

LITIGATION CAPITAL MANAGEMENT LIMITED  
ABN 13 608 667 509

APPENDIX 4E - FINAL REPORT

FOR THE YEAR ENDED 30 JUNE 2018

Results for announcement to the market

Current reporting period: 30 June 2018  
Previous reporting period: 30 June 2017

Revenue and Net Profit

	Up/Down	Percentage Change	\$
Revenue from ordinary activities	Up	3977%	542,682
Other income	Up	654%	16,453,592
Profit from ordinary activities after tax attributable to members	Up	469%	8,637,354
Net profit for the period attributable to members	Up	476%	8,596,163

Revenue from ordinary activities has increased by 3977% to \$542,682. Other income increased by 654% to \$16,453,592. Net profit after tax of \$8.64 million for the year ended 30 June 2018 was 469% higher than the corresponding period.

Dividends

Litigation Capital Management Limited did not declare or pay a dividend in the reporting or comparative period.

Net Tangible Asset Backing

	CONSOLIDATED	
	June 2018	June 2017
	\$	\$
Net tangible assets per ordinary share	0.1861	(0.0027)

Additional Appendix 4E disclosure requirements can be found in the Director's Report, Financial Statements and the Notes to the Financial Statements contained in the Litigation Capital Management Limited Consolidated Financial Statements for the year ended 30 June 2018.

Audit Report

This Appendix 4E (Final Report) is based on the audited financial statements for the year ended 30 June 2018, which are contained within the Litigation Capital Management Limited Annual Report, attached.

**LITIGATION CAPITAL MANAGEMENT  
LIMITED**

**(ABN: 13 608 667 509)**

**FINANCIAL REPORT  
FOR THE FINANCIAL YEAR ENDED  
30 JUNE 2018**

Litigation Capital Management ACN 608 667 509

Directors' Report

30 June 2018

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The Directors of Litigation Capital Management Limited (**LCM**) present their report together with the annual financial report of the consolidated entity consisting of LCM and its subsidiaries (collectively **LCM Group** or **the Group**) for the period ended 30 June 2018 and the auditors' report thereon.

**1. Directors**

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

Dr David King – Chairman  
Mr Patrick Moloney  
Mr Steven McLean

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

<b>Name</b>	David King
<b>Title:</b>	Non-Executive Independent Chairman
<b>Qualifications:</b>	PhD, MSc, FAusIMM, FAICD
<b>Term of office:</b>	Appointed Director and Chairman in October 2015
<b>Experience and expertise</b>	<p>David was a founder and non-executive director of Sapex Ltd, Gas2Grid Ltd and Eastern Star Gas Ltd. He has substantial natural resource related experience, having previously served as managing director of North Flinders Mines Ltd and CEO of Beach Petroleum and Claremont Petroleum.</p> <p>David is a Fellow of the Australian Institute of Company Directors, a Fellow of the Australasian institute of Mining and Metallurgy and a Fellow of the Australian Institute of Geoscientists. David is Non-executive Chairman of Cellmid Ltd and African Petroleum Corporation Ltd, and a non-executive director (formerly Chairman) of Galilee Energy Ltd.</p>
<b>Directorships of listed companies (last 3 years):</b>	<p><u>Current directorships</u></p> <p>Galilee Energy Limited (ASX: GLL) – Non-executive Director since 24 September 2013 (Chairman from 30 October 2013 until 7 March 2018).</p> <p>Cellmid Limited (ASX:CDY) – Non-executive Director and Chairman since 18 January 2008</p> <p><u>Previous directorships</u></p> <p>Robust Resources Limited, Republic Gold Limited and Tengri Resources Limited</p>
<b>Committee membership:</b>	Audit Committee and Remuneration Committee

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Directors' Report

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<b>Name</b>	Patrick Moloney
<b>Title:</b>	Chief Executive Officer
<b>Qualifications:</b>	LLB
<b>Term of office:</b>	Appointed Director in 2003 and Managing Director in December 2013.
<b>Experience and expertise</b>	<p>Patrick has been an executive director of LCM since 1 December 2013. He was a non-executive director from 2003. Patrick was previously the principal of Moloney Lawyers, which he established in 2003 and specialised in commercial litigation and had a diverse client base. Patrick has acted in more than 200 commercial litigation cases for clients in the District Court of NSW, the Supreme Court of NSW, the Federal Court of Australia and the High Court of Australia. Patrick was admitted to practice law in 1996.</p> <p>Prior to establishing his own firm, Patrick was an employed solicitor for 3 years and then a partner in the firm of Eddy Moloney for 4 years. Patrick is also the Chairman of 101 Capital Pty Ltd, the holder of a current Australian Financial Services Licence, which was formerly the Responsible Entity of a registered Managed Investment Scheme which raised significant monies from investors and operated an enhanced equity income strategy</p>
<b>Directorships of listed companies (last 3 years):</b>	Nil
<b>Committee membership:</b>	Nil

