LITIGATION CAPITAL MANAGEMENT LIMITED (ASX: LCA)

(ABN: 13 608 667 509)

APPENDIX 4D AND HALF YEAR FINANCIAL REPORT 31 DECEMBER 2017

LITIGATION CAPITAL MANAGEMENT LIMITED
ABN 13 608 667 509

INTERIM FINANCIAL REPORT

APPENDIX 4D - INTERIM FINANCIAL REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

Previous corresponding period: 31 December 2016

Results for Announcement to the Market

Key Information

	Consolidated Half-Year		
	Dec 2017 $	Dec 2016 $	Change %
Revenue from ordinary activities	5,017	3,718	35%
Other income	137,391	164,604	-17%
Loss from ordinary activities after tax attributable to members	(1,269,810)	(2,415,510)	-47%
Net loss for the period attributable to members	(1,262,178)	(2,360,231)	-47%

Dividends

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

Net Tangible Assets per Share

	Half-year ended Dec 2017 $ / Share	Year ended Jun 2017 $ / Share
Net tangible assets per share	(0.13)	(0.00)

LITIGATION CAPITAL MANAGEMENT LIMITED
ACN 608 667 509

DIRECTORS' REPORT

The Directors present their report, together with the financial statements consisting of Litigation Capital Management Limited (**LCM**) and the entities it controlled (**LCM group**) at the end of, or during, the half year ending 31 December 2017.

Directors

The following persons were directors of the company during the whole of the financial half year period and up to the date of this report, unless otherwise stated:

Dr. David King
Mr. Patrick Moloney
Mr. Steven McLean

Principal activities

LCM provides financial and risk management services associated with the legal services industry and most particularly, litigation and arbitrations. The company provides services including the funding of contentious commercial disputes in the form of either litigation or arbitration. The company also provides funding and risk management services associated with class actions.

Dividends

No dividends were paid during the half year.

Operating and financial review

Overview of the Group

LCM is a company limited by shares and was incorporated on 9 October 2015. It was 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.

Operations

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

Review of financial position / Operating and financial review

The Board of LCM are very pleased with the company's progress in the six months ending 31 December 2017. The company has advanced a number of large litigation projects towards conclusion. In January 2018, LCM resolved three of its Litigation Projects with two of those Litigation Projects resulting in settlement income to be received of $20.16M. The third Litigation Project which has been the subject of agreed terms was funded pursuant to the International Partner Funding Arrangement. That Litigation Project is subject to certain post-settlement events and is not expected to be finally completed for approximately 12 months. Of the settlement revenue from the two complete Litigation Projects, $16.57M has been physically received by LCM and the balance has been paid by direction with a small portion still to be received. As such, LCM is now in a position to repay its current debt facility after which it will operate, for the time being, debt free.

Following settlement of these projects, LCM is currently managing 14 Litigation Projects, 11 of which LCM is funding directly from its balance sheet. The Board anticipates the resolution of 5 of these projects in the 2018 financial year adding to the capital available to fund the balance of its existing book and new projects.

LCM is pleased with the composition and maturation of its Litigation Project portfolio and looks forward to having its best financial year since incorporation.

The Board is also pleased with the number and quality of applications the company is receiving with respect to new projects. LCM has received 64 new applications for litigation funding in the first half of FY2018 compared with 31 received in the first half of FY2017.

The loss for LCM after providing for income tax amounted to $1.27M down from a corresponding period the year prior. The Board is comfortable with the operating loss for the first half given the resolutions achieved subsequent to the end of the accounting period.

As of 31 December 2017, LCM has recognised $18.96M of capital invested in litigation projects, up 52% on the $12.47M invested at 30 June 2017.

LCM continues to see a consistent and material market for the deployment of capital into litigation and arbitral projects.

Significant changes in the state of affairs

No matters or circumstances have arisen during the half 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.

