



Burford Capital

ANNUAL REPORT 2010



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ABOUT BURFORD CAPITAL

Burford Capital Limited is a publicly listed fund that invests in commercial disputes. Using a portfolio investment approach, Burford Capital seeks to provide investors with attractive dividend returns and capital appreciation. Burford Capital is one of the largest dispute financiers in the world.

Burford Capital Limited is a closed-ended investment company registered in Guernsey and publicly traded on the London Stock Exchange's AIM Market under the ticker symbol BUR.

HIGHLIGHTS

- Burford was profitable in its first period of operation, with total comprehensive income of US\$5.2 million. Burford's cash NAV is US\$1.62 per share as of 31 December 2010.
- A dividend of 5% of IPO capital (2.22p per share) is being proposed based on a combination of actual 2010 results and visibility into early 2011 successes, delivering on Burford's undertakings to shareholders.
- The short duration portfolio has continued to perform well: measuring concluded and settled matters, it has produced a return in excess of 50% on invested capital in those matters to date.
- The jury verdict reported in July 2010 has been settled above our expectations, producing anticipated returns approaching or in excess of 200%, and other investments have had successes as well.
- Approximately US\$140 million has been committed to investments to date – more than Burford raised in its IPO – with almost US\$40 million committed since Burford's last report to investors in November 2010.
- The Investment Adviser has expanded significantly its team of market-leading professionals.
- Interest in Burford's financial solutions and demand for capital remains strong.

CHAIRMAN'S STATEMENT

"I am very pleased to announce our first set of full year results following the Company's successful flotation in October 2009 and secondary placing in November 2010. I would like to thank our investors for their ongoing support and the Board is delighted to propose a maiden dividend of 2.22p per share."

Sir Peter Middleton, Chairman of Burford Capital

I am delighted to present the first annual results for Burford Capital Limited ("Burford"). These results cover the period from inception through 31 December 2010.

Given how much has occurred in Burford's short life, it is difficult to believe that this is the Company's maiden Annual Report. Not only did we complete a successful IPO in a difficult market in the autumn of 2009, but we were grateful to investors old and new alike for their support in a very successful secondary placing at the end of last year. Burford's capital is now above US\$300 million, making it the largest fund of its kind in the world.

The early results have also been promising. We committed more than US\$100 million in capital to investments before year-end and have continued our deployment thereafter so that we now have committed approximately US\$140 million. We use a diversified portfolio approach to investing in this asset class, including staggering the expected duration of investments, and our short duration matters provided cash realisations and litigation successes. Thus, we proved the initial concept, to investors, to users of the capital and to ourselves. We have also been the beneficiary of substantial media attention, which has assisted in the recognition of the concept and the brand.

Now, with our expanded capital base, we are moving not only to deploy that capital in response to attractive opportunities, but also to continue to build Burford into the preeminent worldwide brand for commercial dispute finance. We are doing so in conjunction with the Investment Adviser, which has added substantially to its team

which now encompasses a number of very senior and experienced people drawn from preeminent US law firms and corporations.

As we deploy capital and expand, we are being very deliberate – and we are focused more on getting things right and building a long-term sustainable business than in rushing for the sake of near-term quarterly results. This is an important note to sound at this point, as the majority of litigation investments are inherently of medium duration and will produce "lumpy" results given their character, and the real value in this business comes from selecting and investing over time in a diversified portfolio of high-quality investments. We have strong corporate governance and have aligned the Adviser's economic incentives with those of the shareholders and are looking forward enthusiastically to the future of this business.

We are also very mindful of the support from our investors and our commitments to them. When we raised capital at IPO, we said that we would endeavour to pay a first year dividend that provided a 5% yield on our IPO shares – in other words, a total dividend payout of £4 million. Despite not having had cash realisations in 2010 to support entirely that result, we have visibility into early 2011 events that let us comfortably propose such a £4 million dividend payout, and we are doing so to keep faith with our shareholders.

We are looking forward to an exciting 2011 for Burford.

Sir Peter Middleton GCB
Chairman
March 2011

“We are delighted with the progress we have made over the past year. Not only have we made significant steps forward in the development of our investment portfolio, with approximately US\$140 million committed to investments to date, but we have also successfully enhanced the Investment Adviser to form a team with unparalleled litigation experience. Over the next year our focus will be on serving the widespread demand for Burford’s capital and developing our portfolio accordingly.”

Christopher Bogart, Chief Executive Officer of Burford Group

At Burford Group, we share Sir Peter’s and the directors’ gratitude to the investors in Burford Capital who have backed our efforts and enabled Burford to become a market leader. We will work hard to justify your confidence.

We have been busy at Burford Group building out the team that will take the business forward while also continuing to build the portfolio. We will talk in detail below about our investing activity.

While the financial statement information provided here is through 31 December 2010, our information about the investment portfolio is current through the date of this report and includes activity subsequent to year end.

THE MACRO ENVIRONMENT

Investing in commercial disputes takes two basic forms:

- Providing investment capital to a party in a dispute which will be used to pay the costs of dispute resolution (typically litigation or arbitration)
- Providing capital to monetise the expected outcome of a dispute before it has been concluded

Since Burford’s inception, we have found strong demand for Burford’s capital across the spectrum of commercial dispute investing. Among those seeking capital include:

- Businesses with liquidity, budgetary or resource constraints on their ability to pay the legal fees and costs of disputes in which they are involved
- Businesses with no such financial constraints but who for their own financial or accounting reasons would prefer not to use their own capital to pay the costs of disputes
- Businesses with expected recoveries from claims or disputes (sometimes before adjudication and sometimes afterwards) that would like immediate capital for business purposes instead of waiting for the expected recovery to be paid
- Law firms with expected recoveries from cases who are seeking advances based on those recoveries before they would ordinarily be paid in the normal course of litigation
- Law firms who are willing to provide clients with alternative fee arrangements but whose proposed arrangements do not go as far as the clients would like, perhaps on the terms themselves or perhaps because they do not include components such as expert witnesses

The demand has been widespread. We have seen requests for capital across the United States, from law firms and businesses of every size – including the very largest. For example, many of the “AmLaw 20” – the 20 largest US law firms – have sought capital from Burford for their clients’ cases.

We have also seen demand for capital all over the world, despite Burford making no effort to generate international demand. Burford's principal focus, however, remains US litigation and international arbitration in the near term, while also considering attractive opportunities elsewhere.

