



Full Year  
Financial  
Report

**2023**

## Chairman's Statement

The year under review was LCM's most successful 12 months since inception. This is a testament to the hard work of our management team and staff, and the foundations that have been laid by the team over the past few years.

The Financial review details an income statement prepared under the historical accounting standard and the newly adopted AASB 9 to provide readers with a bridge of financial performance through this period of transition. Realised income for the year compared to revenue as previously disclosed in the prior year was AUD\$181m, A\$84m of which was attributable to the shareholders of LCM (FY22 AUD\$47m), an increase of 285% on a consolidated basis and 78% attributable to LCM. Adjusted operating profit of AUD\$54m was in line with the prior year (FY22 adjusted operating profit AUD\$54m), and basic earnings per share of 29.5 cents (FY22 32.7 cents). These record results meant that the company ended the period with AUD\$104.5m of cash (A\$83m attributable to LCM) compared with FY22 AUD\$50.0m of which A\$29m was attributable to LCM. More information on the restatement of the Group's results following the adoption of Fair Value accounting can be found in the CFO report and the notes to the financial statements.

As a result of the above performance, the Board was pleased to declare a final dividend to shareholders for the financial year ending 30 June 2023 of 2.25p per share. The dividend will be paid on 27 October 2023 to shareholders on the register on 29 September 2023 being the record date. The ordinary shares will be marked ex-dividend on 28 September 2023. As we have set out, the Board is always looking at ways to return value to shareholders and will continue to do so.

LCM's experience in the sector has enabled it to navigate the uncertain economic and political environment which has been in place since the emergence of the Covid pandemic, and which continues today due to high levels of inflation and the ongoing war in Ukraine.

As the year progressed, we began to see courts and tribunals in jurisdictions across the globe begin to tackle the case backlogs associated with Covid 19, which has seen more cases settle, a trend we hope to see continue and accelerate during the next 12 months. As ever, the timing of resolutions of disputes is out of our hands, but we will continue to provide market updates to investors in a timely manner and when it is possible to do so.

During the year LCM has seen the benefits of its move to its third-party asset management business model, with the first case investments from Fund I reaching their conclusion, leading to above average returns for the LCM balance sheet. The Board is confident that this is the right business model for the Company and will allow LCM to leverage our capital extremely effectively and build scale.

In March 2023, Fund II was closed following US\$291m of committed funds and we have already begun to deploy capital within this structure. We expect this to be a strong driver of growth in the business in the years to come, and continue to receive interest from investors looking to commit further.

As the numbers bear out, the performance this year has been extremely strong, which as ever has been led by strong case selection and the experience within the Company of originating high quality deals. We have bolstered our origination business with key hires in APAC and EMEA, highlighting the increasingly global nature of our business.

This was CEO Patrick Moloney's first full year based in the UK, a move driven by our belief in the opportunity for growth in the UK and Europe. Coupled with the building out of our London team, we continue to believe that the litigation financing market in EMEA is set for expansion. This is notwithstanding the recent UK Supreme Court decision which will have very limited or no impact on LCM's portfolios of dispute investments in terms of future value. Additionally, our presence in Singapore has continued to grow, and we are seeing more and more opportunities in the jurisdiction. We see these locations as natural complements to each other, diversifying and de-risking our investment portfolio.

As a business LCM has always been conservative in the way it apportions value to its portfolio of investments. We will maintain this conservative approach. However, the Group has reassessed its classification of the funding of its litigation funding agreements. This involved a detailed review which resulted in a significant change to the way in which we report results this year. The change provides more relevant information on the value of the litigation funding agreements and reflects the evolution of the primary business model and changing geographic split of business. This is a significant change which follows a third-party review and lengthy and thorough board discussions. We are confident this is the right

move for the business as it continues its shift towards a third-party asset management business model and will enable investors more easily to compare us with our peers. More information about the change to Fair Value Accounting can be found in the CEO and CFO reports.

In conclusion, this has been an excellent period for LCM, and can act as a platform from which to continue to expand our asset management business and develop scale. The litigation funding market continues to grow, and we expect the quality of opportunities presented us to expand in line with this.

**Jonathan Moulds**

Non-Executive Chairman

## **CEO Review**

### **Introduction**

The year to 30 June 2023 was transformational for LCM as we started to realise the benefits of the asset management business model and the successful execution of our strategy to grow a third-party fund management business. The resolution of a number of Fund I investments has translated into enhanced organic cash generation, allowing us to scale the business through further investment into Fund II.

We welcomed an expanded team in London by recruiting additional, highly experienced litigation finance professionals and have selectively enhanced our already strong teams in Australia and in Singapore, which is increasingly a strong hub of opportunities for the Company. In London and the APAC region our enhanced teams will help us to continue to take full advantage of the current favourable market conditions.

As noted in the Chairman's Statement and as set out in more detail in the Financial Review, the Board evaluated and considered the appropriate accounting framework with respect to our portfolio of investments given the business' evolution over recent years. The outcome being the transition to fair value accounting for litigation funding assets, which we believe will provide relevant information on the value of the underlying portfolio and better reflects our business model.

### **Operational Review**

During the year LCM delivered its strongest set of results to date, both in terms of financial performance and commitments, supported by a strong cash position. As a result, we are pleased to be able to recommend a 2.25p dividend per ordinary share for shareholders.

We continue to operate against a backdrop of ongoing disruption caused by high inflation, rising interest rates, geo-political tension and wider economic uncertainty. Our strong cash position will enable us to meet the ever growing demand for funding, arising from the increased level of disputes globally as a consequence of these external factors. In the current environment, this means increased demand for capital allocation to fund disputes. This market demand, together with our ability to deliver superior uncorrelated returns, places us well for future growth.

We continue to grow and scale our fund management business which aligns the interests of LCM with our third-party investors through our co-investment model. Each matter selected for investment will see us invest our own capital alongside that of the managed funds – normally on a 25:75 basis. Supported by our track record and underwriting capabilities, this model allows Fund investors to benefit from our ability to deliver high returns while LCM shareholders benefit from performance fees and capital leverage.

#### *Investment Portfolios and Performance*

In terms of investment performance metrics, LCM continues to deliver outstanding returns. With respect to every investment completed during the past 12 years, inclusive of losses, LCM has generated a return on invested capital (ROIC) of 1.78x. On a three year rolling basis, LCM's investment performance, again including every completed investment inclusive of losses, has generated an IRR of 76% and a ROIC of 2.09x. These performance metrics underpin the high calibre of our investment managers and their underwriting capabilities with respect to investment selection. LCM has consistently provided amongst the highest returns in our industry over a long period of time.

As previously announced, LCM achieved a final close on its second fund (Global Alternative Returns Fund II) ("Fund II") in March 2023. Progress in terms of commitments entered into for Fund II has been strong and we currently enjoy an advanced pipeline of significant disputes, which we expect to sign into investments in the near future. Given current demand and levels of enquiry, we expect we will reach full commitment within the next 12 months. As with our historical approach, as evidenced by our investment performance metrics, we continue to build our portfolios of dispute investments in a manner that maintains diversity across claim type, industry sector and jurisdiction whilst avoiding concentration risk. We are at all times focused upon the quality of the investments that we make, rather than the quantity.

## People

Since relocating to the London market in late 2021, I have focused on both building out the skillset and experience of our London team, as well as expanding our origination function. LCM now has the benefit of six highly experienced investment managers in London, the majority of whom have a deep understanding of the litigation funding industry both in the UK and Europe. LCM now boasts the most experienced London team of investment managers which positions us exceptionally well given the level of enquiry for our capital being received from the London market.

In terms of the Australian market, we will always consider adding to our team on an opportunistic basis, however we are satisfied that the current team is capable of meeting the demands to perform in that market. We also take a very practical approach towards our level of operating expenses in each region, ensuring that in markets where we are not seeing an expansion in the level of enquiry, that we meet that demand with an appropriate level of personnel and operating expenses generally. We constantly monitor market conditions and are in a position to react swiftly to any changes.

In terms of the Asian markets, we are pleased to report an increase in activity. Whilst LCM has invested in the Asian market for many years, we first established a permanent presence with our Singapore office in 2018. In accordance with LCM's disciplined approach, we commenced that office with a single experienced investment manager. Since that time, we have expanded those operations, such that we now have four investment managers operating in Singapore. Most recently, we have employed an investment manager with a focus on insolvency disputes with experience in the UK, Cayman Islands and Asia. We expect to see increased activity in the insolvency and restructuring space as markets continue in a higher interest rate environment and with continuing economic uncertainty.

## Market Environment

Market conditions across the various jurisdictions in which we operate continue to develop favourably. The economies in which we operate are seeing central banks continuing with their policy of increasing official rates in an effort to bring inflation under control. We continue to see disruption across many industries, some resulting from Covid hangover, some from geopolitical instability and some from economic issues. What is clear right across the markets that we service is that the economic conditions and the general uncertainty is increasing the number of quality investment opportunities we see. At one end of the spectrum, we see very significant increases in the number of liquidations, both voluntary and court appointed, whereby an insolvency practitioner is appointed to an insolvent corporation. That dynamic over time will see an increase in opportunities from that sector. That is of particular interest to LCM given its extensive experience in insolvency related disputes and our deep relationships with insolvency practitioners. At the other end of the market we service, we have large sophisticated and well capitalised corporates. Those within the corporates who manage finance, and in particular disputes budgets, as well as risk, have a more sympathetic disposition toward exploring litigation finance as a tool to manage capital and risk in current markets.

Having now worked directly in the UK market for almost two years, I can make some informed observation regarding opportunity. I came to the London market with 18 years' experience in the litigation finance industry, predominantly in the Australian and Asian markets. The litigation finance market has developed quite differently in the Australian market than elsewhere in the world. That experience gives me particular insight into parts of the market which remain either undeveloped or underserved in the United Kingdom. Having now had the opportunity to obtain a direct insight from referral sources, in particular the dominant dispute lawyers, I can say that there remains significant opportunity for LCM in this region. LCM is now very well placed to address the UK market with a highly experienced London team and an exceptional working culture.

I have also observed, particularly in the past 12 months, a contraction in available capital within the litigation financiers operating in this region. There is certainly less competition with respect to applications than there was two years ago when I arrived. This leverages this great opportunity for us.

In July of this year and post year end, the Supreme Court of the United Kingdom delivered a judgment which resulted in certain litigation funding arrangements being subject to the Damages-Based Agreement Regulations 2013 in the UK. The Damages-Based Agreement Regulations 2013 prescribe certain requirements for fee arrangements between solicitors and their client whereby their remuneration for the provision of legal services is determined as a percentage of the financial benefit comprising the outcome of the dispute. Whilst most commentators accept that the Regulations were passed to regulate the

relationship between a solicitor and client, the Supreme Court decision has made those Regulations relevant to litigation funding arrangements whereby the funder's returns are calculated by reference to a percentage of damages. That decision has affected the market in the UK in different ways. Some litigation financiers have been affected more than others. LCM is fortunate to be affected only in a very minor way. First, there are a very small number of litigation funding arrangements in the UK, which will require small amendments. Overwhelmingly, our fee structure is calculated by reference to a multiple of invested capital rising over time. With respect to the small number of funding arrangements which are affected by the decision, a minor component to the funding arrangement involves a percentage. LCM is in the process of renegotiating that small number of arrangements and we are very confident that the decision will not impact LCM's existing portfolio, or its business moving forward. Secondly, and importantly, LCM does not have any funding arrangement which has been concluded in the United Kingdom involving a percentage which might be the subject of an argument that amounts ought to be repaid. Therefore, overall, LCM's existing and future business will be almost completely unaffected by the decision.

## **Accounting Standards**

As previously announced, we conducted a review of our accounting approach following the evolution of our business over recent years. This led to a transition in the way we value our portfolio of investments to Fair Value accounting.

We managed this task with discipline and rigour. We believe the benefit of this transition will facilitate a better understanding of the underlying value in our portfolio of investments. As funded matters progress over time, value is attributed to each of the investments based upon that progress and certain observable milestones, providing a greater degree of transparency.

In developing a valuation methodology, LCM can draw upon not only a large pool of data but its many years of experience in the litigation finance industry. LCM's business has been investing in disputes for approximately 25 years. Very few of our peers can point to experience of that nature or duration. The model, which has been developed to value Litigation Funding Assets on an individual investment level, considers, among other things, discounting future investment cash outflows and realisations to reflect a cost of capital, time and risk. LCM worked with external advisers at EY in developing the model.

## **Strategy**

LCM's future strategy is to continue building the scale of its business. That is achieved by three important building blocks. Over the years I have made reference to the three building blocks necessary to establish a successful litigation finance business, which also provide the foundation for building scale. The first is maintaining the strict discipline of our due diligence and underwriting processes. LCM has an exceptionally strong track record when it comes to investment performance. It is important that we maintain the discipline of our due diligence processes as we build scale.

Secondly, there is the need for adequate capital to fund growth, that is capital to invest. Fundamental to our success, is our ability to construct our portfolios of disputes with diversity across industry sector, dispute type and jurisdiction, whilst avoiding concentration risk. To a certain extent, that requires a degree of scale. LCM continually considers the diversity of its capital structure. In 2020, we commenced our funds management business, and we are now actively committing Fund II. During the next financial period, LCM will take steps towards launching Fund III and will carefully consider the appropriate size of that fund. Additionally, we will continue to review other aspects of our capital structure, such as debt, in order to optimise our cost of capital.

Finally, in order to effectively build the scale of LCM's business, we need to continually monitor and refine the way we gain access to quality investments through our origination platform. As noted above, we have already taken steps to bolster the skillset and capacity of our London team to take advantage of market opportunity. We have also expanded both our team and the particular skillsets in our Singapore office so as to accommodate increasing demand for capital and increasing applications in the area of insolvency and restructuring.

We have considered new territories and jurisdiction over a number of years. We think about expansion into new territories very carefully and with discipline. With signs of a contracting market in the litigation finance industry, we are seeing an increased volume of applications coming from the US market as well as Canada. We are also receiving inward enquiries to represent LCM's interest in those jurisdictions by experienced teams. This is an ongoing process and in circumstances where we are sufficiently

comfortable about having a presence in jurisdictions and territories in which we currently do not operate, we will take advantage of those opportunities.

## **Outlook**

As set out above and reported to the market together with our interim results, the prevailing market conditions in all of the territories and jurisdictions in which we operate, are conducive to growing our business and are driving demand for LCM's capital. We expect those market conditions to continue into the medium term. We also expect that there will be a significant increase in the number of appointments of external administrators and liquidators in insolvency, which will translate into increased applications in the future. That is of particular benefit to LCM given its long history funding disputes arising from insolvency and restructuring. We are also able to draw upon the experience gained following the global financial crisis, which generated many disputes seeking a source of finance.

Secondly, we are seeing a tightening and contraction of the competitive landscape in the litigation finance industry. We see this in several markets, including the United Kingdom, the US and Canada. Having built LCM's expertise and capacity in the London market, as well as having access to capital through our funds management business, LCM is well placed to capitalise on those industry conditions.

LCM's Fund I has enjoyed a number of resolutions in the preceding financial period. The performance of those investments has been very strong. In addition, we are seeing more opportunities in the market and expect to materially achieve commitments in LCM Fund II in the financial period ahead. Both of those factors will position LCM well for launching its third Fund.

Our fund management strategy is delivering third party capital for investment. Our referral network in Europe and APAC is delivering the high-quality investment opportunities that will underpin our generation of value and cash to Fund investors and LCM shareholders. What this means is that, as we continue to grow, increased activity levels will not need to be matched with proportionate increases in overall costs and this in turn means greater profitability and cash generation.

