

**DECLARATION OF INDEPENDENCE
BY G K EDWARDS
TO THE DIRECTORS OF LITIGATION CAPITAL MANAGEMENT LIMITED**

As lead auditor of Litigation Capital Management Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

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

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



G K Edwards
Director

BDO Audit (SA) Pty Ltd

Adelaide, 19 October 2016

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LITIGATION CAPITAL MANAGEMENT LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Litigation Capital Management Limited, which comprises the consolidated statement of financial position as at 30 June 2016, 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, notes comprising a summary of significant accounting policies and other explanatory information, and the directors declaration of the consolidated entity comprising the entity and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility 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 Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Litigation Capital Management Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the 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 consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

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

BDO Audit (SA) Pty Ltd

A handwritten signature in blue ink that reads 'G K Edwards'.

G K Edwards
Director

Adelaide, 19 October 2016

LITIGATION CAPITAL MANAGEMENT LIMITED
ACN 608 667 509

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016

	Note	Consolidated	
		June 2016	June 2015
		\$	\$
Revenue	5	552,566	487,480
Other Income	6	12,259	30,178
Total Income		564,825	517,658
Expenses			
Corporate and Office Expenses		924,143	665,404
Legal & Professional Fees		1,613,927	692,294
Employment Expenses	7	1,230,051	1,435,754
Finance Costs	7	101,859	922
Depreciation		4,898	11,407
Net (gain)/loss on derecognition of intangible asset			
Litigation contracts in progress - settlements and judgements		(840,137)	(1,352,878)
Litigation contracts in progress - expenses		620,098	746,457
Litigation contracts in progress - written down		111,990	1,113,003
Net loss on derecognition of intangible asset		(108,049)	506,582
Profit/(Loss) Before Income Tax			
Income tax expense	8	(988,588)	(907,285)
Net Profit/(Loss) For the Year		(2,213,416)	(1,887,420)
Other comprehensive income			
		-	-
Total comprehensive income for the year		(2,213,416)	(1,887,420)
Loss for the year and total comprehensive income attributable to:			
Owners of the company		(2,245,846)	(2,136,850)
Non-controlling interest	24	32,430	249,430
		(2,213,416)	(1,887,420)

The Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with notes to the financial statement

LITIGATION CAPITAL MANAGEMENT LIMITED
ACN 608 667 509

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 30 JUNE 2016

	Note	Consolidated	
		June 2016 \$	June 2015 \$
<u>CURRENT ASSETS</u>			
Cash and cash equivalents	9	5,918,862	3,338,364
Trade and other receivables	10	672,645	1,622,055
Related party loans	11	-	122,228
Intangible assets - litigation contracts	13	3,573,866	423,690
TOTAL CURRENT ASSETS		10,165,373	5,506,337
<u>NON-CURRENT ASSETS</u>			
Property, plant and equipment	12	13,083	6,066
Intangible assets - litigation contracts	13	2,920,377	2,151,549
Deferred tax asset	14	5,125,323	2,961,033
TOTAL NON-CURRENT ASSETS		8,058,783	5,118,648
TOTAL ASSETS		18,224,156	10,624,985
<u>CURRENT LIABILITIES</u>			
Trade and other payables	15	3,075,866	2,244,911
Employee Benefits	17	85,188	43,161
Borrowings	18	7,504,916	-
Provisions	19	-	181,298
TOTAL CURRENT LIABILITIES		10,665,970	2,469,370
<u>NON CURRENT LIABILITIES</u>			
Deferred tax liability	14	1,948,273	772,572
TOTAL NON CURRENT LIABILITIES		1,948,273	772,572
TOTAL LIABILITIES		12,614,243	3,241,942
NET ASSETS		5,609,913	7,383,043
<u>SHAREHOLDERS' EQUITY</u>			
Issued Capital	20	11,546,618	11,005,621
Share Based Payment Reserve		95,703	95,703
Retained Earnings		(6,072,408)	(3,826,562)
Parent interest		5,569,913	7,274,762
Non-controlling interest		40,000	108,281
		5,609,913	7,383,043

The Statement of Financial Position should be read in conjunction with notes to the financial statement