<b>Name</b>	Steven McLean
<b>Title:</b>	Non-executive Director
<b>Qualifications:</b>	BEC
<b>Term of office:</b>	Appointed Director in November 2015.
<b>Experience and expertise</b>	<p>Steven has an investment banking background, with over 20 years' experience, commencing with Ernst &amp; Young Corporate Finance before moving to J.P. Morgan both in Australia and Europe. Steven has led equity transactions which have raised in excess of A\$50 billion for corporates across various countries including Australia, USA, UK, Switzerland, Finland, Holland, Austria, France, Russia, Singapore and Bermuda.</p> <p>In addition to his role with LCM, Steven is currently the Head of Corporate Finance at FinEx, Chairman of ASX listed ReNu Energy Ltd</p>

Directors' Report

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	and holds numerous private company board positions. Steven is a graduate of the University of Sydney with a Bachelor of Economics.
<b>Directorships of listed companies (last 3 years):</b>	ReNu Energy Limited (ASX: RNE) – Non-executive Director since 14 March 2017
<b>Committee membership:</b>	Audit Committee and Remuneration Committee

**2. Company Secretaries**

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

Anna Sandham was appointed Company Secretary of LCM on 7 September 2016. Anna is an experienced company secretary and governance professional with over 20 years' experience in various large and small, public and private, listed and unlisted companies. Anna has previously worked for companies including AMP Financial Services, Westpac Banking Corporation, BT Financial Group and NRMA Limited. Anna holds a Bachelor of Economics (University of Sydney), Graduate Diploma of Applied Corporate Governance (Governance Institute of Australia) and is a Chartered Secretary.

**3. Meetings of Directors**

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

	<b>Directors' Meeting</b>	
	Number eligible to attend	Number attended
<b>Directors</b>		
David King	10	10
Patrick Moloney	10	10
Steven McLean	10	10

**4. Meetings of Committees**

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

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

Directors' Report

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

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

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

**5. Principal Activities**

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

**6. Operating and financial review**

Overview of the Group

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

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

### Review of financial performance

The Board of LCM is extremely happy with the performance of the Group and the financial results for FY18 being the first full financial year of trade since listing. The Group has transitioned from a statutory loss in FY17 to a healthy cash profit of \$12 million. After the derecognition of LCM's deferred tax asset in accordance with AASB, the company posted an accounting NPAT of \$8.6 million. LCM's financial performance during FY18 represents a significant turnaround in its financial position. It provided the Group with additional organically generated capital which permitted the growth and expansion of its business. The Return on Invested Capital (**ROIC**) throughout the year was 137% with an Internal Rate of Return (**IRR**) of 80%. During the FY18 year, the Return on Equity (**ROE**) was 41%. The company's financial performance was excellent across all metrics.

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

### Review of LCM's portfolio of Litigation Projects

LCM continues to grow its portfolio of Litigation Projects. During FY18, six Litigation Projects were completed (compared with two projects in FY17) all of which yielded a profit for the group. Of these, five were funded from LCM's own balance sheet and one Litigation Project was funded through the International Funding Partner (**IFP**) arrangement.

As at 30 June 2018, LCM has a portfolio of 14 Litigation Projects (unconditionally funded) with an estimated aggregate gross claim size of approximately \$1.25 billion. Of these, 12 projects are expected to resolve during FY19 (including a Litigation Project funded through the IFP which has already completed leaving only 1 Litigation Project subject to that IFP arrangement). That portfolio compares with the position as at 30 June 2017 where the portfolio of projects comprised 12 with an aggregate gross claim size of approximately \$800 million. That represents an increase in the size of the portfolio (by aggregate claim size) of 56% and an enhanced return profile.

During FY18 the number of applications received by LCM for funding increased significantly. There were 125 applications received compared with 98 for FY17 representing an increase of 27.6%. In addition, LCM expanded its offering of litigation finance into the field of international arbitration. During FY18, 24 applications were received in respect of international arbitral disputes. LCM has entered into its first conditional funding arrangement in an international arbitral dispute and is currently conducting due diligence in respect of a number of other applications. LCM has moved to secure the necessary skillsets internally to properly manage those opportunities.

### Significant Changes in the State of Affairs

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

#### Future Developments, Prospects and Business Strategies

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

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

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

#### Capital Management

During FY18 LCM utilised debt as a capital management tool and has repaid that facility in full. With the significant growth of LCM's pipeline, the Board expects to source funding for a portion of its future opportunities from a range of sources including managed funds, debt and where appropriate, additional equity.

#### **7. Dividends**

No dividends were paid during the financial year.

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

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

#### **9. Likely developments**

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



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

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

LCM is receiving an increasing number of applications for litigation finance and other related funding products from the Northern Hemisphere and more particularly the United Kingdom and Europe. To address those opportunities, LCM has, for some time, retained a Queen's Counsel located in the United Kingdom to assist with respect to considering those opportunities. The services of that Queen's Counsel has also been utilised in the evaluation and due diligence of potential projects in Australia and Asia. With the increase in the number of international applications being received, LCM is considering the use of additional resources in the United Kingdom to assist with respect to evaluating opportunities and conducting due diligence but also originating opportunities. LCM has for some time been very cautious not to enter markets and invest in litigation projects in jurisdictions in which it does not have a core skillset. Such issues are likely to be addressed by building or acquiring a suitably qualified and experienced team within the United Kingdom or Europe. LCM continues to assess those markets and consider opportunities.