Matters subsequent to the end of the half-year

As announced to the ASX on 31 January 2018 and further on 27 February 2018, LCM has reached a resolution of three of its Litigation Projects (the terms of which are confidential). These three projects were interrelated and the delay in completion of these Litigation Projects was the basis for LCM not meeting its 2017 IPO forecast although the timing of this financial settlement was outside the control, the results of this settlement are significantly better than the financial year 2017 IPO forecast. For the two of these Litigation Projects which LCM financed directly, it has generated $20.16M in revenue and made a contribution to its EBITDA of $12.39M.

Environmental Regulation

The Group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

Auditor's Independence Declaration

The lead auditor's independence declaration as required under s 307C of the *Corporations Act 2001* is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the Directors.

....
Patrick Moloney
Chief Executive Officer

Dated this 28th day of February 2018.

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

As lead auditor for the review of Litigation Capital Management Limited for the half-year ended 31 December 2017, 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 review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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

G K Edwards
Director

BDO Audit (SA) Pty Ltd

Adelaide, 28 February 2018

LITIGATION CAPITAL MANAGEMENT LIMITED
ABN 13 608 667 509

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

	Note	Consolidated Half-Year Dec 2017 $	Dec 2016 $
Revenue	4	5,017	3,718
Other Income	5	137,391	164,604
Total Income		**142,408**	**168,322**
Expenses			
Corporate and Office Expenses		613,765	671,045
Legal & Professional Fees		59,257	134,360
Depreciation	6	8,029	-
IPO Listing Expense		-	182,335
Employment Expenses	6	972,818	598,094
Foreign exchange loss	6	-	310,323
Finance Costs	6	221,184	1,663,666
		1,875,053	**3,559,823**
Profit/(Loss) Before Income Tax		**(1,732,645)**	**(3,391,501)**
Income tax expense / (benefit)	7	(462,835)	(975,991)
Net Profit/(Loss) For the Half-Year		**(1,269,810)**	**(2,415,510)**
Other comprehensive income		-	-
Total comprehensive income for the half-year		**(1,269,810)**	**(2,415,510)**
Loss for the half-year and total comprehensive income attributable to:			
Owners of the company		(1,262,178)	(2,360,231)
Non-controlling interest		(7,632)	(55,279)
		(1,269,810)	**(2,415,510)**
Earnings per share			
From continuing operations:			
- basic / diluted weighted average earnings per share (cents)		(2.25)	(6.49)
From continuing and discontinued operations:			
- basic / diluted weighted average earnings per share (cents)		(2.25)	(6.49)

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
AS AT 31 DECEMBER 2017

	Note	Consolidated Dec 2017 $	Jun 2017 $
CURRENT ASSETS			
Cash and cash equivalents		420,597	1,862,645
Other receivables		138,985	43,666
Intangible assets - litigation contracts	8	17,878,706	11,683,991
TOTAL CURRENT ASSETS		**18,438,288**	**13,590,302**
NON-CURRENT ASSETS			
Property, plant and equipment		189,052	7,779
Intangible assets - litigation contracts	8	1,081,235	786,558
Deferred tax asset	9	10,014,255	7,766,837
TOTAL NON-CURRENT ASSETS		**11,284,542**	**8,561,174**
TOTAL ASSETS		**29,722,831**	**22,151,476**
CURRENT LIABILITIES			
Trade and other payables		4,689,239	1,926,074
Employee Benefits		129,479	111,040
Provisions		-	-
TOTAL CURRENT LIABILITIES		**4,818,718**	**2,037,114**
NON-CURRENT LIABILITIES			
Deferred tax liability	9	5,213,984	3,429,401
Employee Benefits		30,641	26,862
Borrowings	10	4,219,688	-
TOTAL NON-CURRENT LIABILITIES		**9,464,313**	**3,456,263**
TOTAL LIABILITIES		**14,283,031**	**5,493,377**
NET ASSETS		**15,439,800**	**16,658,099**
EQUITY			
Issued Capital	11	24,865,111	24,865,111
Share Based Payments Reserve	12	217,415	165,903
Retained Earnings		(9,619,769)	(8,357,590)
Parent interest		15,462,757	16,673,424
Non-controlling interest		(22,957)	(15,325)
TOTAL EQUITY		**15,439,800**	**16,658,099**