LITIGATION CAPITAL MANAGEMENT LIMITED
ACN 608 667 509

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016

	Issued capital	Retained profits	Share based payments reserve	Total	Non- controlling interests	Total equity
Consolidated						
Balance at 1 July 2014	2,951,955	(1,689,712)	95,703	1,357,946	163,767	1,521,713
Profit / (Loss) for the year	-	(2,136,850)	-	(2,136,850)	249,430	(1,887,420)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the year	-	(2,136,850)	-	(2,136,850)	249,430	(1,887,420)
Transactions with owners in their capacity as owners:						
Contributions of equity (note 20)	8,373,978	-	-	8,373,978	-	8,373,978
Transaction costs	(320,312)	-	-	(320,312)	-	(320,312)
Return of capital	-	-	-	-	(55,486)	(55,486)
Distributions	-	-	-	-	(249,430)	(249,430)
Dividends paid (note 22)	-	-	-	-	-	-
	8,053,666	-	-	8,053,666	(304,916)	7,748,750
Balance at 30 June 2015	11,005,621	(3,826,562)	95,703	7,274,762	108,281	7,383,043
Profit / (Loss) for the year	-	(2,245,846)	-	(2,245,846)	32,430	(2,213,416)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the year	-	(2,245,846)	-	(2,245,846)	32,430	(2,213,416)
Transactions with owners in their capacity as owners:						
Contributions of equity (note 20)	540,997	-	-	540,997	-	540,997
Return of capital	-	-	-	-	(68,281)	(68,281)
Distributions	-	-	-	-	(32,430)	(32,430)
Dividends paid (note 22)	-	-	-	-	-	-
	540,997	-	-	540,997	(100,711)	440,286
Balance at 30 June 2016	11,546,618	(6,072,408)	95,703	5,474,210	40,000	5,609,913

The Statement of Changes in Equity should be read in conjunction with notes to the financial statement

LITIGATION CAPITAL MANAGEMENT LIMITED
ACN 608 667 509

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016

	Note	Consolidated	
		June 2016	June 2015
		\$	\$
Cash flows from operating activities			
Payments to suppliers and employees		(3,123,938)	(1,507,604)
Receipts from management and performance fees		552,566	487,480
Interest received		12,259	30,178
Interest and other finance costs paid		(101,913)	(922)
Net cash used in operating activities	29	(2,661,026)	(990,868)
Cash flows from investing activities			
Proceeds from settlements		1,612,870	580,194
Payments for litigation funding and capitalised supplier costs		(4,246,108)	(3,337,026)
Payment of security deposits		-	(342,686)
Payment for property, plant and equipment		(11,915)	(7,259)
Net cash used in investing activities		(2,645,153)	(3,106,777)
Cash flows from financing activities			
Proceeds from issue of shares		540,996	8,373,978
Proceeds from borrowings		7,504,916	-
Share issue transaction costs		-	(457,591)
Income and capital distributions paid - non controlling interests		(159,235)	(658,262)
Dividends paid		-	-
Repayment from related party loans		-	(238,247)
Net cash from financing activities		7,886,677	7,019,878
Net increase/(decrease) in cash and cash equivalents		2,580,498	2,922,233
Cash and cash equivalents at the beginning of the financial year		3,338,364	416,131
Cash and cash equivalents at the end of the financial year	9	5,918,862	3,338,364

The Statement of Cash Flow should be read in conjunction with notes to the financial statement

LITIGATION CAPITAL MANAGEMENT LIMITED
ACN 608 667 509

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 30 JUNE 2016

Note 1 Corporate Information

The financial statements of Litigation Capital Management Limited for the year ended 30 June 2016 were authorised for issue in accordance with a resolution of the directors on 6 September 2016 and covers the consolidated entity consisting of Litigation Capital Management Limited and its subsidiaries. Litigation Capital Management Limited is a for-profit entity for the purpose of preparing these financial statements.

Litigation Capital Management Limited was incorporated on 9 October 2015 and is domiciled in Australia. The registered address of Litigation Capital Management Limited is Level 25, Aurora Place, 88 Phillip Street, Sydney, NSW, 2000. The principal activities of the consolidated entity are the investigation, management and funding of litigation.

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

The financial statements are presented in Australian dollars.

Note 2 Significant Accounting Policies

a) Basis of preparation

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board. The financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial statements have also been prepared on a historical cost basis. Non-current assets are measured at the lower of carrying amounts and fair value less costs to sell.

Common Control Transaction

Litigation Capital Management Limited completed the legal acquisition of LCM Litigation Fund Pty Ltd on 16 November 2015. LCM Litigation Fund Pty Ltd was deemed to be the acquirer for accounting purposes under the principles of AASB 3 Business Combinations. Therefore, the transaction has been accounted for as a reverse acquisition under AASB 3. Accordingly, the consolidated financial statements of Litigation Capital Management Limited have been prepared as a continuation of the consolidated financial statements of LCM Litigation Fund Pty Ltd. LCM Litigation Fund Pty Ltd (as the deemed acquirer) has accounted for the acquisition of Litigation Capital Management Limited from 16 November 2015. The comparative information presented in the consolidated financial statements is that of LCM Litigation Fund Pty Ltd. Refer note 32 for additional information.

b) Principles of consolidation

Subsidiaries

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity 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 consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity 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 consolidated entity.

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 consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity 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 consolidated entity 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.

LITIGATION CAPITAL MANAGEMENT LIMITED
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NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 30 JUNE 2016

Note 2 Significant Accounting Policies (cont.)

c) Revenue recognition

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

Interest

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

Performance fees

Performance fees are recognised on the settlement of a litigation project to the extent of the commission agreed upon in the contract for that litigation project.

d) 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.

e) Current and non-current classification

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

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

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

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

f) 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.