For 2011, we look forward to continuing to serve the demand for Burford's capital and view the outlook for the business as favourable, both with respect to continued deployment of capital and anticipated portfolio results.

THE INVESTMENT ADVISER

We have spent the year building a leading team at the Adviser and are very pleased with the team we have assembled.

In our view, success in this business requires a team that is able to apply litigation judgement and experience to evaluate investments and to apply investment management expertise to structure investments and a portfolio to optimise results. We believe we have such a team.

Collectively, the Adviser's full-time professionals bring more than 125 years of litigation and litigation management experience to bear, with billions of dollars of trial experience and billions more of settlement experience. That level of experience is unparalleled in our business. The biographies of our senior team are provided on the Adviser's website, at www.burfordgroup Ltd.com.

THE INVESTMENT PORTFOLIO

We are advocates of a portfolio approach to litigation investing. Not only do we believe that is the right way to approach this asset class as an investment matter, but the fact that the underlying assets here are litigation claims makes the preservation of confidentiality essential and the provision of detailed information about individual claims untenable.

We fully realize, however, that presenting information solely on a portfolio basis – particularly in the early years of Burford's life, before the portfolio is producing robust and dependable returns – can be frustrating for investors and can appear opaque. Thus, we have been continually trying to refine our public presentation of portfolio data to provide investors with enhanced visibility.

Investment performance

Until such time as the portfolio is sufficiently mature to permit meaningful discussion of portfolio-wide metrics, we will offer some comments about specific investment performance as a means of informing investors about the progress of the portfolio and to show the capability of the portfolio to produce results.

- Since our last report to investors, another matter has been resolved at trial in our favour. If the trial result is paid in full it would represent at least a US\$5 million profit – a return of at least 200% – for Burford.
- We previously announced our participation in a matter that produced a substantial jury verdict in July 2010. That matter has now been settled. The terms of the settlement are confidential but we can report that Burford's share of the settlement would translate into anticipated returns approaching or in excess of 200%.
- We previously reported successes in two other matters – the complete conclusion of one and success on appeal in another. Both matters provide impressive returns.
- A substantial judgement has also been entered in one of Burford's special situations matters, although the matter remains at an early and uncertain stage and it would be premature to forecast a path to recovery or a projected return.

It is too early for us to discuss portfolio-wide returns but we can begin to speak about returns based on smaller pools of capital:

- If we measure our return based only on cash already in hand from cases that have generated cash, we have generated returns in excess of 20% on the capital invested in those cases
- If we include concluded but unpaid settlements, our returns are in excess of a 50% return on the capital invested
- Our returns would be higher still were we to include those matters in which substantial progress has occurred but in which no settlement or final judgement has yet entered

Not every investment will meet or exceed expectations. The model we use is very similar to that employed in venture capital, where poor results are expected from some investments and are balanced against high returns from other investments, in an effort to achieve desirable portfolio-wide returns. There is a tendency for there to be undue focus on underperforming investments, but we believe that such focus is misplaced: we regularly expect to have investments that disappoint, just as we regularly expect surprises to the upside as well. The very best trial lawyers will acknowledge that luck and circumstance play a role here, and that every lawyer wins cases that should have been lost, and vice versa. If we shy away from risk for fear of loss, as some litigation investors do, we will not maximise the potential performance of this portfolio.

To date, our experience has been just what we expected it would be. We have had high returns in some cases and the expectation of high returns in others that have experienced meaningful progress towards resolution, and we have also had one case conclude and not produce the results we would have expected,

and another case is likely to disappoint as well. As to the case that resolved below expectations, the business pursuing the claim elected to settle the claim for less than we believed it was worth, with the result that we did not make the profit we were expecting, although we did recover our investment. (This matter does have the side benefits of showing that our model of protecting our investment capital works in circumstances other than a total loss and of demonstrating that we really do not take control of investment matters but rather that such control remains in the business' hands, which is an important legal ethics issue.) The other potentially disappointing matter is not concluded but it has every indication of being one of those cases that should have been won but will not be; it represents less than 1% of our capital.

We expect more of our core matters – some of which have already been reclassified into the short duration portfolio (see below) – to generate settlements or adjudicative activity in 2011.

The portfolio

Since our last report to investors in November 2010, at which point Burford had committed US\$102 million to investments, Burford has closed seven new investments amounting to a further US\$37 million of commitments, for total commitments to date of approximately US\$140 million – well in excess of the capital raised at IPO.

Burford's portfolio is evolving, as one would expect given 16 months of investing activity. Thus, two investments are fully concluded, two more are partially concluded and a further three have been reclassified to the short duration portfolio. Burford continues to have a well-diversified investment portfolio, with substantial diversity across a number of metrics that are regularly reviewed and monitored by the Adviser and the directors.

We provide below some statistics about the current portfolio:

- Burford has made 25 investments to date, several of which are comprised of multiple cases within a single investment for greater diversification
- Those 25 investments represent total capital commitments of approximately US\$140 million
- As noted previously, two of those investments, accounting for US\$11 million of commitments, are fully concluded, and several others are in various stages of resolution
- Presently, the short duration portfolio, including matters reclassified from the core portfolio as their expected resolution approaches, is made up of eight investments with total commitments of US\$36 million (not including further increases in non-cash fair value reported in the accounts)
- The core portfolio is presently made up of 13 investments with total commitments of more than US\$75 million
- The special situations portfolio is presently made up of two investments with total commitments of US\$19 million; a US\$4 million co-investment reduces Burford's current net commitment level to US\$15 million

Accounting comments

In our interim results in mid-2010, we provided some comments about the manner in which Burford would account for its investments and produce financial statements. Those comments contain important information about deciphering the accounts and we have elected to repeat them here for the guidance

of investors when considering our maiden set of fully audited accounts, together with some further elaborations.

Burford Capital has a substantial amount of cash available to it from its two capital raises. As Burford Capital makes investment commitments, its cash available for investment declines, but because some investments are funded over time (while others are funded in full at closing), there will continue to be a gap between committed cash and invested cash, even when the capital raising proceeds are fully committed. Burford Capital has appointed a cash manager to manage its cash balances under the oversight of the Investment Adviser and the directors. The cash management investment assets purchased by the cash manager, such as government bonds or commercial paper, are classified as "financial assets designated at fair value through profit or loss" in the accounts, are marked to market at the end of each period, and the realised and unrealised gain thereon is taken into current income as "net gains on investments at fair value through profit or loss". The cash manager is instructed to act in accordance with the Admission Document's policy on cash management, requiring principal-protective strategies.