## 10. Regulation

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

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

In addition to the Victorian enquiry, the Australian Law Reform Commission (ALRC) is currently investigating and conducting an enquiry into the litigation finance and funding industry insofar as it concerns class or representative actions. That enquiry is yet to be completed and no final recommendations have been made. In a preliminary report for consideration and discussion, various issues have been raised for debate. Those issues include the licensing of litigation financiers or

Directors' Report

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funders, what, if any, restrictions or requirements should be attached to such licensing, whether law firms should be permitted to enter into damages based charging agreements in respect of class actions, whether a review should be undertaken in relation to the Commonwealth laws requiring public companies to continuously disclose to the market and various other less significant matters. LCM has made a submission to the ALRC and this, together with other industry participants, can be accessed at <https://www.alrc.gov.au/inquiries/class-action-funding/submissions>.

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

**11. Directors' interests**

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

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

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

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

**12. Share Options and Rights outstanding**

As at the date of this report there are 3,190,116 options outstanding at an exercise price of \$0.47 per option and an expiry date of 1 December 2018 and 1,500,000 options outstanding at an exercise

## Litigation Capital Management ACN 608 667 509

### Directors' Report

30 June 2018

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price of \$1.00 exercisable between 1 November 2018 and 1 November 2021. Option holders do not have the right to participate in any share issue or interest issue of the Company.

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

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

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

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

Tranche	Vesting conditions
Tranche 1:	<ul style="list-style-type: none"><li>a) Mr Moloney has been continuously employed by the Company from the Grant Date to the date that is 24 months after the Grant Date and has been continuously employed by the Group over that period; and</li><li>b) The VWAP of the Company's shares over any 5 trading day period is at least \$1.00 per share (or such equivalent price if a capital reconstruction occurs in relation to the Company) (<b>Target Price Condition</b>).</li></ul>
Tranche 2:	<ul style="list-style-type: none"><li>a) Mr Moloney has been continuously employed by the Company from the Grant Date to the date that is 36 months after the Grant Date and has been continuously employed by the Group over that period; and</li><li>b) The Target Price Condition has been met.</li></ul>

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

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

### 13. Indemnity and insurance of officers and auditors

#### Indemnification

Under the LCM Constitution, to the maximum extent permitted by the Act, LCM must indemnify each person who is or has been an Officer against any liability incurred as an Officer and may pay a

premium for a contract insuring an Officer against that liability. During the financial period, LCM has paid premiums in respect of contracts insuring the directors and officers of LCM against any liability of this nature.

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

#### Insurance premiums

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

#### **14. Non-audit services**

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

#### **15. Proceedings on behalf of LCM Group**

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

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

#### **16. Lead Auditor's independence declaration**

The Auditor's independence declaration as required under section 307C of the Act is included on page 28 of the Annual Report.

#### **17. Auditor**

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

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

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

#### **19. Remuneration Report**

The Remuneration Report which forms part of this Directors' Report is presented separately on pages 14 - 26.

**20. Rounding of amounts**

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

## Remuneration report (Audited)

The Directors present this Remuneration Report (**Report**) for Litigation Capital Management Limited ("LCM" and together with its controlled entities, the "LCM Group") for the 12 months ended 30 June 2018 which has been audited in accordance with the Corporations Act 2001 (Cth) (**Act**) and its regulations, and outlines key aspects of our remuneration framework. It contains the following sections:

1. Remuneration Framework
2. Remuneration details
3. Service Agreement
4. Remuneration table
5. Other statutory disclosures

### 1. REMUNERATION FRAMEWORK

#### 1.1 Overview of remuneration framework

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

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

Non-executive Director remuneration is designed in a way that supports the retention of their independence. Executive remuneration and incentive policies and practice are performance-based and aligned with LCM Group's vision, values and overall business objectives.

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

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

LCM is committed to developing and communicating an effective remuneration framework that assists with attracting, retaining and motivating non-executives and executives and that supports the execution of our strategy to the benefit of long term value creation. The Board welcomes feedback from external stakeholders around its remuneration practices and disclosures.

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

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

Litigation Capital Management Limited  
**Remuneration Report (forming part of the Directors' Report)**  
30 June 2018

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

## 1.2 Role of the Remuneration Committee

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

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

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

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

## 1.3 Key Management Personnel

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

### 1.3.1 Non-executive directors

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

### 1.3.2 Executives (also a member of the Board)

Patrick Moloney	Managing Director
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## 1.4 Remuneration Consultants

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

## 1.5 Long term incentive scheme

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

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

## 2 REMUNERATION DETAILS

### 2.1 Remuneration payable to Non-executive Directors

#### *Annual Directors' fees*

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

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

#### Non-executive Directors

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

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

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

- (i) The amount fixed by LCM in general meeting for that purpose; or
- (ii) If no amount has been fixed by LCM in general meeting for that purpose, \$200,000 per annum.