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 30 JUNE 2016

Note 2 Significant Accounting Policies (cont.)

g) 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 provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

h) Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a diminishing value basis to write off the net cost of each item of plant and equipment over their expected useful lives as follows:

Plant and equipment	2 to 13 years
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The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

i) Leases

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

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

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

j) Intangible assets

Litigation Contracts in Progress

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

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

Gains or losses arising from derecognition of Litigation Contracts in Progress are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised.

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

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

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

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

Unsuccessful judgement

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

LITIGATION CAPITAL MANAGEMENT LIMITED
ACN 608 667 509

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 30 JUNE 2016

Note 2 Significant Accounting Policies (cont.)

k) Impairment of non-financial assets

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

l) Trade and other payables

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

m) Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

n) 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 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 as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

o) 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.

p) New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2016. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED 30 JUNE 2016

Note 2 Significant Accounting Policies (cont.)

p) New Accounting Standards and Interpretations not yet mandatory or early adopted (cont.)

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 16: Leases

When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: Leases and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The main changes introduced by the new Standard include:

- recognition of a right-to-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);
- depreciation of right-to-use assets in line with AASB 116: Property, Plant and Equipment in profit or loss and unwinding of the liability in principal and interest components;
- variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date;
- by applying a practical expedient, a lessee is permitted to elect not to separate non-lease components and instead account for all components as a lease; and
- additional disclosure requirements.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

Although the directors anticipate that the adoption of AASB 16 will impact the company's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

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

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

The only amendment to Australian Accounting Standards that is mandatory for the first time for the financial year beginning 1 July 2015 is AASB 2015-4 Amendments to Australian Accounting Standards - Financial Reporting Requirements for Australian Groups with a Foreign Parent. In line with the exemption in AASB 10 Consolidated Financial Statements for Australian intermediate parent entities to be able to use the consolidation exemption if the ultimate Australian parent entity prepares consolidated financial statements that comply with IFRS, this amendment, which is merely an Australian 'housekeeping' matter, similarly requires that the ultimate Australian parent entity will need to apply the equity method in order to obtain the exemption for intermediate parent entity equity accounting at a lower level in the group. There is no impact on amounts recognised in the current period or any prior period financial statements because Litigation Capital Management Limited does not have a foreign parent.

r) 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 consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

s) Parent entity information

These financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 27.

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FOR THE YEAR ENDED 30 JUNE 2016

Note 2 Significant Accounting Policies (cont.)

t) Borrowings

All loans and borrowings are initially recognised at fair value, including transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the loans and borrowings using the effective interest method. Fees paid for establishing loan facilities are recognised as transaction costs if it is probable that some or all of the facility will be drawn down, and deferred until the draw down occurs. If it is not probable that the facility will be drawn down, fees are capitalised as prepayments for liquidity services and amortised over the period to which the facility relates.

Borrowings are derecognised from the statement of financial position when the obligation specified in the contract has been discharged, cancelled or expires. The difference between the carrying amount of the borrowing derecognised and the consideration paid is recognised in profit or loss as other income or finance costs.

All borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

u) Borrowing Costs

Borrowing costs incurred for the construction of a qualifying asset are capitalised during the period of time that it is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed when incurred.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate on the Group's borrowings outstanding during the year, being 24% (2015: 0%).

v) Foreign Currency Transactions and Balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is directly recognised in other comprehensive income; otherwise the exchange difference is recognised in profit or loss.

Note 3 Critical accounting judgements, estimates and assumptions

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

i) Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions. This process includes an assessment of each litigation project as to whether it is likely to be successful, the cost and timing of completion and the ability of the defendant to pay upon completion.

ii) Income tax

The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

iii) Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future income, operating costs and capital expenditure.

iv) Impairment of intangibles with indefinite useful lives

The consolidated entity determines whether intangible assets with indefinite useful lives are impaired at least on an annual basis. The assumptions used in the estimation of the recoverable amount and the carrying amount of intangibles with indefinite useful lives are discussed in note 13.

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Note 4 Segment information

The consolidated entity is organised into one operating segment which provides only one service, being litigation funding. Accordingly, all operating disclosures are based upon analysis of the Group as one segment. The consolidated entity operates in one geographical location, being Australia.

