

ASX Announcement (ASX: JKL)

JUSTKAPITAL FINALISES TERMS FOR THE SALE OF LITIGATION PORTFOLIO

The Board of Directors of JustKapital Limited (**JustKapital** or **Group**) has entered into documentation to transfer its litigation portfolio to focus on its finance business (**JustKapital Finance**).

As referred to in the Group's previous announcements, the disbursement funding division and short term funding division have been amalgamated into a single division to be known as JustKapital Finance.

To compliment the operations of JustKapital Finance, the next stage of the restructure will be to transfer the current litigation portfolio into a new trust structure named the Litigation Finance Trust (**Trust**).

The trustee of the Trust is to be Litigation Finance Pty Ltd (**Trustee**), a company that is to be wholly owned by Mr Philip Kapp who was until 31 October 2017 an executive director of JustKapital. The manager of the Trust is also to be a wholly owned company of Mr Kapp.

Litigation Finance Trust

Subject to an independent expert concluding that the proposed consideration is in the best interests of shareholders and shareholder approval, JustKapital will transfer its existing litigation portfolio (other than three cases referred to below) and the joint venture with Litigation Funding Solutions (announced on 2 March 2017) to the Trust in exchange for a minimum of \$14,000,000 in units in the Trust. This consideration can be broken down as follows:

- (a) \$14,000,000 series A and B units in the Trust as consideration for the transfer; and
- (b) \$250,000 loan to be used by the Trust for working capital purposes which, on completion of the transfer, is to convert into 250,000 series A units in the Trust.

The outcome of the negotiations are that subject to various conditions precedent, including shareholder approval being obtained, JustKapital will not incur any future liability on the litigation portfolio being transferred to the Trust. Following completion of the proposed restructure, JustKapital shareholders will have an interest in the outcomes of the litigation portfolio through the units held in the Trust. The total capitalised investment in the litigation portfolio being transferred by the Group into the Trust, including capitalised overheads, as at 31 October 2017 was approximately \$6,700,000.

As stated above, JustKapital has retained control of three cases. The expected future investment required by the Group to realise an outcome in these three matters is less than \$1,000,000.

The Trust will seek additional funds from third party investors to enable the completion of the existing litigation portfolio and to fund new cases. It is envisaged that the Group will not be required to contribute any further capital to complete the litigation portfolio or to the Trust.

Benefits to JustKapital shareholders

Due to the nature of litigation, the litigation portfolio generates uncertain revenue streams and as such it is not possible to predict with certainty the timing of completion or resolution of any case in the litigation portfolio. By creating the Trust, JustKapital shareholders will continue to share in the upside from case completions without incurring any further capital or financial obligations to fund the litigation portfolio.



The Board of JustKapital believes that it is in the best interests of the Group to focus on its core business being that of a financing company for law firms on a non-contingent basis and for this reason it proposes to transfer its interest in the litigation portfolio to the Trust. This will be achieved through the businesses of JustKapital Finance.

The Group will provide full details to shareholders as part of the process of obtaining shareholder approval. The notice of meeting including an independent expert's report are expected to be sent to shareholders towards the end of January 2018.

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Appendix

Material terms of the key agreements

Acquisition Deed

The sale of the existing litigation portfolio of JustKapital including the business of administering the funding agreements carried out by JustKapital Litigation Pty Limited, JustKapital Portfolio Pty Limited and JustKapital Insolvency Services Pty Limited.

The litigation portfolio comprises existing cases where a funding agreement has been executed with third parties and excludes any interest in three cases (collectively the **Litigation Portfolio**).

JustKapital has agreed to transfer to the Trust all of JustKapital's interest in the litigation portfolio by selling the JustKapital subsidiaries described above (**Transaction**).