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 HALF-YEAR ENDED 31 DECEMBER 2017

Consolidated	Issued capital	Retained profits	Share based payments reserve	Total	Non-controlling interests	Total equity
Balance at 1 July 2016	11,546,618	(6,072,408)	95,703	5,569,913	40,000	5,609,913
Profit / (Loss) for the half-year	-	(2,360,231)	-	(2,360,231)	(55,279)	(2,415,510)
Other comprehensive income	-	-	-	-	-	-
Equity Transactions:						
Contributions of equity (note 11)	13,395,590	-	-	13,395,590	-	13,395,590
Transaction costs	-			-	-	-
Share based payments expense	-	-	23,400	23,400	-	23,400
	-	-	-	-	-	-
Balance at 31 December 2016	**24,942,208**	**(8,432,639)**	**119,103**	**16,628,672**	**(15,279)**	**16,613,393**
Balance at 1 July 2017	24,865,111	(8,357,591)	165,903	16,673,424	(15,325)	16,658,099
Profit / (Loss) for the half-year	-	(1,262,178)	-	(1,262,178)	(7,632)	(1,269,810)
Other comprehensive income						
Total comprehensive income for the half-year	-	**(1,262,178)**	-	**(1,262,178)**	**(7,632)**	**(1,269,810)**
Equity Transactions:						
Contributions of equity (note 11)	-	-	-	-	-	-
Share based payments expense	-	-	51,512	51,512	-	51,512
Distributions	-	-	-	-	-	-
	-	-	**51,512**	**51,512**	-	**51,512**
Balance at 31 December 2017	**24,865,111**	**(9,619,769)**	**217,415**	**15,462,757**	**(22,957)**	**15,439,800**

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 HALF-YEAR ENDED 31 DECEMBER 2017

	Note	Consolidated	
		Dec 2017 $	Dec 2016 $
Cash flows from operating activities			
Payments to suppliers and employees		(1,521,886)	(749,240)
Receipts from management and performance fees		-	-
Interest received		5,017	3,718
Interest and other finance costs paid		-	(1,663,666)
Net cash (used in)/from operating activities		**(1,516,869)**	**(2,409,188)**
Cash flows from investing activities			
Proceeds from litigation funding - settlements, fees and reimbursements		101,000	466,653
Payments for litigation funding and capitalised supplier costs		(3,836,878)	(4,200,353)
Purchase of property, plant and equipment		(189,301)	-
Net cash (used in)/from investing activities		**(3,925,179)**	**(3,733,700)**
Cash flows from financing activities			
Proceeds from issue of shares		-	15,000,000
Repayment of borrowings		-	(7,851,698)
Proceeds from borrowings		4,000,000	-
Share issue transaction costs		-	(1,779,718)
Net cash (used in)/from financing activities		**4,000,000**	**5,368,584**
Net increase/(decrease) in cash and cash equivalents		(1,442,048)	(774,304)
Cash and cash equivalents at the beginning of the period		1,862,645	5,918,862
Cash and cash equivalents at the end of the half-year		**420,597**	**5,144,558**

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

**NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

Note 1 Corporate Information

The financial statements and interim report of Litigation Capital Management Limited for the half-year ended 31 December 2017 were authorised for issue in accordance with a resolution of the directors and covers the consolidated entity consisting of Litigation Capital Management Limited and its subsidiaries. Litigation Capital Management Limited is a for-profit entity for the purpose of preparing these financial statements.

Litigation Capital Management Limited is incorporated and domiciled in Australia. The principal activities of the consolidated entity are the investigation, management and funding of litigation.

The financial statements are presented in Australian dollars.

Note 2 Significant Accounting Policies

a) Basis of preparation
The consolidated financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standard AASB 134 Interim Financial Reporting.