**Patrick Moloney**  
Chief Executive Officer

## **Financial Review**

We have delivered our strongest results to date, demonstrating the capability our asset management model has in delivering accelerated organic growth.

We have delivered meaningful value through our business model which will continue to create increased long-term shareholder value.

This year was a defining year for LCM as we delivered our strongest results to date. The asset management business has demonstrated our ability to deliver strong returns not only for our third-party investors but for our underlying equity shareholders. Leveraging third party capital provides us with a platform to scale and grow organically, through the use of alternative sources of capital.

LCM's brand continues to strengthen, as we demonstrate, year-on-year, our ability to deliver strong and meaningful accretive returns, with metrics that outperform industry peers. Our unparalleled track record and investment selection capabilities are underpinned by the strength of our Investment Managers and Executive team. Our ability to scale through our asset management business, coupled with our proven track record, have delivered a record year in terms of profits and commitments which places us well for accelerated growth.

During the year ended 30 June 2023, we generated record income from the realisation of investments of A\$181 million on a consolidated basis and A\$84 million on an LCM stand-alone basis. Commitments increased to A\$176m.

We successfully completed a third and final close of Fund II at US\$291 million in a difficult fundraising environment with continued interest rate rises and started to deliver meaningful returns from investments in Fund I which places us in a strong position for subsequent fund raises. We maintained our strong financial performance with a 12 year ROIC of 1.78x. We are pleased with the momentum the portfolio has made during the year and expect further legacy matters to crystallise in the coming year, providing us with meaningful organic capital for further investment.

### **Transition to Fair Value accounting**

The evolution of the business over recent years has necessitated the need for our Board to review the Company's accounting policies to ensure they provide an appropriate representation of the underlying business model. In careful consultation with our advisors, a decision was made to transition to Fair Value accounting to provide investors with a greater level of information that better reflects both the current business model and the intrinsic value of our portfolio of investments.

In developing our framework we also looked to industry peers for alignment in methodology, the benefit being that adopting a similar methodology provides a level of comparability.

The precise timing and proceeds of the outcomes are difficult to predict accurately and therefore the actual outcome is inherently uncertain and likely to differ from the fair value assessment. The Group has developed a framework that addresses the litigation or arbitral process across the various jurisdictions, taking into consideration the varying degrees of risk associated with each stage and jurisdiction. A Discounted Cash Flow approach is then applied to each underlying investment on an individual basis.

### **LCM standalone results, comparatives and restatement**

Following the evolution of our business model and the launch of the Funds Management business in March 2020, which led to a shift towards an Asset Management model, this necessitated a transition to Fair Value accounting. Consequently, the consolidated financial statements for the Statement of Financial Position for the period ended 30 June 2021 as well as the Consolidated Statement of Profit and Loss and Other Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity and the Consolidated statement of Cash flows together with the accompanying notes for the 12 month period ended 30 June 2022 have been restated to reflect the impact of the adoption of AASB 9 in those periods.

The performance of the business presented below has been presented in accordance with the Australian Accounting Standards (AASB) and the International Financial Reporting Standards (IFRS).



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

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

The tables following provide a full reconciliation of the consolidated statement of comprehensive income and consolidated statement of financial position both under our historical accounting policies and the newly adopted fair value accounting, to provide investors with meaningful financials and to bridge the transition from one accounting standard to the next. Note that these are non-AASB measures and may not be directly comparable with adjusted measures of other companies. They are not a substitute for or replacement of AASB measures.

## Historical accounting under IFRS 15

<b>Income statement</b>	<b>Note</b>	AASB as reported 30 June 2023 \$'000	Fund interests* \$'000	LCM-only 30 June 2023 \$'000	AASB as reported 30 June 2022 \$'000	Fund interests* \$'000	LCM-only 30 June 2022 \$'000
<b>Revenue from contracts with customers</b>							
Litigation service revenue		156,191	96,591	59,600	47,350	207	47,143
Performance fees		24,598	-	24,598	53	1	52
		180,789	96,591	84,198	47,403	208	47,195
Litigation service expense		(53,255)	(21,965)	(31,290)	(16,343)	(81)	(16,262)
<b>Gross profit</b>		127,534	74,626	52,908	31,060	127	30,933
Other income		18	-	18	-	-	-
Interest income		178	129	49	1	-	1
<b>Expenses</b>							
Employee benefits expense		(9,474)	-	(9,474)	(8,841)	-	(8,841)
Depreciation expense		(166)	-	(166)	(65)	-	(65)
Corporate expenses		(3,547)	(673)	(4,220)	(3,229)	-	(3,499)
Finance costs		(8,268)	(144)	(8,124)	(4,703)	-	(4,703)
Fund administration expense		(2,368)	(1,178)	(1,190)	(3,169)	(2,099)	(800)
Foreign currency (gains)/losses		(5,081)	(3,904)	(1,177)	(370)	(270)	(100)
<b>Total expenses</b>		(28,904)	(4,553)	(24,351)	(20,377)	(2,369)	(18,008)
<b>Profit before income tax</b>		98,827	70,202	28,625	10,684	(2,242)	12,926
<b>Analysed as:</b>							
Adjusted operating profit		110,633	71,524	39,109	20,164	127	20,037
Non-operating expenses		(3,539)	(1,178)	(2,360)	(4,778)	(2,369)	(2,409)
Finance costs		(8,268)	(144)	(8,124)	(4,703)	-	(4,703)
<b>Profit before income tax expense</b>		98,827	70,202	28,625	10,684	(2,242)	12,926
Income tax expense		(6,864)	-	(6,864)	(4,040)	-	(4,040)
<b>Profit/(loss) after income tax expense for the period</b>		91,963	70,202	21,761	6,644	(2,242)	8,886
<b>Profit for the period is attributable to:</b>							
Third party interests in the Fund		70,202	70,202	-	(2,242)	(2,242)	-
Owners of Litigation Capital Management Limited		21,761	-	21,761	8,886	-	8,886
		91,963	70,202	21,761	6,644	(2,242)	8,886
<b>Other comprehensive income for the year, net of tax</b>		1,513	(673)	2,187	(2,535)	(432)	(2,103)
<b>Total comprehensive income for the period</b>		93,476	69,528	23,948	4,109	(2,674)	6,783

\* Third party interests.

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

## Fair Value accounting under IFRS 9

<b>Consolidated Statement of Comprehensive Income</b>		AASB as reported 30 June 2023 \$'000	Fund interests* \$'000	LCM-only 30 June 2023 \$'000	Restated		LCM-only 30 June 2022 \$'000
					AASB as reported 30 June 2022 \$'000	Fund interests* \$'000	
Gain on financial assets at fair value through profit or loss	5	184,735	117,051	67,684	103,852	39,041	64,811
Movement in financial liabilities related to third-party interests in consolidated entities	5	(111,953)	(111,953)	-	(36,672)	(36,672)	-
<b>Total income</b>		<b>72,782</b>	<b>5,098</b>	<b>67,684</b>	<b>67,180</b>	<b>2,369</b>	<b>64,811</b>
Other income		18	-	18	-	-	-
Interest income		178	129	49	1	-	1
Employee benefits expense	7	(9,474)	-	(9,474)	(8,841)	-	(8,841)
Depreciation expense	7	(166)	-	(166)	(65)	-	(65)
Corporate expenses		(4,220)	-	(4,220)	(3,499)	-	(3,499)
Finance costs	7	(8,268)	(144)	(8,124)	(5,037)	(334)	(4,703)
Fund administration expense	7	(3,028)	(1,178)	(1,850)	(3,618)	(1,765)	(1,853)
Foreign currency (gains)/losses		(5,081)	(3,905)	(1,176)	(370)	(270)	(100)
<b>Total expenses</b>		<b>(30,237)</b>	<b>(5,227)</b>	<b>(25,010)</b>	<b>(21,430)</b>	<b>(2,369)</b>	<b>(19,061)</b>
<b>Profit before income tax expense</b>		<b>42,741</b>	<b>-</b>	<b>42,741</b>	<b>45,751</b>	<b>-</b>	<b>45,751</b>
<b>Analysed as:</b>							
<b>Adjusted operating profit</b>		53,885	-	53,885	53,916	-	53,916
Non-operating expenses		(3,020)	-	(3,020)	(3,462)	-	(3,462)
Finance costs		(8,124)	-	(8,124)	(4,703)	-	(4,703)
<b>Profit before income tax expense</b>		<b>42,741</b>	<b>-</b>	<b>42,741</b>	<b>45,751</b>	<b>-</b>	<b>45,751</b>
Income tax expense	8	(11,256)	-	(11,256)	(11,141)	-	(11,141)
<b>Profit after income tax expense</b>		<b>31,485</b>	<b>-</b>	<b>31,485</b>	<b>34,610</b>	<b>-</b>	<b>34,610</b>
Other comprehensive income for the year, net of tax		2,187	-	2,187	(2,103)	-	(2,103)
<b>Total comprehensive income for the period</b>		<b>33,672</b>	<b>-</b>	<b>33,672</b>	<b>32,507</b>	<b>-</b>	<b>32,507</b>

A financial liability at fair value through the income statement is recognised in the parent entity in relation to the transactions entered into with certain Fund structures to support the financing of LFAs. These arrangements fail the derecognition principles in IFRS 9 and represents the net share of the overall LFA at fair value apportioned to the Funds.

The performance of the business should be assessed together with our key performance metrics such as growth in commitments and assets under management, to provide a more holistic representation of the performance of the business during the year and a more accurate indication of the scale of growth in our underlying portfolio of investments.

The business of litigation finance involves a series of investments into disputes which historically take, on average, approximately 29 months to complete. Those investments may resolve before or after that monthly average and our expectation is that time to resolution will increase to between 36 and 42 months in the future. While a review of the business model resulted in a transition to fair value accounting which better reflects the underlying value of the portfolio of investments as they progress, cash flow fluctuations from one year to the next will continue as a consequence of the actual timing of resolutions.

Adjusted profit before tax inclusive of third party interests was A\$53.9m million in line with the prior period under our restated financials.

A reconciliation of adjusted profit is provided below:

	AASB as reported 30 June 2023 \$'000	AASB as reported 30 June 2022 \$'000
<b>Statutory profit before tax</b>	42,741	45,751
Add:		
Other transaction costs	56	401
Share-based payments	867	256
Other expenses	57	80
Non-recurring consultancy fees	0	183
Litigation fees	190	689
Finance costs	8,124	4,703
Fund administration costs	1,850	1,853
<b>Adjusted operating profit</b>	<b>53,885</b>	<b>53,916</b>

## Historical accounting under IFRS 15

<b>Statement of financial position</b>	AASB as reported 30 June 2023 \$'000	Fund interests* \$'000	LCM-only 30 June 2023 \$'000	AASB as reported 30 June 2022 \$'000	Fund interests* \$'000	LCM-only 30 June 2022 \$'000
<b>Current assets</b>						
Cash and cash equivalents	104,457	21,484	82,973	49,964	20,711	29,253
Trade and other receivables	21,934	-	21,934	34,491	-	34,491
Contract costs	47,199	21,141	26,058	21,634	-	21,634
Other assets	617	75	542	614	(624)	1,238
<b>Total current assets</b>	<b>174,207</b>	<b>42,700</b>	<b>131,507</b>	<b>106,703</b>	<b>20,087</b>	<b>86,616</b>
<b>Non-current assets</b>						
Contract costs	179,922	102,804	77,118	162,763	83,130	79,633
Property, plant and equipment	211	-	211	182	-	182
Intangible assets	356	-	356	646	-	646
Other assets	492	-	492	249	-	249
<b>Total non-current assets</b>	<b>180,981</b>	<b>102,804</b>	<b>78,177</b>	<b>163,840</b>	<b>83,130</b>	<b>80,710</b>
<b>Total assets</b>	<b>355,188</b>	<b>145,504</b>	<b>209,684</b>	<b>270,543</b>	<b>103,217</b>	<b>167,326</b>
<b>Liabilities</b>						
<b>Current liabilities</b>						
Trade and other payables	7,535	3,214	4,321	12,840	5,817	7,023
Tax payable	7,769	-	7,769	68	-	68
Borrowings	-	-	-	14,494	14,494	-
Employee benefits	623	-	623	700	-	700
<b>Total current liabilities</b>	<b>15,927</b>	<b>3,214</b>	<b>12,713</b>	<b>28,102</b>	<b>20,311</b>	<b>7,791</b>
<b>Non-current liabilities</b>						
Deferred tax liability	9,148	-	9,148	11,513	-	11,513
Borrowings	68,976	-	68,976	54,915	-	54,915
Employee benefits	283	-	283	227	-	227
Third party interests in consolidated entities	70,773	76,447	(5,674)	81,780	86,794	(5,014)
<b>Total non-current liabilities</b>	<b>149,180</b>	<b>76,447</b>	<b>72,733</b>	<b>148,435</b>	<b>87,694</b>	<b>61,641</b>
<b>Total liabilities</b>	<b>165,107</b>	<b>79,661</b>	<b>85,446</b>	<b>176,537</b>	<b>107,105</b>	<b>69,432</b>
<b>Net assets</b>	<b>190,081</b>	<b>65,843</b>	<b>124,238</b>	<b>94,006</b>	<b>(3,888)</b>	<b>97,894</b>

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

## Fair Value accounting under IFRS 9

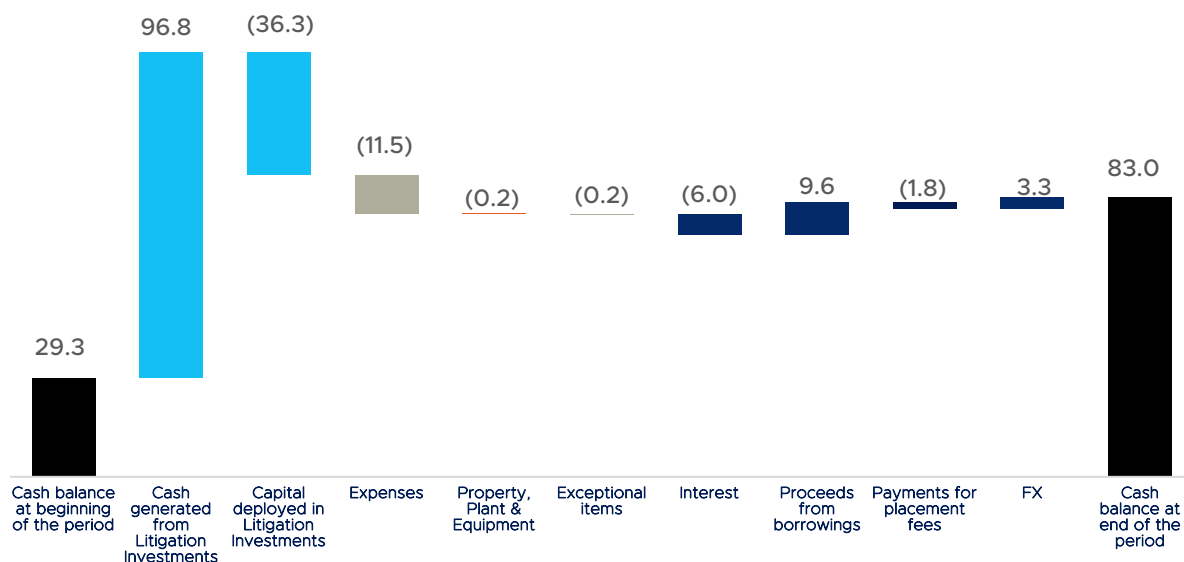
Consolidated statement of financial position		AASB as	Fund interests*	LCM-only	AASB as	Restated	
		reported 30 June 2023 \$'000		30 June 2023 \$'000	reported 30 June 2022 \$'000	Fund interests*	LCM-only 30 June 2022 \$'000
<b>Assets</b>							
Cash and cash equivalents	9	104,457	21,484	82,973	49,964	20,711	29,253
Trade & other receivables		2,209	-	2,209	2,298	-	2,298
Due from resolution of financial assets	10	11,873	-	11,873	24,340	-	24,340
Financial assets at fair value through profit or loss	11	391,410	225,642	165,768	296,980	142,403	154,577
Contract costs	12	37,277	-	37,277	31,782	-	31,782
Property, plant and equipment		211	-	211	182	-	182
Intangible assets		356	-	356	646	-	646
Other assets		1,110	78	1,032	866	(623)	1,489
<b>Total assets</b>		<b>548,903</b>	<b>247,204</b>	<b>301,699</b>	<b>407,058</b>	<b>162,491</b>	<b>244,567</b>
<b>Liabilities</b>							
Trade and other payables	13	7,535	3,214	4,321	12,840	5,817	7,023
Tax payable		7,769	-	7,769	68	-	68
Employee Benefits	14	906	-	906	927	-	927
Borrowings	15	68,976	-	68,976	69,409	14,494	54,915
Third-party interests in consolidated entities	26,29	243,990	243,990	-	142,180	142,180	-
Deferred tax liability	8	36,259	-	36,259	32,704	-	32,704
<b>Total liabilities</b>		<b>365,435</b>	<b>247,204</b>	<b>118,231</b>	<b>258,128</b>	<b>162,491</b>	<b>95,637</b>
<b>Net assets</b>		<b>183,468</b>	<b>-</b>	<b>183,468</b>	<b>148,930</b>	<b>-</b>	<b>148,930</b>

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

## Cash

LCM only cash on balance sheet as at 30 June 2023 was \$83.0m million and long-term borrowings was \$69.0m, compared with \$29.3m and \$54.9m respectively for the same period in 2022.