		Consolidated	
		June 2016	June 2015
		\$	\$
Note 5	Revenue		
	Revenue		
	Management Fees	42,000	42,000
	Performance Fees	510,547	445,480
	Distribution Income	19	-
		<u>552,566</u>	<u>487,480</u>
Note 6	Other Income/Expenses		
	Other Income		
	Sundry Income	-	-
	Interest Received	12,259	30,178
	Total other income	<u>12,259</u>	<u>30,178</u>
	Net gain/(loss) on derecognition of intangible asset	108,049	(506,582)
	Net foreign currency translation gain/(loss)	3,922	-
Note 7	Expenses		
	<i>Finance costs</i>		
	Interest Expense	101,859	922
	<i>Rental expense relating to operating leases</i>		
	Minimum lease payments	325,840	274,786
	<i>Employment Expenses</i>		
	Employee Benefits Expense	1,082,049	1,423,531
	Superannuation	85,007	79,981
	Provision for employee entitlements	42,027	(125,554)
	Payroll tax	20,968	57,796
		<u>1,230,051</u>	<u>1,435,754</u>
Note 8	Income tax expense		
	<i>The components of tax expense comprise:</i>		
	Current tax expense	-	-
	Deferred Tax expense	988,588	907,285
		<u>988,588</u>	<u>907,285</u>
	The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense/(benefit) in the financial statements as follows:		
	Profit/(loss) for the year	(3,202,004)	(2,794,705)
	Tax at the Australian tax rate of 30% (2015: 30%)	<u>(960,601)</u>	<u>(838,412)</u>
	Non-deductible expenses:		
	- entertainment	-	5,086
	- fines and penalties	187	22
	- other non-deductible expenses	(3,852)	(67)
	Non-assessable distributions to non-controlling interests	<u>(24,322)</u>	<u>(73,914)</u>
	Income tax expense	<u>(988,588)</u>	<u>(907,285)</u>
	<i>Amounts charged/(credited) directly to equity</i>		
	Deferred tax assets (note 14)	-	137,279

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	Consolidated	
	June 2016	June 2015
Note 9 Cash and cash equivalents	\$	\$
Cash at Bank	5,918,862	3,338,364
	<u>5,918,862</u>	<u>3,338,364</u>
Note 10 Trade and other receivables		
Trade receivables	-	772,733
Less: Provision for impairment of receivables	-	-
Other receivables	644,035	263,040
Security Deposit	28,610	586,282
Interest receivable	-	-
	<u>672,645</u>	<u>1,622,055</u>
Note 11 Related Party Loans		
Related Party Loans	-	122,228
	<u>-</u>	<u>122,228</u>
Note 12 Non-current assets - property, plant and equipment		
Plant and Equipment	100,793	88,879
Less: Accumulated depreciation	(87,710)	(82,813)
	<u>13,083</u>	<u>6,066</u>
Total plant and equipment	<u>13,083</u>	<u>6,066</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Furniture & Fittings	Total
	\$	\$
Balance at 1 July 2014	10,214	10,214
Additions	7,259	7,259
Disposals	-	-
Revaluation increments	-	-
Depreciation expense	(11,407)	11,407
Balance at 30 June 2015	<u>6,066</u>	<u>6,066</u>
Additions	11,915	11,915
Disposals	-	-
Depreciation expense	(4,898)	(4,898)
Balance at 30 June 2016	<u>13,083</u>	<u>13,083</u>

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FOR THE YEAR ENDED 30 JUNE 2016

Note 13 Intangible assets

	Consolidated \$
<i>(a) Reconciliation of carrying amounts at the beginning and end of the period</i>	
Year ended 30 June 2015	
Balance at 1 July 2014	916,374
Additions	3,518,325
Litigation contracts in progress - expenses	(746,457)
Litigation contracts in progress - written down	(1,113,003)
Balance at 30 June 2015	<u>2,575,239</u>
Balance at 1 July 2015	2,575,239
Additions	4,651,092
Litigation contracts in progress - expenses	(620,098)
Litigation contracts in progress - written down	(111,990)
Balance at 30 June 2016	<u>6,494,243</u>
	<u>Consolidated</u>
	June June
	2016 2015
	\$ \$
Current	3,573,866 423,690
Non Current	2,920,377 2,151,549
	<u>6,494,243 2,575,239</u>

(b) Description of Group's intangible assets

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

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

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

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

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

No impairment has been identified as a result of impairment testing performed.

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Note 14 Non-current assets - deferred tax

	Consolidated	
	June 2016	June 2015
<i>Deferred tax asset comprises temporary differences attributable to:</i>	\$	\$
Amounts recognised in profit or loss:		
Property, plant and equipment	895	1,275
Employee benefits	25,556	12,948
Other Provisions	-	54,390
Accrued expenses	34,586	6,860
Tax losses carried forward	4,955,511	2,736,232
	<u>5,016,548</u>	<u>2,811,705</u>
Amounts recognised in equity:		
Transaction costs on share issue	108,775	149,328
	<u>5,125,323</u>	<u>2,961,033</u>