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

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

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

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

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



Litigation Capital Management Limited  
Remuneration Report (forming part of the Directors' Report)  
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Following a review of Non-executive Director fees and consideration of the time commitment and responsibilities, Non-executive Director fees (including superannuation) were increased effective from 20 July 2018 and are:

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

The objective of LCM's remuneration policies with regard to Non-executive Directors is to ensure the Company is able to attract and retain Non-executive Directors with the skills and experience to ensure the Board is able to discharge its oversight and governance responsibilities in an effective and diligent manner and supports the retention of their independence. The Board also believes that remuneration for Non-executive Directors should reflect the time commitment and responsibilities of the role as well as taking into account market levels.

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

*Dr David King*

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

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

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

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

*Mr Steven McLean*

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

## 2.2 Remuneration payable to Managing Director

LCM, via its wholly owned subsidiary, LCM Litigation Fund Pty Ltd, entered into an employment agreement in February 2014 with Patrick Moloney for the performance of his role as Managing Director. As part of that employment agreement and subsequent reviews, the Managing Director is entitled to a fixed salary per annum plus superannuation and is entitled to six weeks paid annual leave per year, details of which are set out in section 4.1.

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**Remuneration Report (forming part of the Directors' Report)**  
**30 June 2018**

Forming part of the Managing Director's remuneration package include the following:

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

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

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

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

Appropriate benchmarking analysis was undertaken prior to reviewing and finalising the Managing Director's base remuneration package and benefits.

### 2.3 Share based payment arrangements

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

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

### 2.4 Loan Share Plan

#### *Details of Loan Share Plan*

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

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

The terms of the LSP are summarised below:

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Eligibility	<ul style="list-style-type: none"> <li>• A person is eligible to participate in the LSP if he or she is a Director, officer or employee of a group company (<b>Eligible Person</b>)</li> <li>• The Board may at any time make invitations to Eligible Persons to participate in the LSP specifying the total number of Plan Shares being offered or the manner for determining that number, the closing date for applications, the issue price, vesting conditions and any other specific terms and conditions of issue (<b>Invitation</b>)</li> </ul>
Plan Shares	<ul style="list-style-type: none"> <li>• Each Plan Share entitles the participation to one fully paid ordinary Share in the company</li> <li>• Unless otherwise specified in an Invitation, Plan Shares issued or transferred to a participant will rank equally with all existing shares from the date of issue or transfer</li> <li>• Unless the Board resolves otherwise, the Company will apply for official quotation of Plan Shares issued</li> </ul>
Loan	<ul style="list-style-type: none"> <li>• The Company may provide a limited recourse loan to a participant to allow them to fund the full consideration for the Plan Shares (<b>Loan</b>). The terms of the Loan will be set out in a separate loan agreement</li> <li>• A participant's obligation to repay the Loan will be the lesser of the Loan balance or the market value of the relevant Plan Shares</li> <li>• Any after-tax value of cash distributions (including dividends) received in respect of Plan Shares must be applied to repayment of the Loan</li> </ul>
Vesting	The Plan Shares will vest of the satisfaction of any application performance condition, service requirement or other conditions specified in an Invitation
Change of control	In the event of a change in control of the Company, the Board may in its absolute discretion, determine the manner in which any or all of the participant's unvested Plan Shares will be dealt with.
Disposal conditions	<ul style="list-style-type: none"> <li>• A participant must not dispose of a Plan Share until the Plan Share has vested, the loan balance relating to that Plan Share has been repaid or discharged or any other disposal restrictions set out in the Invitation have expired.</li> <li>• The Company may implement any procedure it deems appropriate to ensure the compliance by the Participant with the disposal restrictions (i.e. may implement a holding lock in respect of the Plan Shares).</li> </ul>
Compulsory divestment	<ul style="list-style-type: none"> <li>• Plan Shares may be compulsorily divested in a number of circumstances, including non-satisfaction of vesting conditions, fraudulent or dishonest actions, insolvency, termination of employment, non-repayment of a Loan or any other circumstances expressly set out in an Invitation.</li> <li>• Where in the reasonable opinion of the Board, a Plan Share has vested in fraudulent or dishonest circumstances, the Board may take any action to</li> </ul>

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	ensure no unfair benefit is obtained by the participant as a result of those circumstances.
<b>Capital events</b>	<ul style="list-style-type: none"> <li>• <b>Bonus issues</b> - If the Company undertakes a pro-rata bonus issue of shares to shareholders and shares are issued to a participant in respect of Plan Shares, those shares are deemed to be Plan Shares for the purposes of the LSP, and will be subject to the same vesting conditions as the Plan Shares to which they relate.</li> <li>• <b>Rights issues</b> - Participants may elect to take up their rights at their cost. Shares allotted to the Participant as a result of exercising such rights are not subject to the vesting conditions or the Plan Rules.</li> <li>• <b>Other variations of capital</b> - If there is a variation of capital, including a capitalisation, sub-division, consolidation or reduction in share capital. The Board may, subject to the Corporations Act and Listing Rules, make such adjustments as it considers appropriate to ensure that the consequences of application are fair as between the participants and other shareholders.</li> </ul>
<b>Administration</b>	The LSP is administered by the Board. The Board may make regulations and determine procedures to administer and implement the LSP and may also terminate or suspend the operation of the LSP at its discretion.
<b>Amendment</b>	<ul style="list-style-type: none"> <li>• The Board may at any time amend any rules governing the operation of the LSP or waive or modify the application of the rules in relation to any participant.</li> <li>• However, the Board may not amend the rules in a way that would decrease a participant's rights in respect of Shares acquired by them, other than amendments required to comply or conform to legislation or Listing Rules, to correct any manifest error or mistake or to take into account any possible adverse tax implications.</li> </ul>
<b>Termination</b>	The LSP may be terminated or suspended at any time by a resolution of the Board, provided the termination or suspension does not materially adversely affect the rights of persons holding shares or options issued under the plan at that time.
<b>Other terms and conditions</b>	The LSP contains other customary terms and conditions relating to the operation and administration of the LSP.

