

ANNUAL REPORT **2018**

Litigation Capital Management Limited
ACN 608 667 509

About LCM

Founded in 1998, Litigation Capital Management (LCM) is one of Australia's most experienced and successful litigation finance companies. LCM is a specialist in providing litigation finance to enable the pursuit and successful recovery of funds in a range of litigation projects, both single-case and portfolio, including class actions, commercial claims, claims arising out of insolvency and international arbitration. LCM provides strategic input and assists with the management of litigation projects to support these projects reaching a successful conclusion.

LCM is headquartered in Sydney and has offices in Melbourne and Brisbane. The company has been listed on the Australian Stock Exchange (ASX) since December 2016.

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FY 2018 Financial Highlights

LCM has a disciplined approach and methodology employed in assessing claims that will likely result in a successful outcome. This has been refined over our 20-year history and is the backbone of our success.

FY 2018 Gross income from Litigation Projects

A\$29.2m

↑ 754% on prior year

FY 2018 Return on equity

41%

FY 2018 Net profit before tax

A\$12.0m

↑ 518% on prior year

FY 2018 Equity

A\$25.4m

↑ 53% on prior year

Cumulative IRR

83%

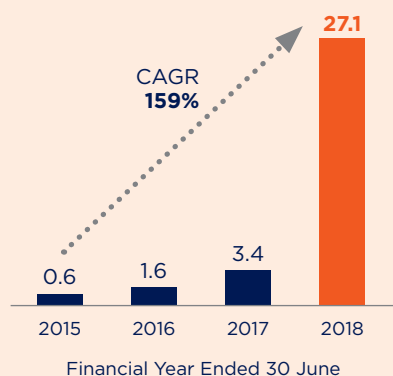
80% in FY 2018

Cumulative ROIC

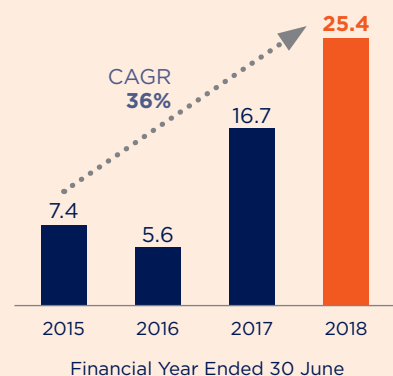
138%

137% in FY 2018

Cash generation (\$ in millions)



Net assets (\$ in millions)





Chairman's Letter

It is our view that it is the robustness of LCM's processes which make the Company exceptional.

Dear Shareholders,

I am delighted to present to you the Litigation Capital Management (LCM) 2018 Annual Report - our second as an ASX-listed company and our first reflecting a full year as a constituent of the ASX - and am I even more delighted to report our strongest financial results to date. It is worth reflecting on this within the context that the Company is celebrating its 20th anniversary this year and it is the disciplined approach and rigorous selection criteria when selecting litigation finance projects that we have honed over that period that has driven this performance.

Following the successful IPO of the Company in December 2016 and the completion of FY 2017, our priority has been driving litigation project performance and generating shareholder value while continuing to review potential opportunities for future revenue growth.

We are pleased to inform shareholders that in addition to strong financial performance, the details of which are included in the report of our Chief Executive Officer Patrick Moloney, our litigation project performance continues to be outstanding, with the Company's track record over the past seven financial years providing a 138% return on invested capital over an average 27 month period and a cumulative IRR of 83%. These exceptional figures demonstrate a continuation of the performance we reported in 2017's Annual Report and are testament to the consistent quality of our approach.

Our existing portfolio of litigation projects is well diversified in terms of the type and size of projects that we have committed capital to and we are comfortable with our exposure to these. The same is true of the strong pipeline of future projects, which is discussed further in the Chief Executive's Report.

As a Board, a key area of focus for us has been the continuous review of the processes that the Company uses in its determination of which litigation projects to support. We are committed to delivering high standards of corporate governance and embedding the right culture and behaviour throughout the business. We recognize the duty that we have to our shareholders to ensure that robust rules, practices and processes are in place and that these operate efficiently at all levels of the business.

It is our view that it is the robustness of LCM's processes which make the Company exceptional. It is vital that we maintain and improve on the high standards we've set, as we look to capitalize on our position as one of the longest-standing and one of the few listed litigation financing entities in the world.

On behalf of the Board, I take this opportunity to recognise the exceptional work that has led us to these record results. I would like to thank my fellow directors and all LCM employees, both existing and new, for their efforts in 2018.

I speak for the Board when I say that we are committed to delivering value to our shareholders in the years ahead and I look forward to welcoming those shareholders who can attend our AGM in November.

Yours Sincerely,

Dr. David King
Chairman

▣▣ We are committed to delivering high standards of corporate governance and embedding the right culture and behaviour throughout the business.



Chief Executive's Report



These completions resulted in record results and a strong increase in gross income from Litigation Projects by 754% to A\$29.2 million.

2018 was a very successful year for LCM, during which we continued to deliver results for our clients and value for our shareholders. These results demonstrate our highly disciplined approach towards investing in litigation. Our robust performance in FY 2018 is testament to our investment methodology, the strength of the business and team we have built, and the solutions we provide.

Our focus on originating high quality litigation projects and successfully completing these projects drive our profitability. We completed six litigation projects in FY 2018. These completions resulted in record results and a strong increase in gross income from Litigation Projects by 754% to A\$29.2 million Profit before tax was A\$12.0 million, an increase of 518% compared to FY 2017 and after movements in deferred taxes we produced a Net Profit after Tax of A\$8.6 million.

The seven-year performance metrics outlined in the Chairman's Letter validate the systems and methodologies developed by LCM over its 20-year history in identifying and managing litigation projects to a profitable conclusion. The seven-year cumulative IRR is 83%, demonstrating that we can consistently produce attractive results within a reasonable investment period. These key metrics generated over a seven-year period are most representative of the business as it will be going forward.

As one of the few listed litigation financing entities in the world and combined with our 20-year heritage, LCM is well positioned to capitalise on a global environment which is seeing rapid and dynamic change. We are a business with the ability to scale up quickly and we have a team that can manage a substantial number of additional projects without a material increase to our cost base.

While many litigation financiers across the world are discussing the provision of funding and risk management solutions to the corporate world, our understanding is that very few transactions have actually occurred. During FY 2018, we entered into our first conditional corporate portfolio transaction. The provision of a finance product across a portfolio of individual litigious disputes represents a very significant opportunity for us as a business. Corporate portfolio transactions are a sector of the potential marketplace which are significant in size and potentially could dwarf the entire current addressable market for litigation finance worldwide.

As well as an increase in the number of applications for litigation finance being received during FY 2018, the number of opportunities by sector also increased. This enabled us to build a strong qualified pipeline (as at 24 October 2018) of future diversified opportunities comprised of 31 litigation projects. Our current portfolio is comprised of 14 litigation projects and we have an additional seven litigation projects which are subject to conditional funding agreements. These seven conditional funding agreements include our first international arbitration and our first corporate portfolio transaction.

The opportunities and market for litigation finance is set to become increasingly global and we will continually monitor and assess attractive regions for our international expansion ambitions. These future growth markets for LCM must have (i) a legal framework and jurisdiction with similar foundation to Australian law, (ii) a maturing and growing recognition of litigation finance as a corporate and risk management tool and (iii) have in place suitable frameworks and rules for the resolution of disputes and enforcements of judgments arbitral awards.

Our approach to selecting litigation finance projects to support is reflected in our approach to considering expansion into new markets and products; we are open to capitalising on the opportunities these markets present, but we are not willing to compromise LCM's robust and diligent approach to do so simply for the sake of growth. It is important that as a business we approach these opportunities with a level head so that future growth is based on the discipline we have practised over the past 20 years and that we continue to create value for our shareholders.

It is important to highlight this, as it is with this outlook that we have begun the process of expanding the capabilities and operations of our team beyond Australia and the Asia-Pacific region. The most significant growth opportunity we've identified is in the United Kingdom and Europe and the Company has over the course of 2018 been considering the provision of litigation finance and funding into the United Kingdom. We took the step in early 2018 to retain Queens Counsel in London to assist with considering applications for funding from that jurisdiction as well as to assist with opportunities arising within Australasia.

We have the exciting opportunity to bring on board an experienced and functioning team to establish a London office to target the growth markets of the UK and Europe. In order to make the most of the growing opportunity in one of the most mature litigation finance markets, and wider Europe, we have identified Mr Nicholas Rowles-Davies to head up and build LCM's European office in London. Nick is a true industry pioneer, the creator of portfolio litigation finance and the author of the seminal text regarding the industry, and his appointment will provide us with an immediate and considerable presence in the region. Nick will lead the newly-formed European office, comprised of highly-experienced litigation funders, in the origination of litigation finance projects and their execution, with a particular focus on portfolio litigation finance.

Our international expansion will be combined with a focus on continuing to strengthen our presence in established markets. To capture the growth in our existing domestic markets we established an office in Melbourne in 2017, the second largest economic hub in Australia. Since establishing the Melbourne office, we have seen an increase in applications for litigation finance from the Victorian jurisdiction.

Looking forward, we expect the outlook to remain positive for the sector. The nature of litigation funding makes it notoriously difficult to make accurate predictions or forecasts about the timing and profitability of individual litigation projects. Notwithstanding this fact, we are expecting nine of the litigation projects in the current unconditional portfolio to complete during FY 2019 (two of which have already completed). Although, as always, the resolution of litigation matters is not easy to forecast, the current forecast for litigation projects to complete in FY 2019 would represent another significant increase year-on-year for us (compared to FY 2018). The final litigation project subject to the International Litigation Funding Partner Agreement and an additional eight projects being funded directly by LCM are all expected to complete during FY 2019.

Our ability to grow our portfolio of Litigation Projects is heavily dependent on our capacity to access appropriate and affordable capital sources. As a result, we are exploring an initiative to de-list from ASX and seek admission of LCM to AIM, a market for growth companies operated by the London Stock Exchange. The directors believe the move to AIM will better position us to broaden our shareholder base, access a deeper pool of equity capital to support growth and therefore position us for a re-rating. LCM shareholders will have an opportunity to vote on proposals relating to this initiative in the near future.

Overall, myself and the management team are very pleased with the financial performance of the company during FY 2018. We are very confident, given LCM's ongoing performance metrics, that future years will repeat and build on our current success. It is vital that as LCM grows, we retain our disciplined approach, as this is what has underpinned our previous success and it is what will drive the growth of the business going forward.



Our robust performance in FY 2018 is testament to our investment methodology, the strength of the business and team we have built, and the solutions we provide.



Market Overview

The significant growth of the litigation finance and funding market in recent years has begun to draw the attention of broader market participants and media over the past year – a theme is set to continue as the industry continues to grow and mature at an incredible rate.

Any doubts as to the permanence of the litigation finance industry in the Australasian marketplace were dispelled with the parliaments in both Hong Kong and Singapore passing legislation establishing a framework for litigation finance and funding products to be utilised in association with international arbitral disputes. At the time of passing that legislation, indications were given that, over time, any prohibition with respect to the use of litigation finance and funding products in association with other disputes in addition to international arbitration will be considered. The industry as a whole has embraced those developments and expects that the permissible use of litigation finance with respect to commercial disputes being resolved or adjudicated through the courts of both Hong Kong and Singapore will follow in future years.

“The Corporations Act provides key avenues for shareholders and consumers to enforce their rights. Where private action can achieve a similar outcome to that which action by ASIC could achieve, it allows ASIC to allocate its enforcement resources to other priorities. Shareholder class actions provide a number of benefits to consumers and financial markets and play an important role in shareholder access to justice.”

We view the above comment made by the Australian Securities and Investments Commission, Australia’s corporate regulator, in September 2018¹ as a positive endorsement of the effect that increased securities class actions are having with respect to

both the integrity and transparency of Australian corporate public markets. The litigation finance and funding industry has made those securities class actions possible. Without a source of funding and the availability of financial support in the form of indemnities against adverse costs, the vast majority of class actions currently pursued within Australia would not be possible.

While litigation financing continues to have significant growth and expansion in single case funding, the market for sophisticated corporates is also becoming increasingly attractive. Ongoing growth of this market is driven by the prohibitive cost of large scale litigation, the desire to avoid significant risks and the recognition of the value of professional management of litigation which financiers provide.

As a result, servicing the sophisticated corporate market has seen funders diversify further from offering funding for one-off large cases, to considering funding portfolios of litigation. Portfolio funding allows funders to take on multiple cases and minimize risk. One of the first of these deals was reported in the press in 2006 when British Telecom utilised a USD\$45M portfolio funding arrangement.

This market offers a compelling opportunity as it is relatively new and largely under-developed.

Geographically, the UK market is fast becoming an attractive region for litigation funders. It is much bigger than any single market in Australia or Asia, is an established center for international arbitration and home to over 200 law firms and four of the top 10 global law firms. The addition of Nick Rowles-Davies to the LCM team and the opening of a London office for LCM will uniquely position LCM to take advantage of this market.

¹Australian Law Reform Commission Inquiry into Class Action Proceedings and Third Party Litigation Funders Submission by the Australian Securities and Investments Commission dated September 2018

Table 1: LCM's risk management process in assessing projects

- 1** Preliminary due diligence by the investment manager
- 2** Investment committee review
- 3** Board review and approval
- 4** Conditional financing agreement
- 5** Additional due diligence
- 6** Unconditional financing agreement

Strategic Review

LCM continues to receive an increased number of applications for litigation finance and risk management products year on year, both from within the single case funding market and the corporate funding market, across the jurisdictions in which LCM operates.

In FY 2018 the total applications increased by 27.6% to 125 applications, compared with 98 applications in FY 2017. Not only has the volume of applications continued to increase, but also the size and quality of the opportunities has improved. Maintaining our disciplined approach and rigorous selection criteria when assessing litigation projects has remained an absolute focus for LCM in 2018, underpinned by thorough due diligence, the active management of investments and the continuity of our experienced team.

Moreover, competition in the global marketplace for litigation funding undoubtedly continues to increase – a trend which LCM generally views as a positive indication of the market maturing. Our team has continued to adapt to this theme, focussing on its sourcing pipeline to avoid the intensely competitive areas of the market and instead selecting opportunities in new areas and sectors.

LCM is committed to the continuation of this disciplined approach towards its investments as it builds its portfolio of projects into FY 2020 and beyond. Looking forward, ensuring our portfolio of litigation projects is balanced both in terms of the size of claim and by sector is key. By way of an indicative outline: commercial claims lead our pipeline composition² (42%) with class actions forming a quarter (26%) of future projects. We have a pipeline of insolvency projects (16%) which will grow with an economic downturn; and international arbitration (16%) which is expected to grow following our international expansion. These figures do not include the pipeline of projects which the addition of the team headed by Nick Rowles- Davies will bring which when added, will significantly increase the volume and diversity of our pipeline. LCM aims to make further balanced investments into insolvency related projects, complex commercial litigation, international arbitration and class actions.

Australia

The ongoing maturing of the Australian marketplace for litigation funding has been evidenced by increased competition in the past year. This has been particularly notable within the class action segment of the market, largely due to activity from offshore funders, primarily from the UK. Competition in the high-profile securities and shareholder class actions segment of the market was notable in 2018; an example of such competition was the three competing shareholder class actions brought against Get Swift Limited and five competing class actions brought against AMP Limited.