	Opening Balance 1 July 2015	(Charged)/ credited to profit or loss	(Charged)/ credited to equity	Closing Balance 30 June 2016
	\$	\$	\$	\$
Movements in deferred tax assets - 2016				
<i>Amounts recognised in profit or loss</i>				
Property, plant and equipment	1,275	(380)	-	895
Employee benefits	12,948	12,608	-	25,556
Other Provisions	54,390	(54,390)	-	-
Accrued expenses	6,860	27,726	-	34,586
Tax losses carried forward	2,736,232	2,219,279	-	4,955,511
<i>Amounts recognised in equity</i>				
Transaction costs on share issue	149,328	-	(40,553)	108,775
Closing balance	<u>2,961,033</u>	<u>2,204,843</u>	<u>(40,553)</u>	<u>5,125,323</u>

	Opening Balance 1 July 2014	(Charged)/ credited to profit or loss	(Charged)/ credited to equity	Closing Balance 30 June 2015
	\$	\$	\$	\$
Movements in deferred tax assets - 2015				
<i>Amounts recognised in profit or loss</i>				
Property, plant and equipment	-	1,275	-	1,275
Employee benefits	50,614	(37,666)	-	12,948
Other Provisions	-	54,390	-	54,390
Accrued expenses	2,400	4,460	-	6,860
Tax losses carried forward	1,295,536	1,440,696	-	2,736,232
<i>Amounts recognised in equity</i>				
Transaction costs on share issue	47,294	-	102,034	149,328
Closing balance	<u>1,395,844</u>	<u>1,463,155</u>	<u>102,034</u>	<u>2,961,033</u>

Recognition of deferred tax assets

The consolidated entity has recognised a deferred tax asset relating to carried forward tax losses as the consolidated entity's ability to utilise tax losses is considered probable based on the forecasting of future projects from reporting date to June 2018.

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Note 14 Non-current assets - deferred tax (cont.)

	Consolidated	
	June 2016	June 2015
<i>Deferred tax liability comprises temporary differences attributable to:</i>	\$	\$
Amounts recognised in profit or loss:		
Intangibles	1,948,273	772,572
Other	-	-
	<u>1,948,273</u>	<u>772,572</u>

	Opening Balance 1 July 2015	(Charged)/ credited to profit or loss	(Charged)/ credited to equity	Closing Balance 30 June 2016
Movements in deferred tax liabilities - 2016	\$	\$	\$	\$
<i>Amounts recognised in profit or loss</i>				
Intangibles	772,572	1,175,701	-	1,948,273
Other	-	-	-	-
Closing balance	<u>772,572</u>	<u>1,175,701</u>	<u>-</u>	<u>1,948,273</u>

	Opening Balance 1 July 2014	(Charged)/ credited to profit or loss	(Charged)/ credited to equity	Closing Balance 30 June 2015
Movements in deferred tax liabilities - 2015	\$	\$	\$	\$
<i>Amounts recognised in profit or loss</i>				
Intangibles	250,388	522,184	-	772,572
Other	1,558	(1,558)	-	-
Closing balance	<u>251,946</u>	<u>520,626</u>	<u>-</u>	<u>772,572</u>

	Consolidated	
	June 2016	June 2015
Note 15 Current liabilities - trade and other payables	\$	\$
Trade payables	2,849,163	1,902,215
Distribution Payable	32,430	90,954
Other payables	194,273	251,742
	<u>3,075,866</u>	<u>2,244,911</u>

Note 16 Current liabilities - income tax	-	-
Provision for income tax	-	-

Note 17 Current liabilities - Employee benefits		
Employee Benefits - Annual Leave	85,188	43,161
Employee benefits - Long Service Leave	-	-
	<u>85,188</u>	<u>43,161</u>

Amounts not expected to be settled within the next 12 months

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

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Note 18 Current liabilities - Borrowings

Secured current borrowings	7,504,916	-
	<u>7,504,916</u>	<u>-</u>

Secured current borrowings

Current borrowings relates to a facility provided by Hattie Investments Limited in June 2016 and comprises one (1) instalment due on 15 June 2017, with an implicit interest rate of 24%. A fixed and floating charge over all assets and undertakings has been provided as security.

Note 19 Provisions

Provision for onerous contracts	-	181,298
	<u>-</u>	<u>181,298</u>

Onerous Contract

The consolidated entity is liable for unavoidable costs associated with a litigation project funded by the consolidated entity for which no recovery is expected. All expected future unavoidable costs associated with this project have been provisioned and the associated intangible asset has been written-down to nil in the period.

