

Appendix 4E - Final Report

IMF Bentham Limited

ABN 45 067 298 088

Financial year ended 30 June 2019

Results for announcement to the market

Current reporting period: 30 June 2019
Previous reporting period: 30 June 2018

Revenue and Net Profit

	Up/Down	Percentage Change	\$'000s
Revenue from ordinary activities	Up	87%	4,295
Total income	Down	(75%)	5,734
Loss from ordinary activities after tax	Down	(361%)	(36,148)
Loss from ordinary activities after tax attributable to members	Down	(228%)	(36,098)
Net loss for the period attributable to members	Down	(228%)	(36,098)
Other comprehensive income after tax for the period	Up	78%	10,723
Total comprehensive income after tax for the period	Down	(1,297%)	(25,425)

Dividends

The Directors have determined not to pay a dividend during the year ended 30 June 2019 to equity holders of the parent company.

Net Tangible Asset Backing

	Consolidated	
	2019	2018
	\$	\$
Net tangible assets per ordinary share	\$0.43	\$0.27
Net assets per ordinary share	\$2.52	\$2.12

Additional Appendix 4E disclosure requirements can be found in the Directors' Report, Financial Statements and the Notes to the Financial Statements contained in the IMF Bentham Annual Report for the year ended 30 June 2019.

Audit Report

This Appendix 4E (Final Report) is based on the audited financial statements for the year ended 30 June 2019, which are contained within the IMF Bentham Annual Report, attached.

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Annual Report 2019

IMF Bentham Limited

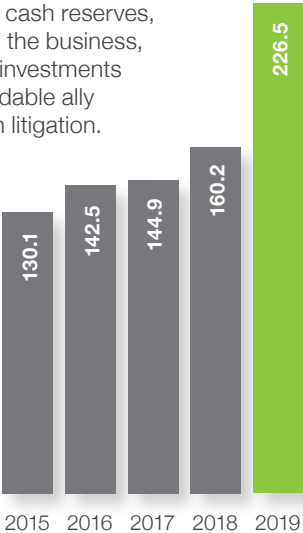
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Highlights

Cash up 41% to \$226.5m

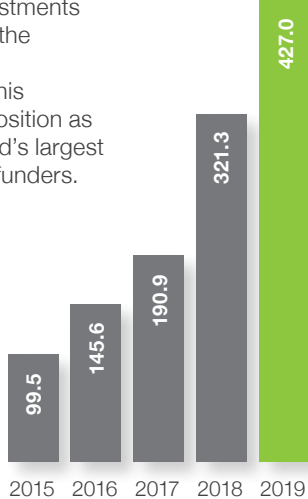
With significant cash reserves, we are growing the business, financing large investments and are a formidable ally (or opponent) in litigation.



Cash
(\$ Million)

Investments up 33% to \$427.0m

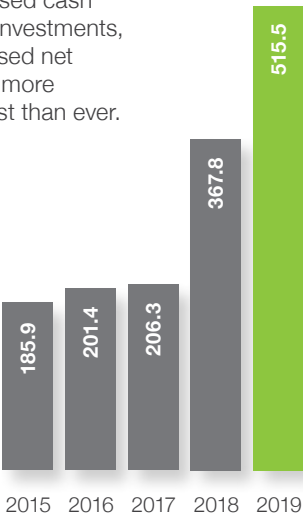
We have tripled the number of investments and increased the average size of investments. This cements our position as one of the world's largest and strongest funders.



Investments
(\$ Million)

Net assets up 40% to \$515.5m

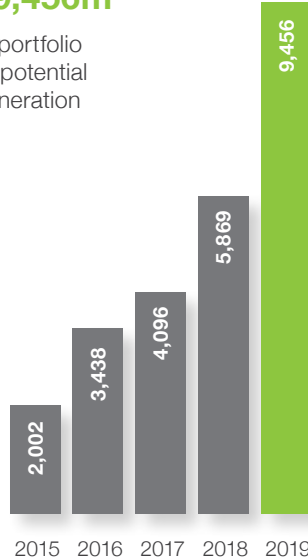
Through increased cash and increased investments, we have increased net assets. We are more financially robust than ever.



Net Assets
(\$ Million)

Portfolio value up 68% to \$9,456m*

Our increased portfolio represents the potential for proceed generation in future years.



Portfolio
(\$ Million)

* Portfolio value from 2017 includes conditionally funded investments and investments approved for funding by the Investment Committee, but not yet funded.

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Track Record of Success



\$2.39 billion
total recoveries

2.6 years
average investment length

\$1.49 billion
returns for funded claimants

83
active investments

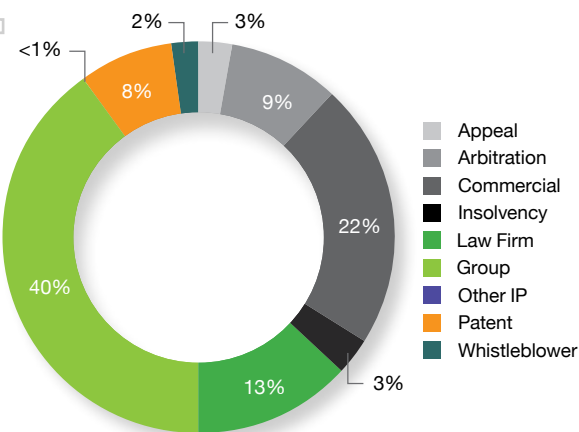
89%
success rate

192
investments funded to completion

1.3x
return on invested capital

Portfolio diversity increased*

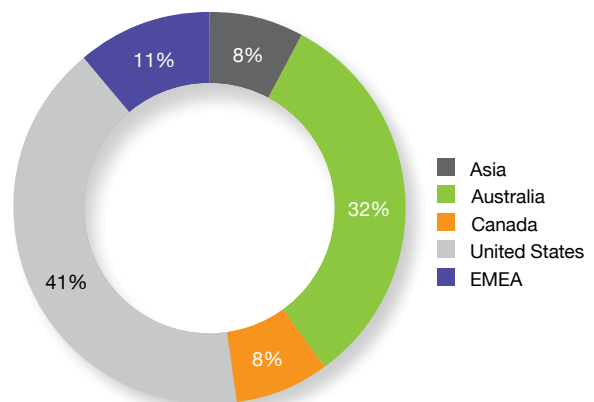
Our diversified portfolio mitigates risk and leverages market opportunities.



EPV by Investment Type
(%)

Portfolio more geographically dispersed*

Through geographical spread, we are more resilient to jurisdictional dynamics.



EPV by Geography
(%)

* Portfolio value from 2017 includes conditionally funded investments and investments approved for funding by the Investment Committee, but not yet funded.

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Chairman's and Managing Director's Report

Introduction

This year our progress has been transformational and IMF Bentham is almost unrecognisable from the organisation it was four years ago. We are committed to our long-range strategy of diversification across our business and we accept the impact this has on our current International Financial Reporting Standards (IFRS) results. We anticipate our future IFRS results will reflect the investment made in our strategy when our investment process completes its full cycle and meaningful completions are achieved.

We set in place an ambitious five-year strategic plan in July 2015 which involved redesigning the fundamentals of our business. This included diversifying our capital,

geography and investments with the over-arching objective of de-risking our business and building an enterprise that is future-fit for a dynamic world. In FY19 we continued our achievements in each area and we are well ahead of our self-imposed schedule to become one of the world's leading dispute resolution finance providers.

We are delighted to report that during the year we significantly grew and diversified our Investment Portfolio, increased our Funds Under Management including launching new Funds, completed numerous capital management strategies and expanded our global footprint. These achievements are consistent with our accelerated approach to a risk-adjusted investment strategy. We expand upon each of these below.

	1 July 2015	30 June 2019
Increased jurisdictional coverage	Australia, USA, UK	Australia, USA, Canada, Asia, EMEA
Increased investments¹	41	94
Increased EPV	\$2.0 billion	\$9.5 billion
Increased team	35	100+
Funds management	–	5 Funds (~\$2 billion)

FY19 Results

Profit and Loss

Our financial results this year continue to reflect that we have been implementing our transformational strategy to position our business for long-term performance. We have now largely concluded the transitional phase and expect to see more stabilised earnings moving forward.

We reported a net loss in our P&L this year as income was impacted by litigation results and an investment in our costs in line with our geographic and Fund expansion. FY19 results were also impacted by delayed completions for a number of investments (including Wivenhoe and

Westgem). Investments representing nine percent of our estimated portfolio value at 30 June 2018 were completed during this year. This is a lower figure than anticipated but is also a function of the exponential increase in the number of investments in recent years and the stage of our strategic plan implementation which is yet to mature into significant completions.

The results are equally reflective of an industry-wide phenomenon. The legal industry is reporting slower resolution rates in a number of jurisdictions due to the increased complexity of disputes² and a propensity for legal decision makers to increase spending on litigation and protract negotiations and/or proceed

1. Includes investments approved by the Investment Committee, funded and conditionally funded
 2. The BTI Consulting Group, BTI Litigation Outlook 2019: Changes, Trends and Opportunities for Law Firms, p 7

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to trial. Whether influenced by insurers, administrative or other commercial factors, this shift in litigious strategy impacts all parties involved in dispute resolution. Dispute management approaches can and do change over time, subject to market forces. As we have previously noted, these factors are beyond our control, but we do not expect the current dynamics to endure beyond the medium term.

This year our results were also impacted by the loss of two US-funded cases (including a bilateral treaty claim against Uruguay) and one in Canada. These investments were in our fund structures, so whilst the entire losses flow through our consolidated accounts the cash impact is minimal.

At the end of FY19 the claim we funded against Ashley Services Group Ltd settled (and is included in our FY19 results) and actions against Murray Goulburn Co-operative Co Limited/MG Responsible Entity Limited, Sirtex Medical Limited and Forge Group Limited were successfully settled with financial returns from those investments to be accounted for in our FY20 results (assuming court approval and satisfaction of any other conditions). After the close of FY19, the claim against two respondents in a confidential Australian matter settled, and the shareholder class action against UGL settled in principle. There was also a settlement in

principle in a confidential US bankruptcy investment and a settlement in a confidential US appeal funding. Results will be recorded in FY20.

This year we grew our team by 28 employees to 101 employees as at 30 June 2019, with important senior appointments in each jurisdiction. This increased our employee benefits expense.

Our IFRS results contrast with our cash results this financial year, which reflect a cash operating profit of \$6.4 million (excluding non-cash items, and adding back capitalised expenses for the period).

Balance Sheet

We have grown and diversified our investment portfolio significantly throughout FY18 and FY19 and acknowledged that it would take time for our P&L to reflect the benefits of this strategy. Based on an average realised investment gestation of 2.6 years from initial commitment of funds to final resolution and return on investment, coupled with any market dynamics which may extend that lifespan, we anticipate completions from FY20 onwards. As noted above, completions have commenced already.

Our net assets are \$515.5 million representing an increase of more than 40% (14% increase before non-controlling interests).

Cash v IFRS Results

	2019 \$'000	2018 \$'000
Cash inflows from operating activities		
Proceeds from litigation funding - settlements, fees and reimbursements	43,179	94,893
Cash outflows from operating activities		
Payments to suppliers and employees	(35,625)	(44,316)
Income tax received/(paid)	3,459	(13,231)
Net interest paid	(4,630)	(6,078)
Cash operating profit	6,383	31,268
Less:		
Net impact of classification of litigation intangible related cashflows to Investing Activities	116,851	106,999
Net Fund establishment costs	344	-
Share based payments, depreciation & other non-cash items	7,837	5,964
Unrealised foreign exchange gain	(3,535)	(4,311)
Net change in assets & liabilities	(78,966)	(69,537)
	42,531	39,115
Net (loss)	(36,148)	(7,847)

Chairman's and Managing Director's Report

continued

Investment Portfolio

Portfolio overview

As part of our diversification strategy, we have grown our overall global investment portfolio as well as varying the types, sizes and geographic orbit of the investments within the portfolio. Our global investment portfolio is now larger and more diverse than ever before. As at 30 June 2019 our global portfolio³ comprised 83 active investments, including investments in portfolios of cases (which we count as single investments) and 11 investments approved on a conditional basis.

Our investments (40 US and 54 RoW⁴) total \$480 million in capital commitments. This year we set a target to commit \$172 million, a 17% increase in capital and have exceeded that target by 30% (with funded and conditionally funded investments).

We are seeing increasing demand for large scale investments and this year committed to our two largest individual Fund investments to date, a US\$20 million portfolio of cartel cases and an US\$18 million investment into a single pre-judgment case. We anticipate our average investment size (currently A\$2.4 million) will materially increase in future.

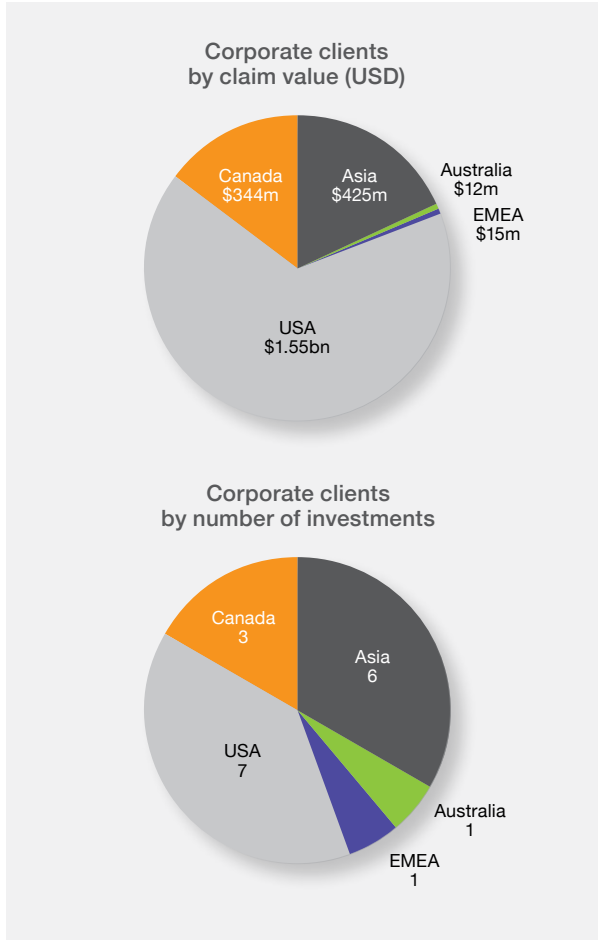
We are also pursuing new investment types in the corporate sector, in which we finance litigation disputes for companies (and their advisers) who have the financial means to pursue their disputes but elect to use our dispute resolution finance as a capital and risk management strategy. Over the past 24 months we have been developing this business line and now identify 20% of our current portfolio (18 investments) as emanating from corporate clients.

Funding applications

With changes in regulatory environments and the increasing acceptance of third-party finance for capital and risk management, there is growing demand for dispute resolution finance around the world. We have expanded our teams and our business development activities to capitalise on this and have leveraged our strong reputation to become a funder of choice in this growth industry. This is reflected in the increased number of funding applications we are receiving.

Since the beginning of FY16 we have recorded a 118% increase in the number of new funding applications

Almost 20% of our portfolio is financing claims for corporates



globally, with notable increases in the growth markets of Asia, Canada and the EMEA. In FY19 we received 974 new funding applications globally, of which 93 were progressed to the Investment Committee for consideration, and 36 were ultimately funded (including conditional and unconditional funding).

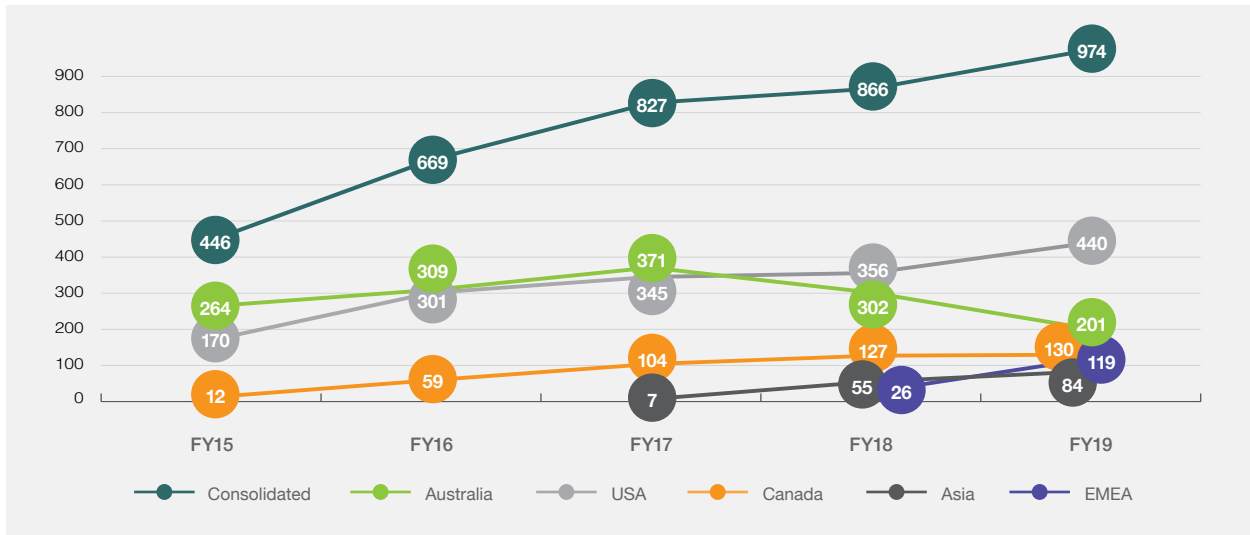
We also have an extremely attractive pipeline with an additional 55 matters in the underwriting phase of our investment cycle, where we consider the investment against the criteria we have established in our investment management system.

3. This includes all investments which are owned, managed or advised upon by a member of the IMF Bentham Group
 4. Rest of World

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Funding Applications (number of applications)



Quality Control

Our rigorous investment filtering remains unchanged and we continue to convert approximately 5% from initial application to ultimate investment. Notwithstanding the expansion of our geographic footprint, we do not expect that our conversion rate will alter. We intend to remain rigorous in our case selection, to maintain our success

rate, manage the costs of our insurance and returns to our shareholders and to the investors in our Funds.

Deploying capital expediently is tempting and can be relatively straightforward, but selectively screening investments to build a *quality* portfolio and supporting each investment with on the ground expertise, requires discipline and know-how.

Investment Funnel FY19



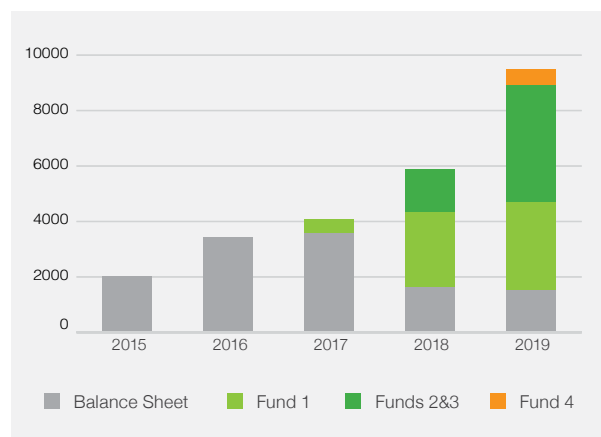
Estimated Portfolio Value

During FY15 we committed, or agreed to commit, \$54 million. Fast forward to FY19 and we committed, or agreed to commit, \$223.6 million, reflecting a compound annual growth rate (CAGR) of 43%.

We have now grown our EPV, as defined in our quarterly portfolio announcements, from \$2.0 billion in 2015 to \$9.5 billion in 2019 (including IC approved and conditionally funded investments)⁵. This represents a CAGR of 48%.

The average duration of our completed investments has remained consistent since FY15 at approximately 2.6 years and, on this basis, we would expect all current investments are likely to resolve in the next 3 years.

Estimated Portfolio Value (EPV) growth change (2015-2019)



5. This includes all investments owned, managed or advised upon by a member of the IMF Bentham Group.

Chairman's and Managing Director's Report

continued

Fund Management

One of our critical strategies for expanding and de-risking our business involves diversifying our sources of financial capital and investment vehicles and transitioning from balance sheet investing to managing fund structures. At the end of FY15, 100% of our investments were made from our own balance sheet. Today, our investments are spread between our direct, 100% owned balance sheet and fund structures, in line with our capital diversification goals. No new investments have been made via our balance sheet since we launched Funds 2 & 3 in 2017 and only 25% of our investments (by number) remain on our balance sheet, which is in 'run-off' mode. The remainder of investments sit within fund structures.

We have significantly increased our funding capacity with the launch of our fund structures, particularly the most recent Funds 4 and 5, and we now have close to \$2 billion in Funds Under Management, making us one of the largest specialised dispute resolution financiers in the world.

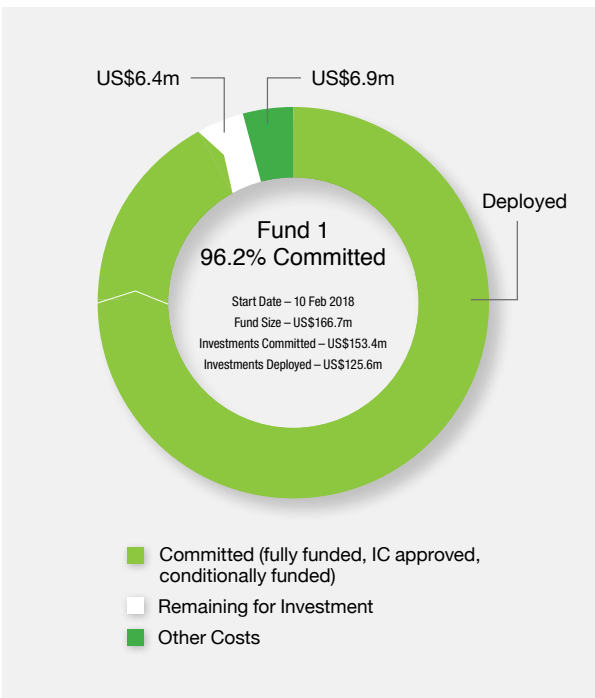
Our strategy is to remain a meaningful minority investor in each of our Funds to harness investment returns as an equity participant, with management revenue from returns on third party capital.

Fund 1 (US investments)

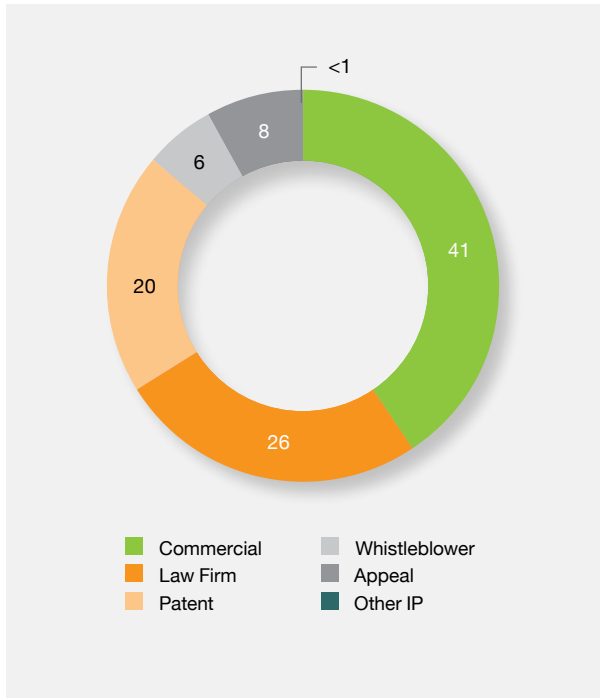
When we launched our first US Fund (Fund 1) in February 2017, it had an initial capacity of US\$133.3 million and we anticipated a life span of several years. However, we exceeded investment targets and increased the Fund capacity to US\$166.7 million in February 2018.

There has been significant growth in the market's appetite for dispute resolution finance and our expanded US investment team has been maximising this opportunity. As at 30 June 2019 the Fund is fully drawn. It has committed 96.2% of available capacity, with a total of US\$153.4 million in investments of which US\$125.6 million has already been deployed. The exclusivity period for Fund 1 expired in April 2019, allowing us to commit new investments from our next US Fund (Fund 4) where those investments exceed Fund 1's mandate or capacity.

Fund 1



Fund 1- EPV by Investment Type (%)



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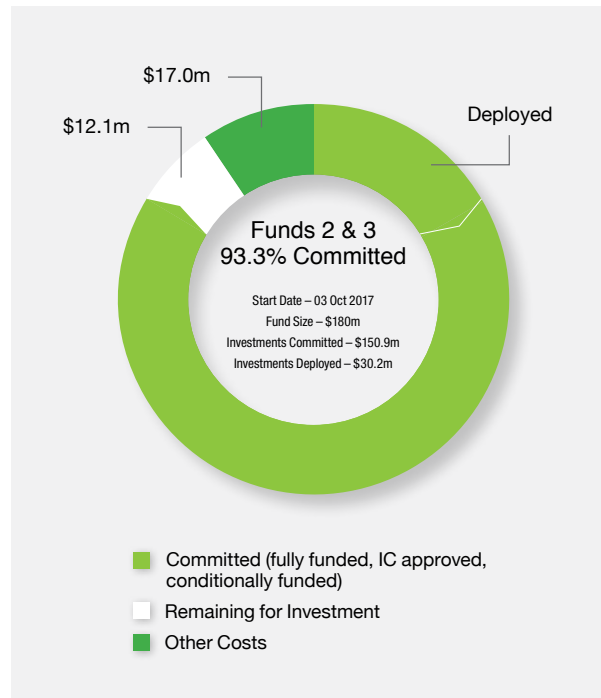
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Funds 2 & 3 upsized (Rest of World investments)

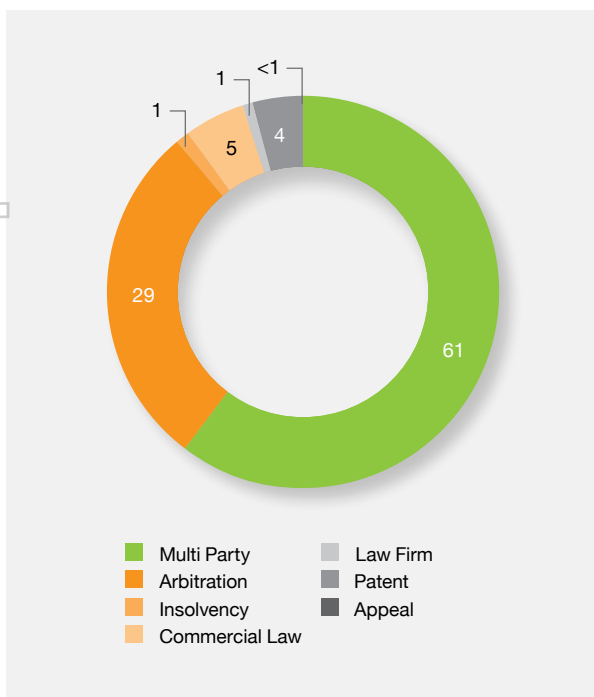
We have experienced strong market demand for investment funding across all our jurisdictions. Since FY15 we have recorded a 93% increase in funding applications outside the US. While dispute resolution finance is becoming mainstream, increased demand has also followed regulatory changes in some jurisdictions. Demand is particularly strong in Asia and Canada where dispute resolution finance is relatively new and we are establishing a market and a leading presence.

In response to market appetite, and thanks to the efforts of our talented Investment Managers who source investment opportunities, our two funding vehicles for non-US investments approached their capacity ahead of schedule this year. Funds 2 & 3 (collectively known as 'RoW Funds') were originally launched in October 2017 with \$150 million to fund cases across Australia, Asia, Canada and EMEA. In January 2019 we increased their capacity to \$180 million to meet market demand. As at 30 June 2019, \$150.9 million was committed to investments in Funds 2 & 3, representing 93.3% of the upsized capacity of the Funds. Accordingly, we progressed to our next capital raising for RoW this year - Fund 5.

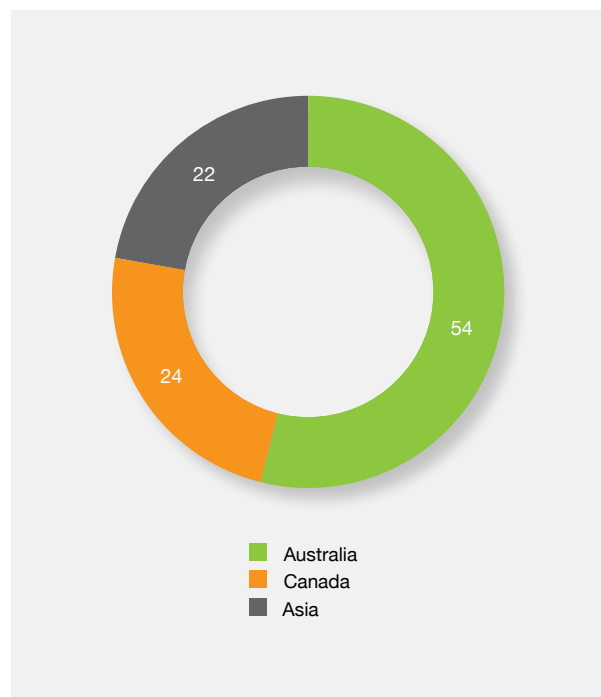
Funds 2 & 3



Funds 2 & 3 - EPV by Investment Type (%)



Funds 2 & 3 - Total EPV by Geography (%)



Chairman's and Managing Director's Report

continued

Fund 4 launched (US investments)

Our second US Fund (Fund 4) was launched in November 2018, only 21 months after launching Fund 1 and only nine months after upsizing Fund 1. Since FY15 we have experienced a 159% increase in qualified applications for funding in the US and greater interest in larger deals. Fund 4 positions us to meet market demand and also commit to larger individual investments.

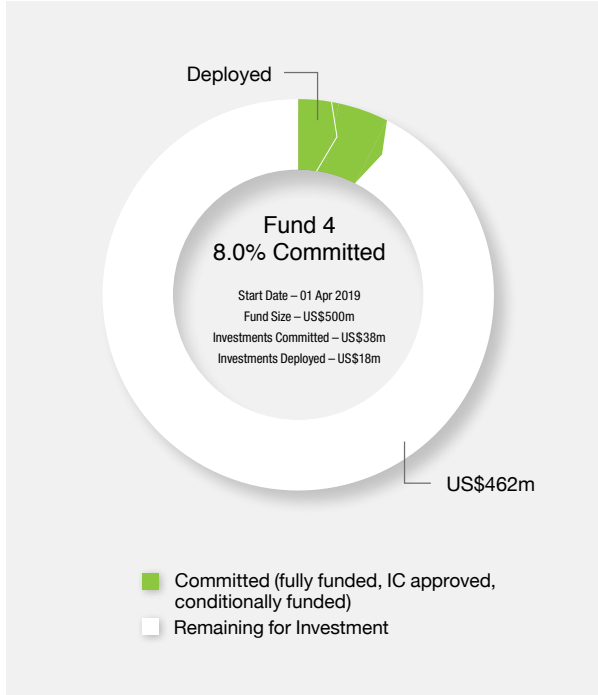
Fund 4 was launched with an initial size of US\$500 million and the potential with fund investor consent to increase the Fund to US\$1 billion following investment of the initial capital.

We commenced making investments in Fund 4 in April 2019 with the end of Fund 1's exclusivity. As at 30 June 2019 Fund 4 has already committed US\$38 million, including our two largest individual investments to date (as those commitments exceeded the individual investment caps imposed in Fund 1). Fund 4 has already deployed US\$18 million.

The majority of capital for Fund 4 was committed by external investors, reflecting strong investor confidence in our business. Our investors in Funds 2 & 3 demonstrated their faith in our model by returning to invest in Fund 4, along with a prominent new US university endowment fund. These investors provided the entirety of the external capital, which means that investor management issues should be minimised.

Fund 4 has elevated concentration caps to meet new market demands for larger investments. It also has a reduced cost of capital to allow for more competitive pricing for new investments. Fund 4 is an example of the continued evolution of our business model and, together with Fund 5 below, constitutes our 'second generation' Funds as they have a different economic structure to Funds 1, 2 & 3 (our 'first-generation' Funds). Fund 4's architecture reduces risk as IMF Bentham's returns are pro-rata alongside investors and also generates timely management fees (and performance fees, subject to requisite returns).

Fund 4



Fund 5 launched (Rest of World investments)

In preparation for Funds 2 & 3 reaching full capacity, we successfully launched our latest RoW Fund (Fund 5) in June 2019, with an initial capacity of US\$500 million and the potential with fund investor consent to increase the Fund to US\$1 billion following investment of the initial capital.

Fund 5 was launched only twenty months after launching Funds 2 & 3 and only five months since upsizing those initial RoW Funds. When we launched Funds 2 & 3 in October 2017 we anticipated a life span of several years, but we have exceeded all investment targets due to the expanding market for dispute resolution finance and our expanding global investment team who are harnessing market opportunities.

Fund 5 is our latest 'second generation' Fund and represents a more optimal model of returns, in line with the structure of Fund 4 above.

As at 30 June 2019, Fund 5 had not commenced activity.

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Strategic Capital Management

Equity raised

During the year we raised \$76.1 million (excluding costs) in new equity from retail and institutional shareholders. The equity raising attracted strong interest from existing and new investors and enables IMF Bentham to meet some of its commitments to the new Funds 4 and 5 as well as to pursue strategic growth initiatives, including expanding existing and new operations.

Bond restructured

In an exercise of prudent financial management, this year we restructured our listed bonds by moving to increase our debt ceiling from \$150 million to \$300 million and extending its maturity date to December 2022 with an

option to extend further to December 2023. Even though the bonds now allow for an increase debt ceiling, until the notes are restructured or refinanced, IMF remains with a \$150 million ceiling. Our business and our industry are both in their growth phase and this is not the time to be cash constrained. It is precisely the time to accelerate our activities and build our business operations to increase market share and cement a global leadership position.

Notes refinancing

In addition to the above, we have debt in the form of secured notes which are due to mature on 30 June 2020. We are in the process of considering restructuring these notes to achieve similar objectives as those achieved with our bond restructuring.



IMF Bentham is almost unrecognisable from the organisation it was four years ago.

Hugh McLernon
EXECUTIVE DIRECTOR



Chairman's and Managing Director's Report

continued

Geographic Expansion

We have continued to grow our business organically by expanding our teams in each jurisdiction including Australia, Asia, Canada, the US and EMEA. This year our team grew to 101 people. Our key team members are profiled on our website.

Geographic expansion is one of the most challenging, yet most important, strategies for our business. Today's disputes involve multi-national and multi-lingual parties facing multi-jurisdictional issues and cross-border recoveries. A global team is essential to identifying investment opportunities and servicing these client needs. And a global investment portfolio is more immune to changes in domestic political, economic, social, technological, regulatory and environmental landscapes and more resilient to competition. Spreading our footprint across jurisdictions helps us build a higher value investment portfolio that is more resilient to market forces.



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Focus Areas

In a number of our jurisdictions our team has extensive expertise funding multi-party actions for claimants who would otherwise have no access to justice. It is an important role in the community and a valuable part of our investment portfolio and we have earned a solid reputation for our work in this field. However, group actions represent only 21% (by number) of our global portfolio. Most of our business is outside this domain and involves financing commercial claims and recoveries for parties across many areas of law and industry sectors. Whether providing dispute resolution finance for insolvency-related claims (our heritage) or a high-tech start-up, our offering has numerous applications.

We have cross-jurisdictional focus groups who deliver specialised expertise, global coordination and operational efficiencies to our funded clients. By sharing client relationships and know-how, the group formation also mitigates risk for our business. Below are just some of our areas of focus.

General dispute resolution finance for corporates

Opportunities exist to finance commercial disputes of all types, across all industries. There are numerous signals that the corporate market is ripe for innovation in its capital and risk management methods and we are able to assist.

Empirical studies reveal consistent themes across commerce: in-house corporate legal departments are increasingly in-sourcing legal work and they must continually achieve more with constrained resources. When they do out-source, they are venturing beyond prestige providers in the pursuit of value, exploring alternative legal service providers (ALSPs), and forming hybrid project teams with best-of-class individuals from multiple suppliers. Corporate counsel are seeking ways to turn their legal departments into revenue centres and deliver strategic value to their companies. Some innovators have already interrogated their dormant legal claims and claims management protocols. In these organisations recovery programs have netted hundreds of millions of dollars in revenue. Embarking on such programs with the aid of our finance and due diligence capabilities is appealing to companies who are actively exploring bespoke solutions with us.

On the other side of the equation, professional services firms are promoting practitioners who demonstrate innovation for their clients and their firms and many are talking to us about alternative finance options for clients and for firm liquidity. This year we entered into the largest single law firm portfolio finance arrangement in our history (US\$20 million) and developed finance options for many corporates and law firms to consider in their dispute management arsenal.

The global legal services market is estimated to have grown 5.3% in 2018 to reach a value of \$951.39 billion and is estimated to reach \$1,191.7 billion in 2023⁶. Litigation represents approximately 40% of legal spend and the plaintiff portion relevant to our business constitutes a sizeable addressable market. If defence funding is added (i.e. in the context of mixed portfolio funding), along with latent claims that may not have been progressed due to lack of funds, the potential market for our product is galvanising for us. And of course, these estimates only reflect likely legal costs. They do not reveal the claim value of the underlying litigation assets.

