26,620**
Other income	**-**	**-**	**-**	–	–	–
Interest income	**1**	**-**	**1**	4	–	4
Expenses						
Employee benefits expense	**(8,841)**	**-**	**(8,841)**	(8,396)	–	(8,396)
Depreciation expense	**(65)**	**-**	**(65)**	(59)	–	(59)
Corporate expenses	**(3,599)**	**-**	**(3,599)**	(2,750)	–	(2,750)
Finance costs	**(4,703)**	**-**	**(4,703)**	(1,334)	–	(1,334)
Fund administration expense	**(800)**	**(2,369)**	**(3,169)**	(468)	(685)	(1,153)
Total expenses	**(18,008)**	**(2,369)**	**(20,377)**	**(13,007)**	**(685)**	**(13,692)**
Profit before income tax expense	**12,926**	**(2,242)**	**10,684**	**13,067**	**(135)**	**12,932**
Analysed as:						
Adjusted operating profit	**20,038**	**127**	**20,165**	15,834	550	16,384
Non-operating expenses	**(2,409)**	**(2,369)**	**(4,778)**	(1,433)	(685)	(2,118)
Finance costs	**(4,703)**	**-**	**(4,703)**	(1,334)	–	(1,334)
Profit before income tax expense	**12,926**	**(2,242)**	**10,684**	**13,067**	**(135)**	**12,932**
Income tax expense	**(4,040)**	**-**	**(4,040)**	(4,069)	–	(4,069)
Profit after income tax expense for the period	**8,886**	**(2,242)**	**6,644**	**8,998**	**(135)**	**8,863**
Other comprehensive income for the year, net of tax	**(2,103)**	**(432)**	**(2,535)**	(1,482)	105	(1,377)
Total comprehensive income for the period	**6,783**	**(2,674)**	**4,109**	**7,516**	**(30)**	**7,486**
Profit for the period is attributable to:						
Owners of Litigation Capital Management Limited	**8,886**	**-**	**8,886**	8,998	–	8,998
Third party interests in the Fund	**-**	**(2,242)**	**(2,242)**	–	(135)	(135)
	8,886	**(2,242)**	**6,644**	**8,998**	**(135)**	**8,863**

Consolidated Statement of Financial Position	2022 LCM $'000	2022 Fund $'000	2022 Consolidated $'000	2021 LCM $'000	2021 Fund $'000	2021 Consolidated $'000
Assets						
Current assets						
Cash and cash equivalents	**29,253**	**20,711**	**49,964**	35,526	14,210	49,736
Trade and other receivables	**34,491**	**-**	**34,491**	13,843	-	13,843
Contract costs	**21,634**	**-**	**21,634**	16,663	-	16,663
Other assets	**1,238**	**(624)**	**614**	639	(23)	616
Total current assets	**86,616**	**20,087**	**106,703**	**66,671**	**14,187**	**80,858**
Non-current assets						
Contract costs	**79,633**	**83,130**	**162,763**	71,939	45,956	117,895
Property, plant and equipment	**182**	**-**	**182**	186	-	186
Intangible assets	**646**	**-**	**646**	391	-	391
Other assets	**249**	**-**	**249**	284	-	284
Total non-current assets	**80,710**	**83,130**	**163,840**	**72,800**	**45,956**	**118,756**
Total assets	**167,326**	**103,217**	**270,543**	**139,471**	**60,143**	**199,614**
Liabilities						
Current liabilities						
Trade and other payables	**7,091**	**5,817**	**12,908**	8,014	4,378	12,392
Borrowings	**-**	**14,494**	**14,494**	-	13,253	13,253
Employee benefits	**700**	**-**	**700**	452	-	452
Total current liabilities	**7,791**	**20,311**	**28,102**	**8,466**	**17,631**	**26,097**
Non-current liabilities						
Deferred tax liability	**11,513**	**-**	**11,513**	7,543	-	7,543
Borrowings	**54,915**	**-**	**54,915**	37,171	-	37,171
Employee Benefits	**227**	**-**	**227**	148	-	148
Third party interests in consolidated entities[1]	**(5,014)**	**86,794**	**81,780**	(3,961)	43,725	39,764
Total non-current liabilities	**61,641**	**86,794**	**148,435**	**40,901**	**43,725**	**84,626**
Total liabilities	**69,432**	**107,105**	**176,537**	**49,367**	**61,356**	**110,723**
Net assets	**97,894**	**(3,888)**	**94,006**	**90,104**	**(1,213)**	**88,891**