LCM cash generated from the resolution of matters during the period was \$96.8 million, as compared to \$26.6 million in FY22, reflecting the benefits of leveraging third-party capital through our asset management business model to generate organic cash flows for further investment. Payments related to capital invested was \$36.3 million, compared to the same prior period in FY22 of \$29.8 million. The following waterfall is exclusive of third party fund interests.



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

- Inclusive of third party funds, Realisations from the resolution of investments increased to A\$180.8m compared to A\$47.4m in the prior period, the resolution of investments directly attributable to LCM increased by 78% to A\$84.2 million from A\$47.2 million in the prior year;
- Investment Commitment was A\$176 million inclusive of third party funds, increasing from A\$104 million in FY22;
- 12 year cumulative portfolio Return on Invested Capital (ROIC) was 1.78x;
- LCM operating expenses (exclusive of third-party funds of A\$13.9m increasing from A\$10.9m in the prior period);
- Applications received were 434 from 442 in FY22 a decrease of 2%;
- Statutory profit before tax and adjusted operating profit on an LCM only basis in line with the prior period under the restated financials of \$A42.7m and A\$53.9m respectively.

## Portfolio update

Capital invested during FY23 was A\$95m inclusive of A\$58m third party fund investments, compared to \$68 million in FY22, inclusive of \$38.5 million of third party fund investment on a cash basis.

LCM's ability to originate deals and deploy capital is a measure of its growth and future performance as the value of our future profits are derived from the capital we deploy in our investments at the time a resolution is achieved.

LCM's portfolio of investments comprises 52 investments as at 30 June 2023 with 20 direct balance sheet investments, 20 Fund I co-investments and 12 Fund II investments. Total LCM commitments at the period end were A\$183m comprising A\$73.7m 100% direct investments, A\$59.5 million Fund I commitments and A\$49.8m Fund II commitments.

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

## **Financial performance**

During the year we had a number of significant resolutions from our Fund which translated into meaningful cash returns for LCM and fund investors.

The Group's overall realisations from investments was \$180.8m, A\$84.2m of which is directly attributable to LCM. This compares with A\$47.4m and A\$47.2 million respectively in the prior period.

Adjusted operating profit directly attributable to LCM was A\$53.9 million, in line with the prior period and statutory profit before tax was A\$42.7 million compared with A\$45.8 million in the prior period.

The Group's portfolio of Investments at the period end had a value of A\$428.7m, A\$203m exclusive of third party funds but inclusive of A\$37m of legacy investments held as contract assets. Gains during the period was A\$67.7mm of which A\$16.2m was related to unrealised gains attributable to LCM.

Operating expenses directly attributable to LCM of A\$13.9 million for the period ended 30 June 2023 increased by 27% compared to A\$10.9 million in FY22. We continue to expect to see an increase in operating costs as we expand, however these are expected to remain appropriate relative to the size of the portfolio under management.

Non-operating expenses of \$3 million include; A\$1.9 million of costs related to fund administration, \$0.8 million of share-based payment expenses and \$0.3m related to other non-recurring expenses (see note 7). (FY22: A\$3.5m)

We have delivered a record set of results.

## **Finance costs**

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

## **Dividend**

As previously announced and following the financial performance of the business in the period ended 30 June 2023, the Board has decided to pay a dividend of 2.25p per ordinary share to Shareholders. The Board remains committed to returning value to shareholders while also maintaining a disciplined approach to preserving the right levels of cash to meet any increase in demand for investments in order to accelerate growth in our portfolio.

## **Mary Gangemi**

Chief Financial Officer



# Litigation Capital Management Limited

## Directors' Report

30 June 2023

---

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 2023 and the auditors' report thereon.

### 1. Directors

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

Name and independence status	Experience and special responsibilities
<b>Jonathan Moulds</b> Independent Non-Executive Chairman	Extensive experience in financial services.  <b>Term of office</b> Joined the Board December 2018  <b>Committee membership</b>  Rem, Nom
<b>Dr David King</b> Independent Non-Executive Director	Extensive experience in the natural resources industry, 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.  <b>Term of office</b> Joined the Board October 2015  <b>Committee membership</b>  ARC (Chair), Nom
<b>Gerhard Seebacher</b> Independent Non-Executive Director	Extensive experience in financial services and fund management.  <b>Term of office</b> Joined the Board August 2020  <b>Committee membership</b>  Rem Com (Chair)  Nom (Chair)
<b>Patrick Moloney</b> Executive Director	Extensive experience in the litigation finance industry.  <b>Term of office</b> Joined the Board 2003  <b>Committee membership</b>  n/a
<b>Mary Gangemi</b> Executive Director	Extensive senior management experience in financial services.  <b>Term of office</b> Joined the Board February 2022  <b>Committee membership</b>  n/a

# Litigation Capital Management Limited

## Directors' Report

30 June 2023

---

### 2. Company Secretary

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

### 3. Officers who were previously partners of the audit firm

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

### 4. Meetings of Directors

During the 2023 financial year, 4 Board meetings were held (not counting circular resolutions passed outside regular meetings). The following table sets out the number of Board and Committee meetings each Director attended and the number they were eligible to attend.

<b>Meetings Attended / Meetings Eligible to Attend</b>				
<b>Director</b>	<b>Board</b>	<b>Audit &amp; Risk Committee</b>	<b>Remuneration</b>	<b>Nominations</b>
David King	5/5	3/3	*	-
Patrick Moloney	5/5	*	*	*
Jonathan Moulds	5/5	*	2/2	-
Gerhard Seebacher	5/5	3/3	2/2	-
Mary Gangemi	5/5	*	*	*

\* Not a member of the committee

### 5. Principal Activities

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

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

### 6. Operating and financial review

#### Overview of the LCM Group

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

# Litigation Capital Management Limited

## Directors' Report

30 June 2023

---

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

### Operations

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

Information on the Group's operations are disclosed in the CEO Review.

### Review of financial performance

The statutory profit for the Group after providing for income tax amounted to \$31,485,000 (30 June 2022 restated: \$34,610,000). Further details on restatement of comparatives is provided in note 3 to the financial statements.

Further commentary on the financial results are disclosed in the Financial Review by the chief financial officer.

### Significant changes in the state of affairs

The evolution of the business over recent years has necessitated the need for our Board to review the Company's accounting policies to ensure they provide an accurate representation of the underlying business model. In careful consultation with our advisors, the Company has transitioned to Fair Value accounting, which we believe will also provide investors with a greater level of information that better reflects both the current business model and the intrinsic value of our underlying portfolio of investments.

In developing our framework, we also looked to industry peers for alignment in methodology, the benefit being that adopting a similar approach provides a level of comparability.

As previously conveyed, the precise timing and proceeds of the outcomes are difficult to predict accurately and therefore the actual outcome is inherently uncertain and likely to differ from the fair value assessment. The Group has developed a framework that addresses the litigation or arbitral process across the various jurisdictions, taking into consideration the varying degrees of risk associated with each stage and jurisdiction. A Discounted Cash Flow approach is then applied to each underlying investment on an individual basis.

## **7. Dividends**

### Declared after end of year

On 18 July 2023, the Directors declared an unfranked final dividend for the year ended 30 June 2023 of 2.25 pence per ordinary share, to be paid on 27 October 2023 to eligible shareholders on the register as at 28 September 2023. This equates to a total estimated distribution of £2,571,364, AUD equivalent as at reporting date of \$4,901,964<sup>1</sup>. The financial effect of dividends declared after the reporting date are not reflected in the 30 June 2023 financial statements and will be recognised in subsequent financial reports.

<sup>1</sup> Converted at the functional currency spot rates of exchange at the reporting date

# Litigation Capital Management Limited

## Directors' Report

30 June 2023

---

### 8. Matters subsequent to the end of the financial period

On 4 September 2023, LCM announced the resolution of a class action investment that forms part of LCM's managed Global Alternative Returns Fund ("Fund I") and was funded directly from LCM's balance sheet (25%) and Fund I Investors (75%). As announced previously on 15 May 2023, the class action was brought in the Federal Court of Australia against the Commonwealth of Australia on behalf of persons who are alleged to have suffered loss and damage as the result of the contamination of their land at seven sites around Australia in proximity to Department of Defence military bases.

The Commonwealth has agreed to pay the sum of AUD\$132.7m in order to resolve the class action. A confidential deed of settlement was executed and has now been approved by the court, allowing the disbursement of funds, subject to the unlikely event of appeal.

LCM expects to receive revenue of approximately A\$10.6m. That amount includes capital invested of approximately A\$3.4m together with an expected gross profit of approximately A\$7.2m. The Company's final revenue and profit figures are subject to change pending final distribution of settlement monies.

### 9. Likely developments

As previously disclosed, the company took out a credit facility in February 2021 to accelerate growth and provide a bridge in a period where the resolution of matters were delayed due to impact of the pandemic. During the second half of the fiscal year 2023, a number of matters, previously delayed by Covid, resolved, strengthening the Company's financial and cash position. Management are now exploring a number of alternative capital options to ensure we are leveraging this strength and benefiting from the most attractive terms available in the market.

### 10. Environmental regulation

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

### 11. Directors' interests in shares and options

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

Director <sup>1</sup>	Ordinary shares <sup>1</sup>	Unlisted partly paid shares <sup>2</sup>	Loan Plan Shares <sup>3</sup> & Loans	Long Term Executive Plan <sup>3</sup>	Deferred Bonus Share Plan <sup>3</sup>
Dr. David King	1,951,484	-	-	-	-
Patrick Moloney	4,204,813	1,433,022	6,232,287	3,303,796	169,276
Jonathan Moulds	5,250,000	-	-	-	-
Gerhard Seebacher	-	-	-	-	-
Mary Gangemi	27,500	-	119,900	1,266,455	201,325

<sup>1</sup> Directors, including associated parties, interests held directly and indirectly

<sup>2</sup> Unlisted partly paid shares in the Group were issued at a price of \$0.17 per share, wholly unpaid and will convert to a share upon payment to the Group of \$0.17 per share.

<sup>3</sup> Plans exercisable at various prices and subject to vesting conditions

# Litigation Capital Management Limited

## Directors' Report

30 June 2023

---

### 12. Share Options

#### Loan Funded Share Plan ('LSP')

During the year the Group granted nil (2022: 1,912,489) shares under the LSP. As at the date of this report there were 7,890,408 LSP's outstanding subject to various vesting and performance conditions.

There were 6,869,211 LSP's vested and exercisable as at 30 June 2023 (2022: 6,318,671).

#### Deferred Bonus Share Plan ('DBSP')

During the year the Group granted 1,132,692 (2022: nil) options under the DBSP. As at the date of this report there were 1,132,692 DBSP's outstanding subject to various vesting and performance conditions.

There were nil DBSP's vested and exercisable as at 30 June 2023 (2022: nil).

#### Executive Long Term Incentive Plan ('LTIP')

During the year the Group granted 5,671,516 (2022: nil) options under the LTIP. As at the date of this report there were 5,671,516 LTIP's outstanding subject to various vesting and performance conditions.

There were nil LTIP's vested and exercisable as at 30 June 2023 (2022: nil).

Further details on each Plan is provided in note 28 to the financial statements.

### 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

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 22 to the financial statements.

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

# Litigation Capital Management Limited

## Directors' Report

30 June 2023

---

The Directors are of the opinion that the services disclosed in note 22 to the financial statements do not compromise the external auditor's independence requirements of the Act for the following reasons:

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

### **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 in LCM's financial statements.

### **17. Auditor**

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

### **18. 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.

### **19. Corporate Governance**

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

### **20. Remuneration report**

Please see attached Annexure A.

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

Litigation Capital Management Limited

Directors' Report

30 June 2023

---

A handwritten signature in blue ink, appearing to read 'Jonathan Moulds', with a long horizontal stroke extending to the right.

---

Mr Jonathan Moulds

Chairman

**19 September 2023**

# Litigation Capital Management Limited

## Directors' Report

30 June 2023

---

### ANNEXURE "A"

#### 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 2023, of which certain tables have been audited<sup>1</sup> (as noted below), and outlines key aspects of our remuneration framework. It contains the following sections:

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

<sup>1</sup> Audited where referenced in this report means that the relevant tables have been extracted directly from the audited 2022 financial statements and notes

#### REMUNERATION FRAMEWORK

##### Overview of remuneration framework

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

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

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

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

##### Role of the Remuneration Committee

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

- attract, develop and retain Board and executive talent;
- create a high-performance culture by driving and rewarding employees for achieving the Group's strategy and business objectives; and



# Litigation Capital Management Limited

## Directors' Report

30 June 2023

---

- link incentives to the creation of shareholder and fund value.

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

### Principal terms of the share plans

During the prior year, the committee decided it was appropriate to move away from the legacy Loan Share Plan (LSP) and Company Share Option Plan (CSOP) to the current Deferred Bonus Share Plan (DBSP) and Executive Long Term Incentive Plan ('LTIP'), in line with other listed peers. This ensures LCM remain competitive in retaining and attracting new talent. The principal terms of the current Share Plans, determined by the Remuneration Committee, are set out below.

### Eligibility

#### Deferred Share Bonus Plan (DSBP)

Awards may be made to Directors and employees of the Group and its subsidiaries, at the discretion of the Remuneration Committee.

#### Executive Long Term Incentive Plan (LTIP)

Awards may be made only to Senior Executives of the Group and its subsidiaries, at the discretion of the Remuneration Committee.

### Timing

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

### Performance conditions

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

### Plan limits

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

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

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

### Satisfaction of awards

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

# Litigation Capital Management Limited

## Directors' Report

30 June 2023

---

### **Holding period**

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

### **Malus and clawback**

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

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

### **Leaving employment**

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

### **Takeovers, reorganisations, etc.**

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

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

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

### **Remuneration details**

#### **Remuneration payable to Non-Executive Directors**

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

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

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

- (i) the amount fixed by LCM in general meeting for that purpose; or
- (ii) if no amount has been fixed by LCM in general meeting for that purpose, A\$700,000 per annum.