	Opening Balance 1 July 2015	Movement in provision	Closing Balance 30 June 2015
	\$	\$	\$
Movements in Provisions - 2016			
Provision for onerous contracts	181,298	(181,298)	-

	Consolidated			
	June 2016	June 2015	June 2016	June 2015
	Shares	Shares	\$	\$
Note 20 Equity - issued capital				
Ordinary shares - fully paid	32,104,675	-	11,546,618	-
Ordinary shares - partly paid	2,866,050	-	-	-

	Date	No of shares	Issue price	\$
Movements in fully paid ordinary share capital				
Opening balance at 1 July 2014		2,119,121	n/a	2,951,955
Issue of shares	Jul-14	1,560,000	\$2.50	3,900,000
Issue of shares	Jun-15	1,491,326	\$3.00	4,473,978
Share issue transaction costs, net of tax				(320,312)
Balance at 30 June 2015		<u>5,170,447</u>		<u>11,005,621</u>
Issue of shares	Jul-15	180,332	\$3.00	540,996
Elimination of shares on reverse acquisition by Litigation Capital Management Limited	Nov-15	(5,350,779)		-
Existing shares of Litigation Capital Management Limited*	Nov-15	32,104,675		1
Balance at 30 June 2016		<u>32,104,675</u>		<u>11,546,618</u>

	Date	No of shares	Issue price	\$
Movements in partly paid ordinary share capital				
Opening balance at 1 July 2015		477,675	n/a	-
Elimination of shares on reverse acquisition by Litigation Capital Management Limited		(477,675)		-
Existing shares of Litigation Capital Management Limited*		2,866,050		-
Balance at 30 June 2016		<u>2,866,050</u>		<u>-</u>

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.

Capital risk management

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

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

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

The capital risk management policy has not changed during the year.

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		Consolidated	
		June 2016	June 2015
		\$	\$
Note 21	Equity - Controlling Interest		
	Issued capital	11,546,618	11,005,621
	Retained Earnings	(6,072,408)	(3,826,562)
		5,474,210	7,179,059

Note 22 Equity - dividends

Dividends

No dividends were paid during the financial year.

Franking credits

Franking credits available for subsequent financial years based on a tax rate of 30%

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

Note 23 Reserves

Share based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued to employees under the Employee Share Option Scheme. This reserve can be reclassified as retained earnings if options lapse and subsequently be declared as a dividend.

Note 24 Subsidiaries and Transactions With Non-Controlling Interests

Interests in Subsidiaries

Information relating to the group's interests in subsidiaries at 30 June 2016 is set out below. All entities are incorporated in and operate within Australia. The ownership of each subsidiary is equal to the voting rights of each entity.

Name of Entity	Ownership Interest		Ownership Interest held by non-controlling interests	
	2016	2015	2016	2015
	%	%	%	%
LCM Litigation Fund Pty Ltd	100%	100%	-	-
ALF No.4 Pty Ltd	100%	100%	-	-
LCM No 11 Pty Ltd	n/a ¹	100%	-	-
ALF No 9 Pty Ltd	100%	100%	-	-
LCM No 13 Pty Ltd	n/a ¹	100%	-	-
LCM Litigation Management Pty Ltd	100%	100%	-	-
LCM Litigation Investment Fund No 1 Pty Ltd	100%	100%	-	-
LCM Unit Trust	60%	60%	40%	40%
LCM Litigation Investment Fund No.1 Trust	n/a ³	n/a ³	n/a ³	n/a ³
Basis Partnership	30% ²	30% ²	70%	70%

¹ entity was deregistered during the year.

² the consolidated entity is deemed to control Basis Partnership as it directs activities of the entity as part of it's role as Partnership Manager and the non-controlling interests do not have sufficient voting rights to remove the Partnership Manager without the consolidated entities vote.

³ entity was deregistered during the previous year.

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Note 24 Subsidiaries and Transactions With Non-Controlling Interests (continued)

Non-controlling interests (NCI)

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

	LCM Unit Trust		Basis Partnership		LCM Litigation Investment Fund No.1 Trust	
	2016 \$	2015 \$	2016 \$	2015 \$	2016 \$	2015 \$
Summarised statement of financial position						
Current assets	248,451	181,307	-	77,928	-	3,047
Non-current assets	-	-	-	-	-	-
Total assets	248,451	181,307	-	77,928	-	3,047
Current liabilities	148,451	81,306	-	9,648	-	-
Non-current liabilities	-	-	-	-	-	-
Total liabilities	148,451	81,306	-	9,648	-	-
Net assets	100,000	100,001	-	68,280	-	3,047
Summarised statement of profit or loss and other comprehensive income						
Revenue	154,108	203,266	-	-	-	-
Other income	-	-	-	238,699	-	8,779
Expenses	73,034	-	-	2,000	-	23,174
Profit before income tax expense	81,074	203,266	-	236,699	-	(23,174)
Income tax expense	-	-	-	-	-	-
Profit after income tax expense	81,074	203,266	-	236,699	-	(23,174)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	81,074	203,266	-	236,699	-	(23,174)
Statement of cash flows						
Net cash from operating activities	(5,658)	-	-	(83)	-	(1,035)
Net cash used in investing activities	357,374	-	-	164,024	-	146,635
Net cash used in financing activities	(103,266)	-	(111,328)	(64,861)	-	(146,261)
Net increase/(decrease) in cash and cash equivalents	248,450	-	(111,328)	99,080	-	(661)
Other financial information						
Profit attributable to non-controlling interests	32,430	81,306	-	166,604	-	(7,198)
Accumulated non-controlling interests at year end	40,000	40,000	-	68,281	-	1,524
Distributions paid to non-controlling interests	81,278	81,306	77,929	166,604	-	-