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

These half-year financial statements do not include all the notes of the type normally included in annual financial statements and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial statements. Accordingly, these half-year financial statements are to be read in conjunction with the annual financial statements for the year ended 30 June 2017 of Litigation Capital Management Limited.

b) Significant accounting policies
The same accounting policies and methods of computation have been followed in these half-year financial statements as compared with the most recent annual financial statements.

The Group has considered the implications of new or amended Accounting Standards, but determined that their applications to the financial statements is either not relevant or not relevant or not material.

c) Going concern
The half-year financial statements have also been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

As at 31 December 2017, the Group had net assets of $15,439,800, cash and cash equivalents balance of $420,597 and net working capital surplus of $13,619,570. The Group had incurred a net loss for the period ended 31 December 2017 of $1,269,810.

The Directors continue to monitor the ongoing funding requirements of the consolidated entity through the preparation of cash flow forecasts prepared by management to ensure that the consolidated entity has sufficient funds to meet their commitments. The Directors are confident that sufficient funds will be secured within the next 12 months months through the settlement of various projects (Refer to Note 14 - Events after the reporting period) which will enable the consolidated entity to continue as a going concern. concern.

Note 3 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 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 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 the Operating and Financial Review of the Directors Report.

Note 4 Revenue

	Consolidated	
	Dec 2017 $	Dec 2016 $
Revenue		
Interest received	5,017	3,718
	5,017	**3,718**

Note 5 Other Income

	Consolidated	
	Dec 2017 $	Dec 2016 $
Litigation contracts in progress - settlements and judgments	101,000	466,653
Litigation contracts in progress - expenses	(35,847)	(292,653)
Litigation contracts - written down	(34,725)	(9,396)
Net gain on derecognition of intangible assets	**$30,428**	**$164,604**
Other income	$106,963	-
	$137,391	**$164,604**

Note 6 Expenses

	Consolidated	
	Dec 2017 $	Dec 2016 $
Depreciation		
Depreciation expense	**8,029**	-
Employment Expenses		
Employee Benefits Expense	796,187	507,062
Superannuation	77,099	39,296
Provision for employee entitlements	22,218	20,582
Payroll tax	25,802	7,754
Share based payments expense	51,512	23,400
	972,818	**598,094**
Foreign exchange loss		
Net foreign currency translation gain/(loss)	-	310,323
Finance costs		
Interest Expense	221,184	1,663,666

Note 7 Income tax expense

The components of tax expense comprise:		
Current tax expense	-	-
Deferred tax expense	462,835	975,991
	462,835	975,991

Note 8 Intangible assets

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

	Consolidated $
Year ended 30 June 2017	
Balance at 1 July 2016	6,494,243
Additions	7,208,966
Litigation contracts in progress - expenses	(1,226,016)
Litigation contracts in progress - written down	(6,644)
Balance at 30 June 2017	**12,470,549**
Balance at 1 July 2017	12,470,549
Additions	6,559,965
Litigation contracts in progress - expenses	(35,847)
Litigation contracts in progress - written down	(34,725)
Balance at 31 December 2017	**18,959,942**

	Consolidated	
	Dec 2017 $	Jun 2017 $
Current	17,878,706	11,683,991
Non Current	1,081,235	786,558
	18,959,942	**12,470,549**

Note 8 Intangible Assets (cont.)

(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 consolidated entity or the consolidated entity decides not to pursue cases further.

(d) Impairment testing of intangible assets

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

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 December 2018 classified as current assets and the balance as non-current assets.

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%.