# Litigation Capital Management Limited

## Directors' Report

30 June 2023

---

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

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

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

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

### Remuneration Details for Employees

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

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

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

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

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

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

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

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

### Service agreement

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

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

- term of five years (commencing December 2018) with an automatic extension for a further five years unless notice is given at least one year before the expiry of the initial term that the agreement will not be extended;
- a fixed salary per annum plus superannuation and is entitled to six weeks paid annual leave per year, details of which are set out in the remuneration tables below; and

# Litigation Capital Management Limited

## Directors' Report

30 June 2023

- LCM can terminate the agreement at any time without cause by making payment of the total remuneration and benefits for the unexpired period of the term, unless the remaining term is less than 12 months, in which case the agreement may be terminated by 12 months' notice in writing or payment in lieu of notice.

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

### Remuneration table

#### Remuneration table for year ended 30 June 2023 (un-audited)

The table below provides remuneration for KMPs for the 12 months ended 30 June 2023 and comparatives for the year ended 30 June 2022 (audited).

2023	Cash salaries & fees \$	Bonus \$	Benefits \$	Accrued Superannuation/ leave \$	Pension/ \$	Long service leave \$	Share-based payments \$	Total \$
<b>Non-Executive Directors</b>								
Dr David King	100,000	-	-	-	10,500	-	-	110,500
Jonathan Moulds	178,586	-	-	-	-	-	-	178,586
Gerhard Seebacher	111,357	-	-	-	-	-	-	111,357
	389,943	-	-	-	10,500	-	-	400,443
<b>Executive Directors</b>								
Mary Gangemi <sup>1</sup>	491,112	140,637	-	-	49,111	-	122,721	803,581
Nick Rowles-Davies	-	-	-	-	-	-	-	-
Patrick Moloney	1,071,517	118,249	5,709	(29,023)	-	13,146	252,293	1,431,891
	1,562,629	258,886	5,709	(29,023)	49,111	13,146	375,014	2,235,472
<b>Total</b>	<b>1,952,572</b>	<b>258,886</b>	<b>5,709</b>	<b>(29,023)</b>	<b>59,611</b>	<b>13,146</b>	<b>375,014</b>	<b>2,635,915</b>

2022	Cash salaries & fees \$	Bonus \$	Benefits \$	Accrued Superannuation/ leave \$	Pension/ \$	Long service leave \$	Share-based payments \$	Total \$
<b>Non-Executive Directors</b>								
Dr David King	100,000	-	-	-	10,000	-	-	110,000
Jonathan Moulds	183,319	-	-	-	-	-	-	183,319
Gerhard Seebacher	103,488	-	-	-	-	-	-	103,488
	386,807	-	-	-	10,000	-	-	396,807
<b>Executive Directors</b>								
Mary Gangemi <sup>1</sup>	<b>189,048</b>	-	449	-	18,905	-	15,546	223,947
Nick Rowles-Davies	513,294	-	3,701	-	1,211	-	-	518,205
Patrick Moloney	998,817	-	-	187,678	27,500	63,210	241,583	1,518,788
	1,701,158	-	4,150	187,678	47,615	63,210	257,129	2,260,941
<b>Total</b>	<b>2,087,966</b>	<b>-</b>	<b>4,150</b>	<b>187,678</b>	<b>57,615</b>	<b>63,210</b>	<b>257,129</b>	<b>2,657,748</b>

<sup>1</sup> From 14 February 2022 to 30 June 2022 for the prior period

# Litigation Capital Management Limited

## Directors' Report

30 June 2023

### Fully paid ordinary shares & unlisted partly paid shares

The table below provides the number of fully paid ordinary shares and unlisted partly paid shares in the company held by each Non-Executive Director and Executive KMP during the period ended 30 June 2023 and the previous period ended 30 June 2022:

Name of the Director	Description of shares	30 June 2023 Number	30 June 2022 Number
Jonathan Moulds		<b>5,250,000</b>	2,080,000
Dr David King	Fully paid ordinary shares	<b>1,951,484</b>	1,951,484
Patrick Moloney	Fully paid ordinary shares	<b>4,204,813</b>	3,970,971
Patrick Moloney	Unlisted partly paid shares <sup>1</sup>	<b>1,433,022</b>	1,433,022
Mary Gangemi		<b>27,500</b>	<b>27,500</b>
Gerhard Seebacher	N/A	-	-

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

No changes took place in the interest of the Directors between 30 June 2023 and 19 September 2023.

### Share options

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

Name of the Director	Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Balance at the end of the year
Patrick Moloney	19/11/2018	25/11/2028	\$0.47	1,595,058	-	-	1,595,058
Patrick Moloney	04/12/2017	04/12/2027	\$0.60	1,000,000	-	-	1,000,000
Patrick Moloney	04/12/2017	04/12/2027	\$0.60	1,000,000	-	-	1,000,000
Patrick Moloney	01/11/2019	01/11/2029	£0.7394	1,166,400	-	-	1,166,400
Patrick Moloney	13/10/2020	13/10/2030	£0.6655	291,597	-	-	291,597
Patrick Moloney	27/10/2021	27/10/2031	£1.06	279,232	-	-	279,232
Patrick Moloney <sup>1</sup>	27/10/2021	27/10/2031	£1.06	900,000	-	-	900,000
Mary Gangemi	27/10/2021	27/10/2031	£1.06	93,585	-	-	93,585
Mary Gangemi	27/10/2021	27/10/2031	£1.14	26,315	-	-	26,315
Patrick Moloney	07/10/2022	07/10/2023	-	-	3,303,796	-	3,303,796
Patrick Moloney	07/10/2022	07/10/2023	-	-	169,276	-	169,276
Mary Gangemi	07/10/2022	07/10/2023	-	-	1,266,455	-	1,266,455
Mary Gangemi	07/10/2022	07/10/2023	-	-	201,325	-	201,325
				<b>6,352,187</b>	<b>4,940,852</b>	<b>-</b>	<b>11,293,039</b>

<sup>1</sup> On 27 October 2021 Patrick Moloney, Chief Executive Officer of the Company exercised 900,000 options (the "Executive Options") at an exercise price of A\$1.00. The Company has agreed to issue and allot in total 900,000 new Ordinary Shares ("Ordinary Shares") in the capital of the Company to Patrick Moloney which were granted under the Loan Share Plan for the sole purpose to fund the Aggregate Exercise Price of the 900,000 unlisted options.

# Litigation Capital Management Limited

## Directors' Report

30 June 2023

---

### **Share Dealing Code**

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

### **Anti-bribery and corruption policy**

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

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

*This concludes the remuneration report.*

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

As lead auditor of Litigation Capital Management Limited for the year ended 30 June 2023, I declare that, to the best of my knowledge and belief, there have been:

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

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



Andrew Tickle  
Director

BDO Audit Pty Ltd

Adelaide, 19 September 2023

Litigation Capital Management Limited  
Consolidated statement of profit or loss and other comprehensive income  
For the period ended 30 June 2023

	Note	Consolidated	
		2023 \$'000	Restated 2022 \$'000
<b>Income</b>			
Gain on financial assets at fair value through profit or loss	5	184,735	103,852
Movement in financial liabilities related to third-party interests in consolidated entities	5	(111,953)	(36,672)
<b>Total income</b>		<b>72,782</b>	<b>67,180</b>
Other income		18	-
Interest income		178	1
<b>Expenses</b>			
Employee benefits expense	7	(9,474)	(8,841)
Depreciation expense	7	(166)	(65)
Corporate expenses		(4,220)	(3,499)
Finance costs	7	(8,268)	(5,037)
Fund administration expense	7	(3,028)	(3,618)
Foreign currency (gains)/losses		(5,081)	(370)
<b>Total expenses</b>		<b>(30,237)</b>	<b>(21,430)</b>
<b>Profit before income tax expense</b>		<b>42,741</b>	<b>45,751</b>
<b>Analysed as:</b>			
<b>Adjusted operating profit</b>		<b>53,885</b>	<b>53,916</b>
Non-operating expenses	7	(3,020)	(3,462)
Finance costs	7	(8,124)	(4,703)
<b>Profit before income tax expense</b>		<b>42,741</b>	<b>45,751</b>
Income tax expense	8	(11,256)	(11,141)
<b>Profit after income tax expense</b>		<b>31,485</b>	<b>34,610</b>
<b>Other comprehensive income</b>			
Items that may be subsequently reclassified to profit and loss:			
Movement in foreign currency translation reserve		2,187	(2,103)
<b>Total comprehensive income for the period</b>		<b>33,672</b>	<b>32,507</b>
Profit for the period is attributable to:			
Owners of Litigation Capital Management Limited		31,485	34,610
		<b>31,485</b>	<b>34,610</b>
Total comprehensive income for the period is attributable to:			
Owners of Litigation Capital Management Limited		33,672	32,507
		<b>33,672</b>	<b>32,507</b>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	27	29.53	32.65
Diluted earnings per share	27	28.33	31.64

Where applicable, comparative information has been restated to reflect a change in accounting for litigation funding agreements. Refer to Note 3.

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



Litigation Capital Management Limited  
Consolidated statement of financial position  
As at 30 June 2023

	Note	Consolidated		
		2023 \$'000	Restated 2022 \$'000	Restated As at 1 July 2021 \$'000
<b>Assets</b>				
Cash and cash equivalents	9	104,457	49,964	49,736
Trade & other receivables		2,209	2,298	2,242
Due from resolution of financial assets	10	11,873	24,340	4,408
Financial assets at fair value through profit or loss	11	391,410	296,980	176,838
Contract costs	12	37,277	31,782	28,633
Property, plant and equipment		211	182	186
Intangible assets		356	646	391
Other assets		1,110	866	881
<b>Total assets</b>		<b>548,903</b>	<b>407,058</b>	<b>263,315</b>
<b>Liabilities</b>				
Trade and other payables	13	7,535	12,840	12,308
Tax payable		7,769	68	84
Employee Benefits	14	906	927	601
Borrowings	15	68,976	69,409	50,424
Financial liabilities related to third-party interests in consolidated entities	26,29	243,990	142,180	62,870
Deferred tax liability	8	36,259	32,704	21,632
<b>Total liabilities</b>		<b>365,435</b>	<b>258,128</b>	<b>147,919</b>
<b>Net assets</b>		<b>183,468</b>	<b>148,930</b>	<b>115,396</b>
<b>Equity</b>				
Issued Capital	16	69,674	69,674	68,904
Reserves	17	1,042	(2,012)	(165)
Retained Earnings		112,753	81,268	46,657
Parent interest		183,468	148,930	115,396
<b>Total equity</b>		<b>183,468</b>	<b>148,930</b>	<b>115,396</b>

Where applicable, comparative information has been restated to reflect a change in accounting for litigation funding agreements. Refer to Note 3.

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

Litigation Capital Management Limited  
Consolidated statements of changes in equity  
For the period ended 30 June 2023

	Issued capital \$'000	Retained earnings \$'000	Share based payments reserve \$'000	Foreign currency translation \$'000	Total equity \$'000
<b>Consolidated</b>					
Balance at 1 July 2021	68,904	20,028	1,317	(1,377)	88,872
Adjustment on restatement of litigation funding assets (Note 3)		26,629		(105)	26,524
Balance at 1 July 2021 (restated)	<b>68,904</b>	<b>46,657</b>	<b>1,317</b>	<b>(1,482)</b>	<b>115,396</b>
Profit after income tax expense for the year (restated)	-	34,610	-	-	34,610
Other comprehensive income for the year	-	-	-	(2,103)	(2,103)
Total comprehensive income for the year	-	<b>34,610</b>	-	<b>(2,103)</b>	<b>32,507</b>
<b>Equity Transactions:</b>					
Share-based payments (note 28)	-	-	256	-	256
Contributions of equity (note 16)	770	-	-	-	770
	<b>770</b>	<b>-</b>	<b>256</b>	<b>-</b>	<b>1,026</b>
Balance at 30 June 2022 (restated)	<b>69,674</b>	<b>81,268</b>	<b>1,573</b>	<b>(3,585)</b>	<b>148,930</b>
<b>Consolidated</b>					
Balance at 1 July 2022 (restated)	69,674	81,268	1,573	(3,585)	148,930
Profit after income tax expense for the year	-	31,485	-	-	31,485
Other comprehensive income for the year	-	-	-	2,187	2,187
Total comprehensive income for the year	-	<b>31,485</b>	-	<b>2,187</b>	<b>33,672</b>
<b>Equity Transactions:</b>					
Share-based payments (note 28)	-	-	867	-	867
	-	-	<b>867</b>	-	<b>867</b>
Balance at 30 June 2023	<b>69,674</b>	<b>112,753</b>	<b>2,440</b>	<b>(1,398)</b>	<b>183,468</b>

Where applicable, comparative information has been restated to reflect a change in accounting for litigation funding agreements. Refer to Note 3.

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

Litigation Capital Management Limited  
Consolidated statements of cash flows  
For the period ended 30 June 2023

	Note	Consolidated	
		2023 \$'000	Restated 2022 \$'000
<b>Cash flows from operating activities</b>			
Profit after income tax expense for the period		31,485	34,610
Adjustments for:			
Gain on financial assets at fair value through profit or loss		(72,782)	(67,180)
Depreciation and amortisation of intangibles		166	284
Share-based payments		867	256
Finance costs reclassified to financing activities		8,268	5,038
Income tax expense		11,256	11,141
Exceptional items		1,200	800
Foreign exchange rate movements		11,601	517
Change in operating assets and liabilities:			
(Funding) of financial assets	11	(89,049)	(65,139)
Proceeds from resolution of financial assets	10	192,623	26,792
Decrease/(increase) in trade and other receivables		(89)	56
(Increase) in contract costs - litigation contracts		(5,494)	(3,150)
(Decrease)/Increase in trade and other payables		(5,305)	516
(Decrease)/Increase in employee benefits		(21)	327
Income Tax paid		(139)	(85)
<b>Net cash from/(used in) operating activities</b>		<b>84,587</b>	<b>(55,217)</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(90)	(38)
Payments for intangibles		(57)	(278)
Refunds of security deposits		(51)	(19)
<b>Net cash used in investing activities</b>		<b>(198)</b>	<b>(335)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		-	770
Proceeds from borrowings	15	9,636	13,298
Repayments of borrowings	15	(14,848)	-
Payments of finance costs		(6,171)	(4,637)
Payments of transaction costs related to third-party interests		(1,832)	(1,853)
Contributions from third-party interests in consolidated entities	29	74,980	45,465
Distributions to third-party interests in consolidated entities	29	(94,373)	(406)
Payments for fund establishment & administration costs		-	(778)
<b>Net cash (used in)/from financing activities</b>		<b>(32,608)</b>	<b>51,859</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>51,781</b>	<b>(3,693)</b>
Cash and cash equivalents at the beginning of the financial year		49,964	49,736
Effects of exchange rate changes on cash and cash equivalents		2,712	3,921
<b>Cash and cash equivalents at the end of the financial year</b>	<b>9</b>	<b>104,457</b>	<b>49,964</b>

Where applicable, comparative information has been restated to reflect a change in accounting for litigation funding agreements. Refer to Note 3.

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

## Note 1 General Information

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

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

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

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

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

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 19 September 2023. The Directors have the power to amend and reissue the financial statements.

## Note 2 Significant accounting policies

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

Where necessary, comparative amounts have been reclassified and repositioned for consistency with current year accounting policy and disclosures. Further details on the nature and reason for amounts that have been reclassified and repositioned for consistency with current year accounting policy and disclosures, where considered material, are referred to separately in the financial statements or notes thereto.