The funding of class actions in Australia is presently attended with some judicial uncertainty and risk as the courts work their way through resolving the case management issues posed by competing class actions. LCM has, throughout FY 2018, been cautious in its approach to potential investments in the competitive end of the class action market in Australia, given the current backdrop. LCM will maintain its prudent approach and policy until the applicable legal principles are settled.

Notwithstanding the market temptation to be involved in the funding of high-profile claims - whether they be representative of shareholder class actions or otherwise - LCM has adhered strictly to the methodologies of project selection developed over its 20-year history. An important criterion for LCM to provide funding and invest in a litigation project is that the legal principles and jurisprudence be well settled.

LCM has maintained its strict discipline in sourcing its pipeline. Rather than focus on this intensely competitive area of securities class actions, LCM's focus is instead on developing our expertise and the opportunities associated with different and new sectors.

During 2018, LCM developed its focus on servicing the sophisticated corporate landscape both in the Australasian market and in other developed economies and judicial systems. The provision of financial and risk management solutions to sophisticated and well-capitalised corporate entities for use in their litigious disputes is relatively new to the litigation finance industry.

² As at 24 October 2018

LCM considers the most important aspect of its business to be its people who implement its strategy for the identification and assessment of litigation projects for financing. In 2018 LCM strengthened its Australian team through the hires of two talented and experienced investment managers. Siba Diqer joined LCM's Melbourne office from Herbert Smith Freehills, contributing her considerable experience in litigation and particular expertise in insolvency, corporate and financial litigation. Additionally, Philip Lomax will join LCM in late 2018 from another litigation funder. Philip, who has worked in both the UK and Australian markets, brings 4 years' experience in litigation finance. The recruitment of such high-quality candidates is testament to LCM's increasing profile and reputation in the litigation finance and funding industry.

International

In addition to the continued growth of LCM's team in the Australian market, we are very pleased to have progressed our review of strategic options in the northern hemisphere, where LCM has continued to receive an increased number of applications for projects.

LCM has been disciplined in its approach to expansion into markets where it does not have the necessary skillset and experience. Despite the desire to explore the markets for the provision of litigation finance in the UK and Europe, the focus on growth and expansion is against a backdrop of an industry that has only been in existence for approximately 20 years, resulting in a very small pool of experienced and talented practitioners in the field of litigation finance and funding.

The introduction of Nick Rowles-Davies and his team in the UK not only gives LCM an extremely experienced and functional team operating in the UK and Europe, it also adds significant expertise in the area of corporate portfolio funding. While at Burford Capital, Nick was responsible for the origination and negotiation of one of the few corporate portfolio transactions completed worldwide. Nick has continued to focus on developing the product of corporate portfolio transactions and has become a leading authority with respect to transactions of that nature.

There is clear alignment between the existing management of LCM and Nick regarding the opportunity and addressable market for corporate portfolio transactions. The provision of corporate finance products in established economies and legal systems throughout the world will become a significant opportunity for LCM in the future. Creating new markets such as corporate portfolio transactions will negate the need for LCM to enter into more competitive areas of the marketplace.

Our international expansion strategy also includes opening a new Singapore office in November 2018, led by Roger Millburn. Roger is an international arbitration specialist with 10 years' experience; he joins LCM from Bryan Cave Leighton Paisner LLP in Singapore. The office will service the Singapore and Hong Kong markets for the provision of litigation finance. A number of litigation financiers have already announced a presence in the Singapore and to a lesser extent the Hong Kong markets. LCM has been deliberately patient to wait for the right candidate with deep and relevant experience in the international arbitration market to become available to head up our Asian expansion. LCM has already seen a significant increase in the number of applications for funding relating to international arbitral disputes from the markets of Hong Kong and Singapore. Those markets provide an exciting opportunity for LCM as it continues to expand its funding products and market share. Not only is international arbitration growing as a market for the litigation finance industry, but it is also a growing market worldwide as an alternate means by which sophisticated corporations can resolve trade disputes without competing for jurisdiction.

When expanding into new markets and jurisdictions, LCM will maintain the strict application of its funding criteria and risk management. All risk management and treasury functions will remain centralised within LCM's head office in Sydney.

Financial Review

The two principle performance metrics that are driving current (and future) performance are:

- (1) Cumulative ROIC of 138% (for 2011-18), and
- (2) Cumulative IRR³ of 83% (for 2011-18)

LCM has provided litigation finance and risk management products associated with litigation for approximately 20 years. The last seven years since 2011 are most representative of LCM's business in terms of the projects LCM supports and will continue to do so going forward. Prior to 2011, LCM was providing funding products to different sectors of the market and was subject to different capital constraints. The management of the business during those years was also significantly different to the systems and methodologies to which LCM now adheres; this period better reflects the current strategy based on a diverse portfolio of increasing quality as discussed above.

The Cumulative ROIC of 138% is evidence of the success of the systems and methodologies employed by LCM when selecting projects, deploying capital, and managing those projects to a profitable conclusion. The IRR of 83% demonstrates LCM's ability to generate consistently strong returns over a reasonable investment period. Together the ROIC and IRR demonstrate that LCM can continue to provide excellent returns both in the private and public markets, and through the management of third-party funds.

Completed Projects

LCM's record results in FY 2018 were driven by the completion of six litigation projects, which helped grow revenue and profitability. Gross income from Litigation Projects increased by 754% to A\$29.2 million and profit before tax was A\$12.0 million, an increase of 518% compared to FY 2017. After the movements in deferred taxes LCM produced a Net Profit after Tax of A\$8.6 million.

In addition to completing more projects than FY 2017, LCM more than doubled its invested capital in litigation projects to A\$14.6 million, helping drive the financial performance we experienced. LCM generated an outstanding Return on Equity of 41% and the net asset backing per share increased from 29.5 cents to 45.1 cents per share. Similarly, the basic earnings per share increased to 15.24 cents, from a negative position the year before.

Capital Base

LCM grew its capital base organically to A\$27.1 million during the financial year, representing an increase of 697% from the prior financial year. This cash was used for growth and expansion of the business, as well as the repayment of the A\$4 million debt capital facility which was completed in the first quarter of 2018.

LCM increased its net asset position from A\$16.7 million to A\$25.4 million by the end of FY 2018, reflecting the successful reinvestment of cash into profitable litigation projects. LCM achieved these results at the same time as reducing its operating costs from A\$4.2 million to A\$3.7 million.

Portfolio Policy

LCM increased its portfolio of litigation projects under management in FY 2018, and as at 30 June 2018 was funding 14 unconditional litigation projects had an additional six litigation projects subject to conditional funding arrangements (that figure is now seven). LCM grew the aggregated gross claim size of all litigation projects under its management from A\$905 million in FY 2017 (of which A\$169 million related to the International Funding Partner Arrangement) to A\$1.5 billion as at the close of FY2018, including the conditional projects (with only A\$55 million relating to the arrangement with the International Funding Partner Agreement).

³ LCM calculates its Cumulative IRR by treating our entire investment portfolio as one undifferentiated pool of capital and measuring inflows and outflows from that pool. Cumulative IRR only includes completed investments and does not include unrealised gains or losses.

As at 24 October 2018 LCM has a pipeline⁴ of qualified litigation funding projects (subject to due diligence) of 31 separate opportunities with an aggregate gross claim size of approximately A\$3.1 billion. This pipeline was estimated to have had an aggregate funding budget of

approximately A\$108 million. This expanded portfolio, with its combination of conditional and unconditional projects is key to LCM's diversification policy, allowing it to better withstand earnings volatility.

Investment performance

A\$ in millions	Projects concluded	Total invested	Total recovered	MOIC*	ROIC**	ROIC high	ROIC low
Total projects concluded for FY 2012	4	A\$0.2	A\$0.8	3.80	2.80	9.85	1.36
Total projects concluded for FY 2013	4	A\$1.6	A\$0.9	0.56	(0.44)	2.09	-
Total projects concluded for FY 2014	5	A\$1.2	A\$3.7	3.10	2.10	10.27	-
Total projects concluded for FY 2015	8	A\$3.6	A\$10.9	2.98	1.98	39.42	-
Total projects concluded for FY 2016	3	A\$3.6	A\$7.2	2.00	1.00	6.52	0.57
Total projects concluded for FY 2017	2	A\$0.8	A\$2.9	3.76	2.76	4.12	2.19
Total projects concluded for FY 2018	6	A\$15.7	A\$37.3	2.38	1.38	13.44	0.49
Total		A\$26.8	A\$63.8				

* Multiple on Invested Capital

** Return on Invested Capital

⁴ This pipeline represents a set of qualified opportunities at various stages of due diligence. LCM can provide no guarantee or warranty that the opportunities in its pipeline will become projects funded by LCM. These opportunities are subject to due diligence and the negotiation of commercial terms and it is likely that only a proportion of the opportunities in this pipeline will convert into funded projects.

Operational Review

Over its 20 years in business, LCM has established clear best practice and high operational standards which contribute directly to the stability and strength of the company.

Finance function & controls

LCM centralises its finance functions in its head office in Sydney, enabling finance to participate in the review of investment managers' existing projects and their investment pipeline. This creates alignment between origination, treasury, finance and corporate reporting teams and minimizes volatility between forecasting and the completion of projects.

LCM has robust controls around payments which incorporate both internal and external systems. These controls require that all payments, regardless of their size, are loaded into a central system by a member of the team that does not have the authority to release that payment. They also require at least three different people from three different internal teams to provide authorization before any payments leave LCM. The largest payments relate to litigation projects and these are circulated amongst the investment team, risk team and finance team ahead of them being loaded into and becoming part of the three-step approval process.

Risk management

LCM has a proven and robust risk management process. It applies rigorous selection criteria which have been developed over the company's 20-year history and embody a clear understanding of what is likely to constitute a successful and profitable litigation project. This process is central to the discipline shown when sourcing deal pipeline, which in turn has led directly to the current strong financial position.

Investment managers consider applications for financing against LCM's 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 points of law.
- 3) **Written Evidence** – The claim should be supported by clear evidence, which 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 judgment of the size which will be brought.
- 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, LCM provides funding to only around 4% of the applications it receives. This process allows LCM to be cautious and to protect itself from risk and the temptation of unnecessary growth. The funding criteria are applied across all of the core legal claims sectors that LCM has expertise in: Commercial Claims, Class Actions, Insolvency, International Arbitration, and Corporate Portfolios.

Each Litigation Project LCM funds is managed by an Investment Manager, who is responsible for ensuring that the litigation project continues to meet the key criteria and is expected to achieve the funder's return as at the likely Completion Date. LCM's investment managers meet weekly and the status of all litigation projects are reviewed quarterly.

Whilst LCM's business has always had a robust focus on risk management, we will shortly move to appoint a dedicated risk officer. The Head of Risk will conduct a biannual audit of all litigation projects against the following:

- a. Regulatory Risk
- b. Portfolio Risk
- c. Reputational Risk
- d. Service Provider Risk
- e. Sovereign Risk
- f. Foreign Currency Risk
- g. Competition Risk
- h. Risk in relation to obligations of market disclosure.

The Head of Risk will also be required to provide a biannual report to the Board setting out the outcome of his or her audit of the Litigation Projects.

IT & cybersecurity

Data security and privacy is very important to LCM. As a manager of litigation assets, LCM is in possession of highly confidential information that contains sensitive details about client litigation matters. As a publicly listed entity, LCM is also in possession of confidential information that needs to be disseminated in compliance with regulatory frameworks including listing rules, securities licensing regimes and other stakeholders. Data is stored on third party cloud servers and LCM continues to review suppliers of these services to ensure the highest security.

Compliance

At LCM, we have a very simple philosophy around ethical conduct that is entrenched within our 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.

Our compliance regime has grown in tandem with our international expansion and it addresses the various legal and regulatory obligations LCM has across multiple jurisdictions.

Foreign exchange

LCM is an AUD reporting business with the majority of our operations occurring in AUD denominated activities. Going forward, our international expansion will see LCM deploy additional capital into litigation assets domiciled outside of Australia. To this end, we have brought into LCM an experienced financial markets advisor, Stephen Conrad, who has over 25 years' experience working for international investment banks in Singapore, Hong Kong and Sydney in their financial markets divisions. Stephen also has a strong skillset in governance and risk management. LCM has now adopted a dedicated Treasury Policy.

Foreign exchange transaction risk is the risk that LCM's cash flows will be adversely affected by movements in exchange rates that will increase the Australian dollar ('AUD') value of foreign currency payables or will diminish the AUD value of foreign currency receivables.

LCM's approach to foreign exchange transaction risk management is as follows:

- The overall purpose of hedging is to mitigate risks and achieve known outcomes.
- Foreign exchange risk management is the responsibility of Treasury
- It is the responsibility of Investment Managers to identify foreign exchange risks in their areas of responsibilities and notify Treasury in a timely manner of these exposures through the monthly reporting system established by Treasury

The sources of LCM's foreign exchange transaction exposures are as follows:

- Investments in cases which are in a foreign currency
- Foreign operating costs, such as salaries, offices and other business expenses in a foreign currency
- Capital equipment priced in foreign currency or subject to price change due to movements in exchange rates
- Payments or receipts of royalties, franchise or license fees denominated in a foreign currency



It is vital that as LCM grows we retain our disciplined approach, as this is what has underlined our previous success and it is what will drive the growth of the business going forward.

Our Board



Dr David King
Chairman

Appointed Director and Chairman of LCM in October 2015.

David was a founder and non-executive director of Sapex Ltd, Gas2Grid Ltd and Eastern Star Gas Ltd. He has substantial natural resource related experience, having previously served as managing director of North Flinders Mines Ltd and CEO of Beach Petroleum and Claremont Petroleum.

David is a Fellow of the Australian Institute of Company Directors, a Fellow of the Australasian Institute of Mining and Metallurgy and a Fellow of the Australian Institute of Geoscientists. David is Non-executive Chairman of Cellmid Ltd and African Petroleum Corporation Ltd, and a non-executive director of Galilee Energy Ltd and Tap Oil Ltd



Patrick Moloney
Chief Executive Officer

Appointed Director in 2003 and Managing Director in December 2013.

Patrick has been an executive director of LCM since 1 December 2013. He was a non-executive director from 2003. Patrick was previously the principal of Moloney Lawyers, which he established in 2003 and specialised in commercial litigation and had a diverse client base. Patrick has acted in more than 200 commercial litigation cases for clients in the District Court of NSW, the Supreme Court of NSW, the Federal Court of Australia and the High Court of Australia. Patrick was admitted to practise law in 1996.

Patrick is also the Chairman of 101 Capital Pty Ltd, the holder of a current Australian Financial Services Licence, which was formerly the Responsible Entity of a registered Managed Investment Scheme which raised significant monies from investors and operated an enhanced equity income strategy



Steven McLean
Non-executive Director

Appointed Director in November 2015.

Steven has an investment banking background, with over 20 years' experience, commencing with Ernst & Young Corporate Finance before moving to J.P. Morgan in Australia and Europe. Steven has led equity transactions which have raised in excess of A\$50 billion for corporates across various countries including Australia, USA, UK, Switzerland, Finland, Holland, Austria, France, Russia, Singapore and Bermuda.