Transactions with non-controlling interests

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

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Note 25 Remuneration of auditors

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

	June 2016	June 2015
	\$	\$
Audit Services		
Amounts paid/payable for audit and review of financial statements for the entity or any entity in the Group	52,427	30,200
Taxation Services		
Amounts paid/payable to a related practice of the auditor for tax compliance and advisory services	9,978	9,174
Other Services		
Amounts paid/payable to a related practice of the auditor for corporate finance services	161,819	-

Note 26 Related party transactions

Parent entity

Litigation Capital Management Limited is the parent entity of the Group. Litigation Capital Management Limited was incorporated on 9 October 2015 and is domiciled in Australia. The registered address of Litigation Capital Management Limited is Level 25, Aurora Place, 88 Phillip Street, Sydney, NSW, 2000.

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

Subsidiaries

Interests in subsidiaries are disclosed in note 23.

Key Management Personnel Compensation

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

	June 2016	June 2015
	\$	\$
Short-term employee benefits	450,000	854,167
Post-employment benefits	25,000	41,667
Long-term benefits	-	20,794
Termination benefits	-	-
	<u>475,000</u>	<u>916,628</u>

Transactions with related parties

The following transactions occurred with related parties:

Patrick Moloney is a director and shareholder of 101 Capital Pty Ltd. 101 Capital Pty Ltd is the Trustee of LCM Litigation Investment Fund and engages LCM Litigation Management Pty Ltd to manage this entity on its behalf. During the year, LCM Litigation Management Pty Ltd has earned a management fee of \$42,000 (2015: 42,000) and performance fee of \$356,537 (2015: \$242,214). An amount of \$0 (2015: \$122,228) was owing from LCM Litigation Investment Fund at year end.

Patrick Moloney is a shareholder of Litigation Insurance Pty. Ltd which carries out insurance broking services. This entity arranges After The Event insurance policies for either the consolidated entity or Litigants to whom the consolidated entity is providing funding to. Litigation Insurance Pty Ltd is not paid a fee or commission from the consolidated entity for these insurance broking services however brokerage fees are paid by the insurer.

Steven McLean is a shareholder and director of 145 Fleet Pty Ltd, which carries out financial advisory services. During the year, 145 Fleet has consulted to LCM and earned fees of \$119,000 (2015: \$0). An amount of \$11,000 was owing to 145 Fleet at year end.

During the year, the following related parties loaned funds to LCM Litigation Fund Pty Ltd which were repaid with interest during the year.

	Start Date	Amount	Interest	Total	Repayment Date
Douglas Battersby	19/04/2016	150,000	6,295	156,295	22/06/2016
Steven McLean	21/04/2016	140,000	5,692	145,692	22/06/2016
David King	27/04/2016	50,000	1,770	51,770	20/06/2016
Patrick Moloney	03/05/2016	40,639	1,332	41,972	22/06/2016
Patrick Moloney	12/05/2016	200,000	5,377	205,377	24/06/2016
		<u>580,639</u>	<u>20,467</u>	<u>601,106</u>	

Transactions with non-controlling interests

Director Patrick Moloney has a non-controlling interest in LCM Unit Trust, Basis Partnership and LCM Litigation Investment Fund No.1 Trust.

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Note 27 Parent entity information

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

	June 2016 \$	June 2015 \$
Statement of profit or loss and other comprehensive income		
Profit/(loss) after income tax	(2,550,153)	(2,115,500)
Total comprehensive income	<u>(2,550,153)</u>	<u>(2,115,500)</u>
Statement of financial position		
Total current assets	<u>10,087,927</u>	<u>5,492,404</u>
Total assets	<u>18,084,352</u>	<u>10,671,053</u>
Total current liabilities	<u>10,566,164</u>	<u>2,319,410</u>
Total liabilities	<u>12,514,438</u>	<u>3,091,983</u>
Equity		
Issued capital	11,546,617	11,005,621
Share based payments reserve	95,703	95,703
Retained profits	(6,072,406)	(3,522,254)
Total equity	<u>5,569,914</u>	<u>7,579,070</u>

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 2.