### New or amended Accounting Standards and Interpretations adopted

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

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

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

### Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB'). The financial report has been prepared on a historical cost basis, except for the financial assets and liabilities that have been measured at fair value.

### Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

### Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 24.

### Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Litigation Capital Management Limited ('Company' or 'parent entity') as at 30 June 2023 and the results of all subsidiaries for the year then ended. Litigation Capital Management Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

The Group includes fund investment vehicles over which the Group has the right to direct the relevant activities of the fund under contractual arrangements and has exposure to variable returns from the fund investment vehicles. See Note 26.

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

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

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

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

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

## Note 2 Significant accounting policies (continued)

### Operating segments

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

### Foreign currency translation

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

#### Foreign currency transactions

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

#### Foreign operations

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

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

### Fair value measurement

The Group measures its financial instruments such as litigation funding agreements and financial liabilities related to third-party interests at fair value at each balance sheet date.

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's Executive Leadership Committee determines the policies and procedures for fair value measurement, including the litigation funding agreements. The Committee is comprised of the Chief Executive Officer, Chief Financial Officer and Head of Investments or equivalent.

The level of involvement of external valuers or specialist valuation experts is determined annually by the Committee after discussion with and approval by the Company's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

At each reporting date, the Committee analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Group's accounting policies. For this analysis, the Committee verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The Committee also compares the change in the fair value of each asset and liability with any relevant external sources to determine whether the change is reasonable.

Fair-value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the following notes:

- Disclosures for valuation methods, significant estimates and assumptions Note 20
- Quantitative disclosures of fair value measurement hierarchy Note 20
- Financial instruments Note 19

### Revenue recognition

The Group recognises revenue as follows:

#### Revenue from contracts with customers

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

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

#### Litigation service revenue

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

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

## Note 2 Significant accounting policies (continued)

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

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

### Interest

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

### Income tax

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

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

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

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

The carrying 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. 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.

### Cash and cash equivalents

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.

### Trade and other receivables

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

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

### Due from resolution of financial assets

Amounts due from the settlement of financial assets relate to the realisation of litigation funding assets that have been successfully concluded and where there is no longer any litigation risk remaining and represent the expected cash flow to be received by the Group. The settlement terms and timing of realisations vary by litigation funding asset. The majority of settlement balances are received shortly after the period end in which the litigation funding asset has concluded, and all settlement balances are generally expected to be received within 12 months after completion.

### Contract costs

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

### Financial assets at fair value through profit or loss

Financial assets are recognised at fair value through profit or loss and are fair valued using an income approach. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. This category includes the Group's litigation funding assets. The litigation funding assets are primarily derecognised when the underlying litigation resolves and transfers to Due from resolution of financial assets.

## Note 2 Significant accounting policies (continued)

### Financial liabilities related to third-party interests in consolidated entities

Non-controlling interests where the Group does not own 100% of a consolidated entity are recorded as financial liabilities related to third-party interests in consolidated entities. Financial liabilities related to third-party interests in consolidated entities are initially recognised at the fair value. Gains or losses on liabilities held at fair value through profit or loss are recognised in the statement of profit or loss as 'Net gains/(losses) relating to third-party interests in financial liabilities at fair value through profit or loss'. They are subsequently measured at fair value using an income approach. Amounts included in the consolidated statement of financial position represent the net asset value of the third-parties' interests. These amounts have been elected to be measured at fair value to reduce the accounting mismatch between the related financial asset measured at fair value through profit or loss.

Financial liabilities are derecognised when the obligation to settle through cash flows has expired or been transferred.

### Leases

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

### Impairment of non-financial assets

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

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

### Trade and other payables

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

### Borrowings

Borrowings are initially recognised at fair value net of transaction costs incurred. Subsequent to initial recognition, borrowings are stated at amortised cost.

### Employee benefits

#### Short-term employee benefits

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

#### Other long-term employee benefits

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

#### Defined contribution superannuation expense

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

#### Share-based payments

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

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

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

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

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

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

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

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

### Issued capital

Ordinary shares are classified as equity.

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

### Dividends

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

## Note 2 Significant accounting policies (continued)

### Earnings per share

#### Basic earnings per share

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

#### Diluted earnings per share

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

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

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

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

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

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

### Rounding of amounts

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

## Note 3 Restatement of comparative

The Group has reassessed its classification of the funding of its litigation funding agreements. This involved a detailed review of the terms and conditions of these contracts and a qualitative assessment of the evolution of the Group's business model. The Group carefully considered and formed their opinion for the appropriate accounting based on the composition of the portfolio of funded claims, the activities performed by the business, the transition to an asset management model, management's business judgement as to this analysis and the relevant accounting standards. The change provides more relevant information on the value of the litigation funding agreements and reflects the evolution of the primary business model and changing geographic split of business.

Historically the revenue received from the successful resolution of funded litigation funding agreements has been considered under AASB 15 as revenue with customers. AASB 15 was adopted for these arrangements and reflected our legacy business model, which was to provide a bundle of financial and risk management services related to the resolution of disputes. This resulted in a litigation asset, or contract asset classification for all bundle of services under AASB 15. As the Group has evolved, the supporting rationale for AASB 15 has diminished with a significant reduction in the concept of a bundle of services. There remain a small number of legacy contracts where this bundle of services remains implicit in the contract and therefore AASB 15 has been retained.

As a result of this reassessment, the majority of the Group's litigation funding assets will now be recognised under AASB 9. Under this change, litigation funding agreements and third-party interest in consolidated entities are accounted for as financial instruments under AASB 9. The following principles have been adopted where the underlying litigation funding arrangements satisfy the conditions of a financial instrument:

- due to the nature of the expected returns the financial instruments fail the sole payments of principal and interest test (the 'SPPI test') in AASB 9 and are classified at fair value through the income statement
- management have established a fair value framework to appropriately account for the underlying instruments at fair value
- further details on the fair value methodology as shown in Note 20
- any transaction costs (i.e., directly attributable due diligence and closing costs) would be expensed in the profit and loss as they are incurred
- third-party interests in consolidated entities have been fair valued using the same fair value framework for the litigation funding assets

As a result of implementing this accounting for litigation funding agreements for relevant contracts, the Group has restated the Statement of financial position as at 30 June 2021 and 30 June 2022, and the Statement of profit or loss, Statement of other comprehensive income for the year ended 30 June 2022 for comparative purposes.

The restatement of each of the affected financial statement line items for the prior periods, as follows:

Impact on equity (increase/(decrease) in equity)

	Consolidated	
	30 June 2022	1 July 2021
	\$'000	\$'000
Trade & other receivables	(32,193)	(11,601)
Due from resolution of financial assets	24,340	4,408
Contract costs	(152,615)	(105,925)
Financial assets at fair value through profit or loss	296,980	176,838
Other assets	2	-
<b>Total Assets</b>	<b>136,514</b>	<b>63,720</b>
Third-party interests in consolidated entities	60,400	23,106
Deferred tax liability	21,191	14,090
<b>Total Liabilities</b>	<b>81,591</b>	<b>37,196</b>
Net Impact on equity	<b>54,924</b>	<b>26,524</b>



**Note 3 Restatement of comparative (continued)****Impact on statement of profit and loss (increase/(decrease) in profit)**

	<b>Consolidated 30 June 2022</b>
<b>Income</b>	
Litigation service revenue	(47,350)
Litigation service expense	16,343
Net gains/(losses) on financial assets at fair value through profit or loss	103,853
Net gains/(losses) on financial liabilities related to third-party interests in consolidated entities	(36,672)
	-
Total expenses	(1,054)
Income tax expense	(7,101)
<b>Net impact on profit for the year</b>	<b>28,019</b>
Attributable to:	
Equity holders of the parent	28,019
Non-controlling interests	-
Other comprehensive income	432
<b>Net impact on total comprehensive income for the period</b>	<b>28,451</b>

**Impact on basic and diluted earnings per share (EPS) (increase/(decrease) in EPS)**

	<b>Consolidated 30 June 2022</b>
Earnings per share	
Basic, profit for the year attributable to ordinary equity holders of the parent	26.37
Diluted, profit for the year attributable to ordinary equity holders of the parent	25.55

**Statement of cashflows**

The change did not have an net impact on the Group's operating, investing and financing cash flows but did require some change to components within each cash flow class.

The Group has also adopted the liquidity based presentation of its balance sheet after the restatement under AASB 9 as it provides information that is reliable and more relevant. On adoption, the Group present all assets and liabilities in order of liquidity. A presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that is reliable and more relevant than a current/non-current presentation because the Group does not supply goods or services within a clearly identifiable operating cycle.

**Note 4 Critical accounting judgements, estimates and assumptions**

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

**Revenue from contracts with customers**

The entity has a small number of legacy litigation service contracts where the service provided and accordingly the litigation funding contracts are within the scope of AASB 15 'Revenue from Contracts with Customers', and so are excluded from the scope of AASB 9 'Financial Instruments'. AASB 15 was adopted for these arrangements and reflected our legacy business model, which was to provide a bundle of financial and risk management services related to the resolution of disputes. This resulted in a litigation asset, or contract asset classification for all bundle of services under AASB 15. As the Group has evolved, the supporting rationale for AASB 15 has diminished with a significant reduction in the concept of a bundle of services. There remain a small number of legacy contracts where this bundle of services remains implicit in the contract and therefore AASB 15 been retained.

**Performance obligations and recognition of revenue**

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

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

The Group has assessed the entities in which it has an interest to determine whether or not control exists and the entity is, therefore, consolidated into the Group (refer note 25). Where the Group does not own 100% of interests, the Group makes judgements to determine whether to consolidate the entity in question by applying the factors set forth in AASB 10, including but not limited to the Group's equity and economic ownership interest, the economic structures in use in the entity, the level of control the Group has over the entity through the entity's structure or any relevant contractual agreements, and the rights of other investors.

**Recovery of deferred tax assets**

Deferred tax assets includes an amount relating to carried-forward tax losses in Australia. The Group only recognises the deferred tax asset if it is probable that future taxable amounts of the Group's business in Australia will be available to utilise those losses and therefore they are assessed as recoverable (refer to note 8). The extent to which these amounts are recognised is based on an estimate of future taxable amounts which is key estimate in relation to this balance. The tax losses can be carried forward indefinitely and have no expiry date.

#### Note 4 Critical accounting judgements, estimates and assumptions (continued)

##### *Net gains/(losses) on financial assets & liabilities at fair value through profit or loss*

The Group carries its financial assets and liabilities at fair value, with changes in fair value being recognised in the statement of profit or loss. A valuation methodology based on an income approach.

The fair values of these financial assets and liabilities cannot be measured based on quoted prices in active markets, and as a result a fair value methodology is utilised. The measurement valuation technique includes a discounted cash flow (DCF) model based on the Group's estimated, risk adjusted future cash flows. The adopted discount rate reflects the funding cost of deploying capital, and is intended to capture the time value of money and market factors such as interest rates and foreign exchange rates.

The fair value framework incorporates assumptions, including the discount rate, the timing and amount of expected cash inflows and additional funding, and a risk-adjustment factor reflecting the inherent uncertainty in the cash flows due to litigation risk, which is dependent on observable case progression and milestones.

The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as case progress, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

The key assumptions used to determine the fair value of the litigation funding agreements, financial liabilities related to third-party interests in consolidated entities and sensitivity analyses are provided in note 20.

#### Note 5 Income

	Consolidated	
	2023 \$'000	Restated 2022 \$'000
Realised gains on Litigation Funding assets	26,879	30,117
Realised performance fees	24,598	53
Fair value adjustment during the period	11,134	29,782
Foreign exchange gains	5,073	4,859
Total income as reported on the consolidated statements of profit or loss attributable to LCM	67,684	64,811
Gain on financial assets related to third-party interests in consolidated entities	117,051	39,041
	184,735	103,852
Movement in financial liabilities related to third-party interests in consolidated entities	(111,953)	(36,672)
Total income as reported on the consolidated statements of profit or loss	72,782	67,180

Total income as reported on the consolidated statements of profit or loss attributable to LCM represents realised and unrealised gains that relate to LCM's funded proportion of litigation contracts. The gain and loss related to third party interests in consolidated entities represents realised and unrealised gains and losses that relate to third party funded proportions from LCM controlled entities. Realised gains relate to amounts where litigation risk has concluded and amounts are expected to be received by LCM. Unrealised gains or losses relate to the fair value movement of assets and liabilities associated with litigation contracts.

#### Note 6 Segment information

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

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

#### Note 7 Profit before tax

	Consolidated	
	2023 \$'000	Restated 2022 \$'000
Profit before income tax expense includes the following specific expenses:		
<i>Employee benefits expense</i>		
Salaries & wages	7,337	7,337
Directors' fees	393	390
Superannuation and pension	287	254
Share based payments expense	867	256
Other employee benefits & costs	590	604
	9,474	8,841
<i>Depreciation</i>		
Plant and equipment	63	41
Intangible assets	103	24
	166	65
Interest on borrowings (note 15)	7,689	4,376
Finance costs of third-party interests	144	334
Other finance costs	435	327
	8,268	5,037
<i>Fund administration expense</i>		
General administration expenses	988	276
Set-up expenses	209	1,489
Placement fees	1,831	1,853
	3,028	3,618

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

**Note 7 Profit before tax (continued)****Leases**

Short-term lease payments	777	639
---------------------------	-----	-----

**Adjusted operating profit**

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

**Non-operating expenses**

Management have opted to separately present these items as it better reflects the Groups underlying performance. Non-operating expenses includes the following items:

Share based payments expense	867	256
Consultancy	-	183
Other transaction costs	56	401
Litigation fees	190	689
Other expenses	57	80
Fund administration expenses	1,850	1,853
Total non-operating expenses	<u>3,020</u>	<u>3,462</u>

**Note 8 Income tax expense**

	Consolidated	
	2023	2022
	\$'000	\$'000
<b>Numerical reconciliation of income tax expense and tax at the statutory rate</b>		
Profit before income tax expense	42,741	45,751
At the Group's statutory income tax rate of 25% (2022: 25%)	10,685	11,438
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Foreign tax rate adjustments	(1,718)	(26)
Share-based payments	217	64
Other assessable income	143	98
Other non-deductible expenses	-	-
Unrealised foreign exchange	-	-
Change in tax rate	1,929	(433)
Adjustment for tax effect of loss attributable to third party interests	-	-
Adjustment in respect of deferred tax of previous years	-	-
Income tax expense / (benefit)	<u>11,256</u>	<u>11,141</u>

Statutory tax rate of 25% is applicable to Australian entities with aggregated turnover below \$50 million for the period ended 30 June 2023. The Group's turnover is expected to be above the threshold of \$50 million in the future reporting periods which will attract a statutory tax rate of 30%. As a result, recognition of deferred tax asset is made by applying a 30% statutory rate instead of the lower 25% tax rate.

	Consolidated	
	2023	2022
	\$'000	\$'000
Current tax	7,769	59
Deferred tax	3,555	11,072
Adjustment recognised for prior periods	(68)	10
Income tax expense / (benefit)	<u>11,256</u>	<u>11,141</u>

	Consolidated		
	2023	Restated	Restated
	\$'000	\$'000	As at 1 July 2021
			\$'000
Deferred tax asset/(liability)			
Deferred tax asset/(liability) comprises temporary differences attributable to:			
Tax losses	14,197	13,425	
Employee benefits	273	279	
Accrued expenses	929	255	
Deductible funding on contract costs and financial assets	(23,374)	(25,195)	
Fair value adjustments to financial assets	(28,284)	(21,736)	
Transaction costs on share issue	-	268	
Deferred tax asset/(liability)	<u>(36,259)</u>	<u>(32,704)</u>	
Movements:			
Opening balance	(32,704)	(21,632)	(7,543)
Charged to profit or loss	(3,555)	(11,072)	(14,089)
Closing balance	<u>(36,259)</u>	<u>(32,704)</u>	<u>(21,632)</u>

**Note 9 Cash and cash equivalents**

	Consolidated	
	2023	2022
	\$'000	\$'000
Cash at Bank	82,973	29,253
Cash of third-party interests in consolidated entities	21,484	20,711
	<u>104,457</u>	<u>49,964</u>

Cash of third-party interests in consolidated entities is restricted as it is held within the fund investment vehicles on behalf of the third-party investors in these vehicles. The cash is restricted to use cashflows in the litigation funding assets made on their behalf and costs of administering the fund.