In addition to his role with LCM, Steven is currently the Head of Corporate Finance at FinEx, Chairman of ASX listed ReNu Energy Ltd and holds numerous private company board positions. Steven is a graduate of the University of Sydney with a Bachelor of Economics.

Corporate and Social Responsibility

LCM is a partner of the Adverse Costs Order Guarantee Fund (**ACO Fund**) which has been established by the Public Interest Advocacy Centre (**PIAC**).

The ACO Fund aims to promote access to justice for public interest litigation by responding to the significant barrier that is posed by the risk of an adverse cost order. Under the ACO Fund, LCM has agreed to commit an amount annually of AUD\$25,000 by way of guarantee towards protecting PIAC clients from adverse cost orders in public interest cases. LCM reviews the amount of this guarantee regularly as demand is required from PIAC.

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.

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 2018 and the auditors' report thereon.

1. Directors

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

- Dr David King – Chairman
- Mr Patrick Moloney
- Mr Steven McLean

Particulars of the skills, experience, expertise and responsibilities of the Directors at the date of this report are set out below:

David King

Non-Executive Independent Chairman

PhD, MSc, FAusIMM, FAICD

Appointed Director and Chairman in October 2015.

Experience and expertise

David was a founder and non-executive director of Sapex Ltd, Gas2Grid Ltd and Eastern Star Gas Ltd. He has substantial natural resource related experience, having previously served as managing director of North Flinders Mines Ltd and CEO of Beach Petroleum and Claremont Petroleum.

David is a Fellow of the Australian Institute of Company Directors, a Fellow of the Australasian institute of Mining and Metallurgy and a Fellow of the Australian Institute of Geoscientists. David is Non- executive Chairman of Cellmid Ltd and African Petroleum Corporation Ltd, and a non-executive director of Galilee Energy Ltd.

Directorships of listed companies (last 3 years)

Current directorships

Galilee Energy Limited (ASX: GLL) – Non-executive Director since 24 September 2013 (Chairman from 30 October 2013 until 7 March 2018).

Cellmid Limited (ASX:CDY) – Non-executive Director and Chairman since 18 January 2008

Previous directorships

Robust Resources Limited, Republic Gold Limited and Tengri Resources Limited

Committee membership

Audit Committee and Remuneration Committee

Patrick Moloney

Chief Executive Officer

LLB

Appointed Director in 2003 and Managing Director in December 2013.

Experience and expertise

Patrick has been an executive director of LCM since 1 December 2013. He was a non-executive director from 2003. Patrick was previously the principal of Moloney Lawyers, which he established in 2003 and specialised in commercial litigation and had a diverse client base.

Patrick has acted in more than 200 commercial litigation cases for clients in the District Court of NSW, the Supreme Court of NSW, the Federal Court of Australia and the High Court of Australia. Patrick was admitted to practice law in 1996.

Prior to establishing his own firm, Patrick was an employed solicitor for 3 years and then a partner in the firm of Eddy Moloney for 4 years.

Patrick is also the Chairman of 101 Capital Pty Ltd, the holder of a current Australian Financial Services Licence, which was formerly the Responsible Entity of a registered Managed Investment Scheme which raised significant monies from investors and operated an enhanced equity income strategy

Steven McLean

Non-executive Director

BEC

Appointed Director in November 2015.

Experience and expertise

Steven has an investment banking background, with over 20 years' experience, commencing with Ernst & Young Corporate Finance before moving to J.P. Morgan both in Australia and Europe. Steven has led equity transactions which have raised in excess of A\$50 billion for corporates across various countries including Australia, USA, UK, Switzerland, Finland, Holland, Austria, France, Russia, Singapore and Bermuda.

In addition to his role with LCM, Steven is currently the Head of Corporate Finance at FinEx, Chairman of ASX listed ReNu Energy Ltd and holds numerous private company board positions. Steven is a graduate of the University of Sydney with a Bachelor of Economics.

Directorships of listed companies (last 3 years)

ReNu Energy Limited (ASX: RNE) – Non-executive Director since 14 March 2017

Committee membership

Audit Committee and Remuneration Committee

2. Company Secretaries

Steven McLean (whose details appear above) resigned as Company Secretary on 7 September 2016.

Anna Sandham was appointed Company Secretary of LCM on 7 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. Meetings of Directors

The number of meetings of the Company's Board of Directors ("the Board") and the number of meetings attended by each Director during the financial period are:

	Number eligible to attend	Number attended
Directors		
David King	10	10
Patrick Moloney	10	10
Steven McLean	10	10

4. Meetings of Committees

Both an Audit and Risk Committee and Remuneration Committee were established by the Board on 20 September 2017.

The number of meetings of the Audit and Risk Committee together with the meetings attended during the financial period are:

Audit and Risk Committee Meetings		
	Number eligible to attend	Number attended
Directors		
David King	2	2
Patrick Moloney	-	-
Steven McLean	2	2

The number of meetings of the Remuneration Committee together with the meetings attended during the financial period are:

Remuneration Committee Meeting		
	Number eligible to attend	Number attended
Directors		
David King	0	0
Patrick Moloney	-	-
Steven McLean	0	0

5. Principal Activities

Litigation Capital Management provides financial and risk management services associated with the legal services industry and most particularly, litigation. The company provides service including the funding of contentious commercial litigation and class actions as well as corporate risk management associated with litigation.

6. Operating and financial review

Overview of the Group

Litigation Capital Management is a company limited by shares and was incorporated on 9 October 2015. It listed on the Australian Securities Exchange on 13 December 2016 under the code LCA. Its registered office and principal place of business is Suite 12.06, Level 12 The Chifley Tower, 2 Chifley Square Sydney NSW 2000.

Litigation Capital Management 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.

Review of financial performance

The Board of LCM is extremely happy with the performance of the Group and the financial results for FY 2018 being the first full financial year of trade since listing. The Group has transited from a statutory loss in FY 2017 to a healthy cash profit of \$12 million. After the derecognition of LCM's deferred tax asset in accordance with AASB, the company posted an accounting NPAT of \$8.6 million. LCM's financial performance during FY 2018 represents a significant turnaround in its financial position. It provided the Group with additional organically generated capital which permitted the growth and expansion of its business. The Return on Invested Capital (ROIC) throughout the year was 137% with an Internal Rate of Return (IRR) of 80%. During the FY 2018 year, the Return on Equity (ROE) was 41%. The company's financial performance was excellent across all metrics.

LCM's running IRR for the past seven years (including losses) is 83% with a ROIC of 138%. The Group's long running and stable IRR over a sustained period in the low 80% and ROIC of 138% demonstrates LCM's depth of knowledge and experience in the sector and its ability to select and manage investments over an extended investment period. That said, IRR's can be highly susceptible to cases that experience early settlement. As LCM's book of Litigation Projects continues to grow, diversity will be the key to ensure we can maintain a stable and consistent earnings profile and hence we would expect future IRR's to reflect this.

Review of LCM's portfolio of Litigation Projects

LCM continues to grow its portfolio of Litigation Projects. During FY 2018, six Litigation Projects were completed (compared with two projects in FY 2017) all of which yielded a profit for the group. Of these, five were funded from LCM's own balance sheet and one Litigation Project was funded through the International Funding Partner (IFP) arrangement.

As at 30 June 2018, LCM has a portfolio of 14 Litigation Projects (unconditionally funded) with an estimated aggregate gross claim size of approximately \$1.25 billion. Of these, 12 projects are expected to resolve during FY 2019 (including a Litigation Project funded through the IFP which has already completed leaving only 1 Litigation Project subject to that IFP arrangement). That portfolio compares with the position as at 30 June 2017 where the portfolio of projects comprised 12 with an aggregate gross claim size of approximately \$800 million. That represents an increase in the size of the portfolio (by aggregate claim size) of 56% and an enhanced return profile.

During FY 2018 the number of applications received by LCM for funding increased significantly. There were 125 applications received compared with 98 for FY 2017 representing an increase of 27.6%. In addition, LCM expanded its offering of litigation finance into the field of international arbitration.

During FY 2017, 24 applications were received in respect of international arbitral disputes. LCM has entered into its first conditional funding arrangement in an international arbitral dispute and is currently conducting due diligence in respect of a number of other applications. LCM has moved to secure the necessary skillsets internally to properly manage those opportunities.

Significant Changes in the State of Affairs

No matters or circumstances have arisen since the end of the financial year which have significantly affected or could significantly affect the operations of LCM or the LCM group, the results of those operations, or the state of affairs of the consolidated group in future financial years.

Future Developments, Prospects and Business Strategies

The growth and maturing of litigation finance as an asset class is seeing a progression by more funders to public listings versus remaining private. Currently LCM is one of three publicly listed litigation finance entities worldwide and there are expected to be a number of other litigation finance companies listing on the London Stock Exchange during the remainder of this calendar year. LCM is monitoring this situation in relation to these opportunities and how they may apply to the Group.

As previously announced to the market, the jurisdictions of Hong Kong and Singapore have recently legislated to permit litigation funding and finance products in the international arbitration space. In response to significant numbers of enquiries and applications from those jurisdictions, LCM is currently in the process of establishing an office in Singapore with initial staffing of an investment manager to facilitate project origination and due diligence. The opening of a Singapore branch office is expected to be completed by the end of this calendar year.

All risk management in respect of the Singapore and Hong Kong business will remain under the control of the head office in Sydney.

Capital Management

During FY 2018 LCM utilised debt as a capital management tool and has repaid that facility in full. With the significant growth of LCM's pipeline, the Board expects to source funding for a portion of its future opportunities from a range of sources including managed funds, debt and where appropriate, additional equity.

7. Dividends

No dividends were paid during the financial year.

8. 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 Group, the results of those operations, or the state of affairs of the Group in future years.

9. Likely developments

The growth and maturation of LCM's current book of Litigation Projects is progressing very well and in respect of some Litigation Projects better than anticipated. The individual Litigation Projects which together comprise the portfolio of Litigation Projects presently being managed and funded by LCM are generally tracking as, or better than expected.

LCM is looking closely at markets and opportunities in Asia and beyond. The market and the asset class of litigation finance and funding is maturing rapidly. The market opportunities are extending well beyond the traditional opportunities where a claimant in litigation is either impecunious or unwilling to use their own funds to pursue their rights into a tool used by sophisticated and well capitalised entities to manage cash flow and risk. That development opens very significant opportunities and sectors of the market previously untapped by litigation finance.

As noted above, LCM is in the process of opening an office in Singapore. That Singapore office will service the markets of Singapore and Hong Kong. In respect of each of those jurisdictions, litigation finance is available in respect of insolvency based litigation and international arbitration. Neither Singapore nor Hong Kong have opened with respect to mainstream commercial disputes. It is expected that those markets will become available in the future. Whilst LCM believes that there is a viable market available to it in respect of insolvency based litigation projects and international arbitrations immediately, it also believes that the opportunities will increase over time when mainstream commercial disputes become available to the funding market. Given this, we are taking a cautious approach to monetising these opportunities.

LCM is receiving an increasing number of applications for litigation finance and other related funding products from the Northern Hemisphere and more particularly the United Kingdom and Europe. To address those opportunities, LCM has, for some time, retained a Queen's Counsel located in the United Kingdom to assist with respect to considering those opportunities. The services of that Queen's Counsel has also been utilised in the evaluation and due diligence of potential projects in Australia and Asia. With the increase in the number of international applications being received, LCM is considering the use of additional resources in the United Kingdom

to assist with respect to evaluating opportunities and conducting due diligence but also originating opportunities. LCM has for some time been very cautious not to enter markets and invest in litigation projects in jurisdictions in which it does not have a core skillset. Such issues are likely to be addressed by building or acquiring a suitably qualified and experienced team within the United Kingdom or Europe. LCM continues to assess those markets and consider opportunities.

10. Regulation

The Group's operations are not currently subject to significant regulation under a law of the Commonwealth or of a state or territory.

Notwithstanding that there is no significant regulation of the litigation finance and funding industry at either a Commonwealth or state level, two law reform commission enquiries have been initiated. The first is an enquiry in the State of Victoria. That enquiry involved consideration as to whether the litigation finance and funding industry should be subject to greater regulation than is currently in place. That enquiry could only ever make recommendations with respect to the laws of Victoria. It is widely accepted that if any regulation of the litigation finance and funding industry was to take place it would need, for practical reasons, to take place at a Commonwealth level.

In addition to the Victorian enquiry, the Australian Law Reform Commission (ALRC) is currently investigating and conducting an enquiry into the litigation finance and funding industry insofar as it concerns class or representative actions. That enquiry is yet to be completed and no final recommendations have been made. In a preliminary report for consideration and discussion, various issues have been raised for debate. Those issues include the licensing of litigation financiers or funders, what, if any, restrictions or requirements should be attached to such licensing, whether law firms should be permitted to enter into damages based charging agreements in respect of class actions, whether a review should be undertaken in relation to the Commonwealth laws requiring public

companies to continuously disclose to the market and various other less significant matters. LCM has made a submission to the ALRC and this, together with other industry participants, can be accessed at <https://www.alrc.gov.au/inquiries/class-action-funding/submissions>.

A number of observations should be made in relation to the enquiries which have been completed and/or are pending. First, the Commonwealth Productivity Commission produced a report into Access to Justice in 2014 which commented upon the litigation funding industry. It recommended that litigation financiers and funders be licenced and that certain prudential obligations be put in place. No regulation has resulted from those recommendations. Secondly, even in circumstances where all of the current matters being considered by the Commonwealth Productivity Commission were implemented it would not impact significantly on the business model of LCM. Indeed issues such as licencing and prudential requirements might well create a barrier to entry to new prospective litigation financiers and make it difficult for existing smaller operators to compete. It is therefore LCM's position that regulation of the kind currently subject to consideration and debate would be positive and complimentary to LCM's business.

11. Directors' interests

The relevant interests of each director in the shares and rights or options over shares issued by LCM, as notified by ASX in accordance with s205G(1) of the Corporations Act 2001 (Cth) (Act), at the date of this report is as follows:

Directors	Ordinary shares (held directly and indirectly)	Loan Plan Shares exercisable at \$0.5965 issued in 2 tranches and subject to vesting conditions	Unlisted options over ordinary shares exercisable at \$0.47*	Unlisted options over ordinary shares exercisable at \$1.00**	Unlisted partly paid shares
David King	1,601,484		-	600,000	-
Steven McLean	577,499		-	-	-
Patrick Moloney	5,212,557	2,000,000	1,595,058	900,000	1,433,022

* to acquire fully paid ordinary shares, exercisable on or before 1 December 2018 at an exercise price of \$0.47 per option.

**to acquire fully paid ordinary shares, exercisable between 1 November 2018 and 1 November 2021 at an exercise price of \$1.00 per option.

12. Share Options and Rights outstanding

As at the date of this report there are 3,190,116 options outstanding at an exercise price of \$0.47 per option and an expiry date of 1 December 2018 and 1,500,000 options outstanding at an exercise price of \$1.00 exercisable between 1 November 2018 and 1 November 2021. Option holders do not have the right to participate in any share issue or interest issue of the Company.

A Loan Share Plan ("LSP") was approved by LCM shareholders at the Annual General Meeting in November 2017. Also at the 2017 AGM, the shareholders approved the issue of 2,000,000 Plan Shares to Patrick Moloney.