*Issue of shares to Patrick Moloney*

Also at the 2017 AGM, the shareholders approved the issue of 2,000,000 Plan Shares to Patrick Moloney. Patrick Moloney is currently the only participant in the LSP.

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

<b>Date of grant</b>	4 December 2017	
<b>Number of shares granted</b>	The total number of Plan Shares issued was 2,000,000, issued in 2 tranches as follows:	
	Tranche 1:	1,000,000 being 50% of the total award
	Tranche 2:	1,000,000 being 50% of the total award
	<b>Total:</b>	<b>2,000,000</b>
<b>Issue price</b>	\$0.5965	
<b>Vesting conditions</b>	Each tranche of Plan Shares will vest if the relevant Vesting Conditions set out below are met:	
	<b>Tranche</b>	<b>Vesting conditions</b>
	Tranche 1:	<ul style="list-style-type: none"> <li>a) Mr Moloney has been continuously employed by the Company from the Grant Date to the date that is 24 months after the Grant Date and has been continuously been employed by the Group over that period; and</li> <li>b) The VWAP of the Company's shares over any 5 trading day period is at least \$1.00 per share (or such equivalent price if a capital reconstruction occurs in relation to the Company) (<b>Target Price Condition</b>).</li> </ul>
	Tranche 2:	<ul style="list-style-type: none"> <li>a) Mr Moloney has been continuously employed by the Company from the Grant Date to the date that is 36 months after the Grant Date and has been continuously been employed by the Group over that period; and</li> <li>b) The Target Price Condition has been met.</li> </ul>

Patrick Moloney has entered into an interest-free loan with Litigation Capital Management Limited to acquire a total of 2,000,000 ordinary shares.

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

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

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

### 3 SERVICE AGREEMENT

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

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

Key terms for the Managing Director is as follows:

Name	Term of Agreement	Termination arrangements
Patrick Moloney	Term of 5 years (commencing 1 December 2013) with an automatic extension for a further 5 years unless notice is given at least 1 year before the expiry of the initial term that the agreement will not be extended.	LCM can terminate the agreement at any time without cause by making payment of the total remuneration and benefits for the unexpired period of the term, unless the remaining term is less than 12 months, in which case the agreement may be terminated by 12 months' notice in writing or payment in lieu of notice.

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4 REMUNERATION TABLE

4.1 Remuneration table for year ended 30 June 2018

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

*KMP Remuneration expenses for the twelve months ended 30 June 2018 (\$)*

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

<sup>1</sup> shown gross of tax

<sup>2</sup> Includes GST and expenses and was paid to 145 Fleet Pty Limited of which Steve McLean is the sole Director

Litigation Capital Management Limited  
**Remuneration Report (forming part of the Directors' Report)**  
 30 June 2018

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4.2 Relative proportion of Remuneration

2018

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

Executive Directors	Fixed remuneration	At Risk - Cash Bonus / Other	At Risk - Securities
	2018 %	2018 %	2018 %
Patrick Moloney	85	-	15

4.3 Performance holdings of key management personnel

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

4.4 Shareholdings of key management personnel

Fully Paid Ordinary Shares

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

2018

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



Litigation Capital Management Limited  
**Remuneration Report (forming part of the Directors' Report)**  
 30 June 2018

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Loan Share Plan shares

2018

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

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

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

2018

2018	Balance as at 1 July 2017	Granted as compensation	Exercised	Net other change	Balance as at 30 June 2018	Balance vested as at 30 June 2018	Options vested during the year
	No.	No.	No.	No.	No.	No.	No.
Dr David King	600,000	-	-	-	600,000	-	-
Steve McLean	-	-	-	-	-	-	-
Patrick Moloney	900,000	-	-	-	900,000	-	-
Patrick Moloney	1,595,058	-	-	-	1,595,059	-	-

Litigation Capital Management Limited  
Remuneration Report (forming part of the Directors' Report)  
30 June 2018

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Unlisted Partly Paid Shares

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

2018

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

**5 OTHER STATUTORY DISCLOSURES**

Loans to Non-executive Directors and Executive KMPs

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

Other transactions with Non-Executive Directors and Executive KMPs

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

This concludes the remuneration report, which has been audited.