Note 10 Due from resolution of financial assets

	Consolidated		
	2023 \$'000	Restated 2022 \$'000	Restated As at 1 July 2021 \$'000
At start of period (as restated)	24,340	4,408	
Transfer from realisation of litigation funding assets	150,447	50,571	
Proceeds from litigation funding assets	(192,623)	(26,792)	
Foreign Exchange gain/(losses)	29,708	(3,848)	
At end of period	11,873	24,340	4,408

Note 11 Litigation Funding assets at fair value through profit or loss

	Consolidated		
	2023 \$'000	Restated 2022 \$'000	Restated As at 1 July 2021 \$'000
At start of period (as restated)	296,980	176,838	
Deployments	30,756	26,675	
Deployments - third-party interests	58,293	38,464	
Realisations of litigation funding assets	(150,447)	(50,571)	
Unrealised gains for the period	136,638	101,225	
Foreign exchange gains/(losses)	19,190	4,349	
At end of period	391,410	296,980	176,838
Litigation funding assets at fair value through income statement	165,768	154,577	
Litigation funding assets at fair value through income statement - third-party interests	225,642	142,403	
Total litigation funding assets	391,410	296,980	176,838

Litigation Funding assets are financial instruments that relate to the provision of capital in connection with legal finance. The Group fund through both direct investments as well as using third party funders via a Fund model. The table above sets forth the changes in LFA assets at the beginning and end of the relevant reporting periods.

Note 12 Contract costs - litigation contracts

	Consolidated	
	2023 \$'000	2022 \$'000
Contract costs - litigation contracts	37,277	31,782

There are a small number of legacy investments which are still being recorded under IFRS 15 due to the timing the contracts were entered into. These are expected to resolve in the short to medium term.

Reconciliation of litigation contract costs

Reconciliation of the contract costs at the beginning and end of the current period and previous financial year are set out below:

	Consolidated		
	2023 \$'000	Restated 2022 \$'000	Restated As at 1 July 2021 \$'000
Opening balance	31,783	28,633	28,633
Additions during the period	5,494	3,150	-
Closing balance	37,277	31,783	28,633

The Group has recognised impairment losses of \$nil (2022: \$nil) in profit or loss on contract costs for the year ended 30 June 2023.

Note 13 Trade and other payables

	Consolidated	
	2023 \$'000	2022 \$'000
Trade payables	7,001	12,562
Other payables	534	278
	7,535	12,840

Refer to note 19 for further information on financial instruments.

Note 14 Employee benefits

	Consolidated	
	2023 \$'000	2022 \$'000
Annual Leave	623	700
Long Service Leave	283	227
	906	927

Note 15 Borrowings

	Consolidated	
	2023 \$'000	2022 \$'000
Borrowings of third-party interests in consolidated entities	-	14,494
Borrowings	68,976	54,915
	<b>68,976</b>	<b>69,409</b>

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

	Consolidated	
	2023 \$'000	2022 \$'000
Balance 1 July	14,494	13,253
Proceeds from borrowings	-	-
Repayment of borrowings	(14,848)	-
Net accrued interest	(16)	17
Payments for borrowing costs	-	(185)
Amortisation of borrowing costs	34	230
Other non-cash items	336	1,179
Balance as at 30 June	-	14,494

Reconciliation of borrowings of LCM:

	Consolidated	
	2023 \$'000	2022 \$'000
Balance 1 July	54,915	37,171
Proceeds from borrowings	9,636	13,298
Payments for borrowing costs	(256)	(259)
Amortisation	2,441	919
Other non-cash items	2,240	3,786
Balance as at 30 June	68,976	54,915

On 22 February 2021, LCM entered into a credit facility with Northleaf Capital Partners for an aggregate amount of US\$50,000,000, AUD equivalent of \$75,017,517<sup>1</sup> (the "Facility"). The Facility carries interest with reference to SOFR as a benchmark based rate of 8 per cent together with a profit participation calculated by reference to the profitability of a defined category of LCM's investments, and a non-utilisation margin of 1 per cent which expired after the first two years. The overall cost of the Facility is capped at 13% per annum. The Facility was available to be drawn down during the first two years, has an overall term of four years and is secured against LCM's assets. As at 30 June 2023, LCM has nil outstanding utilisation.

LCM agreed to various debt covenants including a minimum effective net tangible worth, borrowings as a percentage of effective net tangible worth, minimum liquidity, a minimum consolidated EBIT and a minimum multiple of invested capital on concluded contract assets over a specified period. There have been no defaults or breaches related to the Facility during the year ended 30 June 2023. Should LCM not satisfy any of these covenants, the outstanding balance of the Facility may become due and payable.

LCM incurred costs in relation to arranging the Facility of \$1,649,000 which were reflected transactions costs and will be amortised over the 4 year term of the borrowings. As at 30 June 2023, \$825,000 of the loan arrangement fees remained outstanding.

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

Note 16 Equity - issued capital

	Consolidated			
	2023 Shares	2022 Shares	2023 \$'000	2022 \$'000
Ordinary shares - fully paid	106,613,927	106,613,927	69,674	69,674
Ordinary shares - under loan share plan	12,586,405	12,586,405	-	-
	<b>119,200,332</b>	<b>119,200,332</b>	<b>69,674</b>	<b>69,674</b>

Movements in ordinary share capital

	Date	Shares	\$'000
Balance	30 June 2021	105,014,157	68,904
Conversion of partly paid shares paid up at \$0.17 per share	22 October 2021	498,583	85
Conversion of options paid up at \$1.00 per share	5 November 2021	600,000	600
Conversion of partly paid shares paid up at \$0.17 per share	16 December 2021	501,187	85
Balance	30 June 2022	106,613,927	69,674
	30 June 2023	106,613,927	69,674

Movements in ordinary shares issued under loan share plan ('LSP'):

	Date	Shares	\$'000
Balance	30 June 2021	11,073,767	-
Issue of shares under loan share plan	27 October 2021	612,638	-
Issue of shares under loan share plan	5 November 2021	900,000	-
Balance	30 June 2022	12,586,405	-
	30 June 2023	12,586,405	-

Reconciliation of ordinary shares issued under LSP:

	2023	2022
Total shares allocated under existing LSP arrangements with underlying LSP shares (note 28)	7,890,408	8,134,929
Less shares allocated under existing LSP arrangements without underlying LSP shares (note 28)	(221,467)	(465,988)
Shares held by LCM Employee Benefit Trust for future allocation under employee share and option plans	4,917,464	4,917,464
	<b>12,586,405</b>	<b>12,586,405</b>

## Note 16 Equity - issued capital (continued)

### Ordinary shares

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

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

### Ordinary shares - under loan share plan ('LSP')

The Company has an equity scheme pursuant to which certain employees may access a LSP. The acquisition of shares under this LSP is fully funded by the Company through the granting of a limited recourse loan. The shares under LSP are restricted until the loan is repaid. The underlying options within the LSP have been accounted for as a share-based payment. Refer to note 28 for further details. When the loans are settled the shares are reclassified as fully paid ordinary shares and the equity will increase by the amount of the loan repaid.

### Ordinary shares - partly paid

As at 30 June 2023, there are currently 1,433,022 partly paid shares issued at an issue price of \$0.17 per share. No amount has been paid up and the shares will become fully paid upon payment to the Company of \$0.17 per share. As per the terms of issue, the partly paid shares have no maturity date and the amount is payable at the option of the holder.

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

### Capital risk management

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

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

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

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

## Note 17 Equity - reserves

### Movements in reserves

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

#### Consolidated

	Share based payments reserve \$'000	Foreign currency translation \$'000	Total reserves \$'000
Balance at 30 June 2021	1,317	(1,482)	(165)
Movements in reserves during the period	256	(2,103)	(1,847)
Balance at 30 June 2022	1,573	(3,585)	(2,012)
Movements in reserves during the period	867	2,187	3,054
Balance at 30 June 2023	2,440	(1,398)	1,042

### Share-based payments reserve

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

### Foreign currency translation reserve

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

## Note 18 Equity - dividends

There were no dividends declared or paid for the year ended 30 June 2023 (2022: nil cents per share).

On 18 July 2023, the Directors declared an unfranked final dividend for the year ended 30 June 2023 of 2.25 pence per ordinary share, to be paid on 27 October 2023 to the shareholders on the register on 29 September 2023, being the record date. The ordinary shares will be marked ex-dividend on 28 September 2023. This equates to a total estimated distribution of £2,571,364, AUD equivalent as at reporting date of \$4,901,964<sup>1</sup>. The financial effect of dividends declared after the reporting date are not reflected in the 30 June 2023 financial statements and will be recognised in subsequent financial reports.

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

### Franking credits

Franking credits available for subsequent financial years based on a tax rate of 25% (2022: 25%)

Consolidated	
2023 \$'000	2022 \$'000
338	338

## Note 19 Financial instruments

### Financial risk management objectives

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

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

Note 19 Financial instruments (continued)

Market risk

Foreign currency risk

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

	Assets		Liabilities	
	2023	2023	2022	2022
Consolidated	\$'000	\$'000	\$'000	\$'000
US dollars	203,912	(314,923)	73,582	(214,821)
Pound Sterling	173,064	(2,542)	153,762	(4,857)
New Zealand dollars	1	-	1,819	-
United Arab Emirates Dirham	5,614	(744)	5,478	(718)
Hong Kong dollars	28,087	-	8,521	-
Other	489	(1)	631	(567)
	411,167	(318,210)	243,793	(220,963)

The Group had net assets denominated in foreign currencies of \$92,956,000 (assets of \$411,167,000 less liabilities of \$318,210,000) as at 30 June 2023 (2022 restated: net assets \$22,830,000). Based on this exposure, had the Australian dollars weakened or strengthened by 10% against these foreign currencies with all other variables held constant, the Group's profit before tax for the year would have increased and decreased respectively by \$9,296,000 (2022 restated: \$2,283,000). The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 12 months. The actual realised foreign exchange loss for the year ended 30 June 2023 was \$2,892,000 (2022: loss of \$100,000). The movement in the foreign currency translation reserve for the year ended 30 June 2023 was a gain of \$2,187,000 (2022 restated: loss \$2,103,000). The restatement of litigation funding agreements and third-party interest in consolidated entities as financial instruments under AASB 9 has resulted in a material increase in foreign currency risk than in previous years however the value is predominately unrealised.

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

Interest rate risk

Aside from the litigation funding agreements at fair value, the Group's main interest rate risk arises from interest on cash at bank.

An official increase/decrease in interest rates of 50 (2022: 50) basis points would have a favourable/adverse effect on profit before tax of \$522,000 (2022: \$250,000) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts forecasts.

Credit risk

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

The maximum credit risk exposure represented by cash, cash equivalents, trade and other receivables, due from resolution of financial assets and financial assets at fair value through profit or loss is specified in the consolidated statements of financial position. The exposure for financial assets held at amortised cost is the carrying amount, net of any provisions for impairment of those assets, which includes cash, cash equivalents and trade and other receivables. The Group does not hold any collateral.

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

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

Financial assets are generally considered to be in default when amounts are more than 90 days past due or if sufficient indicators exist that the debtor is unlikely to pay. Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

Liquidity risk

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

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

Remaining contractual maturities

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

	Less than 1 year	Between 1 and 5 years	Over 5 years	No contractual maturity date	Remaining contractual maturities
Consolidated - 2023	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Non-derivatives</b>					
<i>Non-interest bearing</i>					
Trade payables	7,001	-	-	-	7,001
Other payables	241	-	-	-	241
Borrowings	9,320	75,988	-	-	85,308
Third-party interest in consolidated entities	-	-	-	243,990	243,990
Total non-derivatives	16,562	75,988	-	243,990	336,540

Note 19 Financial instruments (continued)

	Restated				
	Less than 1 year	Between 1 and 5 years	Over 5 years	No contractual maturity date	Remaining contractual maturities
Consolidated - 2022	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Non-derivatives</b>					
<i>Non-interest bearing</i>					
Trade payables	12,562	-	-	-	12,562
Other payables	190	-	-	-	190
Borrowings	21,047	74,414	-	-	95,461
Third-party interest in consolidated entities	-	-	-	142,180	142,180
<b>Total non-derivatives</b>	<b>33,799</b>	<b>74,414</b>	<b>-</b>	<b>142,180</b>	<b>250,393</b>

Note 20 Fair value measurement

The fair value measurements used for all assets and liabilities held by the Group listed below are level 3:

	Consolidated	
	2023	2022
	\$'000	\$'000
<b>Assets</b>		
Litigation funding assets		
APAC	158,836	82,203
EMEA	232,574	214,777
<b>Total Level 3 assets</b>	<b>391,410</b>	<b>296,980</b>
<b>Liabilities</b>		
Financial liabilities related to third-party interests in consolidated entities	243,990	142,180
<b>Total Level 3 liabilities</b>	<b>243,990</b>	<b>142,180</b>

Refer note 11 for movements in level 3 assets. There were no transfers into or out of level 3 during the periods ended 30 June 2023 or 30 June 2022.

**Sensitivity of Level 3 Valuations**

The key risk and sensitivity across all of the litigation funding agreement assets ('LFA assets') relates to the underlying litigation associated with each case that is underwritten and financed. The sensitivity to this Level 3 input is therefore considered to be similar across the different types of LFA assets and is expressed as a portfolio-wide stress.

The Group implemented a new valuation methodology for LFA assets during the year ended 30 June 2023. LFA assets are fair valued using an income approach which is the technique adopted for LFA Assets. Under the income approach, future cash flows associated with; cash out flows, including investments and deployments, and cash inflows such as settlements or resolutions, are converted to a single current (discounted) amount, reflecting current market expectations about those future amounts. That is, the amount that could reasonably be expected to be paid to acquire the asset at that point in time. In developing our framework we also looked to Industry peers for alignment in methodology, the benefit being that adopting a similar methodology provides a level of comparability. Similar to industry peers, the framework developed applied probabilities based on observable milestones for each investment within the portfolio as well as making informed assumptions around inputs such as discount rates, timing and risk factors, all of which are considered Level 3 inputs. In cases where cash flows are denominated in a foreign currency, forecasts are developed in the applicable foreign currency and translated to AUD dollars.

A Discounted Cash Flow approach is then applied to each underlying investment on an individual basis to arrive at a net present value of the future expected cash flows.

The cash flow forecast is updated each reporting period, based on the best available information on progress of the underlying matter at the time. These objective events could include, among others:

- Stage of the investment
- ongoing developments
- progress
- recovery or sovereign risk
- legal team expertise
- other factors impacting the expected outcome

Each reporting period, the updated risk-adjusted cash flow forecast is then discounted at the then current discount rate to measure fair value. The discount rate includes an applicable risk-free rate and credit spread to incorporate both market and idiosyncratic asset-class risk.

The Group's fair value policy provides for ranges of percentages to be applied against the risk adjustment factor to more than 159 discrete objective litigation events. The tables below set forth each of the key unobservable inputs used to value the Group's LFA assets and the applicable ranges and weighted average by relative fair value for such inputs.