The terms and condition of Plan Shares issued to Patrick Moloney granted during the financial year are summarised below:

Tranche	Grant date	Vesting date	Number of Plan Shares	Issue price
Tranche 1:	4 December 2017	4 December 2019	1,000,000	\$0.5965
Tranche 2:	4 December 2017	4 December 2020	1,000,000	\$0.5965

Each tranche of Plan Shares will vest if the relevant Vesting Conditions set out below are met:

Tranche 1:

Vesting conditions

- Mr Moloney has been continuously employed by the Company from the Grant Date to the date that is 24 months after the Grant Date and has been continuously been employed by the Group over that period; and
- The VWAP of the Company's shares over any 5 trading day period is at least \$1.00 per share (or such equivalent price if a capital reconstruction occurs in relation to the Company) (Target Price Condition).

Tranche 2:

Vesting conditions

- Mr Moloney has been continuously employed by the Company from the Grant Date to the date that is 36 months after the Grant Date and has been continuously been employed by the Group over that period; and
- The Target Price Condition has been met.

Further details of the LSP and the issue of shares under the LSP to Mr Moloney are provided in section 1.5 and 2.4 in the Remuneration Report.

No ordinary shares have been issued during or since the year end as a result of the exercise of options.

13. 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.

14. Non-audit services

No amounts have been paid or are payable to the Auditor for non-audit services provided during the financial year.

15. Proceedings on behalf of LCM Group

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

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

16. Lead Auditor's independence declaration

The Auditor's independence declaration as required under section 307C of the Act is included on page 33 of the Annual Report.

17. Auditor

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

18. Officers of the Company who are former partners of BDO Audit (SA) Pty Ltd

There are no officers of LCM who are former partners of BDO Audit (SA) Pty Ltd.

19. Remuneration Report

The Remuneration Report which forms part of this Directors' Report is presented separately on pages 25 - 32.

20. 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.

21. 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 2018 which has been audited in accordance with the Corporations Act 2001 (Cth) (Act) and its regulations, and outlines key aspects of our remuneration framework.

1. Remuneration Framework

1.1 Overview of remuneration framework

Relationship between remuneration policy, the company’s performance and shareholder wealth

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. Executive remuneration and incentive policies and practice are performance-based and aligned with LCM Group’s vision, values and overall business objectives.

LCM’s remuneration framework is designed to support and reinforce its vision, value and overall business objectives, with four guiding principles in mind:

- Alignment of executive pay with shareholder interests and wealth outcomes;
- Motivation of executive 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 executive talent to ensure business success; and
- Provision of a simple and transparent framework that is clear to participants and external stakeholders. LCM is committed to developing and communicating an effective remuneration framework that assists with attracting, retaining and motivating non-executives and executives and that supports the execution of our strategy to the benefit of long term value creation. The Board welcomes feedback from external stakeholders around its remuneration practices and disclosures.

We will provide further detail on the remuneration and reward framework in future reports and the linkages this provides with business performance.

The below table illustrates the link to Executive remuneration over the past two financial years (including FY18):

Financial Performance Measure	Link to Executive Remuneration	FY18	FY17
Group NPAT (\$)	N/A	AUD \$8,637,354	AUD \$(2,340,508)
Dividends per share (\$)	N/A	N/A	N/A
Share Price as at 30 June (\$)	Loan Share Plan (refer 1.5)	0.72	0.48

1.2 Role of the Remuneration Committee

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

The Remuneration Committee ensures that the Company’s remuneration philosophy and strategy (as set out above) continues to be designed to:

- Attract, develop and retain Board and executive talent;
- Create a high performance culture by driving and rewarding executives for achieving the Group’s strategy and business objectives; and
- Link incentives to the creation of shareholder value.

The Remuneration Committee shall meet formally at such frequency as circumstances demands for the purposes referred to above. The Remuneration Committee did not meet during the 2018 year.

1.3 Key Management Personnel

Key Management Personnel (“KMP”) are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, either directly or indirectly, including any director of LCM or the Group. The following persons were KMP’s during the past financial year:

Directors report

1.3.1 Non-executive directors

Dr David King Non-executive Chairman
Steven McLean Non-executive Director

1.3.2 Executives (also a member of the Board)

Patrick Moloney Managing Director

1.4 Remuneration Consultants

When and where it is considered necessary, the Board will seek advice from independent experts and advisers including remuneration consultants. No remuneration consultants were used this financial year.

1.5 Long term incentive scheme

A Loan Share Plan (“LSP”) was approved by LCM shareholders at the Annual General Meeting in November 2017 (“2017 AGM”). The LSP was adopted to retain, motivate and attract executives and to better align the interests of employees with those of the Company and its shareholders by providing an opportunity for eligible senior executives to acquire shares subject to the terms and conditions of the LSP. Patrick Moloney is currently the only participant in the LSP, and the issue of shares to Mr. Moloney under the LSP was approved by shareholders at the 2017 AGM.

Further details of the LSP and the issue of shares under the LSP to Mr. Moloney are provided in section 2.4 below.

2 Remuneration Details**2.1 Remuneration payable to Non-executive Directors****Annual Directors’ fees**

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.

The following persons acted as Non-executive Directors of the Company in the past financial year and are considered members of Key Management Personnel:

Non-executive Directors

Dr David King	Non-executive Chairman
Steven McLean	Non-executive Director

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, \$200,000 per annum.

As no amount has been fixed by LCM in general meeting, the aggregate fee pool limit is \$200,000 per annum. There is no intention to seek to increase the Non-executive Director fee pool in the foreseeable future.

The Non-executive Director annual fee structure (including superannuation) paid during the 12 months ended 30 June 2018 is as follows:

	Fee (\$ per annum)
Non-executive Chairman	75,000*
Non-executive Director	50,000

*comprising a base fee of \$50,000 and a fee of \$25,000 for the role of Chairman

Section 4.1 provides details of fees paid during the financial year to each non-executive director.

Following a review of Non-executive Director fees and consideration of the time commitment and responsibilities, Non-executive Director fees (excluding superannuation) were increased effective from 20 July 2018 and are:

	Fee (\$ per annum)
Non-executive Chairman	100,000
Non-executive Director	75,000

The objective of LCM’s remuneration policies with regard to Non-executive Directors is to ensure the Company 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. The Board also believes that remuneration for Non-executive Directors should reflect the time commitment and responsibilities of the role as well as taking into account market levels.

LCM do not pay lump sum retirement benefits to Non-executive Directors. Additionally, Non-executive Directors do not receive any bonus payments whilst holding office as a Non-executive Director.

Dr David King

In recognition of his assistance with the Offer to acquire new shares as detailed in the Initial Public Offering (“**IPO**”) Prospectus dated 17 November 2016, and in recognition of him acting as Chairman of the Company in return for nil Director fees for a considerable period of time in the lead up to the IPO, Dr David King was awarded the following unquoted Incentive Options to acquire shares:

Grant date	Vesting date	Expiry date	Exercise price	Number of Options
20 Sep 2016	1 Nov 2018	1 Nov 2021	\$1.00 per share	600,000*

*all are subject to a 2 year escrow period following LCM's shares becoming quoted.

Further details on the valuation of these Options are contained in sections 2.3 and 4.1 below.

Mr. Steven McLean

No additional remuneration was received by Mr. Steven McLean or any of his related parties during the last financial year.

2.2 Remuneration payable to Chief Executive Officer

LCM, via its wholly owned subsidiary, LCM Litigation Fund Pty Ltd, entered into an employment agreement in February 2014 with Patrick Moloney for the performance of his role as Chief Executive Officer. As part of that employment agreement and subsequent reviews, the Chief Executive Officer is entitled to 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 section 4.1.

Forming part of the Chief Executive Officer's remuneration package are the following:

Grant date	Vesting date	Expiry date	Exercise price	Number of Options
20 Sep 2016	1 Nov 2018	1 Nov 2021	\$1.00 per share	900,000*
1 Dec 2013	1 Dec 2013	1 Dec 2018	\$0.47 per share	1,595,058

*all are subject to a 2 year escrow period following LCM's shares becoming quoted.

The tranche of 900,000 options were issued to the Chief Executive Officer in recognition of his assistance with the Offer and in recognition of his ongoing services to LCM.

Further details on the valuation of these Options are contained in sections 2.3 and 4.1 below.

Appropriate benchmarking analysis was undertaken prior to reviewing and finalising the Chief Executive Officer's base remuneration package and benefits.

2.3 Share based payment arrangements

The terms and condition of each grant of options in existence during the financial year are summarised below:

Grant date	Vesting date	Expiry date	Exercise price	Value at Grant date	Number of Options
20 Sep 2016	1 Nov 2018	1 Nov 2021	\$1.00 per share	\$75,750	600,000
20 Sep 2016	1 Nov 2018	1 Nov 2021	\$1.00 per share	\$113,625	900,000
1 Dec 2013	1 Dec 2013	1 Dec 2018	\$0.47 per share	\$201,377	1,595,058

2.4 Loan Share Plan

Details of Loan Share Plan

As outlined in section 1.5 above, the shareholders of LCM resolved to approve a Loan Share Plan (**LSP**) at the 2017 AGM. The Board adopted the LSP to retain, motivate and attract executives and to better align the interest of employees with those of the Company and its shareholders by providing an opportunity for eligible senior executives to acquire shares subject to the terms and conditions of the LSP (**Plan Shares**).

The Plan Shares can be either issued or transferred to the participants of the LSP at market value, determined by the Board in its absolute discretion. The Company may provide a limited recourse loan to senior executives who are invited to participate in the LSP to assist them to purchase Plan Shares (**Loan**).

The terms of the LSP are summarised below:

Eligibility

- A person is eligible to participate in the LSP if he or she is a Director, officer or employee of a group company (**Eligible Person**).
- The Board may at any time make invitations to Eligible Persons to participate in the LSP specifying the total number of Plan Shares being offered or the manner for determining that number, the closing date for applications, the issue price, vesting conditions and any other specific terms and conditions of issue (Invitation).

Plan Shares

- Each Plan Share entitles the participation to one fully paid ordinary Share in the company.
- Unless otherwise specified in an Invitation, Plan Shares issued or transferred to a participant will rank equally with all existing shares from the date of issue or transfer.
- Unless the Board resolves otherwise, the Company will apply for official quotation of Plan Shares issued.

Loan

- The Company may provide a limited recourse loan to a participant to allow them to fund the full consideration for the Plan Shares (Loan). The terms of the Loan will be set out in a separate loan agreement.
- A participant's obligation to repay the Loan will be the lesser of the Loan balance or the market value of the relevant Plan Shares.
- Any after-tax value of cash distributions (including dividends) received in respect of Plan Shares must be applied to repayment of the Loan.

Vesting

The Plan Shares will vest of the satisfaction of any application performance condition, service requirement or other conditions specified in an Invitation.

Change of control

In the event of a change in control of the Company, the Board may in its absolute discretion, determine the manner in which any or all of the participant's unvested Plan Shares will be dealt with.

Disposal conditions

- A participant must not dispose of a Plan Share until the Plan Share has vested, the loan balance relating to that Plan Share has been repaid or discharged or any other disposal restrictions set out in the Invitation have expired.
- The Company may implement any procedure it deems appropriate to ensure the compliance by the Participant with the disposal restrictions (i.e. may implement a holding lock in respect of the Plan Shares).

Compulsory divestment

- Plan Shares may be compulsorily divested in a number of circumstances, including non-satisfaction of vesting conditions, fraudulent or dishonest actions, insolvency, termination of employment, non-repayment of a Loan or any other circumstances expressly set out in an Invitation.
- Where in the reasonable opinion of the Board, a Plan Share has vested in fraudulent or dishonest circumstances, the Board may take any action to ensure no unfair benefit is obtained by the participant as a result of those circumstances.

Capital events

- **Bonus issues** - If the Company undertakes a pro-rata bonus issue of shares to shareholders and shares are issued to a participant in respect of Plan Shares, those shares are deemed to be Plan Shares for the purposes of the LSP, and will be subject to the same vesting conditions as the Plan Shares to which they relate.
- **Rights issues** - Participants may elect to take up their rights at their cost. Shares allotted to the Participant as a result of exercising such rights are not subject to the vesting conditions or the Plan Rules.
- **Other variations of capital** - If there is a variation of capital, including a capitalisation, sub-division, consolidation or reduction in share capital. The Board may, subject to the Corporations Act and Listing Rules, make such adjustments as it considers appropriate to ensure that the consequences of application are fair as between the participants and other shareholders.

Administration

The LSP is administered by the Board. The Board may make regulations and determine procedures to administer and implement the LSP and may also terminate or suspend the operation of the LSP at its discretion.

Amendment

- The Board may at any time amend any rules governing the operation of the LSP or waive or modify the application of the rules in relation to any participant.

- However, the Board may not amend the rules in a way that would decrease a participant's rights in respect of Shares acquired by them, other than amendments required to comply or conform to legislation or Listing Rules, to correct any manifest error or mistake or to take into account any possible adverse tax implications.

Termination

The LSP may be terminated or suspended at any time by a resolution of the Board, provided the termination or suspension does not materially adversely affect the rights of persons holding shares or options issued under the plan at that time.

Other terms and conditions

The LSP contains other customary terms and conditions relating to the operation and administration of the LSP.

Issue of shares to Patrick Moloney

At the 2017 AGM, the shareholders approved the issue of 2,000,000 Plan Shares to Patrick Moloney.

Details of Plan Shares issued to Patrick Moloney following shareholder approval are as follows:

Date of grant

4 December 2017

Number of shares granted

The total number of Plan Shares issued was 2,000,000, issued in 2 tranches as follows:

Tranche 1:	1,000,000 being 50% of the total award
Tranche 2:	1,000,000 being 50% of the total award
Total:	2,000,000

Issue price

\$0.5965

Vesting conditions

Each tranche of Plan Shares will vest if the relevant Vesting Conditions set out below are met:

Tranche	Vesting conditions
Tranche 1:	<p>a) Mr Moloney has been continuously employed by the Company from the Grant Date to the date that is 24 months after the Grant Date and has been continuously been employed by the Group over that period; and</p> <p>b) The VWAP of the Company's shares over any 5 trading day period is at least \$1.00 per share (or such equivalent price if a capital reconstruction occurs in relation to the Company) (Target Price Condition).</p>

Tranche 2:	<p>a) Mr Moloney has been continuously employed by the Company from the Grant Date to the date that is 36 months after the Grant Date and has been continuously been employed by the Group over that period; and</p> <p>b) The Target Price Condition has been met.</p>
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Patrick Moloney has entered into an interest-free loan with Litigation Capital Management Limited to acquire a total of 2,000,000 ordinary shares.

The loan share plan is considered to be a share based payment arrangement. The fair value at grant date, of \$0.28 per each share issued in December 2017 under the Loan Share Plan, was determined by using an American single barrier option calculation. The key model inputs for the valuation calculation were as follows:

- grant date: 04/12/2017
- share price at grant date: \$0.58
- exercise price: \$0.5965
- option life: 10 years
- expected volatility: 45%
- expected dividend yield rate: 0%
- risk free rate: 2.5%

The fair value of the share based payment granted during the period is \$565,380. An amount of \$32,981 has been expensed during the period, with the remainder to be expensed over the term of the loan.

3 Service Agreement

On appointment, all non-executive directors enter into an agreement which outlines obligations and minimum terms and conditions.