Although it can take time to shift behaviour, especially in conservative industries, we are diligent in explaining our offering to the market and perceptions are changing. We are building relationships with companies across industry sectors who are considering using dispute resolution finance to defray legal expenses and mitigate risks. This trend is expected to continue as more companies discover the benefits of non-recourse finance for dispute resolution.

6. MarketLine Industry Profile, January 2019, Global Legal Services, Reference 0199-0423, p 7-8

Chairman's and Managing Director's Report

continued

Insolvency and bankruptcy

Our significant experience providing insolvency dispute resolution finance dates back to our first cases in Australia almost twenty years ago. Today, our global insolvency team spans six countries and helps insolvency practitioners, creditors and other stakeholders involved in commercial disputes around the world.

In 2018 there was an upward trend in business insolvencies globally, particularly large business insolvencies, and notably in Asia and Western Europe. In England and Wales, an estimated total of 17,439⁷ companies entered insolvency in 2018, an increase on the prior year. In 2019, business failures are expected to rise in most countries for the third consecutive year as global financing conditions tighten. Key affected industries are likely to include retail, oil and gas, healthcare and medical (North America), construction (Asia), and retail, agri-food, services and construction (Western Europe).

The volume of large corporate bankruptcies in the US and Canada remains below historical levels but most experts believe this trend will reverse in 2019 and beyond. A combination of higher interest rates, softening business spending and a potential trade war with China, the world's second largest economy, will impact the broader economy. In the US, bankruptcy and insolvency work accounts for 3.4 – 4.5% of legal industry revenue, translating to A\$16.03 billion annually⁸.

Our Asia team became pioneers of insolvency funding in Singapore when, in September 2018, the High Court of Singapore endorsed our funding arrangement to finance investigations and potential claims against directors and auditors of the failed Trikomsel entities. This major corporate collapse cost Singaporean retail investors hundreds of millions of dollars and this was the first insolvency matter in Singapore to be funded by a commercial third-party funder.

In Canada, we are conditionally funding an action by an insolvent debtor, Bluberi Gaming Technologies, against its main creditor for alleged predatory lending. When approving our funding, the insolvency court observed "litigation funding is now the only avenue that can potentially allow for any meaningful recovery for the creditors". The funding approval is now the subject of an application to the Supreme Court of Canada. If the application is granted, the case will represent the first opportunity for Canada's highest court to consider litigation funding in insolvency (or indeed in any context), thus emphasising our pioneer status in that jurisdiction.

7. Orchard Reports & IRN Research, UK Legal Services Market 2019: Market Trends Report, p 58; ONS Insolvency Statistics
8. O'Connor, C, February 2019, IBISWorld Industry Report 54111, Law Firms in the US, IBISWorld 2019, p 14 and Thomson Reuters Peer Monitor & Georgetown Law, 2019 Report on the State of the Legal Market, p 5



Litigation funding is an important part of the insolvency industry. Even if financially-strapped companies can muster the cash to pay lawyers, experts and other litigation costs, stakeholders want to see critical resources put toward turnaround efforts, not dispute resolution. For creditors burned by an improper, ill-fated transaction, or who have been the victim of fraud, dispute resolution finance may be the only viable path toward recovery.

Ken Epstein
INVESTMENT MANAGER,
LEGAL COUNSEL AND SENIOR
BANKRUPTCY AND INSOLVENCY
PRACTITIONER



Chairman's and Managing Director's Report

continued

International arbitration

International arbitration has become the preferred form of dispute resolution for many cross-border commercial disputes. It offers multi-national parties neutrality, confidentiality, specialist decision-makers, finality and enforceability. As a result, international arbitration has experienced significant growth over the past decade and leading arbitration centres have recorded increasing commercial caseloads. Similarly, the International Centre for Settlement of Investment Disputes (ICSID) reported more investor state arbitrations in 2018 than in any previous year, reflecting a continuing growth in treaty arbitrations.

However, international arbitration can be complex and expensive. Costs of international arbitration continue to rise and many consider the legal fees and related costs to be among its worst features. Arbitration parties and counsel are seeking innovative ways to finance their matters and legal regimes around the world have responded by relaxing or enacting regulations to allow dispute resolution finance. Arbitration funding has now become an integral part of the future of the global arbitration market.

Our company is well-poised to capitalise on this growth opportunity, with seasoned international dispute resolution team members located in the key jurisdictions for arbitration. Our international arbitration team has funded matters in various regions around the world. In Asia, where Asia-based companies and Asia-related transactions are increasingly sources of international disputes, we are funding one of the first international commercial arbitration cases to be funded in Singapore. We have since approved funding for several more. On the other side of the globe, our US team has funded international disputes and sees international arbitration as an important area of growth for our business.



In the commercial space, complicated joint venture relationships, complex transactions in the energy space, and cross-border transactions relating to licensing of intellectual property often lead to expensive arbitrations with sizeable damages claims. In the investor-state context, an investor may have lost everything of commercial value when a government suspends or takes over a project. We act as vital partners bridging the gap between holding a claim that could yield significant recoveries and pursuing it in an arbitral forum.

Dana MacGrath
INVESTMENT MANAGER,
LEGAL COUNSEL AND SENIOR
ARBITRATION PRACTITIONER

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Intellectual property

Intellectual property (IP) litigation is one of the fastest growing litigation practice areas, both in terms of the number of cases and their complexity⁹. Where IP is essential to a company's business model, significant litigation spending is often required to protect IP assets, monetise portfolios and guard against infringing competition.

We see significant potential to fund IP cases such as those involving patent, trademark and copyright infringement, as well as trade secrets misappropriation on behalf of businesses, educational institutions and other creators of IP. We also see growing opportunities to provide funding to law firms directly in some of our jurisdictions for their portfolios of client IP claims. Industries such as life sciences, chemicals and manufacturing present particularly strong fields of play.



IP cases are often extremely valuable, but it can take a long time and substantial resources to unlock their value and achieve recoveries. Such cases are therefore particularly suitable for funding. With our geographical footprint, we are poised to help claimants implement global strategies for successful enforcement of their IP.

Sarah Tsou

INVESTMENT MANAGER, LEGAL
COUNSEL AND SENIOR INTELLECTUAL
PROPERTY PRACTITIONER



9. The BTI Consulting Group, BTI Litigation Outlook 2019: Changes, Trends and Opportunities for Law Firms, p 6

Chairman's and Managing Director's Report

continued

Updates from around the world

Asia

The dispute resolution finance industry continues to develop in Asia and we are experiencing significant growth in the demand for our product and service.

We were one of the first international dispute resolution funders to establish permanent offices in Hong Kong and Singapore (the region's primary international disputes hubs) and have committed the most permanent presence in Asia relative to competitors. Having Investment Managers on the ground means we can identify potential investments and respond quickly to business opportunities across the region. This includes reaching beyond Singapore and Hong Kong to other jurisdictions where our team is also active including China, India, Japan, South Korea, Malaysia, Indonesia, Thailand, the Philippines and Vietnam. In many of these jurisdictions we find ourselves making, not taking, a market.

Regulatory environment

Singapore and Hong Kong have actively embraced third-party funding in arbitration and insolvency to increase their competitiveness as leading centres for international dispute resolution.

Singapore now expressly permits third-party funding of international arbitration (and related court proceedings) and commercial litigation related to insolvency proceedings. Policy-makers may broaden the categories of permitted commercial dispute resolution funding. In the meantime, Singapore courts appear willing (where appropriate) to develop the common law where legislation is not in place.

In Hong Kong, a new framework permitting the funding of international arbitration came into operation on 1 February 2019 and we are already receiving funding enquiries. The regime includes new legislation (enacted June 2017)¹⁰ and a detailed Code of Practice released by the Department of Justice in December 2018¹¹. The permission of third-party funding for arbitration is an exception to Hong Kong's general prohibition of maintenance and champerty (which remains a tort and criminal offence despite its almost complete abolition in other common law jurisdictions).

One of our Investment Managers, Cheng-Yee Khong, is a member of the Hong Kong International Arbitration Centre (HKIAC) Task Force on Third Party Funding which provided comments on the draft Code of Practice during the public consultation period.

Hong Kong courts have also validated third-party funding for insolvency proceedings and there are no regulatory changes to this regime. Commercial litigation unrelated to insolvency proceedings remains heavily restricted in Hong Kong.

Beyond Singapore and Hong Kong, the majority of our remaining Asian markets are civil law jurisdictions where maintenance and champerty do not exist and, for the most part, litigation funding is neither expressly permitted or restricted.

Competition

Our Asia-based team is larger than any other funder offering and has the greatest depth of local expertise in international arbitration and litigation. We remain the only international dispute funder with full service investment assessment and management capabilities on the ground in Asia. Our competitors in this region tend to fly in or rely on referrals from international law firms.

Addressable market

Our team pursues opportunities across Asia which is the fastest growing economic region in the world. The collective growth of the region is forecast to accelerate to a CAGR of 6.7% for the five-year period 2018-2023, aided by liberalisation in many Asian countries¹².

Asia is also the largest continental economy by both GDP (nominal) and purchasing power parity. According to Citigroup, nine of the eleven Global Growth Generating countries (sources of growth potential and profitable commercial investment opportunities) came from Asia, including China, India, Vietnam, Indonesia and the Philippines¹³. Significant investment opportunities give rise to high-value commercial cross-border disputes and, in turn, potential demand for dispute resolution finance.

It is difficult to accurately estimate the size of the potential market for dispute resolution finance in Asia. Asia is not one homogenous legal market, but a composite of legal systems, languages and customs. In addition, information regarding some litigation and dispute resolution activity is not readily available and some jurisdictions have restrictions on the types of disputes where funding can be applied.

10. Arbitration and Mediation Legislation (Third Party Funding) (Amendment) Ordinance 2017

11. Hong Kong Department of Justice, Code of Practice for Third Party Funding of Arbitration, 7 December 2018

12. MarketLine Industry Profile, January 2019, Legal Services in Asia Pacific, Reference 0200-0423, 2019, p 7-8

13. Citigroup Global Markets Inc, 21 February 2011, Global Growth Generators: Moving beyond 'Emerging Markets' and 'BRIC'

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Two years into our Asia expansion we are seeing continued exponential growth in applications and funded cases. The international nature of business in Asia means we often collaborate with our colleagues across the IMF Bentham network, leveraging our capabilities in North America, Europe and Australia to provide our funded parties with unmatched jurisdictional and sector expertise. Our talented Asia team has doubled in size and we anticipate further growth as we push into more markets across the region. The potential here is enormous and IMF Bentham is leading the charge.

Tom Glasgow
CHIEF INVESTMENT OFFICER
ASIA



Chairman's and Managing Director's Report

continued

As arbitration funding forms the bulk of our current activity in Asia, statistics from the leading arbitral institutions in the region provide some insight into the addressable market for international commercial arbitration. We estimate the total claim value of the combined 2018 new case load of the Hong Kong International Arbitration Centre (HKIAC), Singapore International Arbitration Centre (SIAC) and International Chamber of Commerce (ICC) (Asia-related cases) at A\$24.25 billion across a total of 1004 cases¹⁴. Importantly, this only represents a small fraction of the international commercial arbitration market in Asia as it does not include ad hoc arbitration or other institutions handling Asia related cases.

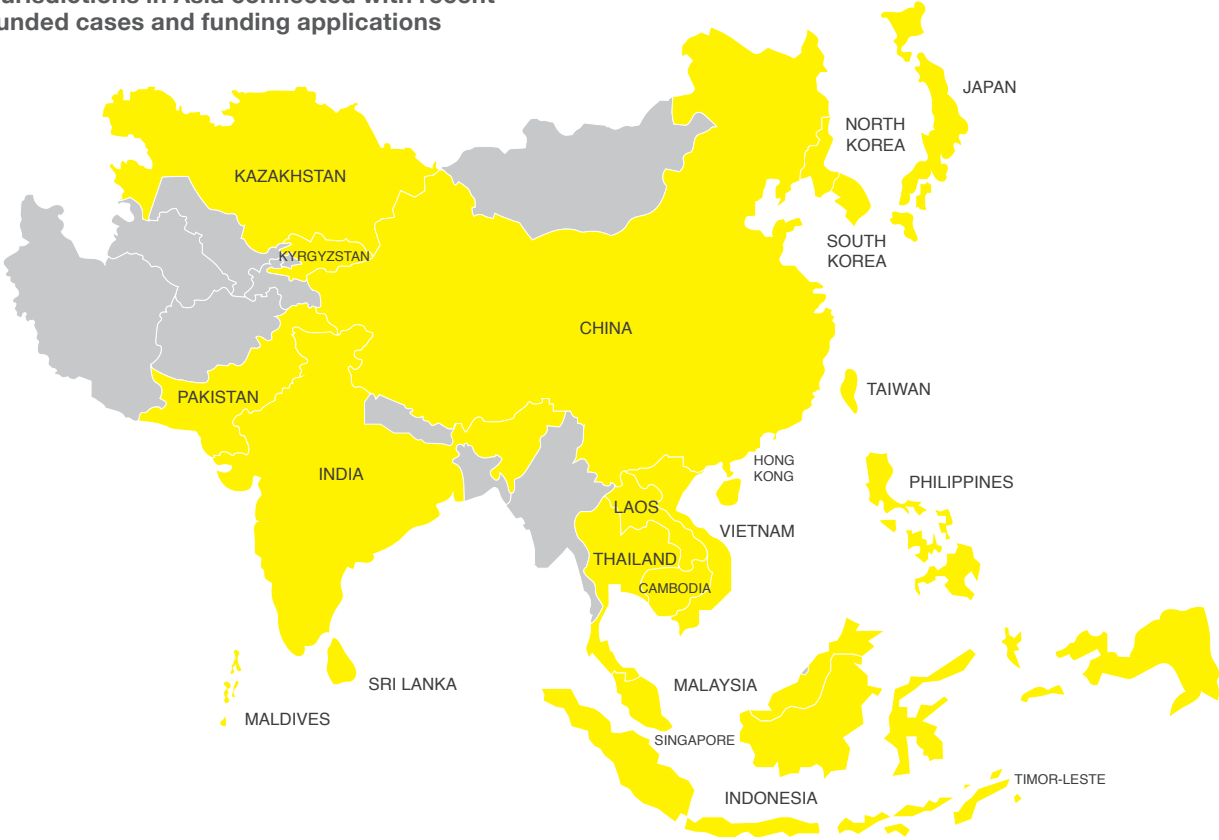
Investment treaty arbitration also represents a significant market for dispute resolution finance. Recent studies estimate the average claim size in investor-state arbitration at US\$719,334,000¹⁵. We estimate the total claim value for investment treaty arbitration in Asia is at least US\$10 billion (A\$14.23 billion). Again, this does not include ad hoc or other institutional arbitration which may be required under some investment treaties.

We estimate the total addressable market for dispute resolution finance associated with the combined case load above to be approximately A\$3.85 billion.

“We and the client chose IMF Bentham for one of the first third-party funded arbitrations in Singapore based not only on the competitive financial terms being offered, but due to their knowledge and experience in international arbitration, which counsel can benefit from to optimise the case presentation.”

Mark Mangan
PARTNER, DECHERT LLP

Jurisdictions in Asia connected with recent funded cases and funding applications



14. Approximate figures derived from publicly-released statistics provided by the institutions, applying the relevant average foreign exchange rate on 30 June 2019.
15. Allen & Overy, 14 December 2017, Investment Treaty Arbitration: cost, duration and size of claims all show steady increase

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I was honoured to contribute to Hong Kong's Code of Practice for arbitration funding, which enables businesses to benefit from Hong Kong's leading arbitration services, regardless of where they are located.

Cheng-Yee Khong
ASSOCIATE INVESTMENT MANAGER
AND SENIOR ARBITRATION
PRACTITIONER



Chairman's and Managing Director's Report

continued

Australia

Since pioneering the modern-day dispute resolution finance industry in Australia 18 years ago, we are honoured to retain the leading market position here despite increased competition.

The last few years have seen an increase in multi-party (class action) proceedings in the Australian market and competition to finance these, particularly shareholder (securities) actions. There is an increased likelihood of competing class actions (where separate law firms, each with a different litigation funder, begin proceedings against the same defendant for the same or similar sets of claims). The courts and parties have been developing ways to deal with the changing landscape including: the court choosing one funder/lawyer group over others; ordering one funded proceeding to continue as an open class and a separate action to continue as a closed class; and requiring cooperation between the lawyer and funder teams.

Regulatory environment

On 24 January 2019, the Australian Law Reform Commission (ALRC) released its Report resulting from its federal Inquiry into Class Action Proceedings and Third-Party Litigation Funders. The Report made recommendations relating to case management for class actions, settlement approval, regulation of litigation funders, solicitors' fees and conflicts of interest, regulatory redress and continuous disclosure obligations. We contributed to the Inquiry, alongside industry participants. We expect further consultation before any legislation is considered but timing is unclear. It is also possible that when the Report is re-visited, some issues may have been clarified by the High Court or Full Federal Court in the meantime.

Last year the Victorian Law Reform Commission (VLRC) also undertook an Inquiry into Litigation Funding and Group Proceedings. Following the publication of the VLRC's final Report in June 2018, there do not appear to have been any significant developments. This may be partly due to the political landscape and the subsequent ALRC Report.

In February 2019, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (known as the Banking Royal Commission) released its final Report. Although not directed to our industry, the Commission uncovered evidence of corporate misconduct which may impact our business in two ways: additional class actions may arise and there will be tightened corporate governance requirements affecting all businesses trading in Australia. We consider both to be positives.

Competition

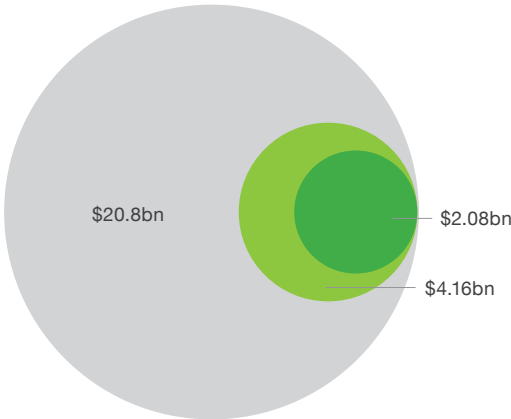
In the last few years, the number of funders active in the Australian market has increased although not all are necessarily in the areas we fund or would compete to fund larger claims.

Addressable market

Australia's legal services market in 2018-19 is estimated at \$20.8 billion and is forecast to grow at an annualised rate of 2.0% over the next five years to reach \$22.9 billion in 2023-24¹⁶. Regulatory changes and the Banking Royal Commission have contributed to demand for legal services.

Approximately 20% of the legal services market is attributed to dispute resolution and it is reportedly the largest growth practice area¹⁷. Based on these figures we estimate a potential annual plaintiff legal spend of \$2.08 billion. However, this does not include additional disputes which are either managed in-house or not being progressed. There are also opportunities to fund defence costs as part of a portfolio that includes plaintiff-side/affirmative claims (e.g. in mixed portfolio financing for corporates), so the total addressable market for our funding is potentially larger than the above estimates. As the industry penetration rate for funders is estimated to be low in the Australian market, the potential for growth is encouraging.

Total Estimated Addressable Market for Australia



- Total Estimated Annual Market Legal Spend
- Estimated Litigation Portion of Total Legal Spend
- Estimated Total Addressable Market as % of Total Legal Spend

16. Do, K, February 2019. IBISWorld Industry Report M6931 'Legal Services in Australia', IBISWorld, p 5

17. Thomson Reuters & Melbourne Law School, 2018 'Australia: State of the Legal Market', p 5

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“IMF stands above its competitors in sophistication, ease to work with and competence.”

John Dalzell
PARTNER, DENTONS



The Australian business is in an excellent position for ongoing success in the next phase of development in the rapidly evolving market. One of our priorities is to assist corporate clients with their cost and risk mitigation strategies.

Tania Sulan
CHIEF INVESTMENT OFFICER
AUSTRALIA



Chairman's and Managing Director's Report

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Canada

Our Canadian business commenced operations in 2016 and has since made significant headway in introducing dispute resolution finance to the Canadian market.

In the short period we have been operating in Canada we have established our brand as the pioneer in the market, we have seen increasing demand for a range of funding products and we are well placed for further growth and geographic expansion.

Regulatory environment

The province of Ontario has class actions legislation which is nearly 25 years old and the government is now reviewing the regime. Class actions throughout Canada have grown in number, size and complexity and the Law Commission of Ontario has recently completed a comprehensive assessment of users' experience to develop recommendations to update the regime. Although third-party funding is only a minor component of the review, we were grateful for the opportunity to contribute as part of the public consultation process. In the Law Commission's final report, many of the recommendations applicable to third party funding correspond with our best practices for funding class actions. We expect the government of Ontario will carefully consider the report and are hopeful any legislative changes would foster responsible funding practices, be commercially sensible and sophisticated and promote access to justice.

In the province of British Columbia, the International Commercial Arbitration Act was modernised in May 2018. The amendments express confirmation that the recognition or enforcement of international arbitral awards cannot be challenged on "public policy" grounds simply because a third-party litigation funder was involved. These amendments in British Columbia signal a recognition of the role that third-party funding has as a commercial practice in international dispute resolution.

We are also contributing to the developing jurisprudence on funding acceptance in the Canadian context. We have sought court approval for our funding agreements for a number of our cases, including a class action, an insolvency case and a Federal Court patent action and there are now six reported decisions on our Canadian funding arrangements.

The October 2017 Study Paper on Financing Litigation¹⁸ by the British Columbia Law Institute, which examined the traditional and alternative methods litigants use to pay for litigation, also continues to generate interest in the legal and funding community.

Competition

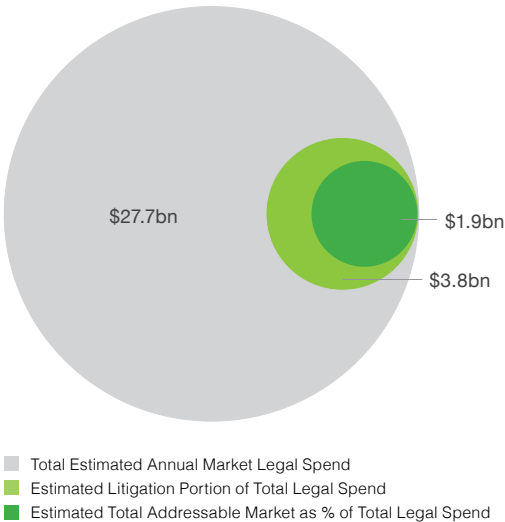
In Canada we enjoyed a first-mover advantage and, having demonstrated a viable market, the competition is arriving. One global competitor opened an office in early 2019 and others are testing the market on a fly-in-fly-out basis. Some (US) hedge funds and (UK) brokers are also exploring the Canadian market.

Addressable market

In addition to its diversified domestic economy, Canada's abundant natural resources invite international investment and trade, which in turn drives demand for legal services, including dispute resolution. Corporate profit is expected to increase and, when profits are strong, companies are often more inclined to pursue their legal claims.

The Canadian legal services market has undergone growth and is estimated at \$27.7 billion in 2018-19. The market is projected to grow at an annualised 3.0% over the next five years to reach \$32.16 billion in 2023¹⁹.

Total Estimated Addressable Market for Canada

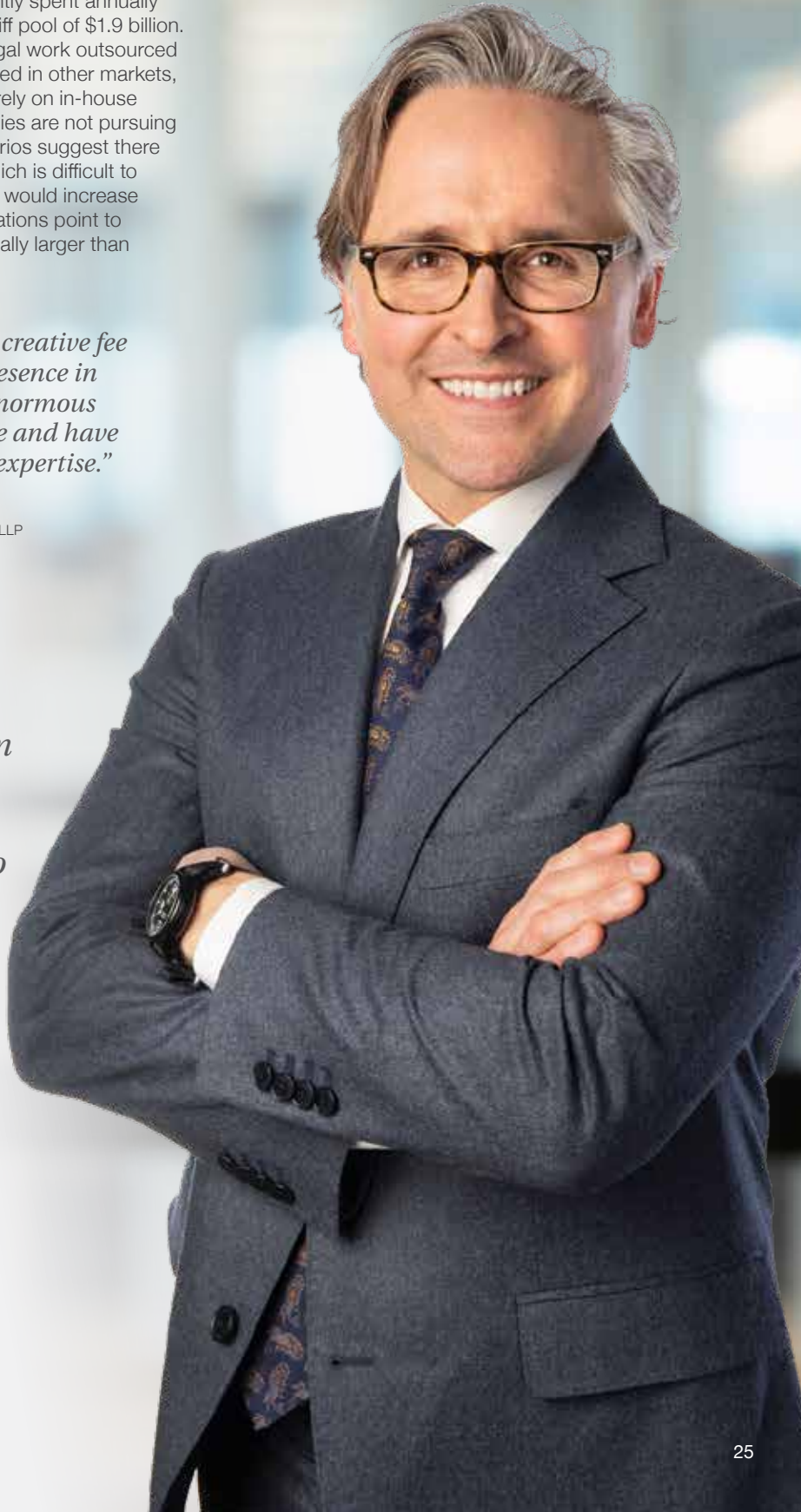


18. British Columbia Law Institute, October 2017, Study Paper on Financing Litigation

19. Ismailanji, M, July 2018, IBISWorld Industry Report 54111CA, Law Firms in Canada, IBISWorld, p 5

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Approximately \$3.76 billion²⁰ is currently spent annually on litigation, suggesting a likely plaintiff pool of \$1.9 billion. However, these figures only reflect legal work outsourced to external legal providers. As observed in other markets, corporations in Canada increasingly rely on in-house counsel. Furthermore, some companies are not pursuing meritorious claims. Both these scenarios suggest there is potential application for funding which is difficult to quantify. In addition, defence funding would increase the market potential. These considerations point to an addressable market that is potentially larger than available empirical research implies.

“Many of our clients focus on creative fee solutions, and Bentham’s presence in the Canadian market is of enormous value. They are collaborative and have substantive knowledge and expertise.”

Jennifer Teskey

PARTNER, NORTON ROSE FULBRIGHT CANADA LLP



Interest in Bentham IMF continues to accelerate in Canada. Thanks to our hard-working and top calibre team we are on a fantastic footing to succeed alongside our clients.

Paul Rand

CHIEF INVESTMENT OFFICER
CANADA

20. Ibid, p 14

Chairman's and Managing Director's Report

continued

EMEA

This year IMF Bentham officially launched its subsidiary, IMF EMEA, and opened a new office in London on 1 November 2018.

IMF EMEA provides finance and strategic services for disputes across the UK, continental Europe, the Middle East and Africa. Given the investment opportunities across these diverse markets, we continue to explore opportunities for strategic partnerships as well as organic growth.

Regulatory environment

The regulatory environment differs across the jurisdictions covered by the EMEA umbrella.

In the UK, funders can be held liable to pay adverse costs. The 'Arkin cap'²¹ has previously limited that exposure to the amount of a funder's investment. However, in April 2019, a High Court ruling²² determined the Arkin cap did not automatically apply in all cases, which potentially exposes funders to a higher degree of adverse costs exposure. This decision may impact funders' risk assessments when determining whether to invest in English claims. However, the judgment also indicates that the English courts are increasingly prepared to accept intervention by commercial funders who are rigorously managing costs. Funding in the UK is otherwise self-regulated and there is a voluntary code of conduct promulgated by the Association of Litigation Funders.

In continental Europe, most countries are civil law jurisdictions and maintenance and champerty restrictions do not apply. Third-party finance is largely permitted and its acceptance is growing in many European countries. Since continental Europe encompasses many diverse nations, we will not attempt to cover here the regulatory environment in each jurisdiction.

In the Middle East and Africa there is particular market demand for arbitration and debt recovery, and the regulatory environment is allowing third party funding of such disputes to grow. Some recent legislative developments in the Middle East, such as a new federal arbitration law in the United Arab Emirates and a new Bankruptcy Law in Saudi Arabia, are likely to result in the region attracting more dispute resolution work and a growing demand for our services.

Competition

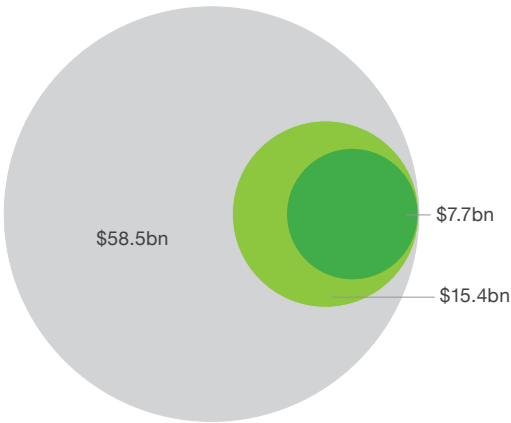
There are at least 10 established funders headquartered in the UK²³ and the funding market has become highly competitive with the inclusion of contingency law firms and other business models. Although continental Europe currently has less competition than the UK, funders are increasingly exploring opportunities there.

Anecdotally we also see overseas funders participating in the Middle East, alongside small local funders (whose limited financial capacity excludes them from our competitive orbit).

Addressable market

Given the expanse and diversity of the countries harboured under the EMEA umbrella, it is difficult to accurately assess the addressable market on a regional basis. It is estimated that the region contains over two billion people across 116 nations speaking around 2,000 different languages²⁴. Our strategy is focused on achieving sustainable growth in the most developed common law and civil law legal services markets, whilst evaluating opportunities in other non-core markets on a case by case basis.

Total Estimated Addressable Market for United Kingdom



- Total Estimated Annual Market Legal Spend
- Estimated Litigation Portion of Total Legal Spend
- Estimated Total Addressable Market as % of Total Legal Spend

21. Arkin v Borchard Lines Ltd & Others [2005] EWCA Civ 655
 22. Davey v Money & Anor [2019] EWHC 997 (Ch)
 23. Association of Litigation Funders, England & Wales, www.associationoflitigationfunders.com
 24. <http://worldpopulationreview.com/countries/emea-countries>

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Growing IMF's newest office across this diverse region is exciting. We combine our international brand with local knowledge, and we bring skills to the table alongside our capital. We are growing by listening and responding to our customers' needs, whether they are individuals, law firms, SMEs or multi-national corporates.

Oliver Gayner
HEAD OF EMEA



Chairman's and Managing Director's Report

continued

The European legal services market, including the UK, reportedly grew by 3% in 2018 to reach \$240.9 billion²⁵. By 2023, the European legal services market is forecast to have grown a further 13.8% to reach \$274 billion²⁶.

The European market is largely driven by the UK, Germany and France which are all primarily dominated by large, international law firms²⁷. In 2018, the German legal services market alone was valued at an estimated \$36.6 billion²⁸ and the French legal market was valued at \$42.8 billion²⁹. The UK legal market is the second largest in the world, after the US, with an estimated value of \$58.5 billion in 2018-19³⁰. Industry revenue is forecast to rise at a compound annual rate of 1.9% to \$64.27 billion by 2024³¹.

Contributing factors include anticipated growth in the number of businesses operating in the UK, increased M&A activity and property transactions, and demand for legal services associated with navigating Brexit³². A great deal of dispute resolution work in the UK involves international businesses, cross-border investments and trade³³. London is a major global financial centre and many international disputes involve parties transacting in the UK or seeking resolution through the UK legal system³⁴. Approximately 26.3%³⁵ of the legal market is attributed to areas of law relevant to our business, representing a sizeable opportunity for our products and services.

The legal services market in the Middle East³⁶ is estimated at \$9.53 billion³⁷ annually, representing 1% of the global market. In the Middle East, the proliferation of arbitration centres³⁸, supported by courts applying common law, has led to growing acceptance of arbitrations seated in the region. Cases typically relate to infrastructure construction disputes involving parties from Europe and Asia and recoveries claims on behalf of the global financial services sector.



The Middle East attracts many of the world's leading multi-national corporations and presents a market that is ideally suited to our dispute resolution finance product and service.

Nathan Landis
INVESTMENT MANAGER

• BERMUDA

• CAYMAN ISLANDS

25. MarketLine Industry Profile, January 2019, Legal Services in Europe, Reference 0201-0423, p 2

26. Ibid, p 2

27. MarketLine Industry Profile, January 2019, Global Legal Services, Reference 0199-0423, p 7

28. MarketLine Industry Profile, January 2019, Legal Services in Germany, Reference 0165-0423, p 2

29. MarketLine Industry Profile, January 2019, Legal Services in France, Reference 0164-0423, p 2

30. Shamsuddin, Y, February 2019, IBISWorld Industry Report M69.100 Legal Activities in the UK, p 5

31. Ibid, p 5

32. Ibid, p 9

33. IRN Research & Orchard Reports, February 2019, (9th Annual) UK Legal Services Market 2019: Market Trends Report, p 56

34. Ibid, p 59

35. Shamsuddin, Y, February 2019, IBISWorld Industry Report M69.100 Legal Activities in the UK, p 14

36. Middle East comprises Egypt, Israel, Saudi Arabia, and United Arab Emirates, MarketLine Industry Profile, January 2019, Global Legal Services, Reference 0199-0423, p 7

37. MarketLine Industry Profile, January 2019, Global Legal Services, Reference 0199-0423, p 11

38. Abu Dhabi, Qatar, Dubai

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Jurisdictions in EMEA connected with recent funded cases and funding applications



Chairman's and Managing Director's Report

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USA

Our US operations commenced in 2011 and, since then, have expanded rapidly and continue to grow and strengthen in an increasingly competitive and sophisticated market.

During this time we have helped to educate the market and shape the evolution of the dispute resolution finance industry from its infancy to what it is today. We are one of the only funders offering a multi-office regional approach, with Investment Managers on the ground in our main US jurisdictions, including New York, Houston, Los Angeles and San Francisco.

We continue to build strong relationships across the legal industry and are now a preferred funder for many leading law firms. Within the US, we have active relationships with 95% of the 'AmLaw 100' firms and in the past two years, 71% of those firms have approached or met with our US team to discuss funding opportunities.

Regulatory environment

Commercial litigation funding in the US has progressed beyond market formation and is now widely recognised and accepted. Regulatory reform at the federal level has now moved to focus on the mandatory *disclosure* of funding, as opposed to the legality of funding. There is proposed federal legislation seeking mandatory *disclosure* of funding agreements in class actions and multi-district litigation (MDLs) and we have joined industry peers in advocating against this legislation as well as proposed changes to the Federal Civil Rules concerning mandatory disclosure. In our view, funded claimants deserve protection from abusive and expensive discovery and privilege must continue to extend to third-party funders.

These proposals for mandatory disclosure have been led by the US Chamber of Commerce, whose constituency comprises some of the most powerful corporate entities in the US and the world. The Chamber continues to lobby government and, although the Federal Rules Committee is considering the proposal, any developments are likely to be some time away from being concluded.

At the State level, most reform proposals relate to consumer funding regulation, a distinctly different area of litigation finance than the commercial funding area in which we operate. Nevertheless, we monitor all proposals for their potential to tangentially impact commercial litigation funding. There are no current proposals in our key markets of New York, California and Texas which present a material concern to our business model.