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

Note 25. Earnings per share

	Consolidated	
	2022 $'000	**2021 $'000**
Profit after income tax	**6,644**	8,863
Non-controlling interest	**19**	–
Profit after income tax attributable to the owners of Litigation Capital Management Limited	**6,663**	**8,863**
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	**106,015,738**	104,706,722
Adjustments for calculation of diluted earnings per share:		
Amounts uncalled on partly paid shares and calls in arrears	**1,229,103**	2,144,431
Options over ordinary shares	**2,140,866**	4,693,686
Weighted average number of ordinary shares used in calculating diluted earnings per share	**109,385,707**	**111,544,839**
	Cents	**Cents**
Basic earnings per share	6.28	8.46
Diluted earnings per share	6.09	7.95

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

Note 26. Reconciliation of cash flows

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

	Consolidated	
	2022 $'000	**2021 $'000**
Profit/(loss) after income tax expense for the year	**6,644**	8,863
Adjustments for:		
Depreciation and amortisation of intangibles	**284**	342
Amortisation of finance costs	**327**	99
Share-based payments	**256**	316
Fund administration expenses	**800**	468
Interest reclassified to financing activities	**4,710**	176
Other non-cash items including exchange rate movements	**(739)**	(265)
Change in operating assets and liabilities:		
Increase in contract costs – litigation contracts	**(88,020)**	(72,040)
Decrease/(increase) in trade and other receivables	**(22,074)**	1,455
(Decrease)/increase in trade and other payables	**1,095**	(135)
Increase in deferred tax liabilities	**3,970**	3,985
(Increase)/decrease in prepayments	**22**	(189)
Increase/(decrease) in employee benefits	**327**	107
Increase/(decrease) in third party consolidated interests	**37,181**	
Increase/(decrease) in other liabilities	**-**	274
Net cash from operating activities	**(55,217)**	**(56,544)**

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

	Consolidated	
	2022 $'000	**2021 $'000**
Balance 1 July	**(39,764)**	(12,600)
Proceeds	**(45,060)**	(29,234)
Payments	**778**	635
Other non-cash items	**2,266**	1,435
Balance as at 30 June	**(81,780)**	**(39,764)**

Note 27. Share-based payments

The share-based payment expense for the year was $256,000 (2021: $316,000).

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:

2022	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
	20/9/16	1/11/21	$1.00	1,500,000	–	(1,500,000)	–	–
				1,500,000	–	(1,500,000)	–	–
	Weighted average exercise price			$1.00	$0.00	$1.00	$0.00	$0.00

2021	Grant date	Expiry date	Exercise Price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
	20/9/16	1/11/21	$1.00	1,500,000	–	–	–	1,500,000
				1,500,000	–	–	–	1,500,000
	Weighted average exercise price			$1.00	$0.00	$0.00	$0.00	$1.00

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

Grant date	Expiry date	2022 Number	2021 Number
20/9/16	1/11/21	–	1,500,000
		–	1,500,000

The weighted average share price during the financial year was $1.195 (2021: $1.434).

The weighted average remaining contractual life of options outstanding at 30 June 2022 was nil years (2021: 0.34 years).