Remuneration and other terms of employment for the Chief Executive Officer are formalised in an employment agreement. This agreement specifies the components of remuneration to which he is entitled and outlines base salary, eligibility for incentives and other benefits including superannuation.

Key terms for the Chief Executive Officer are as follows:

Name	Term of Agreement	Termination arrangements
Patrick Moloney	Term of 5 years (commencing 1 December 2013) with an automatic extension for a further 5 years unless notice is given at least 1 year before the expiry of the initial term that the agreement will not be extended.	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.

4 Remuneration Table

4.1 Remuneration table for year ended 30 June 2018

The table below provides remuneration for KMPs for the 12 months ended 30 June 2018 and comparatives for the year ended 30 June 2017.

In AUD	Short Term					Post employment	Long Term	Share-based Payments			Total	
	Salary & Fees ¹	IPO Bonus ²	Annual leave accrual for 12 months	STI	Total Short Term	Superannuation	Total Post employment	Long Service Leave	Loan Share Plan	Options	Total Share-based Payments	Total
Directors												
Non-executive Directors												
Dr David King	2018	68,493	-	-	68,493	6,507	6,507	-	-	37,440	37,440	112,440
	2017	51,370	-	-	51,370	4,880	4,880	-	-	28,080	28,080	84,330
Steven McLean	2018	45,662	-	-	45,662	4,338	4,338	-	-	-	-	50,000
	2017	22,831	512,430	-	535,261	2,169	2,169	-	-	-	-	537,430
Executive Directors												
Patrick Moloney	2018	450,000	-	20,769	470,769	42,750	42,750	7,496	32,981	56,160	89,141	610,156
	2017	450,000	-	29,423	479,423	25,000	25,000	7,475	-	42,120	42,120	554,018
Total Directors' remuneration	2018	564,155	-	20,769	584,924	53,595	53,595	7,496	32,981	93,600	126,581	772,596
	2017	524,201	512,430	29,423	1,066,054	32,049	32,049	7,475	-	70,200	70,200	1,175,778

¹ shown gross of tax

² Includes GST and expenses and was paid to 145 Fleet Pty Limited of which Steven McLean is the sole Director

4.2 Relative proportion of Remuneration

2018

Non-executive directors	Fixed remuneration 2018 %	At Risk - Cash Bonus / Other 2018 %	At Risk - Securities 2018 %
Dr David King	67	-	33
Steven McLean	100	-	N/A
Executive directors	Fixed remuneration 2018 %	At Risk - Cash Bonus / Other 2018 %	At Risk - Securities 2018 %
Patrick Moloney	85	-	15

4.3 Performance holdings of key management personnel

No Performance Rights have been issued to any Key Management Personnel during the current year.

4.4 Shareholdings of key management personnel

Fully Paid Ordinary Shares

The tables below provide the number of fully paid ordinary shares in the company held by each Non-executive Director and Executive KMP during the period and the previous period ended 30 June 2017:

2018

	Balance as at 1 July 2017 No.	Shares received during the period on exercise of Performance Options / Rights No.	Net other change No.	Balance as at 30 June 2018 No.
2018				
Dr David King	1,601,484	-	-	1,601,484
Steven McLean	577,499	-	-	577,499
Patrick Moloney	3,212,557	-	-	3,212,557

Loan Share Plan shares

2018

	Balance as at 1 July 2017 No.	Loan Share Plan shares received during the period No.	Net other change No.	Balance as at 30 June 2018 No.
2018				
Dr David King	-	-	-	-
Steven McLean	-	-	-	-
Patrick Moloney	-	2,000,000	0	2,000,000

Unlisted Options to acquire Shares (exercisable between 1 November 2018 and 1 November 2021)

The table below provides the number of unlisted Options to acquire shares in the company held by each Non-executive Director and Executive KMP during the period ended 30 June 2018:

2018

	Balance as at 1 July 2017 No.	Granted as compensation No.	Exercised No.	Net other change No.	Balance as at 30 June 2018 No.	Balance vested as at 30 June 2018 No.	Options vested during the year No.
2018							
Dr David King	600,000	-	-	-	600,000	-	-
Steven McLean	-	-	-	-	-	-	-
Patrick Moloney	900,000	-	-	-	900,000	-	-
Patrick Moloney	1,595,058	-	-	-	1,595,058	-	-

Unlisted Partly Paid Shares

The table below provides the number of unlisted partly paid shares in the company held by each Non-executive Director and Executive KMP during the period ended 30 June 2018 (issued at an issue price of \$0.17 per share, wholly unpaid and will convert to a share upon payment to LCM of \$0.17 per share):

2018

	Balance as at 1 July 2017 No.	Granted as compensation No.	Exercised No.	Net other change No.	Balance as at 30 June 2018 No.	Balance vested as at 30 June 2018 No.	Options vested during the year No.
2018							
Dr David King	-	-	-	-	-	-	-
Steven McLean	-	-	-	-	-	-	-
Patrick Moloney	1,433,022	-	-	-	1,433,022	-	-

5 Other Statutory Disclosures

Loans to Non-executive Directors and Executive KMPs

No loans were made to Non-executive Directors or Executive KMPs at the end of the financial year.

Other transactions with Non-Executive Directors and Executive KMPs

No interest was paid to or received since the IPO from Non-executive Directors or Executive KMPs.

This concludes the remuneration report, which has been audited.

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



Dr David King
Chairman
20 August 2018
Sydney

**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 2018, 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 and the entities it controlled during the period.



G K Edwards
Director

BDO Audit (SA) Pty Ltd

Adelaide, 20 August 2018



Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2018

	NOTE	CONSOLIDATED	
		June 2018 \$	June 2017 \$
Revenue	5	542,682	13,312
Other income	6	16,453,592	2,182,426
Total Income		16,996,274	2,195,738
Expenses			
Finance Costs	7(a)	685,888	1,665,149
Depreciation	7(b)	21,967	6,258
Employment expenses	7(c)	2,057,834	1,402,493
Corporate and office expenses		1,239,002	1,272,033
Legal fees - Litigation	7(e)	822,943	143,360
Professional fees		197,107	56,973
IPO Listing Expense		-	202,229
Foreign exchange loss		8,063	310,323
		5,032,804	5,058,818
Profit/(Loss) Before Income Tax		11,963,470	(2,863,080)
Income tax expense/(benefit)	8	3,326,116	(522,572)
Net Profit/(Loss) For the Year		8,637,354	(2,340,508)
Other comprehensive income		-	-
Total comprehensive income for the year		8,637,354	(2,340,508)
Profit/(loss) for the year and total comprehensive income attributable to:			
Owners of the parent		8,596,163	(2,285,183)
Non-controlling interest	18	41,191	(55,325)
		8,637,354	(2,340,508)

Earnings Per Share for profit attributable to the owners of the parent entity during the year (cents per share):

	NOTE	CONSOLIDATED	
		June 2018	June 2017
Earnings per share:			
Basic (cents per share)	9	15.24	(5.01)
Diluted (cents per share)	9	15.06	(5.01)

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

for the year ended 30 June 2018

	NOTE	CONSOLIDATED	
		June 2018 \$	June 2017 \$
CURRENT ASSETS			
Cash and cash equivalents	10	13,786,949	1,862,645
Other receivables	11	638,891	43,666
Intangible assets - litigation contracts	12	11,048,971	11,683,991
TOTAL CURRENT ASSETS		25,474,811	13,590,302
NON-CURRENT ASSETS			
Property, plant and equipment		175,114	7,779
Intangible assets - litigation contracts	12	2,865,675	786,558
Deferred tax asset	13	4,837,848	7,766,837
TOTAL NON-CURRENT ASSETS		7,878,637	8,561,174
TOTAL ASSETS		33,353,448	22,151,476
CURRENT LIABILITIES			
Trade and other payables	14	3,816,048	1,926,074
Employee Benefits	15	254,481	111,040
TOTAL CURRENT LIABILITIES		4,070,529	2,037,114
NON-CURRENT LIABILITIES			
Deferred tax liability	13	3,826,528	3,429,401
Employee Benefits	15	34,358	26,862
TOTAL NON-CURRENT LIABILITIES		3,860,886	3,456,263
TOTAL LIABILITIES		7,931,415	5,493,377
NET ASSETS		25,422,033	16,658,099
EQUITY			
Issued Capital	16	24,865,111	24,865,111
Share Based Payments Reserve	17	292,484	165,903
Retained Earnings		238,572	(8,357,591)
Parent interest		25,396,167	16,673,424
Non-controlling interest		25,866	(15,325)
TOTAL EQUITY		25,422,033	16,658,099

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

Consolidated Statement of Changes in Equity

for the year ended 30 June 2018

2017	Issued capital	Retained earnings	Share based payments reserve	Total	Non-controlling interests	Total equity
Balance at 1 July 2016	11,546,617	(6,072,408)	95,703	5,569,912	40,000	5,609,912
Profit/(Loss) for the year	-	(2,285,183)	-	(2,285,183)	(55,325)	(2,340,508)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the year	-	(2,285,183)	-	(2,285,183)	(55,325)	(2,340,508)
Equity Transactions:						
Contributions of equity (note 16)	13,318,494	-	-	13,318,494	-	13,318,494
Share based payments reserve	-	-	70,200	70,200	-	70,200
Distributions	-	-	-	-	-	-
	13,318,494	-	70,200	13,388,694	-	13,388,694
Balance at 30 June 2017	24,865,111	(8,357,591)	165,903	16,673,424	(15,325)	16,658,099
2018	Issued capital	Retained earnings	Share based payments reserve	Total	Non-controlling interests	Total equity
Balance at 1 July 2017	24,865,111	(8,357,591)	165,903	16,673,424	(15,325)	16,658,098
Profit/(Loss) for the year	-	8,596,163	-	8,596,163	41,191	8,637,354
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the year	-	8,596,163	-	8,596,163	41,191	8,637,354
Equity Transactions:						
Share based payments expense	-	-	126,581	126,581	-	126,581
	-	-	126,581	126,581	-	126,581
Balance at 30 June 2018	24,865,111	238,572	292,484	25,396,167	25,866	25,422,033

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 year ended 30 June 2018

	NOTE	CONSOLIDATED	
		June 2018 \$	June 2017 \$
Cash flows from operating activities			
Payments to suppliers and employees		(3,065,616)	(2,500,437)
Receipts from management and performance fees		-	-
Interest income		29,544	13,312
Interest and other finance costs paid		(685,888)	(1,665,149)
Net cash (used in)/from operating activities	20(a)	(3,721,960)	(4,152,274)
Cash flows from investing activities			
Proceeds from litigation funding – settlements, fees and reimbursements	20(c)	27,127,894	3,415,084
Payments for litigation funding and capitalised supplier costs	20(c)	(11,292,327)	(8,147,057)
Purchase of property, plant and equipment		(189,302)	(954)
Net cash (used in)/from investing activities		15,646,265	(4,732,927)
Cash flows from financing activities			
Proceeds from issue of shares		-	15,000,000
Share issue transaction costs		-	(2,319,321)
Proceeds from borrowings	7(a) & 20(b)	4,250,000	-
Repayment of borrowings	7(a) & 20(b)	(4,250,000)	(7,851,698)
Income and capital distributions paid non controlling interests		-	-
Net cash (used in)/from financing activities		-	4,828,981
Net increase/(decrease) in cash and cash equivalents		11,924,304	(4,056,216)
Cash and cash equivalents at beginning of year		1,862,645	5,918,861
Cash and cash equivalents at end of year	10	13,786,949	1,862,645

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

Notes to the financial statements

1. Corporate Information

The financial report of Litigation Capital Management Limited (“LCA”, “the Company” or “the Parent”) for the year ended 30 June 2018 and its subsidiaries was authorised for issue in accordance with a resolution of the directors on 20 August 2018.

Litigation Capital Management Limited (ABN 13 608 667 509) is a for profit company incorporated and domiciled in Australia and limited by shares that are publicly traded on the Australian Securities Exchange (ASX code: LCA).

2. Accounting policies

a) Basis of preparation

The consolidated financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis.

The consolidated financial report complies with Australian Accounting Standards and International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board.

For the purposes of preparing the consolidated financial statements, the Parent is a for profit entity.

b) New accounting standards and interpretations

i) Accounting Standards and Interpretations issued not yet effective

The following new or amended accounting standards and interpretations have been issued, but are not mandatory for financial year ended 30 June 2018. They have not been adopted in preparing the financial statements for the year ended 30 June 2018 and are expected to impact the entity in the period of initial application. In all cases, the consolidated entity intends to apply these standards from application date as indicated in the table below.

Notes to the financial statements continued

AASB reference	Title	Application date of Standard	Application date for Group
AASB 9 <i>Financial Instruments</i>	<p>This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace AASB 139 'Financial Instruments: Recognition and Measurement'.</p> <p>AASB 9 introduces new classification and measurement models for financial assets. The main changes are described below:</p> <p>AASB 9 amends the classification and measurement of financial assets:</p> <ul style="list-style-type: none"> - Financial assets will either be measured at amortised cost, fair value through other comprehensive income (FVTOCI) or fair value through profit or loss (FVTPL). - Financial assets are measured at amortised cost or FVTOCI if certain restrictive conditions are met. All other financial assets are measured at FVTPL. - All investments in equity instruments will be measured at fair value. For those investments in equity instruments that are not held for trading, there is an irrevocable election to present gains and losses in OCI. Dividends will be recognised in profit or loss. <p>The following requirements have generally been carried forward unchanged from AASB 139 Financial Instruments: Recognition and Measurement into AASB 9:</p> <ul style="list-style-type: none"> - Classification and measurement of financial liabilities, and - Derecognition requirements for financial assets and liabilities. <p>However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income. AASB 9 is not mandatorily effective for the Group until 1 July 2018. The Group is in the process of assessing the impact of AASB 9 and is not yet able to reasonably estimate the impact on its financial statements.</p>	1 January 2018	1 July 2018
	Impairment		
	<p>The new impairment model in AASB 9 is now based on an 'expected loss' model rather than an 'incurred loss' model.</p> <p>A complex three stage model for recognising impairment losses applies to debt instruments at amortised cost or at fair value through other comprehensive income.</p> <p>A simplified impairment model applies to trade receivables and lease receivables with maturities that are less than 12 months.</p> <p>For trade receivables and lease receivables with maturity longer than 12 months, entities have a choice of applying the complex three stage model or the simplified model.</p>		

Notes to the financial statements continued

AASB reference	Title	Application date of Standard	Application date for Group
AASB 15 <i>Revenue from contracts from customers</i>	<p>The AASB issued AASB 15 in October 2015. The standard is not mandatorily effective for the Group until 1 July 2018. AASB 15 contains new requirements for the recognition of revenue and additional disclosures about revenue. AASB 138 Intangible Assets has been amended to ensure that for reporting periods beginning on or after 1 January 2018, the derecognition of intangible assets are subject to the principles of AASB 15. Consideration for Litigation Contracts is variable with the amount and timing based on factors outside of the control of the Group. On this basis, the Group recognises gains or losses arising from derecognition of Litigation Contracts in Progress only when a judgement has been awarded or a settlement agreement has been agreed. The Group has assessed the impact of the new standard and has not identified any potential material financial impacts and it is expected that this standard will not materially change the revenue recognition criteria of the Group. The Group does not intend to early adopt the Standard.</p>	1 January 2018	1 July 2018
AASB 16 <i>Leases</i>	<p>AASB 16 eliminates the operating and finance lease classifications for lessees currently accounted for under AASB 117 Leases. It instead requires an entity to bring most leases into its statement of financial position in a similar way to how existing finance leases are treated under AASB 117. An entity will be required to recognise a lease liability and a right of use asset in its statement of financial position for most leases.</p> <p>There are some optional exemptions for leases with a period of 12 months or less and for low value leases. Lessor accounting remains largely unchanged from AASB 117.</p> <p>AASB 16 is not mandatorily effective until 1 January 2019, with early adoption permitted. The Group is currently assessing the impacts of the new Standard on the financial statements however the Group expects that the impacts will not be material on the Group's accounting policies or financial statements. The Group does not intend to early adopt the Standard.</p>	1 January 2019	1 July 2019