When Burford Capital makes an investment in a commercial dispute, the cash actually paid out in connection with the investment is recorded on the balance sheet as an "available-for-sale financial asset". To the extent that Burford Capital's investment commitment exceeds the amount of cash actually disbursed, only the latter amount is generally shown on the balance sheet, and the difference between the former and latter amounts is shown as a commitment in the notes to the financial statements.

Upon initial investment, the balance sheet shows “available-for-sale financial assets” at the amount of cash disbursed (including diligence and closing costs). Then, at the end of each financial period, the fair value (i.e., the amount we believe a third party would pay to assume the investment position) of the claims investment portfolio is determined by the Investment Adviser and the directors; the principal basis for a change in fair value is the occurrence of an identifiable event in the process of pursuing the claim, such as a successful adjudication result, and we do not recommend changes in fair value for minor developments in a matter or changes in sentiment.

The matter then becomes quite tricky.

- Unrealised (i.e., non-cash) increases in fair value are accounted for as “other comprehensive income” and are “below the line” in the sense that they do not contribute to reported profits.
- When an investment as to which an unrealised fair value increase has previously occurred then generates a cash realisation, the entire gain is taken into income “above the line” as “net gains on available-for-sale investments” and the prior unrealised contribution to other comprehensive income is reversed (and the available-for-sale reserve is similarly reduced while the revenue reserve is increased). Similarly, if a cash realisation occurs in an investment as to which there has not previously been a fair value adjustment, the associated realised gain is taken into income.
- The same process applies, albeit in reverse, for non-cash decreases in fair value that are not significant and short-term.

Although this current iteration of the approach to accounting for commercial dispute claims under IFRS is somewhat more appropriate than the earlier accounting approach described in the Admission Document, we still believe strongly that litigation and arbitration returns are inherently speculative and are most appropriately accounted for by holding investments at cost until a cash realisation has occurred, as opposed to taking unrealised gains into income before a litigation resolution has occurred. Moreover, the appropriate metric, in our view, for Burford Capital’s share price measurement is its relationship to net asset value based solely on actual cash realisations. Thus, for the guidance of investors, we publish a cash NAV figure alongside the requisite IFRS-based NAV, and we encourage investors to consider the cash NAV as the appropriate valuation metric.

Again, we thank investors for their confidence and look forward to justifying it in the year ahead.

Christopher Bogart
Chief Executive Officer

Jonathan Molot
Chief Investment Officer

22 March 2011

DIRECTORS' REPORT

The directors present their Annual Report and the audited consolidated financial statements of the Group for the period ended 31 December 2010.

BUSINESS ACTIVITIES

The Company is an authorised closed-ended investment company incorporated under the Companies (Guernsey) Law, 2008. Shares in the Company were admitted to trading on AIM, a market operated by the London Stock Exchange, on 21 October 2009. Burford Capital Limited (the "Company") and its subsidiaries (the "Subsidiaries") (together the "Group") invest in commercial disputes, with an initial focus on litigation in the United States as well as international arbitration matters (collectively, investments in "claims").

RESULTS AND DIVIDEND

The results for the period are set out in the Consolidated Statement of Comprehensive Income on page 11.

The directors propose a dividend of 2.22p per share based on the Company's performance in 2010 and on known results in the year to date. Assuming shareholder approval, that dividend will be payable on 17 May 2011 to shareholders on the register as at close of business on 8 April 2011.

DIRECTORS

The directors of the Company who served during the period and to date are as stated on page 32.

DIRECTORS' INTERESTS

	Number of shares	% Holding
Sir Peter Middleton	60,000	0.03
Hugh Steven Wilson	100,000	0.06
David Charles Lowe	100,000	0.06

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO THE GROUP FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable Guernsey law and those International Financial Reporting Standards as adopted by the European Union.

Under Company Law the directors must not approve the Group financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Group for that period. In preparing the Group financial statements the directors are required to:

- Select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- State that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- Make judgements and estimates that are reasonable and prudent.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with The Companies (Guernsey) Law, 2008 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DISCLOSURE OF INFORMATION TO AUDITORS

So far as each of the directors is aware, there is no relevant audit information of which the Company's auditor is unaware, and each has taken all the steps he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

AUDITORS

Ernst & Young LLP have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the Annual General Meeting.

Charles Parkinson
Director

22 March 2011

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF BURFORD CAPITAL LIMITED

We have audited the consolidated financial statements of Burford Capital Limited for the period ended 31 December 2010 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards.

This report is made solely to the Company's members, as a body, in accordance with Section 262 of The Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Statement of Directors' Responsibilities on page 8 the Company's directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the consolidated financial statements sufficient to give reasonable assurance that the consolidated

financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances, and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the consolidated financial statements.

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

In our opinion the consolidated financial statements:

- give a true and fair view of the state of affairs of the Group as at 31 December 2010 and of its profit and comprehensive income for the period then ended;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- have been prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where The Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the consolidated financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP
Guernsey, Channel Islands
22 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period ended 31 December 2010

11 September 2009
to 31 December 2010

Notes US\$'000

INCOME		
Net interest income		75
Net gains on investments at fair value through profit or loss	6	1,968
Net gains on available-for-sale investments	7	5,138
Net foreign exchange gain		197
TOTAL INCOME		7,378
Operating expenses	4	(5,528)
PROFIT FOR THE PERIOD BEFORE TAXATION		1,850
Taxation	5	(357)
PROFIT FOR THE PERIOD AFTER TAXATION		1,493
OTHER COMPREHENSIVE INCOME		
Fair value change in available for sale financial assets	7	3,757
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		5,250
		Cents
BASIC AND DILUTED PROFIT PER ORDINARY SHARE	11	1.92
BASIC AND DILUTED COMPREHENSIVE INCOME PER ORDINARY SHARE	11	6.74

The notes on pages 15 to 31 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2010

	Notes	31 December 2010 US\$'000
ASSETS		
NON-CURRENT ASSETS		
Available-for-sale financial assets	7	61,819
		61,819
CURRENT ASSETS		
Financial assets designated at fair value through profit or loss	6	230,027
Receivables and prepayments	8	674
Cash and cash equivalents		8,997
		239,698
TOTAL ASSETS		301,517
LIABILITIES		
CURRENT LIABILITIES		
Payables	9	5,690
TOTAL LIABILITIES		5,690
TOTAL NET ASSETS		295,827
REPRESENTED BY:		
Share capital	10	290,577
Revenue reserve		1,493
Other reserve		3,757
TOTAL EQUITY SHAREHOLDERS' FUNDS		295,827
		Cents
NET ASSET VALUE PER SHARE		
Net asset value per ordinary share (computed pursuant to IFRS)	11	164.35
"Cash" net asset value per ordinary share	11	162.00

The notes on pages 15 to 31 form an integral part of these consolidated financial statements.