The total purchase price for the Transaction payable by the Trust to JustKapital for the Litigation Portfolio is \$14 million which is to be satisfied by the issue of \$1 units in the Trust. In addition, JustKapital has agreed to provide a loan of up to \$250,000 to the Trust to satisfy the costs of the Litigation Portfolio business between 1 November 2017 and completion of the Transaction. On completion of the Transaction, the drawn proceeds of the loan will convert into Series A units in the Trust.

As a result of the above JustKapital could be issued with 14,250,000 Units in the Trust.

The Transaction is subject to a number of conditions precedent including:

- JustKapital shareholders having approved the Transaction for the purposes of Chapter 2E of the Corporations Act 2001 (Cth) (**Corporations Act**) and ASX Listing Rule 10.1;
- an independent expert concluding that the Transaction is in the best interests of JustKapital shareholders;
- the Trustee certifying to JustKapital the receipt of binding commitments to subscribe for Series A units in a minimum amount of \$5,000,000 to finance the Cases; and
- Longford Capital Management, LP (the co-funder of a number of cases) providing prior written consent to the Transaction in a form reasonably satisfactory to JustKapital.

The parties may terminate if the conditions are not satisfied by 15 March 2018.

Mr Kapp will not compete with JustKapital in the disbursement funding business for three years.

JustKapital must not for 12 months compete with Mr Kapp in the litigation finance business (but is able to conclude the three existing cases that will remain with JustKapital).

If shareholder approval cannot be obtained to the Transaction JustKapital must reimburse Mr Kapp an amount equal to \$537,500.

Litigation Management Agreement

The Manager is a company that is wholly owned by Mr Kapp. Accordingly, management fees will go to Mr Kapp's management company.

The fees payable are a 2% management fee on total invested capital and a performance fee. The performance fee will be 20% of the profits generated by any case after an 8% profit hurdle has been calculated. The performance fee will be calculated on a case by case basis adjusting for any lost cases.

The Manager is appointed to manage the Trust until termination of the Trust.

The Manager must distribute 80% of the net return upon the conclusion of each case to the relevant unit holders.

The Manager must provide administration services in respect of the Trust including case management services, liaising with lawyers concerning the cases and related matters and all other services required for administering the Cases that are not the subject of third party invoices.

Litigation Finance Trust Constitution

The Constitution contemplates the creation of a series of Trusts referable to particular assets (cases).

The Trustee is entitled to an annual fee of \$200,000 to cover its expenses, including audit costs.

Each Series Trust begins on the date on which the Notice of Creation of Series Trust for that Series Trust is signed and ends on the earlier of:



- when the cases in respect of that Series Trust have completed and that all proceeds of that completion have been disbursed; and
- the date specified by the Trustee in a notice to unit holders as the date on which the Trust is to be terminated, which in the case of the Series A Trust is 1 December 2021 unless before 30 June 2021 the Trustee has notified unit holders that the date is to be extended to 1 December 2022.

The application price of each unit in each Series Trust is \$1.00.

The characteristics of each Series Trust are created by the Trustee issuing a Notice of Creation of Series Trust.

The Series A Trust.

- The initial unit holder is JustKapital as the holder of \$13,250,000 Series A Units.
- Recoveries referable to specified cases from the Litigation Portfolio are to be returned to Series A unit holders within 30 days following receipt of the specific cases recovery and the performance fee calculation is made. The recoveries and the performance fees are to be paid simultaneously.

- The Trustee and Twin Management Pty Limited (the **Manager**) must not vary the terms of the Management Agreement in a material respect that might impact upon the Series A Units.

The Series B Trust.

- The initial unit holder is JustKapital Limited as the holder of \$750,000 Series B Units.
- The Trustee and the Manager must not vary the terms of the Management Agreement in a material respect that might impact upon the Series B Units.

Consultancy Agreement

Entities associated with Mr Kapp have been retained under the terms of a consultancy arrangement to finalise certain arrangements outside the Litigation Portfolio.

Mr Kapp and his associated entities must work in good faith with JustKapital to finalise these arrangements as quickly as possible. If achieved, the consultancy arrangement entitles these entities to receive a consultancy fee.