Competition

In the US, the market continues to grow. Although the combined major and minor players could number around 100, we compete with a few dedicated, global funders for investment mandates. We witness funders come and go due to unsustainable investment choices and insufficient resources to compete.

"What I found with Bentham is that they really were interested to get to know the case, to get to know the parties... The people with whom we dealt had practiced this kind of law, so they understood how it works. It was not like trying to explain to a bank what the loan was for. They understood perfectly well."

Howard Brownstein

THE BROWNSTEIN CORPORATION PRESIDENT,
TRUSTEE AND INDEPENDENT CORPORATE BOARD MEMBER

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Our expanding US team includes experts with significant expertise in specialist areas of law. This makes all the difference when developing bespoke finance solutions and strategies for successful resolution.

Allison Chock
CHIEF INVESTMENT OFFICER
US



Chairman's and Managing Director's Report

continued

Addressable market

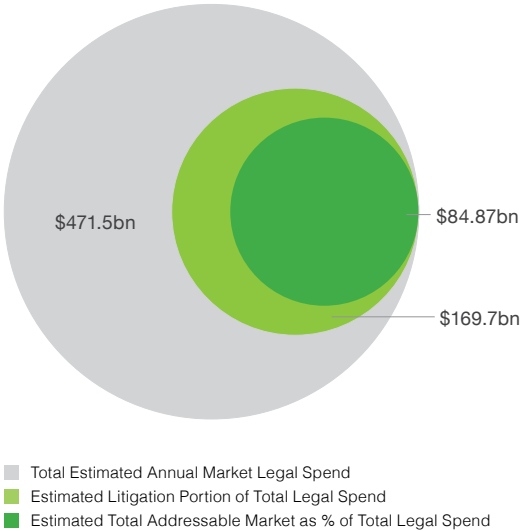
Calculations of the addressable market in each of our jurisdictions requires subjective interpretation, and the US market is no different. There is consensus across sources that the US legal services market is the largest in the world, accounting for almost half of global legal revenue in 2018, with most of the largest global firms located in the US³⁹. The US legal market is estimated at \$471.5 billion revenue annually and industry revenue is projected to increase at an annualised rate of 1.0% over the next five years to reach \$495.97 billion in 2024⁴⁰. Contributing factors include the overall performance of the domestic economy, a growing global economy fuelling cross-border transactions, increasing investor confidence, an influx of new laws and regulations in the US, and a stricter regulatory environment, both domestically and internationally.

Prolonged positive economic conditions are unlikely to prevail but our business model thrives in both strong and weak economies. Increasing corporate profits and confidence can generate an uptick in corporate litigation, as companies are more inclined to pursue their claims when corporate profits are strong. Conversely, economic downturns result in business failures, increasing disputes and an inability for companies to self-fund their claims. We are well-positioned to capitalise on either situation.

Approximately 36% (\$169.7 billion) of the legal market is attributed to commercial litigation. This single, largest practice area reported growth in 2018⁴¹ and momentum is accelerating. In our 2018 Annual Report, we cited that US spending on litigation was expected to grow 5.1% in 2018. According to some sources, the number of litigation matters for large organisations increased by 9.5% in 2018, and is expected to grow another 6% in 2019⁴². Large companies increased their spending on litigation by 8.6% from 2017 to 2018, and this is expected to increase a further 4% in 2019⁴³. This means an additional US\$2.5 billion dollars will be added to the legal market in 2019. Virtually every segment of litigation is expected to grow in 2019⁴⁴.

As in other jurisdictions, corporations in the US are increasingly in-sourcing their legal work. The imperative to achieve more with less will likely have a flow-on effect on demand for our capital and our 'skills plus capital' business model.

Total Estimated Addressable Market for United States



39. MarketLine Industry Profile, January 2019, Global Legal Services, Reference 0199-0423, p 8
 40. O'Connor, C, February 2019, IBISWorld Industry Report 54111, Law Firms in the US, IBISWorld 2019, p 5
 41. 2019 Report on the State of the Legal Market, Thomson Reuters Peer Monitor & Georgetown Law, p 5
 42. BTI Litigation Outlook 2019, Changes, Trends and Opportunities for Law Firms, BTI Consulting Group, p 3
 43. Ibid, p 3
 44. Ibid, p 5

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The culture here is very open-minded, respectful of people's opinions and backgrounds.

Tina Young
CHIEF OF STAFF
US



Chairman's and Managing Director's Report

continued

Competitive Landscape

Lured by the potential for profitable returns, the global funding market is growing. There are now a large number of litigation funding entities active in our geographic markets. Consequently, the aggregate funds available and number of funded cases have also grown significantly.

Funding entities today range from publicly-listed, global companies like ours to a plethora of domestic, private entities or other investors in litigation such as hedge funds, private equity firms, family offices, ad hoc investors and contingency law firms utilising a variety of funding strategies.

For us, being a third-party dispute resolution financier is about much more than collecting and deploying capital, and more nuanced than the private equity model of involvement.

– Significant Capital

We have significant capital to finance large single disputes and portfolios, all the way through trial if required. This is essential to being a viable competitor in today's funding arena.

We have grown our Funds Under Management to approximately A\$1.9 billion this year, giving us one of the largest war chests in the global funding industry. Claimants, law firms, judicial bodies and opposing parties all know that we are good for the money. Our capital reserves bring comfort and confidence to our funded clients and their legal advisers and engender respect amongst our legal opponents. Furthermore, our funds are predominantly managed off-balance sheet, minimising the financial exposure of our business.

– Strategic insights and project management

Our model is based on the proposition of bringing value to each investment by way of strategic case insights and, in many jurisdictions, assistance with project execution. Not only does this help safeguard our investments, but, importantly, it helps maximise returns for funded parties.

Deploying cash with limited involvement may suit the recourse-lending model of the finance sector, but dispute funding is a specialised field traversing finance and law. Deploying funds without ensuring each dispute has a winning strategy would be flawed underwriting, in our opinion. Good litigation strategy and execution can mean the difference between winning big or losing everything.

– Investment wisdom

Few (if any) competitors can claim an 89% success rate over 18 years. Even fewer can demonstrate average returns of 63% to their funded parties over such duration. We have achieved these results because our Investment Managers who identify and recommend investments, and our Investment Committee who vet each recommendation, have hundreds of years of cumulative wisdom in law, finance and business. These former judges, attorneys, and business leaders are at the heart of our investment savvy, and their expertise cannot be replicated. Without equivalent expertise, funders seeking to participate in this market are bound to make calamitous mistakes and are unlikely to survive.

– Global footprint

Successful dispute investing today requires a global footprint. Not only are disputes increasingly international in nature (with multi-national parties, geographically dispersed assets and international laws), but geographic diversification is also an essential element to a de-risked total investment portfolio.

Our talent is dispersed across 14 locations in six countries. Our Investment Managers, leadership and support teams are permanently deployed throughout the globe to identify quality investments and guide them to fruition. We are neither remote nor fly-in-fly-out transients.

We coordinate across our global network to identify market trends, share learnings, insights and tools, achieve efficiencies and harness opportunities together. We have regular forums to cohere us in our common goal.

When all is considered, there are very few market participants left in our competitive realm.

Nevertheless, we are never complacent or arrogant. We continuously scan our competitive landscape, analyse the operations of industry participants, deconstruct their strategies, calibrate and recalibrate our own strategy where needed.

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We focus forward through our own windscreen, but keep a watchful eye on our rear and side mirrors to determine if competitive adjustments are required in response to the actions of others.

Andrew Saker
MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER



Chairman's and Managing Director's Report

continued

Awards

We are always grateful to receive external endorsement that what we do matters and is noticed. We are honoured by market acknowledgement of our skills and have been recognised for our excellence in numerous reputable sources. Thank you to our peers and clients for your recognition. Below is just a sample of recent acknowledgment.



They act not just as a funder, but also add their own expertise in complex litigation.

LEGAL PROFESSIONAL INTERVIEWED BY CHAMBERS AND PARTNERS⁴⁵



2019 Chambers and Partners: the only funder to receive Band 1 ranking across APAC (Australia and Asia) and one of only two funders to receive Band 1 ranking in the US

2018 Chambers and Partners: received Band 1 ranking in the US



2018 The Recorder: ranked number 1 'Law Firm Funding Provider'

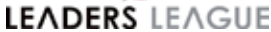
2017 The Recorder: recognised in 'Best of 2017' list for 'Best Litigation Funding Provider' and 'Best Law Firm Funding Provider'



100 Leading Legal Consultants and Strategists:

2018 and 2019 Andrew Saker and Allison Chock recognised as leaders

2016 and 2017 Allison Chock and Charlie Gollow recognised as leaders



2019 Leaders League: ranked 'excellent' for litigation and arbitration funding in the UK and US



2019 FT Innovative Lawyers Awards: Asia Pacific highly commended funding of SIAC arbitration with leading international law firm



2018 Canadian Lawyer Readers' Choice Award: as a top litigation funder



2017 Corporate LiveWire Innovation & Excellence Awards: Noah Wortman awarded 'Excellence in Class Action Services award'



2018 and 2019 ALM's Best of The Recorder and Best of The Connecticut Law Tribune: number 1 litigation funding provider⁴⁶



2017 Corporate Counsel: recognised as one of the Nation's Best Commercial Litigation Funding Providers in 'Best of 2017' list



2019 The National Law Journal: Recognised in 'Best of 2019' list for 'Law Firm Funding provider' category



2019 Legal Times: number 1 Commercial Litigation Funding Provider

45. Independent global ranking agency, benchmarking legal industry participants since 1990. Now covering 185 jurisdictions.

46. ALM (formerly American Lawyer Media) is a media company and provider of specialised business news and information, whose focus includes the legal sector.

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Risk Management

Some of the risks our business faces are common to many enterprises today, and some are particular to our industry. We employ strategies for identifying, quantifying and mitigating each.

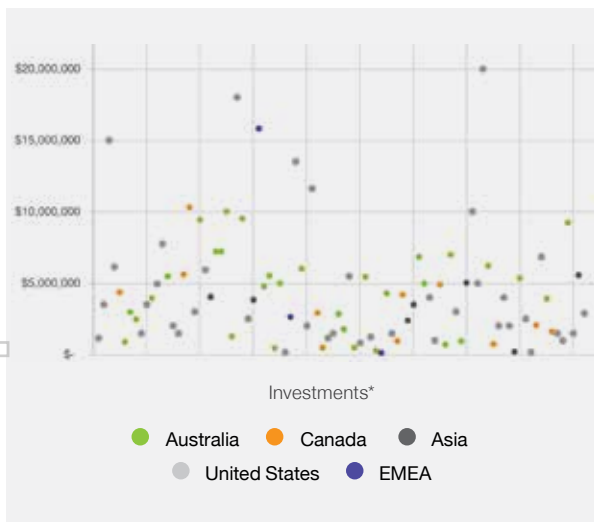
Portfolio concentration

The most obvious risk in our industry is the potential to lose a case and be exposed to adverse costs in 'loser pays' jurisdictions. We have numerous strategies to attenuate this exposure.

Firstly, we temper the exposure to any one investment by consciously diversifying our portfolio. This involves varying the types of cases in which we invest, the jurisdictions in which we operate and expanding the size of our total global portfolio.

Secondly, we now finance our investments through a series of funding vehicles in which IMF Bentham is a minority investor to minimise exposure on our own balance sheet.

Existing Portfolio – geographic and size diversification



* Excluding Wivenhoe and Westgem

Thirdly, and perhaps most significantly, we choose very carefully which disputes we will invest in. It takes significant expertise and experience to assess the risks associated with disputes, determine which risks are acceptable, forecast likely risk-adjusted returns, and then navigate the exposures competently. Fortunately, we are home to some of the industry's most experienced and talented decision-makers whose collective wisdom has produced an 89% success rate across 192 cases over 18 years.

And finally, for those investments that require specific cover, we engage leading insurance and other advisers to help quantify the risk and develop bespoke coverage solutions.

Although our investments in Wivenhoe and Westgem present a concentration issue in our portfolio, we expect both cases to complete in FY20, unless appealed. We also acknowledge that both investments reflect a prior approach of investing on our own balance sheet - a model which has since been addressed by our capital diversification strategy.

Competition

There is always the potential for a competitor's actions to impact our business. For example, a competitor can impact the reputation of the whole industry through their conduct or attempt to gain market share through pricing or other strategies.

We respond to competitive threat with a differentiated brand, innovative strategy, strong vertical and horizontal relationships throughout the market, and agile business operations.

There are significant barriers to entry in our industry. Success requires significant capital reserves to build a large and diverse portfolio, a global footprint to source and service the best investments, a culture and reputation that attracts and retains the best talent, a trusted brand to win the best mandates, inimitable corporate know-how, and an innovative business model. This combination takes time and skill to cultivate, nurture and protect - and many new entrants fail to gain a foothold or achieve sustainability.

So, although there may be many apparent contenders and some will engage in price competition to gain market entry, few remain in the industry over time and, without a sustained track record, the market does not trust them with funding opportunities.

Regulatory reform

We live in a world of continuous disruption. For all businesses, change is almost ever-present. Our industry is still in its growth phase and regulatory reform and common law developments are inevitable. Reforms are taking place in several of our key markets, and we expect more in future.

Remaining abreast of developments affecting our industry and our business is not only essential to meeting our obligations as a publicly-listed entity, but also to upholding our company values. We seek to contribute to developments where appropriate and lead improvements where possible.

Chairman's and Managing Director's Report

continued

In many jurisdictions, the regulatory categorisation of dispute resolution finance has not been directly addressed by the applicable legislature. As the global industry grows, this is likely to change, and a number of markets may see regulatory and legislative bodies addressing these issues either in the manner adopted by Australia (which provides a conditional exemption to the panoply of legal requirements for financial products) or through other avenues. IMF Bentham continues to monitor the position and contribute to applicable regulatory consultations and adapt as required to comply with any resulting regulatory changes.

In February 2019 Australia amended its whistleblower legislation (effective 1 July 2019)⁴⁷. These amendments to the Corporations Act create a consolidated and expanded whistleblower protection regime that will apply to most businesses in the corporate, financial and credit sectors. Although we have until 1 January 2020 to implement a compliant whistleblowing policy in our business, we are prudently updating our existing policies and procedures now to ensure compliance.

Australia is also presently strengthening its foreign bribery compliance and enforcement framework and we anticipate the passage of new legislation⁴⁸ later in 2019. The proposed legislative reform recognises Australia's need for a tighter anti-foreign bribery approach to bring Australia into line with international standards (including the transformative schemes in the US and UK). The legislation encourages a corporate culture of integrity and compliance by requiring companies to self-report foreign bribery offences and by imposing strict liability offences for failing to prevent foreign bribery. The Australian Government has issued self-reporting guidelines for corporations.

IMF Bentham conducted the annual review of its Conflict Management Policy in accordance with ASIC Regulatory Guide 248. This guidance provides that litigation funders are required to conduct reviews and maintain written procedures identifying and managing conflicts of interest. The review determined that IMF Bentham has robust arrangements in place to identify and assess divergent interests and conflicts, and to respond as needed. The conflicts management policy is suited to the nature, scale and complexity of the litigation schemes funded.

The Modern Slavery Act 2018 came into effect in Australia on 1 January 2019 and targets modern slavery and human trafficking in supply chains. Activities such as IT procurement (e.g. outsourcing information technology functions to low-cost countries), e-waste disposal, and

facilities management (such as cleaning and building maintenance undertaken by underpaid workers), all give rise to the risk of modern slavery. Consistent with the culture and values of our business, we support closing the governance gap inherent in global supply chains and increasing transparency. Companies above a threshold level that carry on business in Australia will be required to release a Modern Slavery Statement at the end of FY20.

Privacy and spam legislation also applies in many of the jurisdictions where we operate and this year we reviewed our compliance for our EMEA, Asia and Australian operations to ensure we meet compliance obligations.

Our US operations (Bentham Capital Management, LLC) are registered as an Investment Adviser in the US and accordingly our people are subject to the rules of the Securities and Exchange Commission (SEC) regarding insider trading, the treatment of material non-public information, receipt of gifts and entertainment, political contributions, record keeping, e-mail retention, marketing activities, investor communications, and more. The impact of SEC rules on our business is managed under a comprehensive compliance program. Our US-based people and key members of our leadership team complete quarterly attestations regarding compliance and we will undergo an SEC audit as a standard procedure in future.

Key-person dependency

Our company is home to some of the founders and global leaders of the third-party dispute resolution finance industry. Their highly valuable tacit knowledge has helped us achieve our track record of success over 18 years. We are tremendously grateful for, and respectful of, their contribution.

However, a well-managed company is never dependent upon the performance of one or a few individuals. It is essential to business continuity and future performance that no one person has sole custody of some critical institutional knowledge, creativity, reputation, relationships or experience that makes him or her indispensable.

Fortunately, in our business today it is the *collective* wisdom, experience, industry relationships, reputations and know-how that sustain and propel us and protect us from individual departures. But size alone is not enough. Culture and operational strategies are also important to building organisational resilience.

47. Treasury Laws Amendment (Enhancing Whistleblower Protection) Act 2019

48. Crimes Legislation Amendment (Combatting Corporate Crime) Bill 2017

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We foster a culture that maximises employee engagement and intrinsic rewards - both critical factors in building loyalty and reducing 'flight risk'. We encourage passion and commitment, and we endorse contribution and achievement through extrinsic rewards including competitive compensation and attractive Short Term and Long Term Incentive Plans (STIP and LTIP).

We provide our people with ongoing development opportunities including training, coaching and mentoring and undertake cross-training and succession planning to enable our people to develop and perform some of the responsibilities of others.

We have knowledge management methodologies to document and share critical institutional knowledge within our organisation and we deliberately share responsibility for industry relationships across our team.

And finally, we protect confidential and competitive information via IT security measures and employment contracts which include robust clauses for non-compete, confidentiality and IP protection.



Chairman's and Managing Director's Report

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Privacy and data security

The way companies acquire and use personal data is under ever-increasing scrutiny. In Australia, the mandatory breach notification regime introduced in February 2018 is making businesses more publicly accountable for data breaches. Across Asia the data protection landscape has been rapidly changing for the last few years as new regulations come into force.

In the EU, the General Data Protection Regulation (GDPR) commenced in May 2018 and a proposed ePrivacy Regulation is due to be released later in 2019. The GDPR introduced new obligations for collecting, keeping and using data. Its extraterritorial reach applies to businesses established in the EU as well as those whose activities reach people located in the EU.

To meet our obligations under this regime, we reviewed compliance for our EMEA, Asia and Australian operations this year including checking our standard contracts, updating our Privacy Policies, internal procedures and our consent requirements.

Our business captures limited amounts of personal data and information from clients, so our obligations under privacy and data protection regulations are less extensive than for many other organisations. In addition to scrutinising the collection and usage of personal data, regulations also require us to safeguard the storage of any data. We cover this below.

Robert Riggio
IT SUPPORT ENGINEER

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Cyber-security

Cyber-attacks, in their many forms, are increasing for today's businesses. Fortune Global 500 companies recently reported a 944% increase, on average, in the number of attacks⁴⁹. However, there is no correlation between an organisation's size and its vulnerability and all businesses must remain vigilant.

Today's attacks commonly use social engineering to target employees, customers, suppliers and other stakeholders in countless ways and across new digital channels. Attackers often impersonate trusted senders to entice victims to open malicious attachments, download malware, click unsafe links, divulge confidential information, share sensitive files, release funds, and more.

Protecting any business from such threats involves constantly monitoring who is being targeted, how they are being targeted and having swift responses as well as proactive strategies. We employ a variety of people-centric cybersecurity tactics, including regular training and simulated attacks for all our people to identify those who are particularly vulnerable and to customise preventative measures. We enlist all our people throughout our global company as the first line of defence in protecting our data and commercially sensitive know-how.

We also recognise that the targets, motives and objectives of attackers constantly change, are not always apparent and can even sometimes be random and opportunistic. Accordingly, we supplement our social engineering strategies with significant investment in security hardware, software, systems and policies to prevent attacks and detect new attack tools, methodologies and targets - and learn from them.

In December 2018 we completed a significant, periodic upgrade of all hardware and software in our off-site primary data centre to ensure all systems remain state-of-the-art. We regularly submit to external IT security audits and continuously adjust our IT approaches. Being nimble is an important element of being safe.

IT risks are ever-present for all businesses today and we remain vigilant throughout our business at all times.

Brand and reputation

We have carefully built and nurtured our brand for nearly twenty years, establishing our reputation for successful outcomes, strategic insights, fairness and integrity. So naturally, we are very protective of our brand and very cautious not to knowingly do anything that may cause it harm.

As dispute resolution financiers, we see the aftermath of corporate brand degradation and reputational damage on a frequent basis and we plan to never be in that position ourselves.

We know how easily a brand can be tarnished by internal or external forces. Damage can occur overnight from a single, cataclysmic event, or be gradual and insidious. Parties who seek to do harm can sabotage or undermine a brand with intentional misinformation and in-house resources can cause erosion by unwittingly acting, or failing to act, in accordance with brand values.

We take numerous steps to protect our brand from internal factors. We restrict those who are authorised to speak on behalf of the company, ensure employment contracts and policies forbid certain conduct and communicate expectations during on-boarding and ongoing education programs. Thankfully, our people are highly educated, sophisticated professionals who understand their enduring role as brand ambassadors.

We are also pragmatic enough to realise that even the most robust precautions cannot prevent some events. We are never immune to external attack or an accidental omission or transgression by one of our own. Should this occur, we would endeavour to be swift and successful in our response and repair.

We would also hope that our past, exemplary conduct would stand us in good stead to weather any temporary storm. As an ASX-listed company, we have communicated regularly and transparently with the market for 18 years and have displayed our trustworthiness and sensibility to the business media as well as industry commentators and participants. We have openly shared our position on key issues facing our industry (regulation, case updates and the like) and will continue to communicate honestly and exercise caution when it comes to protecting our brand and reputation.

We thank you for your ongoing trust.

49. Proofpoint, Inc, Winter 2019, Protecting People: A Quarterly Analysis of Highly Targeted Cyber Attacks, www.proofpoint.com

Chairman's and Managing Director's Report

continued

Governance

In February 2019 the ASX released the fourth edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. The new Principles will take effect for IMF from the start of FY21 and focus on organisations "acting lawfully, ethically and responsibly", including taking account of a range of stakeholders beyond just shareholders. These Principles complement recent legislative reforms regarding whistleblowing, anti-bribery and corruption.

The Recommendations also address corporate governance practices, including articulating values and reporting on material breaches of a company's policies and Code of Conduct.

The new Principles introduce the concept of reputation and stipulate that companies must consider the society and environment within which they operate as well as their commercial imperatives. This is a significant development, reflective of the findings of the Banking Royal Commission mentioned earlier in this Report.



Being listed on the ASX and a registered investment adviser with the SEC involves significant compliance. Our legal and risk function has evolved to meet the needs of the business and will continue to do so.

Jeremy Sambrook
GENERAL COUNSEL AND
COMPANY SECRETARY

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Realised and unrealised gains

Our investments in litigation assets are recognised as intangible assets in our financial statements. This means our investments are recorded at cost (less any impairment) as funds are outlaid on each investment. They do not include movements in the embedded value of the assets. At the conclusion of each investment (i.e. when a case resolves), the intangible asset is de-recognised and is offset by the proceeds (in the case of a successful resolution) from the investment, resulting in a profit or loss on our original investment.

Some third-party dispute resolution funders adopt accounting practices that allow for fair value adjustments of the life of a litigation investment. This results in unrealised gains and losses being recognised in the profit and loss statement and associate movements in the carrying value of the investment in the balance sheet.



Compliance and risk management are embedded in our culture. Our people ask questions, continually educate themselves, take ownership of their decisions and actions, and act with integrity.

Chris Young
CORPORATE COUNSEL AND
US CHIEF COMPLIANCE OFFICER



Funds management

Only a few years ago, IMF Bentham invested in litigation assets directly from its own balance sheet and accounted principally to shareholders and funded claimants. Today, our business is a fund manager and investment adviser with duties to a broader stakeholder community whose investors include an endowment fund from one of the world's leading prestige tertiary institutions. Our investors entrust us with significant funds to manage and we are now regulated by the SEC as a registered investment adviser. Our obligations are extensive and we take them very seriously.

Chairman's and Managing Director's Report

continued

Our people – how we make a difference

There are more funders in the market than when we started our business, but our people are still our point of difference. From our Board of Directors through to our support teams, we continue to recruit and retain the best in the industry, and we now have more than 100 specialists around the globe and a very high retention rate. As a testament to our business, highly talented people choose IMF Bentham and stay with us.

We provide skills as well as capital, with talented Investment Managers assigned to safeguard our investments, monitor costs and, most importantly, support clients and counsel as they progress each case. Many Investment Managers joining us from private practice are attracted by the opportunity to draw on a range of skills to lead game-changing investments and be involved from due diligence to resolution.

Our people grasp the wider impact of their work and they are inspired by it. They are also attracted to working for an agile business with a global impact.

Across our organisation, our people have all previously built successful careers and developed commercial acumen as in-house corporate counsel, barristers, business leaders, financiers, company directors and technical experts across a range of sectors.

Attracting the best, and then rewarding and recognising their performance, goes beyond our competitive remuneration scheme and incentive plans.



One of the hallmarks of an IMF investment is the rigour of the due diligence and review process. By the time a case reaches the Investment Committee it has already been thoroughly vetted by an Investment Manager. We then examine it from all angles before deciding to fund and our decision has to be unanimous. I enjoy drawing on my experience to bring my perspective to the process.

The Honourable John Sulan QC
FORMER JUSTICE OF THE SUPREME COURT OF
SOUTH AUSTRALIA, INVESTMENT COMMITTEE

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Our people are knowledge workers in a global organisation, operating across multiple time zones. As we increasingly fund matters in multiple jurisdictions, it is essential for teams to have the infrastructure and technology to support them, to ensure they are connected wherever they are in the world. Equally, it is vital for teams to be supported in their health, safety and wellbeing. Staff are encouraged to make wellness a priority and are supported to do so. We also have policies in place to support a safe work environment for our employees, contractors and visitors.

Our leadership are a bright, hard-working, dedicated team committed to the course.

All investment mandates require the approval of our Investment Committee, a group of our most senior and seasoned executives, and former members of the judiciary and legal profession. Wise investing requires longevity, and because people stay with us for the long-term, we retain the expertise and relationships which make us stand out from the rest.

We continue to be supported by an actively engaged Board who draw on their international experience, expertise and relationships to guide the ship.

Supporting the IMF Bentham business

All the work of the investment and leadership teams is bolstered by dedicated experts in marketing, finance, client service and IT, who constantly strive to bring best practice to what they do. Our Client Liaison team based in Perth manages the administration of all class member claims in our multiparty actions. This involves signing up thousands of clients, looking after their claim files and keeping them updated on case progress. In the last year, the team has worked with our developers to introduce an online registration process and can field hundreds of queries a day through a dedicated 1800 telephone number and email address. Together with our IT Development team, the Client Liaison team constantly adapts our proprietary Online Client Administration (OCA) database to provide the right mix of information to our Investment Managers and the external lawyers representing the class members to manage the case as efficiently as possible. In the last year, the two teams have collaborated to refine the myIMF online portal.



No two cases are the same. I enjoy the challenge of adapting our system and processes to get the right information to support the investment managers and lawyers.

Amanda Kodnik
CLIENT LIAISON TEAM LEADER



Chairman's and Managing Director's Report

continued



Attracting and retaining people with a wide variety of perspectives and life experiences helps us make better choices as a business.

Nickolas Tzoulas
ASSOCIATE INVESTMENT MANAGER
AND LEGAL COUNSEL



Diversity and inclusion

A diverse team, led inclusively, is an engaged team, bringing better outcomes for business and market share.

The Workplace Gender Equality Act 2012 mandates annual reporting by organisations employing 100 or more people in Australia. While our own team of 101 is employed in six countries around the world, we recognise the importance of being transparent. IMF Bentham stands out in what have been traditionally male-dominated law and finance industries for having women throughout the ranks - including at the Board, senior management and investment management levels. This year we are even closer to gender equality, with women occupying nine of our management and leadership positions:

- Two Board members
- Two Chief Investment Officers (of our largest markets)
- Two Chief Marketing Officers
- Chief of Staff
- Global Fund Financial Manager
- Head of Client Liaison team

Women also represent:

- 37% of our Investment Managers and Legal Counsel worldwide
- 50% of our Investment Managers and Legal Counsel in the US
- 50% of the lawyers in our corporate in-house legal team

We are aware gender pay gaps persist in some workplaces and actively moderate our own remuneration approach to deliver equitable compensation for comparable roles and performance. This applies from our most junior to the most senior appointments.

Recognising that diversity goes beyond gender, we value the contribution of people with differences in background, experience and perspectives. Our people hail from all corners of the globe, including North America, South Africa, Europe, Asia, Australia and New Zealand, and speak 16 languages, from Afrikaans, Arabic and Bangla to Mandarin, Spanish and Tamil.

We continue to recruit and promote on merit, and aspire to lead a culture of innovation, collaboration and creativity, all of which are the hallmarks of inclusivity.

Examples of our impact

Dispute resolution finance assists individuals, commercial enterprises or other groups and entities. When that finance is accompanied by the strategic know-how of dedicated Investment Managers, the impact can be significant.

Below are case studies and perspectives of some who have been assisted by our product and service. Their positive feedback and their success is our intrinsic reward. It demonstrates that what we do matters and matters greatly. And this ability to make a positive difference inspires us every day.

Our finance is helping a Canadian engineering company pursue a claim against major US pipeline and gas processing companies

We are financing JL Energy Transportation Inc's (JETI) claim against the Alliance Pipeline, originally a conglomerate of 22 of North America's largest energy companies, and now owned by three of the largest energy players in North America. JETI invented and patented technology for transporting enriched natural gas via high-pressure pipeline from Canada to the lucrative US market and licensed it to the Alliance Pipeline. A dispute arose when this technology was allegedly used outside the scope of the licences, without authorisation or financial compensation.

"We remain appreciative to have Bentham on board to successfully defend our patent and fund our continuing actions as their significant due diligence, capital at risk, and proven track record, validates our confidence in our long-standing claims."

John Lagadin
PRESIDENT, JETI

Our finance is helping an entertainment owner-operator pursue a claim against a global entertainment technology company

We are financing a Lebanon-based movie theatre developer and operator in its claim against a global entertainment giant to pursue damages for more than CAD\$140.5 million. It is alleged that when the respondent terminated contracts to build luxury projection theatres in Doha, the opportunity was awarded to a competitor who used the claimant's confidential and proprietary designs. The client chose our dispute resolution finance solution instead of self-funding so it could prioritise its own funds for the core business of developing entertainment projects.

Our finance is helping forestry scheme investors recover their retirement savings

We are funding claims against Australian Executor Trustees (SA) Ltd (AET) in its capacity as trustee of the SEAS Sapfor (Southern Australian Perpetual Forests) scheme for negligence and breach of trust. AET is part of the IOOF Group, one of Australia's largest financial services businesses. Many of the 4,500 investors in this claim are elderly people who lost part of their retirement savings when the scheme collapsed following a takeover by the Gunns Group which subsequently became insolvent. Without IMF Bentham's funding, these investors would not be able to access justice for their losses. The Supreme Court of NSW heard the trial over eight days from 1 July 2019 and judgment is now awaited.

Our finance recovered losses for investors in a major Australian dairy food producer

We funded a class action against Australian dairy food producer Murray Goulburn Co-operative Co Limited (MG) and MG Responsible Entity Limited (MGRE) which alleged MGRE distributed misleading statements and breached Australian corporate disclosure rules. The parties agreed to a \$42 million settlement in June 2019 (subject to court approval and without any admission of liability on the part of MG or MGRE) enabling investors to recover a significant proportion of their investment losses. The claimant group was made up of both retail and institutional investors.

"For the plaintiffs to recoup such a significant proportion of their losses is an excellent result when at one stage our investments seemed lost. It is a tribute to the initiative and efforts of our solicitors and litigation funder."

Rod Gibson
DIRECTOR, ENDEAVOUR RIVER PTY LTD, LEAD APPLICANT

Our finance recovered losses for investors in a training and labour hire firm

We funded an action on behalf of retail and institutional investors against Ashley Services Group Ltd, a publicly-listed Australian labour hire, training and recruitment company. The investors claimed losses due to alleged misleading statements and material omissions, and breach of Australian corporate disclosure rules and sought recoveries for their losses. A settlement of \$14.6 million was approved by the Federal Court of Australia in June 2019 enabling investors to recoup some of their losses, and proceeds are to be distributed in the second half of 2019.

Chairman's and Managing Director's Report

continued

Corporate social responsibility

As we expand into new jurisdictions, we have a significant opportunity to make a social contribution. We have a track record of financing cases that advance the public interest and enable people to assert their rights. We also support initiatives to inform research, extend access to justice and opportunity, and develop the next generation of leaders.

Informing research and best practice



University of New South Wales, Sydney, Australia

In Australia, we continue our strategic alliance with the University of New South Wales (UNSW) Class Action Research Initiative, which explores and solves key issues in class actions practice through academic research and analysis. In FY19, we co-hosted a successful Class Actions Conference with UNSW. The keynote address was delivered by Sir Rupert Jackson, a former Lord Justice of the Court of Appeal of England and Wales, on the advantages of introducing costs management and costs budgeting into class actions.



Monash University, Melbourne, Victoria, Australia

We continue to support substantial, independent empirical research conducted by academics at Monash University in Victoria, Australia. Research in FY19 has focused on an empirical study of shareholder class actions. The objective of the study is to ensure that law makers, courts and the general community can rely on accurate, comprehensive and current data about shareholder class actions.



Civil Justice Research Initiative, University of California, US

In the US we continue to support the Civil Justice Research Initiative (CJRI). This think tank identifies and produces highly credible, unbiased research on critical issues concerning the civil justice system, to ensure continued access to the courts. Allison Chock, Chief Investment Officer - US, is a member of the CJRI's Advisory Board.



Mauritius Chamber of Commerce and Industry (MCCI) Arbitration and Mediation Center (MARC) Court, Mauritius

As a member of the MARC Court and chair of the Rules Drafting Committee, Hong Kong-based Investment Manager Cheng-Yee Khong was instrumental in developing MARC's innovative new Arbitration Rules, which came into effect in May 2018. These Rules facilitate swifter arbitrations, with greater transparency and neutrality, while minimising time and costs. Cheng-Yee also co-authored the MARC Guide to the Rules, which was released in late 2018.



International Chamber of Commerce International Court of Arbitration, China

In August 2018, Cheng-Yee Khong presented in a three-day international arbitration training session for Guangdong lawyers in Shenzhen, China. This was run jointly by the International Chamber of Commerce (ICC), Shenzhen Court of International Arbitration (SCIA), Moot Alumni Association (MAA) and Guangdong Lawyers' Association. The session and speakers' interviews were broadcast live and received over half a million hits on social media by the second day.

Equality for women in law



ArbitralWomen

We support ArbitralWomen, an international non-governmental organisation established to advance the interests of women and promote female practitioners in international dispute resolution. Dana MacGrath, Investment Manager and Legal Counsel in our New York office, is the current president of the Board of Directors.

Extending access to justice



Public Counsel, Los Angeles, California, US

We are an ongoing supporter of Public Counsel, the largest pro bono law firm in the US. Public Counsel's activities are far-ranging and impact over 30,000 people every year, many of whom live at or below the poverty level. Allison Chock is a member of the Board of Directors.



Pro Bono Ontario, Toronto, Canada

Our team members in Canada volunteer their time as pro bono counsel with Pro Bono Ontario, an organisation which connects lawyers who want to donate their services, with people who have legal needs but cannot afford lawyers. In 2018, Pro Bono Ontario served nearly 29,000 Ontarians with nowhere else to turn, helping to save the court system over CAD\$5 million in costs in the process.



Lawyers Feed the Hungry - a program of the Law Society Foundation, Toronto, Ontario, Canada

Our team members in Canada provides financial support and volunteers their time in support of Lawyers Feed the Hungry, a program of the Law Society Foundation that fights hunger year-round in eight cities across the province.

Launched in Toronto in 1998, over the last 20 years this important program has provided more than 60,000 hot and healthy meals annually. This is made possible through the generosity of donors and the tireless support of volunteers.

Cases in the public interest

Our privileged position in the market means we can promote access to justice for people and parties who could not otherwise afford to make a claim. We support local communities by financing cases which advance the public interest including:

- redress for property and business damage due to per- and poly-fluoroalkyl substances (PFAS) chemical contamination of water supplies for three rural communities in Australia
- representing more than 5,000 individuals and businesses in a class action against dam operators following the 2011 floods in the state of Queensland, Australia
- representing owners, owners' corporations and leaseholders of buildings affected by combustible polyethylene (PE) core cladding in claims against the manufacturers.

Educating and supporting future generations of legal practitioners



**Queen's University
Kingston, Ontario, Canada**

Our team in Canada lectures to students completing the Graduate Diploma in Legal Services Management.



**Osgoode Hall Law School, York University
Toronto, Ontario, Canada**

We lecture to J.D. and LLM students in courses including the Investor Protection Clinic.

The team also supports the University of Ottawa's Career Day for tomorrow's legal leaders and makes an annual donation to Pro Bono Students Canada, University of Toronto.