Loan Funded Share Plans (‘LSP’)

As detailed in note 14, the Group has an equity scheme pursuant to which certain employees may access a LSP. The shares under LSP are issued at the exercise price by granting a limited recourse loan. The LSP shares are restricted until the loan is repaid. Options under this scheme can be granted without an underlying LSP share until they have been exercised and on this basis, do not form part of the Group’s issued share capital. The underlying options have been accounted for as share-based payments. The options are issued over a one-to-three-year year vesting period. Vesting conditions include satisfaction of customary continuous employment with the Group and may include a share price hurdle.

During the year the Group granted 1,912,489 (2021: 616,520) shares under the LSP.

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

2022	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
	4/12/17	4/12/27	$0.60	2,000,000				2,000,000
	31/8/18	31/8/28	$0.77	411,972				411,972
	19/11/18	25/11/28	$0.47	1,595,058				1,595,058
	3/12/18	3/12/28	$0.89	100,000				100,000
	6/3/19	6/3/29	£0.5200	4,528,664			(4,528,664)	–[1]
	1/11/19	1/11/29	£0.7394	1,432,753				1,432,753
	1/11/19	1/11/29	£0.7730	66,137				66,137[2]
	4/11/19	4/11/29	£0.7394	388,800			(388,800)	–[1]
	13/10/20	13/10/30	£0.6655	616,520				616,520
	27/10/21	27/10/31	£1.06	–	1,512,638			1,512,638
	27/10/21	27/10/31	£1.06	–	269,044			269,044[2]
	27/10/21	27/10/31	£1.14	–	130,807			130,807[2]
				11,139,904	1,912,489	–	(4,917,464)	8,134,929
	Weighted average exercise price			$0.885	$1.953	$0.000	$0.985	$1.091

2021	Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
	4/12/17	4/12/27	$0.60	2,000,000				2,000,000
	31/8/18	31/8/28	$0.77	411,972				411,972
	19/11/18	25/11/28	$0.47	1,595,058				1,595,058
	3/12/18	3/12/28	$0.89	100,000				100,000
	6/3/19	6/3/29	£0.5200	4,528,664				4,528,664[1]
	1/11/19	1/11/29	£0.7394	1,432,753				1,432,753
	1/11/19	1/11/29	$0.77	66,137				66,137[2]
	4/11/19	4/11/29	£0.7394	388,800				388,800[1]
	13/10/20	13/10/30	£0.6655		616,520			616,520
				10,523,384	616,520	–	–	11,139,904
	Weighted average exercise price			$0.814	$1.200	$0.000	$0.000	$0.885

1. As 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 awards were 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.
2. Options granted without an underlying LSP share until exercised i.e., do not form part of the Group's issued share capital.

Note 27. Share-based payments continued

There were 6,318,671 options vested and exercisable as at 30 June 2022 (2021: 4,630,141).

The weighted average remaining contractual life of options under LSP outstanding at the end of the financial year was 0.92 years (2021: 0.43 years).

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

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date[1]
27/10/21	27/10/31	£1.14	£1.06	35.00%	0.00%	0.63%	$0.480
27/10/21	27/10/31	£1.14	£1.06	35.00%	0.00%	1.10%	$0.890
27/10/21	27/10/31	£1.14	£1.14	35.00%	0.00%	0.63%	$0.520

1. AUD 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 28. Events after the reporting period

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

Directors' Declaration

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standards and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2022 and of its performance for the financial year ended on that date; and
- 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
Director

Dated this 20th day of September 2022.

Independent Auditor's Report

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

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

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF LITIGATION CAPITAL MANAGEMENT LIMITED

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Litigation Capital Management Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of Litigation Capital Management Limited, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2022 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

BDO

Recoverable amount of contract cost assets

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
Note 10 to the financial report discloses the contract cost assets consisting of the costs to fulfil litigation funding contracts, and the assumptions used by the Group in testing these assets for impairment. The impairment assessment of contract costs was a key audit matter due to the size of the recorded asset and the degree of estimation and assumptions required to be made by the Group, specifically concerning future discounted cash flows.	Our audit procedures included, among others: • Assessing the Group's value in use model which calculates the recoverable amount of the Group's litigation contracts, in order to determine if any asset impairments were required. This included evaluating the quantum of cash flows with reference to underlying agreements. • Discussing the progress of litigation contracts with management, evaluating the status of litigation for indication of potential impairment indicators and corroborating recent developments in litigation to external supporting documentation. • Assessing the adequacy of the Group's disclosures in note 10 about those assumptions to which the outcome of the impairment test is most sensitive, that is, that have the most significant effect on the determination of the recoverable amount of the litigation contract assets.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2022, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

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

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

Auditor's responsibilities for the audit of the Financial Report

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

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

This description forms part of our auditor's report.