Note 9 Deferred taxes

	Consolidated	
Deferred tax asset comprises temporary differences attributable to:	**Dec 2017 $**	**Jun 2017 $**
Property, plant and equipment	523	523
Employee benefits	44,033	37,923
Accrued expenses	8,865	12,561
Tax losses carried forward	9,520,348	7,100,444
Transaction costs on share issue	440,486	615,386
	10,014,255	**7,766,837**
Deferred tax liability comprises temporary differences attributable to:		
Intangibles	5,213,984	3,429,401
	5,213,984	**3,429,401**

Note 10 Non current liabilities - Borrowings

	Consolidated	
	Dec 2017 $	Jun 2017 $
Secured non-current borrowings	4,219,688	-
	4,219,688	-

The borrowings relate to a facility provided by Ambro Nominees Pty Ltd on 31 August 2017. The credit facility provides the Group with a line of credit up to $4 million over a term of 18 months. Interest is incurred at a rate of 15% which has been capitalised to the loan on a monthly basis. The Group is able to repay the facility early provided a minimum interest expense of $300,000 has been incurred. The credit facility has been provided on normal commercial terms and is secured by charges over all present and after-acquired property of the Group.

Note 11 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 31 December 2017, there are currently 2,866,050 partly paid shares and were 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 12.

	Consolidated			
	Dec 2017 Shares	Jun 2017 Shares	Dec 2017 $	Jun 2017 $
Ordinary shares - fully paid	55,533,247	53,533,247	24,865,111	24,865,111
Ordinary shares - partly paid	2,866,050	2,866,050	-	-

Movements in fully paid ordinary share capital	**Date**	**No of shares**	**Issue price**	**$**
Opening balance at 1 July 2016		32,104,675	n/a	11,546,617
Issue of ordinary shares - fully paid	Dec-16	21,428,572	$0.70	15,000,000
Share issue transaction costs, net of tax		-		(1,681,506)
Balance at 30 June 2017		**53,533,247**		**24,865,111**
Opening balance at 1 July 2017		53,533,247	n/a	24,865,111
Issue of shares				-
Balance at 31 December 2017		**53,533,247**		**24,865,111**

Movements in partly paid ordinary share capital	**Date**	**No of shares**	**Issue price**	**$**
Opening balance at 1 July 2016		2,866,050	n/a	-
Issue of shares		-		-
Balance at 30 June 2017		**2,866,050**		-
Opening balance at 1 July 2017		2,866,050	n/a	-
Issue of shares		-		-
Balance at 31 December 2017		**2,866,050**		-

Movements in ordinary share capital in relation to Loan Share Plan	**No of shares**	**Issue price**	**$**
Opening balance at 1 July 2017	-		-
Issue of shares (Refer to Note 12)	2,000,000	n/a	n/a
Balance at 31 December 2017	**2,000,000**		-

Note 12 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	
	Dec 2017 $	Jun 2017 $
Share based payments reserve	217,415	165,903
Movements in share based payments reserve		
Opening balance	165,903	95,703
Expenses arising from share-based payments transactions during the period:		
Employee Share Option Scheme	46,800	70,200
Loan Share Plan	4,712	-
Closing balance	**217,415**	**165,903**

Loan Share Plan

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

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

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

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 $4,712 has been expensed during the period, with the remainder to be expensed over the term of the loan.

Note 13 Related party transactions

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 12.

Note 14 Events after the reporting period

Litigation Capital Management Limited has resolved two of it's Litigation Projects in February 2018, resulting in total settlement income received or to be received to the date of this report report of $20,145,059 with associated expenditure of $5,822,546. Of that amount, $16,571,091 has been physically received by the Company and the balance has been paid by direction with a small proportion to be received.

LITIGATION CAPITAL MANAGEMENT LIMITED
ABN 13 608 667 509

DIRECTORS DECLARATION

In the directors' opinion:

1. the attached financial statements and notes comply with the *Corporations Act 2001* , including:

   a. complying with Accounting Standard AASB 134: *Interim Financial Reporting* ; and

   b. the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date;

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

Signed in accordance with a resolution of directors.

On behalf of the directors

Director

Dated this 26 day of February 2018.

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

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Litigation Capital Management Limited (the Company), and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2017, 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 half-year then ended, and notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including:

(i) Giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2017 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

BDO

BDO Audit (SA) Pty Ltd

G Edwards

G K Edwards
Director

Adelaide, 28 February 2018