**Litigation Capital Management ACN 608 667 509**

**Directors' Report**

**30 June 2018**

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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



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Dr David King  
Chairman  
20 August 2018  
Sydney

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

As lead auditor of Litigation Capital Management Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

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

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



G K Edwards  
Director

**BDO Audit (SA) Pty Ltd**

Adelaide, 20 August 2018

LITIGATION CAPITAL MANAGEMENT LIMITED  
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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2018

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

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

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

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

LITIGATION CAPITAL MANAGEMENT LIMITED  
ABN 13 608 667 509

CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
FOR THE YEAR ENDED 30 JUNE 2018

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

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

**LITIGATION CAPITAL MANAGEMENT LIMITED**  
**ABN 13 608 667 509**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2018**

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

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

**LITIGATION CAPITAL MANAGEMENT LIMITED**  
**ABN 13 608 667 509**

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2018**

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

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



**LITIGATION CAPITAL MANAGEMENT LIMITED**  
**ABN 13 608 667 509**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**Note 1 Corporate Information**

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

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

**Note 2 Accounting policies**

**a) Basis of preparation**

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

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

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

**b) New accounting standards and interpretations**

*i) Accounting Standards and Interpretations issued not yet effective*

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

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

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Note 2 Accounting Policies (cont.)

AASB reference	Title	Application date of Standard	Application date of Group
AASB 15 <i>Revenue from contracts from customers</i>	<p>The AASB issued AASB 15 in October 2015. The standard is not mandatorily effective for the Group until 1 July 2018. AASB 15 contains new requirements for the recognition of revenue and additional disclosures about revenue. AASB 138 Intangible Assets has been amended to ensure that for reporting periods beginning on or after 1 January 2018, the derecognition of intangible assets are subject to the principles of AASB 15. Consideration for Litigation Contracts is variable with the amount and timing based on factors outside of the control of the Group. On this basis, the Group recognises gains or losses arising from derecognition of Litigation Contracts in Progress only when a judgement has been awarded or a settlement agreement has been agreed. The Group has assessed the impact of the new standard and has not identified any potential material financial impacts and it is expected that this standard will not materially change the revenue recognition criteria of the Group. The Group does not intend to early adopt the Standard.</p>	1 January 2018	1 July 2018
AASB 16 <i>Leases</i>	<p>AASB 16 eliminates the operating and finance lease classifications for lessees currently accounted for under AASB 117 Leases. It instead requires an entity to bring most leases into its statement of financial position in a similar way to how existing finance leases are treated under AASB 117. An entity will be required to recognise a lease liability and a right of use asset in its statement of financial position for most leases.</p> <p>There are some optional exemptions for leases with a period of 12 months or less and for low value leases. Lessor accounting remains largely unchanged from AASB 117.</p> <p>AASB 16 is not mandatorily effective until 1 January 2019, with early adoption permitted. The Group is currently assessing the impacts of the new Standard on the financial statements however the Group expects that the impacts will not be material on the Group's accounting policies or financial statements. The Group does not intend to early adopt the Standard.</p>	1 January 2019	1 July 2019
AASB 2016-5 <i>Amendments to Australian Accounting Standards - Classification and Measurement of Share-Based Payment Transactions</i>	<p>This Standard amends AASB 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. It is not mandatorily effective for the Group until 1 July 2018. The amendments provide requirements on the accounting for:</p> <p><b>Vesting and non-vesting conditions</b> The measurement of a cash-settled share-based payment liability takes into account vesting and non-vesting conditions in a similar manner to equity-settled transactions.</p> <p><b>Net settlement feature for withholding tax obligations</b> Tax laws in some countries require an entity to withhold an amount of equity instruments to settle the employee's withholding tax obligation, usually in cash. These transactions are classified as equity-settled in their entirety if, without the net settlement clause, it would have been classified as equity-settled, and the entity does not withhold instruments with a value that exceeds the employee's withholding tax obligation.</p> <p><b>Changing classifications from cash-settled to equity-settled</b> Guidance has been added to clarify that the difference between the carrying amount of the cash-settled liability, and the fair value of the equity instruments granted, is recognised immediately in profit or loss when a share-based payment transaction changes from being cash-settled, to equity-settled.</p> <p>The Group expects that the impacts will not be material on the Group's accounting policies or financial statements.</p>	1 January 2018	1 July 2018

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NOTES TO THE FINANCIAL STATEMENTS (continued)  
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**Note 2 Accounting Policies (cont.)**

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

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

**c) Principles of consolidation**

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

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

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

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

**d) Critical accounting, judgments, estimates and assumptions**

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

The judgments, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the financial year ending 30 June 2018 are included in the following Notes:

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

**e) Current and non-current classification**

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

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

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

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

**f) Leases**

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

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

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

**g) Foreign Currency Transactions and Balances**

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

*Transactions and balances*

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

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

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

**Note 3 Financial risk management objective and policies**

*a) Financial risk management and policies*

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

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

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

*b) Risk exposures and responses*

*Interest rate risk*

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

**Financial Instruments**  
Cash and cash equivalents

CONSOLIDATED	
June 2018	June 2017
\$	\$
13,786,949	1,862,645
<b>13,786,949</b>	<b>1,862,645</b>

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

Potential reasonably possible movements:

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

*Credit Risk*

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

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

The Group assesses the defendants in the matters funded by the Group prior to entering into any agreement to provide funding and continues this assessment during the course of funding. Whenever possible the Group ensures that security for settlements sums is provided, or the settlements funds are placed into solicitors' trust accounts. As at 30 June 2018, no receivables existed in relation to matters funded by the Group. However, the Group's continual monitoring of the defendants' financial capacity mitigates this risk.