Notes to the financial statements continued

AASB reference	Title	Application date of Standard	Application date for Group
AASB 2016-5 <i>Amendments to Australian Accounting Standards - Classification and Measurement of Share-Based Payment Transactions</i>	<p>This Standard amends AASB 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. It is not mandatorily effective for the Group until 1 July 2018. The amendments provide requirements on the accounting for:</p> <p>Vesting and non-vesting conditions</p> <p>The measurement of a cash-settled share-based payment liability takes into account vesting and non-vesting conditions in a similar manner to equity-settled transactions.</p> <p>Net settlement feature for withholding tax obligations</p> <p>Tax laws in some countries require an entity to withhold an amount of equity instruments to settle the employee's withholding tax obligation, usually in cash. These transactions are classified as equity-settled in their entirety if, without the net settlement clause, it would have been classified as equity-settled, and the entity does not withhold instruments with a value that exceeds the employee's withholding tax obligation.</p> <p>Changing classifications from cash-settled to equity-settled</p> <p>Guidance has been added to clarify that the difference between the carrying amount of the cash-settled liability, and the fair value of the equity instruments granted, is recognised immediately in profit or loss when a share-based payment transaction changes from being cash-settled, to equity-settled.</p> <p>The Group expects that the impacts will not be material on the Group's accounting policies or financial statements.</p>	1 January 2018	1 July 2018

ii) New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. Any new, revised or amending 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 consolidated entity.

c) Principles of consolidation

The consolidated financial statements comprise the financial statements of Litigation Capital Management Limited (LCA, the Company or Parent) and its subsidiaries as at 30 June each year. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity have been eliminated in full. 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 consolidated entity.

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

Notes to the financial statements continued

d) Critical accounting, judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgments and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgments on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions and conditions.

The judgments, 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 financial year ending 30 June 2018 are included in the following Notes:

- Note 8 - Recovery of deferred tax asset
- Note 12 - Impairment testing of intangible assets - litigation contracts
- Note 12 - Classification of intangible assets - litigation contracts
- Note 13 - Recovery of deferred tax assets

e) 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 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 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.

f) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

g) Foreign Currency Transactions and Balances

The Group's consolidated financial statements are presented in Australian dollars, which is also the Parent's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Notes to the financial statements continued

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

3. Financial risk management objective and policies

a) Financial risk management and policies

The Group's principal financial instruments comprise cash and short-term deposits, receivables and payables.

The Group actively manages its exposure to key financial risks, including interest rate risk. The objective is to support the delivery of the Group's financial targets whilst protecting its future financial security.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rates and assessments of market forecasts. Aging analyses and monitoring of specific debtors are undertaken to manage credit risk. Liquidity is monitored through the development of future rolling cash flow forecasts.

b) Risk exposures and responses**Interest rate risk**

The Group's exposure to the risk of changes in market interest rates relates to the Group's cash holdings with a floating interest rate, and the Group's borrowings with a fixed interest rate. At reporting date, the Group had the following financial instruments exposed to interest rate risk.

	CONSOLIDATED	
	June 2018 \$	June 2017 \$
Financial Instruments		
Cash and cash equivalents	13,786,949	1,862,645
	13,786,949	1,862,645

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date. At 30 June 2018, if interest rates had moved as illustrated in the following table, with all other variables held constant, post tax profit and equity would have been affected as follows:

Potential reasonably possible movements:

+0.5% (2017: +0.5%)	68,935	9,313
-0.5% (2017: -0.5%)	(68,935)	(9,313)

Credit Risk

Credit risk arises from the financial assets of the Group, which comprises cash and cash equivalents and receivables. The Group's exposure to credit risk arises from potential default of the counterparty. The maximum exposure equals the carrying amount of these instruments. Exposure at reporting date is addressed in each applicable note.

The Group's cash and cash equivalents are held in financial institutions with a AA credit rating and are subject to the prudential regulation of the Reserve Bank of Australia.

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. As at 30 June 2018, no receivables existed in relation to matters funded by the Group. However, the Group's continual monitoring of the defendants' financial capacity mitigates this risk.

Notes to the financial statements continued

Liquidity Risk

The liquidity position of the Group is managed to ensure sufficient liquid funds are available to meet the Group's expected financial commitments in a timely and cost effective manner. Management continually reviews the Group's liquidity position, including the preparation of cash flow forecasts, to determine the forecast liquidity position and to maintain appropriate liquidity levels. All trade and other payable financial liabilities of the Group are current and payable within 30 days.

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

2018	< 6 months	> 6 months	Total
Financial Liabilities			
Trade and other payables	3,816,048	-	3,816,048
	3,816,048	-	3,816,048
2017			
Financial Liabilities			
Trade and other payables	1,926,074	-	1,926,074
	1,926,074	-	1,926,074

Fair Value

The methods for estimating fair value are outlined in the relevant notes to the financial statements.

4. Segment information

Management has determined the operating segments based on internal reports reviewed by chief operating decision maker, being the Chief Executive Officer and other members of the Board. The Board provide strategic director and management oversight of the entity in terms of monitoring results and approving strategic planning of the business.

Each litigation project is an operating segment. However, based on the similarity of the services provided and the nature of the risks and returns associated with each litigation project, the Board consider the business as one reportable segment. Accordingly, all segment disclosures are based upon analysis of the group as one reportable segment.

The Group operates in one geographical location, being Australia. The Group's customers are all commercial litigants with specific information disclosed within the Operating and Financial Review of the Directors Report.

5. Revenue

	CONSOLIDATED	
	June 2018 \$	June 2017 \$
Revenue		
Performance Fees	513,138	-
Interest received	29,544	13,312
	542,682	13,312

Significant Accounting Policies

Revenue is recognised at the fair value of consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Notes to the financial statements continued

Performance fees

Performance fees are derived from the management of Litigations Projects under externally financed financing arrangements and governed by the agreement in place with external investors. Performance fees are recognised when a judgement has been awarded or a settlement agreement has been agreed on the Litigation Projects.

Interest

Interest revenue 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.

6. Other income

	CONSOLIDATED	
	June 2018 \$	June 2017 \$
Other income		
Litigation contracts in progress – settlements and judgments	29,170,177	3,415,086
Litigation contracts in progress – expenses	(13,135,844)	(1,226,016)
Litigation contracts – written down	(37,805)	(6,644)
Net gain on derecognition of intangible assets	15,996,528	2,182,426
Recoveries of legal costs other than in relation to Litigation		
Contracts in Progress	454,064	-
Miscellaneous income	3,000	-
	457,064	-
	16,453,592	2,182,426

Recoveries of legal costs relates to the legal fees incurred and subsequently recovered from Mr Patrick Coope under a costs order in favour of the Group which related to proceedings previously brought by the Group against Mr Patrick Coope.

Significant Accounting Policies**Litigation contracts in progress**

Gains or losses arising from derecognition of Litigation Contracts in Progress are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Consolidated Profit or Loss and Other Comprehensive Income when the asset is derecognised.

The carrying amount of Litigation Contracts in Progress is written off when the case is lost by the Group or the Group decides not to pursue cases that do not meet the Group's required rate of return.

When the litigation has been determined in favour of the Group or a positive settlement has been agreed, this constitutes a derecognition of the intangible asset and accordingly a gain or loss is recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Notes to the financial statements continued

7. Expenses

	CONSOLIDATED	
	June 2018 \$	June 2017 \$
a) Finance costs		
Interest expense	515,888	1,460,091
Borrowing expense	170,000	205,058
	685,888	1,665,149

The finance costs related to a facility provided by Ambro Nominees Pty Ltd on 31 August 2017. The credit facility provided the Group with a line of credit of \$4.25 million over a term of 18 months. Interest was incurred at a rate of 15% and a drawdown fee of 4% was incurred on the funds provided. The Group paid down the facility, including interest and borrowing costs, on 22 May 2018. As at 30 June 2018, borrowings is \$nil.

	CONSOLIDATED	
	June 2018 \$	June 2017 \$
b) Depreciation		
Depreciation expense	21,967	6,258
c) Employment Expenses		
Employee benefits expense	1,684,747	1,165,308
Superannuation	150,533	91,861
Provision for employee entitlements	45,936	52,714
Payroll tax	50,037	22,410
Share based payments expense	126,581	70,200
	2,057,834	1,402,493
d) Rental expense relating to operating leases		
Minimum lease payments	343,153	304,003
e) Legal fees - Litigation	822,943	143,360

Legal fees relates to the costs of litigation commenced by Australian Insolvency Group Pty Limited against the Group and the recovery of the costs of the proceedings brought by the Group against Mr Patrick Coope.

Notes to the financial statements continued

8. Income tax

	CONSOLIDATED	
	June 2018 \$	June 2017 \$
The major components of tax expense comprise:		
Movement in deferred tax assets	(2,928,989)	2,003,701
Movement in deferred tax liabilities	(397,127)	(1,481,129)
Income tax benefit/(expense) reported in profit or loss	(3,326,116)	522,572
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax benefit in the financial statements as follows:		
Profit/(loss) for the year	11,963,470	(2,863,080)
At the Group's statutory income tax rate of 30% (2017: 27.5%)	3,589,041	(787,347)
Non-deductible expenses:		
- share based payment expense	37,974	-
- fines and penalties	1,474	20
Change in tax rate	(302,374)	264,755
Income tax expense / (benefit)	3,326,116	(522,572)
Amounts charged/(credited) directly to equity		
Deferred tax assets (note 13)	-	637,813

Franking credit balance for the Group

As at 30 June 2018, franking credits available for use in future distribution amounts amount to \$nil (2017: \$nil).

Changes in applicable tax rates

A reduced tax rate of 27.5% is available to Australian entities with aggregated turnover below \$25 million for the year ended 30 June 2018. As the gross value of settlements and judgements (included in other income) are included in turnover for tax purposes, the group has exceeded this threshold resulting in an increase in tax rate to 30%. The Group's turnover is expected to be below the threshold of \$50 million for the year ending 30 June 2019, and as a result the reduced rate of 27.5% has been applied in determining deferred taxes.

Unrecognised temporary differences and tax losses

At 30 June 2018 the Group had no (2017:nil) unrecognised temporary differences and tax losses.

Significant Accounting Policies

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.

Notes to the financial statements continued

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

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

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

Litigation Capital Management Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime from 1 July 2003. 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.

9. Earnings per share

	CONSOLIDATED	
	June 2018	June 2017
Earnings per ordinary share:		
Basic (cents per share)	15.24	(5.01)
Diluted (cents per share)	15.06	(5.01)
	CONSOLIDATED	
	June 2018 \$	June 2017 \$
Reconciliation of earnings used in calculation of earnings per share:		
Net Profit/(Loss) For the Year	8,637,354	(2,340,508)
Less: Non-controlling interests	(41,191)	55,325
Earnings used in calculation of basic / diluted earnings per share	8,596,163	(2,285,183)
	CONSOLIDATED	
	June 2018	June 2017
Weighted average number of ordinary shares used in the calculation of basic earnings per share	56,399,297	46,712,408
Effect of dilutive securities ¹	665,950	-
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	57,065,247	46,712,408

¹ Securities that could potentially dilute basic earnings per share in the future. 3,190,116 options granted in December 2013 were included in the calculation of diluted earnings per share. 1,500,000 options held by David King and Patrick Moloney and 2,000,000 loan share plan shares were not included in the calculation of diluted earnings per share as they are antidilutive for the year ended 30 June 2018.

Notes to the financial statements continued

Significant Accounting Policies**Basic earnings per share**

Basic earnings per share is calculated as net profit attributable to members of the Parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares outstanding during the financial year, adjusted for any bonus element.

Diluted earnings per share

Diluted earnings per share is calculated as net profit attributable to members of the Parent, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of interest dividends associated with dilutive potential ordinary shares that have been recognised;
- other non-discretionary changes in revenue or expenses during the period that would result from dilution of potential ordinary shares, divided by the weighted average number of shares and dilutive shares, adjusted for any bonus element.

10. Cash and cash equivalents

	CONSOLIDATED	
	June 2018 \$	June 2017 \$
Cash at Bank	13,786,949	1,862,645
	13,786,949	1,862,645

Significant Accounting Policies

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

Reconciliation to the Consolidated Statement of Cash Flows

For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents comprise the following at 30 June:

	CONSOLIDATED	
	June 2018 \$	June 2017 \$
Cash at Bank	13,786,949	1,862,645
	13,786,949	1,862,645

Notes to the financial statements continued

11. Other receivables

	CONSOLIDATED	
	June 2018 \$	June 2017 \$
Other receivables	513,138	-
Security Deposit	125,753	43,666
	638,891	43,666

The other receivables related to performance fees receivable on a litigation project which was managed by the Group and settled during the year. Due to the nature of this receivable, the carrying value of the current receivable reflects its fair value.

12. Intangible assets

(a) Reconciliation of carrying amounts at the beginning and end of the period

	CONSOLIDATED \$
Year ended 30 June 2017	
Balance at 1 July 2016	6,494,243
Additions	7,208,966
Litigation contracts in progress - expenses	(1,226,016)
Litigation contracts in progress - written down	(6,644)
Balance at 30 June 2017	12,470,549
Balance at 1 July 2017	12,470,549
Additions	14,617,746
Litigation contracts in progress - expenses	(13,135,844)
Litigation contracts in progress - written down	(37,805)
Balance at 30 June 2018	13,914,646

	CONSOLIDATED	
	June 2018 \$	June 2017 \$
Current	11,048,971	11,683,991
Non Current	2,865,675	786,558
	13,914,646	12,470,549

(b) Description of Group's intangible assets

Intangible assets consist of Litigation Contracts in Progress. The carrying value of Litigation Contracts in Progress includes the capitalisation of external costs of funding the litigation, such as solicitors' fees, counsels' fees and experts' fees. No internal costs are considered directly attributable to managing current Litigation Contracts in Progress.

(c) Write off of intangible assets

The carrying value of Litigation Contracts in Progress is written off when the case is lost by the Group or the Group decides not to pursue cases further.

(d) Impairment testing of intangible assets

The recoverable amount of each Litigation Contract in Progress is determined based on a value in use calculation using cash flow projections based on financial budgets approved by management.

Notes to the financial statements continued

The following describes each key assumption on which management has based its cash flow projections when determining the value in use of Litigation Contracts in Progress:

- The estimated cost to complete a Litigation Contract in Progress is budgeted, based on estimates provided by the external legal advisors handling the litigation.
- The value to the Group of the Litigation Contracts in Progress, 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 funding contract.
- The discount rate applied to the cash flow projections is based on the Group's weighted average cost of capital and other factors relevant to the particular Litigation Contracts in Progress. The discount rate applied ranged between 13% and 15%.