BDO

BDO Audit Pty Ltd

G K Edwards
Director

Adelaide, 20 September 2022

STRATEGIC REPORT GOVERNANCE FINANCIAL STATEMENTS

Additional Notes on Shareholdings

The following information is being disclosed for the purposes of Rule 26 of the AIM Rules for Companies.

Description of the business

- Litigation Capital Management Limited (LCM) is a leading provider of disputes financing and ancillary services, enabling third parties to pursue and recover funds from legal claims.
- For over 24 years LCM has provided litigation financing and was one of the first professional litigation financiers in Australia.

For more information see About Us (https://www.lcmfinance.com/about/about-lcm/).

Country of incorporation and main country of operation

- Incorporated and registered in Australia with registered number ACN 608 667 509.
- LCM's head office is in Sydney, Australia, and has other offices in Melbourne, Brisbane, Singapore and London.
- Shareholders should note that as LCM is not incorporated in the United Kingdom, the rights of shareholders may be different from the rights of shareholders in a United Kingdom incorporated company. Please see LCM's Constitution for further information (https://www.lcmfinance.com/constitution/).

Board of Directors

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

Registered office and advisers

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

Other exchanges or trading platforms

- LCM was listed on the Australian Securities Exchange (ASX Code: LCA) in 2016.
- The Company de-listed from the ASX in connection with admission to AIM. Delisting from the ASX occurred with effect from close of trading on 21 December 2018.

AIM securities in issue

- LCM has 119,200,332 fully paid ordinary shares of no par value in issue, each ordinary share having equa voting rights.
- LCM does not hold any ordinary shares in treasury.

Significant shareholders and holdings by Directors

- The holdings of significant shareholders and Directors can be found on https://www.lcmfinance.com/shareholders/significant-shareholders/.
- The percentage of the ordinary shares that are not in public hands is 28.48% (to the best of our knowledge).

Restrictions on the transfer of its AIM securities

- There are no restrictions on the transfer of the Company's AIM securities.

Corporate governance

- The Company adopted the Quoted Companies Alliance, Corporate Governance Code, published by the UK Quoted Companies Alliance (the QCA Guidelines) from Admission.
- Please refer to Corporate Governance for further details (https://www.lcmfinance.com/shareholders/corporate-governance/).
- Directors' responsibilities and committee memberships can be found on https://www.lcmfinance.com/shareholders/committees/.

Takeovers and mergers

- As the Company is not incorporated in and does not have its registered office in the United Kingdom, the Channel Islands or the Isle of Man and does not have its place of central management and control in any of those jurisdictions; the Company shall not be subject to and shareholders will not be afforded the rights and protections pursuant to the City Code. Instead, the takeover provisions in Chapter 6 of the Corporations Act 2001, will regulate the acquisition of control over the voting shares in the Company.

Corporate Directory

Sydney

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

T +61 2 8098 1390

London

Bridge House
181 Queen Victoria Street London EC4V 4EG

T +44 203 955 5260

Singapore

Marina Bay Financial Centre Tower 1,
Level 118 Marina Boulevard Singapore 018981

T +65 6653 4192

Melbourne

Level 50, 120 Collins Street, Melbourne VIC 3000

T +61 3 9900 6270

Brisbane

Level 54, 111 Eagle Street Brisbane QLD 4000

T +61 7 3012 6478

LCM

EXPERIENCE COUNTS