**2023**

Item	Valuation technique	Unobservable Input	Min	Max	Weighted Ave
Litigation funding asset	Discounted cash flow	Discount rate	12.80%	12.80%	12.80%
		Duration (years)	0.42	4.00	2.94
		Adjusted risk premium	0%	80%	37%
		Significant ruling or other objective event prior to judgment	5%	50%	50%
		Trial court judgment or tribunal award	25%	80%	2%
		Appeal judgment	65%	85%	23%
		Settlement	70%	85%	11%
		Enforcement	75%	85%	80%
		Other	0%	45%	16%

**2022**

Item	Valuation technique	Unobservable Input	Min	Max	Weighted Ave
Litigation funding asset	Discounted cash flow	Discount rate	9.80%	9.80%	9.80%
		Duration (years)	0.42	4.00	2.63
		Adjusted risk premium	0%	80%	31%
		Significant ruling or other objective event prior to judgment	5%	50%	58%
		Trial court judgment or tribunal award	25%	80%	12%
		Appeal judgment	65%	85%	0%
		Settlement	70%	85%	0%
		Enforcement	75%	85%	80%
		Other	0%	45%	17%



**Note 20 Fair value measurement (continued)**

At each reporting period, the Group reviews the fair value of each litigation funding asset in connection with the preparation of the consolidated financial statements. A fair value of 10% higher or lower, while all other variables remain constant, in financial assets at fair value through profit or loss would have increased or decreased the Group's income and net assets by \$39,141,000 as at 30 June 2023 (2022 restated: \$29,698,000, 1 July 2021 restated: \$17,684,000). Similarly, a fair value of 10% higher or lower, while all other variables remain constant, in financial liabilities at fair value through profit or loss would have increased or decreased the Group's income and net assets by \$24,399,000 as at 30 June 2023 (2022 restated: \$14,218,000, 1 July 2021 restated: \$6,287,000).

At 30 June 2023, should interest rates have been 50 bps or 100 bps higher or lower than the actual interest rates used in the fair value estimation, while all other variables remained constant, consolidated income and net assets would have increased and decreased by the following amounts:

	30-Jun-23 \$'000
Hypothetical Change	
100bps lower interest rates	2,182
50bps lower interest rates	1,084
100bps higher interest rates	(2,126)
50bps higher interest rates	(1,070)

**Reasonably possible alternative assumptions**

The determination of fair value for litigation funding assets involves significant judgements and estimates. While the potential range of outcomes for the assets is wide, the Group's fair value estimation is its best assessment of the current fair value of each asset, as applicable. Such estimate is inherently subjective, being based largely on an assessment of how individual events have changed the possible outcomes of the asset, as applicable, and their relative probabilities and hence the extent to which the fair value has altered. The aggregate of the fair values selected falls within a wide range of reasonably possible estimates. In the Group's opinion, there is no useful alternative valuation that would better quantify the market risk inherent in the portfolio and there are no inputs or variables to which the values of the assets are correlated other than interest rates which impact the discount rates applied.

**Note 21 Key management personnel disclosures**

**Compensation**

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

	Consolidated	
	2023 \$	2022 \$
Short-term employee benefits	2,188,144	2,279,794
Post-employment benefits	59,611	57,615
Long-term benefits	13,145	63,210
Share-based payments	375,014	257,129
	<u>2,635,914</u>	<u>2,657,748</u>

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

	Cash salaries and fees \$	Bonus \$	Benefits \$	Accrued leave \$	Superannuation/ Pension \$	Long service leave \$	Share-based payments \$	Total \$
<b>2023</b>								
<b>Non-executive Directors</b>								
Dr David King	100,000	-	-	-	10,500	-	-	110,500
Jonathan Moulds	178,586	-	-	-	-	-	-	178,586
Gerhard Seebacher	111,357	-	-	-	-	-	-	111,357
	<u>389,943</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,500</u>	<u>-</u>	<u>-</u>	<u>400,443</u>

**Executive Directors**

Patrick Moloney	1,071,517	118,249	5,709	(29,023)	-	13,146	252,293	1,431,891
Mary Gangemi	491,112	140,637	-	-	49,111	-	122,721	803,581
	<u>1,562,629</u>	<u>258,886</u>	<u>5,709</u>	<u>(29,023)</u>	<u>49,111</u>	<u>13,146</u>	<u>375,014</u>	<u>2,235,472</u>
	<u>1,952,572</u>	<u>258,886</u>	<u>5,709</u>	<u>(29,023)</u>	<u>59,611</u>	<u>13,146</u>	<u>375,014</u>	<u>2,635,915</u>

	Cash salaries and fees \$	Bonus \$	Benefits \$	Accrued leave \$	Superannuation \$	Long service leave \$	Share-based payments \$	Total \$
<b>2022</b>								
<b>Non-executive Directors</b>								
Dr David King	100,000	-	-	-	10,000	-	-	110,000
Jonathan Moulds	183,319	-	-	-	-	-	-	183,319
Gerhard Seebacher	103,488	-	-	-	-	-	-	103,488
	<u>386,807</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>396,807</u>

**Executive Directors**

Nick Rowles-Davies	513,294	-	3,701	-	1,211	-	-	518,206
Patrick Moloney	998,817	-	-	187,678	27,500	63,210	241,583	1,518,788
Mary Gangemi	189,048	-	449	-	18,904	-	15,546	223,947
	<u>1,701,159</u>	<u>-</u>	<u>4,150</u>	<u>187,678</u>	<u>47,615</u>	<u>63,210</u>	<u>257,129</u>	<u>2,260,941</u>
	<u>2,087,966</u>	<u>-</u>	<u>4,150</u>	<u>187,678</u>	<u>57,615</u>	<u>63,210</u>	<u>257,129</u>	<u>2,657,748</u>

**Note 21 Key management personnel disclosures (continued)**

*Directors' share options*

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

Name of the Director	Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
Patrick Moloney <sup>2</sup>	19/11/2018	25/11/2028	\$0.47	1,595,058	-	-	-	1,595,058
Patrick Moloney <sup>2</sup>	4/12/2017	4/12/2027	\$0.60	1,000,000	-	-	-	1,000,000
Patrick Moloney <sup>2</sup>	4/12/2017	4/12/2027	\$0.60	1,000,000	-	-	-	1,000,000
Patrick Moloney <sup>2</sup>	1/11/2019	1/11/2029	£0.7394	1,166,400	-	-	-	1,166,400
Patrick Moloney <sup>2</sup>	13/10/2020	13/10/2030	£0.6655	291,597	-	-	-	291,597
Patrick Moloney <sup>2</sup>	27/10/2021	27/10/2031	£1.06	279,232	-	-	-	279,232
Patrick Moloney <sup>1,2</sup>	27/10/2021	27/10/2031	£1.06	900,000	-	-	-	900,000
Mary Gangemi <sup>2</sup>	27/10/2021	27/10/2031	£1.06	93,585	-	-	-	93,585
Mary Gangemi <sup>2</sup>	27/10/2021	27/10/2031	£1.14	26,315	-	-	-	26,315
Patrick Moloney <sup>2</sup>	7/10/2022	7/10/2032	£0.00	-	169,276	-	-	169,276
Patrick Moloney <sup>2</sup>	7/10/2022	7/10/2032	£0.00	-	3,303,796	-	-	3,303,796
Mary Gangemi <sup>2</sup>	7/10/2022	7/10/2032	£0.00	-	201,325	-	-	201,325
Mary Gangemi <sup>2</sup>	7/10/2022	7/10/2032	£0.00	-	1,266,455	-	-	1,266,455
				6,352,187	4,940,852	-	-	11,293,039

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

2 Outstanding share options as disclosed in Note 28.

*Directors' interests*

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

Name of the Director	Description of shares	30 June 2023 Number	30 June 2022 Number
Jonathan Moulds	Fully paid ordinary shares	5,250,000	2,080,000
Dr David King	Fully paid ordinary shares	1,951,484	1,951,484
Patrick Moloney	Fully paid ordinary shares	4,204,813	3,970,971
Patrick Moloney	Unlisted partly paid shares	1,433,022	1,433,022 <sup>1</sup>
Gerhard Seebacher	N/A	-	-
Mary Gangemi	Fully paid ordinary shares	27,500	27,500 <sup>2</sup>

1 Unlisted partly paid shares in the Company were issued at a price of \$0.17 per share, wholly unpaid and will convert to a share upon payment to the Company of \$0.17 per share. Further details provided in Note 16 to the financial statements.

2 Directorship commenced effective 14 February 2022.

No changes took place in the interest of the directors between 30 June 2023 and 19 September 2023.

**Note 22 Remuneration of auditors**

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

	Consolidated	
	2023 \$	2022 \$
<b>Audit Services - BDO Audit Pty Ltd</b>		
Audit or review of financial report	149,700	112,500
	<u>149,700</u>	<u>112,500</u>
<b>Audit Services - Firms related to BDO Audit Pty Ltd</b>		
Audit of statutory report of controlled entities	124,113	93,554
	<u>124,113</u>	<u>93,554</u>
<b>Audit Services - Unrelated Firms</b>		
Audit of statutory report of controlled entities	27,904	2,750
	<u>27,904</u>	<u>2,750</u>

**Note 23 Contingent liabilities**

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

## Note 24 Parent entity information

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

	Consolidated	
	2023 \$'000	2022 \$'000
<i>Statement of profit or loss and other comprehensive income</i>		
Profit/(loss) after income tax	943	(256)
Total comprehensive income	<b>943</b>	<b>(256)</b>
<i>Statement of financial position</i>		
Total current assets	-	-
Total assets	<b>70,274</b>	<b>68,404</b>
Total current liabilities	-	-
Total liabilities	-	-
<b>Equity</b>		
Issued capital	69,674	69,674
Share based payments reserve	2,440	1,573
Retained profits	(1,840)	(2,843)
Total equity	<b>70,274</b>	<b>68,404</b>

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

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

### Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2023 and 30 June 2022.

### Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2023 and 30 June 2022.

### Significant accounting policies

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

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

## Note 25 Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership Interest	
		2023 %	2022 %
LCM Litigation Fund Pty Ltd	Australia	100%	100%
LCM Operations Pty Ltd	Australia	100%	100%
LCM Corporate Services Pty Ltd	Australia	100%	100%
LCM Singapore Pty Ltd	Australia	100%	100%
LCM Recoveries Pty Ltd	Australia	100%	100%
LCM Advisory Limited	Australia	100%	100%
LCM Funding Pty Ltd	Australia	100%	100%
LCM Funding SG Pty Ltd	Australia	100%	100%
LCM Corporate Services Pte. Ltd.	Singapore	100%	100%
LCM Operations UK Limited	United Kingdom	100%	100%
LCM Corporate Services UK Limited	United Kingdom	100%	100%
LCM Recoveries UK Limited	United Kingdom	100%	100%
LCM Funding UK Limited	United Kingdom	100%	100%
LCM Group Holdings Pty Ltd	Australia	100%	100%
<b>LCM Global Alternative Returns Fund</b>			
LCM Global Alternative Returns Fund GP Limited	Jersey	100%	100%
LCM Global Alternative Returns Fund (Special Partner) LP	Jersey	100%	100%
<b>LCM Global Alternative Returns Fund II<sup>1</sup></b>			
LCM Global Alternative Returns Fund II GP Limited	Jersey	100%	100%
LCM Global Alternative Returns Fund II (Special Partner) LP	Jersey	100%	100%

1 The Group launched the LCM Global Alternative Returns Fund II ("Fund II") on 14 October 2021. The Fund comprises two partnerships, the LCM Global Alternative Returns Fund II LP and the LCM Global Alternative Returns Feeder Fund II LP. The partnerships are between the LCM Global Alternative Returns Fund II GP Limited, LCM Global Alternative Returns Fund II (Special Partner) LP (which are both 100% owned by the Group as reflected within this note), and fund investors ie, third party interests. The Group is deemed to control the Fund from an accounting perspective on the basis that the Group has exposure, or rights, to variable returns from its involvement with the Fund. As a result, the LCM Global Alternative Returns Fund II entities have been consolidated into the Group. Further information disclosed in note 26.

**Note 26 Third-party interests in consolidated entities**

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

As at 30 June 2023, the financial liability due to third-party interests is \$243,990,000 (2022 restated: \$142,180,000), recorded at fair value as represented per Note 3. Amounts included in the consolidated statement of financial position represent the fair value of the third-party interests in the related financial assets and the amounts included in the consolidated statement of profit or loss and other comprehensive income represent the third-party share of any gain or loss during the period. Third-party interests exclude the 25% co-investment made by Litigation Capital Management Limited and its wholly owned subsidiaries ("LCM"). The third-party interests in the Funds carry an entitlement to receive an 8% soft return hurdle. Upon satisfaction of the third-party interests soft return hurdle, LCM is entitled to performance fees as fund manager on the basis of a deal by deal waterfall. The residual net cash flows are to be distributed 25% to LCM and 75% to the third-party interests until a IRR of 20% is achieved by the third-party interests, thereafter the net residual cash flows are distributed 35% to LCM and 65% to the third-party interests.

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

Consolidated Statement of Comprehensive Income	2023			Restated 2022		
	LCM \$'000	Fund \$'000	Consolidated \$'000	LCM \$'000	Fund \$'000	Consolidated \$'000
<b>Income</b>						
Gain on financial assets at fair value through profit or loss	67,684	117,051	184,735	64,811	39,041	103,852
Movement in financial liabilities related to third-party interests in consolidated entities	-	(111,953)	(111,953)	-	(36,672)	(36,672)
<b>Total income</b>	<b>67,684</b>	<b>5,098</b>	<b>72,782</b>	<b>64,811</b>	<b>2,369</b>	<b>67,180</b>
Other income	18	-	18	-	-	-
Interest income	49	129	178	1	-	1
<b>Expenses</b>						
Employee benefits expense	(9,474)	-	(9,474)	(8,841)	-	(8,841)
Depreciation expense	(166)	-	(166)	(65)	-	(65)
Corporate expenses	(4,220)	-	(4,220)	(3,499)	-	(3,499)
Finance costs	(8,124)	(144)	(8,268)	(4,703)	(334)	(5,037)
Fund administration expense	(1,850)	(1,178)	(3,028)	(1,853)	(1,765)	(3,618)
Foreign currency (gains)/losses	(1,176)	(3,905)	(5,081)	(100)	(270)	(370)
<b>Total expenses</b>	<b>(25,010)</b>	<b>(5,227)</b>	<b>(30,237)</b>	<b>(19,061)</b>	<b>(2,369)</b>	<b>(21,430)</b>
<b>Profit before income tax expense</b>	<b>42,741</b>	<b>-</b>	<b>42,741</b>	<b>45,751</b>	<b>-</b>	<b>45,751</b>
<b>Analysed as:</b>						
<b>Adjusted operating profit</b>	<b>53,885</b>	<b>-</b>	<b>53,885</b>	<b>53,916</b>	<b>-</b>	<b>53,916</b>
Non-operating expenses	(3,020)	-	(3,020)	(3,462)	-	(3,462)
Finance costs	(8,124)	-	(8,124)	(4,703)	-	(4,703)
<b>Profit before income tax expense</b>	<b>42,741</b>	<b>-</b>	<b>42,741</b>	<b>45,751</b>	<b>-</b>	<b>45,751</b>
Income tax expense	(11,256)	-	(11,256)	(11,141)	-	(11,141)
<b>Profit after income tax expense</b>	<b>31,485</b>	<b>-</b>	<b>31,485</b>	<b>34,610</b>	<b>-</b>	<b>34,610</b>
Other comprehensive income for the year, net of tax	2,187	-	2,187	(2,103)	-	(2,103)
<b>Total comprehensive income for the period</b>	<b>33,672</b>	<b>-</b>	<b>33,672</b>	<b>32,507</b>	<b>-</b>	<b>32,507</b>

Consolidated statement of financial position	2023			Restated 2022		
	LCM \$'000	Fund \$'000	Consolidated \$'000	LCM \$'000	Fund \$'000	Consolidated \$'000
<b>Assets</b>						
Cash and cash equivalents	82,973	21,484	104,457	29,253	20,711	49,964
Trade & other receivables	2,209	-	2,209	2,298	-	2,298
Due from resolution of financial assets	11,873	-	11,873	24,340	-	24,340
Financial assets at fair value through profit or loss	165,768	225,642	391,410	154,577	142,403	296,980
Contract costs	37,277	-	37,277	31,782	-	31,782
Property, plant and equipment	211	-	211	182	-	182
Intangible assets	356	-	356	646	-	646
Other assets	1,032	78	1,110	1,489	(623)	866
<b>Total assets</b>	<b>301,699</b>	<b>247,204</b>	<b>548,903</b>	<b>244,567</b>	<b>162,491</b>	<b>407,058</b>
<b>Liabilities</b>						
Trade and other payables	4,321	3,214	7,535	7,023	5,817	12,840
Tax payable	7,769	-	7,769	68	-	68
Employee Benefits	906	-	906	927	-	927
Borrowings	68,976	-	68,976	54,915	14,494	69,409
Third-party interests in consolidated entities	-	243,990	243,990	-	142,180	142,180
Deferred tax liability	36,259	-	36,259	32,704	-	32,704
<b>Total liabilities</b>	<b>118,231</b>	<b>247,204</b>	<b>365,435</b>	<b>95,637</b>	<b>162,491</b>	<b>258,128</b>
<b>Net assets</b>	<b>183,468</b>	<b>-</b>	<b>183,468</b>	<b>148,930</b>	<b>-</b>	<b>148,930</b>

A financial liability at fair value through the income statement is recognised in the parent entity in relation to the transactions entered into with certain Fund structures to support the financing of LFAs. These arrangements fail the derecognition principles in IFRS 9 and represents the net share of the overall LFA at fair value apportioned to the Funds.