Significant Accounting Policies

Litigation Contracts in Progress

Litigation Contracts in Progress represent future economic benefits controlled by the consolidated entity. As Litigation Contracts in Progress may be exchanged or sold, the consolidated entity is able to control the expected future economic benefits, hence meeting the definition of intangible assets.

Litigation Contracts in Progress are measured at cost on initial recognition and are not amortised as the asset is not available for use until a successful judgement or settlement relating to the project has been determined. It is at this point that the asset is derecognised.

Actions still outstanding

When litigation is outstanding and pending a determination, Litigation Contracts in Progress are carried at cost. Subsequent expenditure is capitalised when it meets the following criteria:

- the consolidated entity has the ability and intention to complete the litigation;
- the asset is expected to generate a future economic benefit;
- adequate, technical, financial and other resources are available to complete the litigation; and
- the expenditure attributable to the litigation during its duration can be measured reliably.

Unsuccessful judgement

Where the litigation is unsuccessful at trial, this is a trigger for impairment of the intangible asset and the asset is written down to its recoverable amount. If the claimant, having been unsuccessful at trial, appeals against the judgement, then future costs of the appeal are expensed as incurred.

Successful judgement

Where the litigation has been favourably determined or a positive settlement has been agreed, this constitutes a derecognition of the intangible asset and accordingly a gain or loss is recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Any future costs relating to the defence of an appeal of the defendant are expensed when incurred.

Critical Accounting Estimates and Judgements

The consolidated entity determines whether intangible assets with indefinite useful lives are impaired at least on an annual basis. The assumptions used in the estimation of the recoverable amount and the carrying amount of intangibles with indefinite useful lives are discussed in note 12.

Impairment of non financial assets

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.

Notes to the financial statements continued

Classification of Intangible Assets

The classification of Litigation Contracts in Progress is determined by management's best estimate of resolution of the Litigation Project, with those expected to be resolved in the 12 month period to June 2019 classified as current assets and the balance as non-current assets. Litigation contracts in progress are classified as current assets when the asset is expected to be realised within twelve months after the reporting period. In making this judgement in relation to specific assets the directors take into account the circumstances of the associated litigation, including whether a trial date has been set within the twelve months after the reporting date.

13. Deferred tax

	CONSOLIDATED	
	June 2018 \$	June 2017 \$
Deferred tax asset comprises temporary differences attributable to:		
Property, plant and equipment	523	523
Employee benefits	50,556	37,923
Other Provisions	-	-
Accrued expenses	14,591	12,561
Tax losses carried forward	4,331,692	7,100,444
Transaction costs on share issue	440,486	615,386
	4,837,848	7,766,837

	Opening Balance 1 July 2017 \$	(Charged)/ credited to profit or loss \$	(Charged)/ credited to equity \$	Closing Balance 30 June 2018 \$
Movements in deferred tax assets - 2018				
Property, plant and equipment	523	-	-	523
Employee benefits	37,923	12,633	-	50,556
Other Provisions	-	-	-	-
Accrued expenses	12,561	2,030	-	14,591
Tax losses carried forward	7,100,444	(2,768,752)	-	4,331,692
Transaction costs on share issue	615,386	(174,900)	-	440,486
Closing balance	7,766,837	(2,928,989)	-	4,837,848

	Opening Balance 1 July 2016 \$	(Charged)/ credited to profit or loss \$	(Charged)/ credited to equity \$	Closing Balance 30 June 2017 \$
Movements in deferred tax assets - 2017				
Property, plant and equipment	895	(372)	-	523
Employee benefits	25,556	12,367	-	37,923
Accrued expenses	34,586	(22,025)	-	12,561
Tax losses carried forward	4,955,511	2,144,933	-	7,100,444
Transaction costs on share issue	108,775	(131,202)	637,813	615,386
Closing balance	5,125,323	2,003,701	637,813	7,766,837

Notes to the financial statements continued

Deferred tax liability comprises temporary differences attributable to

	2018 \$	2017 \$
Intangibles	3,826,528	3,429,401
	3,826,528	3,429,401

	Opening Balance 1 July 2017 \$	(Charged)/ credited to profit or loss \$	(Charged)/ credited to equity \$	Closing Balance 30 June 2018 \$
Movements in deferred tax liabilities – 2018				
Intangibles	3,429,401	397,127	–	3,826,528
Closing balance	3,429,401	397,127	–	3,826,528

	Opening Balance 1 July 2016 \$	(Charged)/ credited to profit or loss \$	(Charged)/ credited to equity \$	Closing Balance 30 June 2017 \$
Movements in deferred tax liabilities – 2017	\$	\$	\$	\$
Intangibles	1,948,273	1,481,128	–	3,429,401
Closing balance	1,948,273	1,481,128	–	3,429,401

Significant Accounting Policies**Recognition of deferred tax assets**

Potential deferred tax assets attributable to carried forward tax losses will be recognised and only utilised when:

- The Group derives future assessable income of a nature or amount sufficient to enable the benefits from the deductions for the losses to be utilised;
- The conditions for deductibility imposed by tax legislation continue to be complied with, and
- No changes in tax legislation adversely affect the Group in realising the benefit.

Critical Accounting Estimates and Judgements**Recovery of deferred tax assets**

Deferred tax assets are recognised for tax losses only if the Group considers it is probable that future taxable amounts will be available to utilise those tax losses. The Group has deferred tax assets relating to tax losses arising from prior years totalling of \$15,751,608 (2017: \$25,819,796). The potential tax benefit of \$4,331,692 (2017: \$7,100,444) has been determined using the reduced tax rate of 27.5% which is the rate expected to apply when the asset is realised.

Management has performed a prima facie analysis of future taxable profits to determine the likelihood of being able to recover the unused tax losses in the short term. Management has concluded that, based on past performance and accuracies of forecast cash flow from operations, the Group will generate taxable earnings in the short term in order to utilise recognised deferred tax assets.

Notes to the financial statements continued

14. Current liabilities – trade and other payables

	CONSOLIDATED	
	June 2018 \$	June 2017 \$
Trade payables	3,696,208	1,911,072
Distribution payable	32,430	32,430
Other payables	87,410	(17,428)
	3,816,048	1,926,074

Significant Accounting Policies

These amounts represent liabilities for goods and services provided to the consolidated entity 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.

15. Current and non-current liabilities – Employee benefits

	CONSOLIDATED	
	June 2018 \$	June 2017 \$
Current		
Employee benefits – Annual Leave	149,481	111,040
Employee benefits – Bonuses payable	105,000	-
	254,481	111,040
Non-current		
Employee benefits – Long Service Leave	34,358	26,862
	34,358	26,862

Significant Accounting Policies

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled 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 long service leave not expected to be settled within 12 months of the reporting date are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. 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 corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows

Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the consolidated entity does not have an unconditional right to defer settlement. However, based on past experience, the consolidated entity does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

Notes to the financial statements continued

16. Equity – Issued capital

(a) 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.

(b) Partly paid shares

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. As at 30 June 2018, there are currently 2,866,050 partly paid shares issued at an issue price of \$0.17 and will become fully paid upon payment to LCM of \$0.17 per share.

(c) Ordinary shares - Loan Share Plan

On 16 November 2017, Director Patrick Moloney was issued with 2,000,000 ordinary shares under Loan Share Plan. For further details of this transaction refer to Note 17.

	CONSOLIDATED			
	June 2018 Shares	June 2017 Shares	June 2018 \$	June 2017 \$
Ordinary shares – fully paid	53,533,247	53,533,247	24,865,111	24,865,111
Ordinary shares – partly paid	2,866,050	2,866,050	–	–
Movements in fully paid ordinary share capital	Date	No of shares	Issue price	\$
Opening balance at 1 July 2016		32,104,675	n/a	11,546,617
Issue of ordinary shares – fully paid	Dec-16	21,428,572	\$0.70	15,000,000
Share issue transaction costs, net of tax				(1,681,506)
Balance at 30 June 2017		53,533,247		24,865,111
Opening balance at 1 July 2017		53,533,247	n/a	24,865,111
Balance at 30 June 2018		53,533,247		24,865,111
Movements in partly paid ordinary share capital	Date	No of shares	Issue price	\$
Opening balance at 1 July 2016		2,866,050	n/a	–
Balance at 30 June 2017		2,866,050		–
Opening balance at 1 July 2017		2,866,050	n/a	–
Balance at 30 June 2018		2,866,050		–
Movements in ordinary share capital in relation to Loan Share Plan	Date	No of shares	Issue price	\$
Opening balance at 1 July 2017		–		–
Issue of shares (Refer to Note 17)	Nov-17	2,000,000	n/a	–
Balance at 30 June 2018		2,000,000		–

(d) Capital risk management

The Group considers its capital to comprise its contributed equity, any accumulated retained earnings as well as its credit facility which is classified as a financial liability in the Consolidated Statement of Financial Position.

When managing capital, management's objective is to ensure that the consolidated entity continues as a going concern, has sufficient capital to meet its growth aspirations and to provide optimal returns to shareholders. The Company is not subject to any regulatory imposed capital requirements.

Notes to the financial statements continued

In making decisions to adjust its capital structure to achieve these aims, the Group considers not only its short-term position but also its long-term operational and strategic objectives. 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 has not changed during the year.

Significant Accounting Policies

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.

17. Share based payments reserve

The share-based payments reserve is used to recognise the fair value of shares and options issued to employees under the Employee Share Option Scheme and Loan Share Plan.

	CONSOLIDATED	
	June 2018 \$	June 2017 \$
Share based payments reserve	292,484	165,903
Movements in share based payments reserve		
Opening balance	165,903	95,703
Expenses arising from share-based payments transactions during the period:		
Employee Share Option Scheme	93,600	70,200
Loan Share Plan	32,981	-
Closing balance	292,484	165,903

Loan Share Plan

On 16 November 2017, the shareholders of Litigation Capital Management Limited resolved to approve the Loan Share Plan. Under the plan, Director Patrick Moloney was granted with two tranches of 1,000,000 ordinary shares each on 4 December 2017. Each tranche will vest 24 and 36 months after the grant date respectively given vesting conditions on each tranche are satisfied by Mr Moloney which include customary continuous employment conditions and a share price hurdle of \$1.00. Mr Moloney entered into an interest-free loan with Litigation Capital Management Limited to acquire a total of 2,000,000 ordinary shares.

The loan is provided under a limited recourse borrowing arrangement and has a term of 10 years. The loan value is \$1,193,000 and is calculated at the issue price of the Plan Shares, being \$0.5965, on the issue date of the shares. The entitlement to the plan is lost once the Director is no longer an eligible participant.

The cost of share based payment transactions in relation to the Loan Share Plan to Patrick Moloney is measured at fair value at date of grant. The fair value determined at the grant date of these payments are expensed on a straight line basis over the term of the loan, based on the Group's estimate of shares under Loan Share Plan that will vest, with a corresponding increase in equity. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest for service and non-market performance conditions. The expense recognised each year takes into account the most recent estimate. Dividends on the shares issued under the Loan Share Plan are to be offset against the outstanding loan balance.

Notes to the financial statements continued

The fair value at grant date, of \$0.28 per each share issued under the Loan Share Plan, was determined using a American single barrier option calculation. Key model inputs include:

Grant date: 4 December 2017
 Share price at grant date: \$0.58
 Exercise price: \$0.5965
 Option life: 10 years
 Expected volatility: 45%
 Expected dividend yield: 0%
 Risk free interest rate: 2.5%

The fair value of these shares granted during the period is \$565,380. An amount of \$32,981 has been expensed during the period, with the remainder to be expensed over the term of the loan.

Employee Share Option Scheme

The Option Plan gives directors David King and Patrick Moloney the opportunity to participate in the plan. The options granted on 1 December 2013 can be exercised to purchase 1 ordinary share in Litigation Capital Management Limited at an exercise price of \$0.47. The options granted on 20 September 2016 can be exercised to purchase 1 ordinary share in Litigation Capital Management Limited at an exercise price of \$1.00. Details of options outstanding as part of the employee option plan during the period are as follows:

30 June 2018	Grant date	Exercise date	Expiry date	Balance at beginning of the year	Granted during the year	Exercised during the year	Balance at the end of year	Exercisable at the end of the year
	01/12/2013	01/12/2013	01/12/2018	3,190,116	-	-	3,190,116	3,190,116
	20/09/2016	01/11/2018	01/11/2021	1,500,000	-	-	1,500,000	-
				4,690,116	-	-	4,690,116	3,190,116
Weighted average exercise price of those with an exercise price				0.64	-	-	0.64	0.47

18. Subsidiaries and Transactions With Non-Controlling Interests

Interests in Subsidiaries

Information relating to the group's interests in subsidiaries at 30 June 2018 is set out below. All entities are incorporated in and operate within Australia. The ownership of each subsidiary is equal to the voting rights of each entity.

Name of Entity	Ownership interest		Ownership interest held by non-controlling interests	
	2018 %	2017 %	2018 %	2017 %
LCM Litigation Fund Pty Ltd	100%	100%	-	-
LCM Litigation Management Pty Ltd	100%	100%	-	-
LCM Litigation Investment Fund No 1 Pty Ltd	100%	100%	-	-
LCM Operations Pty Ltd	100%	100%	-	-
LCM Corporate Services Pty Ltd	100% ¹	0%	-	-
LCM Unit Trust	60%	60%	40%	40%

¹ entity was incorporated during the year.

Notes to the financial statements continued

Non-controlling interests (NCI)

The table below sets out the summarised financial information for each subsidiary that has non-controlling interests that are material to the group. Amounts disclosed are before intercompany eliminations.

	LCM Unit Trust	
	2018 \$	2017 \$
Summarised statement of financial position		
Current assets	536,186	46,063
Non-current assets	-	-
Total assets	536,186	46,063
Current liabilities	471,521	84,375
Non-current liabilities	-	-
Total liabilities	471,521	84,375
Net assets	64,665	(38,312)
Summarised statement of profit or loss and other comprehensive income		
Revenue	513,138	-
Other income	3,000	-
Expenses	413,161	138,313
Profit/(loss) before income tax expense	102,977	(138,313)
Income tax expense	-	-
Profit/(loss) after income tax expense	102,977	(138,313)
Other comprehensive income	-	-
Total comprehensive income	102,977	(138,313)
Statement of cash flows		
Net cash from operating activities	(23,015)	(202,389)
Net cash used in investing activities	-	-
Net cash used in financing activities	-	-
Net increase/(decrease) in cash and cash equivalents	(23,015)	(202,389)
Other financial information		
Profit attributable to non-controlling interests	41,191	(55,325)
Accumulated non-controlling interests at year end	25,866	(15,325)
Distributions paid to non-controlling interests	-	-

Transactions with non-controlling interests

On 13 February 2014 the LCM Unit Trust was established. The consolidated entity sold rights to performance fees to LCM Unit Trust for \$150,000, which this amount contributed back to LCM Unit Trust for a 60% ownership in the entity. The remaining 40% is equally owned by Australian Insolvency Group Pty Ltd of which Patrick Coope is a shareholder and Keli-Saw Holdings Pty Ltd of which Patrick Moloney is a shareholder.