Chairman's and Managing Director's Report

continued

“

We want to be a company that generates sustained success through a clear and compelling strategy, delivered in the context of a strong ethical framework that engenders the flourishing of our staff and value for our customers.

Michael Kay
NON-EXECUTIVE CHAIRMAN

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Future Initiatives

Our FY20 is looking exciting (and busy!) and we are energised by the path ahead of us.

Completions

We will focus on doing what we can to resolve some of the major investments on our balance sheet. Both Westgem and Wivenhoe have been long-running disputes and we are keen to achieve completions for both in the interests of funded claimants, and on behalf of our shareholders.

We will also steward recent completions (Forge, Murray Goulburn and Sirtex) through the usual court approval process, which we expect to be finalised during FY20. After the close of FY19, the claim against two respondents in a confidential Australian matter settled, and the shareholder class action against UGL settled in principle. There was also a settlement in principle in a confidential US bankruptcy investment and a settlement in a confidential US appeal funding. Results will be recorded in FY20.

Financing the corporate world

We have redoubled our efforts to engage with the broader corporate market regarding the role of dispute resolution finance in their suite of capital management tools. In each of our jurisdictions we are fostering relationships in commerce and actively pitching to more corporates and developing bespoke solutions to address their capital and risk management requirements.

Coordinating to pursue global fields of play

We are already well advanced in our engagement with key markets in the areas of international arbitration, insolvency funding and intellectual property. Our specialist practitioners in these fields are working as globally coordinated teams identifying opportunities together and driving pursuits collaboratively.

Expanding our footprint

In FY20 we will be reviewing our global organisation structure and streamlining operations for global consistency and efficiency, as well as bonding our expanding team around the world to our corporate vision and culture. We will continue to grow our team organically, with further expansion intended in the growth markets of Asia, Canada and EMEA. These are all significant undertakings.

Committing our new Funds to investments

Although it sounds self-evident in our business, our main focus in FY20 will be to continue identifying quality investments to grow the size and diversity of our global investment portfolio. We now have sufficient capital across our new Funds 4 and 5 to pursue more and larger investment opportunities and compete fiercely for mandates. And this is exactly what we will be doing.

We will continue to apply our expertise and experience in multi-party actions in the Australian, Canadian and European jurisdictions and focus on investment opportunities in commercial litigation and international arbitration across our wider geographic footprint.

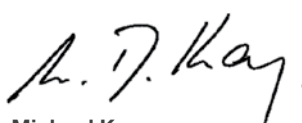
Conclusion

It has been another big year for our company. Our team has worked tirelessly on behalf of our claimants and our shareholders and will continue to do so.

On behalf of the Board, we thank our shareholders for their commitment to our business plan and faith in our talented team. We also applaud our exceptional people whose competency, enthusiasm and drive turn our goals into reality. We now embark on the next exciting chapter in the growth of our business and look forward to the journey ahead. We are energised and excited by the opportunities ahead.



Andrew Saker
Managing Director and Chief Executive Officer



Michael Kay
Non-Executive Chairman

Financial Report

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Directors' Report

The directors of IMF Bentham Limited ("IMF" or "the Company" or "the Parent") submit their report for the year ended 30 June 2019.

Directors

The names and details of the Company's directors in office during the financial year and until the date of this report are noted below. Directors were in office for the entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities



Michael Kay

Non-Executive Chairman

Michael Kay has been IMF Bentham's Non-Executive Chairman since 1 July 2015. He brings a wealth of commercial experience, with a sound track record of building successful businesses. Most recently he was Chief Executive Officer and Managing Director of salary packaging company McMillan Shakespeare Limited. He was previously Chief Executive Officer of national insurer AAMI and before that spent 12 years in private legal practice.

Mr Kay is Non-Executive Director of RAC Insurance Pty Limited, and Chairman and Non-Executive Director of City Chic Collective Limited. He retired as Chairman and Non-Executive Director of Lovisa Holdings Limited in October 2018, and as Chairman and Non-Executive Director of ApplyDirect Limited in March 2019.

Mr Kay is a member of the Audit and Risk Committee, Remuneration Committee, Corporate Governance Committee and Nomination Committee. During the past three years he has not served as a Director of any listed company other than IMF Bentham Limited, Quintis Limited, Lovisa Holdings Limited, ApplyDirect Limited and City Chic Collective Limited.

Mr Kay holds a Bachelor of Laws (University of Sydney, Australia).



Andrew Saker

Managing Director and CEO

Andrew Saker was appointed Managing Director and Chief Executive Officer on 5 January 2015. Since then, he has led a transformational strategy of geographic expansion, production diversification, and migrating IMF Bentham's business model from capital management to fund management.

Mr Saker began his career at Ferrier Hodgson, a leading provider of corporate recovery, insolvency management and restructuring services throughout Australia and Asia. Appointed partner in 1998, he went on to establish the firm's Indonesian practice in Jakarta. In his 26 years at Ferrier Hodgson, he was involved in over 500 corporate insolvencies and restructurings in Australia, Asia, North and South America. He speaks regularly at industry conferences and is frequently cited in the media and trade publications regarding dispute financing, insolvency and restructuring.

During the past three years he has not served as a Director of any listed company other than IMF Bentham Limited.

Mr Saker holds a Bachelor of Commerce in Accounting and Finance (University of Western Australia). He is a Member of the Institute of Chartered Accountants. Until his appointment to IMF Bentham, he was an Official Liquidator of the Supreme and Federal Courts.

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Directors' Report

continued



Hugh McLernon

Executive Director

Hugh McLernon is one of the founders and pioneers of the contemporary dispute resolution funding industry. He has been an Executive Director and member of IMF Bentham's Investment Committee since 2001.

Mr McLernon is a lawyer by training. In 1988, he retired after 20 years of legal practice to commence the litigation funding industry in Australia through McLernon Group Limited. In 1990 he introduced the secondary life insurance market into Australia through the Capital Life Exchange. From 1996 to 2001, he was also the Managing Director of the Hill Group of companies which operates in the finance, mining, property, insurance and general investment arenas of Australia. In 2001, Mr McLernon listed IMF Bentham on the ASX. He was the inaugural Managing Director from 2001 to 2004, and then 2009 to 2015.

Previously, Mr McLernon worked as a Crown Prosecutor and then barrister at the independent bar, before joining Clayton Utz for three years as a litigation partner.

During the past three years he has not served as a Director of any listed company other than IMF Bentham Limited.

Mr McLernon holds a Bachelor of Laws degree (University of Western Australia).



Michael Bowen

Non-Executive Director

Michael Bowen was a founding partner of the Perth law firm Hardy Bowen and became a partner of global law firm DLA Piper in 2015. He practices primarily corporate, commercial and securities law with an emphasis on mergers, acquisitions, capital raisings and resources. Mr Bowen assists the Managing Director on matters concerning corporations law.

Mr Bowen was appointed to the Board as a Non-Executive Director in December 2001. He is Chair of the Remuneration Committee, was Chair of the Audit and Risk Committee until 4 April 2019 and is a member of the Corporate Governance Committee and Nomination Committee. Mr Bowen is also a Non-Executive Director of Trek Metals Limited (appointed 22 February 2017).

During the past three years he has not served as a Director of any listed company other than IMF Bentham Limited and Trek Metals Limited.

Mr Bowen holds Bachelors of Law, Jurisprudence and Commerce (University of Western Australia). He has been admitted as a barrister and solicitor of the Supreme Court of Western Australia since 1979, and is also admitted as a solicitor of the High Court of Australia. He is a Certified Public Accountant and a member of the Australian Society of Accountants.



Karen Phin

Non-Executive Director

Karen Phin has over 20 years' experience analysing and advising Australian listed companies in the retail, banking, industrial and natural resources sectors on capital management, capital raisings and mergers and acquisitions. Until 2014, she was a Managing Director and Head of Capital Advisory at Citigroup in Australia and New Zealand. Prior to joining Citigroup, she spent 12 months at ASIC as a Senior Specialist in the Corporations group. From 1996 to 2009, Ms Phin was a Managing Director at UBS AG, where she established and led the Capital Management Group.

Ms Phin is a member of IMF Bentham's Audit and Risk Committee, Remuneration Committee, Nomination Committee and current Chair of the Corporate Governance Committee. She has been a Non-Executive Director of Magellan Financial Group Limited since 2014 and a member of the Takeovers Panel since 2015, and a Non-Executive Director of ARB Corporation Limited since June 2019. During the past three years, she has not served as a Director of any company other than IMF Bentham, Magellan Financial Group Limited and ARB Corporation Limited.

Ms Phin holds a Bachelor of Arts and Bachelor of Laws (Honours) (University of Sydney, Australia) and is a graduate of the Australian Institute of Company Directors.

Directors' Report

continued



Christine Feldmanis

Non-Executive Director –
Appointed 1 November 2018

Christine Feldmanis is a qualified accountant, investment, governance and risk management specialist with over 30 years' experience in the finance and investment industry. She was previously Managing Director of an ASX-listed boutique funds management incubator business and Chief Finance Officer of the NSW Treasury Corporation.

As a professional Non-Executive Director and experienced Board Committee Chair, Ms Feldmanis' current Non-Executive Director roles include Perpetual Equity Investment Company Limited, FIIG Securities Limited, Bell Asset Management Limited and not-for-profit organisation, Foodbank NSW.

Ms Feldmanis was appointed to the Board as a Non-Executive Director from November 2018 and Chair of the Audit and Risk Committee from 4 April 2019.

During the past three years she has not served as a Director of any listed company other than IMF Bentham Limited and Perpetual Equity Investment Company Limited.

Ms Feldmanis holds a Bachelor of Commerce (University of New South Wales, Australia) and Master of Applied Finance (Macquarie University, Australia). She is a Fellow of the Australian Institute of Company Directors, Trustee Fellow of the Association of Superannuation Funds of Australia, Senior Fellow of the Financial Services Institute of Australasia and a Certified Practising Accountant.



Wendy McCarthy AO FAICD Life

Non-Executive Director –
Retired 21 November 2018

Wendy McCarthy AO started her career as a secondary school teacher. She has since held many significant leadership roles including as Deputy Chair of the Australian Broadcasting Corporation, Chancellor of the University of Canberra and Chair of Plan Australia. She is currently Deputy Chair of Goodstart Early Learning, Patron of the Sydney Women's Fund and Ambassador for 1 Million Women.

In 1989, Ms McCarthy was appointed an Officer of the Order of Australia and in 2003 received a Centenary of Federation Medal for business leadership.

Ms McCarthy was appointed to the Board as a Non-Executive Director in December 2013. Until retirement from the Board on 21 November 2018, she was Chair of the Corporate Governance Committee and Nomination Committee, and a member of the Audit and Risk Committee, and Remuneration Committee. During the past three years she has not served as a Director of any other listed company.

Ms McCarthy holds a Bachelor of Arts and Diploma of Education (University of New England, Australia) and an Honorary Doctorate (University of South Australia). She is a Life Fellow of the Australian Institute of Company Directors.

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Directors' Report

continued

Officers



Stuart Mitchell

Chief Financial Officer

Stuart Mitchell joined IMF Bentham in November 2018. He was previously Chief Financial Officer, Legal Counsel and Company Secretary for Ironbridge Capital, an Australian-based investment and private equity firm, providing funding for domestic and international businesses. His role encompassed financial management, budgeting, modelling, reporting and disclosure, governance, compliance, risk assessment, accounting, taxation, licensing and control issues of the manager, funds and associated structures across Asia Pacific, the Caribbean and Europe.

Mr Mitchell has over 20 years' commercial experience in Australia and the UK in the financial services sector, including private equity, funds management and venture capital.

Mr Mitchell holds a Bachelor of Commerce (University of New South Wales, Australia). He was admitted to practise as a solicitor in New South Wales and is a qualified Chartered Company Secretary and Chartered Accountant.



Jeremy Sambrook

General Counsel and Company Secretary

Jeremy Sambrook is an experienced corporate lawyer with a broad in-house legal and private practice background, having practised in the UK, Hong Kong, the Channel Islands and Australia. Immediately before joining IMF Bentham, Mr Sambrook was a Special Counsel in the Corporate team at DLA Piper Australia in Perth, Australia.

Following seven years working at a leading London law firm, Mr Sambrook moved to one of Europe's largest international hedge fund managers as Corporate Legal Counsel with responsibility for a wide variety of corporate group projects. He became a partner in 2010 and went on to manage the off-shore head office before moving with his family to Australia in 2013.

Mr Sambrook was appointed as General Counsel and Company Secretary in January 2016.

Mr Sambrook holds a Bachelor of Laws (University of Bristol, UK).

Directors' Report

continued

Interests in shares, bonds and performance rights of the Company

As at the date of this report, the interests of the directors in shares, IMF Bentham Bonds, Fixed Rate Notes and share performance rights of the Company were:

	Number of ordinary shares	Number of IMF Bentham Bonds	Number of Fixed Rate Notes	Number of performance rights
Michael Kay	313,049	–	–	–
Andrew Saker	168,863	–	100	1,849,081
Hugh McLernon	5,104,402	7,500	–	1,743,346
Michael Bowen	1,019,978	1,500	–	–
Wendy McCarthy	–	–	–	–
Karen Phin	23,256	–	–	–
Christine Feldmanis	–	300	–	–
Total	6,629,548	9,300	100	3,592,427

Further details of the interests of the Directors in the shares, bonds and options of the Company as at the date of this report are set out in the Remuneration Report included within the Directors' Report.

Dividends paid by IMF Bentham Limited

	Declared date	Record date	Payment date	Cents	\$m
Dividends paid in the year:					
<i>Interim for the year</i>					
On ordinary shares	n/a	n/a	n/a	nil	–
<i>Final for 2018, as recommended in the 2018 financial report</i>					
On ordinary shares	n/a	n/a	n/a	nil	–

Where dividends are paid by IMF Bentham Limited, shareholders are able to elect to participate in the dividend reinvestment plan in relation to these dividends.

The directors have determined they will consider, and where appropriate, implement, a regular semi-annual dividend which reflects the cash position and performance of the Company at the time of the dividend and the likely demand for cash over the ensuing 12-month period. The Company has put in place a dividend reinvestment plan and, on appropriate occasions, may arrange underwriting to reduce the impact a particular dividend might otherwise have on cash.

In respect of the current financial year, the Directors have determined that no final dividend will be payable by IMF Bentham Limited for the year ended 30 June 2019.

Directors' Report

continued

Operating and financial review

Principal activities

The principal activities of the entities within the consolidated group during the financial year were (i) the investment into and the management of Funds (or Fund-like structures) that are focused on investing into litigation and dispute resolution matters globally and (ii) the continued holding of direct investments into similar litigation and dispute resolution matters. The Group (either via the Funds or directly) invests by entering into funding agreements with claimants or law firms to provide funding and associated services. The Group does not provide legal advice. The key business driver is to make investments into litigation which ultimately result in a successful conclusion. If the litigation is successful, the Group earns a fee from the recovery amount. The fee may be structured as either a multiple of the amount invested or as a percentage of the settlement or judgment proceeds; and may be in addition to or inclusive of the amount invested; or a combination thereof. Generally, the multiple or percentage changes over time and may be lower the earlier the litigation is resolved. If the litigation is unsuccessful the Group does not generate any income and will derecognise its investment in the litigation for a loss in the profit and loss account. In certain jurisdictions the litigation funding agreement contains an undertaking to the client that the Group will pay any adverse costs that may arise in respect of the costs incurred by the defendant(s) in the funded litigation during the period of funding. Additionally, fees for managing and servicing in the Funds will provide an ongoing regular revenue stream independent of litigation investment returns.

Nature of operations

The Group undertakes new investing activities through its Funds (or Fund-like structures) as outlined below. The Group continues to hold and further invest directly in existing investments that were initiated prior to the origination of the Funds. The Group operates through 14 offices in six countries around the world. Originating in Australia in 2001, the Group expanded into the USA, opening an office in New York in 2011. Since that time, IMF has also opened offices in Los Angeles in 2014, San Francisco in 2015 and Houston in early 2017.

In January 2016, the Group expanded into Canada, opening an office in Toronto followed by a presence in Quebec in early 2018. The 2017 UK operations, with a focus on the UK, Europe, Middle East and Africa were supplemented in November 2018 with the creation of a subsidiary and branch operations.

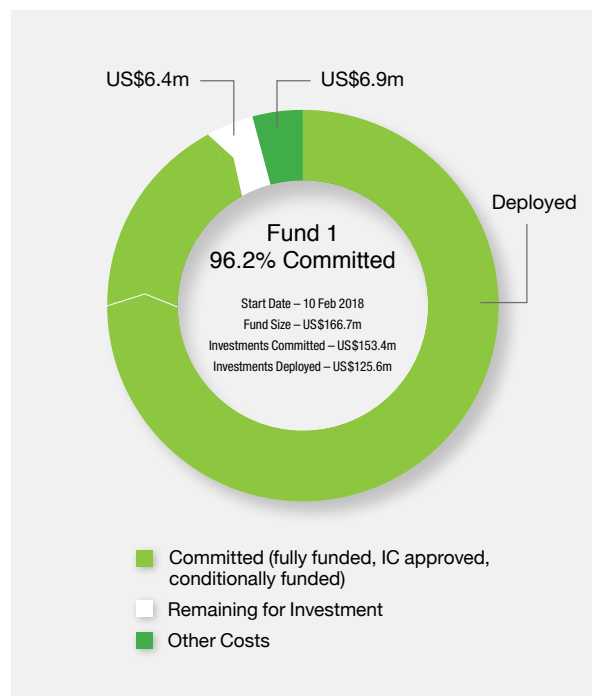
A Singapore branch was established early in 2017 following the introduction of legislation permitting litigation funding for international arbitration, and a Hong Kong office was added in early 2018.

In 2017 the Group established its first-generation Funds with external investor capital commitments.

Fund 1

In February 2017, the Group launched its first fund, Fund 1 for US investments. The Group and affiliated entities of Fortress Credit Advisers LLC committed up to US\$200.0 million to this Fund to be deployed on US cases over a three year period. Fund 1 was initially sized at US\$133.3 million with commitments of US\$100.0 million from Fortress and US\$33.3 million from IMF. Fortress is entitled to a capped priority return on invested capital and a further preferred return on committed but undrawn capital, after which IMF is entitled to a manager return. The residual net cash flows received on investments are distributed 85% to IMF and 15% to Fortress.

In February 2018, IMF sold the majority of its existing cases funded by its US subsidiary into Fund 1, generating cash for IMF of \$61.3 million. At the same time, the Fund was upsized from US\$133.3 million to US\$166.7 million. By 30 June 2019, the Fund's exclusivity period had completed; and it had committed 96.2% of available capacity as shown graphically below. Future US investments will be made by Fund 4.



Directors' Report

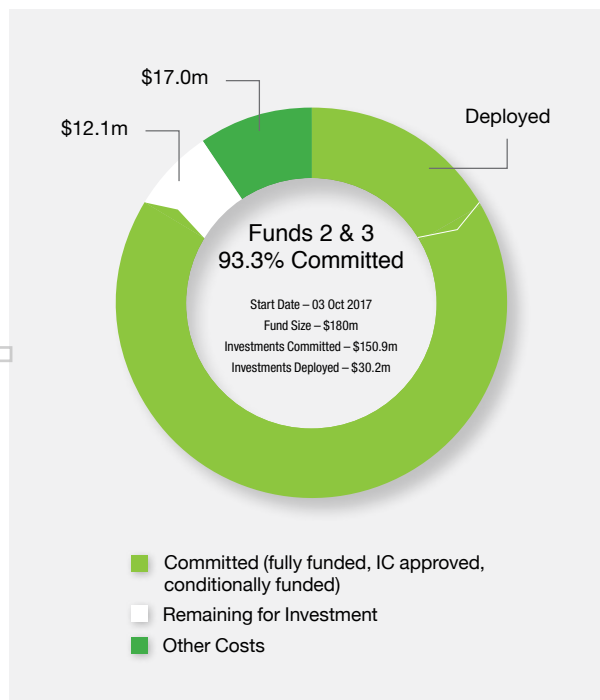
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Operating and financial review (continued)

Funds 2 & 3 (RoW Funds)

In October 2017, the Group launched its second fund, (collectively) Funds 2 & 3 which are mandated to make non-US investments. These rest of world Funds' investment partners include Partners Capital Phoenix Fund II Limited, a fund managed by Partners Capital, and a special purpose vehicle advised and managed by Amitell Capital Pte Ltd, a Singapore based private investment firm. The RoW Funds invest in litigation in jurisdictions outside the USA. They commenced with combined investor capital commitments of \$150.0 million. On 31 January 2019, the capital commitment capacity increased by 20%, with an additional \$30.0 million, taking the total to \$180.0 million. The external investors' capital commitment is for 80% with IMF funding 20%. The Funds' economics and waterfall profile for investors and IMF is similar to Fund 1, except that (i) the preferred return is a slightly different rate and (ii) the residual net cash flows received on investments are distributed 80% to IMF and 20% to the investment partners.

At 30 June 2019, the RoW Funds were committed to 93.3% of available capacity as shown diagrammatically below:



During the 2019 financial year the Group established its second generation Funds.

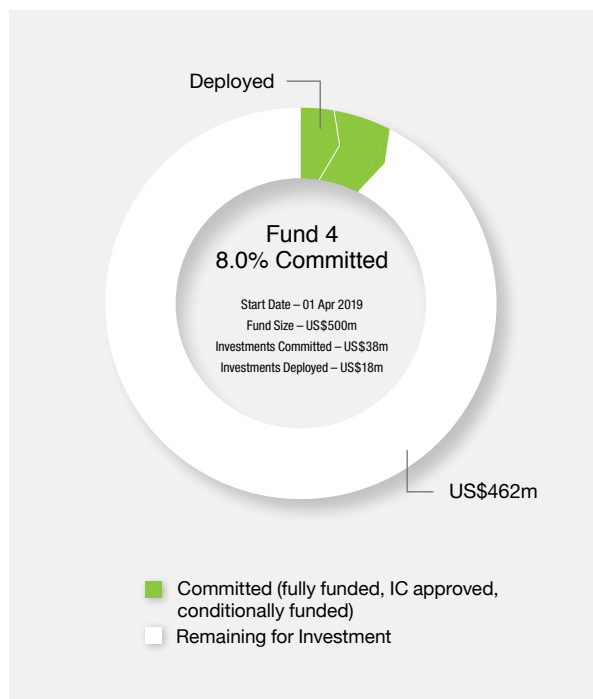
Fund 4

In November 2018, IMF successfully closed its fourth Fund, which is the next US centric investment structure established to follow on from the US investment activity of Fund 1. It has capital commitments of US\$500 million, with the potential to increase to US\$1.0 billion. 20% of the capital is to be provided by IMF, 80% is from external investors. The external investors include the investors in the RoW Funds and funds managed by a US University endowment fund.

IMF will periodically receive management, advisory, administration and performance fees in relation to the Fund from the external investors in the Fund.

IMF receives its investor return on its committed capital pari passu with the external investors.

At 30 June 2019, the Fund has committed 8.0% of its available capacity as shown graphically below.



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Directors' Report

continued

Operating and financial review (continued)

Fund 5

On 20 June 2019, IMF successfully launched its fifth Fund, Fund 5. This is a non-US centric investment structure established to follow the rest of world investment activity of Funds 2 & 3. It has capital commitments of US\$500 million, with the potential to increase to US\$1.0 billion. 20% of the capital is to be provided by IMF, and 80% is from external investors which include the Fund 4 investors with the addition of Balmoral Wood.

IMF will periodically receive management, advisory, administration and performance fees in relation to the Fund.

IMF will receive its investor return on its committed capital pari passu with the external investors.

At 30 June 2019, this Fund had not yet commenced operations as there was capacity remaining in Funds 2 & 3.

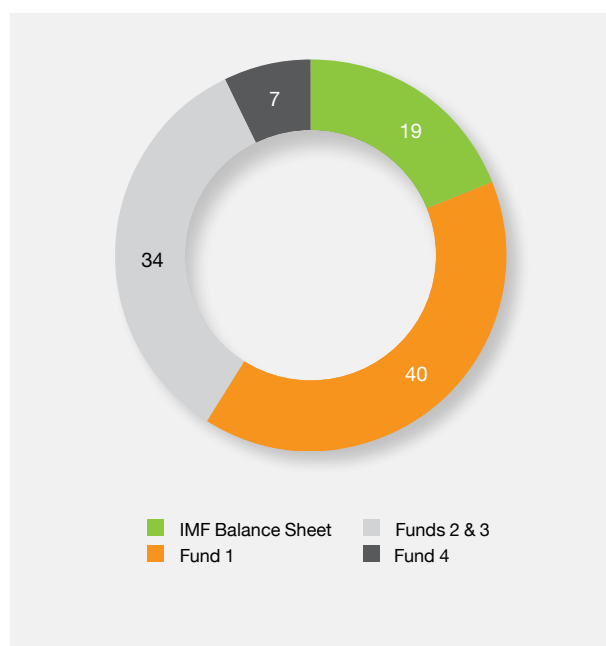
In any given year the Group's profitability is significantly dependent upon the outcome of funded investments resolved in that year, however the successful completion of an investment and the timing of that completion is not ultimately within the Group's control. Legislative, regulatory, judicial and policy changes may have an impact on future profitability.

The Group endeavours to have a mix of cases it is funding at any one time. These can broadly be categorised as law firm portfolios, patent and intellectual property claims, commercial, insolvency, corporate, arbitration claims, appeal whistle-blower claims and group actions. The global expansion also creates diversification across jurisdictions.

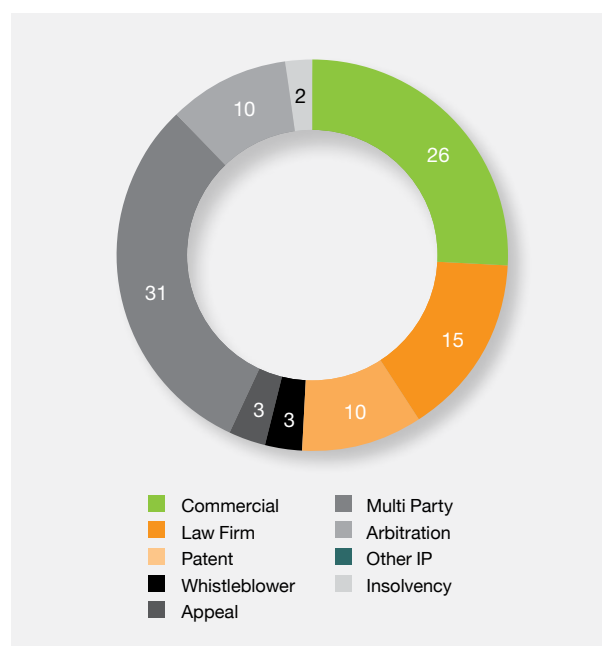
Investment portfolio report at 30 June 2019

	EPV \$m	Number of investments	Possible Completion EPV \$m			
			FY2020	FY2021	FY2022	FY2023+
IMF balance sheet	1,514.2	21	1,074.2	290.0	150.0	0.0
Fund 1	3,164.3	34	1,470.8	1,201.1	255.9	236.5
Funds 2 & 3	2,709.1	26	261.2	1,251.6	851.5	344.8
Fund 4	569.1	2	198.7	0.0	0.0	370.4
	7,956.7	83	3,004.9	2,742.7	1,257.4	951.7

Diversification by funding source (%)



Diversification by litigation type (%)



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Directors' Report

continued

Operating and financial review (continued)

IMF commenced 26 new investments during the year and extended funding on a further 17 investments. The 18 new non-USA investments had a total Estimated Portfolio Value at 30 June 2019 of \$1.7 billion. The eight new investments in the USA had an Estimated Portfolio Value of \$1.0 billion at 30 June 2019.

During the financial year, IMF concluded 18 investments (2018: 16), 11 were settled (2018: 11), there were two wins (2018: 0), four losses (2018: 2) and one withdrawal (2018: 2). Two investments are currently on appeal (2018: 2).

While the Group has implemented a risk mitigation and diversification strategy by expanding its portfolio size, geographical focus and diversifying its product offering across jurisdictions, updates to its two largest residual balance sheet investments are below.

The trial in the **Wivenhoe Dam** class action concerns people who suffered loss in the Brisbane floods of 2011, who allege the increased flooding was caused by the negligence of the dam operators. There is a participation agreement between IMF and the co-funder to share equally the costs (including any adverse costs) of and any return from this claim. The trial commenced on 4 December 2017 and has concluded with the judgment being reserved.

The **Westgem** investment concerns a property developer alleging improper conduct in relation to loans for a property development by a bank. The trial commenced in March 2018 and concluded in July 2018. Judgment is reserved.

ROW

The Group's operations, excluding the US, funded 18 new investments (2018: 15) in the non-US jurisdictions during the reporting period. Since 2001, there have been a total of 204 funded investments, with 43 current investments at year end.

8 non-US investments were resolved during the year (2018: 9), one of which was a loss (2018: 1), and one withdrawn (2018: 2). There is currently one case on appeal (2018: 1). Gross income generated from these investments during the current financial year was \$17.4 million (2018: \$47.2 million).

The non-US investment business now employs 42 staff (2018: 28) including investment managers and legal counsel. The investment managers are all former senior litigation attorneys, each with between 15 to 25 years' legal experience. This enables significant case analysis to be performed in-house, whilst providing great networks to attract new business.

USA

The Group's US operations funded 8 new investments (2018: 11) during the reporting period. Since entering the USA in August 2011, a total of 72 investments have been funded, with 40 current investments.

Ten US investments were resolved during the year (2018: 7), three of which were losses (2018: 1), and none were withdrawn (2018: 1). There is currently one case in the US on appeal (2018: 1). Income was also received in relation to five continuing investments (2018: 7) involving funding law firms across a portfolio of investments. Gross income generated from these investments during the current financial year was \$3.5 million (2018: \$4 million).

The US investment business now has 23 staff (2018: 18) including nine investment managers and six legal counsel. The investment managers have similar credentials to the wider IMF group.

Although uncertainty in US law concerning whether funders' communications are protected from disclosure inhibits IMF's usual transparency about the investments it funds, we can say that the US portfolio now contains a diverse group of litigation and arbitration investments. These involve commercial, patent and multi-party cases across a variety of different jurisdictions. There are ongoing signs of growing competition in the US market, but market knowledge of litigation funding remains at a relatively early stage and so we consider there remain good prospects for the future growth of our US business.

Employees

At 30 June 2019, IMF employed 101 permanent staff, 65 involved in the investment business of US and non-US and 36 (2018: 27) in various corporate, finance, client service, information technology or support roles.

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Directors' Report

continued

Operating and financial review (continued)

Operating results for the financial year

The following summary of operating results reflects the Group's performance for the year ended 30 June 2019:

Shareholder Returns	2019	2018
Basic (loss)/earnings per share (cents per share)	(25.00)	(6.40)
Diluted (loss)/earnings per share (cents per share)	(25.00)	(6.40)
Return on assets (NPAT/average assets)	(5.8%)	(1.7%)
Return on equity (NPAT/average equity)	(8.2%)	(2.7%)
Net debt/equity ratio %*	n/a	n/a

* Net debt (cash and short term deposits less total debt) is positive as cash and short term deposits are greater than total debt.

A summary of the impact of investment completions and impairment on the profit and loss for FY2019 is below:

	Date commenced	Estimated portfolio value	Total litigation contract income	Total litigation contract expenses	Total overhead	Net gain/(loss) on derecognition of intangible asset
		\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
Direct balance sheet						
402770	22 December 2015	14,500	7,481	(2,727)	(723)	4,031
402709	28 June 2016	11,000	2,954	(1,338)	(154)	1,462
402792	6 April 2016	7,750	2,208	(1,508)	(286)	414
402479	29 September 2016	3,000	1,940	(1,508)	(327)	105
401053	6 August 2009	1,500	1,175	(298)	(804)	73
403209	22 February 2017	2,400	1,152	(272)	(48)	832
403187	18 May 2017	2,231	–	(203)	(46)	(249)
USA 045 ¹	15 December 2016	–	–	(836)	(149)	(985)
Other ⁴		–	197	(1,308)	(73)	(1,184)
Total direct balance sheet investments		42,381	17,107	(9,998)	(2,610)	4,499
Funds 2 & 3						
Fund 2/3 001	18 October 2017	13,100	–	(981)	–	(981)
Further recoveries on completed investments		–	329	–	–	329
Other ⁴		–	–	67	–	67
Total Funds 2 & 3		13,100	329	(914)		(585)

Directors' Report

continued

Operating and financial review (continued)

	Date commenced	Estimated portfolio value	Total litigation contract income	Total litigation contract expenses	Total overhead	Net gain/(loss) on derecognition of intangible asset
		\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
Fund 1						
USF 010	22 July 2017	31,257	3,464	(1,649)	–	1,815
USF 026	22 June 2015	2,155	1,912	(351)	–	1,561
USF 041	2 April 2018	18,473	2,813	(1,418)	–	1,395
USF 020	30 September 2014	42,623	4,218	(2,114)	–	2,104
USF 011	25 August 2017	19,536	2,906	(1,804)	–	1,102
USF 031	8 December 2015	163,389	–	(9,952)	–	(9,952)
USF 025	22 June 2015	42,623	–	(1,983)	–	(1,983)
USF 004 ²	20 May 2017	3,809	273	(515)	–	(242)
USF 002 ³	24 March 2017	93,756	–	(744)	–	(744)
Further recoveries on continuing investments		–	1,999	(1,999)	–	–
Other ⁴		–	–	(259)	–	(259)
Total Fund 1		417,621	17,585	(22,788)	–	(5,203)
		473,102	35,021	(33,700)	(2,611)	(1,290)
Overhead for Fund investments allocated on consolidation					(2,957)	(2,957)
Net loss on derecognition of intangible assets			35,021	(33,700)	(5,568)	(4,247)
Provision for impairment					(9,571)	(9,571)
Total loss on derecognition of intangible assets			35,021	(33,700)	(15,139)	(13,818)

The Group has finalised 192 (2018: 175) investments since listing, excluding withdrawals, with an average investment period of 2.6 years (2018: 2.6 years). The Group has generated a return on invested capital of 1.34 times (excluding overheads) (2018: 1.47 times) on invested capital.

The investment portfolio as at 30 June 2019 has a mixture of both mature and new investments. The average age of the portfolio is 3.62 years.

1. USA Investment 045 related to residual proceedings following a larger investment that completed via settlement in November 2014. Over the total life of the investment the Group invested \$5.4 million and received \$17.3 million in income, generating a ROIC of 2.2x.
2. USA Fund Investment 004 consisted of an investment in a law firm portfolio. All cases in the portfolio have concluded and the portfolio completed. Over the total life of the investment the Group invested \$1.0 million and received \$0.8 million in gross proceeds, generating a (0.2)x ROIC.
3. USA Fund investment 002 consisted of an investment in several proceedings. The funding agreement was terminated in the current period and accordingly the remaining investment was written off. Over the total life of the investment the Group invested \$1.9 million and received \$2.4 million in gross proceeds, generating a 0.3x ROIC.
4. Other incidental expenses incurred in investment management and investigation.

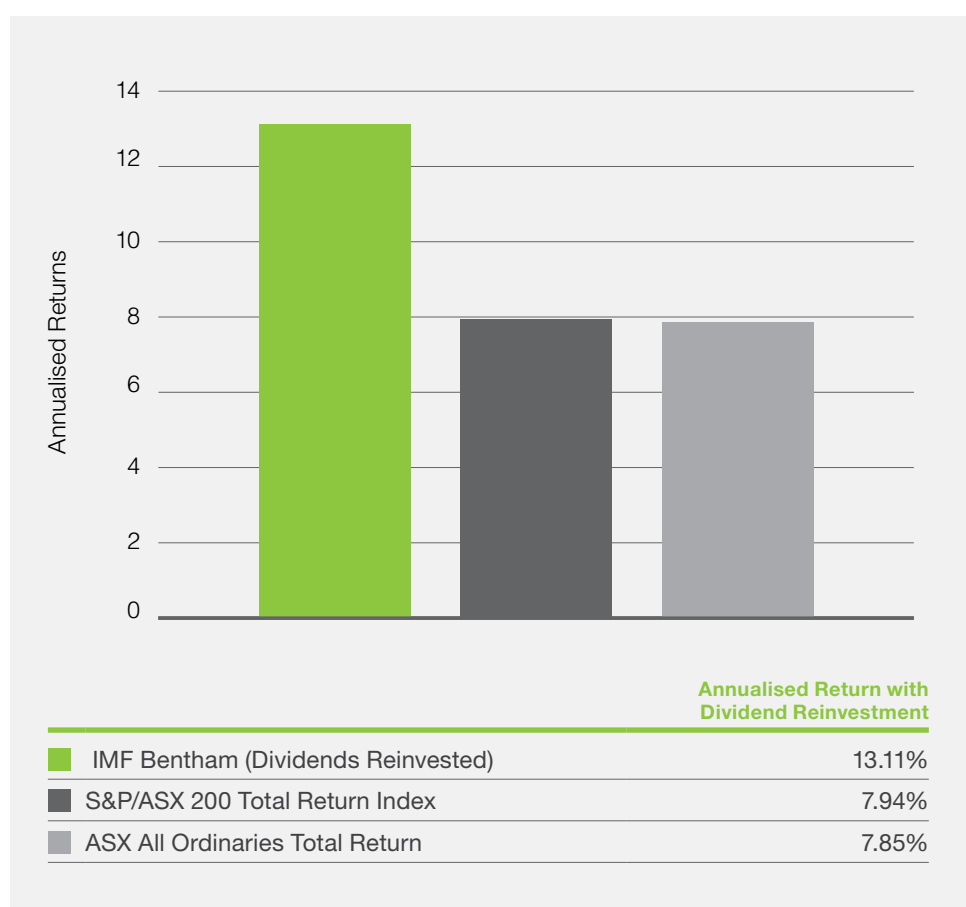
Directors' Report

continued

Operating and financial review (continued)

IMF's share price closed at \$2.92 per share on 30 June 2019 (2018: \$3.00). IMF entered the ASX top 300 companies on 20 March 2009, when its share price was \$1.15. Since entering the index, IMF has outperformed the major indices on an annualised basis from 30 June 2011 to 30 June 2019 as detailed below:

IMF, ASX 200 & ASX All Ordinaries Annualised Returns - 30 June 2011 to 30 June 2019



Liquidity and capital resources

The consolidated Statement of Cash Flows illustrates that there was an increase in cash and cash equivalents for the year ended 30 June 2019 of \$63.4 million (2018: increase of \$9.9 million). Operating activities used \$36.8 million of net cash outflows (2018: net cash outflow of \$63.6 million), whilst cash flows used in investing activities were \$80.9 million (2018: net cash outflow of \$19.3 million), and financing activities raised \$181.1 million (2018: \$92.8 million) principally as a result of cash inflows from the issue of shares and bonds.