*Liquidity Risk*

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

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

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

*Fair Value*

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

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**Note 4 Segment information**

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

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

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

**Note 5 Revenue**

Revenue  
 Performance Fees  
 Interest received

CONSOLIDATED	
June 2018 \$	June 2017 \$
513,138	-
29,544	13,312
<b>542,682</b>	<b>13,312</b>

**Significant Accounting Policies**

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

*Performance fees*

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

*Interest*

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

**Note 6 Other income**

**Other income**

Litigation contracts in progress - settlements and judgments  
 Litigation contracts in progress - expenses  
 Litigation contracts - written down  
 Net gain on derecognition of intangible assets

Recoveries of legal costs other than in relation to Litigation Contracts in Progress  
 Miscellaneous income

CONSOLIDATED	
June 2018 \$	June 2017 \$
29,170,177	3,415,086
(13,135,844)	(1,226,016)
(37,805)	(6,644)
<b>15,996,528</b>	<b>2,182,426</b>
454,064	-
3,000	-
<b>457,064</b>	<b>-</b>
<b>16,453,592</b>	<b>2,182,426</b>

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

**Significant Accounting Policies**

*Litigation contracts in progress*

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

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

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

**Note 7 Expenses**

**a) Finance costs**

Interest expense  
 Borrowing expense

CONSOLIDATED	
June 2018 \$	June 2017 \$
515,888	1,460,091
170,000	205,058
<b>685,888</b>	<b>1,665,149</b>

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

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Note 7 Expenses (cont.)

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

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

Note 8 Income tax

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

**Franking credit balance for the Group**

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

**Changes in applicable tax rates**

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

**Unrecognised temporary differences and tax losses**

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

**Significant Accounting Policies**

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

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

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

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.

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**Note 8 Income tax (cont.)**

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

Litigation Capital Management Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime from 1 July 2003. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

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

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

**Note 9 Earnings per share**

		CONSOLIDATED	
		June 2018	June 2017
<b>Earnings per ordinary share:</b>			
Basic (cents per share)		15.24	(5.01)
Diluted (cents per share)	11,922,279	15.06	(5.01)
	21.14		(6.01)
<b>Reconciliation of earnings used in calculation of earnings per share:</b>			
		June 2018 \$	June 2017 \$
Net Profit/(Loss) For the Year		8,637,354	(2,340,508)
Less: Non-controlling interests		(41,191)	55,325
Earnings used in calculation of basic / diluted earnings per share		<u>8,596,163</u>	<u>(2,285,183)</u>
<b>Weighted average number of ordinary shares used in the calculation of basic earnings per share</b>			
Effect of dilutive securities <sup>1</sup>		56,399,297	46,712,408
Weighted average number of ordinary shares used in the calculation of diluted earnings per share		665,950	-
		<u>57,065,247</u>	<u>46,712,408</u>

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

**Significant Accounting Policies**

*Basic earnings per share*

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

*Diluted earnings per share*

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

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

**Note 10 Cash and cash equivalents**

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

**Significant Accounting Policies**

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

**Reconciliation to the Consolidated Statement of Cash Flows**

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

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

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
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**Note 11 Other receivables**

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

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

**Note 12 Intangible assets**

	CONSOLIDATED \$
<i>(a) Reconciliation of carrying amounts at the beginning and end of the period</i>	
Year ended 30 June 2017	
Balance at 1 July 2016	6,494,243
Additions	7,208,966
Litigation contracts in progress - expenses	(1,226,016)
Litigation contracts in progress - written down	(6,644)
<b>Balance at 30 June 2017</b>	<b>12,470,549</b>
Balance at 1 July 2017	12,470,549
Additions	14,617,746
Litigation contracts in progress - expenses	(13,135,844)
Litigation contracts in progress - written down	(37,805)
<b>Balance at 30 June 2018</b>	<b>13,914,646</b>

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

*(b) Description of Group's intangible assets*

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

*(c) Write off of intangible assets*

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

*(d) Impairment testing of intangible assets*

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

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

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

**Significant Accounting Policies**

*Litigation Contracts in Progress*

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

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

*Actions still outstanding*

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

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



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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018

Note 12 Intangible assets (cont.)