The financial statements on pages 11 to 31 were approved by the Board of Directors on 22 March 2011 and were signed on its behalf by:

Charles Parkinson
Director

22 March 2011

CONSOLIDATED STATEMENT OF CASH FLOWS

for the period ended 31 December 2010

11 September 2009
to 31 December 2010
Notes US\$'000

CASH FLOWS FROM OPERATING ACTIVITIES

Profit for the period before tax		1,850
ADJUSTED FOR:		
Fair value change on financial assets		(61)
Realised losses on disposal of assets designated at fair value through profit or loss		160
Realised gains on disposal of available-for-sale investments		(5,138)
Effect of exchange rate changes on cash and cash equivalents		(195)
		(3,384)

CHANGES IN WORKING CAPITAL

Increase in receivables		(674)
Increase in payables		4,451
Purchase of interest bearing debt securities (net of sales)	6	(230,126)
Purchase of investments in claims		(68,257)
Proceeds from investments in claims		16,215

NET CASH OUTFLOW FROM OPERATING ACTIVITIES (278,391)

CASH FLOWS FROM FINANCING ACTIVITIES

Issue of shares		303,221
Issue expenses		(12,644)

NET CASH FLOW FROM FINANCING ACTIVITIES 290,577

NET INCREASE IN CASH AND CASH EQUIVALENTS 8,802

RECONCILIATION OF NET CASH FLOW TO MOVEMENTS IN CASH AND CASH EQUIVALENTS

Cash and cash equivalents at beginning of period		–
Increase in cash and cash equivalents		8,802
Effect of exchange rate changes on cash and cash equivalents		195

CASH AND CASH EQUIVALENTS AT END OF PERIOD 8,997

The notes on pages 15 to 31 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from 11 September 2009 to 31 December 2010

	Share capital US\$'000	Share premium US\$'000	Revenue reserve US\$'000	Available- for-sale reserve US\$'000	Total US\$'000
Issue of shares	–	303,221	–	–	303,221
Issue expenses	–	(12,644)	–	–	(12,644)
Profit for the period	–	–	1,493	–	1,493
Other comprehensive income	–	–	–	3,757	3,757
BALANCE AS AT 31 DECEMBER 2010	–	290,577	1,493	3,757	295,827

The notes on pages 15 to 31 form an integral part of these consolidated financial statements.

1 | LEGAL FORM AND PRINCIPAL ACTIVITY

Burford Capital Limited (the “Company”) and its subsidiaries (the “Subsidiaries”) (together the “Group”) invest in commercial disputes, with an initial focus on litigation in the United States as well as international arbitration matters (collectively, investments in “claims”). The Company is a closed-ended investment company which was incorporated under The Companies (Guernsey) Law, 2008 (the “Law”) on 11 September 2009. Shares in the Company were admitted to trading on AIM, a market operated by the London Stock Exchange, on 21 October 2009. These financial statements cover the period from incorporation to 31 December 2010.

The Company has no employees.

2 | PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

BASIS OF ACCOUNTING

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Board (IASB). IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets that are not apparent from other sources. Actual results may differ from these estimates. The consolidated financial statements are presented in United States Dollars and are rounded to the nearest US\$’000 unless otherwise indicated.

SIGNIFICANT ESTIMATES – VALUATION OF INVESTMENTS IN CLAIMS

The most significant estimates relate to the valuation of investments in claims which are determined by the Investment Adviser and approved by the Board.

Fair values are determined on case specifics and will typically change upon a claim progressing through a key stage in the litigation or arbitration process in a manner that, in the Investment Adviser’s and Board’s judgement, would result in a third party being prepared to pay an amount different from the original sum invested for the Company’s rights in connection with the claim. Positive, material progression of a case will give rise to an increase in fair value whilst adverse outcomes give rise to a reduction. The quantum of change depends on the potential future stages of case progression. The consequent effect when an adjustment is made is that the fair value of a case with few remaining stages is adjusted closer to its predicted final outcome than one with many remaining stages.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 | PRINCIPAL ACCOUNTING POLICIES continued

In litigation matters, before a judgement is entered following trial or other adjudication, the key stages of any matter and their impact on fair value is substantially case specific but may include the motion to dismiss and the summary judgement stages. Following adjudication, appeals proceedings provide further opportunities to re-assess the fair value of an investment. Arbitration matters tend to have fewer stages at which a re-assessment of fair value is appropriate, often being limited to the issuance of an award by the tribunal and any permissible challenges thereafter.

The estimation of fair value is inherently uncertain. Awards and settlements are hard to predict and often have a wide range of possible outcomes. Furthermore, there is much unpredictability in the actions of courts, litigants and defendants because of the large number of variables involved and consequent difficulty of predictive analysis. In addition there is little activity in transacting investments in claims, hence little relevant data for benchmarking the effect of case progression on fair value.

BASIS OF PREPARATION

The financial statements have been prepared on a going concern basis under the historical cost convention adjusted to take account of the revaluation of the Group's investments to fair value.

IASB and IFRIC have issued the following standards and interpretations which are not yet effective and have not been adopted:

		Effective date
IAS 32	Classification of Rights Issues	1 February 2010
IFRS 9	Financial Instruments: Classification and Measurement	1 January 2013
IAS 24	Related Party Disclosures	1 January 2011
IFRIC 14	Prepayments of a Minimum Funding Requirement	1 January 2011
IFRIC 19	Extinguishing Financial Liability with Equity Instruments	1 July 2010
IFRS 1	Limited Exemption from Complying with IFRS 7 disclosure	1 July 2010

IFRS 9 removes the available-for-sale classification. It is anticipated that the Group's investments in claims will fall within the fair value at profit or loss category. Consequently transaction costs will be expensed rather than included in the cost of the investment. No formal analysis has been completed on the impact of the adoption of any of the other standards and interpretations on the Group's financial statements in the period of initial application.

BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of Burford Capital Limited and its Subsidiaries. All the Subsidiaries are consolidated in full from the date of acquisition.

All intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated in full.

The Subsidiaries' accounting policies and financial year end are consistent with those of the Company.

2 | PRINCIPAL ACCOUNTING POLICIES continued

GEOGRAPHICAL AND SEGMENT REPORTING

For management purposes, the Group is organised into one business segment, which invests in claims. All of the Group's activities are interrelated and each activity is dependent on the others. Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the Group as a whole. The Board consider that there is only one geographical segment, this being a worldwide segment.

FINANCIAL INSTRUMENTS

The Company classifies its financial assets into the categories below in accordance with IAS 39: "Financial Instruments: Recognition and Measurement"

Financial assets designated at fair value through profit or loss

Investments for the purpose of cash management, acquired to generate returns on cash balances awaiting subsequent investment in claims, and which are managed and evaluated on a fair value basis, are designated at fair value through profit or loss at the time of acquisition. Their initial fair value is the cost incurred at their acquisition. Transaction costs incurred are expensed in the Consolidated Statement of Comprehensive Income.

Recognition, derecognition and measurement

Financial assets designated at fair value through profit or loss are recorded on the trade date. Financial assets at fair value through profit or loss held at the Balance Sheet date are valued at bid price.

Movements in the difference between cost and valuation and realised gains and losses on disposal or maturity of investments, including interest income, are reflected in Income in the Consolidated Statement of Comprehensive Income.

Available-for-sale financial assets

Unless otherwise determined by the Company, investments in claims are categorised as available-for-sale financial assets. Investments in claims are initially measured as the cash sum invested in connection with a claim. Attributable due diligence and closing costs are included in the cost of the investment.

Recognition, derecognition and measurement

Purchases and sales of available-for-sale financial assets are generally recognised on the trade date, being the date on which the Group disburses funds in connection with the investment in a claim (or becomes contractually committed to pay a fixed amount on a certain date, if earlier). In some cases multiple disbursements occur over time. The investments in claims are measured as the sum invested in connection with a claim including attributable due diligence and closing costs. Sales of available for sale financial assets are generally recognised on the date on which the Group receives, or becomes contractually entitled to receive, cash or marketable securities in connection with the resolution of a claim. Proceeds from partial settlements are allocated between cost and gain based on the cost attributable to the party settling. Any gain or loss is recognised in the Consolidated Statement of Comprehensive Income.

2 | PRINCIPAL ACCOUNTING POLICIES continued

Subsequent to initial measurement and prior to actual realisation, investments in claims are measured at fair value.

Increases and insignificant short-term decreases in fair value related to each claim are taken to the available-for-sale reserve in equity and other comprehensive income. When actual gains or losses with respect to each claim occur, they are recorded in income and reversed out of other comprehensive income.

Fair value hierarchy of financial instruments

The financial assets measured at fair value are disclosed using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurements, as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Those involving inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 – Those inputs for the asset or liability that are not based on observable market data (unobservable inputs).

DUE DILIGENCE COSTS

Due diligence costs and closing costs attributable to investments in claims are included in the cost of the investment. Due diligence costs attributable to potential investments that the Company has decided not to pursue have been expensed in the Consolidated Statement of Comprehensive Income. Due diligence costs attributable to potential investments that remain under consideration at period end have been capitalised and are included within receivables and prepayments.

FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Company as determined in accordance with IFRS is the United States Dollar ("US Dollar") because this is the currency that best reflects the economic substance of the underlying events and circumstances of the Company and its Subsidiaries. The consolidated financial statements are presented in US Dollars, the presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income as part of the profit or loss for the period.

BANK INTEREST INCOME

Bank interest income is recognised on an accruals basis.

2 | PRINCIPAL ACCOUNTING POLICIES continued

NET GAINS ON INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Listed interest-bearing debt securities are valued at their quoted bid price. Movements in fair value are included within net gains on investments at fair value through profit or loss. Interest earned on these investments is recognised on an accruals basis. Listed corporate bond funds are valued at their quoted bid price. Movements in fair value are included within net gains on investments at fair value through profit or loss in the Consolidated Statement of Comprehensive Income.

EXPENSES

All expenses are accounted for on an accruals basis.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are defined as cash in hand, demand deposits, and highly liquid investments readily convertible within three months or less to known amounts of cash and subject to insignificant risk of changes in value. Cash and cash equivalents at the balance sheet date comprised amounts held on current or overnight deposit accounts.

TAXATION

The Company has obtained exempt company status in Guernsey. The Company is, therefore, only liable to an annual Guernsey exemption fee of £600.

To the extent that any foreign withholding taxes or any form of profits taxes become payable these will be accrued on the basis of the event that creates the liability to taxation.

DIVIDENDS

Dividends paid during the period are dealt with in the statement of changes in equity. Dividends proposed but not approved by Shareholders are disclosed in the notes as commitments.

RECEIVABLES AND PREPAYMENTS

Receivables and prepayments are recognised at nominal value, less provision for impairments for non-recoverable amounts. They do not carry any interest.

PAYABLES

Payables are recognised at nominal value and are non-interest bearing.

CAPITAL AND RESERVES

Ordinary shares are classified as equity in share capital. Incremental costs directly attributable to the issue of new shares are deducted from equity in share capital.

FORWARD FOREIGN EXCHANGE CONTRACTS

Forward foreign exchange contracts are valued by reference to similar contracts settled at the balance sheet date. Fluctuations in the fair value of open forward foreign exchange contracts are recorded as unrealised gains or losses. Upon the closing of a contract the gain or loss is recorded as a realised gain or loss. Realised and unrealised gains and losses are disclosed as foreign exchange gain or loss in the Consolidated Statement of Comprehensive Income.