Directors' Report

continued

Operating and financial review (continued)

Asset and capital structure

	2019 \$'000	2018 \$'000	Change %
Cash and short term deposits	226,460	160,231	41%
Total debt	(143,972)	(120,462)	20%
Net debt	82,488	39,769	107%
Total equity	515,497	367,836	40%
Working Capital Ratio ¹	2.2:1	2.3:1	(5%)

In December 2018, the Company restructured the IMF Bentham Bonds, allowing the option for early redemptions of the bonds issued in April 2014 and issuing additional bonds with a face value of \$100 each. 154,048 bonds were redeemed, and a further 414,048 bonds issued, with appropriate interest paid to maintain the effective interest rate. This brings the total Bonds on issue to 760,000. The IMF Bentham Bonds have a variable rate of interest based on the Bank Bill rate plus a fixed margin of 4.20% per annum, paid quarterly. The maturity date was extended from 30 June 2019 to 22 December 2022, introducing a first issuer call date of 8 January 2022 with a step up in margin of 1.0% applying from 1 January 2022.

In April 2017, the Company issued 40,000 Fixed Rate Notes with a face value of \$1,000 each raising \$40 million to form a single series with the Notes issued in the prior financial year. In April 2016, the Company issued 32,000 Fixed Rate Notes with a face value of \$1,000 each, raising \$32 million.

Interest of 7.4% per annum is payable to Noteholders half yearly. The Fixed Rate Notes are due to mature on 30 June 2020 and are secured by a security interest over all present and after-acquired property of IMF. IMF had an early redemption option on these Notes at 30 June 2019, which has not been exercised.

Profile of debt

The profile of the Group's debt finance is as follows:

	2019 \$'000	2018 \$'000	Change %
Current			
IMF Bentham Bonds	–	49,553	(100%)
Fixed Rate Notes	71,455	–	100%
	71,455	49,553	44%
Non-current			
IMF Bentham Bonds	72,517	–	100%
Fixed Rate Notes	–	70,909	(100%)
	72,517	70,909	2%
Total debt²	143,972	120,462	20%

1. The working capital ratio is calculated by dividing current assets by current liabilities. The ratio is categorised as non-IFRS information prepared in accordance with ASIC Regulatory Guidance 230 - Disclosing non-IFRS financial information, issued in December 2011. This information has not been audited or reviewed.

2. Total debt is \$148.0 million. \$76.0 million relates to the IMF Bentham Bonds restructured in December 2018, while during the 2017 financial year, the Company issued Fixed Rate Notes to the value of \$40.0 million to form a single series with \$32.0 million issued in 2016. The carrying value of the debt is net of \$4.0 million of unamortised transaction costs and debt premium (See Note 12).

Directors' Report

continued

Operating and financial review (continued)

Shares issued during the year

On 31 October 2018, the Company issued 26,600,000 shares to sophisticated and institutional investors at \$2.80 per share. On 16 November 2018, the Company issued 580,110 shares under its Share Purchase Plan at \$2.80 per share.

Capital expenditure

There has been an increase in capital expenditure during the year ended 30 June 2019 to \$0.4 million from \$0.2 million in the year ended 30 June 2018. The capital expenditure in 2019 relates primarily to computer and office equipment while in the current year, new offices in Houston were fitted out.

Risk management

The Group's major risk continues to be the choice of cases to be funded. The extent of the mitigation of that risk can best be identified by reference to the fact that in its 18 years of operation IMF has lost only 21 investments out of 192 investments funded and completed (excluding withdrawals). The Company has an investment protocol in relation to case selection and a rigorous due diligence process which ensures that only cases with very good chances of success are accepted for funding. The Group also insures a portion of the adverse costs order exposure in relation to investments on its own balance sheet and all investments in the RoW Funds are covered by an After-The-Event insurance policy.

Another risk which requires constant management is liquidity. IMF's strategic plan addresses this risk through the introduction of innovative fund structures reducing IMF's direct capital exposure to potential investment losses.

Although there is currently portfolio concentration risk associated with investments in the Wivenhoe and Westgem investments, the company's diversification strategy has reduced this risk for future periods. There are 83 investments in the current portfolio (2018: 75) with an average investment size of \$5.1 million (2018: \$4.3 million).

Additionally, IMF constantly monitors proposed legislative, regulatory, judicial and policy changes that may affect litigation funding in the markets in which it operates. On 24 January 2019, the Australian Law Reform Commission (ALRC) released its Report resulting from its federal Inquiry into Class Action Proceedings and Third-Party Litigation Funders. The Report made a number of recommendations relating to case management for class actions, settlement approval, regulation of litigation funders, solicitors' fees and conflicts of interest, regulatory redress and continuous disclosure obligations. We anticipate there will be further consultation before any legislation is considered but

timing is unclear. IMF will continue to closely monitor and participate in future developments whenever possible.

The Victorian Law Reform Commission (VLRC) also published a Report on their Inquiry into Litigation Funding and Group Proceedings in June 2018. Following the publication of this Report, there does not appear to have been any significant developments.

Commercial litigation funding in the US is now widely recognised and accepted. There is however, proposed federal legislation seeking mandatory disclosure of funding agreements in class actions and multi-district litigation. We continue to speak with and lobby the relevant parties as IMF believes that such disclosure is not in the best interests of claimants.

Third party funding of international arbitration and commercial litigation related to insolvency proceedings is expressly permitted in Singapore, while Hong Kong has only recently introduced a new framework for the funding of international arbitration. Commercial litigation unrelated to insolvency proceedings remains heavily restricted in Hong Kong.

IMF, like all businesses, faces the risk of damage to its reputation, name or brand which could materialise from various sources. The Group aspires to maintain an excellent reputation for strong risk management discipline, a client-centric approach and an ability to be flexible and innovative. The Group recognises the serious consequences of any adverse publicity or damage to reputation, whatever the underlying cause. We have various policies and practices to mitigate reputational risk, including strong values that are regularly and proactively reinforced. Strategic and reputational risk is mitigated as much as possible through detailed processes and governance involving escalation procedures from investment managers to management and from management to the board, and from regular, clear communication with shareholders, clients and all stakeholders. Whilst seeking to clearly differentiate itself in the industry, IMF may suffer indirect reputational damage from the actions of other participants that draw criticism of the industry more broadly.

Significant changes in the state of affairs

Total equity increased 40% to \$515.5 million at 30 June 2019 from \$367.8 million at 30 June 2018. There have been no significant changes in the Company's state of affairs during this reporting period other than as is disclosed in this report.

Significant events after reporting date

There have been no significant events after reporting date.

Directors' Report

continued

Likely developments and expected results

Approximately 38% of the investment portfolio at 30 June 2019 is anticipated to complete in FY19. (2018: 44%)

The estimated completion period is IMF's current best estimate of the period in which the case may be finalised. The case may finalise earlier or later than the identified period for various reasons. Completion means finalisation of the litigation by either settlement, judgment or arbitrator determination, for or against the funded client. It may not follow that the financial result will be accounted for in the year of finalisation. Completion period estimates are prepared at case inception and reviewed and updated where necessary on a quarterly basis.

The Group does not provide forecasts in light of the difficulty in estimating the finalisation of its investments but provides an indication of its view of the possible completion dates and estimated recoverable amounts in the quarterly portfolio reports.

IMF expects demand for its funding to continue in Australia, particularly as we are the leading funder in this market. The establishment of our subsidiaries in the United States of America, Canada and Singapore has resulted in increased funding opportunities. Competition, however, is increasing and is expected to increase further in the coming years with new entrants coming into the Australian market and new entrants in overseas markets. Litigation funding is considered non-cyclical or uncorrelated to underlying economic conditions.

Environmental regulation and performance

The consolidated entity's operations are not presently subject to significant environmental regulation under the respective local laws that IMF operates in.

Share options

Unissued shares

As at the date of this report there were 15,601,589 share performance rights on issue (2018: 14,355,887).

Indemnification and insurance of directors and officers

During the financial year the Company has paid premiums in respect of an insurance contract insuring all the directors and officers of the Group against any legal costs incurred in defending proceedings for conduct other than, amongst others:

- (a) wilful breach of duty; or
- (b) contravention of sections 182 or 183 of the *Corporations Act 2001*, as may be permitted by section 199B of the *Corporations Act 2001*.

The total amount of premiums paid under the insurance contract referred to above was \$678,000 during the current financial year (2018: \$456,000).

Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, EY, as part of the terms of its audit engagement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify EY during or since the financial year.

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Directors' Report

continued

Letter from the Chairman of the Remuneration Committee

Dear Shareholder,

On behalf of the Board of directors ("Board") and as Chairman of the Remuneration Committee, I am pleased to present IMF's 2019 Remuneration Report.

Our five-year Strategic Business Plan initiated in 2015 resulted in IMF implementing a variable remuneration framework designed to align executive reward and shareholder value and to incentivise the achievement of our strategic vision over the longer term. The variable remuneration framework was developed to reflect industry standards and the structure is designed to ensure that Key Management Personnel ("KMP"), excluding non-executive directors, and executives are aligned to and rewarded for delivering sustained Group performance. Non-executive directors do not have a variable remuneration component.

We have continued to monitor our remuneration structure and policies and remain comfortable with the overarching framework introduced in 2015.

The levels of fixed remuneration of the Group's senior employees are reflective of the private practice professional services market within which IMF competes for talent. Investment managers are invariably at or around the partner level of legal practices prior to joining IMF. Under these remuneration arrangements, a material portion of staff remuneration is 'at-risk' and linked to both short-term and long-term performance.

The Group's variable remuneration framework for KMP, senior executives and investment managers (collectively "Senior Staff") consists of two components:

- a Short-Term Incentive Plan ("STIP") which provides for an annual cash payment, subject to the achievement of key financial and non-financial performance objectives; and
- an equity-based Long-Term Incentive Plan ("LTIP") that provides for an annual grant of performance rights. Vesting of performance rights is contingent on performance against two metrics, positive relative Total Shareholder Return ("TSR") and Compound Annual Growth Rate ("CAGR") of the intangible asset balance ("Funds Deployed"), both measured over a three-year performance period. The LTIP is independent from the STIP and can be granted or vested even when there is no STIP for the period.

The target STIP payment for the 2019 financial year was capped at 40% of an employee's Total Fixed Remuneration ("TFR"). No STIP has been awarded to our senior staff for the current financial year, as a result of the Group's financial loss for the year, notwithstanding the achievement of some major strategic milestones.

The LTIP for Senior Staff is designed to complement the STIP as a form of 'at-risk' remuneration tied to long-term performance for the key contributors to the business. The LTIP directly aligns shareholders' and participants' interests.

We are pleased to report that the metrics assessed over the three-year vesting period, for the performance rights granted in FY2017, have been exceeded and we anticipate 100% vesting will occur.

The Board remains confident that IMF's remuneration policies support the Group's financial and strategic goals and we will continue to review the target metrics to ensure the consistent alignment of employees' and business focus with those of shareholders. We are committed to transparency and an ongoing dialogue with shareholders on remuneration.

On behalf of the Board, I invite you to review the full report and thank you for your continued interest.

Yours faithfully



Michael Bowen
Chairman of the Remuneration Committee

Directors' Report

continued

Remuneration Report (Audited)

This Remuneration Report outlines the director and KMP remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001* (Cth) and its Regulations. For the purposes of this report, KMP of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of IMF.

Key management personnel

Details of IMF's Key Management Personnel for the 2019 financial year are:

(i) Directors

Michael Kay	Chairman and Non-Executive Director
Andrew Saker	Managing Director and Chief Executive Officer
Hugh McLernon	Executive Director
Michael Bowen	Non-Executive Director
Wendy McCarthy	Non-Executive Director (resigned 21 November 2018)
Karen Phin	Non-Executive Director
Christine Feldmanis	Non-Executive Director (appointed 1 November 2018)

(ii) Executives

Clive Bowman	Chief Executive – Australia and Asia
Charlie Gollow	Chief Executive – USA (resigned 5 July 2019)
Stuart Mitchell	Chief Financial Officer (appointed 12 November 2018)
Jeremy Sambrook	General Counsel and Company Secretary

Clive Bowman became the Global Chief Investment Officer effective from 1 July 2019. Charlie Gollow resigned with effect from 5 July 2019 and is now a member of our US Investment Committee. There were no other changes to IMF's KMP after the reporting date and before the financial report was authorised for issue.

Remuneration Committee

The Remuneration Committee of the Board of directors of the Company is responsible for determining and reviewing remuneration arrangements for the Board and KMP.

The Remuneration Committee assesses the appropriateness of the nature and amount of the emoluments of the directors and KMP on a periodic basis by reference to relevant employment market conditions, with the overall objective of ensuring the best stakeholder benefit from the Board and KMP.

Remuneration philosophy

The performance of the Group is heavily dependent upon the quality of its directors and KMP. Accordingly, the Company must attract, motivate and retain highly skilled directors and executives.

The Group embodies the following principles in its remuneration framework:

- determination of appropriate market rates for the fixed remuneration component recognising that the majority of investment professionals are most comparable to partners in private practice professional services businesses; and
- establishment of appropriate performance hurdles for the variable remuneration component.

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and KMP remuneration is separate and distinct. The STIP and LTIP are products of an external remuneration review that was conducted in 2015 and are reflective of industry standards. The Board continues to monitor and assess the appropriateness of the remuneration structure.

Non-executive director remuneration

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the non-executive directors. Non-executive directors' fees and payments totalled \$506,247 (including superannuation), as disclosed in the following tables in this report. At the 2016 Annual General Meeting, shareholders approved payments up to \$700,000 to non-executive directors.

There are no retirement allowances for non-executive directors, nor do they participate in any incentive programs. Non-executive directors may, however, elect to have a portion of their remuneration paid into their personal superannuation plans.

Executive remuneration

Objective

The Company aims to reward executives with a level and mix of compensation elements commensurate with their position and responsibilities, within the following framework:

- reward executives for Company and individual performance against targets set to appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link rewards with the internal strategic goals of the Group; and
- ensure total compensation is competitive by market standards.

Directors' Report

continued

Remuneration Report (Audited) (continued)

Structure

It is the Remuneration Committee's policy that employment contracts are entered into with all KMP. Details of these contracts are provided below (see Executive Employment Contracts).

Compensation consists of the following key elements:

- **fixed remuneration** consisting of base salary, superannuation and benefits; and
- **variable remuneration** consisting of a cash component short term incentive plan (STIP) and performance right component long term incentive plan (LTIP).

Fixed remuneration

The levels of fixed remuneration of IMF's senior employees are reflective of the private practice professional services market within which the Company competes for talent. Investment managers are invariably at or around the partner level of legal practices prior to joining IMF.

Fixed compensation is reviewed annually by the Remuneration Committee. The process consists of a review of Group and individual performance, relevant comparative compensation in the market and internally and, where appropriate, external advice on policies and practices. There have been no changes in the fixed remuneration for the senior employees for this financial year.

Variable remuneration

Objective

The objective of the variable compensation incentive is to reward executives in a manner that aligns this element of their compensation with the objectives and internal key performance indicators of the Group. The total potential incentive available is set at a level so as to provide sufficient incentive to the executive to achieve the operational targets and such that the cost to the Group is reasonable in the circumstances.

Structure

Short Term Incentive Plan

The purpose of STIP is to provide an annual 'at-risk' incentive to participants linked to the achievement of specific financial and non-financial performance objectives. The STIP performance measures were chosen as they reflect the core drivers of short - term performance and also provide a framework for delivering sustainable value to the Group, its shareholders and other stakeholders.

Key features of the STIP include:

- Applicable employees will be eligible to be considered by the Remuneration Committee to participate in the STIP, which will be delivered as an annual cash payment.

- Each participant will have their STIP opportunity expressed as a percentage of their total fixed remuneration.
- At the beginning of the financial year, financial and non-financial performance objectives will be set with reference to an employee's role and contribution to the Group. This encompasses areas such as growth, culture, strategic objectives, business development, staff and risk management.
- At the end of the financial year, actual performance will be assessed against the pre-set financial and non-financial performance objectives set at the beginning of the year.

For 2019, the maximum STIP incentive is 40% of TFR. The STIP metrics set for the 2019 financial year were:

- Target 1 – 50% of the STIP opportunity (or 20% of the employees' salary) will be awarded to employees if the Group achieves 5% growth in net profit before tax (before bonus); and
- Target 2 – 50% of the STIP opportunity (or 20% of the employees' salary) will be awarded if employees achieve their non-financial objectives (which are set individually).

In financial years where no net profit before tax (before bonus) is achieved, it is at the discretion of the Remuneration Committee as to whether to pay STIP.

Long Term Incentive Plan

The LTIP complements the STIP as a form of 'at-risk' remuneration tied to long-term performance. The LTIP encourages equity ownership and directly aligns shareholders' and participants' interests.

Key features of the LTIP include:

- Only key senior employees are eligible to participate in the LTIP. These will generally be investment managers and above.
- Awards will be granted annually as performance rights over IMF ordinary shares.
- The LTIP opportunity will be expressed as a percentage of TFR.
- The value of the LTIP opportunity is set at 60% of TFR calculated on face value by reference to IMF's volume weighted average share price at the start of the applicable period.
- If elected prior to the start of the financial year, and with approval of the remuneration committee, senior executives have a one-off non reversible option of foregoing their STIP allocation and electing to receive 100% of their at-risk remuneration in performance rights, under the same terms as the existing LTIP structure.

Directors' Report

continued

Remuneration Report (Audited) (continued)

- Two performance metrics have been set and the performance rights, or a portion thereof, will vest in three years if:
 - Target 1 – TSR measurements will comprise 50% of the LTIP opportunity:
 - TSR must be positive overall between the issuance of the performance rights and the vesting date.
 - The Company's TSR will then be compared to a peer group, at 30 June, which will include ASX-listed entities in the Diversified Financials industry group, which are between 50% and 200% of IMF's market capitalisation.
 - The TSR component will vest in accordance with the following vesting schedule:

TSR Percentile Ranking	Percentage Vesting
Less than the 50th percentile	Nil vesting
Equal to the 50th percentile	50% vesting
Between the 50th and 75th percentile	Between 50% and 100%, determined on a straight-line basis
Equal to the 75th percentile or above	100% vesting

- Target 2 – The Group will measure the compound annual growth rate of Funds Deployed which will comprise 50% of the LTIP opportunity:
 - CAGR of the Funds Deployed component will vest in accordance with the following schedule:

Funds Deployed CAGR	Percentage Vesting
Below 5% CAGR	Nil vesting
At 5% CAGR	50% vesting
Between 5% CAGR and 7% CAGR	Between 50% and 100%, determined on a straight-line basis
7% CAGR and above	100% vesting

These performance conditions have been chosen to ensure the remuneration of executives are aligned with the Group's strategy to increase the IMF portfolio, invest in future income and potential earnings capacity, and creation of shareholder wealth.

Group Performance

The objectives and philosophy of the Remuneration Committee are based upon aligning the performance of the Group's employees with increasing value to shareholders. The graph on page 64 shows the performance of the Group as measured by its share price and compared to other shares listed on the ASX.

The following is a summary of the Group's earnings per share (shown as cents per share) over the last five years:

	2015	2016	2017	2018	2019
IMF share price at 30 June	1.72	1.53	1.89	3.00	2.92
Earnings/(loss) per share (cents per share)	3.78	12.38	9.04	(6.40)	(25.00)
Diluted earnings/(loss) per share (cents per share)	3.78	12.38	8.68	(6.40)	(25.00)

Note, comparatives have not been restated for the impact of AASB 15 and AASB 9.

Directors' Report

continued

Remuneration Report (Audited) (continued)

Executive Employment Contracts

Andrew Saker, Managing Director and CEO:

- contract commenced 5 January 2015;
- gross salary package of \$1,200,000 pa plus superannuation;
- salary may be reviewed by the Board from time to time;
- notice period by the employee is 12 months and 6 months' notice by the Company; and
- Upon termination on good terms, the following termination payment arrangements apply:
 - i. the notice periods specified above;
 - ii. 12 months' salary; and
 - iii. statutory entitlements.
- If termination occurs due to the provision of six months notice by IMF, or the provision of notice by Mr Saker in situations where either a material breach of his executive services agreement occurs, material diminution of Mr Saker's role or if Mr Saker is unfit due to illness or injury then in addition to the above the following benefit is paid –
 - i. A payment calculated by reference to the number of shares Mr Saker would have retained from any unvested performance rights multiplied by the 5-day VWAP calculated at the date such performance rights would have vested had they continued to be held.

Hugh McLernon, Executive Director:

- contract commenced 1 July 2007;
- gross salary package of \$1,150,000 pa including superannuation;
- salary to be reviewed annually, with the 2019 review determining there should be a 0% increase in salary (2018: 0% increase);
- notice period by either the employee or the Company is 12 months; and
- no other termination payment arrangements (excluding statutory entitlements) apply other than the notice period specified above.

Clive Bowman, Chief Executive – Australia and Asia:

- contract commenced 1 July 2012;
- gross salary package of \$925,000 pa including superannuation;
- salary to be reviewed annually, with the 2019 review determining there should be a 0% increase in salary (2018: 0% increase);

- notice period by either the employee or the Company is 12 months; and
- no other termination payment arrangements (excluding statutory entitlements) apply other than the notice period specified above.

Charlie Gollow, Chief Executive - USA:

- contract commenced 22 April 2003;
- gross salary package of \$600,000 pa including superannuation;
- salary to be reviewed annually, (2018: 0% increase);
- notice period by the employee is 3 months and 6 months' notice by the Company; and
- no other termination payment arrangements apply other than the notice periods specified above.

Stuart Mitchell, Chief Financial Officer:

- contract commenced 12 November 2018;
- gross salary package of \$435,000 pa including superannuation;
- salary to be reviewed annually;
- notice period by either the employee or the Company is 6 months; and
- no other termination payment arrangements apply other than the notice periods specified above.

Jeremy Sambrook, General Counsel and Company Secretary:

- contract commenced 18 January 2016;
- gross salary package of \$350,000 pa including superannuation;
- salary to be reviewed annually;
- notice period by either the employee or the Company is 6 months; and
- no other termination payment arrangements apply other than the notice periods specified above.

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Directors' Report

continued

Remuneration Report (Audited) (continued)

(a) Remuneration of Key Management Personnel

Table 1: Remuneration for the year ended 30 June 2019

	Short-term benefits		Post-employment	Long term benefits	Share based payments	Total Remuneration	Performance related %
	Salary & fees	Cash bonus accrued ¹	Super-annuation	Leave entitlements	Share performance rights		
2019	\$	\$	\$	\$	\$	\$	%
<i>Directors</i>							
Michael Kay	205,384	–	19,616	–	–	225,000	0%
Andrew Saker	1,200,000	–	20,531	35,166	693,946	1,949,643	36%
Hugh McLernon	1,129,469	–	20,531	(53,987)	654,148	1,750,161	37%
Michael Bowen	91,324	–	8,676	–	–	100,000	0%
Wendy McCarthy	39,182	–	3,722	–	–	42,904	0%
Karen Phin	91,324	–	8,676	–	–	100,000	0%
Christine Feldmanis	56,912	–	5,407	–	–	62,319	0%
<i>Executives</i>							
Clive Bowman	904,469	–	20,531	(40,211)	462,775	1,347,564	34%
Charlie Gollow	579,469	–	20,531	8,883	300,178	909,061	33%
Stuart Mitchell	248,150	–	14,153	5,831	39,510	307,644	13%
Jeremy Sambrook	379,469	–	20,531	7,976	170,012	577,988	29%
Total	4,925,152	–	162,905	(36,342)	2,320,569	7,372,284	

Table 2: Remuneration for the year ended 30 June 2018

	Short-term benefits		Post-employment	Long term benefits	Share based payments	Total Remuneration	Performance related %
	Salary & fees	Cash bonus accrued ¹	Super-annuation	Leave entitlements	Share performance rights		
2018	\$	\$	\$	\$	\$	\$	%
<i>Directors</i>							
Michael Kay	205,384	–	19,616	–	–	225,000	0%
Andrew Saker	1,200,000	–	20,049	24,741	576,323	1,821,113	32%
Hugh McLernon	1,129,951	–	20,049	30,554	543,456	1,724,010	32%
Michael Bowen	82,192	–	7,808	–	–	90,000	0%
Alden Halse	36,426	–	3,460	–	–	39,886	0%
Wendy McCarthy	82,192	–	7,808	–	–	90,000	0%
Karen Phin	66,409	–	6,309	–	–	72,718	0%
<i>Executives</i>							
Clive Bowman	904,951	–	20,049	33,561	432,783	1,391,344	31%
Charlie Gollow	579,951	–	20,049	5,778	280,723	886,501	32%
Total	4,287,456	–	125,197	94,634	1,833,285	6,340,572	

1. No bonus in respect of the 2019 financial year has been accrued for KMP (2018: \$nil).

Directors' Report

continued

Remuneration Report (Audited) (continued)

The following table outlines the proportion of maximum STIP earned by KMP in the 2019 financial year.

	Maximum STIP opportunity (% of TFR)	% of maximum earned
Andrew Saker ¹	0%	0%
Hugh McLernon ¹	0%	0%
Clive Bowman	40%	0%
Charlie Gollow	40%	0%
Stuart Mitchell	40%	0%
Jeremy Sambrook	40%	0%

1 elected to receive 100% of variable remuneration as LTIP.

In light of the financial performance of the Group, the Remuneration Committee has determined that no STIP is payable for the financial year.

(b) Share performance rights awarded, vested and lapsed during the year

2019	Tranche 1 performance rights awarded during the year	Fair value of performance rights at grant date ¹	Tranche 2 performance rights awarded during the year	Fair value of performance rights at grant date ¹	Total performance rights awarded during the financial year	Grant date	Vesting date	Expiry Date	Value of performance rights granted during the year	Total performance rights vested during the year	Value of performance rights remaining to be expensed to profit and loss	
	Number	\$	Number	\$	Number				\$	Number	\$	
<i>Directors</i>												
Michael Kay	-	-	-	-	-	-	-	-	-	-	-	
Andrew Saker	205,405	1.35	205,405	2.43	410,810	21-Nov-2018	30-Jun-2021	1-Jul-2033	776,431	543,588	704,427	
Hugh McLernon	193,535	1.35	193,535	2.43	387,070	21-Nov-2018	30-Jun-2021	1-Jul-2033	731,562	512,688	663,789	
Michael Bowen	-	-	-	-	-	-	-	-	-	-	-	
Wendy McCarthy	-	-	-	-	-	-	-	-	-	-	-	
Karen Phin	-	-	-	-	-	-	-	-	-	-	-	
Christine Feldmanis	-	-	-	-	-	-	-	-	-	-	-	
<i>Executives</i>												
Clive Bowman	93,402	1.60	93,402	2.67	186,804	1-Jul-2018	30-Jun-2021	1-Jul-2033	398,266	412,380	407,142	
Charlie Gollow	60,585	1.60	60,585	2.67	121,170	1-Jul-2018	30-Jun-2021	1-Jul-2033	258,334	267,490	264,091	
Stuart Mitchell	27,798	1.60	27,798	2.67	55,596	1-Jul-2018	30-Jun-2021	1-Jul-2033	118,531	-	79,020	
Jeremy Sambrook	35,341	1.60	35,341	2.67	70,682	1-Jul-2018	30-Jun-2021	1-Jul-2033	150,694	144,890	154,053	
Total	616,066		616,066		1,232,132				2,433,818	1,881,036	2,272,522	

1. The fair value of performance rights is determined at the time of grant as prescribed in AASB 2. For details on the valuation of performance rights, including models and assumptions used, refer to Note 24.

Directors' Report

continued

Remuneration Report (Audited) (continued)

	Tranche 1 performance rights awarded during the year	Fair value of Tranche 1 performance rights at grant date ¹	Tranche 2 performance rights awarded during the year	Fair value of Tranche 2 performance rights at grant date ¹	Total performance rights awarded during the financial year	Grant date	Vesting date	Expiry Date	Value of performance rights granted during the year	Total performance rights vested during the year	Value of performance rights remaining to be expensed to profit and loss
	Number	\$	Number	\$	Number				\$	Number	\$
2018											
<i>Directors</i>											
Michael Kay	-	-	-	-	-	-	-	-	-	-	-
Andrew Saker	210,052	0.948	210,052	1.720	420,104	24 Nov 2017	30 Jun 2020	1 Jul 2032	560,419	474,580	621,941
Hugh McLernon	197,992	0.948	197,992	1.720	395,984	24 Nov 2017	30 Jun 2020	1 Jul 2032	528,243	447,604	586,375
Michael Bowen	-	-	-	-	-	-	-	-	-	-	-
Alden Halse	-	-	-	-	-	-	-	-	-	-	-
Wendy McCarthy	-	-	-	-	-	-	-	-	-	-	-
Karen Phin	-	-	-	-	-	-	-	-	-	-	-
<i>Executives</i>											
Clive Bowman	159,255	0.948	159,255	1.720	318,510	24 Nov 2017	30 Jun 2020	1 Jul 2032	424,892	360,030	471,650
Charlie Gollow	103,300	0.948	103,300	1.720	206,600	24 Nov 2017	30 Jun 2020	1 Jul 2032	275,604	233,532	305,935
Total	670,599		670,599		1,341,198				1,789,158	1,515,746	1,985,901

1. The fair value of performance rights is determined at the time of grant as prescribed in AASB 2. For details on the valuation of performance rights, including models and assumptions used, refer to Note 24.

(c) Share performance right holdings of Key Management Personnel

	Balance 1 July 2018	Granted as remuneration	Performance rights exercised	Balance 30 June 2019	Exercisable	Not exercisable
	Number	Number	Number	Number	Number	Number
2019						
<i>Directors</i>						
Michael Kay	-	-	-	-	-	-
Andrew Saker	1,438,271	410,810	-	1,849,081	1,018,167	830,914
Hugh McLernon	1,356,276	387,070	-	1,743,346	960,292	783,054
Michael Bowen	-	-	-	-	-	-
Wendy McCarthy	-	-	-	-	-	-
Karen Phin	-	-	-	-	-	-
Christine Feldmanis	-	-	-	-	-	-
<i>Executives</i>						
Clive Bowman	1,090,920	186,804	-	1,277,724	772,410	505,314
Charlie Gollow	707,622	121,170	-	828,792	501,022	327,770
Stuart Mitchell	-	55,596	-	55,596	-	55,596
Jeremy Sambrook	323,466	70,682	(58,058)	336,090	144,890	191,200
Total	4,916,555	1,232,132	(58,058)	6,090,629	3,396,781	2,693,848

Directors' Report

continued

Remuneration Report (Audited) (continued)

2018	Balance 1 July 2017 Number	Granted as remuneration Number	Performance rights exercised Number	Balance 30 June 2018 Number	Exercisable Number	Not exercisable Number
<i>Directors</i>						
Michael Kay	-	-	-	-	-	-
Andrew Saker	1,018,167	420,104	-	1,438,271	474,580	963,691
Hugh McLernon	960,292	395,984	-	1,356,276	447,604	908,672
Michael Bowen	-	-	-	-	-	-
Alden Halse	-	-	-	-	-	-
Wendy McCarthy	-	-	-	-	-	-
Karen Phin	-	-	-	-	-	-
<i>Executives</i>						
Clive Bowman	772,410	318,510	-	1,090,920	360,030	730,890
Charlie Gollow	501,022	206,600	-	707,622	233,532	474,090
Total	3,251,891	1,341,198	-	4,593,089	1,515,746	3,077,343

(d) Shareholdings of Key Management Personnel

2019	Balance 1 July 2018	Received as remuneration	Share performance rights exercised	Net change other ¹	Balance 30 June 2019
<i>Directors</i>					
Michael Kay	307,692	-	-	5,357	313,049
Andrew Saker	163,506	-	-	5,357	168,863
Hugh McLernon	5,299,045	-	-	(194,643)	5,104,402
Michael Bowen	1,009,264	-	-	10,714	1,019,978
Wendy McCarthy	-	-	-	-	-
Karen Phin	23,256	-	-	-	23,256
Christine Feldmanis	-	-	-	-	-
<i>Executives</i>					
Clive Bowman	533,172	-	-	-	533,172
Charlie Gollow	467,058	-	-	-	467,058
Stuart Mitchell	-	-	-	-	-
Jeremy Sambrook	8,298	-	58,058	(58,058)	8,298
Total	7,811,291	-	58,058	(231,273)	7,638,076

1. Net change other relates to shares subscribed for or transacted on market.

Directors' Report

continued

Remuneration Report (Audited) (continued)

2018	Balance 1 July 2017	Received as remuneration	Share performance rights exercised	Net change other ¹	Balance 30 June 2018
<i>Directors</i>					
Michael Kay	307,692	–	–	–	307,692
Andrew Saker	158,317	–	–	5,189	163,506
Hugh McLernon	5,299,045	–	–	–	5,299,045
Michael Bowen	977,234	–	–	32,030	1,009,264
Alden Halse	879,780	–	–	–	879,780
Wendy McCarthy	–	–	–	–	–
Karen Phin	–	–	–	23,256	23,256
<i>Executives</i>					
Clive Bowman	533,172	–	–	–	533,172
Charlie Gollow	467,058	–	–	–	467,058
Total	8,622,298	–	–	60,475	8,682,773

1. Net change other relates to shares subscribed for or transacted on market.

All equity transactions with KMP other than those arising from the exercise of share performance rights have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

(e) Loans to Key Management Personnel

There have been no loans provided to KMP in 2019 (2018: nil).

(f) Transactions with Key Management Personnel

During the year the Group obtained legal advice from DLA Piper, a legal firm associated with Michael Bowen, totalling \$499,176 (2018: \$470,272). The legal advice was obtained at normal market prices. IMF engages a number of different law firms for its external legal advice and hence the relationship with DLA Piper is not exclusive. Michael Bowen does not participate in any board decisions to appoint external counsel when DLA Piper is being considered for engagement. Refer to Note 27.

– End of Remuneration Report –

Directors' Report

continued

Directors' Meetings

The number of meetings of directors held during the period under review and the number of meetings attended by each director were as follows:

	Board Meetings	Project Sub-Committee Meetings	Audit and Risk Committee	Remuneration Committee	Nomination Committee	Corporate Governance Committee
Total number of meetings held:	15	5	2	2	1	2
Meetings Attended:						
M Kay	15	5	2	2	1	2
A Saker	15	5 ¹	2 ²	1 ²	1	2 ²
H McLernon	13	–	–	1 ²	–	–
M Bowen	15	–	2	2	1	2
W McCarthy	3	–	1	1	–	1
K Phin	15	2	2	2	1	2
C Feldmanis	12	3	1	1	1	1

Committee membership

The Company has an Audit and Risk Committee, a Remuneration Committee, a Nomination Committee and a Corporate Governance Committee. Directors acting on committees of the board during the year were as follows:

Audit and Risk Committee	Remuneration Committee	Nomination Committee	Corporate Governance Committee
C Feldmanis ⁴ (Chair)	M Bowen (Chair)	M Kay (Chair) ⁵	K Phin (Chair) ⁶
M Kay	M Kay	C Feldmanis ⁴	M Kay
K Phin	K Phin	M Bowen	M Bowen
M Bowen	C Feldmanis ⁴	K Phin	C Feldmanis ⁴
W McCarthy ³	W McCarthy ³	A Saker	W McCarthy ³
		W McCarthy ³	

1. Mr Saker attended 2 meetings as a member of the committee and 3 meetings by invitation.
2. Attended by invitation.
3. Ms McCarthy retired as a director on 21 November 2018. Ms McCarthy retired as Chair of the Nomination Committee and the Corporate Governance Committee and as a member of the Audit and Risk Committee and Remuneration Committee on the same date. During FY19, Ms McCarthy attended all meetings for which she was eligible.
4. Ms Feldmanis was appointed as a director on 1 November 2018 and was appointed to the Audit & Risk Committee, Remuneration Committee, Nomination Committee and Corporate Governance Committee on the same date. Ms Feldmanis became Chair of the Audit and Risk Committee on 4 April 2019. During FY19, Ms Feldmanis attended all meetings for which she was eligible.
5. Mr Kay was appointed as Chair of the Nomination Committee on 20 June 2019.
6. Ms Phin was appointed as Chair of the Corporate Governance Committee on 4 April 2019.