*Unsuccessful judgement*

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

*Successful judgement*

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

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

**Critical Accounting Estimates and Judgements**

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

*Impairment of non financial assets*

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

*Classification of Intangible Assets*

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

Note 13 Deferred tax

Deferred tax asset comprises temporary differences attributable to:

Property, plant and equipment  
Employee benefits  
Other Provisions  
Accrued expenses  
Tax losses carried forward  
Transaction costs on share issue

CONSOLIDATED

	June 2018 \$	June 2017 \$
	523	523
	50,556	37,923
	-	-
	14,591	12,561
	4,331,692	7,100,444
	440,486	615,386
	<b>4,837,848</b>	<b>7,766,837</b>

Movements in deferred tax assets - 2018

Property, plant and equipment  
Employee benefits  
Other Provisions  
Accrued expenses  
Tax losses carried forward  
Transaction costs on share issue

Closing balance

Opening Balance 1 July 2017 \$	(Charged)/ credited to profit or loss \$	(Charged)/ credited to equity \$	Closing Balance 30 June 2018 \$
523	-	-	523
37,923	12,633	-	50,556
-	-	-	-
12,561	2,030	-	14,591
7,100,444	(2,768,752)	-	4,331,692
615,386	(174,900)	-	440,486
<b>7,766,837</b>	<b>(2,928,989)</b>	<b>-</b>	<b>4,837,848</b>

Movements in deferred tax assets - 2017

Property, plant and equipment  
Employee benefits  
Accrued expenses  
Tax losses carried forward  
Transaction costs on share issue

Closing balance

Opening Balance 1 July 2016 \$	(Charged)/ credited to profit or loss \$	(Charged)/ credited to equity \$	Closing Balance 30 June 2017 \$
895	(372)	-	523
25,556	12,367	-	37,923
34,586	(22,025)	-	12,561
4,955,511	2,144,933	-	7,100,444
108,775	(131,202)	637,813	615,386
<b>5,125,323</b>	<b>2,003,701</b>	<b>637,813</b>	<b>7,766,837</b>

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**Note 13 Deferred tax (cont.)**

*Deferred tax liability comprises temporary differences attributable to:*

	2018 \$	2017 \$
Intangibles	3,826,528	3,429,401
	<b>3,826,528</b>	<b>3,429,401</b>

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

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

**Significant Accounting Policies**

*Recognition of deferred tax assets*

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

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

**Critical Accounting Estimates and Judgements**

*Recovery of deferred tax assets*

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

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

**Note 14 Current liabilities - trade and other payables**

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

**Significant Accounting Policies**

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

**Note 15 Current and non-current liabilities - Employee benefits**

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

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**Note 15 Current and non-current liabilities - Employee benefits (cont.)**

**Significant Accounting Policies**

*Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are

*Other long-term employee benefits*

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

*Amounts not expected to be settled within the next 12 months*

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

**Note 16 Equity - Issued capital**

**(a) Ordinary shares**

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

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

**(b) Partly paid shares**

Partly paid shares entitle the holder to participate in dividends and the proceeds of the company in proportion to the number of and amounts paid on the shares held. The partly paid shares do not carry the right to participate in new issues of securities. As at 30 June 2018, there are currently 2,866,050 partly paid shares issued at an issue price of \$0.17 and will become fully paid upon payment to LCM of \$0.17 per share.

**(c) Ordinary shares - Loan Share Plan**

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

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

**(c) Capital risk management**

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

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

In making decisions to adjust its capital structure to achieve these aims, the Group considers not only its short-term position but also its long-term operational and strategic objectives. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The capital risk management policy has not changed during the year.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**Note 16 Equity - issued capital (cont.)**

**Significant Accounting Policies**

Ordinary shares are classified as equity.

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

**Note 17 Share based payments reserve**

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

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

**Loan Share Plan**

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

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

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

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

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

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

**Employee Share Option Scheme**

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

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

**Note 18 Subsidiaries and Transactions With Non-Controlling Interests**

**Interests in Subsidiaries**

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

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

<sup>1</sup> entity was incorporated during the year.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**Note 18 Subsidiaries and Transactions With Non-Controlling Interests (cont.)**

**Non-controlling interests (NCI)**

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

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

**Transactions with non-controlling interests**

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

**Note 19 Remuneration of auditors**

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

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

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**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**Note 20 Reconciliation of cash flows**

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

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

(b) Changes in Liabilities arising from Financing Activities:

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

(c) Non-cash Financing and Investing Activities

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

**Note 21 Related party transactions**

(a) Parent entity

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

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

(b) Subsidiaries

Interests in subsidiaries are disclosed in note 18.

(c) Key Management Personnel Compensation

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

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

(d) Transactions with related parties

The following transactions occurred with related parties:

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

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

Transactions with non-controlling interests

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

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

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



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DIRECTORS DECLARATION

In the directors' opinion:

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

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

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

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

Signed in accordance with a resolution of directors.

On behalf of the directors



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Director

Dated this 20 day of August 2018



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

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Litigation Capital Management Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

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

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

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

#### Key audit matters

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

### Recoverable amount of Litigation Contract in Progress

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

### Treatment of Loan Share Plan

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



### **Other information**

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

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

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

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

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

### **Responsibilities of the directors for the Financial Report**

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

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

### **Auditor's responsibilities for the audit of the Financial Report**

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf)

This description forms part of our auditor's report.



## Report on the Remuneration Report

### Opinion on the Remuneration Report

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

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

### Responsibilities

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

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

**BDO Audit (SA) Pty Ltd**

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

Geoff Edwards  
Director

Adelaide, 20 August 2018