3 | MATERIAL AGREEMENTS

A) INVESTMENT ADVISER'S FEE

Under the terms of an Investment Adviser Agreement (the "Investment Adviser Agreement") dated 16 October 2009, as amended, the Company appointed Burford Group Limited (the "Investment Adviser") to provide advisory services to the Company. The Investment Adviser is entitled to be paid a fee based on the adjusted net asset value of the Company, payable quarterly in advance at an annual rate of 2%, provided, however, that the adjusted net asset value for the period from Admission through 9 December 2010 shall exclude the impact of the Placing. The adjusted net asset value of the Company means the net asset value ("NAV") at the relevant time, after accruing for the annual advisory fee but not taking into account any liability of the Company for accrued performance fees and after:

- (i) deducting any unrealised gains on investments; and
- (ii) adding the amount of any write-downs with respect to investments which have not been written off in full.

B) PERFORMANCE FEE

Under the terms of the Investment Adviser Agreement the Investment Adviser is entitled to be paid a performance fee on the following basis:

- i) If the Cash NAV on any Calculation Date represents at least a cumulative non-compounded 8% return from Admission (computed to take effect of the Placing Proceeds beginning on 10 December 2010) (the "Preferred Return") and exceeds the Cash NAV on the previous occasion on which a performance fee was payable ("High Water Mark"), the Investment Adviser is entitled to a performance fee equal to 20% of the increase in Cash NAV since the last High Water Mark, payable only to the extent it would not reduce the return below the Preferred Return.
- ii) 30% of the performance fee paid for any accounting period (the "Provisional Amount") shall be subject to clawback. If the Cash NAV on the third anniversary of the end of the relevant accounting period (the "Testing Date") does not represent at least the Preferred Return, that period's Provisional Amount (but no more) shall be repaid to the extent necessary to restore the Fund to the Preferred Return as at the Testing Date.
- iii) If any shares are issued by the Company after the date of admission, the basis of calculation of the performance fee shall be adjusted in a fair and equitable manner as agreed between the parties or, in default of such agreement, determined in accordance with the dispute resolution procedures.
- iv) Subject to paragraph (v) below, 30% of the performance fee paid for any accounting period shall be applied in subscribing for ordinary shares in the Company at the higher of (1) Cash NAV on the Calculation Date and (2) provided at least 300,000 shares are traded during the period, the average mid-market price of the Company's ordinary shares over the 60 calendar days following the Calculation Date. The Investment Adviser shall be entitled to payment of an amount equal to the dividends which would have been payable on such shares had they

3 | MATERIAL AGREEMENTS continued

B) PERFORMANCE FEE continued

been issued on the Calculation Date, as and when such dividends are paid. Such shares shall not be issued to the Investment Adviser until the determination of whether a repayment of all or part of the relevant Provisional Amount is due under paragraph (ii) above. If the Investment Adviser fails to make any repayment due within the required period, the Investment Adviser shall forfeit its right to such number of the shares as will satisfy the repayment obligation.

- v) Shares shall not be issued to the Investment Adviser under paragraph (iv) above if and to the extent their acquisition by the Investment Adviser and persons acting in concert with it (for the purpose of the City Code on Takeovers and Mergers) to 30% or more of the voting rights of the Company and such entitlement shall instead be payable in cash.

“Calculation Date” means the last day of any annual accounting period of the Company or the date upon which the Investment Adviser Agreement terminates.

“Cash NAV” means on any date an amount equal to the sum of:

- (a) the Net Proceeds and, only from 10 December 2010, the Placing Proceeds, subject to (vi) below; plus
- (b) the cash amount of any gains and other income received by the Company; less
- (c) the cash amount invested in investments written off; less
- (d) all costs and expenses incurred by the Company (which, for the avoidance of doubt, shall not include any dividends paid to shareholders of the Company).

“Net Proceeds” means the proceeds of the Placing less the cost of formation of the Company, the Placing and Admission.

- vi) There shall be added to the Net Proceeds on the Admission Date and on the day following each of the following five Calculation Dates one-sixth of the costs borne by the Company in relation to its establishment, the Placing and Admission, and there shall be added to the Placing Proceeds on 10 December 2010 and on the day following each of the following five Calculation Dates one-sixth of the costs borne by the Company in relation to the Placing.

C) ADMINISTRATION FEE

Under the terms of an administration agreement dated 15 October 2009 between the Company and International Administration (Guernsey) Limited (the “Administrator”), the Administrator is entitled to receive an annual fee of £100,000 (US\$155,910) plus further fees for the administration of Subsidiaries, payable quarterly in advance.

D) CASH MANAGEMENT ARRANGEMENTS

The Company retained Potomac River Capital LLC (“Potomac”) to provide treasury management services and to perform investment services with respect to the Company’s surplus cash pending investment in claims. The Company paid Potomac approximately US\$285,000 for those services in the period ended 31 December 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 | TOTAL OPERATING EXPENSES

	31 December 2010 US\$'000
Administration fees	220
Audit fees	140
Custodian fees	53
Directors' remuneration	373
General expenses	682
Insurance	145
Investment advisory fee	3,197
Investment due diligence expenses	69
Legal and other professional expenses	649
	<hr/> 5,528

Directors' remuneration comprises:

	31 December 2010 US\$'000
Sir Peter Middleton	139
Hugh Steven Wilson	119
Charles Nigel Kennedy Parkinson	59
David Charles Lowe	56
	<hr/> 373

5 | TAXATION

The Company is exempt from tax in Guernsey. In certain cases a subsidiary of the Company may elect to make use of investment structures that are subject to income tax in a country related to the investment. One such investment was concluded in the period ended 31 December 2010 and US\$357,000 of income tax is expected to be paid with respect thereto.

6 | FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2010 US\$'000
Listed interest-bearing debt securities – fixed	206,101
Listed interest-bearing debt securities – floating	8,487
Listed corporate bond fund	15,439
	230,027

RECONCILIATION OF MOVEMENTS:

	31 December 2010 US\$'000
Purchases	1,041,658
Proceeds on disposal	(811,532)
Realised losses on disposal	(160)
Fair value change at period end	61
	230,027

During the period ended 31 December 2010, the bulk of the Company's investments in financial assets designated at fair value through profit or loss – cash management investments – were in commercial paper or government or corporate bonds. From time to time the Company purchased securities at prices in excess of their face value if doing so provided interest rates above current market rates; those purchases produce realised losses on disposal in addition to interest income disclosed separately.