The Project Sub-Committee heading is an amalgam of the various Project Sub-Committees appointed by the board through the year. The purpose of the project sub-committees is to progress strategic matters intra-board meetings and to spread the workload evenly across the non-executive board members. The Project Sub-Committees have been chaired by Michael Kay and vary as to the other non-executive directors participants.

Directors' Report

continued

Rounding

The amounts contained in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) where noted (\$000) under the option available to the Company under ASIC Corporations Instrument 2016/191. The Company is an entity to which this legislative instrument applies.

Auditor's Independence Declaration

EY, the Company's auditors, have provided a written independence declaration to the directors in relation to its audit of the Financial Report for the year ended 30 June 2019. This Independence Declaration which forms part of this report, can be found at page 80.

Non-audit services

The directors are satisfied that the provision of non-audit services by EY to the Group is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

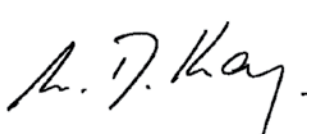
EY received or are due the following amounts for the provision of non-audit services:

- Tax compliance services and other non-audit services: nil (2018: \$60,000).

Corporate Governance

The Company has an extensive Corporate Governance Manual which enables the Company to interact with its clients and the public in a consistent and transparent manner. For further information on corporate governance policies and procedures adopted by the Company please refer to our website <http://www.imf.com.au/shareholders/corporate-governance>.

Signed in accordance with a resolution of the directors.



Michael Kay
Chairman

Perth, 21 August 2019



Andrew Saker
Managing Director

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Auditor's Independence Declaration



**Building a better
working world**

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Auditor's Independence Declaration to the Directors of IMF Bentham Limited

As lead auditor for the audit of IMF Bentham Limited for the financial year ended 30 June 2019, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of IMF Bentham Limited and the entities it controlled during the financial year.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Robert A Kirkby'.

Robert A Kirkby
Partner
21 August 2019

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Statement of Comprehensive Income

for the year ended 30 June 2019

	Note	Consolidated	
		2019 \$'000	2018 \$'000
Continuing Operations			
Interest revenue	2	4,181	2,299
Other revenue	2	114	–
Net (loss)/gain on derecognition of intangible assets	3	(4,247)	16,307
Other income	4	5,686	4,524
Total Income		5,734	23,130
Finance costs	5(a)	117	86
Depreciation expense	5(b)	676	621
Employee benefits expense	5(c)	28,541	22,055
Corporate and office expense	5(d)	12,773	7,212
Other expenses	5(e)	11,289	1,516
Loss Before Income Tax		(47,662)	(8,360)
Income tax benefit	6	(11,514)	(513)
Net Loss for the year		(36,148)	(7,847)
Attributable to:			
Equity holders of the parent	7	(36,098)	(11,017)
Non-controlling interests	26	(50)	3,170
Other Comprehensive Income			
Items that may be subsequently reclassified to profit and loss:			
Movement in foreign currency translation reserve		(1,810)	6,027
Items that will not be subsequently reclassified to profit and loss:			
Movement in foreign currency translation reserve attributed to non-controlling interests		12,533	–
Other comprehensive income net of tax		10,723	6,027
Total Comprehensive Income for the Year		(25,425)	(1,820)
Attributable to:			
Equity holders of the parent		(38,008)	(4,990)
Non-controlling interests		12,583	3,170
Earnings per share attributable to the equity holders of the Company (cents per share)			
Basic earnings per share (cents per share)	7	(25.00)	(6.40)
Diluted earnings per share (cents per share)	7	(25.00)	(6.40)

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position

as at 30 June 2019

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	Note	Consolidated	
		2019 \$'000	2018 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents	12	226,460	160,231
Litigation contract and other receivables	16	16,866	25,690
Contract costs	17	939	–
Other assets	18	1,901	1,411
Income tax receivable		1,116	5,455
Total Current Assets		247,282	192,787
Non-Current Assets			
Plant and equipment	19	1,112	1,332
Intangible assets	10	426,977	321,268
Contract costs	17	5,400	–
Other assets	18	9,324	11,509
Deferred tax assets	6	18,848	12,355
Total Non-Current Assets		461,661	346,464
TOTAL ASSETS		708,943	539,251
LIABILITIES			
Current Liabilities			
Trade and other payables	20	23,992	18,047
Provisions	21	15,192	14,656
Debt securities	13	71,455	49,553
Other liabilities		915	658
Total Current Liabilities		111,554	82,914
Non-Current Liabilities			
Provisions	21	432	277
Debt securities	13	72,517	70,909
Deferred income tax liabilities	6	8,943	17,315
Total Non-Current Liabilities		81,892	88,501
TOTAL LIABILITIES		193,446	171,415
NET ASSETS		515,497	367,836
EQUITY			
Contributed equity	14	205,558	127,630
Reserves	15(b)	893	16,110
Retained earnings	15(a)	12,494	48,592
Equity attributable to equity holders of the parent		218,945	192,332
Non-controlling interests	26	296,552	175,504
TOTAL EQUITY		515,497	367,836

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Cash Flows

for the year ended 30 June 2019

	Consolidated		
	Note	2019 \$'000	2018 \$'000
Cash flows from operating activities			
Payments to suppliers and employees		(35,625)	(44,316)
Interest income		4,308	2,225
Interest paid		(8,938)	(8,303)
Income tax received/(paid)		3,459	(13,231)
Net cash flows used in operating activities	9	(36,796)	(63,625)
Cash flows from investing activities			
Proceeds from litigation funding contracts – settlements, fees and reimbursements		43,179	94,893
Payments for litigation funding contracts – external costs		(116,851)	(106,999)
Payments for litigation funding contracts – capitalised overhead and employee costs		(6,826)	(6,419)
Purchase of plant and equipment		(364)	(236)
Loans made to third parties		–	(521)
Net cash flows used in investing activities		(80,862)	(19,282)
Cash flows from financing activities			
Dividends paid		–	(8,093)
Proceeds from issue of shares		76,105	–
Payments for costs of issuing shares		(2,327)	–
Proceeds from issue of debt		26,000	–
Payments for costs of issuing debt		(3,016)	–
Contributions from non-controlling interests		121,844	114,855
Distributions to non-controlling interests		(28,299)	(9,694)
Payments for fund establishment costs		(10,331)	(4,226)
Receipts for reimbursement of fund establishment costs		1,117	–
Net cash flows from financing activities		181,093	92,842
Net increase in cash and cash equivalents held		63,435	9,935
Net foreign exchange difference		2,794	5,405
Cash and cash equivalents at beginning of year		160,231	144,891
Cash and cash equivalents at end of year	12	226,460	160,231

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

The comparative information has been restated to reclassify \$4,226,000 of payments for fund establishment costs from investing activities to financing activities.

Statement of Changes in Equity

for the year ended 30 June 2019

CONSOLIDATED	Issued capital \$'000	Share based payments reserve \$'000	Foreign currency translation reserve \$'000	Option premium reserve \$'000	Convertible note reserve \$'000	Fund equity reserve \$'000	Retained earnings \$'000	Total \$'000	Non-controlling interests \$'000	Total equity \$'000
As at 1 July 2018	127,630	15,251	1,383	3,404	3,832	(7,760)	48,592	192,332	175,504	367,836
Profit for the year	-	-	-	-	-	-	(36,098)	(36,098)	(50)	(36,148)
Other comprehensive income	-	-	(1,810)	-	-	-	-	(1,810)	12,533	10,723
Total Comprehensive Income for the Year	-	-	(1,810)	-	-	-	(36,098)	(37,908)	12,483	(25,425)
Equity Transactions:										
Proceeds from shares issued	76,105	-	-	-	-	-	-	76,105	-	76,105
Transaction costs associated with share issue, net of tax	(766)	-	-	-	-	-	-	(766)	-	(766)
Share based payments	2,589	2,498	-	-	-	-	-	5,087	-	5,087
Contributions from non-controlling interests	-	-	-	-	-	-	-	-	121,844	121,844
Distributions to non-controlling interests	-	-	-	-	-	-	-	-	(28,299)	(28,299)
Changes in the proportion of equity held by non-controlling interests	-	-	-	-	-	(15,905)	-	(15,905)	15,905	-
Transaction costs – disposal of non-controlling interests, net of tax	-	-	-	-	-	-	-	-	(885)	(885)
As at 30 June 2019	205,558	17,749	(427)	3,404	3,832	(23,665)	12,494	218,945	296,552	515,497
As at 1 July 2017	123,654	5,962	(4,644)	3,404	3,832	-	71,679	203,887	2,366	206,253
Profit for the year	-	-	-	-	-	-	(11,017)	(11,017)	3,170	(7,847)
Other comprehensive income	-	-	6,027	-	-	-	-	6,027	-	6,027
Total Comprehensive Income for the Year	-	-	6,027	-	-	-	(11,017)	(4,990)	3,170	(1,820)
Equity Transactions:										
Dividend paid	-	-	-	-	-	-	(12,070)	(12,070)	-	(12,070)
Share based payments	-	9,289	-	-	-	-	-	9,289	-	9,289
Shares issued under the Dividend Reinvestment Plan	3,976	-	-	-	-	-	-	3,976	-	3,976
Contributions from non-controlling interests	-	-	-	-	-	-	-	-	175,017	175,017
Distributions to non-controlling interests	-	-	-	-	-	-	-	-	(9,694)	(9,694)
Changes in the proportion of equity held by non-controlling interests	-	-	-	-	-	(7,760)	-	(7,760)	7,760	-
Transaction costs – disposal of non-controlling interests, net of tax	-	-	-	-	-	-	-	-	(3,115)	(3,115)
As at 30 June 2018	127,630	15,251	1,383	3,404	3,832	(7,760)	48,592	192,332	175,504	367,836

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

for the year ended 30 June 2019

About this Report

The financial report of IMF Bentham Limited ("IMF", "the Company" or "the Parent") and its subsidiaries ("the Group" or "consolidated entity") for the year ended 30 June 2019 was authorised for issue in accordance with a resolution of the directors on 21 August 2019.

IMF Bentham Limited (ABN 45 067 298 088) 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: IMF).

IMF Bentham Limited is not economically dependent on any other entity.

This section sets out the basis upon which the Group's Financial Statements are prepared. Specific accounting policies are described in the respective notes to the Financial Statements. This section also shows information on new or amended accounting standards and interpretations and their impact on the financial position and performance of the Group.

a. Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, 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 financial report is presented in Australian dollars, being the functional currency of the Parent.

The amounts contained within this report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

b. Compliance with IFRS

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

c. New and amended accounting standards and interpretations adopted during the year

Except for the effect of adopting new and amended accounting standards and interpretations effective from 1 July 2018, described below, the accounting policies adopted are consistent with those of the previous financial year.

The Group applied AASB 15 Revenue from Contracts with Customers ("AASB 15") and AASB 9 Financial Instruments ("AASB 9") for the first time. The nature and effect of the changes resulting from the adoption of these new accounting standards are described below.

Several other amendments and interpretations were applied for the first time in 2019 but did not have a significant impact on the consolidated financial statements of the Group. The Group has not early adopted any new or amended accounting standard or interpretation issued but not yet effective.

AASB 9 and consequential amendments to other Australian Accounting Standards

AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement ("AASB 139") for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied AASB 9 retrospectively from 1 July 2018 and elected not to restate comparative information.

In applying AASB 9 the Group concluded the following:

- The Group's financial assets consist of cash, short term deposits, litigation receivables and other short-term receivables. The Group classified its receivables and other financial assets as loans and receivables under AASB 139 and measured these financial assets at amortised cost. Under AASB 9, the financial assets are classified as financial assets at amortised cost. This classification reflects the Group's business model, of which its objective is holding financial assets is to collect contractual cash flows and those cash flows give rise on specified dates and are solely payments of interest and principal outstanding. The change in classification did not result in any measurement adjustments on transition to AASB 9;
- The Group's financial liabilities include short term accounts payable and interest-bearing debt. No changes to the carrying values or classification were made on transition to AASB 9;
- The Group does not apply hedge accounting and has no hedges in place;
- The Group has no financial instruments measured at fair value through the profit or loss and has not elected to classify any financial instruments at fair value through the profit or loss;
- The Group held its receivables and other financial assets at amortised cost under AASB 139 and these were classified as loans and receivables. Under AASB 9, the financial assets are classified as financial assets at amortised cost. This classification reflects the Group's business model, of which its objective in holding financial assets is to collect contractual cash flows and those cash flows give rise on specified dates and are solely payments of interest and principal outstanding; and

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Notes to the Financial Statements

continued

About this Report (continued)

- The adoption of AASB 9 has changed the Group's accounting for impairment losses of financial assets by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach. Upon transition to AASB 9 no material variance in asset values stated under the new ECL approach to previous book values were noted as the litigation receivables had either immaterial expected credit losses assessed due to the credit quality of the debtor or had already assumed an amount equal to the life-time expected credit losses where there was a material movement in the receivables credit risk. In addition, expected credit losses on cash and cash equivalents were deemed to be immaterial as cash deposits are short term, less than 90 days and with AA rated banks. Accordingly, no adjustment was required.

AASB 15 Revenue from Contracts with Customers and consequential amendments to other Australian Accounting Standards

The Group adopted AASB 15 with effect from 1 July 2018. AASB 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes the revenue recognition requirements that are included in other Accounting Standards and Interpretations, in particular AASB 118 Revenue ("AASB 118").

AASB 15 moves from a "risks and rewards" model of revenue recognition under AASB 118 to a "control" model of revenue recognition. Set out below are the key impacts arising from the adoption of the new standard applicable to the Group's litigation contracts in progress.

The Group adopted AASB 15 using the modified retrospective method (see below). At the date of initial application of AASB 15, 1 July 2018, the Group had no material contracts falling directly within the scope of AASB 15. The Group's Litigation Contracts in Progress do not fall directly within the scope of AASB 15 as they are collaborative arrangements and there is no customer/vendor relationship established within the contract. However, AASB 15 is relevant to the Group due to the consequential amendments to AASB 138 Intangible Assets ("AASB 138") relating to the disposal of intangible assets.

The Group's Litigation Contracts in Progress are classified as intangible assets. Litigation Contracts in Progress are derecognised when the Group disposes of the intangible asset. Gains or losses arising from derecognition of Litigation Contracts in Progress are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss as other income.

Prior to the adoption of AASB 15 and the consequential amendments to AASB 138, AASB 138 required the Group to recognise net income on disposal of its intangible assets with the proceeds on disposal measured in accordance with AASB 118. After the amendment, AASB 138 requires the proceeds on disposal of intangible assets to be recognised and measured in accordance with the requirements of AASB 15. In this regard, the date of disposal of an intangible asset is now the date that the recipient obtains control of the intangible asset in accordance with the requirements for determining when a performance obligation is satisfied in AASB 15. The amount of consideration to be included in the gain or loss arising from the derecognition of an intangible asset is determined in accordance with the requirements for determining the transaction price under AASB 15. Subsequent changes to the estimated amount of the consideration included in the gain or loss are accounted for in accordance with the requirements for changes in the transaction price in AASB 15.

Further detail of the new accounting policy applicable to litigation contracts in progress can be found in Note 10.

Following the adoption of AASB 15, the Group has entered into management services agreements with Fund investors and will derive revenue from customer contracts. The accounting policy for revenue recognition can be found in Note 2.

Transition impact

The Group adopted AASB 15 using the modified retrospective method of adoption. At the date of initial application, 1 July 2018, the adoption of AASB 15 did not have a material effect on the Group and no adjustment was taken to opening retained earnings as at 1 July 2018. There was no material impact of applying AASB 15 and the consequential amendments to AASB 138 in the current year. In applying the consequential amendments to AASB 138 relating to the disposal of intangible assets, the Group did not apply the amended Standard to litigation contracts derecognised prior to the date of initial application of the amended Standard consistent with the transitional provisions of AASB 15 using the modified retrospective method of adoption.

Notes to the Financial Statements

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About this Report (continued)

d. New and amended accounting standards and interpretations issued but not yet effective

The following accounting standards relevant to the Company and/or the Group have been issued but are not yet effective and have not been applied in these financial statements.

AASB 16 Leases ("AASB 16")

AASB 16 was issued in January 2016 and it replaces AASB 117 Leases, AASB Interpretation 4 Determining whether an Arrangement contains a Lease, AASB Interpretation-115 Operating Leases – Incentives and AASB Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under AASB 117. The standard includes two recognition exemptions for lessees – leases of "low value" assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). AASB 16 does not define "low value assets" in monetary terms and whilst assets that are "low value" to one entity may not be for another, the IASB has noted that it had in mind that typically low value assets value would be US\$5,000 or less (circa A\$7,150). The Group has considered this threshold appropriate when applying the standard.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting does not apply to the Group as it has no assets that it provides to third parties under lease agreements.

AASB 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under AASB 117.

Transition to AASB 16

The Group has leases of office space, car parking and office equipment (printers) that fall within the scope of AASB 16.

In accordance with AASB 16, the Group plans to apply AASB 16 retrospectively with the cumulative effect of initially applying the Standard to be recognised at the date of initial application, being 1 July 2019, as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) and shall not restate comparative information.

On transition the Group intends to measure the right of use assets as if the Standard had been applied since commencement and using the Group's incremental borrowing rate at the date of initial application of the Standard.

The Group applied the requirements in C8(b)(ii) of AASB 16 and measured the right of use assets as if the standard has been applied since commencement and using the Group's incremental borrowing rate.

The only practical expedient the Group will elect to use is the practical expedient of hindsight when determining lease terms where contracts contain a right to extend or terminate.

During 2019, the Group has performed an impact assessment of AASB 16 and found it will not have a material impact on the Group's equity on transition.

AASB Interpretation 23 Uncertainty over Income Tax Treatments ("Interpretation 23")

Interpretation 23 is applicable for reporting periods beginning on or after 1 January 2019 and therefore will be effective for the Group for its reporting period beginning 1 July 2019. Interpretation 23 clarifies the application of the recognition and measurement criteria in AASB 112 Income Taxes where there is uncertainty over income tax treatments. It requires assessment of each uncertain tax position as to whether it is probable that a taxation authority will accept the position. Where it is not probable, the effect of the uncertainty will be reflected in determining the relevant taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates. The amount will be determined as either the single most likely amount or the sum of the probability weighted amounts in a range of possible outcomes, whichever better predicts the resolution of the uncertainty. Judgements will be reassessed as and when new facts and circumstances come to light. The Group is in the process of assessing the impact of Interpretation 23 and is not yet able to reasonably estimate the impact on its financial statements.

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Notes to the Financial Statements

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About this Report (continued)

Conceptual Framework for Financial Reporting and relevant amending standards

The revised Conceptual Framework was issued by the AASB in May 2019 and applies to the Group for the financial year beginning 1 July 2020. It includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows:

- Chapter 1 – The objective of financial reporting
- Chapter 2 – Qualitative characteristics of useful financial information
- Chapter 3 – Financial statements and the reporting entity
- Chapter 4 – The elements of financial statements
- Chapter 5 – Recognition and derecognition
- Chapter 6 – Measurement
- Chapter 7 – Presentation and disclosure
- Chapter 8 – Concepts of capital and capital maintenance

Amendments to References to the Conceptual Framework in IFRS Standards has also been issued, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. The changes to the Conceptual Framework may affect the application of IFRS in situations where no standard applies to a particular transaction or event. In addition, relief has been provided in applying IFRS 3 and developing accounting policies for regulatory account balances using IAS 8, such that entities must continue to apply the definitions of an asset and a liability (and supporting concepts) in the 2010 Conceptual Framework, and not the definitions in the revised Conceptual Framework. The Group is in the process of assessing the impact of the changes and is not yet able to reasonably estimate the impact on its financial statements.

e. Basis of consolidation

The consolidated financial statements comprise the financial statements of IMF Bentham Limited and its subsidiaries as at 30 June 2019. 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 Group includes fund investment vehicles over which IMF Bentham Limited has the right to direct the relevant activities of the fund under contractual arrangements and has exposure to variable returns from the fund investment vehicles. See Note 26.

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profits and losses resulting from intra-group transactions have been eliminated in full.

f. Foreign currency

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. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

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 to the Company's functional currency are recognised in profit or loss except for 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.

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).

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into Australian dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation purposes are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Notes to the Financial Statements

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Significant Accounting Judgments, Estimates and Assumptions

g. Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, 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, revenues and expenses. Management bases its judgments on historical experience and on other factors it believes to be reasonable under the circumstances, the results of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions. In connection with the Group's funds where the Group does not own 100% of the entity in question, the Group makes judgements about whether it is required to consolidate such entities by applying the factors set forth in the relevant accounting standards, including but not limited to the Group's equity and economic ownership interest, the economic structures in use in the entity, the level of control the Group has over the entity through the entity's structure or any relevant contractual agreements, and the rights of other investors.

Management has identified the following critical accounting policies for which significant judgments have been made as well as the following key estimates and assumptions that have the most significant impact on the financial statements. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Taxation

The Group's accounting policy for taxation requires management's judgment in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the Statement of Financial Position. Deferred tax assets, including those arising from tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows as contained in the Group's yearly budget. These depend on estimates of future income, operating costs, capital expenditure, dividends and other capital management transactions. Judgments and assumptions are also required about the application of income tax legislation.

These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised in the Statement of Financial Position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the Statement of Comprehensive Income.

Intangible Assets – Litigation Contracts in Progress

Litigation Contracts in Progress are recognised as an intangible asset in the financial statements of the Group as the litigation contract does not give rise to an unconditional right to receive cash. Rather, it provides the Group with a right to a share of litigation proceeds which may be in the form of cash or other non-financial assets.

Impairment of non-financial assets other than goodwill

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. This includes an assessment of each individual Litigation Contract In Progress as to whether it is likely to be successful, the cost and timing to completion and the ability of the defendant to pay upon completion. If an impairment trigger exists the recoverable amount of the asset is determined. This involves value in use calculations, which incorporate a number of key estimates and assumptions (refer to Note 10).

Share based payments

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share performance right, volatility and dividend yield and making assumptions about them. For the measurement of the fair value of equity-settled transactions with employees at the grant date, the Group uses the Monte-Carlo simulation model for Tranche 1 grants, and the Black-Scholes model for Tranche 2 grants. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 24.

Long service leave provision

As discussed in Note 21, the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at balance date. In determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account.

Notes to the Financial Statements

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Provision for adverse costs

The Group raises a provision for adverse costs when it has lost a litigation funding contract investment which it has funded. When an investment is lost and an appeal is lodged, the Group still raises a provision. The provision raised is the Group's best estimate of the amount of adverse costs it will have to remit following consultation with external advisors.

Measurement of non-controlling interests ("NCI")

Profits and losses are allocated to non-controlling interests in line with the allocation of profit distributions under the terms of the respective agreements. Therefore, at the end of each reporting period, the allocation of non-controlling interests will be represented by the non-controlling shareholders' share of net assets, as would be distributed under the agreements.

h. Reclassification adjustment

The comparative information has been restated to reclassify a foreign exchange gain of \$4,311,000 from Other revenue to Other income to ensure consistency with the presentation in the current financial year.

A. RESULTS FOR THE YEAR

Note 1: Segment information

The Group only operates in one industry, being investing in litigation funding. For management purposes, the Group is organised into operating segments comprising wholly owned operations and the Group's fund structures.

- The Group's wholly owned subsidiaries own historical litigation in progress investments and provide investment management advisory and administration services to the Group's fund structures in the following locations:
 - Australia
 - United States
 - Canada
 - Asia
 - EMEA (Europe, Middle East, Africa)
- The Group's Fund structures include:
 - Fund 1 – This comprises Bentham IMF 1 LLC, Security Finance 1 LLC and HC 1 LLC. The Fund invests in litigation investments in the United States;
 - Rest of World (RoW) Funds – This comprises IMF Bentham (Fund 2) Pty Ltd and IMF Bentham (Fund 3) Pty Ltd. These two entities jointly invest in litigation investments outside the United States;
 - Fund 4 – This structure invests in litigation investments in the United States. It consists of a series of parallel investing entities comprising Bentham Investments 1 LP; Bentham Investments 2 LP; Bentham Investments 3 LP; Bentham Investments 4 LP; Bentham Investments 5 LP;

Bentham Investments 6 LP; Bentham Investments 7 LP; Bentham Investments 8 LP; Bentham Investments 9 LP; Security Finance 2 LLC and Bentham HPCR LP.

- ROW Fund 5 was launched on 20 June 2019. The operating segment relating to this Fund was immaterial at 30 June 2019 and therefore not included separately below.

For Fund 1 and ROW Funds the non-controlling interest is comprised of an equity interest which carries an entitlement to receive a capped priority return on drawn capital and a further preferred return on committed but undrawn capital. IMF retains control and ownership of the Funds via its equity interests. Upon satisfaction of the non-controlling interests' priority returns, IMF is entitled to a manager return. After satisfaction of the priority return and the manager returns, the residual net cash flows are to be distributed (i) for the Fund 1: 85% to IMF and 15% to the non-controlling interests: (ii) for the RoW Funds, 80% to IMF and 20% to non-controlling interests.

For Fund 4 the non-controlling interest is comprised of an equity interest which, together with IMF's interest, carries an entitlement to receive a maximum capped hurdle return on invested capital. IMF retains control and ownership of the Funds via its equity interest. IMF is entitled to a periodic management fee and transactional based performance fee.

Intersegment revenue comprises interest revenue on intercompany loans and management fees.

Intercompany interest revenue is recognised in accordance with AASB 9 using the effective interest method.

The intercompany management fee revenue earned during the year was derived from management and advisory agreements between the group entities. The consideration received is determined by reference to costs plus a percentage mark-up. The revenue is recognised over the period in which costs are incurred as it is deemed that the Group transfers control of the management services over this period and, therefore, satisfies its performance obligations and recognises revenue over time.

Adjustments and eliminations

Certain finance and overheads costs are not allocated to individual segments as the underlying expenses are incurred within wholly owned operations. These costs are capitalised into litigation funding contracts on consolidation of the Group. The associated tax effect accounting for these items are also managed on a Group basis and not allocated to the individual segments.

Inter-segment revenues and expenses are eliminated on consolidation and reflected in the "adjustments and eliminations" column.

Adjustments made in the balance sheet include adjustments to non-current assets to eliminate intercompany loans and investments in subsidiaries on consolidation.

Notes to the Financial Statements

continued

Note 1: Segment information (continued)

Inter-segment revenues and expenses are eliminated on consolidation.

	Wholly owned operations					Funds			Consolidation			
	Australia \$'000	United States \$'000	Canada \$'000	Asia \$'000	EMEA \$'000	Total Subsidiaries \$'000	Fund 1 \$'000	Fund 4 \$'000	ROW Funds 2&3 \$'000	Total Funds \$'000	Adjustments and eliminations \$'000	Consolidated \$'000
Summarised statement of profit or loss for 2019												
Interest revenue	3,469	–	4	–	–	3,473	55	–	653	708	–	4,181
Inter-segment	3,420	–	6,409	2,541	1,865	14,235	–	–	–	–	(14,235)	–
Performance fee revenue	–	–	–	–	–	–	–	–	–	–	–	–
Management fee revenue	–	114	–	–	–	114	–	–	–	–	–	114
Net gain/(loss) on derecognition of intangible assets	5,949	(931)	(410)	–	–	4,608	(5,203)	–	(854)	(6,057)	(2,798)	(4,247)
Other income	4,526	904	603	99	(33)	6,099	–	–	(73)	(73)	(340)	5,686
Total Income	17,364	87	6,606	2,640	1,832	28,529	(5,148)	–	(274)	(5,422)	(17,373)	5,734
Expenses	46,957	20,436	3,657	1,636	1,678	74,364	6,636	42	671	7,349	(28,317)	53,396
(Loss)/profit before tax	(29,593)	(20,349)	2,949	1,004	154	(45,835)	(11,784)	(42)	(945)	(12,771)	10,944	(47,662)
Income tax	9,118	6,546	(651)	(137)	(33)	14,843	(69)	–	218	149	(3,478)	11,514
Net (loss)/profit	(20,475)	(13,803)	2,298	867	121	(30,992)	(11,853)	(42)	(727)	(12,622)	7,466	(36,148)
Attributable to:												
Equity holders of the parent	(20,475)	(13,803)	2,298	867	121	(30,992)	(11,838)	(7)	(727)	(12,572)	7,466	(36,098)
Non-controlling interests	–	–	–	–	–	–	(15)	(35)	–	(50)	–	(50)

	Wholly owned operations					Funds			Consolidation			
	Australia \$'000	United States \$'000	Canada \$'000	Asia \$'000	EMEA \$'000	Total Subsidiaries \$'000	Fund 1 \$'000	Fund 4 \$'000	ROW Funds 2&3 \$'000	Total Funds \$'000	Adjustments and eliminations \$'000	Consolidated \$'000
Summarised statement of financial position as at 30 June 2019												
Cash	132,409	137	176	98	7	132,827	49,680	5,627	38,326	93,633	–	226,460
Other current assets	21,251	868	1,451	2,577	1,856	28,003	–	–	740	740	(7,921)	20,822
Intangible assets	142,276	7,304	3,595	–	–	153,175	194,252	28,456	34,043	256,751	17,051	426,977
Other non-current assets	190,349	84,529	1,466	8	7	276,359	16,544	(1)	9,294	25,837	(267,512)	34,684
Total assets	486,285	92,838	6,688	2,683	1,870	590,364	260,476	34,082	82,403	376,961	(258,382)	708,943
Current liabilities	105,736	4,155	949	76	102	111,018	2,313	2,839	4,239	9,391	(8,855)	111,554
Non-current liabilities	106,275	38,249	7,005	2,570	1,617	155,716	–	–	–	–	(73,824)	81,892
Total liabilities	212,011	42,404	7,954	2,646	1,719	266,734	2,313	2,839	4,239	9,391	(82,679)	193,446
Net assets	274,274	50,434	(1,266)	37	151	323,630	258,163	31,243	78,164	367,570	(175,703)	515,497
Equity attributable to:												
Equity holders of the parent	274,274	50,434	(1,266)	37	151	323,630	55,635	5,793	9,590	71,018	(175,703)	218,945
Contributed equity – NCI	–	–	–	–	–	–	185,242	25,485	58,639	269,366	–	269,366
Earnings – NCI	–	–	–	–	–	–	17,286	(35)	9,935	27,186	–	27,186
Total equity	274,274	50,434	(1,266)	37	151	323,630	258,163	31,243	78,164	367,570	(175,703)	515,497

Notes to the Financial Statements

continued

Note 1: Segment information (continued)

	Wholly owned operations						Funds			Consolidation		
	Australia \$'000	United States \$'000	Canada \$'000	Asia \$'000	EMEA \$'000	Total Subsidiaries \$'000	Fund 1 \$'000	Fund 4 \$'000	ROW Funds 2&3 \$'000	Total Funds \$'000	Adjustments and eliminations \$'000	Consolidated \$'000
Summarised statement of profit or loss for 2018												
Interest revenue	2,282	-	9	-	-	2,291	-	-	8	8	-	2,299
Inter-segment	46,372	-	-	-	-	46,372	-	-	-	-	(46,372)	-
Performance fee revenue	-	-	-	-	-	-	-	-	-	-	-	-
Management fee revenue	-	-	-	-	-	-	-	-	-	-	-	-
Net gain/(loss) on derecognition of intangible assets	13,362	(3,424)	(62)	-	-	9,876	1,178	-	2,979	4,157	2,274	16,307
Other income	8,149	(117)	157	36	-	8,225	(1)	-	17	16	(3,717)	4,524
Total Income	70,165	(3,541)	104	36	-	66,764	1,177	-	3,004	4,181	(47,815)	23,130
						-				-		
Expenses	29,173	15,895	2,376	763	-	48,207	35	-	55	90	(16,807)	31,490
Profit/(loss) before tax	40,992	(19,436)	(2,272)	(727)	-	18,557	1,142	-	2,949	4,091	(31,008)	(8,360)
Income tax	1,948	1,820	501	133	-	4,402	(36)	-	(885)	(921)	(2,968)	513
Net profit/(loss)	42,940	(17,616)	(1,771)	(594)	-	22,959	1,106	-	2,064	3,170	(33,976)	(7,847)
Attributable to:												
Equity holders of the parent	42,940	(17,616)	(1,771)	(594)	-	22,959	-	-	-	-	(33,976)	(11,017)
Non-controlling interests	-	-	-	-	-	-	1,106	-	2,064	3,170	-	3,170

	Wholly owned operations						Funds			Consolidation		
	Australia \$'000	United States \$'000	Canada \$'000	Asia \$'000	EMEA \$'000	Total Subsidiaries \$'000	Fund 1 \$'000	Fund 4 \$'000	ROW Funds 2&3 \$'000	Total Funds \$'000	Adjustments and eliminations \$'000	Consolidated \$'000
Summarised statement of financial position as at 30 June 2018												
Cash	132,100	987	1,057	101	-	134,245	10,096	-	15,890	25,986	13,341	160,231
Current assets	21,486	3,595	127	(7)	-	25,201	3,408	-	5,104	8,512	(1,157)	32,556
Intangible assets	111,614	8,815	1,383	-	-	121,812	178,049	-	8,066	186,115	-	321,263
Non-current assets	113,224	40,650	48	1	-	153,923	15,695	-	11,139	26,834	(155,561)	25,196
Total assets	378,424	54,047	2,615	95	-	435,181	207,248	-	40,199	247,447	(143,377)	539,251
Current liabilities	78,145	1,264	273	58	-	79,740	1,000	-	3,331	4,331	(1,157)	82,914
Non-current liabilities	84,320	(1,738)	6,393	804	-	89,779	(1)	-	8	7	(1,285)	88,501
Total liabilities	162,465	(474)	6,666	862	-	169,519	999	-	3,339	4,338	(2,442)	171,415
Net assets	215,959	54,521	(4,051)	(767)	-	265,662	206,249	-	36,860	243,109	(140,935)	367,836
Equity attributable to:												
Equity holders of the parent	215,959	54,521	(4,051)	(767)	-	265,662	59,298	-	8,307	67,605	(140,935)	192,332
Contributed equity – NCI	-	-	-	-	-	-	143,681	-	25,936	169,617	-	169,617
Earnings – NCI	-	-	-	-	-	-	3,270	-	2,617	5,887	-	5,887
Total equity	215,959	54,521	(4,051)	(767)	-	265,662	206,249	-	36,860	243,109	(140,935)	367,836

Notes to the Financial Statements

continued

Note 1: Segment information (continued)

Geographically, other income and net gain/(loss) on derecognition of intangible assets can be represented geographically as follows:

	Consolidated	
	2019 \$'000	2018 \$'000
Australia	9,900	14,185
United States	(7,270)	3,969
Canada	(1,062)	1,825
EMEA	(100)	(18)
Asia	(29)	870
Total other income and net gain/(loss) on derecognition of intangible assets	1,439	20,831

The Group earned 99% (2018: 99%) of its interest revenue in Australia.

The above comparative information has been restated to reclassify a foreign exchange gain of \$4,311,000 from Other revenue to Other income to ensure consistency with the presentation in the current financial year.

Non-current assets, excluding financial assets, can be represented geographically as follows:

	Consolidated	
	2019 \$'000	2018 \$'000
Australia	161,758	116,631
United States	243,604	211,776
Canada	15,585	5,717
EMEA	659	48
Asia	6,482	783
Net exposure	428,088	334,955

Notes to the Financial Statements

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Note 2: Revenue

(i) Interest revenue

Revenue is recognised as interest accrues using the effective interest rate method. The effective interest rate 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.

Interest received from National Australia Bank Ltd of \$966,659 (2018: \$473,453), Bankwest of \$346,121 (2018: \$339,473), and Westpac Banking Group Ltd of \$2,936,244 (2018: \$1,384,320) contributed more than 99% of the Group's bank interest revenue (2018: 99%).

(ii) Management fee revenue (policy applied from 1 July 2018)

The management fee revenue earned during the year was derived from Investment Management Agreements with the investors in Fund 4. Revenue from contracts with customers is recognised when control of the service is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services. The consideration receivable is considered to be variable consideration and determined with reference to the net invested capital attributable to the Investor's accounts. The revenue is recognised over the period in which there is net invested capital in the fund as the Group transfers control of the services over this period and, therefore, satisfies its performance obligations over time. Variable consideration is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

	Consolidated	
	2019 \$'000	2018 \$'000
Revenue		
Interest revenue calculated using effective interest rate method	4,181	2,299
Revenue from contracts with customers – Management fee revenue	114	–
	4,295	2,299

Note 3: Net (loss)/gain on derecognition of intangibles assets

Net (loss)/gain on derecognition of intangibles assets is derived from the disposal of the Group's Litigation Contracts in Progress. The accounting policy for Litigation Contracts in Progress is outlined in Note 10.