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Note 28 Events after the reporting period

Litigation Capital Management Limited is planning to become part of a listed group on the Australian Securities Exchange in 2016. No other matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

	June 2016 \$	June 2015 \$
Note 29 Reconciliation of profit after income tax to net cash from operating activities		
Profit/(loss) after income tax expense for the year	(2,213,416)	(1,887,420)
Adjustments for:		
Net impact of the reclassification of litigation related cash flows to cash flows to/(from) investing activities	(108,049)	506,582
Depreciation and amortisation	4,898	11,407
Change in operating assets and liabilities:		
Decrease in trade and other receivables	(287,375)	(101,722)
(Increase)/decrease in related party loans	-	160,217
Increase/(decrease) in trade and other payables	889,477	1,352,907
Increase/(decrease) in provision for income tax	-	-
Increase/(decrease) in deferred taxes	(988,589)	(907,285)
Increase in employee benefits	42,027	(125,554)
Increase in other provisions	-	-
Net cash from operating activities	<u>(2,661,027)</u>	<u>(990,868)</u>

Note 30 Commitments and Contingencies

Operating lease commitments

Leasing Arrangement

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

Non-cancellable leases

-not later than 12 months	78,130	53,205
-between 12 months and 5 years	-	-
- greater than 5 years	-	-
	<u>78,130</u>	<u>53,205</u>

Note 31 Financial Instruments

Financial risk management and policies

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

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

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

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Note 31 Financial Instruments (continued)

Risk exposures and responses

Interest rate risk

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

	June 2016 \$	June 2015 \$
Financial Instruments		
Cash and cash equivalents	5,918,862	3,338,364
Borrowings	(7,504,916)	-
	<u>(1,586,054)</u>	<u>3,338,364</u>

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date. At 30 June 2016, if interest rates had moved as illustrated in the following table, with all other variables held constant, post tax profit and equity would have been affected as follows:

Potential reasonably possible movements:		
+0.5% (2015: +.5%)	(7,930)	16,692
-0.5% (2015: -.5%)	7,930	(16,692)

Credit Risk

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

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

The Group assesses the defendants in the matters funded by the Group prior to entering into any agreement to provide funding and continues this assessment during the course of funding. Whenever possible the Group ensures that security for settlements sums is provided, or the settlements funds are placed into solicitors' trust accounts.

Currency Risk

The Group is exposed to currency risk on a USD bank account and the credit facility from Hattie Investments Limited.

	2016 \$	2015 \$
Cash and cash equivalents	5,427,548	-
Borrowings	(7,504,916)	-
	<u>(2,077,368)</u>	<u>-</u>

The following sensitivity analysis is based on the currency rate risk exposures in existence at the reporting date. At 30 June 2016, if currency rates had moved as illustrated in the following table, with all other variables held constant, post tax profit and equity would have been affected as follows:

Potential reasonably possible movements:		
+0.5% (2015: +.5%)	(10,387)	-
-0.5% (2015: -.5%)	(10,387)	-

Liquidity Risk

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

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

	< 12 months	Total
2016		
Financial Liabilities		
Trade and other payables	3,075,866	3,075,866
Borrowings	7,504,916	-
	<u>10,580,782</u>	<u>3,075,866</u>
2015		
Financial Liabilities		
Trade and other payables	2,244,911	2,244,911

Fair Value

The net fair value of financial assets and financial liabilities of the entity approximates their carrying value.

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Note 32 Common control transaction

The acquisition of LCM Litigation Pty Ltd (LCM) on 16 November 2015 by Litigation Capital Management Ltd is accounted as a common control transaction rather than a business combination.

During the financial year, an internal restructure took place in preparation of an IPO. A new public company, Litigation Capital Management Limited was incorporated for the purpose of acquiring all of the shares and options in LCM. Prior to the acquisition Litigation Capital Management Limited had net assets comprising cash of \$1, and equity of \$1 comprising one issued ordinary share.

Under this arrangement, Litigation Capital Management Ltd acquired:

- (a) all of the fully paid shares in LCM from each fully paid shareholder, in consideration for the issue of six new fully paid shares in Litigation Capital Management Ltd for every one (1) LCM fully paid share acquired;
- (b) all of the partly paid shares in LCM from each partly paid shareholder, in consideration for the issue of six new partly paid shares for every one (1) partly paid share in LCM; and
- (c) all of the options to acquire fully paid shares in LCM from each Option holder, in consideration for the issue of six new options to acquire fully paid shares in Litigation Capital Management Ltd.

Litigation Capital Management Ltd has determined that this internal restructure represented a common control transaction rather than a business combination. The appropriate accounting treatment for recognising the new group structure is on the basis that the transaction is a form of capital reconstruction and group reorganisation. Therefore, the financial information has been prepared using the principles of a reverse acquisition by Litigation Capital Management Ltd. As a result the financial statements have been prepared as a continuation of the financial statements of the accounting acquirer, LCM. The comparative information presented in the consolidated financial statements is that of LCM.

Litigation Capital Management Ltd did not trade prior to the acquisition. As a result, the revenue from continuing operations and loss for the year ended 30 June 2016 would have been unchanged had the acquisition been effected at 1 July 2015.

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DIRECTORS DECLARATION

In the directors' opinion:

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

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

the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2016 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 4th day of October 2016.

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