Note 26 Third-party interests in consolidated entities (continued)

Consolidated Statement of Cash Flows	2023			Restated 2022		
	LCM \$'000	Fund \$'000	Consolidated \$'000	LCM \$'000	Fund \$'000	Consolidated \$'000
<b>Cash flows from operating activities</b>						
Profit/(loss) after income tax expense for the year	31,485	-	31,485	34,610	-	34,610
Adjustments for:						
Fair value adjustments to financial assets	(67,684)	(5,098)	(72,782)	(64,811)	(2,369)	(67,180)
Depreciation and amortisation of intangibles	166	-	166	65	219	284
Share-based payments	867	-	867	256	-	256
Finance costs reclassified to financing activities	8,124	144	8,268	4,704	334	5,038
Income tax expense	11,256	-	11,256	11,141	-	11,141
Exceptional items	1,200	-	1,200	800	-	800
Foreign exchange rate movements	7,094	4,507	11,601	586	(68)	518
Change in operating assets and liabilities:						
(Funding) of financial assets	(30,756)	(58,293)	(89,049)	(26,675)	(38,464)	(65,139)
Proceeds from resolution of financial assets	96,815	95,808	192,623	26,585	207	26,792
Decrease/(increase) in trade and other receivables	(89)	-	(89)	56	-	56
(Increase) in contract costs - litigation contracts	(5,494)	-	(5,494)	(3,150)	-	(3,150)
(Decrease)/Increase in trade and other payables	(2,702)	(2,603)	(5,305)	(923)	1,439	516
(Decrease)/Increase in employee benefits	(21)	-	(21)	327	-	327
Increase/(decrease) in tax payable	(139)	-	(139)	(85)	-	(85)
<b>Net cash from/(used in) operating activities</b>	<b>50,121</b>	<b>34,465</b>	<b>84,587</b>	<b>(16,514)</b>	<b>(38,702)</b>	<b>(55,217)</b>
<b>Cash flows from investing activities</b>						
Payments for property, plant and equipment	(90)	-	(90)	(38)	-	(38)
Payments for intangibles	(57)	-	(57)	(278)	-	(278)
Payments of security deposits	(51)	-	(51)	(19)	-	(19)
<b>Net cash used in investing activities</b>	<b>(198)</b>	<b>-</b>	<b>(198)</b>	<b>(335)</b>	<b>-</b>	<b>(335)</b>
<b>Cash flows from financing activities</b>						
Proceeds from issue of shares	-	-	-	770	-	770
Proceeds from borrowings	9,636	-	9,636	13,298	-	13,298
Repayments of borrowings	-	(14,848)	(14,848)	-	-	-
Payments of finance costs	(6,039)	(132)	(6,171)	(4,127)	(511)	(4,638)
Payments of transaction costs related to third-party interests	(1,832)	-	(1,832)	(1,853)	-	(1,853)
Contributions from third-party interests in consolidated entities	-	74,980	74,980	-	45,465	45,465
Distributions to third-party interests in consolidated entities	-	(94,373)	(94,373)	-	(406)	(406)
Payments for fund establishment & administration costs	-	-	-	-	(779)	(779)
<b>Net cash (used in)/from financing activities</b>	<b>1,766</b>	<b>(34,372)</b>	<b>(32,608)</b>	<b>8,088</b>	<b>43,770</b>	<b>51,857</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>51,689</b>	<b>92</b>	<b>51,781</b>	<b>(8,761)</b>	<b>5,068</b>	<b>(3,693)</b>
Cash and cash equivalents at the beginning of the period	29,253	20,711	49,964	35,526	14,210	49,736
Effects of exchange rate changes on cash and cash equivalents	2,031	681	2,712	2,488	1,433	3,921
<b>Cash and cash equivalents at the end of the period</b>	<b>82,973</b>	<b>21,484</b>	<b>104,457</b>	<b>29,253</b>	<b>20,711</b>	<b>49,964</b>

Note 27 Earnings per share

	Consolidated	
	2023 \$'000	Restated 2022 \$'000
Profit after income tax	31,485	34,610
Profit after income tax attributable to the owners of Litigation Capital Management Limited	31,485	34,610
Weighted average number of ordinary shares used in calculating basic earnings per share	Number 106,613,927	Number 106,015,738
Adjustments for calculation of diluted earnings per share:		
Amounts uncalled on partly paid shares and calls in arrears	1,252,018	1,229,103
Options over ordinary shares	3,257,392	2,140,866
Weighted average number of ordinary shares used in calculating diluted earnings per share	111,123,337	109,385,707
	Cents	Cents
Basic earnings per share	29.53	32.65
Diluted earnings per share	28.33	31.64

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

## Note 28 Share-based payments

The share-based payment expense for the year was \$867,000 (2022: \$256,000).

### Loan Funded Share Plans ('LSP')

As detailed in note 16, the Group has an equity scheme pursuant to which certain employees may access a LSP. The shares under LSP are issued at the exercise price by granting a limited recourse loan. The LSP shares are restricted until the loan is repaid. Options under this scheme can be granted without an underlying LSP share until they have been exercised and on this basis, do not form part of the Group's issued share capital. The underlying options have been accounted for as a share-based payments. The options are issued over a 1-3 year vesting period. Vesting conditions include satisfaction of customary continuous employment with the Group and may include a share price hurdle.

During the year the Group granted nil (2022: 1,912,489) shares under the LSP.

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

#### 2023

Grant date	Expiry date	Exercise Price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
4/12/2017	4/12/2027	\$0.60	2,000,000				2,000,000
31/08/2018	31/08/2028	\$0.77	411,972				411,972
19/11/2018	25/11/2028	\$0.47	1,595,058				1,595,058
3/12/2018	3/12/2028	\$0.89	100,000				100,000
1/11/2019	1/11/2029	£0.7394	1,432,753				1,432,753
1/11/2019	1/11/2029	£0.7730	66,137			(66,137)	0
13/10/2020	13/10/2030	£0.6655	616,520				616,520
27/10/2021	27/10/2031	£1.06	1,512,638				1,512,638
27/10/2021	27/10/2031	£1.06	269,044			(170,007)	99,037 <sup>1</sup>
27/10/2021	27/10/2031	£1.14	130,807			(8,377)	122,430 <sup>1</sup>
			8,134,929	-	-	(244,521)	7,890,408
Weighted average exercise price			\$1.059	\$0.000	\$0.000	\$1.386	\$1.049

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

#### 2022

Grant date	Expiry date	Exercise Price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
4/12/2017	4/12/2027	\$0.60	2,000,000				2,000,000
31/08/2018	31/08/2028	\$0.77	411,972				411,972
19/11/2018	25/11/2028	\$0.47	1,595,058				1,595,058
3/12/2018	3/12/2028	\$0.89	100,000				100,000
6/03/2019	6/03/2029	£0.5200	4,528,664			(4,528,664)	- <sup>1</sup>
1/11/2019	1/11/2029	£0.7394	1,432,753				1,432,753
1/11/2019	1/11/2029	£0.7730	66,137				66,137 <sup>2</sup>
4/11/2019	4/11/2029	£0.7394	388,800			(388,800)	- <sup>1</sup>
13/10/2020	13/10/2030	£0.6655	616,520				616,520
27/10/2021	27/10/2031	£1.06	-	1,512,638			1,512,638
27/10/2021	27/10/2031	£1.06	-	269,044			269,044 <sup>2</sup>
27/10/2021	27/10/2031	£1.14	-	130,807			130,807 <sup>2</sup>
			11,139,904	1,912,489	-	(4,917,464)	8,134,929
Weighted average exercise price			\$0.885	\$1.953	\$0.000	\$0.985	\$1.091

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

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

The awards remain held by the Group in the LCM Employee Benefit Trust.

<sup>2</sup> Options granted without an underlying LSP share until exercised ie, do not form part of the Group's issued share capital

There were 6,869,211 options vested and exercisable as at 30 June 2023 (2022: 6,318,671).

The weighted average remaining contractual life of options under LSP outstanding at the end of the financial year was 1.01 years (2022: 0.92 years).

### Deferred Bonus Share Plan ('DBSP')

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

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

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

**Note 28 Share-based payments (continued)**

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

2023

Grant date	Expiry date	Exercise Price	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the period
7/10/2022	7/10/2032	\$1.1816	-	1,132,692	-	-	1,132,692
			-	1,132,692	-	-	1,132,692
Weighted average exercise price			\$0.000	\$1.182	\$0.000	\$0.000	\$1.182

There were nil DBSP's vested and exercisable as at 30 June 2023.

The weighted average remaining contractual life of options under DBSP outstanding at the end of the financial year was 1.265 years.

**Executive Long Term Incentive Plan ('LTIP')**

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

- (1) 50% vesting on reaching a minimum of FuM of US\$750m; and
- (2) 100% vesting on reaching FuM of US\$1bn.

The vesting date of options granted is the later of:

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

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

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

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

2023

Grant date	Expiry date	Exercise Price	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the period
7/10/2022	7/10/2032	\$1.1816	-	5,671,516	-	-	5,671,516
			-	5,671,516	-	-	5,671,516
Weighted average exercise price			\$0.000	\$1.182	\$0.000	\$0.000	\$1.182

There were nil LTIP's vested and exercisable as at 30 June 2023.

The weighted average remaining contractual life of options under DBSP outstanding at the end of the financial year was 4.266 years.

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

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
4/10/2022	4/10/2032	£0.73	£0.00	35.00%	0.00%	3.19%	\$1.287
4/10/2022	4/10/2032	£0.73	£0.00	35.00%	0.00%	3.21%	\$1.287

<sup>1</sup>AUD amount. GBP equivalent £0.726

The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

**Note 29 Financial liabilities related to third-party interests in consolidated entities**

	Consolidated		
	2023 \$'000	Restated 2022 \$'000	Restated As at 1 July 2021 \$'000
Balance 1 July	(142,180)	(62,870)	(43,725)
Proceeds - capital contributions from Limited Partners	(74,980)	(45,465)	
Payments - distributions to Limited Partners	94,373	406	
Other non-cash items	(9,250)	2,421	
Movement on financial liabilities related to third-party interests in consolidated entities (note 5)	(111,953)	(36,672)	(19,145)
Balance as at 30 June	(243,990)	(142,180)	(62,870)

**Note 30 Events after the reporting period**

On 4 September 2023, LCM announced the resolution of a class action investment that forms part of LCM's managed Global Alternative Returns Fund ("Fund I") and was funded directly from LCM's balance sheet (25%) and Fund I Investors (75%). As announced previously on 15 May 2023, the class action was brought in the Federal Court of Australia against the Commonwealth of Australia on behalf of persons who are alleged to have suffered loss and damage as the result of the contamination of their land at seven sites around Australia in proximity to Department of Defence military bases.

The Commonwealth has agreed to pay the sum of AUD\$132.7m in order to resolve the class action. A confidential deed of settlement was executed and has now been approved by the court, allowing the disbursement of funds, subject to the unlikely event of appeal.

LCM expects to receive income of approximately A\$10.6m. That amount includes capital invested of approximately A\$3.4m together with an expected net gain of approximately A\$7.2m. The Company's final income and gain figures are subject to change pending final distribution of settlement monies.



Litigation Capital Management Limited  
30 June 2023  
DIRECTORS DECLARATION

In the directors' opinion:

the attached financial statements and notes comply with the *Corporations Act 2001*, Australian Accounting Standards and other mandatory professional reporting requirements;

the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;

the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2023 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



---

Director

Dated this 19 day of September 2023

## 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 2023, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

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

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2023 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

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

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

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

#### Key audit matters

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

## Restatement of comparative

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
<p>As disclosed in Note 3 of the financial report for the year ended 30 June 2023, during the year the Group restated comparative information in relation to the classification and subsequent accounting for litigation funding agreements and third party interests in consolidated entities.</p> <p>This represents a key audit matter as it related to a significant re-presentation of previous financial reports.</p>	<p>Our procedures included, but were not limited to the following;</p> <ul style="list-style-type: none"> <li>• Obtaining and evaluating management’s assessment of the classification and subsequent accounting for litigation funding agreements</li> <li>• Obtaining independent evidence to corroborate management’s assessment to confirm the significant reduction in the concept of a bundle of services</li> <li>• Extending our sample for the testing of litigation funding agreements to those impacted by the restatement</li> <li>• Evaluating the adequacy of disclosures in relation to the restatement</li> </ul>

## Fair value measurement

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
<p>As disclosed in Note 10, 19, 26 and 29 of the financial report for the year ended 30 June 2023, the Group holds litigation funding assets and financial liabilities related to third party interest in consolidated entities at fair value.</p> <p>This represents a key audit matter as it relates to a significant proportion of the Group’s assets and liabilities and involves estimation of the Group’s risk adjusted future cash flows.</p>	<p>Our procedures included, but were not limited to the following;</p> <ul style="list-style-type: none"> <li>• Obtaining and evaluating the valuation model including reperformance of the calculations</li> <li>• Analysing and challenging the key assumptions applied within the valuation model for a sample of litigation funding assets</li> <li>• Analysed and evaluated the fair value allocated to the financial liabilities related to third party interests in consolidated entities</li> <li>• Evaluating the adequacy of disclosures in relation to fair value</li> </ul>

## Other information

The directors are responsible for the other information. The other information comprises the information contained in director’s report for the year ended 30 June 2023, 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 Strategic report and Governance 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 Strategic report and Governance report 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/ar3.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf)

This description forms part of our auditor's report.

BDO Audit Pty Ltd

Andrew Tickle  
Director

Adelaide, 19 September 2023