	Consolidated	
	2019 \$'000	2018 \$'000
Net (loss)/gain on derecognition of intangible assets		
Litigation funding contracts – settlements, fees and reimbursements	35,021	71,223
Litigation funding contracts – derecognition of intangible (successful investments) ¹	(22,432)	(49,591)
Litigation funding contracts – derecognition of intangible (unsuccessful investments) ²	(16,836)	(5,325)
	(4,247)	16,307

- This balance includes costs related to the Group's derecognition of litigation contracts intangibles on cases that have settled or been won.
- This balance includes costs related to the Group's derecognition of litigation contracts intangibles on (i) cases lost by the Group, (ii) cases not pursued by the Group due to the cases not meeting the Group's required rate of return, and (iii) any adverse costs provision raised when a litigation contract in progress has been lost.

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Notes to the Financial Statements

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Note 4: Other Income

Other income

Foreign exchange gain
Other income

Consolidated	
2019 \$'000	2018 \$'000
4,269	4,311
1,417	213
5,686	4,524

Note 5: Expenses

Finance costs

Borrowing costs directly attributable to the acquisition and development of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds. Detailed information is provided in Note 13.

Depreciation

The depreciation policy is disclosed in Note 19.

Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the end of the reporting period. These benefits include wages, salaries, annual leave, long service leave and bonuses. Liabilities in respect of employees' services rendered that are not expected to be wholly settled within one year after the end of the periods in which the employees render the related services are recognised as long-term employee benefits. These liabilities are measured at the present value of the estimated future cash outflow to be made to the employees using the projected unit credit method. Liabilities expected to be wholly settled within one year after the end of the period in which the employees render the related services are classified as short-term benefits and are measured at the amount due to be paid.

Share based payments

Share based payment policy is disclosed in Note 24.

Impairment of intangible assets

The policy for intangible assets is disclosed in Note 10.

Notes to the Financial Statements

continued

Note 5: Expenses (continued)

	Consolidated	
	2019 \$'000	2018 \$'000
(a) Finance costs		
Other finance charges	117	86
(b) Depreciation		
Depreciation expense	676	621
(c) Employee benefits expense		
Wages and salaries	19,459	14,758
Superannuation expense	1,509	1,305
Directors' fees	464	486
Payroll tax	1,898	1,346
Share based payments	5,266	4,134
Long service leave provision	(55)	26
	28,541	22,055
(d) Corporate and office expense		
Insurance expense	1,203	885
Network expense	903	745
Marketing expense	1,381	1,455
Occupancy expense	1,244	1,119
Professional fees expense	5,723	1,556
Recruitment expense	995	576
Travel expense	1,324	876
	12,773	7,212
(e) Other expenses		
ASX fees	201	103
General expenses	661	435
Amortisation of contract costs	235	-
Postage, printing and stationery	481	385
Repairs and maintenance	32	7
Share registry costs	31	95
Staff training, development and conferences	77	491
Impairment of intangible assets	9,571	-
	11,289	1,516

Notes to the Financial Statements

continued

Note 6: Income tax

Income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided for using the full liability balance sheet method.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of 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 profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in other comprehensive income are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST, except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

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Notes to the Financial Statements

continued

Note 6: Income tax (continued)

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of cash flows from operating activities.

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

Statement of Comprehensive Income

The major components of income tax expense are:

Current income tax

Current income tax charge	(14,354)	(7,882)
Adjustment in respect of current income tax expense of previous year	24	2,598
Payment/(refund) of foreign state-based taxes	254	(130)
Current year losses moved to deferred tax asset	14,910	9,993
Other	(108)	–

Deferred tax:

Relating to origination and reversal of temporary differences	3,367	3,217
Current year losses moved to deferred tax asset	(14,910)	(9,993)
Change in federal tax rate in United States	–	4,000
Adjustment in respect of deferred income tax of previous year	(592)	(2,233)
Other	(105)	(83)

Income tax benefit reported in the Statement of Comprehensive Income

	(11,514)	(513)
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Deferred income tax related to items charged or credited directly to equity

Deferred tax associated with share based payments	(1,112)	(3,775)
Deferred tax associated with transaction costs recognised in equity	(1,049)	(1,427)

Income tax expense reported in equity

	(2,161)	(5,202)
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A reconciliation between tax expense and the product of accounting profit before income multiplied by the Group's applicable income tax rate is as follows:

	Consolidated	
	2019 \$'000	2018 \$'000
Accounting loss before income tax	(47,662)	(8,360)
At the Group's statutory income tax rate of 30% (2018: 30%)	(14,298)	(2,508)
Adjustment in respect of income and deferred tax of previous years	(568)	365
Expenditure not allowable for income tax purposes	3,940	787
Non-assessable income	–	(400)
Foreign tax rate adjustment	2,154	(132)
State income tax	(1,539)	(1,241)
Change in federal tax rate in the United States	–	4,000
Relating to origination of temporary differences not previously recognised	(874)	(1,262)
Other	(329)	(122)
Income tax benefit reported in the Statement of Comprehensive Income	(11,514)	(513)

Notes to the Financial Statements

continued

Note 6: Income tax (continued)

	Statement of Financial Position		Statement of Comprehensive Income	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Deferred income tax at 30 June 2019 relates to the following:				
CONSOLIDATED				
Deferred income tax liabilities				
Intangibles	38,348	32,880	(5,468)	(3,469)
Accrued interest & unrealised foreign exchange differences	3	87	84	46
Receivables	38	–	(38)	–
Other	–	5	5	5
Gross deferred income tax liabilities	38,389	32,972	(5,417)	(3,418)
Deferred income tax assets				
Net operating losses	16,204	4,575	11,628	4,575
Accruals and provisions/bond raising costs	4,257	4,467	(210)	(1,060)
Share based payments	6,750	4,275	1,363	–
Expenditure deductible for income tax over time	2,235	2,340	(1,154)	1,430
Gross deferred income tax assets	29,446	15,657	11,627	4,945
Net deferred income tax liabilities	8,943	17,315		
Foreign deferred tax assets				
Accruals and provisions	4	115	(111)	36
Intercompany	28	538	(510)	(30)
Expenditure deductible for income tax over time	212	–	212	(1,475)
Share based payments	4,398	2,700	1,698	372
Deferred tax assets – Foreign net operating losses – federal and state	14,206	9,002	5,204	5,087
Deferred tax assets	18,848	12,355	6,493	3,990
			12,703	5,517
Movements in foreign currency exchange			(463)	(425)
Deferred tax benefit			12,240	5,092

The prior year comparative has been changed to remove the effects of equity transactions and reclassify the movements in foreign currency exchange.

Temporary differences and tax losses

At 30 June 2019 the Group had no (2018: nil) unrecognised temporary differences and tax losses.

Within the deferred tax assets relating to foreign net operating losses \$14,206,000 (2018: \$9,002,000) are amounts relating to carried forward tax losses of Bentham Holdings Inc (USA) of \$13,350,000 (2018: \$7,200,000) and Bentham IMF Capital Limited (Canada) of \$856,000 (2018: 1,541,000). Both subsidiaries have incurred losses over the last two financial years following additional costs related to the Group's expansion of activity and change in operations to a Fund management structure. Bentham Holdings Inc is expected to generate future taxable profits from the Fund structures in the United States and Bentham IMF Capital Limited has put in place Sub-Investment Advisory Agreements with its parent company, IMF Bentham Limited to enable it to generate future taxable profits from the services it provides in relation to the Group's ROW Funds. The group has concluded that the deferred assets will be recoverable using the estimated future taxable income based on the approved budgets for the subsidiaries. Both subsidiaries are expected to generate taxable income from 2020 onwards. The losses can be carried forward indefinitely and have no expiry date.

Notes to the Financial Statements

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Note 7: 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 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; and
- 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.

At 30 June 2019, 15,601,589 performance rights (2018: 14,355,887) were on issue as detailed in Note 24. Upon meeting certain performance conditions over the three-year performance period, the vesting of each right will result in the issue of 1 ordinary share. The performance shares are contingently issuable and are therefore not considered dilutive.

The following reflects the income and share data used in the basic earnings per share computation:

(a) Earnings used in calculating earnings per share

	Consolidated	
	2019 \$'000	2018 \$'000
For basic and diluted earnings per share		
Total net loss attributable to equity holders of the Parent	(36,098)	(11,017)

(b) Weighted average number of shares

	Number '000	
	2019	2018
Weighted average number of ordinary shares outstanding	194,897	172,839
Effect of dilution:		
Performance rights ¹	–	–
Weighted average number of ordinary shares	194,897	172,839

1. Performance rights granted under the Long Term Incentive Plan are only included in diluted earnings per ordinary share where the performance hurdles are met as at year end and they do not have an anti-dilutive effect. As at 30 June 2019, there were 9,768,040 performance rights calculated as meeting the performance criteria for inclusion in diluted earnings per share, however these were not included due to their anti-dilutive effect.

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

(c) Information on the classification of securities

Options

As at 30 June 2019 there were no options issued over shares in the Company (2018: nil).

Notes to the Financial Statements

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Note 8: Dividends paid and proposed by IMF Bentham Limited (the parent entity)

(a) Cash dividends on ordinary shares declared and paid

Final dividend for 2018: nil cents per share (2017: 4.0 cents per share)
Interim dividend for 2019: nil cents per share (2018: 3.0 cents per share)

Consolidated	
2019 \$'000	2018 \$'000
-	6,882
-	5,188
-	12,070

The Directors have determined not to pay a final dividend for the year ended 30 June 2019. IMF Bentham Limited's retained earnings are disclosed in Note 25.

(b) Franking credit balance

The amount of franking credits for the subsequent financial year are:

- Franking account balance as at the end of the previous financial year at 30%
- Franking debits arising from the payment of last year's final dividend
- Franking debits arising from the payment of current year's interim dividend
- Franking credits arising from the payment of income tax installments paid during the financial year
- Franking credits that will arise from the refund of income tax receivable as at the end of the financial year

IMF Bentham Limited	
2019 \$'000	2018 \$'000
19,056	10,239
-	(2,949)
-	(2,224)
1,644	13,990
20,700	19,056
(5,934)	(5,830)
14,766	13,226

(c) Tax rates

The tax rate at which paid dividends have been franked is 30% (2018: 30%).

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Notes to the Financial Statements

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Note 9: Statement of cash flows reconciliation

Reconciliation of net profit after tax to net cash flows used in operations:

	Consolidated	
	2019 \$'000	2018 \$'000
Net loss after tax	(36,148)	(7,847)
<i>Adjustments for:</i>		
Net impact of the reclassification of litigation intangibles related cashflows to investing activities	73,672	12,106
Receipts for reimbursement of fund establishment costs	(1,117)	–
Fund establishment costs in net loss after tax	1,461	–
Depreciation	676	621
Share based payments	6,952	5,525
Unrealised foreign exchange gain	(3,535)	(4,311)
Lease incentive adjustments	209	(182)
<i>Changes in assets and liabilities</i>		
Decrease in receivables	1,393	21,094
Increase in other current assets	(490)	(151)
Increase in intangibles	(105,709)	(72,000)
Increase/(decrease) in trade creditors and accruals	5,945	(4,094)
Increase/(decrease) in provisions	691	(3,979)
Increase/(decrease) in deferred tax assets and liabilities	14,865	(9,293)
Increase/(decrease) in current income tax payable/(receivable)	4,339	(1,114)
Net cash used in operating activities	(36,796)	(63,625)

(i) Disclosure of financing facilities

Refer to Note 12 and Note 13.

(ii) Significant non-cash financing transactions

During the year, there were no significant non-cash financing transactions. In 2018, an investment was made by one of the Group's subsidiaries, through a combination of cash and a \$60,352,000 increase in the non-controlling interest of the subsidiary.

Notes to the Financial Statements

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B. INTANGIBLE ASSETS

Note 10: Intangible assets

(a) Recognition and measurement

Litigation Contracts in Progress

Litigation Contracts in Progress represent future economic benefits controlled by the Group. As Litigation Contracts in Progress may be exchanged or sold, the Group is able to control the expected future economic benefit flowing from the Litigation Contracts in Progress. Accordingly, Litigation Contracts in Progress meet the definition of intangible assets.

Litigation Contracts in Progress are measured at cost on initial recognition. Litigation Contracts in Progress are not amortised as the assets are not available for use until the determination of a successful judgment or settlement, at which point the assets are realised through disposal.

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

The following specific asset recognition and derecognition rules have been applied to Litigation Contracts in Progress:

(i) Actions still ongoing:

When litigation is ongoing and pending a determination, Litigation Contracts in Progress are carried at cost (subject to any provision for impairment). Subsequent and ongoing expenditure is capitalised when it meets all the following criteria:

- the Group is able to demonstrate its ability to complete the litigation so that the asset will be available for use and the benefits embodied in the asset will be realised;
- the Group retains control of the asset;
- the Group can demonstrate that it intends to complete the litigation;
- the Group is able demonstrate the availability of adequate technical, financial and other resources to complete the litigation;
- the Group can measure reliably the expenditure attributable to the intangible asset during the life of the Litigation Contracts In Progress; and
- Impairment is considered in line with policy described in (c) Impairment testing of intangible assets.

(ii) Successful completion:

Prior to AASB 15, where the litigation had been determined in favour of the Group or a positive settlement agreed, it constituted a derecognition of the intangible asset and accordingly a gain or loss was recognised in the Statement of Comprehensive Income.

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

On adoption of AASB 15, where the litigation has been finally determined in favour of the client or a positive settlement has been agreed, this constitutes a disposal transaction and a gain or loss on disposal of the intangible asset is recognised in the Statement of Comprehensive income. Control of the intangible asset is considered to be transferred as follows:

- For judgements, typically after a judgement has been determined in favour of the Group and the relevant appeal periods have expired, subject to the circumstances of the case; and
- For settlements, typically when settlement agreement is reached and court approval is obtained, subject to the circumstances of the case.

(iii) Unsuccessful completion:

Where the litigation is unsuccessful the cost of the intangible asset net of accumulated impairment is derecognised and a loss is recognised in the Statement of Comprehensive Income.

If the claimant, having been unsuccessful at trial, appeals against the judgment, then the future costs incurred by the Group on the investment in relation to the appeal are expensed as incurred.

Refer to Notes to the Financial Statements c. New and amended accounting standards AASB 15 for accounting policies applied prior 1 July 2018.

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Notes to the Financial Statements

continued

Note 10: Intangible assets (continued)

(b) Reconciliation of carrying amounts

	Consolidated	
	2019 \$'000	2018 \$'000
Balance at 1 July 2018	321,268	190,876
Additions – external expenditure	125,634	164,379
Additions – capitalised borrowing costs	10,127	9,327
Additions – capitalised employee costs	7,274	6,781
Additions – capitalised overheads	1,239	1,090
Derecognitions – external expenditure (successful investment)	(18,503)	(43,124)
Derecognitions – capitalised borrowing costs and overheads (successful investment)	(3,929)	(6,467)
Derecognitions – external expenditure (unsuccessful investment)	(15,197)	(5,003)
Derecognitions – capitalised borrowing costs and overheads (unsuccessful investment)	(1,639)	(185)
Provision for impairment	(9,571)	–
Effect of movement in foreign currency	10,274	3,594
Balance at 30 June 2019	426,977	321,268

The carrying value of Litigation Contracts In Progress includes the funding of external costs such as solicitors' fees, counsels' fees and experts' fees, the capitalisation of certain directly attributable internal costs of managing the litigation funding investment, such as certain wages, occupancy costs, other out of pocket expenses and the capitalisation of borrowing costs as described below. The capitalised wages in 2019 equated to approximately 22.6% of the Group's total salary costs (2018: 26.4%). The other internal capitalised expenses equated to approximately 49.8% of related overhead costs (2018: 49.3%).

The Group has determined that Litigation Funding Contracts In Progress meet the definition of qualifying assets and that all borrowing costs are eligible for capitalisation. The weighted average cost of borrowing was 7.6% (2018: 7.6%).

The carrying value of Litigation Funding Contracts In Progress can be summarised as follows:

	Consolidated	
	2019 \$'000	2018 \$'000
Litigation funding contracts – funded external costs	376,285	276,575
Litigation funding contracts – capitalised internal costs	33,078	25,268
Litigation funding contracts – capitalised borrowing costs	27,185	19,425
Gross carrying amount at cost	436,548	321,268
Accumulated impairment	(9,571)	–
Balance at 30 June	426,977	321,268

(c) Impairment testing of intangible assets

Based on the below assumptions, the recoverable amount of each of the Litigation Contracts in Progress is determined based on a value in use calculation using cash flow projections based on financial budgets approved by management for the length of each investment.

The value in use calculation of the Group's portfolio of intangible assets results in a net present value which has headroom of \$941 million to \$972 million over its carrying value. Headroom in a value in use analysis does not constitute a valuation but is the output from a calculation in assessing the impairment of the intangible assets.

Notes to the Financial Statements

continued

Note 10: Intangible assets (continued)

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 successful conclusion and the resulting expected settlement or judgment 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 including country risk. The discount rate applied ranged between 10.0% and 11.5% (2018: between 10.0% and 11.5%).

At 30 June 2019, a provision for impairment has been recognised for \$9,571,000 (2018: nil). The impairment related to five litigation contract funding investments, with a combined total carrying value prior to impairment of \$11,391,000. During the impairment review, management have determined that either a successful outcome for the case was no longer likely to occur or that the likely award would not recover the current carrying value of the investment. After taking into account the impairment, at 30 June 2019, the five litigation contract investments have a combined carrying value of \$1,770,000. This amount reflects the net recoverable amount expected to be received from the investments.

C. CAPITAL STRUCTURE

Note 11: Financial risk management

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

The Group manages its exposure to key financial risks, including interest rate risk and currency risk in accordance with the Group's financial risk management policy. The objective of the policy 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, foreign currency risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rates and currencies and assessments of market forecasts for interest rates and foreign currencies. Aging analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

Impairment of financial assets

Expected credit losses are recognised in the income statement on financial assets measured at amortised cost.

For financial assets a 12-month expected credit loss ("ECL") allowance is recorded on initial recognition. If there is evidence of a significant increase in the credit risk of an asset, the allowance is increased to reflect the full lifetime ECL. If there is no realistic prospect of recovery, the asset is written off.

Risk exposures and responses

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to:

- the Group's cash holdings with a floating interest rate,
- the Group has a \$76,000,000 variable rate bond debt outstanding as at 30 June 2019. These IMF Bentham Bonds require that the Group make a quarterly coupon payment based on the Bank Bill Rate plus a fixed margin of 4.20% per annum;

Notes to the Financial Statements

continued

Note 11: Financial risk management (continued)

At reporting date the Group had the following financial instruments exposed mainly to Australian variable interest rate risk:

	Consolidated	
	2019 \$'000	2018 \$'000
Financial instruments		
Cash and cash equivalents	226,460	160,231
IMF Bentham Bonds	(72,517)	(49,553)
Net exposure	153,943	110,678

The Group regularly analyses its interest rate exposure. Within this analysis, consideration is given to expected interest rate movements and the Group's future cash requirements, potential renewals of existing positions, alternative financing available, and the mix of fixed and variable interest rates.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date.

At 30 June 2019, if interest rates had moved with all other variables held constant, post-tax profit and equity would have been affected as follows:

	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
+0.25% (25 basis points) (2018: +0.25%)	269	194	269	194
-0.25% (25 basis points) (2018: -0.25%)	(269)	(194)	(269)	(194)

Credit risk

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

To mitigate credit risk on Litigation and other receivables the Group assesses the defendants in the investments funded by the Group prior to entering into any agreement to provide funding and continues this assessment during the course of funding. Wherever possible the Group ensures that security for settlement sums is provided, or the settlement funds are placed into solicitors' trust accounts. The Group's continual monitoring of the defendants' financial capacity mitigates this risk.

To mitigate credit risk on cash and cash equivalents, the Group holds over 90% of its cash with Australian AA rated banks.

The Group assesses the defendants in the investments funded by the Group prior to entering into any agreement to provide funding and continues this assessment during the course of funding. Wherever possible the Group ensures that security for settlement sums is provided, or the settlement funds are placed into solicitors' trust accounts. 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 financial liabilities of the Group, except the IMF Bentham Bonds and Fixed Rate Notes, are current and payable within 30 days.

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Notes to the Financial Statements

continued

Note 11: Financial risk management (continued)

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

	< 6 months \$'000	6-12 months \$'000	1-5 years \$'000	>5 years \$'000	Total \$'000
2019					
Financial Liabilities					
Trade and other payables	23,992	–	–	–	23,992
Bonds and Notes – principal	–	72,000	76,000	–	148,000
Bonds and Notes – interest	4,720	4,720	8,223	–	17,663
	28,712	76,720	84,223	–	189,655
2018					
Financial Liabilities					
Trade and other payables	18,047	–	–	–	18,047
Bonds and Notes – principal	–	50,000	72,000	–	122,000
Bonds and Notes – interest	4,223	4,223	5,328	–	13,774
	22,270	54,223	77,328	–	153,821

Fair value

The methods for estimating fair value are outlined in the relevant notes to the financial statements. The carrying amounts of financial assets and liabilities of the Group approximate their fair values, except for the IMF Bentham Bonds and Fixed Rate Notes. The IMF Bentham Bonds fair value has been determined using the quoted market price at 30 June 2019, and the Fixed Rate Notes fair value has been determined using the price from FIG Securities Limited, an independent privately-owned corporate bonds and government bonds specialist.

For the purposes of disclosure, the fair value measurements used for the Bonds and Notes are both level 1 on the fair value hierarchy.

	Carrying Value		Principal		Fair Value	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
IMF Bentham Bonds	72,517	49,553	76,000	50,000	78,014	51,150
Fixed Rate Notes	71,455	70,909	72,000	72,000	72,936	74,745

Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting. The Group is also exposed to foreign exchange translation risk arising from its foreign operations. The Group's investments in its subsidiaries are not hedged as those currency positions are considered to be long term in nature. In addition, the parent entity has intercompany receivables from its subsidiaries denominated in Australian Dollars which are eliminated on consolidation. The gains or losses on re-measurement of these intercompany receivables from foreign currencies to Australian Dollars are not eliminated on consolidation as the loans are not considered to be part of the net investment in the subsidiary.

Notes to the Financial Statements

continued

Note 11: Financial risk management (continued)

The Group's exposure to foreign currency risk at 30 June were as follows:

2019	USD \$'000	GBP \$'000	EUR \$'000	SGD \$'000	CAD \$'000	HKD \$'000
Financial Assets						
Cash and cash equivalents	18,172	11	522	76	1,241	11,321
Litigation contracts and other receivables ¹	26,290	895	-	2,417	6,321	-
Total assets	44,462	906	522	2,493	7,562	11,321
Financial Liabilities						
Trade Payables	49	-	18	11	114	1
Total liabilities	49	-	18	11	114	1

2018	USD \$'000	GBP \$'000	EUR \$'000	SGD \$'000	CAD \$'000	HKD \$'000
Financial Assets						
Cash and cash equivalents	43,772	81	3,632	498	1,529	11,734
Litigation contracts and other receivables ¹	11,675	2	-	1,002	10,294	-
Total assets	55,447	83	3,632	1,500	11,823	11,734
Financial Liabilities						
Payables	1,244	5	-	4	434	107
Total liabilities	1,244	5	-	4	434	107

1. Litigation contracts and other receivables balance includes the intercompany loan receivable that IMF Bentham Limited has with Bentham Holdings Inc (USD), Bentham IMF Capital Limited (CAD) and IMF Bentham Pte Limited (SGD).

Sensitivity

The following table summarises the sensitivity of financial instruments held at balance date to movement in the exchange rate of the AUD to the listed currencies, with all other variables held constant excluding the impact of the foreign exchange movement on the inter-company loans of \$47,498,000 (2018: \$16,901,000). The sensitivity is based on management's estimate of reasonably possible changes over the financial year.

		Impact on profit or loss before tax (A\$'000)					
		USD	GBP	EUR	SGD	CAD	HKD
2019	+10%	(2,682)	(2)	(85)	(8)	(123)	-
	-10%	2,682	2	85	8	123	-
2018	+10%	(6,412)	(14)	(573)	(49)	(382)	2
	-10%	6,412	14	573	49	382	(2)

Notes to the Financial Statements

continued

Note 12: Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position and Statement of Cash Flows comprise cash at bank and on hand, and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash on hand and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents comprise the following at 30 June:

	2019 \$'000	2018 \$'000
Cash at bank	94,446	58,449
Short-term deposits	132,014	101,782
Current Assets Cash and cash equivalents	226,460	160,231

Cash at bank earns interest at floating rates based on daily bank deposit rates. The carrying amounts of cash and cash equivalents represent fair value.

Short-term deposits are made for varying periods depending on the immediate cash requirements of the Group. As at 30 June 2019, all short-term deposits are due to mature in less than 90 days from inception and earn interest at the respective short-term deposit rates.

Bank Guarantees

Bank guarantees have been issued by the Group's bankers as security for leases over premises, banking facilities and as security for adverse costs orders for investments funded under litigation contracts. As at 30 June 2019, guarantees of \$1,138,000 were outstanding (2018: \$1,114,000). The Group has a total guarantee facility limit of \$1,462,000 (2018: \$1,439,000) that is secured by an offset arrangement with deposits of \$1,662,000 (2018: \$1,639,000).

Note 13: Debt securities

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

The borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

	Consolidated	
	2019 \$'000	2018 \$'000
Current		
IMF Bentham Bonds	–	49,553
Fixed Rate Notes	71,455	–
	71,455	49,553
Non-Current		
IMF Bentham Bonds	72,517	–
Fixed Rate Notes	–	70,909
	72,517	70,909

Notes to the Financial Statements

continued

Note 13: Debt Securities (continued)

	Consolidated	
	2019 \$'000	2018 \$'000
Balance as at 1 July 2018	120,462	119,469
Proceeds from issue of debt	26,000	–
Payments for costs of issuing debt	(3,016)	–
Gain on debt modification	(700)	–
Amortisation of costs of issuing debt	1,226	993
Balance as at 30 June 2019	143,972	120,462

On 5 December 2018, the Company restructured the IMF Bentham Bonds, allowing the option for early redemptions of the bonds issued in April 2014 with a make-whole payment of \$2.37 and issuing additional bonds with a face value of \$100 each. 154,048 bonds were redeemed and a further 414,048 bonds issued, with appropriate refund of \$1.11 to maintain the effective interest rate. This brings the total Bonds on issue to 760,000. The IMF Bentham Bonds have a variable rate of interest based on the Bank Bill rate plus a fixed margin of 4.20% per annum, paid quarterly. The maturity date was extended from 30 June 2019 to 22 December 2022, introducing a first issuer call date of 8 January 2022 with a step up in margin of 1.0% applying from 1 January 2022 to the maturity date.

On 18 April 2016, the Company issued 32,000 Fixed Rate Notes with a face value of \$1,000 each ("Tranche 1 Notes"). The interest rate payable to Noteholders is 7.40% per annum payable half yearly. The Fixed Rate Notes are due to mature on 30 June 2020 and are secured by a security interest over all present and after-acquired property of IMF.

On 6 April 2017, the Company issued 40,000 Fixed Rate Notes with a face value of \$1,000 each ("Tranche 2 Notes"). Tranche 2 Notes were consolidated and formed a single series with the existing Tranche 1 Notes. The terms and conditions of the Tranche 2 Notes are identical to the conditions on Tranche 1 Notes.

The application of AASB 123 Borrowing Costs (revised 2007) has resulted in the capitalisation of \$10,127,000 (2018: \$9,327,000) during the current financial year as part of the Litigation Contracts in Progress intangible assets which are deemed to be qualifying assets post the application date of AASB 123 (revised) of 1 July 2009 (refer to Note 10).

In relation to the debt securities held by the Group, there were no breaches in covenants. The following ratios are applicable to the Group for the 2019 financial year:

	Consolidated	
	2019 \$'000	2018 \$'000
Gearing ratio ¹	38%	47%
Working capital ratio ²	2.22	2.33
Interest cover ³	N/A	N/A

1. The gearing ratio is calculated as total liabilities over total equity in accordance with CO 14/1276. It is categorised as non-IFRS information prepared in accordance with ASIC Regulatory Guidance 230 – Disclosing non-IFRS financial information, issued in December 2011.

2. The working capital ratio is calculated as current assets over current liabilities in accordance with CO 14/1276. It is categorised as non-IFRS information prepared in accordance with ASIC Regulatory Guidance 230 – Disclosing non-IFRS financial information, issued in December 2011.

3. The interest cover ratio is calculated as EBITDA over net interest expense in accordance with CO 14/1276. It is not applicable as interest is capitalised on qualifying assets.

In accordance with clause 4.3(a)(ii)(C) of Schedule 2 of the IMF Bond Trust Deed, no wholly owned subsidiary held cash on its balance sheet in an amount which at any time exceeds the subsidiary cash limit at that time for a period of more than 30 consecutive calendar days, unless the relevant wholly owned subsidiary has provided an unconditional guarantee of all amounts owing on the bonds then outstanding in favour of the Trustee.

Notes to the Financial Statements

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Note 14: Contributed equity

Contributed equity

Ordinary shares are classified as equity. Issues and paid up capital is recognised at the fair value of the consideration received by the Company. 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.

	Consolidated	
	2019 \$'000	2018 \$'000
Contributed equity		
Issued and fully paid ordinary shares	205,558	127,630

(a) Ordinary shares

Fully paid ordinary shares carry one vote per share and the right to dividends.

	Number '000	\$'000
Movement in ordinary shares		
As at 1 July 2017	172,047	123,654
Shares issued under the Dividend Reinvestment Plan	1,816	3,976
As at 30 June 2018	173,863	127,630
Shares issued during the year (Placement and Share Purchase Plan)	27,180	75,339
Shares issued upon exercise of performance rights	3,566	2,589
As at 30 June 2019	204,609	205,558

On 31 October 2018, the Company issued 26,600,000 shares to sophisticated and institutional investors at \$2.80 per share. On 16 November 2018, the Company issued 580,110 shares under its Share Purchase Plan at \$2.80 per share.

On 24 April 2018, the Company issued 916,449 shares at \$2.35 per share, and on 20 October 2017 the company issued 900,253 shares at \$2.02 per share under its Dividend Reinvestment Plan.

(b) Performance rights

As at 30 June 2019, there were 15,601,589 unissued ordinary shares in respect of which share performance rights were outstanding (30 June 2018: 14,355,887).

(c) Capital management

Capital includes bonds, notes and equity attributable to the equity holders of the Parent. When managing capital, management's objective is to ensure the Group continues as a going concern while maintaining optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the Group.

The Group's earnings often vary dramatically, and this is expected to continue in future. Management's policy is to pay dividends to shareholders from earnings where there is capital surplus to the needs of the business.

The Group is not subject to any externally imposed capital requirements. However, if the cash and receivables balances of IMF fall below 75% of the Group financial indebtedness or retained earnings are less than \$52,000,000, or an event of default is subsisting under the IMF Bentham Bonds or Fixed Rate Notes, the Company is not permitted to pay a dividend to ordinary shareholders (this calculation is to be undertaken both before and after the proposed dividend). IMF Bentham Limited's retained earnings are disclosed in Note 25.

Notes to the Financial Statements

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Note 15: Retained earnings and reserves

(a) Movements in retained earnings were as follows:

	Consolidated	
	2019 \$'000	2018 \$'000
Balance 1 July 2018	48,592	71,679
Net profit for the year	(36,098)	(11,017)
Dividend paid	–	(12,070)
Balance 30 June 2019	12,494	48,592

(b) Movements in reserves were as follows:

	Share based payment reserve \$'000	Foreign currency translation reserve \$'000	Option premium reserve \$'000	Convertible note reserve \$'000	Fund equity reserve \$'000	Total reserves \$'000
As at 1 July 2017	5,962	(4,644)	3,404	3,832	–	8,554
Movements in reserves during the period	9,289	6,027	–	–	(7,760)	7,556
As at 30 June 2018	15,251	1,383	3,404	3,832	(7,760)	16,110
Movements in reserves during the period	2,498	(1,810)	–	–	(15,905)	(15,217)
As at 30 June 2019	17,749	(427)	3,404	3,832	(23,665)	893

(c) Nature and purpose of reserves

i. Share based payment reserve

The share based payments reserve is used to recognise the value of equity-settled share based payments provided to employees, including key management personnel as part of their remuneration. Refer to Note 24 for further details of this plan.

ii. Foreign currency translation reserve

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

iii. Other capital reserves

Other capital reserves comprise:

a) Option premium reserve

This reserve is used to record the value of equity benefits provided to employees and directors, including Key Management Personnel, as part of their remuneration. This reserve relates to the previous plan for options already vested.

b) Convertible note reserve

This reserve was used to record the equity portion on the convertible notes (issued on 13 December 2010), which were fully redeemed by the Company during December 2013.

c) Fund equity reserve

This reserve is used to record changes in the proportion of equity held by non-controlling interests within the Group.

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Notes to the Financial Statements

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D. WORKING CAPITAL, OTHER ASSETS AND OTHER LIABILITIES

Note 16: Litigation contracts and other receivables

Litigation contracts receivables are recognised initially at fair value and subsequently remeasured at amortised cost using the effective interest rate method, less an allowance for any uncollectible amounts. Litigation contracts receivables were previously classified as trade receivables in prior years.

Collectability of litigation contracts receivables is reviewed on an ongoing basis. Refer to Note 11 for information regarding impairment of financial assets.

	Consolidated	
	2019 \$'000	2018 \$'000
Current		
Litigation contracts receivables ¹	14,098	21,529
Other receivables ²	2,768	4,161
	16,866	25,690

- Litigation contracts receivables are non-interest bearing and generally on 0-90 day terms.
- Other receivables comprise interest receivable upon the maturity of the Group's short-term deposits (between 30 and 90 days), receivables from co-funders of litigation contracts in progress, short term loans and deposits receivable.

(a) Fair value and credit risk

Due to the nature of these receivables, the carrying value of the current receivables approximates its fair value. The carrying value of the non-current receivables is adjusted to reflect future cash flows and it is this adjusted carrying value that approximates its fair value. The maximum exposure to credit risk is the carrying value of receivables. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables.

(b) Loans and receivables

Litigation contracts and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process. Refer to Note 11 regarding impairment of financial assets.

Notes to the Financial Statements

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Note 17: Contract costs

The Group holds management and advisory contracts in respect of Fund 4 and ROW Fund 5. In accordance with AASB 15, incremental costs in obtaining a contract are capitalised and amortised over a systemic basis that is consistent with the Group's transfer of related services to the customer.

During the year the Group incurred incremental costs in obtaining the contracts in regard to Fund 4. The amounts have been capitalised as shown below. The amounts are being amortised on a straight line basis over a period of seven years, being in reference to the initial four-year commitment period of the fund plus the estimated litigation funding contract life of three years.

	Consolidated	
	2019 \$'000	2018 \$'000
Balance as at 1 July 2018	-	-
New contracts	6,339	-
At 30 June 2019	6,339	-
Current 2019	939	-
Non-current 2019	5,400	-
	6,339	-

Note 18: Other assets

	Consolidated	
	2019 \$'000	2018 \$'000
Current		
Prepayments	959	694
Rental deposits	753	598
Lease incentive receivable	189	119
Current Assets Other assets	1,901	1,411
Non-current		
Prepayments	9,022	11,242
Lease incentive receivable	289	267
Other	13	-
Non-Current Assets Other assets	9,324	11,509

Note 19: Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing parts is incurred. All other repairs and maintenance are recognised in the profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. The major categories of property, plant and equipment are depreciated as follows:

- Equipment 2 to 5 years;
- Furniture 2 to 6 years; and
- Leasehold 2 to 11 years.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

Notes to the Financial Statements

continued

Note 19: Plant and equipment (continued)

Derecognition

An item of plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

	Consolidated	
	2019 \$'000	2018 \$'000
Gross carrying amount – at cost	3,592	3,119
Accumulated depreciation	(2,480)	(1,787)
Net carrying amount	1,112	1,332

Reconciliation of carrying amounts at the beginning and end of the year

	Equipment \$'000	Furniture, Fixtures and Fittings \$'000	Leasehold Improvements \$'000	Total \$'000
Gross carrying amount				
Balance as at 1 July 2017	697	373	1,825	2,895
Additions	174	69	16	259
Disposals	(4)	(19)	(12)	(35)
At 30 June 2018	867	423	1,829	3,119
Additions	212	47	183	442
Disposals	–	(4)	–	(4)
Effect of movement in foreign currency	6	16	13	35
At 30 June 2019	1,085	482	2,025	3,592
Accumulated depreciation				
Balance as at 1 July 2017	497	138	560	1,195
Depreciation charge for the year	111	89	421	621
Disposals	(5)	(14)	(10)	(29)
At 30 June 2018	603	213	971	1,787
Depreciation charge for the year	152	104	420	676
Disposals	–	(3)	–	(3)
Effect of movement in foreign currency	5	9	6	20
At 30 June 2019	760	323	1,397	2,480

Plant and Equipment of the Company is subject to a fixed charge to secure the Company's debt due to Bondholders as covered in Note 13.