Notes to the financial statements continued

19. Remuneration of auditors

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

	CONSOLIDATED	
	June 2018 \$	June 2017 \$
Audit Services		
Amounts paid/payable for audit and review of financial statements for the entity or any entity in the Group	63,199	68,861
Taxation Services		
Amounts paid/payable to a related practice of the auditor for tax compliance and advisory services	-	11,235
Other Services		
Amounts paid/payable to a related practice of the auditor for corporate finance services	-	58,470

20. Reconciliation of cash flows

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

	CONSOLIDATED	
	June 2018 \$	June 2017 \$
Profit/(loss) after income tax expense for the year	8,637,354	(2,340,508)
Adjustments for:		
Net (gain)/loss on derecognition of intangible assets included in investing activities	(15,494,528)	(2,182,426)
Depreciation and amortisation	21,967	6,258
Change in operating assets and liabilities:		
Decrease in trade and other receivables	(595,225)	628,979
Increase/(decrease) in trade and other payables	104,838	135,081
Increase/(decrease) in deferred taxes	3,326,116	(522,572)
Increase in employee benefits	150,937	52,714
Increase in share based payments	126,581	70,200
Net cash from operating activities	(3,721,960)	(4,152,274)

(b) Changes in Liabilities arising from Financing Activities:

	2017	Cash inflows	Cash outflows	2018
Short-term borrowings	-	4,250,000	(4,250,000)	-
Total liabilities from financing liabilities	-	4,250,000	(4,250,000)	-

(c) Non-cash Financing and Investing Activities

During the year, proceeds from the settlement of Litigation Projects of \$2,042,283 were not received by the Group as they were paid directly from the funded party's solicitors trust account to the Group's trade creditors to extinguish outstanding litigation funding costs payable. As the Group did not receive these proceeds, they have not been reflected in the proceeds or payments of litigation funding within the statement of cash flows.

Notes to the financial statements continued

21. Related party transactions

(a) Parent entity

Litigation Capital Management Limited is the parent entity of the Group. Litigation Capital Management Limited was incorporated on 9 October 2015 and is domiciled in Australia. The registered address of Litigation Capital Management Limited is Level 12, The Chifley Tower, 2 Chifley Square, Sydney, NSW, 2000.

Litigation Capital Management Limited acquired 100% of the issued share capital of LCM Litigation Fund Pty Ltd on 16 November 2015. Upon completion of the acquisition, Litigation Capital Management Limited issued 6 shares for every 1 held in LCM Litigation Fund Pty Ltd to existing shareholders as consideration for the share in LCM Litigation Fund Pty Ltd.

(b) Subsidiaries

Interests in subsidiaries are disclosed in note 18.

(c) Key Management Personnel Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	CONSOLIDATED	
	June 2018 \$	June 2017 \$
Short-term employee benefits	584,924	1,066,054
Post-employment benefits	53,595	32,049
Long term benefits	7,496	7,475
Share-based payments	126,581	70,200
	772,596	1,175,778

(d) Transactions with related parties

The following transactions occurred with related parties:

Patrick Moloney is a director and shareholder of 101 Capital Pty Ltd. 101 Capital Pty Ltd is the Trustee of LCM Litigation Investment Fund and engages LCM Litigation Management Pty Ltd to manage this entity on its behalf.

Steven McLean is a shareholder and director of 145 Fleet Pty Ltd, which carries out financial advisory services. During the year, 145 Fleet has earned fees of \$nil (2017: \$512,430). As at 30 June 2018 there were no amounts owing to 145 Fleet (2017: \$nil).

Transactions with non-controlling interests

Director Patrick Moloney has a non-controlling interest in LCM Unit Trust and Basis Partnership.

(e) Significant transactions with Director's and their associates

Patrick Moloney was provided with 2,000,000 ordinary shares in Litigation Capital Management Limited under the Loan Share Plan. The details of this transaction is included in Note 17.

Notes to the financial statements continued

22. Parent entity information

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

	June 2018 \$	June 2017 \$
Statement of profit or loss and other comprehensive income		
Profit/(loss) after income tax	(126,581)	(272,429)
Total comprehensive income	(126,581)	(272,429)
Statement of financial position		
Total current assets	-	-
Total assets	24,662,882	24,662,882
Total current liabilities	-	-
Total liabilities	-	-
Equity		
Issued capital	24,865,111	24,865,111
Share based payments reserve	196,781	70,200
Retained profits	(399,010)	(272,429)
Total equity	24,662,882	24,662,882

The Group has revised this disclosure to reflect the legal parent entity being, Litigation Capital Management Limited, instead of the accounting parent entity being, LCM Litigation Fund Pty Ltd. The disclosure has been applied retrospectively.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity.

23. 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.

24. Commitments and Contingencies

(a) Operating lease commitments**Leasing Arrangement**

Operating lease relate to business premises leased in Melbourne, Adelaide, Brisbane, Sydney and Melbourne. The Group has lease terms with between 1 and 6 month cancellation period requirements.

	CONSOLIDATED	
	June 2018 \$	June 2017 \$
Non-cancellable leases		
- not later than 12 months	171,529	82,496
- between 12 months and 5 years	193,879	-
- greater than 5 years	-	-
	365,408	82,496

Notes to the financial statements continued

(b) Contingencies

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.

Litigation Capital Management Limited ABN 13 608 667 509

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;

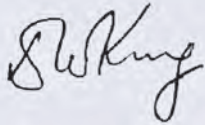
the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;

the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the financial year ended on that date;

there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

Signed in accordance with a resolution of directors.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'J. King', is written over a light grey rectangular background.

Director

Dated this 20 day of August 2018

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 2018, 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 the Group, 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 2018 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* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverable amount of Litigation Contract in Progress

Key audit matter	How the matter was addressed in our audit
<p>Note 12 to the financial report discloses the intangible assets consisting of Litigation Contracts in Progress, and the assumptions used by the Group in testing these assets for impairment.</p> <p>The impairment assessment of intangible assets was a key audit matter due to the size of the recorded asset 2018: \$13,914,646 (2017: \$12,470,549), the degree of estimation and assumptions required to be made by the Group, specifically concerning future discounted cash flows.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> 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. Evaluating and challenging the Group's assumptions and estimates used to determine the recoverable amount of its assets, including those relating to estimated costs to complete a Litigation Contract in Progress, the value to the Group of the Litigation Contract in Progress once completed, and the timing of completion of the Litigation Contract in Progress. Assessing the accuracy of the forecasts by comparing previous forecasts with actual business results. Assessing the adequacy of the Group's disclosures in note 12 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 intangible assets.

Treatment of Loan Share Plan

Key audit matter	How the matter was addressed in our audit
<p>Note 17 to the financial report discloses the details of the loan share plan granted to Director Patrick Moloney. The treatment of the loan share plan arrangement is a key audit matter as the accounting treatment involves complexity, expertise and judgement</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> Evaluating the appropriateness of the valuation methodology adopted and the reasonableness of inputs used in the model, with the assistance of an auditors' internal expert. Assessing the adequacy and accuracy of the disclosures included in the audited remuneration report and note 17 of the consolidated financial statements, which outlines the terms of the arrangement and inputs to the fair value calculation.

Other information

The directors are responsible for the other information. The other information comprises the information contained in the directors' report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the Chairman's letter and Chief Executive's report, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and 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 identified above 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 that we 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.

When we read the Chairman's letter and Chief Executive's report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and will request that it is corrected. If it is not corrected, we will seek to have the matter appropriately brought to the attention of users for whom our report is prepared.

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/ar1.pdf

This description forms part of our auditor's report.



Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 26 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Litigation Capital Management Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

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

BDO Audit (SA) Pty Ltd

A handwritten signature in blue ink that reads 'Geoff Edwards'.

Geoff Edwards
Director

Adelaide, 20 August 2018

Shareholder information

as at 5 October 2018

Shareholder Information required by the Australian Securities Exchange Limited (ASX) Listing Rules and not disclosed elsewhere in the Report is set out below.

1. In accordance with the 3rd edition ASX Corporate Governance Council's Principles and Recommendations, the 2017 Corporate Governance Statement, as approved by the Board, is available on the Company's website at: <https://www.lcmfinance.com/>. The Corporate Governance Statement sets out the extent to which Litigation Capital Management Limited has followed the ASX Corporate Governance Council's 29 Recommendations during the 2018 financial year.

2. Substantial shareholders

The number of securities held by substantial shareholders and their associates (as notified to the ASX) are set out below:

Fully paid Ordinary Shares

Name	Number	%	Date of lodgement
Litigation Capital Management Limited	21,869,407	40.85	13/12/2016
Kanamex Pty Ltd and Mr Patrick John Moloney	2,729,452	5.41	13/12/2016
PFH (NSW) Pty Ltd ATD Paradice Family Trust	2,400,000	4.76	14/12/2016
Collins St Asset Management ATF Collins St Value Fund	4,119,735	7.36%	26/09/2018

3. Number of security holders and securities on issue

Litigation Capital Management Limited has issued the following securities:

- (a) 55,945,219 fully paid ordinary shares held by 398 shareholders;
- (b) 2,866,050 partly paid ordinary shares held by 3 shareholders;
- (c) 1,500,000 unlisted options exercisable at \$1.00 held by 2 option holders; and
- (d) 3,190,116 unlisted options exercisable at \$0.47 held by 2 option holders.

4. Voting rights

Ordinary shares

The voting rights attached to ordinary shares are that on a show of hands, every member present, in person or proxy, has one vote and upon a poll, each share shall have one vote for each fully paid share they hold.

Partly paid shares

The voting rights attached to partly paid shares are that on a show of hands, every member present, in person or proxy, has one vote and upon a poll, a fraction of a vote for each partly paid share they hold. The fraction must be equivalent to the proportion which the amount paid (not credited) is of the total amounts paid and payable (excluding amounts credited). Amounts paid in advance of a call are ignored.

Options

Option holders do not have any voting rights on the options held by them.

Shareholder information continued

5. Distribution of security holders

(a) Fully Paid ordinary securities

Category	Fully paid Ordinary shares		
	Holders	Shares	%
1 - 1,000	8	3,332	0.01
1,001 - 5,000	77	220,021	0.44
5,001 - 10,000	51	432,296	0.77
10,001 - 100,000	168	6,049,319	10.81
100,001 and over	94	49,240,251	88.02
Total	398	55,945,219	100.00

(b) Unquoted securities - partly paid shares

Category	Partly paid shares		
	Holders	Shares	%
1 - 1,000	0	0	0.00
1,001 - 5,000	0	0	0.00
5,001 - 10,000	0	0	0.00
10,001 - 100,000	0	0	0.00
100,001 and over	4	2,866,050	100.00
Total	4	2,866,050	100.00

(c) Unquoted securities - options exercisable at \$1.00

Category	\$1.00 Options		
	Holders	Options	%
1 - 1,000	0	0	0.00
1,001 - 5,000	0	0	0.00
5,001 - 10,000	0	0	0.00
10,001 - 100,000	0	0	0.00
100,001 and over	2	1,500,000	100.00
Total	2	1,500,000	100.00

(d) Unquoted securities - options exercisable at \$0.47

Category	\$0.47 Options		
	Holders	Options	%
1 - 1,000	0	0	0.00
1,001 - 5,000	0	0	0.00
5,001 - 10,000	0	0	0.00
10,001 - 100,000	0	0	0.00
100,001 and over	2	3,190,116	100.00
Total	2	3,190,116	100.00

6. Unmarketable parcel of shares

The number of shareholders holding less than a marketable parcel of ordinary shares is nil (0) based on Litigation Capital Management Limited closing share price of \$1.00, on 5 October 2018.

Shareholder information continued

7. Twenty largest shareholders of quoted equity securities

Fully paid ordinary shares

Details of the 20 largest shareholders by registered shareholding are:

Name	No. of shares	%
1 J P MORGAN NOMINEES AUSTRALIA LIMITED	4,123,735	7.37
2 KANAMEX PTY LTD	3,212,557	5.74
3 BERNE NO 132 NOMINEES PTY LTD	2,457,143	4.39
4 PFH (NSW) PTY LTD	2,400,000	4.29
5 MR PATRICK MOLONEY	2,000,000	3.57
6 UBS NOMINEES PTY LTD	1,859,698	3.32
7 MJC PTY LTD	1,720,002	3.07
8 VERUSE PTY LTD	1,601,484	2.86
9 SEISTEND PTY LTD	1,601,484	2.86
10 PJF SUPER PTY LTD	1,562,688	2.79
11 MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED	1,549,024	2.77
12 RST SUPER PTY LTD	1,497,523	2.68
13 PORTIGON AG	1,080,000	1.93
14 MERRIC INVESTMENTS PTY LTD	922,087	1.65
15 NATIONAL NOMINEES LIMITED	920,241	1.64
16 F L BRAGG HOLDINGS PTY LTD	611,121	1.09
17 AUSTRALIAN INSOLVENCY GROUP PTY LTD	606,824	1.08
18 WOLSELEY (AUSTRALIA) PTY LTD	557,855	1.00
19 ST JOHN STREET PTY LTD	555,033	0.99
20 LEMPIP NOMINEES PTY LTD	528,700	0.95
Total for Top 20	31,852,912	56.94
Total on Register	55,945,219	100

8. The name of the entity's secretary (in the case of a trust, the name of the responsible entity and its secretary).
Ms Anna Sandham

9. The address and telephone number of the Company's registered office in Australia; and of its principal administrative office, if the two are different.

Suite 12.06 Level 12, The Chifley Tower2 Chifley Square, Sydney NSW 2000
T: +61 2 8098 1390

10. The address and telephone number of each office at which a register of securities, register of depositary receipts or other facilities for registration of transfers is kept.

Link Market Services Limited
Level 12, 680 George Street, SYDNEY, NSW, AUSTRALIA 2000
T: +61 1300 554 474

11. A list of other stock exchanges on which any of the Company's securities are quoted.
Nil.

Shareholder information continued

12. The number and class of restricted securities or securities subject to voluntary escrow that are on issue and the date that the escrow period ends.

- 1,128,600 unquoted partly paid ordinary shares;
- 1,500,000 unquoted options exercisable at \$1.00 per option between 1 November 2018 and 1 November 2021; and
- 1,595,058 unquoted options exercisable at \$0.48 per option on or before 1 December 2018.

13. Unquoted securities

Litigation Capital Management Limited have the following unquoted securities on issue:

- 2,866,050 unquoted partly paid shares held by 4 shareholders as follows:
 - o Australian Insolvency Group Pty Ltd hold 764,778 shares;
 - o Litigation Support Services Pty Ltd hold 668,250 shares; and
 - o Kanamex Pty Ltd hold 1,433,022 shares.
- 1,500,000 unquoted options exercisable at \$1.00 per option held by 2 option holders as follows:
 - o Kanamex Pty Ltd hold 900,000 options; and
 - o Seistend Pty Ltd hold 600,000 options.
- 3,190,116 unquoted options exercisable at \$0.47 per option held by 2 option holders as follows:
 - o Mr Patrick Moloney holds 1,595,058 options; and
 - o Mr Patrick cope hold 1,595,058 options.

14. On market buy-back

There is no current on market buy-back.

15. Statement regarding use of cash and assets

During the period between 1 July 2017 and 30 June 2018, Litigation Capital Management Limited has used its cash and assets readily convertible to cash that it had at the time of ASX admission in a way consistent with its business objectives set out in the prospectus dated 17 November 2016.

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