NET CHANGES IN FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS:

	31 December 2010 US\$'000
Realised (including interest income)	2,192
Unrealised	61
Cash management fees	(285)
TOTAL GAINS	1,968

Fair value measurements are based on level 1 inputs of the three-level hierarchy system for US\$77,920,000 of the fair value through profit and loss investments which indicates inputs based on quoted prices in active markets for identical assets. For US\$152,107,000 of the fair value through profit and loss investments (including commercial paper) fair value measurements are based on level 2 inputs of the three-level hierarchy system which indicates inputs other than quoted prices included in level 1 that are observable, either directly (as prices) or indirectly (derived from prices).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 | AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Company structures its investment portfolio to include a mixture of shorter duration investments intended to produce short-term returns; medium duration or “core” investments and “special situations” investments with higher risk and longer duration designed to add noteworthy returns to the portfolio over time. The Company classifies its available-for-sale financial assets into tranches consistent with the foregoing portfolio structure as outlined below and reclassifies as appropriate, especially as “core” investments approach realisation and become more appropriately classified as short duration investments.

	Additions US\$'000	Realisations US\$'000	Net realised gain for period US\$'000	Fair value movement US\$'000	Balance at fair value as at 31 December 2010 US\$'000
Short duration investments	45,810	(16,632)	5,138	3,757	38,073
Core investments	15,662	–	–	–	15,662
Special situations investments	8,084	–	–	–	8,084
TOTAL INVESTMENT IN CLAIMS	69,556	(16,632)	5,138	3,757	61,819

Fair value measurements are based on level 3 inputs of the three-level hierarchy system which indicates inputs for the assets that are not based on observable market data (unobservable inputs).

8 | RECEIVABLES AND PREPAYMENTS

	31 December 2010 US\$'000
Prepayments accrued	135
Accrued bond interest	539
	674

9 | PAYABLES

31 December 2010
US\$'000

Audit fee payable	53
General expenses payable	119
Investment advisory fee payable	279
Investment costs payable	882
Taxation	357
Investment sub-participation in advance	4,000
	5,690

The investment sub-participation in advance relates to amounts received from sub-participants pending investment in cases and re-payable to them in the event the investment does not proceed.

10 | SHARE CAPITAL

31 December 2010
US\$'000

AUTHORISED SHARE CAPITAL

Unlimited ordinary shares of no par value	–
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ISSUED SHARE CAPITAL

Number

ORDINARY SHARES OF NO PAR VALUE

Issued during the period	180,000,001
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80,000,000 ordinary shares were issued at 100p each on 11 September 2009. A further 100,000,000 ordinary shares were issued at 110p each on 9 December 2010.

31 December 2010
US\$'000

At 11 September 2009	–
Proceeds arising on issue of ordinary shares on 11 September 2009	–
Proceeds arising on issue of ordinary shares on 21 October 2009	130,736
Allocation of issue costs	(6,885)
Proceeds arising on issue of ordinary shares on 9 December 2010	172,485
Allocation of issue costs	(5,759)
Balance at period end	290,577

The Company has authority to make market purchases of up to 15% of its own issued ordinary shares, expiring at the conclusion of the 2011 AGM. The Board intends to exercise the authority according to circumstances and regulatory requirements at the time if and when the ordinary shares have traded on AIM for a period of 20 consecutive days or more at a price below 90% of the last published Cash NAV.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 | PROFIT PER ORDINARY SHARE, COMPREHENSIVE INCOME PER ORDINARY SHARE AND NET ASSET VALUE PER ORDINARY SHARE

Profit per ordinary share is calculated based on profit for the period of US\$1,493,000 and the weighted average number of ordinary shares in issue from incorporation of 77,899,161. Comprehensive income per ordinary share is calculated based on comprehensive income for the period of US\$5,250,000, and the weighted average number of ordinary shares in issue from incorporation of 77,899,161. Profit for the period includes interest received of US\$1,877,000.

Net asset value per ordinary share was calculated by dividing the total assets less total liabilities of the Company by the number of ordinary shares then in issue of 180,000,001.

Cash net asset value per ordinary share was calculated by dividing "Cash NAV" as defined in note 3 (b)(v) by the number of ordinary shares then in issue of 180,000,001. Cash NAV is calculated as US\$291,589,480.

The net asset value reconciles to the Cash NAV as follows:

	31 December 2010 US\$'000
Net asset value per financial statements	295,827
Payables	451
Receivables	(674)
Unrealised gain on fair value through profit and loss investments	(61)
Net unrealised gain on available-for-sale investments	(3,757)
Foreign exchange gain	(197)
Cash NAV	291,589

12 | FINANCIAL INSTRUMENTS

MARKET AND INVESTMENT RISK

The Company is exposed to market and investment risk with respect to both its financial assets designated at fair value through profit and loss (i.e., cash management assets) and its available-for-sale financial assets (i.e., its investments in claims). The maximum risk equals the fair value of all financial instruments.

With respect to the Company's cash management assets, including interest-bearing securities and corporate bonds, market risk is the risk that the fair value of financial instruments will fluctuate due to changes in market variables such as interest rates, credit risk, security and bond prices and foreign exchange rates. Investments in cash management assets are made at the recommendation of Potomac in line with pre-agreed parameters and subject to Board oversight. At 31 December 2010, should the prices of the investments in interest-bearing securities and corporate bonds have been 10% higher or lower while all other variables remained constant, the Company's income and net assets would have increased and decreased respectively by US\$23,003,000.

With respect to the Company's investments in claims, market and investment risk is the risk that the fair value of the investments (which tend to be of durations in excess of one year) will fluctuate substantially during the life of the investment and indeed that the investments may ultimately result in widely varying ranges of outcomes from a total loss to a substantial gain. The Company only invests in claims following a due diligence process by the investment adviser and approval by the investment committee of the Board. However, investing in claims is high risk and there can be no assurance of any particular recovery in any individual investment. Following investment, the Company engages in a semi-annual review of each investment's fair value. At 31 December 2010, should the value of investments in claims been 10% higher or lower than provided for in the Company's fair value estimation, while all other variables remained constant, the Company's income and net assets would have increased and decreased respectively by US\$6,179,000.

Whilst the potential range of outcomes for the investments in claims is wide; the Company's fair value estimation is its best assessment of the current fair value of each investment. That estimate is inherently subjective being based largely on an assessment of how case-specific events have changed the possible outcomes of the case and their relative probabilities and hence the extent to which the fair value has altered. The aggregate of the fair values selected falls within a wide range of reasonably possible estimates. In the directors' opinion there is no useful alternative valuation that would better quantify the market risk inherent in the portfolio and there are no inputs or variables to which the value of the claims investments are correlated.