Notes to the Financial Statements

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Note 20: Trade and other payables

Trade payables and other payables are carried at amortised cost. Due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured, non-interest bearing and are usually paid within 30 days of recognition.

	Consolidated	
	2019 \$'000	2018 \$'000
Trade payables	21,481	16,100
Wage accruals	1,374	1,167
Interest accruals	1,137	780
	23,992	18,047

Fair Value

Due to the nature of trade and other payables, their carrying value approximates their fair value.

Note 21: Provisions

General provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance date using a discounted cash flow methodology. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability.

The increase in the provision resulting from the passage of time is recognised in finance costs.

Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the end of the reporting period. These benefits include wages, salaries, annual leave, long service leave and bonuses.

Liabilities in respect of employees' services rendered that are not expected to be wholly settled within one year after the end of the periods in which the employees render the related services are recognised as long-term employee benefits. These liabilities are measured at the present value of the estimated future cash outflow to be made to the employees using the projected unit credit method.

Liabilities expected to be wholly settled within one year after the end of the period in which the employees render the related services are classified as short-term benefits and are measured at the amount due to be paid.

	Consolidated	
	2019 \$'000	2018 \$'000
Current		
Annual leave and long service leave	2,575	2,521
Adverse costs	12,617	12,135
	15,192	14,656
Non-Current		
Make good	153	86
Long service leave	279	191
	432	277

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Notes to the Financial Statements

continued

Note 21: Provisions (continued)

(a) Movement in provisions

	Adverse costs \$'000	Annual leave \$'000	Long service leave \$'000	Make good \$'000	Total \$'000
As at 1 July 2018	12,135	1,472	1,240	86	14,933
Arising during the year	617	1,505	111	67	2,300
Utilised	(135)	(1,329)	(165)	–	(1,629)
Effect of movement in foreign currency	–	20	–	–	20
As at 30 June 2019	12,617	1,668	1,186	153	15,624
Current 2019	12,617	1,668	907	–	15,192
Non-current 2019	–	–	279	153	432
	12,617	1,668	1,186	153	15,624
Current 2018	12,135	1,472	1,049	–	14,656
Non-current 2018	–	–	191	86	277
	12,135	1,472	1,240	86	14,933

(b) Nature and timing of provisions

Adverse costs

During the financial year 2019, the Group raised a further provision of \$617,000 for estimated adverse costs obligations against a particular litigation investment that is held on the Group's balance sheet which was lost and which is currently being appealed. The provision raised is the Group's best estimate of the amount of adverse costs it will have to remit. The outcome of the appeal should be known by the end of the financial year 2020.

During the financial year 2018 the Group raised a provision of \$135,000 for estimated adverse costs obligations in relation to a withdrawn investment. The provision raised is the Group's best estimate of the amount of adverse costs it will have to remit. The adverse costs provision for the investment, recognised in 2018, was paid in the current year.

Make Good

The make good provision relates to amounts recognised for make good requirements on operating leases of office space.

Note 22: Commitments and contingencies

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.

Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

(a) Operating lease commitments – Group as lessee

The Group has entered into commercial leases for its premises. These leases have a life of between one and eight years with renewal options included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Notes to the Financial Statements

continued

Note 22: Commitments and contingencies (continued)

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	Consolidated	
	2019 \$'000	2018 \$'000
Within one year	1,818	1,794
After one year but no more than five years	2,662	4,118
After more than five years	3,289	2,192
Total minimum lease payments	7,769	8,104

(b) Remuneration commitments

	Consolidated	
	2019 \$'000	2018 \$'000
Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities payable:		
Within one year	5,064	4,963
After one year but no more than five years	-	-
	5,064	4,963

Amounts disclosed as remuneration commitments also include commitments arising from the service contracts of, and bonuses payable to, directors and executives referred to in the Remuneration Report of the Directors' Report that are not recognised as liabilities and are not included in the compensation of Key Management Personnel.

(c) Contingencies

In certain jurisdictions litigation funding agreements contain an undertaking from the Company to the client that the Company will pay adverse costs awarded to the successful party in respect of costs incurred during the period of funding, should the client's litigation be unsuccessful. It is not possible to predict in which cases such an award might be made. In addition, the Company has insurance arrangements which, in some circumstances, will lessen the impact of such awards. RoW Funds 2 and 3 entire portfolio has an after the event ("ATE") insurance policy that will respond to claims for adverse costs in excess of \$7.5m. Based on past experience, an award of adverse costs to a defendant will approximate 40% to 70% (depending on jurisdiction) of the amount paid by the plaintiff to pursue the litigation (although in some cases there may be more than one defendant).

Accordingly, an estimate of the total potential adverse costs exposure of the Group which has accumulated from time to time may be made by assuming all cases are lost, that adverse costs equal 40% to 70% of the amount spent by the plaintiff and that there is only one defendant per case.

At 30 June 2019, the total amount spent on currently funded investments by the Group where undertakings to pay adverse costs have been provided was \$136,112,000 (2018: \$88,702,000) divided between those funded directly on IMF's balance sheet of \$108,420,000 and those funded through the RoW Funds of \$27,692,000. The potential adverse costs orders using the above methodology would amount to \$64,862,000 for investments on IMF's balance sheet, and \$16,061,000 for RoW Fund investments. Subject to impairment considerations, the Company does not currently expect that any of the investments will be unsuccessful. The Company maintains a large cash holding in the event that one or more investments are unsuccessful and an adverse costs order is made which is not covered by its insurance arrangements.

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Notes to the Financial Statements

continued

E. THE GROUP, MANAGEMENT AND RELATED PARTIES

Note 23: Key management personnel

(a) Details of Key Management Personnel

Subsequent to 30 June 2019, Charlie Gollow (Chief Executive - USA) retired, effective 5 July 2019.

There were no further changes to Key Management Personnel after the reporting date and before the date the financial report was authorised for issue.

(b) Compensation of Key Management Personnel

	Consolidated	
	2019 \$'000	2018 \$'000
Short-term employee benefits – salaries and wages	4,925	4,288
Short-term employee benefits – accrued and unpaid	–	–
Post-employment benefits	163	125
Long term employee benefits	(36)	93
Share based payments	2,321	1,833
	7,373	6,339

Note 24: Share-based payment plan

Share-based payment transactions

(i) Equity-settled transactions

The Company's LTIP awards share performance rights to key senior employees. The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Monte Carlo or Black Scholes Model depending on the type of LTIP.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of IMF (i.e. market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in the share-based payment reserve, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

The charge to the profit or loss for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding credit to equity (the share-based payment reserve).

Equity-settled awards granted by IMF to employees of subsidiaries are recognised in the Parent's separate financial statements as an additional investment in the subsidiary with a corresponding credit to equity. These amounts are eliminated through consolidation. As a result, the expenses recognised by the Company in relation to equity-settled awards only represents the expense associated with grants to employees of the Parent. The expense recognised by the Group is the total expense associated with all such awards.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and an expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

Where outstanding rights do not have an anti-dilutive effect and are currently meeting the performance criteria, the dilutive effect, if any, is added to share dilution in the computation of diluted earnings per share.

Notes to the Financial Statements

continued

Note 24: Share-Based Payment Plan (continued)

(ii) Cash-settled transactions

The Group does not provide cash-settled share-based benefits to employees or senior executives.

Long Term Incentive Plan

LTIP awards are delivered in the form of performance rights over shares which vest after a period of three years subject to meeting performance measures. The Group uses relative TSR and CAGR of Funds Deployed as the performance measures.

For the portion of the LTIP subject to the relative TSR performance measure, the fair value of share performance rights granted is estimated at the date of grant using a Monte-Carlo simulation model, taking into account the terms and conditions upon which the share performance rights were granted. For the portion of the LTIP based on the achievement of CAGR of Funds Deployed, the Black-Scholes model is used.

4,255,816 share performance rights were issued during 2019 (2018: 5,122,146). Specific assessment for performance rights issued in the period is below:

Grant Date	1 July 2018	21 November 2018
Share price at grant date	\$3.00	\$2.69
Expected Volatility (%)	30%	30%
Dividend yield (%)	4.00%	4.00%
Risk-free rate (%)	2.07%	2.12%
Performance period	3 years ending 30 June 2021	2.61 years ending 30 June 2021
Models used	Monte Carlo & Black Scholes	Monte Carlo & Black Scholes
Tranche 1 – relative TSR (value per right \$)	\$1.60	\$1.35
Tranche 2 – CAGR (value per right \$)	\$2.67	\$2.43

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share performance rights during the year:

	2019 Number	2019 WAEP	2018 Number	2018 WAEP
Movements during the year				
Outstanding at 1 July 2018	14,355,887	–	11,177,055	–
Granted	4,255,816	–	5,122,146	–
Exercised	(2,398,473)	–	–	–
Forfeited	(611,641)	–	(1,943,314)	–
Outstanding at 30 June 2019	15,601,589	–	14,355,887	–
Exercisable at 30 June 2019	6,699,191	–	4,125,409	–

Notes to the Financial Statements

continued

Note 25: Parent entity information

Information relating to IMF Bentham Limited:

	2019 \$'000	2018 \$'000
Current assets	151,920	147,673
Total assets	453,535	372,511
Current liabilities	(103,995)	(72,233)
Total liabilities	(179,262)	(156,552)
Net assets	274,273	215,959
Issued capital	204,553	127,630
Retained earnings	46,190	68,165
Reserves	23,530	20,164
Total shareholders' equity	274,273	215,959
Profit or loss of the Parent	(20,476)	39,261
Total comprehensive income of the Parent	(20,476)	39,261

The Parent has not entered into any guarantees with any of its subsidiaries.

Details of the contingent liabilities of the Parent are contained in Note 22(c).

Details of the contractual commitments of the Parent are contained in Notes 22(a) and 22(b).

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Notes to the Financial Statements

continued

Note 25: Parent entity information (continued)

The consolidated financial statements include the financial statements of IMF and the subsidiaries listed in the following table:

Name	Country of Incorporation	Percentage owned	
		2019 %	2018 %
Row Funds			
IMF Bentham (Fund 2) Pty Ltd	Australia	20	20
IMF Bentham (Fund 3) Pty Ltd	Australia	20	20
Fund 1			
Bentham IMF 1 LLC	USA	28	27
HC 1 LLC	USA	7	7
Security Finance 1 LLC	USA	28	27
Fund 4			
Bentham Investments 1 LP ¹	USA	20	–
Bentham Investments 2 LP ¹	USA	20	–
Bentham Investments 3 LP ¹	USA	20	–
Bentham Investments 4 LP ¹	USA	20	–
Bentham Investments 5 LP ¹	USA	20	–
Bentham Investments 6 LP ¹	USA	20	–
Bentham Investments 7 LP ¹	USA	20	–
Bentham Investments 8 LP ¹	USA	20	–
Bentham Investments 9 LP ¹	USA	20	–
Security Finance 2 LLC ²	USA	20	–
Wholly owned subsidiaries			
Bentham IMF Holdings 1 LLC	USA	100	100
Bentham Capital GP LLC ³	USA	100	–
Bentham Capital LLC	USA	100	100
Bentham Capital Management LLC ⁴	USA	100	–
Bentham Holdings Inc	USA	100	100
Security Finance LLC	USA	100	100
Bentham IMF Capital Limited	Canada	100	100
Lien Finance Canada Limited	Canada	100	100
IMF Bentham Pte. Limited	Singapore	100	100
IMF Litigation Funding Services Limited ⁵	United Kingdom	100	–
IMF Bentham GPA 5 Pty Ltd ⁶	Australia	100	–
IMF Bentham Cayman Advisory Services Limited ⁷	Cayman Islands	100	–

1. These entities were formed on 4 December 2018. Percentage owned decreased to 20% on 30 January 2019, following the finalisation of the amended and restated limited partnership agreements.

2. This entity was incorporated on 29 November 2018.

3. This entity was incorporated on 26 October 2018.

4. This entity was incorporated on 2 July 2018.

5. This entity was incorporated on 27 September 2018.

6. This entity was incorporated on 6 June 2019.

7. This entity was incorporated on 4 June 2019.

For all subsidiaries where there is less than 51% ownership interest, the Group has power to direct the relevant activities of the investee under contractual arrangements; and exposure to variable returns. The Group is considered to be acting as principal and thus has control.

Notes to the Financial Statements

continued

Note 26: Material partly-owned subsidiaries

Financial information of subsidiaries that have material non-controlling interests is provided below:

	Country of Incorporation	Non-controlling interest	
		2019 %	2018 %
Proportion of equity interest held by non-controlling interests:			
Row Funds			
IMF Bentham (Fund 2) Pty Ltd ¹	Australia	80	80
IMF Bentham (Fund 3) Pty Ltd ¹	Australia	80	80
Fund 1			
Bentham IMF 1 LLC ²	USA	72	73
HC 1 LLC ²	USA	93	93
Security Finance 1 LLC ²	USA	72	73
Fund 4			
Bentham Investments 1 LP ³	USA	80	—
Bentham Investments 2 LP ³	USA	80	—
Bentham Investments 3 LP ³	USA	80	—
Bentham Investments 4 LP ³	USA	80	—
Bentham Investments 5 LP ³	USA	80	—
Bentham Investments 6 LP ³	USA	80	—
Bentham Investments 7 LP ³	USA	80	—
Bentham Investments 8 LP ³	USA	80	—
Bentham Investments 9 LP ³	USA	80	—
Security Finance 2 LLC ³	USA	80	—
		2019	2018
		\$'000	\$'000
Accumulated balances of material non-controlling interest:			
Bentham IMF 1 LLC ²		161,369	105,799
HC 1 LLC ²		47,092	47,086
IMF Bentham (Fund 2) Pty Ltd ¹		53,613	22,933
IMF Bentham (Fund 3) Pty Ltd ¹		17,871	7,644
Fund 4		25,450	—
Transaction costs, net of tax – disposal of non-controlling interest Fund 1 ²		(5,934)	(5,934)
Transaction costs, net of tax – disposal of non-controlling interest Row Funds		(2,909)	(2,024)
		296,552	175,504
Profit allocated to material non-controlling interest:			
Bentham IMF 1 LLC		(15)	1,106
IMF Bentham (Fund 2) Pty Ltd ¹		—	1,548
IMF Bentham (Fund 3) Pty Ltd ¹		—	516
Fund 4		(35)	—
		(50)	3,170

1. The results and non-controlling interest of these entities comprise the results of the Row Funds, included in Note 1 Segment information. Under the contractual arrangements with the Row Funds, Group entities are required to contribute a total of \$36,00,000 of equity, with non-controlling interests contributing \$144,000,000 of equity (total of \$180,000,000). As at 30 June 2019 the Group had contributed \$16,200,000 of the total commitment (30 June 2018: \$3,400,000).

2. The results and non-controlling interest of these entities comprise the results of Fund 1, included in Note 1 Segment information. Under the contractual arrangements with Fund 1, Group entities are required to contribute a total of US\$41,700,000 of equity, with non-controlling interests contributing US\$125,000,000 of equity (total US\$166,700,000). As at 30 June 2019 the Group had contributed US\$41,700,000 of the total commitment (30 June 2018: US\$29,900,000).

3. The results and non-controlling interest of these entities comprise the results of Fund 4, included in Note 1 Segment information. Under the contractual arrangements with Fund 4, Group entities are required to contribute a total of US\$100,000,000 of equity, with non-controlling interests contributing US\$400,000,000 of equity (total US\$500,000,000). As at 30 June 2019 the Group had contributed US\$4,600,000 of the total commitment (30 June 2018: nil).

Notes to the Financial Statements

continued

Note 26: Material partly-owned subsidiaries (continued)

Net assets attributable to NCI

Movements in net assets attributable to NCI's during the year were as follows:

	Bentham IMF 1 LLC	HC 1 LLC	IMF Bentham (Fund 2) Pty Ltd	IMF Bentham (Fund 3) Pty Ltd	Fund 4	Total
	\$'000	\$'000	\$'000	\$'000		\$'000
As at 1 July 2017	2,366	–	–	–	–	2,366
Contributions	100,096	47,086	20,877	6,958	–	175,017
Distributions	(9,694)	–	–	–	–	(9,694)
Change in share of net assets attributable to NCI	8,188	–	2,056	686	–	10,930
Transaction costs	(1,091)	–	(1,518)	(506)	–	(3,115)
As at 30 June 2018	99,865	47,086	21,415	7,138	–	175,504
Contributions	59,473	21	27,649	9,216	25,485	121,844
Distributions	(24,247)	–	(3,037)	(1,015)	–	(28,299)
Change in share of net assets attributable to NCI	10,627	(3,368)	6,068	2,024	554	15,905
Total comprehensive income	9,719	3,353	–	–	(589)	12,483
Transaction costs	–	–	(665)	(220)	–	(885)
As at 30 June 2019	155,437	47,092	51,430	17,143	25,450	296,552

ROW Funds 2 & 3

On 13 September 2017, the Group established IMF Bentham (Fund 2) Pty Ltd and IMF Bentham (Fund 3) Pty Ltd (collectively the "ROW Funds 2 & 3").

On 3 October 2017, the Group undertook a transaction to dispose of a non-controlling interest in the ROW Funds. At date of disposal the change in equity of the Group was recorded as follows:

	2019 \$'000	2018 \$'000
Change in equity on disposal of non-controlling interests:		
IMF Bentham (Fund 2) Pty Ltd	–	–
IMF Bentham (Fund 3) Pty Ltd	–	–
Transaction costs net of tax – disposal of non-controlling interests	(885)	(2,024)
	(885)	(2,024)

Fund 1

On 3 November 2016, IMF established Bentham IMF 1 LLC and its subsidiary Security Finance 1 LLC (collectively "Fund 1"). Fund 1 has been part of the Group and consolidated into the results since this time as it was controlled by IMF.

On 10 February 2017, the Group undertook a transaction to dispose of a non-controlling interest in Fund 1. The change in equity of the Group resulting from this disposal was recorded as follows:

	2019 \$'000	2018 \$'000
Change in equity on disposal of non-controlling interests:		
Bentham IMF 1 LLC	–	–
Security Finance 1 LLC	–	–
Transaction costs net of tax – disposal of non-controlling interest	–	(1,091)
	–	(1,091)

Notes to the Financial Statements

continued

Note 26: Material partly-owned subsidiaries (continued)

Fund 4

On 26 October 2018, IMF established Bentham Capital GP LLC. On 29 November 2018, IMF established Security Finance 2 LLC. On 4 December 2018, IMF established Bentham Investments 1 – 9 LP (collectively "Fund 4"). Fund 4 has been part of the Group and consolidated into the results since this time as it was controlled by IMF.

The summarised financial information provided below is based on amounts prior to intercompany eliminations:

	Fund 1		ROW Funds 2 & 3		Fund 4	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Summarised statement of cash flows						
Operating	(77)	(71)	(988)	(3)	(43)	–
Investing	(15,469)	(102,594)	(18,690)	(18,921)	(25,059)	–
Financing	57,760	104,570	42,042	34,796	30,729	–
Net increase in cash and cash equivalents	42,214	1,905	22,364	15,872	5,627	–
Cash and cash equivalents at the beginning of the period	7,466	5,561	15,889	–	–	–
Foreign exchange	–	–	73	17	–	–
Cash and cash equivalents at the end of the period	49,680	7,466	38,326	15,889	5,627	–

Note 27: Related party disclosure

Transactions with director related entities

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year.

	Consolidated	
	2019 \$'000	2018 \$'000
Transactions with related parties ¹	499	470
	499	470

- During the year the Group obtained legal advice from DLA Piper, a legal firm associated with Michael Bowen, totalling \$499,176 (2018: \$470,272). The legal advice was obtained at normal market prices. IMF engages a number of different law firms for its external legal advice and hence the relationship with DLA Piper is not exclusive. Michael Bowen does not participate in any board decisions to appoint external counsel when DLA Piper is being considered for engagement.

Notes to the Financial Statements

continued

Note 28: Auditor's remuneration

The auditor of IMF Bentham Limited is EY.

Amounts received or due and receivable by EY for:

An audit or review of the financial report of the Parent and any other entity in the Group

Other services in relation to the Parent and any other entity in the consolidated Group:

Tax compliance

Other

Consolidated	
2019 \$'000	2018 \$'000
410	276
-	-
-	60
410	336

Note 29: Events after the reporting date

Apart from that disclosed in this report, no other circumstances have arisen since 30 June 2019 that have significantly affected, or may significantly affect the consolidated entities' operations, the results of those operations, or the consolidated entities state of affairs in the future financial years.

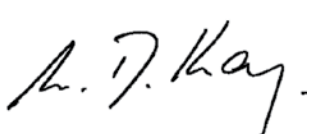
Directors' Declaration

In accordance with a resolution of the Directors of IMF Bentham Limited, we state that:

In the opinion of the Directors:

- (a) the financial statements and notes of IMF Bentham Limited for the financial year ended 30 June 2019 are in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of its financial position as at 30 June 2019 and performance for the year ended on that date; and
 - ii. complying with Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in the notes to the financial statements;
- (c) 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
- (d) this declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2019.

On behalf of the board



Michael Kay
Chairman

Perth, 21 August 2019



Andrew Saker
Managing Director

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Independent Auditor's Report



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Independent Auditor's Report to the Members of IMF Bentham Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of IMF Bentham Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, 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:

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2019 and of its consolidated financial performance for the year ended on that date; and
- b) 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 auditor independence requirements of 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 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 judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Independent Auditor's Report

continued

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Impairment assessment of intangible assets

Why significant

Litigation contracts in progress are recognised as intangible assets and assessed for impairment by the Group using cash flow forecasts.

The carrying value of litigation contracts are contingent on future cash flows and there is a risk that if these cash flows do not meet the Group's expectations, or if significant judgments such as the discount rates change, the assets will be impaired.

This was a key audit matter because it requires a high level of judgment and changes in these assumptions might lead to a significant change in the carrying values of the related assets.

Refer to Note 10 of the financial report for the amounts recognised by the Group as at 30 June 2019 and related disclosures.

How our audit addressed the key audit matter

We evaluated the Group's assessment of the carrying value of intangible assets. Our audit procedures included the following:

- ▶ Assessed, through testing a sample, the effectiveness of the Group's controls in relation to the review of carrying values for intangible assets, including controls over the valuation model and assumptions applied.
- ▶ Examined the Group's impairment assessment model and tested the reasonableness of key assumptions including cash flow forecasts considering the accuracy of previous forecasts, estimated completion dates and discount rates, with the involvement of our valuation specialists.
- ▶ We tested the mathematical accuracy of the cash flow models.
- ▶ Conducted sensitivity analyses to ascertain the impact of reasonably possible changes to key assumptions on the available headroom.
- ▶ Discussed significant case matters with respective Case Investment Managers, in order to understand case status and assess judgements made by the Group that impacted the impairment model including litigation completion timing, litigation revenue, budgeted costs to complete and intention to continue the litigation funding.
- ▶ Assessed the adequacy of the financial statement disclosures regarding impairment and the recoverable amount of the Group's intangible assets.

Independent Auditor's Report

continued

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Income recognition

Why significant

During the year ended 30 June 2019, the impact of investment completions (both successful and unsuccessful) resulted in the recognition of litigation contract income of \$35.0 million and a net loss on derecognition of intangible assets of \$4.2 million in the consolidated statement of comprehensive income.

Where the litigation is unsuccessful, this constitutes a derecognition of the intangible asset and accordingly a loss is recognised in the consolidated statement of comprehensive income.

The Group's accounting policies outline the guidelines as to the manner in which income can be recognised following outcomes on litigation matters funded by the Group.

Given the magnitude involved income recognition was a key audit matter.

Refer to Note 3 of the financial report for the amounts recognised by the Group as at 30 June 2019 and related disclosure.

How our audit addressed the key audit matter

We evaluated the Group's assessment of case outcomes and income recognised for the year. Our audit procedures included the following:

- ▶ Assessed the timing and quantum of income recognition based on a sample of settlement terms agreed with the counterparties, including liquidators where applicable, and court rulings.
- ▶ Assessed the adequacy of the financial statement disclosures regarding the Group's income recognition.

Recoverability of deferred tax assets

Why significant

At 30 June 2019, the Group had deferred tax assets including tax losses of \$18.8 million recorded in the statement of financial position. AASB 112 *Income Taxes* outlines the requirements necessary to recognise a deferred tax asset. The recoverability of the deferred tax assets is reliant on taxable profits being earned by Group subsidiaries.

Given the magnitude and judgment involved in determining the recoverability of deferred tax assets, it was considered as a key audit matter.

Refer to Note 6 of the financial report for the amounts recognised by the Group as at 30 June 2019 and related disclosure.

How our audit addressed the key audit matter

We evaluated the Group's assessment of the recoverability of recognised deferred tax assets. Our audit procedures included the following:

- ▶ Examined the Group's deferred tax asset recoverability assessment and evaluated the reasonableness of key assumptions including forecast taxable profits of Group subsidiaries.
- ▶ Assessed sensitivity analyses prepared by management to ascertain the impact of possible changes to key assumptions on the timing of recoverability.
- ▶ Assessed the adequacy of the financial statement disclosures regarding the Group's deferred tax assets.

Independent Auditor's Report

continued



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Existence and collectability of litigation contract receivables

Why significant

At 30 June 2019, the Group had litigation contract receivables of \$14.1 million which were significant to the Group.

Given the magnitude and judgment involved in the collectability assessment of litigation contract receivables, existence and collectability of litigation contract receivables was a key audit matter.

Refer to Note 16 of the financial report for the amounts recognised by the Group as at 30 June 2019 and related disclosure.

How our audit addressed the key audit matter

We evaluated the Group's assessment of the carrying value of litigation contract receivables at 30 June 2019. Our audit procedures included the following:

- ▶ Assessed whether litigation contract receivables were recognised in accordance with the Group accounting policy.
- ▶ Selected a sample of balances to determine based on settlement terms, if the right to record a receivable had been satisfied.
- ▶ Assessed the credit loss provision by reference to the economic environment applicable to the debtors, the historical accuracy of forecasting recoverability and the Group's assessment of collectability considering the process to achieve recovery, the likely timing of these processes and events that could delay or impact the collectability.
- ▶ Considered collection timing assumptions to determine whether receivables were appropriately classified as current or non-current.
- ▶ Assessed the adequacy of the financial statement disclosures regarding the Group's litigation contract receivables.

Provision for adverse costs

Why significant

Adverse costs arise where the Group is instructed by the court to settle the costs incurred by the defendant in litigation matters.

The Group records a provision for adverse costs when a matter which it has funded is lost and that matter in a geographic location where adverse costs exist.

We focused on this area because it requires a high level of judgment to determine the adverse cost likely to be incurred and changes in these assumptions might lead to a significant change in the amount of adverse costs the Group will be required to pay.

Refer to Note 21 of the financial report for the amounts recognised by the Group as at 30 June 2019 and related disclosure.

How our audit addressed the key audit matter

We evaluated the Group's assessment of the provision for adverse costs. Our audit procedures included the following:

- ▶ Compared assumptions for current year provision amounts to evidence, including estimates provided by the Group's legal experts.
- ▶ Assessed the requirement for provisions for current year unsuccessful case finalisations based on settlement terms and geographies of cases.
- ▶ Considered the consistency of the application of policy for recognising provisions with the prior year. Specifically, we considered both the value of the prior years' provision utilised for payments of adverse costs during the current year and the value of prior year provision amounts not used and released.
- ▶ Assessed the adequacy of the financial statement disclosures regarding the Group's provision for adverse costs.

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Independent Auditor's Report

continued



Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2019 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information 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, 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.

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 Group's ability to continue as a going concern, disclosing, as applicable, matters relating 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 have 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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent Auditor's Report

continued



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working world**

- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- ▶ Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent Auditor's Report

continued

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Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 69 to 77 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of IMF Bentham Limited for the year ended 30 June 2019, 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.

Ernst & Young

Robert A Kirkby
Partner
Perth
21 August 2019

Shareholder Information

The information set out below is current as at 31 July 2019.

(a) Distribution of Shareholders

Ordinary Share Capital

204,608,858 fully paid ordinary shares are held by 4,171 individual shareholders. All issued ordinary shares carry one vote per share and carry the right to dividends.

IMF Bentham Bonds

There are 760,000 bonds issued held by 1,165 individual bond holders. The IMF Bentham Bonds do not carry the right to vote.

Options

There are no options issued over ordinary shares.

Share Performance Rights

4,255,816 performance rights were issued to 53 rights holders bringing the total number of performance rights on issue to 15,601,589.

Fixed Rate Notes

There are 72,000 Fixed Rate Notes.

Distribution of Securities

The number of shareholders by size of holding, in each class are as at 31 July 2019:

	Number	Fully paid ordinary shares	Number	Bonds
1 – 1,000	927	406,106	1,115	163,386
1,001 – 5,000	1,424	4,099,744	43	81,942
5,001 – 10,000	777	5,830,842	4	23,407
10,001 – 100,000	971	25,297,254	2	41,299
100,001 and over	72	168,974,912	1	449,966
	4,171	204,608,858	1,165	760,000

Non-marketable Parcels

There were 255 holders of less than a marketable parcel of ordinary shares.

(b) Substantial Shareholders

As at 31 July 2019, the Shareholders (and their associates) that hold 5% or more of Shares on issue based on Section 671B notices lodged with ASX are set out below:

Shareholder	Number of ordinary Shares	% of issued capital
Kabouter Management, LLC	19,132,869	9.35
Perpetual Investment Management	15,205,771	7.43
Challenger Limited	13,488,165	6.59
Greencape Capital Pty Ltd	13,438,505	6.57
Eley Griffiths Group	11,114,685	5.43
	72,379,995	35.37

Shareholder Information

continued

(c) 20 Largest Holders of Quoted Equity Securities as at 31 July 2019

Ordinary Shares	Number of ordinary Shares '000	% of issued capital
1. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	41,157	20.12
2. J P MORGAN NOMINEES AUSTRALIA LIMITED	25,546	12.49
3. CITICORP NOMINEES PTY LIMITED	23,883	11.67
4. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	16,716	8.17
5. NATIONAL NOMINEES LIMITED	16,404	8.02
6. UBS NOMINEES PTY LTD	14,136	6.91
7. MCLERNON GROUP SUPERANNUATION PTY LTD	3,862	1.89
8. BNP PARIBAS NOMINEES PTY LTD	2,529	1.24
9. CITICORP NOMINEES PTY LIMITED	2,047	1.00
10. MR DENNIS JOHN BANKS	1,838	0.90
11. BNP PARIBAS NOMINEES PTY LTD	1,743	0.85
12. PACIFIC CUSTODIANS PTY LIMITED	1,727	0.84
13. BNP PARIBAS NOMINEES PTY LTD	1,061	0.52
14. MR HUGH MCLERNON	1,002	0.49
15. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	845	0.41
16. MR PETER FREDERICK PHILLIPS AND ALICE SAU HAN PHILLIPS	804	0.39
17. PACIFIC CUSTODIANS PTY LTD	763	0.37
18. BOUCHI PTY LTD	641	0.31
19. MUTUAL TRUST PTY LTD	638	0.31
20. B F A PTY LTD	586	0.29
	157,928	77.19

(d) Options as at 31 July 2019 – unquoted

There are no options issued.

(e) Securities subject to escrow

There are no securities subject to escrow.

Shareholder Information

continued

(f) 20 Largest Holders of Quoted IMF Bentham Bonds as at 31 July 2019

Bond Holders	Number of Bonds	% of units
1. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	449,966	59.21
2. CITICORP NOMINEES PTY LIMITED	23,608	3.11
3. NATIONAL NOMINEES LIMITED	17,691	2.33
4. MCLERNON GROUP SUPERANNUATION PTY LTD	7,500	0.99
5. ST HEDWIG VILLAGE	5,515	0.73
6. MUTUAL TRUST PTY LTD	5,241	0.69
7. J P MORGAN NOMINEES AUSTRALIAN PTY LIMITED	5,151	0.68
8. PSTAR PTY LTD	4,269	0.56
9. SUNSTONE FINANCE PTY LTD	3,867	0.51
10. RACING VICTORIA LIMITED	3,310	0.44
11. DYSPO PTY LIMITED	2,500	0.33
11. AGGREGATED CAPITAL PTY LTD	2,500	0.33
11. BJM INCOME INVESTMENTS PTY LTD	2,500	0.33
12. CARRIER INTERNATIONAL PTY LIMITED	2,480	0.33
13. THE GOLF NUT PTY LTD ¹	2,446	0.32
14. NETWEALTH INVESTMENTS LIMITED	2,280	0.30
15. MR CHIA-HO CHEN	2,250	0.30
16. AGED CARE GROUP PTY LTD	2,000	0.26
16. CONTINENTAL HOLDINGS PTY LTD	2,000	0.26
16. SANCTUARY GATE PTY LTD	2,000	0.26
16. MORBEN NOMINEES PTY LTD	2,000	0.26
16. SPACE DOOR PTY LTD	2,000	0.26
16. TUDOR FARM PTY LTD	2,000	0.26
16. CAROLYN MARGARET EARL AND JOHN WILLIAM NISSEN	2,000	0.26
16. LEVIEN FOUNDATION PTY LTD	2,000	0.26
16. SINGAPORE INVESTMENTS PTY LTD	2,000	0.26
17. ROSEMARIE HANICH	1,981	0.26
18. THE GOLF NUT PTY LTD ¹	1,969	0.26
19. NATIONAL STROKE FOUNDATION	1,910	0.25
20. LUCA ROTTER AND JANE LOUISE ABBOTT	1,774	0.23
	568,708	74.83

1. Held in different accounts.

Corporate Information

This annual report covers both IMF Bentham Limited as an individual entity and the consolidated entity comprising IMF Bentham Limited and its subsidiaries. The Group's functional and presentation currency is AUD (\$).

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the Directors' Report. The Directors' Report is not part of the financial report.

Directors

Michael Kay	Non-Executive Chairman
Andrew Saker	Managing Director
Hugh McLernon	Executive Director
Michael Bowen	Non-Executive Director
Karen Phin	Non-Executive Director
Christine Feldmanis	Non-Executive Director

Company Secretary

Jeremy Sambrook

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Share registry

LINK MARKET SERVICES

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Sydney South NSW 1235

Phone: 1300 554 474

Auditors

EY

The EY Building
11 Mounts Bay Road
Perth WA 6000

Bankers

NATIONAL AUSTRALIA BANK LIMITED

255 George Street
Sydney NSW 2000

Internet address

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The Company is listed on the Australian Securities Exchange with Sydney, Australia as its home exchange.

Its ASX code is "IMF" and its shares were trading as at the date of this report.

Glossary of Terms

AASB	Australian Accounting Standards Board
Addressable Market	Is IMF's estimate of the annual amount spent by plaintiff/applicants on external costs of litigation/dispute resolution that could be addressed by IMF's litigation funding service offering.
CAGR	Compound Annual Growth Rate
EMEA	Europe, Middle East and Africa
EPS	Earnings Per Share
Estimated Portfolio Value (EPV)	EPV for an investment where the IMF funding entity earns a percentage of the resolution proceeds as a funding commission, is IMF's current estimate of the claim's recoverable amount after considering the perceived capacity of the defendant to meet the claim. It is not necessarily the amount being claimed by the claimants, nor is it an estimate of the return to IMF if the investment is successful. EPV for an investment where the IMF funding entity earns a funding commission calculated as a multiple of capital invested shall be calculated by taking IMF's estimate of the potential income return from the investment and grossing this up to an EPV using IMF's Long-Term Conversion Rate. An EPV is subject to change over time for a number of reasons, including, but not limited to, changes in circumstances and knowledge relating to an investment, partial recovery and, where applicable, fluctuations in exchange rates between the applicable local currency and the Australian dollar.
IC	Investment Committee
ICC	International Chamber of Commerce
ICSID	International Centre for Settlement of Investment Disputes
IFRS	International Financial Reporting Standards
IRR	Internal Rate of Return
LTIP	Long Term Incentive Program
MOIC	Multiple on Invested Capital
NCI	Non-Controlling Interest
OCA	On-line Client Administration Proprietary Database
ROIC	Return on Invested Capital
SIAC	Singapore International Arbitration Centre
STIP	Short Term Incentive Program
TFR	Total Fixed Remuneration
TSR	Total Shareholder Return

Non-IFRS financial information included in this Report has been prepared in accordance with ASIC Regulatory Guidance 230 – Disclosing Non-IFRS financial information, issued December 2011. This information has not been audited or reviewed.

Disclaimer

None of the content in the IMF Bentham Limited ("IMF") Annual Report is an offer to sell, or a solicitation of an offer to buy, any securities of IMF or any other company affiliated with IMF. In addition, nothing herein should be construed as an offer to buy or sell, nor a solicitation of an offer to buy or sell, any security or other financial instrument, or to invest assets in any account managed or advised by IMF or its affiliates. This Annual Report is for the use of IMF's public shareholders and is not an offering of any IMF private fund.



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