12 | FINANCIAL INSTRUMENTS continued

LIQUIDITY RISK

The Company is exposed to liquidity risk. The Company requires funds for ongoing settlement of operating liabilities and to meet investment commitments (see note 12). The Company's investments in claims (as described in note 2 above) typically require significant capital contributions with little or no immediate return and no guarantee of return or repayment. In order to manage liquidity risk the Company invests in claims with a range of anticipated durations and invests in cash management assets which can be readily realised to meet those liabilities and commitments.

CREDIT RISK

The Company is exposed to credit risk in various investment structures (see note 2 above), most of which involve investing sums recoverable only out of successful claim investments with a concomitant risk of loss of investment cost. On becoming contractually entitled to claim proceeds, depending on the structure of the particular investment, the Company could be a creditor of, and subject to credit risk from, the claimant, the defendant or both. Moreover, the Company may be indirectly subject to credit risk to the extent a defendant does not pay a claimant immediately notwithstanding successful adjudication of a claim in the claimant's favour.

The Company is also exposed to credit risk in respect of the investments at fair value through profit or loss and cash and cash equivalents. The credit risk of the cash and cash equivalents is mitigated as all cash is placed with reputable banks with a sound credit rating (A-1+). The credit risk of the financial assets at fair value through profit or loss is mitigated by investment restrictions as regards security type, geographical origin and acceptable counterparties; those investments are entirely or largely made in investment securities of investment grade quality, such as commercial paper with an A-1 or P-1 rating or corporate bonds with a rating of A or better. There are no significant concentrations of credit risk. At the year end the Company is invested in 28 securities with 20 different counterparties. Management of the fair value through profit or loss portfolio is outsourced under clear parameters with Board oversight and the assets are held with a third-party custodian. The maximum credit risk exposure represented by cash, cash equivalents and investments is as stated on the Statement of Financial Position.

12| FINANCIAL INSTRUMENTS continued

CURRENCY RISK

The Company holds assets denominated in currencies other than US Dollars, the functional currency. It is therefore exposed to currency risk, as values of the assets denominated in other currencies will fluctuate due to changes in exchange rates. Dividends will be paid in Sterling. The Company may use forward exchange contracts from time to time to mitigate currency risk.

At 31 December 2010, the Group's net exposure to currency risk can be analysed as follows:

	Investments US\$'000	Net current assets/ (liabilities) US\$'000	Total US\$'000
US Dollar	291,846	3,575	295,421
Sterling	–	406	406
	291,846	3,981	295,827

At 31 December 2010 should Sterling have strengthened or weakened by 10% against the US Dollar and all other variables held constant, the Company's net profit and net assets would have increased and decreased respectively by US\$41,000.

INTEREST RATE RISK

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to market risk for changes in interest rates relates primarily to the Company's cash and financial instruments at fair value through profit or loss. All cash bears interest at floating rates. The following table sets out the Company's exposure to interest rate risk at 31 December 2010:

	31 December 2010 US\$'000
Non-interest bearing	72,242
Interest bearing – floating rate	17,484
Interest bearing – fixed rate	206,101
Total net assets	295,827

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 | FINANCIAL INSTRUMENTS continued

INTEREST RATE RISK continued

The interest-bearing floating rate assets are denominated in US Dollars. If the US Dollar interest rates increased/decreased by 25 basis points while all other variables remained constant, the profit for the period and net assets would increase/decrease by US\$43,000. For fixed rate assets it is estimated that profit and net assets for the period would decrease by US\$485,000/increase by US\$515,000 respectively.

The maturity profile of interest-bearing assets is:

	Floating US\$'000	Fixed US\$'000	Total US\$'000
MATURITY PERIOD			
Less than 3 months	8,997	167,610	176,607
3 to 6 months	1,499	1,738	3,237
6 to 12 months	–	–	–
Greater than 12 months	6,988	36,753	43,741
	17,484	206,101	223,585

MANAGEMENT OF CAPITAL

The Company is closed ended and therefore there is no requirement to return capital to shareholders until the closure of the Company. The Company's objective is to provide shareholders with attractive levels of dividends and capital growth. It is the intention to pay cash dividends from net realised gains. The Company invests in a portfolio of claims diversified by duration, amongst other factors, in the expectation of generating realised gains in the short term to fund such dividends and to meet the expenses of the Company. The Company may seek additional capital in order to grow and diversify the claims investment portfolio. £110 million (US\$175 million) of additional capital was raised in December 2010. The Company also has authority to make market purchases of up to 15% of its own issued ordinary shares as disclosed in note 9.

FAIR VALUES

The financial assets and liabilities including investments are stated at fair value (see note 2 above).

13 | FINANCIAL COMMITMENTS AND CONTINGENT LIABILITIES

As a normal part of its business, the Company routinely enters into some investment agreements that oblige the Company to make continuing investments in claims over time, whereas other agreements provide for the immediate funding of the total investment commitment. The terms of the former type of investment agreements vary widely; in some cases, the Company has broad discretion as to each incremental funding of a continuing investment, and in others, the Company has little discretion and would suffer punitive consequences were it to fail to provide incremental funding. Moreover, in some agreements, the Company's funding obligations are capped at a fixed amount, whereas in others the commitment is not fixed (although the Company estimates its likely future commitment to each such investment). At 31 December 2010, considering the amount of capped commitments and the Company's estimate of uncapped funding obligations, the Group had outstanding commitments for approximately US\$33 million; that figure does not include executed investment agreements that are capable of cancellation without penalty by the Group for adverse findings during a post-agreement diligence period. Of that US\$33 million in commitments, the Company expects less than 50% to be sought from it during the next 12 months.

14 | RELATED PARTY TRANSACTIONS

Investment advisory fees for the period payable to Burford Group Limited amounted to US\$3,197,000. The amount of Investment advisory fees outstanding at 31 December 2010 was US\$279,000.

Administration fees payable to International Administration (Guernsey) Limited ("IAG") are disclosed in note 4. There are no administration fees outstanding at 31 December 2010.

There is no controlling party.

15 | SUBSEQUENT EVENTS

There have been no significant subsequent events.

DIRECTORS, MANAGEMENT AND ADMINISTRATION

DIRECTORS

Sir Peter Middleton (Chairman)
Hugh Steven Wilson (Vice Chairman)
Charles Nigel Kennedy Parkinson
David Charles Lowe

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